Increases to deferred pensions before retirement

Context

This note is intended only as a high-level illustrative guide to increases to deferred pensions before retirement. Full details of the increases can be found in the Fund's Trust Deed and Rules, which govern the payment of the increases. In the event of a discrepancy between this guide and the provisions of the Trust Deed and Rules, the Trust Deed and Rules shall prevail.

The increases described in this guide apply to those elements of your deferred pension which receive annual increases before retirement based on the Retail Prices Index (RPI) capped at 5% each year under the Fund's Trust Deed and Rules.

These increases **do not apply** to members of certain sections of the Fund who receive other specific increases to deferred pensions before retirement under the automatic application of the rules of their section[1].

Dual deferred increase basis

As a deferred member, your Fund pension at the date you left pensionable service is increased before it comes into payment.

There are two elements to this calculation:

1. a "Fund Rules" increase, applied on 1 May each year
2. a "statutory underpin", applied at retirement (if necessary), so that the total increases are not less than those required by legislation (although see below).

Your deferred pension amount shown on PensionLine only includes Fund Rules increases to the current year. The statutory underpin can only be calculated and applied (if necessary) at retirement.

There is also a power under the Fund Rules for discretionary increases to be awarded to your deferred pension by the Trustee with Company consent.

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[1] Currently the "dual deferred increase basis" described in this note does not apply to members of the Burmah Castrol Pension Fund (including those who joined the BP Pension Scheme in 2016), the Polygon Retailing Limited 1988 Retirement Fund, the Charringtons Pension Plan, the British Petroleum Company Limited Pension Scheme for Industrial Staff and the Dominion Oils section of the Combined Oil Distributors Pension Scheme.

1. Fund Rules increase

In broad terms, your pension at the date you left pensionable service increases before retirement in line with the increase in the RPI over the previous calendar year, capped at 5% each year[2].

For example, the increase on 1 May 2025 would be based on RPI between 1 January 2024 and 31 December 2024, capped at 5% in that year.

2. Statutory underpin

There is a minimum level of increase that must be applied to your Fund pension at the date you left pensionable service, which is currently in line with the increase in the Consumer Prices Index (CPI), subject to a 5% per year cumulative cap. This minimum increase is applied for complete years between when you left pensionable service and your retirement (the "period of deferment"). It is based on the increase in the CPI over the 12-month period ending in September each year, subject to the 5% cumulative cap.

We refer to this as the "statutory underpin" but it is actually higher than the required minimum statutory underpin[3].

Implications of the statutory underpin

The cumulative cap in the statutory underpin means that during periods when inflation is higher than 5%, deferred members can receive higher increases over their period of deferment than the Fund Rules increases would produce. This is because the Fund Rules increases are capped at 5% each year.

This means that deferred members have an additional degree of inflation protection during their period of deferment because of the dual deferred increase basis which only applies while in deferment.

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[2]For deferred members of the BP Pension Scheme, BP Gas, BXL Pension Scheme and BXL Works schemes this "Fund Rules" increase is set out in the applicable Trust Deed and Rules. For other members (except the schemes listed in footnote no.1), the "Fund Rules" increase is applied as a discretionary practice by the Company and the Trustee.

[3] The actual minimum statutory underpin uses a 2.5% cap rather than 5% for any pension earned after 5 April 2009. The Fund applies a 5% p.a. cumulative cap regardless of when your pension was earned. This is done at the sole discretion of the Company.

Illustrative example

The tables below show the annual rate of September CPI and December RPI over the past ten years, as well as the compounded increases which would apply from each of the years shown to 2025 for both Fund Rules increases and the statutory underpin.

	CPI%	RPI%
2015	-0.1	1.2
2016	1.0	2.5
2017	3.0	4.1
2018	2.4	2.7
2019	1.7	2.2
2020	0.5	1.2
2021	3.1	7.5
2022	10.1	13.4
2023	6.7	5.2
2024	1.7	3.5

Cumulative increases from year shown to 2025	Statutory underpin %	Fund Rules %
2015	34.0	37.4
2016	34.1	35.8
2017	32.8	32.5
2018	28.9	27.3
2019	25.9	23.9
2020	23.8	21.3
2021	21.6	19.8
2022	15.8	14.1
2023	8.5	8.7
2024	1.7	3.5

The highlighting shows when the statutory underpin would be greater than the Fund Rules increases for periods of deferment running from the year in the left-hand column to 2025.

As a simplified illustrative example, a deferred member whose period of deferment runs from 2019 to 2025 would receive cumulative increases over their period of deferment of 25.9% to their deferred pension because the statutory underpin is higher than the Fund Rules increases, which would only have resulted in a 23.9% increase over this period.

This illustrates that there can be real additional value to the statutory underpin, with the extent of the additional inflation protection depending on the pattern of inflation over a member's period of deferment.

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