



## Q&A document on UK Pensions

21 February 2024

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In the UK, the rising cost of living has created real challenges for many people – including bp retirees. We continue to listen to concerns. On 20 February, some of bp’s most senior leaders held an Information Session for members of the BP Pension Fund about specific concerns relating to the UK BP Pension Scheme.

### Questions addressed in the information session

#### How does the BP Pension Scheme work?

- The BP Pension Scheme is what’s known as a final salary pension. It was open to most new bp employees until 2010. Employees did not have to contribute to it.
- It promises to pay pension benefits that are calculated based on the last bp salary you earned when you were employed and on how long you worked at bp.
- Pensions in the scheme increase each year in-line with the retail price index (RPI) to a cap of 5%, as per the scheme rules. The guarantee and the cap have been in place since 1989.
- The Trustee can request a higher increase, known as a discretionary increase, but that increase requires bp’s consent.

#### Why didn’t bp agree to the discretionary increase?

- In 2023, the Trustee requested bp’s consent for a 4% discretionary increase (which would have brought the total increase in 2023 to 9%).
- The company considered a number of factors, including how a discretionary increase would impact the company now and into the future -- and how it would impact other stakeholders.
- One of the reasons we did not think it was appropriate to provide an additional increase for UK pensioners was that we are a global company and others around the world were also experiencing inflation. Some have asked if we could increase benefits for all retirees globally – this is simply unaffordable.
- We also considered what other UK companies were doing. We did not find any UK companies that had consented to a discretionary increase above 5%.

- The BP Pension Scheme's guaranteed increases in-line with RPI to a cap of 5% have been among the highest levels of increases provided by UK private sector company pension schemes.
- And since 2011 when civil service pension schemes first started using the Consumer Price Index (CPI), increases in the BP Pension Scheme have overall outpaced average earnings and CPI inflation.

**The BP Pension Fund has a significant surplus. Why not use that surplus to pay for an additional increase?**

- The current surplus exists because of regular funding from bp and because of what is happening in the environment. As a company, we have contributed £3.8bn to the scheme since it closed to new hires in 2010. And the Trustee has thoughtfully managed investments and risks over time.
- There is a surplus because bp has prudently funded the Fund and the Trustee has prudently managed it for the long term. The surplus provides an additional layer of protection for members' benefits through ups and downs of the UK and global economic cycles.
- A downturn in the economy can easily turn a surplus into a deficit so having a surplus means that the Fund can stay healthy and sustainable over the long-term.
- Pensions will be paid until 2080 and beyond, so it's important that we have a healthy fund for all that can provide a cushion to protect the Fund through bumpy times.

**Some pensioners have said that the 4% discretionary increase requested by the Trustee isn't enough and they want 11%, so that their pensions will have increased fully in line with RPI over the last couple of years. They also want bp to commit to future increases in line with RPI if it ever goes above 5% in the future. What's bp's view on that?**

- The cost of this 11% increase would be £2 billion or more.
- That amount is so large because none of us knows for sure what future inflation will be.
- It also incorporates the cost needed to cover not just the increase in the first year, but also the way that is compounded each year into the future, through to 2080 and beyond.

### **Some pensioners have said bp has broken a promise to increase pensions in line with the cost of living?**

- Some pensioners have pointed to a letter from the early 1990s that talked about an intent to provide increases above 5% when the cost of living was high.
- The pension landscape has changed significantly since then.
- In 2007, the Trustee informed pensioners that pensioners should ordinarily expect increases to follow RPI, subject to a cap of 5% a year.

### **Has bp has broken its own code of conduct in not agreeing to a discretionary increase?**

- bp's Code of Conduct is mandatory for all bp employees, including leadership. bp is also guided by its 'Who we are' beliefs, including Care for others, and the company encourages people to speak up.
- There has been no breach of the Code of Conduct or our beliefs relating to discretionary increases for the BP Pension Scheme. The Scheme is governed by the Trust Deed and Rules, and bp has acted in line with these.

### **Last year, bp announced that eligible pensioners could receive payments from the bp Helios Fund. What is it and how many pensioners have been paid from the bp Helios Fund?**

- In the UK, bp has given funding to the bp Helios Fund and to the Retail Trust, a body that supports those who worked in the retail sector.
- The funding is helping these bodies provide a one-off cost-of-living payment to eligible pensioners.
- A little under 10% of our UK pensioners have applied for the grant. The application deadline for the payment is 31 March this year.

### **Does giving a one-time grant to eligible pensioners create divisions among pensioners?**

- We are pleased to be able to help those most in need – and don't believe this creates divisions among pensioners.
- One of the concerns we heard early in the pension conversation was that the rising cost of living was creating a unique challenge for those pensioners most in need.
- To address that, and in line with our 'Who we are' beliefs, the company gave additional funding to the bp Helios Fund and the Retail Trust.

- The bp Helios Fund and Retail Trust are independent of the BP Pension Fund. The one-off grant is additional to the pension from the BP Pension Fund.

**A recent newspaper article claimed bp has enjoyed a \$700 million tax windfall on the BP Pension Fund surplus. Can that windfall pay for a discretionary pension increase?**

- bp has not received a tax windfall, and the company does not expect to receive a tax windfall any time soon.
- As background: if the Trustee were ever to wind up the BP Pension Fund, and if there were a surplus at that time, some or all of that surplus may be paid back to bp. It's called a 'refund'. Under UK law, a refund is taxable.
- In November last year, the UK Government announced it intended to reduce the tax rate that is applied to refunds.
- But a refund could only happen when the Trustee winds up the Fund in 2080 - or earlier. The Trustee has already said on pensionline there are no plans to do that.
- The lower tax rate (if the Government's proposal goes ahead) would mean bp paid less tax. But we would only pay less tax if we had a surplus refund in the first place.
- As the Fund is not about to be wound up, an accounting gain for a change in tax rates on a surplus refund that may not happen until 2080 (assuming the Fund is still in surplus then) doesn't offset the known and real cost of a discretionary increase now.
- In comparison, once a discretionary increase is given, liabilities arise straight away and the surplus is reduced because higher pensions will be paid for all future years.