ITEM NO: 13

Report To:	**Pension Fund Management Panel**
Date:	7 March 2014
Reporting Officer:	Peter Morris, Executive Director of Pensions
Subject :	**PENSIONS INCREASE 2014**
Report Summary:	The report outlines the way in which LGPS pensions are increased each year in line with inflation and that an increase of 2.7% is expected to apply from April 2014. Comparisons are also made with past increases and future actuarial assumptions on price inflation.
Recommendation:	That the Panel note the report.
Financial Implications: **(Authorised by the Borough Treasurer)**	The expected annual increase in pensions from April 2014 at 2.7% is slightly above the actuary's inflation assumption for the 2013 valuation, which is 2.5%.
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. HM Treasury announcement 4 February 2014 For further information please contact Amanda Hyde, Pensions Office, Concord Suite, Droylsden Tel 0161 301 7264 or e-mail: amanda.hyde@gmpf.org.uk More information on the Consumer Prices Index can be found on the Office for National Statistics website www.statistics.gov.uk/hub/index.html.

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 that specify the increase which is to apply.

1.2 Current practice is to apply increases from the first Monday in the new tax year. Prior to 2011, the increase in each April was based on the annual rate of inflation as measured by the percentage change (if positive) in the all items Retail Prices Index (RPI) over the year to the previous September.

1.3 However, as announced in the Chancellor's emergency Budget on 22 June 2010, increases from April 2011 onwards are to be based on changes in the Consumer Prices Index (CPI) (again using the September figures).

2. PENSIONS INCREASE 2014

2.1 The annual rate of change in the Consumer Prices Index in September 2013 was +2.7%.

2.2 To set this in context, increases in pensions in the past 5 years (based on the RPI up to April 2010 and on CPI from April 2011 onwards) have been as follows:

From:	**%**
8 April 2013	2.2
9 April 2012	5.2
11 April 2011	3.1
12 April 2010	NIL
6 April 2009	5.0

3. ACTUARIAL ASSUMPTIONS 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 2013, the actuary estimated future inflation at an average of 2.5% per year. The expected pension increase for 2014 is therefore slightly above the actuarial assumption.

4. RECOMMENDATION

4.1 That the Panel note the report.