THE CHURCH OF ENGLAND
PENSIONS BOARD

Pension Builder Classic discretionary increases

Each year we aim to add a bonus to your Pension Builder Classic (PB Classic) pension.

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 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	£4.00 pa
30	£3.90 pa
40	£3.80 pa
50	£3.70 pa
60	£3.60 pa

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You buy more pension when you are younger as we have more time to build certainty over the amount we 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 the value of your pension to another 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 every year and we increase or decrease them depending on financial conditions.

How do discretionary increases work?

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

We run the security test every September, and if it is above 105% we have enough money to increase your pension. The security level moves up and down every day, so to make sure we are not being too risky, we only look at increasing your pension our security level is above 105%. Here is our current policy :

- If the security level is between 105% and 110% we will add an increase of 1%
- If the security level is above 110% we will match RPI, up to a cap

Does my pension increase when I retire?

Yes, but the amount it increases by depends on when you earned your pension.

- Any pension earned before 1997 only increases in line with discretionary increases
- Any pension earned between 1997 and 2006 increases in line with the Retail Prices Index (RPI) up to 5%. So, if RPI is more than 5%, we will cap the increase at 5%.
- Any pension earned between 1997 and 2006 increases in line with the Retail Prices Index (RPI) up to 2.5%. So, if RPI is more than 2.5%, we will cap the increase at 2.5%.

All increases are added in January each year.

How do I find out how much my discretionary increase is?

If you would like to know how much your pension has built up since you joined, including any discretionary increases, just ask us for a breakdown.

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 have not taken your pension yet, you will receive discretionary increases, when we can afford to add one.

Once you retire, it is slightly different. Any pension you buy before 1997 will receive all discretionary increases, but only when we can afford to add one. The Government require us to increase pensions built up after 1997 in line with inflation, so this part of your pension comes with a guaranteed increase, but only once it is being paid.

What have bonuses been in the past?

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. 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 low in recent years. We manage these changes by holding back 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.