

29th November 2010

Dear Member

Re: The future of the Local Government Pension Scheme: Changes to the annual cost of living increase.

You may have seen press articles or media coverage of late on the affordability of the Local Government Pension Scheme (LGPS) and changes that need to be made to ensure the continued survival of the scheme. Indeed the Government commissioned Lord Hutton to carry out a review of all public sector pension schemes, including the LGPS, during the Summer of 2010.

Lord Hutton's Interim Report was published in October and this set out a number of recommendations on how to make the LGPS more affordable. The Government referred to his report in the Spending Review and a final version of the Hutton Report will be released in Spring of 2011.

The vast majority of the report considered how the scheme could be amended moving forward. These changes will impact current contributors and deferred members in the main. In the report Lord Hutton affirmed the important place public sector pension schemes, such as the LGPS, occupy in providing reasonable income in retirement. He also ruled out a "race for the bottom" and the move to defined contribution pension schemes which are common in the private sector. The full version of the Interim Hutton Report can be found on LPFA's website <http://www.affordable-lgps.org.uk/>

As pensioners you will not be impacted by many of the changes that you hear in the media reports. Lord Hutton has made it clear that existing pensions in payment would not be affected by his proposals. The pension you receive is therefore secure.

However on an annual basis your pension attracts a cost of living increase which ensures your pension keeps up with the cost of items such as fuel, food and other costs. Historically this increase has been linked to the Retail Price Increase (RPI) and is paid with effect from April, but based on the RPI figure of the preceding September.

However **the Government has given a clear indication that future cost of living increases will now be linked to the Consumer price Index (CPI)**. The key difference is that CPI does not include housing costs and is usually (although not always) lower than the RPI figure.

Whilst this change cannot be confirmed until LPFA receives the Pensions Increase Order from the Government in February 2011, pensioners should be aware that it

is highly likely that their annual increase will reflect CPI rather than the RPI figure. This means it is likely your pension will increase by 3.2% (the CPI figure) rather than 4.5% RPI figure.

PLEASE NOTE THIS CHANGE IS OUTSIDE THE CONTROL OF LPFA AND IS A CENTRAL GOVERNMENT DECISION. SHOULD YOU WISH TO MAKE COMMENT ON THIS CHANGE PLEASE CONTACT YOUR LOCAL MEMBER OF PARLIAMENT.

The key messages from this note are;

- a) Please do not worry about reports in the media on the future of public sector pensions. Pensions in payment will not be impacted.
- b) Any future cost of living increases in your pension are likely to be linked to CPI rather than RPI. This is a decision that LPFA cannot impact.

LPFA will be issuing a Pensioner Newsletter in March 2011 which will confirm your cost of living increase for 2011 and the likely index linking to CPI.

Please do not contact the payroll team on this issue since LPFA is unable to alter the decision of central Government. However we will be happy to answer any other enquiries as usual.

Best regards



Ray Watkin
Payroll Manager