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ADVANCE WITH CONFIDENCE

Inflation - Impact on DB Section members

You may have seen in the news that inflation is at its highest level for 40 years, and is expected to increase further before the end of 2022. We wanted to explain how Defined Benefit pensions paid by the Avon Rubber Retirement and Death Benefits Plan may be impacted by these high inflation rates.

Pension Increases for Pensioners

For retired members of the Plan, pensions in payment are increased on 1 April each year.

Pensions are likely to be made up of several elements, which elements you have within your pension will depend on when you were a member of the Plan and the rate at which each of these elements increase - as set out in legislation and the Plan's Rules. The different elements making up your pension were set out in your retirement statement.

If you were an active member prior to 6 April 1997 you will have something known as GMP (Guaranteed Minimum Pension) - this can be made up of Pre 88 GMP, which built up prior to 6 April 1998 and Post 88 GMP, which accrued after this date.

You may also have an element of 'Pre 97 excess' pension (which is the pension accrued prior to 6 April 1997 in excess of the GMP amount), an element of Post 97 pension (which built up after that date but before 2 August 2005) and an element of Post 2005 pension which built up from 2 August 2005.

The different elements making up your pension are subject to different increases set out in legislation or the Plan's Rules.

Pre 88 GMP does not receive increases once it is in payment, so if you have an element of Pre 88 GMP and are over GMP Age (65 for males, 60 for females) you won't receive any increase on this part of your pension.

Post 88 GMP receives increases that are linked to Consumer Price Inflation (CPI) but are capped at 3% each year. This means if CPI is, say 2.5% you receive an increase of 2.5%, whereas if CPI is 5% you receive an increase of 3% (the cap).

For the other pension elements within the Plan, the increases are linked to Retail Price Inflation (RPI) and have a cap of 5% each year for excess pension earned pre-1997 and pension earned post-1997. Whereas, for pension earned post-2005, the increases are linked to Retail Price Inflation (RPI) and have a cap of 2.5% each year.

So, in summary, the maximum increase you could receive under the Plan Rules is 5% (assuming inflation exceeds that) and depending on how your pension is made up, the total increase may well be lower than that.

The September 2021 RPI figure was 4.9% and the September 2021 CPI figure was 3.1%. The pension increases granted in the Plan on 1 April will therefore have been:

Pre 88 GMP = nil; Post 88 GMP = 3%, Pre 1997 excess pension = 4.9%, post 1997 pre 2005 pension = 4.9%, post 2005 pension = 2.5%

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Deferred Pensions

If you are a former member of the Plan who has not yet retired or taken your benefits, your pension receives 'deferred revaluation' over the period between you leaving the Plan and you drawing your benefits from the Plan.

Deferred revaluation is based on Consumer Price Inflation (CPI) with a 5% per annum cap, but unlike the pension increases described above the 5% cap on deferred revaluation applies cumulatively rather than each and every year. This means that inflation over the entire period between leaving the Plan and retiring is looked at and then a check done to make sure this increase isn't in excess of 5% per annum for that period.

As inflation has been low for a number of years prior to this year, this is expected to balance out the high inflation we are currently seeing. This means that you are likely to see your deferred pension increase by the full CPI value for several years before the 5% per annum cap takes effect.

Once you retire and start drawing your pension then your increases will be applied as set out above under **Pension Increases for Pensioners**.

State Pensions

If you are in receipt of or are due to receive a state pension this will be in addition to your Avon Rubber Pension.

The rate of increases for State Pensions are set by the Government and this is where the Government has implemented a 'triple lock' on increases. This means the basic and new state pensions will increase by the higher of average earnings growth (measured from May to July each year), the increase in Consumer Price Inflation (measured in the year from September each year) or 2.5%. The earnings element was dropped for 2022/23 as it was considered to be a 'statistical anomaly' due to the COVID-19 pandemic. The Government has however confirmed that the triple lock will be honoured for the remainder of this Parliament (i.e. until the next General Election).

As the September 2021 CPI figure was 3.1%, your state pension should have increased by 3.1% in April 2022.

If CPI remains high, you should see this reflected in state pensions next year.

Financial Advice

If you are concerned about or are thinking of making any changes to your pension arrangements we would encourage you to seek advice from an independent financial adviser before doing so. You can find an adviser in your area by searching the Money Advice Service directory at https://directory.moneyadviceservice.org.uk/en

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