LSC Pension Scheme: Protecting your pension

In recent times, the COVID-19 pandemic and Russia's invasion of Ukraine have led to increased pressure on prices, driving up inflation to levels which have not been seen for many years. As a result, it is important to consider the effect of inflation on your pension. This article explains the inflation protections in place in the LSC scheme to maintain the real value of your pension.

What is inflation?

The primary measure of inflation used to increase your pension (both before and after retirement) in the LSC scheme is the Consumer Price Index ('CPI'). CPI measures the change in price of a basket of household goods and services over a given period. Over the year to May 2022, CPI reached 9% and is expected to continue to rise over the next few months, before slowing down in the longer term.

Inflation impacts you as it pushes up the cost of living, meaning a higher income is needed to maintain current standards of living in the future.

Most defined benefit pension schemes (such as LSC) are required by law to increase pensions by a minimum amount each year to provide a degree of – but not total – protection against the impact of inflation.

Protection the LSC scheme provides

For most LSC scheme members, the majority of your pension will increase in line with CPI each year, both before and after your retirement. This ensures that the real value of your pension is maintained over time as it increases at the same rate on average as goods and services you buy day-to-day.

Many other pension schemes will limit the pension increases given to members, commonly capping inflationary increases at 3% or 5% per annum. In times of high inflation (as we're currently seeing), the increases provided by the LSC scheme can provide better protection against inflation.

Pension increases are awarded annually on 1 April. The annual increase is set with reference to the increase in CPI over the year to the preceding September. The pension increase awarded on 1 April 2022 was 3.1%. Further detail is set out in the pension increase 2022 article on the scheme website.

Whilst the April 2022 increase was lower than the current level of CPI, your 2023 increase will be based on September 2022 CPI, which will be higher if inflation does continue to rise as expected. However, the exact increase will not be known until later this year when September CPI is released.

If you have any concerns about your savings for retirement or are facing financial challenges in the current economic environment, you may wish to contact the Money and Pensions Service, who provide free money and pensions guidance.

Inflation protection for GMP

Members who joined the Scheme prior to 1997 will have Guaranteed Minimum Pension ('GMP'), a pension element which generally increases more slowly than CPI. This is because statutory (capped) increases are applied to this type of pension, rather than increases governed by the LSC pension scheme rules (as set out above).

GMP accrued prior to 6 April 1988 does not increase once in payment, and GMP accrued after 5 April 1988 increases with CPI up to a maximum of 3% every year. Therefore GMP is less well protected against rising inflation, however, generally GMP makes up only a small proportion of your LSC pension. See our article on GMP for more information on this type of pension.