

meeting **PENSIONS ADMINISTRATION SUB - COMMITTEE**

date **7 OCTOBER 2010** agenda item number

REPORT OF THE SERVICE DIRECTOR (HUMAN RESOURCES)

LOCAL GOVERNMENT PENSION SCHEME

INFLATION PROOFING OF PENSIONS

1. Purpose of the Report

- 1.1 The purpose of this report is to inform the Sub-Committee of the change in the measure of inflation to be applied to the Local Government Pension Scheme (LGPS).

2. Information and Advice

- 2.1 The Chancellor of the Exchequer announced in his June 2010 emergency budget that the method, by which public sector pensions are increased, will change from April 2011. The LGPS is an 'index linked' pension scheme, which means that the pensions paid from it keep up with inflation (the amount by which prices increase over time). From April 2011, pensions will be increased in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) as used currently. Although, both indexes are a measure of inflation, RPI and CPI are calculated using different methods and include different cost items. One major difference between RPI and CPI is that CPI does not include any housing costs, such as the effect of interest rates on mortgage costs or council tax.
- 2.2 If the CPI index turns out to be lower than RPI in future, then the statutory increases applying to pension benefits both in payment and in deferment would be lower than under the current measure. The LGPS member would therefore be expected to receive lower benefits as a result of the change in measurement. It should be noted that it is quite possible that in any given year, the CPI may exceed RPI. However, on average it is expected that CPI would be lower than RPI over the long term. Appendix A (attached) compares the September rates of CPI and RPI since 2001. An analysis (Appendix B) has been undertaken of the application of RPI and CPI to an average LGPS pension of £4000 per annum between year 2000 and 2010. It can be noted that if CPI had been applied 10 years ago, the monetary difference to the LGPS

member would be a reduction of £336.38 (8.4% reduction) during 2010/11.

- 2.3 The change has also meant that the Government Actuaries Department will be revising transfer factors in relation to the transfer of benefits in and out between the LGPS funds and other pension providers; additional regular contributions quotes and calculations; cash equivalent calculations for divorce purposes and other minor pension areas. This has resulted in the temporary suspension in the processing of this work until such time that updated factors are provided and the pensions administration system is duly updated.
- 2.4 It is proposed that a further update report on the changes be brought to a future meeting of the Sub – Committee, prior to April 2011.

3. Statutory and Policy Implications

- 3.1 This report has been compiled after consideration of implications in respect of finance, equal opportunities, personnel, crime and disorder and those using the service and where such implications are material they have been described in the text of the report.

4. Recommendation

- 4.1 The Pensions Administration Sub - Committee is recommended to note the contents of the report.

M TOWARD
SERVICE DIRECTOR (HUMAN RESOURCES)

Background Papers Available for Inspection

Budget 2010 - Executive Summary
Retail Prices Index - Issued by Office for National Statistics
Consumer Prices Index – Issue by Office for National Statistics

Electoral Division(s) and Member(s) Affected

All

RPI & CPI increases

Increase date	RPI % increase	CPI % increase
9.4.2001	3.3%	1.0%
8.4.2002	1.7%	1.3%
7.4.2003	1.7%	1.0%
12.4.2004	2.8%	1.4%
11.4.2005	3.1%	1.1%
10.4.2006	2.7%	2.5%
9.4.2007	3.6%	2.4%
7.4.2008	3.9%	1.8%
6.4.2009	5.0%	5.2%
12.4.2010	0.0% (-1.4%)*	1.1%
Average increase Over 10 years	2.78% per annum	1.88% per annum

*the Minister of State (Pensions and the Ageing Society) confirmed public service pensions would not be uprated from April 2010, as the increase in the Retail Prices Index in the 12 months to September 2009 was negative (-1.4%). Benefits remained at current cash levels.

Appendix B

Increase date	RPI increase	Pension*	CPI increase	Pension
Base yr 2000	%	3043.20	%	3043.20
9.4.2001	3.3	3143.63	1	3073.64
8.4.2002	1.7	3197.07	1.3	3113.59
7.4.2003	1.7	3251.42	1	3144.73
12.4.2004	2.8	3342.46	1.4	3188.75
11.4.2005	3.1	3446.08	1.1	3223.83
10.4.2006	2.7	3539.12	2.5	3304.43
9.4.2007	3.6	3666.53	2.4	3383.73
7.4.2008	3.9	3809.52	1.8	3444.64
6.4.2009	5	4000	5.2	3623.76
12.4.2010	0	4000	1.1	3663.62

Calculation based on an average pension of £4000 per annum

* working backwards from £4000

Difference = - £336.38