

ITEM NO: 13

Report To:	Pension Fund Management Panel
Date:	20 November 2009
Reporting Officer:	Peter Morris, Director of Pensions
Subject :	PENSIONS INCREASE 2010
Report Summary:	The report outlines the way in which LGPS pensions are increased each year in line with inflation, reports that no increase is expected to apply from April 2010 and compares this with past increases and the expected future actuarial assumption on price inflation.
Recommendation:	The Panel is recommended to note the report.
Links to Community Strategy:	The LGPS contributes to reducing pensioner poverty helping to promote good health and social inclusion.
Policy Implications:	No change in policy is involved.
Financial Implications: (Authorised by the Borough Treasurer)	As the actuary has assumed positive increases in pensions as part of the 2007 actuarial valuation, the lack of any 2010 pensions increase will have a beneficial effect on future employer contribution rates.
Legal Implications: (Authorised by the Solicitor to the Fund)	Pensions increase for the LGPS is a statutory obligation imposed by annual Review Orders made under the Pensions (Increase) Act 1971.
Risk Management:	Price inflation significantly more than anticipated is a financial risk recognised in the Funding Strategy Statement.

ACCESS TO INFORMATION:

NON-CONFIDENTIAL

This report does not contain information which warrants its consideration in the absence of the Press or members of the public.

Background Papers:

1. The Pensions (Increase) Act 1971
2. National Statistics announcement 13 October 2009

These documents may be obtained from David Phillips at the Pensions Office, Concord Suite, Droylsden who can be contacted by phone: 0161-301-7249 or e-mail: david.phillips@gmpf.org.uk

More information on the Retail Prices Index can be found on the Office for National Statistics website [www.statistics.gov.uk].

1. INTRODUCTION

- 1.1 Pensions payable to members of the Local Government Pension Scheme come within the scope of the Pensions (Increase) Act 1971 and therefore normally benefit from mandatory annual inflation proofing increases. Annual Review Orders are normally published each March which specify the increase which is to apply. Current practice is to apply increases from the first Monday in the new tax year and to base the increase on the annual rate of inflation (if positive) as measured by the percentage change in the all items Retail Prices Index over the year to the previous September. Pensions increase does not apply if the index figure does not increase. As currently drafted, the legislation does not allow for reductions to pensions in deflationary situations.

2. PENSIONS INCREASE 2010

- 2.1 The annual rate of increase in the all items Retail Prices Index in September 2009 was – 1.4%. This results from the index figure for September 2009 (215.3) being lower than the comparable figure for September 2008 (218.4). As the index figure has not increased, no increases in pensions are required by legislation.
- 2.2 To set this exceptional situation in context, increases in the past 5 years have been as follows:

From:	%
6 April 2009	5.0
7 April 2008	3.9
9 April 2007	3.6
10 April 2006	2.7
11 April 2005	3.1

3. ACTUARIAL ASSUMPTION ON INFLATION

- 3.1 The level of price inflation, because of its effect on the amount of pensions payable, is an important influence on the liabilities of the Fund and therefore on employer contribution rates. In performing the actuarial valuation of the Fund as at 31 March 2007, the actuary estimated future inflation at an average of +3.2% per year. The lack of any pensions increase for 2010 will therefore have a beneficial effect on future levels of employer contributions.

4. RECOMMENDATION

The Panel is recommended to note the report.