

BT Pensions Review

FAQ

13-11-2017

BTPS – case for change, reasons for increased cost etc

Why do we need to change the BTPS?

We want all our people to build up retirement benefits that are fair, flexible and also affordable to both you and BT.

A more detailed explanation of why we need to make changes is in the [\[BTPS consultation guides\]](#) and [\[Alison's video\]](#).

What's been happening with the BTPS deficit and why?

The BTPS deficit is affected by both the performance of its assets and by the value of the benefits that will be paid to members when they retire (its liabilities). Although BTPS assets have grown because we've made substantial top-up payments and the BTPS has achieved higher investment returns than expected, the liabilities have grown by even more. There are a number of reasons for this, including lower long-term interest rates (which means assets are expected to generate lower returns in the future), pay growth and members living longer. You can read more about this at [\[LINK TO CASE FOR CHANGE DOC\]](#).

[Original Q&A] How has BT been addressing the BTPS deficit?

BT has been paying the required contributions towards the deficit (over £6 billion since the 2009 changes were made) as well as its share of the costs of benefits being built up by members each year. These contributions have been agreed with the Trustee. BT has already committed to pay a further £7.6bn towards the BTPS deficit over the next 13 years.

I've heard that the BTPS is undergoing a valuation: what does this mean?

Every three years, the Trustee, in discussion with BT, carries out a valuation of the BTPS. The formal valuation as at 30 June 2017 is currently underway.

The valuation confirms:

- 1) The estimated value of all the benefits that members have built up (the liabilities) and how that compares with all the money that the scheme holds (the assets)
- 2) The expected cost of the benefits building up in future.

If the valuation shows that the assets are less than the liabilities, this is known as a deficit. When there is a deficit, BT normally has to make additional contributions to help reduce it.

The total cost of the benefits cannot be known with certainty in advance as they depend on factors such as how long members live for, future levels of inflation and the returns that might be achieved on the scheme's assets. To help estimate the

costs, the Trustee employs independent professional advisers and follows relevant legislation and guidance provided from the Pensions Regulator.

At each valuation, these costs are reassessed. Although BT has met all of its payments due to the BTPS (paying down the deficit as well as making contributions for benefits building up), external factors outside of our control mean that the expected costs of providing future benefits – as well as those that have been built up – are expected to be much higher at the 2017 valuation.

[Updated Q&A] What is the latest estimate of the BTPS deficit and when will an update be available?

In addition to the formal valuation process that takes place every three years, the Trustee is required by law to give an estimated update on the position of the BTPS at each anniversary of the last valuation (the last full valuation date was 30 June 2014). The latest such update estimated that the deficit was £13.9bn at 30 June 2016.

The formal valuation as at 30 June 2017 is currently underway. It is currently too early to know what the updated deficit will be. The results of the valuation and a new plan for funding the scheme are expected to be agreed in 2018.

[Original Q&A] If the value of my BTPS benefits has increased since 2009, will I get more pension?

Keeping the BTPS open in 2009 means you will have built up more pension each year from extra service and any growth in your pensionable salary. For example, the average pension built up by active members has increased from around £10,000 per year in 2009 to around £16,000 per year now. The higher pensions that members have built up now, compared to in 2009, has contributed to the increase in the value of members' benefits since 2009.

In addition, the value (and therefore the cost to BT) of BTPS benefits has increased more because of external factors like lower long-term interest rates (which means assets are expected to generate lower returns in the future) and members living longer. This increase in value does not increase the amount of your pension but means the BTPS has to put more money aside to pay for the same level of benefits.

[Original Q&A] Where do the figures of £400,000/£650,000 for team members/managers come from?

These figures show the estimated amount of money that the BTPS sets aside to pay for the total BTPS pension benefits an average team member or manager will have built up as of March 2018. These are average figures, so the amount built up by each individual member will vary. This estimate is also based on certain assumptions about the future, such as what long-term interest rates, inflation, pay growth and average life expectancy will be. These can change over time and are subject to review by the Trustee and the scheme actuary from time to time.

If you leave the BTPS and become a deferred member, you would be entitled to a cash equivalent transfer value of your pension. This is calculated by the Trustee on a

different set of assumptions and based upon your specific details. This is generally lower than these values.

[Original Q&A] The Bank of England recently increased interest rates. Does this mean that costs in the BTPS will decrease?

BTPS pension benefits are built up and paid out over a long period of time. So when valuing the past and future BTPS benefits, the Trustee, having taken actuarial advice, make assumptions about what interest rates will be over the long term, stretching a few decades into the future. This is done by looking at market expectations of the future, which can be derived from various sources of market data such as bond prices.

At the time of the 30 June 2014 valuation and the 30 June 2016 funding update, market expectations were that interest rates would rise in the long term. So the scheme actuary's calculations of the deficit and future service costs already allow for an increase to interest rates over time.

Long-term interest rates can move up and down, and are influenced by short-term interest rates (as set by the Bank of England) as well as other factors. This means that an increase in the Bank of England interest rate doesn't necessarily reduce costs in the BTPS. Long-term interest rates have been on a downward trend for at least the last decade, so this isn't a short-term situation.

[Original Q&A] I've read contradicting things about life expectancies – are they still increasing?

It's important to understand that UK life expectancies are still on an upward trend and are expected to continue improving over time. However, recent research suggests the increases in life expectancy observed in the last few years have been at a slower rate than previously expected. It's only very recently that these improvements have slowed down. The average member is still expected to live much longer now (receiving BTPS benefits for longer and increasing costs) compared to ten years ago.

[Original Q&A] I have seen different estimates of life expectancy. How do you estimate how long BTPS members will live?

The numbers provided in the document "Reviewing the BTPS" (sent to BTPS members in July 2017) are specific to the BTPS. The BTPS actuary uses past experience of how long BTPS members have lived for, along with estimates about how this might change in the future, to estimate how long BTPS members will live. You may see other life expectancy figures quoted in the press, these are usually an estimate for the UK population as a whole.

[Original Q&A] I've heard about a "contribution holiday" in the 1990s. Has that affected the deficit in the BTPS?

A surplus is not commonly seen today in UK pension schemes, but in the 1980s and early 1990s schemes regularly allowed contribution holidays to manage surpluses.

The BTPS was one of those schemes in surplus in the early 1990s. BT was advised by its external advisers that contributions should be suspended until the next valuation in 1993 to avoid the risk of removal of the scheme's tax-approved status. Removal of that status would have meant that the BTPS could not have continued in its current form and members' benefits would have been adversely affected. The total contributions that would have been paid during the suspension amounted to £600 million.

In 1993 BT was advised that the BTPS could be in deficit and took immediate action to begin contributing again. It made additional contributions totalling £750 million during 1994 and 1995 to address the deficit at that time and so BT more than made up the suspended contributions.

Since then, defined benefit pension benefits have continued to become more expensive to provide due to many unforeseen factors. These include new legislative funding and other requirements, the fact people are living longer in retirement and, more recently, a sustained period of low long-term interest rates. This means that the BTPS is not expected to have as much money as it needs to meet the benefits and so is in deficit.

BT has, in the past eight years alone, made top up contributions to the BTPS of around £6.2 billion.

BTRSS proposals – reasons for change

Why are you proposing to increase BT’s contribution rates in the BTRSS?

We want our people at BT to build up retirement benefits that are fair, flexible and also affordable to both you and BT.

The BTRSS is now our primary pension scheme, having more employee members than the BTPS. We want to make sure it remains a competitive and attractive part of the reward package for our current and future employees.

By proposing these changes to the BTPS and BTRSS as a package, and focusing on the overall affordability of our pension arrangements, we believe we’re able to improve the BTRSS, and allow all of our people the opportunity to meet their retirement needs.

A more detailed explanation of why we’re making changes to the BTRSS is in the BTRSS consultation guide at [\[snip.bt.com/pensions\]](https://snip.bt.com/pensions)

Consultation scope / process – BTPS & BTRSS

Would all active BTPS members be affected by the proposed changes?

The vast majority of BTPS members would be affected by the proposed changes if they’re implemented. There are some small groups of members, namely those in Section A or members who transferred under TUPE with special arrangements, who would be affected in a different way (fewer than 150 active BTPS members). We have communicated to those members separately.

Would all active BTRSS members be affected by the proposed changes?

The vast majority of BTRSS members would be affected by the proposed changes if they’re implemented. There are some groups of members who have different contribution and death benefit arrangements but still participate in the BTRSS. Some or all elements of the proposals won’t affect those members and we have communicated to those members separately.

Other than the BTPS and BTRSS, are you consulting about other schemes like the EE Pension Scheme, NEST, Prudential Platinum or Railways Pension?

No. We’re only proposing changes for members of the BTRSS and BTPS. Employees who are members of other pension schemes are not affected.

Death benefits for active BTRSS members would change under our proposals. These are provided through either the BT Life Assurance Scheme or the BT Senior Executive Death Benefits Scheme and so those arrangements are also affected by the proposed changes.

How do I know if I’m in the BTPS or the BTRSS?

Please check your latest pension benefit statement or your payslip. Either of these will tell you which scheme you're in.

What proportion of BT's employees are in the BTPS and BTRSS?

Excluding our subsidiary companies, just under half of BT's UK-based employees are in the BTPS (and the number is decreasing) and just over half are in the BTRSS (and the number is increasing).

Within our subsidiary companies – with the exception of BT Fleet who do have some employees in the BTPS – the vast majority of employees are in other defined contribution arrangements that work in a similar way to the BTRSS.

Where can I ask questions about the proposed changes or the consultation process?

We have a dedicated Helpdesk throughout consultation. You can arrange for someone to call you to go through your questions by visiting www.bt-pensionconsultation.com. You can also contact the Helpdesk on 0800 0835056 or bt.consultation@wealthatwork.co.uk

You can find out more about the proposed changes at a seminar or webinar. Book your place at snip.bt.com/pensions

What will BT do with the feedback it gets during the consultation?

We've arranged a number of ways that you can give us feedback. We will listen to all your views then determine if any changes need to be made to our proposals. We'll take your feedback into account to help determine our final decision.

How have you been able to propose an option that keeps the BTPS open for team members?

Our review has revealed that the BTPS costs and risks related to team members are, on average, lower than those for managers. For example, while only around a third of the BTPS active members are managers, they account for half of the costs. Similarly, the value and associated risks of benefits already built up by team members in the BTPS is typically lower than for managers.

We also recognise that closing the BTPS might have a more significant impact on team members in our most junior grades, and have considered the different overall reward packages and terms available to managers and team members. This has led us to consider whether it may be possible – subject to the proposals meeting our overall objectives – to maintain a reduced level of BTPS pension for team members.

I haven't received a pack. How do I arrange for another copy to be sent?

Please call the Helpdesk on 0800 083 5056 or email bt.consultation@wealthatwork.co.uk. They'll arrange for a new pack to be sent to you.

I need to update my address, as my pack was sent to my old address. How do I do that?

Please call the Helpdesk on 0800 083 5056 or email bt.consultation@wealthatwork.co.uk if you need a pack to be resent to you.

In addition, please update your address details as soon as you can in the [HR System](#) / my personal information. This will mean we send all future communications to the right place.

When will we learn the outcome of the review?

The consultation is due to end on 17 January 2018. BT will review and consider all the feedback we get from members through our feedback channels. At the moment, it's still too early to say exactly when we'll share our final decision, as this depends on how the consultation progresses and on the feedback we receive. We'll keep you up to date and let you know as soon as we can.

Modeller

When will the pensions modeller be available?

We want to give you time to review the proposals, so we'll make the pensions modeller available shortly after consultation starts. You'll receive a personalised modeller statement in the post which will have the data and instructions you need.

Will I be able to use the modeller at home?

Yes, you'll be able to use it at home as long as you're connected to the BT intranet. Once available, you can find the modeller on this site through the navigation menu. You'll need your data statement with you to use it.

The modeller is best viewed on a laptop, computer or tablet rather than a phone.

Trade unions

Which trade unions are you discussing the proposed changes with?

BT formally recognises two trade unions in the UK – the Communication Workers Union (CWU) and Prospect. We've discussed the proposed changes with both unions throughout the pensions review and will continue to communicate with them throughout the consultation period.

I understand that an agreement was made in 2009 between BT and the unions. What's happened since then that means a further pension review is needed?

We made an agreement in 2009 that was designed to make the BTPS more sustainable and allowed the scheme to stay open. BT had no plans for a further review at that time.

However, since 2009, the cost of providing benefits for BTPS members has continued to rise due to a number of factors, including a sustained period of low long-term interest rates. There's more detail about this in the consultation guides at [\[snip.bt.com/pensions/etc\]](http://snip.bt.com/pensions/etc)

Openreach / DCR

I work for Openreach. Are these changes anything to do with the DCR decision?

The need to propose changes to our pension arrangements is separate from the discussions about providing pensions for employees in Openreach Ltd. The proposed changes are the same for Openreach employees as for all other members of our pension schemes.

Will the proposed changes take place before the TUPE transfer of staff into the new Openreach entity?

BT is proposing a 1 April 2018 implementation date for the changes to the BTPS and BTRSS (although this could change depending on how long implementation takes). The date of the TUPE transfer of staff into the new Openreach entity is still to be confirmed. It's likely that the BTPS and BTRSS changes will be implemented before the TUPE transfer, but it's still too early for us to be definitive about this.

Trustee's role

Is the Trustee of the BTPS involved in the proposed changes?

While the proposals we've set out are ultimately from BT, the Trustee is aware of the proposed changes.

We will update the Trustee on the progress of the consultation and the outcome.

Other / miscellaneous

How is the State Pension calculated? How much State Pension I will get?

The State Pension system changed on 6 April 2016. If you reach State Pension age on or after 6 April 2016, you will receive benefits under the new State Pension.

The full amount of the new State Pension is currently £159.55 per week for the 2017/18 tax year (or £8,297 a year). However, your exact entitlement depends on your National Insurance record, which will be affected by factors such as your earnings, how long you've been working (and any periods where you weren't working), and whether you had 'contracted-out' service (which applies to service of Section B and C members in the BTPS before 1 April 2009 and Section A members before 6 April 2016).

To find out how much State Pension you may get, you can request a State Pension statement from the Government at <http://www.tax.service.gov.uk/check-your-state-pension>. As this is a complex calculation that requires details of your full National Insurance record, BT can't calculate this for you.

End of document