

PENSION BUILDER CLASSIC DISCRETIONARY INCREASES

JULY 2019

Each year we aim to increase your pension. Your pension comes with a guarantee, and this guarantee affects how we increase your pension.

Find out what happens to your contributions, our current increase policy, and how much increases have been in the past.



PENSIONS BOARD

Pension Builder Classic discretionary increases

What happens to my contributions?

To understand how we increase your pension, first we need to look at what happens to your contributions. This includes any contributions you pay, plus the contributions your employer pays.

Each month your contributions buy a guaranteed amount of pension, payable for life.

The amount of pension you buy depends on your age at the beginning of the year. Here is an example of what £100 might buy at a range of ages.

Age at the beginning of the year	Amount of pension
20	£3.00 pa
30	£3.20 pa
40	£3.40 pa
50	£3.70 pa
60	£3.90 pa

You buy more pension as you get older as we have more certainty over the amount we can guarantee.

So, every month when your contributions are paid in, you keep buying extra pension. When you come to retire you can take this pension or transfer it to another pension provider and take advantage of more flexible ways of receiving a retirement income.

To work out how much pension your contributions buy, we use “conversion factors”. We review these factors each year, and we may increase or decrease them depending on financial conditions.

How do discretionary increases work?

We aim to increase to your pension at the end of every year, but only if we can afford to.

To check whether we can afford to increase your pension, we apply a “security level test”.

This test checks whether we have enough money (assets) to pay all the guaranteed pensions everyone has built-up so far.

What is a security level test?

This test checks whether we have enough money (assets) to pay everyone’s pension.

Every September to check our security level and if it is above 105% this means we have enough money to increase your pension.

The security level moves up and down every day, and it can swing quite quickly over short periods of time. To make sure we are not being too risky, we will only look at increasing your pension if our security level is above 105%. Here is our current policy:

- If the security level is 105% or above, we will add an increase of at least 1%
- If the security level is 100% or above, will look at RPI for the year and aim to match it

Ultimately it is down to us to decide whether we can increase your pension, but our professional advisers help us decide this.

Who gets the increase?

If you haven't taken your pension, you will receive any increases.

Once you retire, it is slightly different. Any pension you buy before 1997 will receive an increase, but only when we can afford to add one.

The Government require us to increase pensions built up after 1997, so these pensions already come with a guaranteed increase, but only once is being paid.

What have bonuses been in the past?

The table below shows recent increases.

Unfortunately, the security level has been below 105% since 2011. This means we have been unable to increase pensions since then.

With the benefit of hindsight, conversion factors have been too generous in the past. This means that the overall cost of guaranteeing your pension has proved more expensive than we expected.

One reason behind this is longer life expectancy. Another is that despite good investment performance, Government gilt yields keep dropping.

To use a simple example to explain this, if you need £1,000 in five years' time, you don't need to save £1,000 today as you can rely on interest to help you. If you think you can earn 5% interest a year you only need to put away £950 now. But, if interest rates drop to 3% you will need to put away £970, leaving you £20 short.

This is the same method we use to work out the security level, but instead of interest rates we use Government gilt yields. So, when these go up the security level goes up too. When they go down it drops as well. Gilt yields have been very low in recent years. We manage these changes by holding back on pension increases.

If the conversion factors had been less generous in the past, your guaranteed pension would be lower, but we may have been able to increase your pension.

Year	Increase	Year	Increase
2005	0%	2012	0%
2006	0%	2013	0%
2007	0%	2014	0%
2008	0%	2015	0%
2009	0%	2016	0%
2010	2%	2017	0%
2011	2%	2018	0%