A woman with dark hair pulled back, wearing a black headset with a microphone, is looking slightly to her right. She is wearing a dark red or maroon long-sleeved top. She is sitting at a desk with a computer monitor and keyboard visible. The background is a blurred office environment with other computer monitors.

Proposed changes to your future pension benefits

A guide for team members
November 2017

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Important notes

This guide is intended for team members who are currently active members of the BTPS.

This document summarises the changes BT is proposing to make. No final decision has been taken.

References to BT in this guide should be read as meaning each relevant BT entity which has employees participating on standard terms in the BTPS including, where appropriate, whichever BT entity employs you.

All examples and information are based on current legal and tax requirements. Those requirements may change in the future and those changes may result in a different outcome for your pension benefits.

The key benefits provided in the BTPS and BTRSS are summarised on pages 6-7, in the table on pages 42-46 and in the glossary on pages 36-39. This is only a summary; full details are in the governing documentation of the BTPS and BTRSS (their Rules). If there's a conflict between this guide and the governing documentation of the BTPS and BTRSS, the governing documentation will prevail.

The proposed changes set out in this guide do not restrict BT's right or ability to exercise any powers relating to the BTPS and the BTRSS including any power to amend or discontinue the BTPS and the BTRSS. BT reserves the right to exercise any such powers, subject to the terms and conditions of the relevant rules and legislative requirements.

Introduction

Over the past few months, we (BT) have been carrying out a detailed review of our two main pension arrangements – the BT Pension Scheme (BTPS) and the BT Retirement Saving Scheme (BTRSS).

We can now share our proposals for change with you. **We've discussed these proposals with the CWU and they are aware of the proposals that we're sharing.**

In this guide, we explain the two different proposals we're making:

Proposal 1: To close the BTPS to all members of Sections B and C for the future build-up of benefits on 31 March 2018. Your BTPS benefits would become deferred, and for future service you would join an enhanced BTRSS.

Proposal 2: To keep the BTPS open for team members only, but members pay higher contributions and build up benefits at a lower rate.

It's important you read it carefully, along with the letter we've enclosed.

This guide addresses key questions, including:

- why we need to make changes
- how the proposed changes could affect you
- details of the consultation and timelines
- where you can get further support and information during the consultation
- how to ask us questions and feed back about the proposed changes
- answers to some frequently asked questions and a glossary.

Consulting with you

We want to give you the opportunity to ask questions and make comments on the proposed changes, so we're holding a consultation starting on 15 November 2017, and due to end on 17 January 2018. We'll carefully consider all your feedback during this time before we make a final decision.

We are hoping to continue discussing the proposed changes with the CWU during this consultation period.

We are proposing a 1 April 2018 implementation date for the proposed changes. This could change depending on how long implementation takes. We'll tell you if the expected implementation date is going to change.

What you need to do now

Before you send us your feedback, we recommend you take the following steps:



The proposed changes and what they mean to you

We want all people at BT and people joining BT in the future to build up retirement benefits that are **fair** and **flexible**. At the same time, we need to ensure any changes are **affordable** to both BT and you.

Our commitment to your pension

We stand behind the BTPS and are committed to funding the benefits built up.

In 2009, we made changes to the BTPS to keep it open. Even though the risks and costs of the BTPS have continued to grow, the scheme has remained open and we've made significant top-up payments.

We've paid over £6bn into the BTPS since 2009 in top-up payments and are committed to pay another £7bn over the next 13 years.

The BTRSS proposals are part of an ongoing trend of enhancements we've made to our defined contribution pension arrangements, including:

- enhancing the contribution structure
- improving the default contribution rates
- lowering charges and widening investment choices
- increasing flexibility in how benefits can be taken
- improving access to financial information and technology.

With this in mind, we're putting forward two alternative proposals for team members in Sections B and C of the BTPS that would help us meet those objectives:

Proposal 1:

Close the BTPS for further benefits being built up on 31 March 2018, and join an enhanced BTRSS from 1 April 2018. This would include an increase to BT's standard contribution rates and some additional transition payments in the form of extra contributions to members' BTRSS plans. We're making the same proposal to managers.

Proposal 2:

Continue membership of the BTPS after 31 March 2018 but on a different basis. This would include members paying higher contributions and building up benefits at a lower rate. Note that we are consulting on this proposal for team members only.

We explain these proposals in more detail opposite and on pages 8-19. We want to hear your views on both of these proposals as part of the consultation process before we make a decision at the end of consultation.

Our pension principles

Our proposals are focused on three key guiding principles:

Fair

It's our aim to have pension arrangements that are fair for all, allowing our people to meet their retirement needs.

Flexible

Our pension schemes should allow employees to build up and access their benefits in ways that suit them best.

Affordable

We need to address the cost and risks we face in the BTPS to ensure the benefits are affordable to both BT and you.

Proposal 1: Close the BTPS to further benefits and join enhanced BTRSS

Under Proposal 1, we would close the BTPS to all members for the future build-up of benefits on 31 March 2018. Your BTPS benefits would then become deferred and you'd join an enhanced BTRSS from 1 April 2018. The proposed BTRSS enhancements are:

- 1 Improved contribution structure**
We're proposing to increase BT's maximum standard contribution rate to 10% for all BTRSS members.
- 2 An additional higher employer contribution rate**
BT will contribute 11% of your BTRSS Pensionable Salary if you contribute 8%. This contribution tier would be available to you for three years until 31 March 2021.
- 3 Additional transition payments**
We're also proposing to pay additional transition payments into your BTRSS plan for a period of up to 10 years, depending on your age at 1 April 2018.

Full details of these rates can be found on page 10.

At retirement you will have two sources of BT retirement income:

- 1 Your BTPS pension for service to 31 March 2018. The value depends on your length of pensionable service in the BTPS and BTPS Pensionable Salary.
- 2 Your BTRSS plan from 1 April 2018. The value depends on how much you contribute into your plan and the returns generated.

Your new benefits in the BTRSS

The BTRSS is a defined contribution (DC) plan where you and BT pay monthly contributions. It works like a long-term savings account:

- You and BT pay monthly contributions into your individual BTRSS plan. You choose what percentage of your BTRSS Pensionable Salary to contribute.
- Your plan is then invested until you retire.
- You then use the savings in your plan to fund your retirement benefits.

Your benefits in the BTPS

Your last day of pensionable service in the BTPS would be 31 March 2018, meaning:

- You'd become a deferred member of the BTPS on 31 March 2018 and stop making your contributions to the BTPS.
- The BTPS benefits you've earned up to 31 March 2018 would remain in that scheme and you'd still receive these benefits when you retire.
- These benefits would grow broadly in line with inflation until you retire.

See page 8 for more details.

Proposal 2: Keep the BTPS open for future service for team members only, but on a different basis

Under Proposal 2, we propose changing how team members build up future benefits in the BTPS for pensionable service from 1 April 2018 as follows:

- Change the rate of build-up or 'accrual' of pension to 1/120th of BTPS Pensionable Salary but without deducting the State Pension Offset. (See page 16 for more details on the State Pension Offset.)
- Stop the build-up of 3/80th lump sum. Members will still have the option to exchange some of their pension for additional tax-free cash when they start taking their BTPS benefits.
- Once the pension is being paid, restrict the maximum pension increases applied to the part of your pension relating to pensionable service from 1 April 2018 to CPI up to a limit of 2.5% a year.

We also propose to:

- Limit the amount of any future increase in your BTPS Pensionable Salary to CPI inflation each year. This means that if your salary increases by more than CPI inflation that year, the portion of the increase above CPI inflation wouldn't be used in the calculation of your BTPS pension.
- Increase member contributions and change how they are calculated, as set out in the table on page 19. We propose moving to a contribution structure which is set by grade and removing the NI allowance.

Additional flexibilities

Under both Proposals 1 and 2, we're proposing to provide you with flexible retirement terms in the BTPS once you reach age 55. These could include:

- the option to take your BTPS pension early while you continue working at BT
- the option to take early retirement on improved terms
- the option to take the benefits you've built up before and after 1 April 2009 at different times.

These options would be available only with BT's consent for a limited period of time. Their continuation would also be subject to review by BT. See page 9 for more details.

What else would change?

Under both Proposals 1 and 2, we'd offer medical retirement and death benefits, although they'll be different from the ones you currently receive, and will depend on which proposal is implemented. Other benefits including redundancy benefits will also be affected by the proposed changes. See page 19 for more details.

BT is also reviewing the current use of RPI as the index for calculating Section C members' pensions in payment. If you're in Section C, you can find out more in the enclosed leaflet.

Proposed changes for other BTPS and BTRSS members

We've summarised the proposed changes for other affected members on page 34. You can get more details on the consultation site at snip.bt.com/pensions

Why we need to make changes

The BTPS is one of the largest private sector pension arrangements in the UK, which brings with it significant financial challenges. If we ignore the costs and risks we face, it will restrict our ability to invest in BT's future. We must propose changes in order to continue providing all BT employees with fair, flexible and affordable retirement savings.

The costs in the BTPS have gone up significantly since we made changes to our pension arrangements in 2009, while they've remained stable in the BTRSS.

How have BTPS costs increased?

The cost of benefits you are building up is rising. When changes were made to BTPS benefits in 2009, the cost of providing £1 of annual pension was around £10.

This is now estimated to be £20. Your share of this cost (your contributions) has stayed the same and BT pays the remainder, meaning BT's costs are now three times as much.

In 2009



In 2017



- 1 In 2009, member contributions met around half the costs (£5).
- 2 Today, members still pay the same as they did in 2009 (£5).
- 3 But the cost to BT is now three times as much (£15).

Source: KPMG analysis. Figures quoted include allowances for three times lump sum and the State Pension Offset.

In addition to the cost of future benefits, BT has to meet the cost of any shortfall between the BTPS assets and the expected cost of providing benefits already promised to members – known as the deficit.

The value of BTPS members' benefits (known as the 'liabilities') is £60bn, compared with £40bn at the end of 2008

Deficit in the BTPS (as at 30 June 2016)



The deficit in the BTPS has increased despite BT paying in £6.2bn in top-up payments since 2009 (on top of payments for future benefits) and the BTPS assets consistently achieving higher returns than expected.

Did you know?

Just for current active BTPS members, the costs of benefits built up since 2009 are now around £1.5bn more than was expected when the 2009 changes were agreed with the unions. This is equivalent to around £50,000 for each active BTPS member.

BT has to fund the BTPS in order to meet these unexpected costs.

The BTPS causes significant uncertainty and risks for BT. If we do nothing, BT will be facing hundreds of millions in extra contributions to the BTPS on top of our current costs. This could damage our ability to invest in our networks, customer experience and jobs.

Without change, BT's costs of providing future benefits in the BTPS are expected to be more than double those in the BTRSS, despite having fewer active members. Because one of our main aims is to ensure fairness for all, we need to consider the needs of all BT employees in our proposals.

We're proposing a package of changes across the BTPS and BTRSS. If we implement the changes we're proposing for both schemes, it would actually mean an increase to BT's overall pension spending on employees, but would help spread this across all our employees more equally.

Some key figures from our review include:

The average pension of active BTPS team members in 2009 was:

£8,000 per year

The average pension of active BTPS team members in 2017 is now:

£13,400 per year

In 2009, the average value of active BTPS team members' benefits was around:

£100,000

The average value of active BTPS team members' benefits is now around:

£400,000

x4

The average value of BTPS team members' benefits is now four times the amount in 2009

The above figures are based upon the expected cost to the BTPS of providing members' benefits.



Source: KPMG analysis. Average BTPS pensions are before allowance for the State Pension Offset built up since 2009.

Why is Proposal 2 to keep the BTPS open only available to team members?

Given the scale of the increase to past and future service costs that BT faces, we've looked at all options – including closing the scheme to all BTPS members for build-up of future benefits as put forward under Proposal 1.

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.

We have therefore decided to consult on an alternative proposal that enables the BTPS to remain open only for team members, but on a different basis (Proposal 2).

We'd like to hear your views on both proposals as part of the consultation. It's important that you engage in the consultation process so we can take all your feedback into account before making a final decision.

Overview of our pension schemes

Before we look at the proposed changes, here's a reminder of how our pension schemes work.

BTPS

Fact file

- A scheme where the benefits are defined by its Rules, often called a defined benefit, or DB scheme.
- The Trustee of the BTPS looks after the scheme and, amongst other things, ensures that the benefits are paid out in accordance with the BTPS Rules.
- Benefits are broadly based on how long you've been a member of the BTPS and your BTPS Pensionable Salary.
- The BTPS closed to new joiners on 1 April 2001.
- Around 21,000 team members are active members (meaning they're still working and building up benefits in the scheme).

Section by section

BTPS members belong to one of three sections.

Section C

Members who joined the BTPS on or from 1 April 1986 until it closed to new members on 31 March 2001.

Section B

Members who joined the BTPS between 1 December 1971 and 31 March 1986 (or Section A/B members who left BT and subsequently rejoined after 31 March 1986, or Section A members who have switched to Section B terms).

Section A

Members employed by the Post Office before 1 December 1971. Different rules apply to the small number of remaining active Section A members. Section A benefits will be unaffected by the consultation. Section A members should refer to their separate cover letter.

How you've built benefits in the BTPS

Before 1 April 2009

Your benefits built up before 1 April 2009 are linked to Final Pensionable Salary and they differ for Section B and C members.

Section B

- a pension of 1/80th of Final Pensionable Salary for each year of pensionable service
- a lump sum of three times your annual pension.

Section C

- 1/60th of Final Pensionable Salary for each year of pensionable service.

After 1 April 2009

- You've built up a block of pension each year equal to 1/80th of your BTPS Pensionable Salary for that year¹, plus a tax-free lump sum of three times that pension.
- A reduction known as the State Pension Offset applies to your pension when you reach State Pension age. More details of the State Pension Offset can be found on page 16 and in the Glossary.
- Each block of pension and lump sum is increased up to your retirement or if you leave the BTPS if earlier, by the lower of 1) the increase in the Retail Price Index, and 2) any increase in your BTPS Pensionable Salary.

There's lots of information about the BTPS and how the benefits work on the BTPS website, www.btpensions.net

¹ Some members have instead opted to build up pension equal to 1/90th of their BTPS Pensionable Salary.

BTRSS

Fact file

- A scheme where the contributions are defined, but the level of benefits isn't guaranteed. Often called a 'defined contribution', or DC scheme. Most people in the UK now save for retirement in DC schemes.
- Since 2001, new starters at BT have been offered membership of a DC scheme. Before the BTRSS, this was either the BT Retirement Plan or the Syntegra Limited Flexible Pension Plan.
- Currently there are around 34,000 active members, including 22,650 team members, making it the scheme with the most BT employees.
- The BTRSS is a 'contract-based' scheme (sometimes called a personal pension), which has been provided by Standard Life since 2009. This means that contributions are paid into a plan under a contract made directly between the member and Standard Life. BT works with Standard Life to agree the terms under which the contracts are set up.
- BT has set up a BTRSS Governance Committee to help manage and monitor the scheme. This is different from the BTPS which has a trustee board.
- In addition to paying contributions, BT also covers the cost of providing death in service and medical retirement benefits for active BTRSS members.

How you would build up benefits in the BTRSS

- Both you and BT pay contributions into your BTRSS plan. How much BT pays in depends on how much you decide to contribute. There's more detail about the contribution rates on page 10.
- Pension contributions are paid free of income tax (up to certain limits).
- When you decide to retire, your plan provides your benefits. The size of your benefits will depend on the amount of contributions paid, investment returns, how you take your benefits and any charges.
- Investment returns can increase or decrease over time.
- How you take your benefits is up to you, and you can take advantage of all the flexibilities available to members in DC schemes. These are described on page 14.
- There is lots more information about the BTRSS at www.btretirementsavingscheme.com

Your benefits under Proposal 1: Close the BTPS to further benefits and join enhanced BTRSS

Under Proposal 1, you would have a new plan set up in the BTRSS which you and BT would contribute to.

On 31 March 2018, you would become a deferred member of the BTPS. When you retire, you would receive the benefits you've built up in the BTPS, which would be increased to allow for inflation.

So let's take a look at what that would mean.

Your deferred benefits in the BTPS

If Proposal 1 is implemented, on 31 March 2018, you'd become a deferred member of the BTPS. This means you'd be entitled to the BTPS benefits you'd built up to that date (your 'deferred benefits'). You wouldn't build up any further benefits in the BTPS from 1 April 2018 onwards.

If the proposed changes go ahead, the BTPS will provide you with a deferred member statement. As a guide, your latest benefit statement shows the level of pension you have built up to the date of that statement.

Increases to your deferred benefits

Your deferred benefits would then increase from 1 April 2018 until you retire, according to the BTPS Rules. This means they'll increase broadly in line with inflation as explained in the box below.

How your benefits increase in deferment

- **Section B:** increases in line with the Government's inflation index, currently CPI.
- **Section C:** increases in line with the Government's inflation index, currently CPI, up to a maximum of 5% a year (measured over the whole period from when you become a deferred member until when you retire).

Note: There are statutory elements of your pension that may receive different rates of increase.

How early or late retirement works

If you draw your benefits before your Normal Pension Age of 65, this is known as 'early retirement'. If you're still working for BT at age 65, you also have the option to defer taking your benefits and retire later. This is known as 'late retirement'.

Early retirement factor

If you take your benefits early, they will be reduced. Your benefits built up from 1 April 2009 will be reduced if you take them before age 65. And your benefits built up before 1 April 2009 will be reduced if you take them before age 60.

This is because your pension is paid for more time than originally expected. The reduction is calculated using an 'early retirement factor'.

An early retirement factor is not applied if the Trustee agrees that you meet the BTPS medical retirement criteria, or in certain other circumstances allowed by the BTPS Rules.

Late retirement factor

As a deferred member of the BTPS, your benefits built up before 1 April 2009 would be increased if they are paid after you reach age 60. This is because your pension is paid for less time than originally expected. The increase is calculated using a 'late retirement factor'. If you're a deferred member of the BTPS and still employed after age 65, your benefits would be increased for late payment, but only until the point you leave BT.

By comparison, as an active BTPS member, you build up benefits that are linked to BTPS Pensionable Salary, so they aren't increased by the late retirement factor.

The late retirement factor may mean that members get a higher increase to benefits under the proposed changes than any increase to their BTPS Pensionable Salary would otherwise have given. This can be seen in the member illustrations on pages 20 to 33.

New early retirement and flexibility options

We're also proposing improved retirement terms in the BTPS once you reach age 55. These could include:

- 1 the option to take your BTPS pension early while you continue working at BT. You would need to agree in advance a leaving date that's within two years of when you start taking your pension. (The actual leaving date would be subject to operational sign-off.) You would be able to build up BTRSS benefits during this period too.
- 2 the option for BT employees to retire early with lower pension reductions than the standard terms currently applied by the BTPS.
- 3 the option to take the benefits you built up before 1 April 2009 (which have a Normal Pension Age of 60) before you take the benefits you built up after 1 April 2009 (which have a normal pension age of 60).

We're still working through how these options might work, with an aim to introduce these as close to 1 April 2018 as is practical. We'll let you know once we have more details. Due to the administrative complexities, option 3) is unlikely to be available before 2019.

These options would be available only with BT's consent and subject to regular review.

Now that we've looked at what happens to your benefits in the BTPS, let's see what would happen with your new BTRSS plan.

Contributing to your BTRSS plan and proposed improvements

From 1 April 2018, both you and BT would contribute to your new BTRSS plan. BT's contribution will depend on how much you're paying in.

We're proposing three increases to BT's contributions:

1 Improved contribution structure

We're proposing to increase BT's maximum standard contribution rate to 10% for all BTRSS members.

2 An additional higher employer contribution rate

As a team member who leaves the BTPS on 31 March 2018 as a result of the proposed changes, BT will contribute 11% of your BTRSS Pensionable Salary if you contribute 8%. This contribution tier would be available to you for three years until 31 March 2021, at which point the maximum BT contribution rate would revert back to 10%.

The table below shows these two enhancements to contribution rates.

Standard member rates	BT current standard rates	Proposed new BT standard rates	Total proposed new rates into BTRSS
5%	8%	9%	14%
6%	8.5%	9.5%	15.5%
7%	9% (max)	10%	17%
8% or more for ex-BTPS members only	9% (max)	11% for 3 years, 10% afterwards	19% or more for 3 years, 18% or more afterwards

Note: these rates only apply to members who are in the standard contribution structure.

3 Additional transition payments

We're also proposing to pay additional transition payments of 2% of BTRSS Pensionable Salary per year into your BTRSS plan, for a period of up to ten years (or earlier if you leave BT or stop being an active member of the BTRSS). The period will depend on your age on 1 April 2018.

Age at 1 April 2018	Additional transition payments (% of BTRSS Pensionable Salary)	Total amount of transition payments (% of BTRSS Pensionable Salary)
<40	2% for 10 years	20%
40-44	2% for 8 years	16%
45-49	2% for 7 years	14%
50-54	2% for 5 years	10%
55-59	2% for 3 years	6%
>60	2% for 2 years	4%

Bringing it all together

This means that for at least two years from 1 April 2018 until at least 31 March 2020, you could have as much as 21% of your BTRSS Pensionable Salary paid into your BTRSS plan, with 8% from you and 13% from BT. You may also want to pay additional contributions.

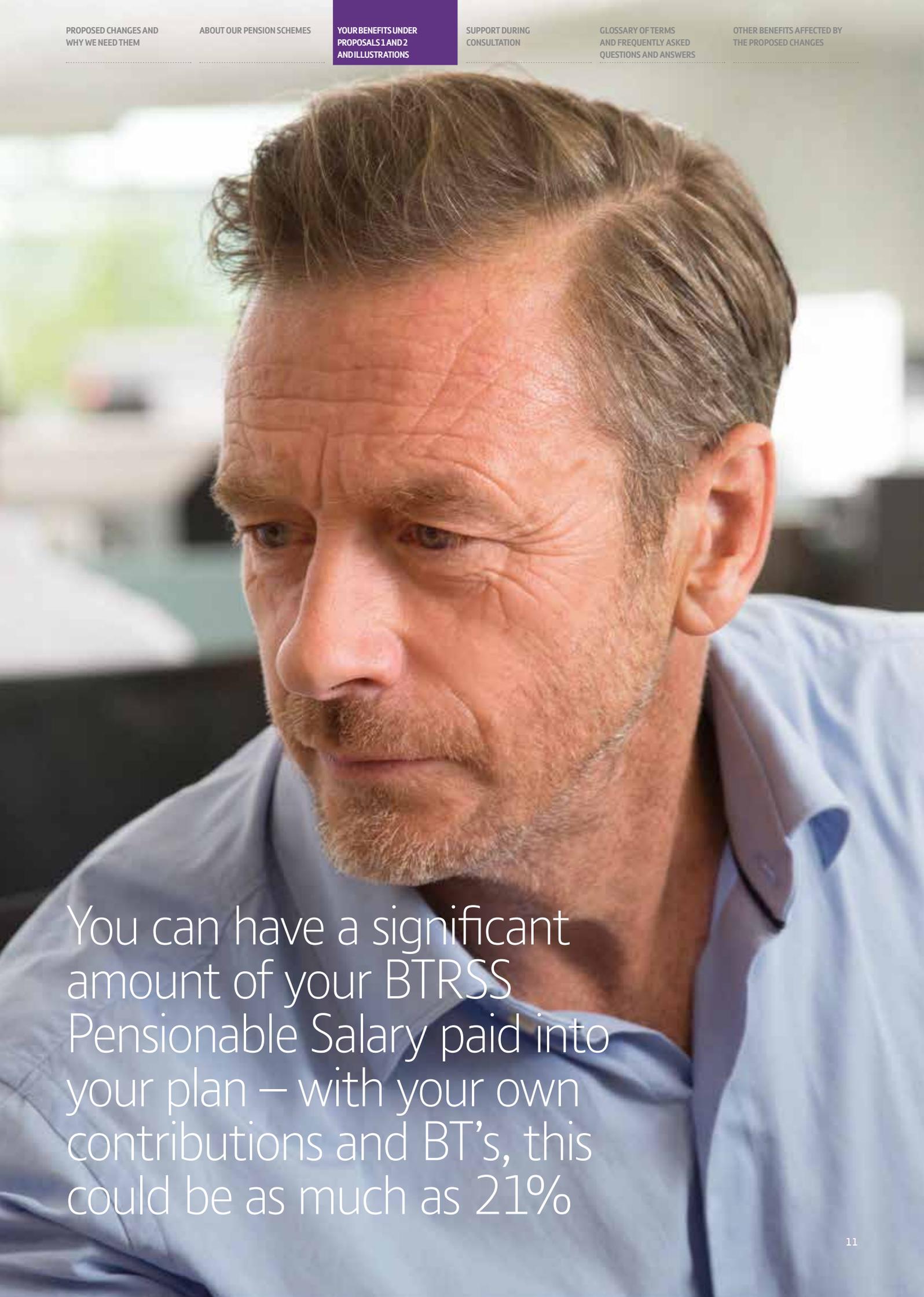
Example

James is 50 years old on 1 April 2018. He decides to make 8% contributions of his BTRSS Pensionable Salary. That way his total contributions over the next few years would be:

	James	BT	Total
Year 1 (to 31 Mar 2019)	8%	11% + 2% = 13%	21%
Year 2 (to 31 Mar 2020)	8%	11% + 2% = 13%	21%
Year 3 (to 31 Mar 2021)	8%	11% + 2% = 13%	21%
Year 4 (to 31 Mar 2022)	8%	10% + 2% = 12%	20%
Year 5 (to 31 Mar 2023)	8%	10% + 2% = 12%	20%
Year 6+ (from 1 April 2023)	8%	10%	18%

If you're paying at least 5%, BT pays a contribution of at least £1,500. This payment will be pro rata'd for part-time employees and for those who leave during the year.

For the purposes of calculating BT's contributions to the BTRSS and your death and medical retirement benefits, BTRSS Pensionable Salary is subject to something called the 'Earnings Cap'. This is a cap applied to the amount of a member's earnings that are considered pensionable. The cap is £154,200 for the tax year 2017/18. The Earnings Cap does not apply when calculating member contributions to the BTRSS.



You can have a significant amount of your BTRSS Pensionable Salary paid into your plan – with your own contributions and BT's, this could be as much as 21%

Ensuring a smooth transition into the BTRSS

As a BTRSS member, you'd have the flexibility to choose how much you contribute to your BTRSS plan each month.

If you don't make a choice, we're proposing that you'd start contributing to the BTRSS at a rate that most closely matches what you're currently paying in the BTPS (your 'default' contribution rate).

Your default BTRSS contribution rate

The table below sets out the default BTRSS member contributions we're proposing, based on the current cost to you of your BTPS pension.

Currently, the vast majority of team members pay either 6% or 7% of their BTPS Pensionable Salary into the BTPS. The amount you pay depends on the section of the BTPS you are in and whether your BTPS Pensionable Salary is above or below the Contribution Earnings Threshold (CET), which is currently £49,185.

You also currently receive an additional allowance (the 'NI allowance') in your pay each month that relates to the changes made in 2009. This allowance is shown on your pay slip as the 'Pensions Contract-in NI adj'. As a BTRSS member, you'd stop getting the NI allowance if the proposed changes go ahead.

On average, the value of this allowance is equal to around 1% of BTPS Pensionable Salary and the default BTRSS rates we're proposing take this into account.

BTPS Section B members:

Member contribution rate	BTPS member contribution rate (% of BTPS Pensionable Salary)	Proposed default BTRSS member contribution rate (% of BTRSS Pensionable Salary)
If earning below CET	7.0% less NI allowance	6.0%
If earning above CET	8.5% less NI allowance	8.0%

BTPS Section C members:

Member contribution rate	BTPS member contribution rate (% of BTPS Pensionable Salary)	Proposed default BTRSS member contribution rate (% of BTRSS Pensionable Salary)
If earning below CET	6.0% less NI allowance	5.0%
If earning above CET	7.0% less NI allowance	6.0%

We've set out some examples on the opposite page, along with the impact on take-home pay.

Remember, you would be able to change your BTRSS contributions to a higher or lower rate if you wish, with BT's contribution rate adjusting accordingly.

Smart pensions

When you join the BTRSS, you'd participate in Smart pensions, although you can opt out. Smart pensions is our salary sacrifice arrangement. It is a cost-effective way of making payments to your BT pension arrangement. It's an agreement between you and BT, where you agree to sacrifice part of your salary in return for BT making pension contributions on your behalf, as long as this wouldn't reduce your salary below the National Living Wage or National Minimum Wage.

You save money because you pay lower National Insurance Contributions.

You can find more information at: hr.bt.com/en-gb/performance-reward/pensions/smart-pensions-for-btps-btrss-members where you can also find a link for opting out of Smart pensions if you wish.

Remember

In order to benefit from the additional higher employer contribution rate of 11% for three years, you will need to contribute 8% of your BTRSS Pensionable Salary into your plan. You will have the opportunity to select a rate when you join the BTRSS.

Examples of BTPS and BTRSS member contributions, and the impact on take-home pay

Example 1:

Ron, Section B, age 50, Pensionable Salary¹ of £30,000:

£ per month	BTPS – 7% of BTPS Pensionable Salary, less NI allowance	BTRSS: default rate of 6% of BTRSS Pensionable Salary
Gross member contributions	£147	£150
Net contributions ²	£100	£102
Impact on take-home pay	-	£2 less per month

Example 2:

Anika, Section C, age 55, Pensionable Salary¹ of £40,000:

£ per month	BTPS – 6% of BTPS Pensionable Salary, less NI allowance	BTRSS: default rate of 5% of BTRSS Pensionable Salary
Gross member contributions	£160	£167
Net contributions ²	£109	£113
Impact on take-home pay	-	£4 less per month

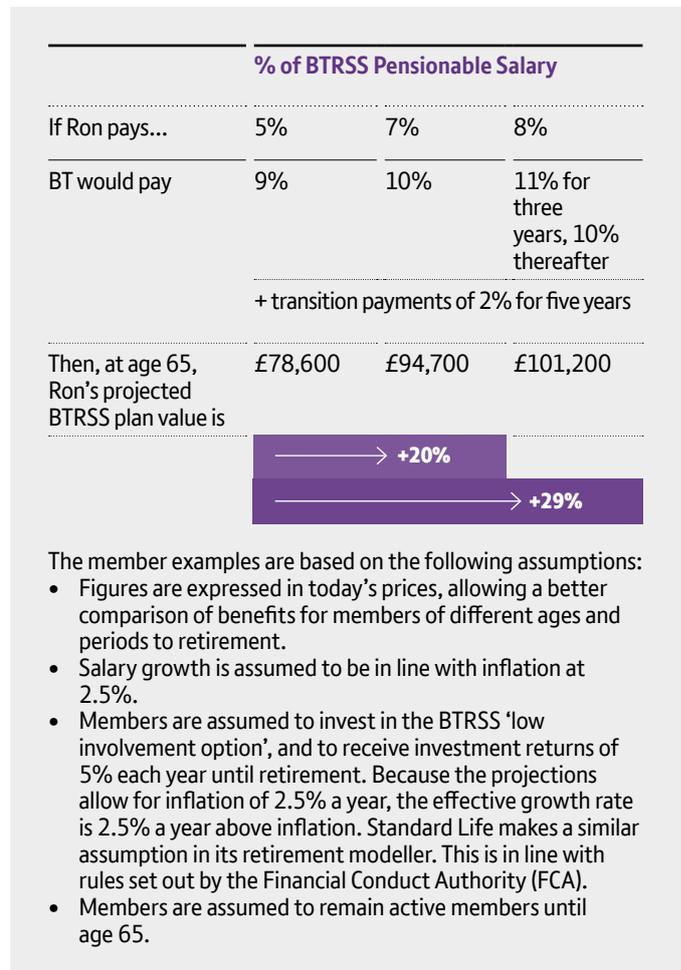
- For illustration purposes, BTPS Pensionable Salary and BTRSS Pensionable Salary are assumed to be the same amount. In practice there are some differences between the two schemes in terms of what is included in these definitions (see the Glossary on page 38 for more details).
- Net contributions are shown after tax and assume contributions are paid through Smart pensions.

Changing your BTRSS contribution rate

In the BTRSS, you can change how much you contribute to a higher or lower rate at any time.

As with all defined contribution pension schemes, the more you and BT pay in, the more you'll potentially get in retirement – the example below illustrates this.

Ron who is age 50 at 1 April 2018 and has a BTRSS Pensionable Salary of £30,000 a year:



Source: KPMG analysis.

Your BTRSS benefits when you retire

The BTRSS gives you flexibility and control over how you take your benefits at retirement. You'll have a number of options to choose from, and you can use your plan in a number of different ways.

The amount of retirement benefits you would receive depends on:

- the total contributions that you and BT have paid into your plan
- the investment return your plan achieves. As with all investments, the value of your plan can vary significantly from time to time and could go down as well as up
- the age at which you decide to take your benefits
- the type and cost of the benefits you choose to take – an annuity, for example
- your rate of income tax in retirement
- the level of charges paid.

And remember, you would still have your deferred benefits under the BTPS and your State Pension too.

How your BTRSS savings are invested

The BTRSS gives you control over how your plan is invested. If the proposed changes go ahead, you would be given further information on the choice of investment funds available through the BTRSS and how to make your choices before you join.

If you don't make a decision straight away your contributions would be invested in the default 'low involvement option' in the BTRSS. This is set by Standard Life, the BTRSS provider. You would be able to select a different investment option at any time.

As with all investments, the value of your plan can go down as well as up.

Annual management charges

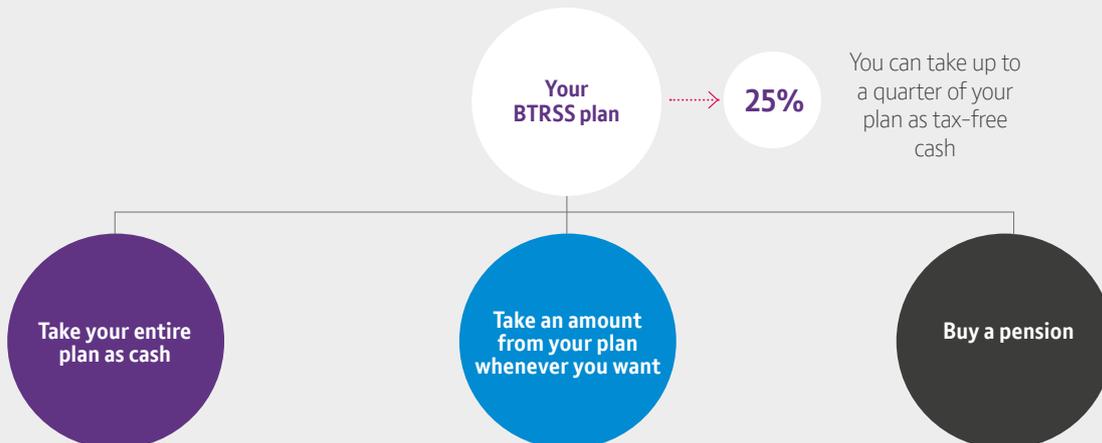
An annual management charge would apply to your BTRSS plan. BT has negotiated a significant discount on the annual management charges for all BTRSS members with Standard Life. For example, members invested in the low involvement option receive a scheme rebate of 0.73% on a normal charge (including expenses) of 1.03% giving an effective charge on that fund of 0.3% a year.

More information on the BTRSS

The BTRSS is provided and managed by Standard Life. Full details of the BTRSS can be found at: www.btretirementsavingscheme.com

Options for how you take your benefits

You would have a number of choices for how you spend your BTRSS plan



You can take up to a quarter of your plan as tax-free cash

Take your entire plan as cash

Take your plan as cash

You could take the full value of your plan as a cash lump sum, but anything over the first 25% would be subject to income tax.

Take an amount from your plan whenever you want

Take an amount from your plan whenever you want, also known as 'drawdown'

You could choose to take a series of cash sums or income from your plan over time whilst the balance remains invested.

Buy a pension

Buy a pension and receive an annual income, also known as an 'annuity'

This provides a guaranteed regular income for the rest of your life. You'll be able to choose the type of annuity that suits you best. For example, you can choose one that pays an income to your spouse or partner if they outlive you, and that increases in line with inflation each year.

You can use your plan to do a combination of these options. Unless you buy an annuity, you'd need to manage your money carefully to make it last for as long as you need it – once your money runs out, it's gone for good. Whichever option or options you choose, your pension benefits (above the 25% tax-free amount) would be taxed as income.

Death, medical retirement and other benefits under Proposal 1

If Proposal 1 is implemented, you would continue to be entitled to death, medical retirement and other benefits, although from 1 April 2018, these would be different from your current BTPS member benefits. There's a comparison of these under Proposals 1 and 2 on pages 42-46.

If you die before you retire while still working at BT, the following benefits would be payable:

- Cash lump sum of 10 x your BTRSS Pensionable Salary¹. The maximum lump sum is equal to the Lifetime Allowance² at the time of your death
- The value of your BTRSS plan, which can be paid in a lump sum or used to provide a pension
- A lump sum from the BTPS (the amount will depend on which section of the BTPS you were in. See page 44 for more information)
- Half your deferred BTPS pension, if you have eligible dependants.

Any lump sum death benefit will normally be paid free of inheritance tax as the payments are made under a discretionary trust.

The trustee of the relevant scheme will decide who receives the payment and how much they get. You can guide them by completing an Expression of Wish form.

Lump sums payable on death are subject to the Lifetime Allowance, so tax charges may apply if the payment takes you over the Lifetime Allowance.

- 1 BTRSS Pensionable Salary is subject to the Earnings Cap, which is £154,200 for the 2017/18 tax year
- 2 The Lifetime Allowance is currently £1 million

If you suffer from ill health and satisfy BT's medical retirement criteria, you would receive:

- a lump sum of either 15% or 20% (depending on the severity of your illness, disability or injury) of your BTRSS Pensionable Salary paid into your plan for each year of potential service up to the age of 65. This payment is at BT's discretion and does not apply to anyone whose terms include Permanent Health Insurance. Such benefits are only payable to active BTRSS members when BT has decided to terminate their service on the grounds of impaired capacity due to ill health and a valid medical retirement certificate has been issued.
- your BTRSS plan immediately, if you meet Standard Life's medical retirement conditions.
- your deferred BTPS pension and lump sum, which would not be reduced for early payment.

Other benefits

All BTPS Added Years contracts would stop after 31 March 2018 and no new contracts would be available. Similarly, you won't be able to make Additional Voluntary Contributions (AVCs) when you become a deferred member of the BTPS. Instead, you would be able to make additional contributions to your BTRSS plan.

The current ability for former Section A or B members of the BTPS to (in certain limited circumstances) return to BT employment and rejoin Section B will also no longer be available.

Differences to other benefits are described on pages 42-46.

Your benefits under Proposal 2: Keep the BTPS open for future service for team members only, but on a different basis

Under Proposal 2, we propose to:

- 1) Change the rate at which future benefits build up in the BTPS from 1 April 2018
- 2) Change how pensions built up from 1 April 2018 increase once they're being paid
- 3) Limit future increases in BTPS Pensionable Salary to CPI inflation each year
- 4) Increase member contributions
- 5) Change death, medical retirement, redundancy and other benefits.

1. Changes to future build-up of BTPS benefits

How your benefits currently build up

Currently, members in Sections B and C of the BTPS build up benefits each year on a 'career average' or CARE basis, based on the following:

Pension: $1/80^{\text{th}}$ x BTPS Pensionable Salary less a 'State Pension Offset'
PLUS

Lump sum: $3/80^{\text{ths}}$ x BTPS Pensionable Salary

¹ $1/80^{\text{th}}$ is known as the 'accrual rate' or 'build-up rate'. Some members have opted for $1/90^{\text{th}}$.

What is the State Pension Offset?

Since 2009, an offset (or reduction) is applied to Section B and C members' BTPS pensions when they reach State Pension age. When your State Pension starts to be paid, you get a higher state benefit, because in 2009 you stopped 'contracting out' of the State Second Pension and started to build up that extra state benefit.

Because you get this extra amount from the Government, your BT pension is reduced. The intention was that you'd get broadly the same amount overall at State Pension age (though, due to State Pension changes made by the Government in 2016, it will not exactly match). The application of the State Pension Offset means that your actual overall BTPS build-up rate ('accrual' rate) is less than $1/80^{\text{th}}$ once your State Pension starts to be paid and we've estimated that for team members, it's about $1/105^{\text{th}}$ on average.

$$\frac{1/80^{\text{th}} \times \text{BTPS Pensionable Salary less State Pension Offset}}{1/105^{\text{th}} \times \text{BTPS Pensionable Salary on average}}$$

Proposed changes from 1 April 2018

For future BTPS benefits from 1 April 2018, we propose changing the build-up rate, and removing both the State Pension Offset and the additional $3/80^{\text{ths}}$ lump sum.

The proposed build-up rate from 1 April 2018 will be:

Pension: $1/120^{\text{th}}$ x BTPS Pensionable Salary

Benefits would still build up on a career average (CARE) basis from 1 April 2018, but using the new rate of $1/120^{\text{th}}$.

At the same time, we are proposing to stop the build-up of the State Pension Offset from 1 April 2018. So benefits built up from that date would not reduce at State Pension age. However, the State Pension Offset would continue to apply to benefits built up between 1 April 2009 and 31 March 2018.

You'd no longer build up an additional lump sum from 1 April 2018, but at retirement you'd still have the option to exchange some of your pension for an additional tax-free lump sum.

Example

Fred, BTPS Pensionable Salary £30,000

Current

Estimate of BTPS benefits building up in the next year	BTPS pension (payable from Normal Pension Age, 65)	LESS State Pension Offset (applied from State Pension age)	Total payable from State Pension age
Pension	$1/80 \times £30,000 = £375$ per year	£100 per year	£275 per year
Lump sum	$3/80 \times £30,000 = £1,125$	N/A	£1,125

Proposed

Estimate of BTPS benefits building up in the next year	Calculation (payable from Normal Pension Age, 65)	LESS State Pension Offset	Total payable from State Pension age
Pension	$1/120 \times £30,000 = £250$ per year	None	£250 per year
Lump sum	None	N/A	N/A

2. Changes to how pensions built up from 1 April 2018 increase once they're being paid

When a member starts taking their benefits from the BTPS, their pension increases on 1 April each year in line with inflation.

Below you can see the current increases, and the changes we're proposing for pensions built up from 1 April 2018.

BTPS Section	Increases for pension currently building up	Proposed increases for pension built up from 1 April 2018
B	In line with the Government's inflation index (currently CPI inflation)	In line with the Government's inflation index (currently CPI inflation)
C	Currently in line with RPI inflation ¹ , up to a limit of 5% per year	In line with the Government's inflation index (currently CPI inflation), up to a limit of 2.5% per year

1 BT is reviewing the current use of RPI, please see the box below.

So, under Proposal 2, if CPI inflation in a particular year is more than 2.5%, the increase applied to any BTPS pension built up from 1 April 2018 would be limited to 2.5%. If CPI inflation is below 2.5%, you'd get the full increase. If inflation is below zero, your pension wouldn't be reduced.

Note that this change doesn't affect pension increases for benefits built up before 1 April 2018, and also doesn't affect increases received while in deferment (ie after leaving the BTPS but before the BTPS pension starts to be paid). It also doesn't apply to Guaranteed Minimum Pensions.

Use of RPI inflation for increasing Section C pensions in payment

BT is reviewing the current use of RPI as the index for calculating increases to Section C members' pensions in payment (the pension increases you'll receive when you are drawing your pension). BT, the BTPS Trustee and the Representative Beneficiary are seeking clarity from the Court as to whether it's possible to change from RPI to another index.

Changing to another index would also affect future increases on BTPS benefits built up by Section C members who've already left BT and those currently receiving a BTPS pension.

If you're a Section C member, please refer to the separate leaflet enclosed in your consultation pack for more details.

Our proposed change to the way pension built up from 1 April 2018 increases would not be dependent on the Court's decision.

Reference periods

Sections A and B have an inflation reference period that currently runs from 1 October to 30 September. Section C's inflation reference period runs from 1 January to 31 December. At an appropriate time we propose making the reference periods for all Sections the same: 1 October to 30 September.

Section C: illustrating the impact of moving from RPI to CPI for pension built up from 1 April 2018

Because RPI and CPI are constructed differently, RPI gives a different inflation rate to CPI.

CPI and RPI inflation over the last five years

Reference period	2012	2013	2014	2015	2016
Oct-Sep CPI (Section B)	2.2%	2.7%	1.2%	-0.1%	1.0%
Jan-Dec RPI (Section C)	3.1%	2.7%	1.6%	1.2%	2.5%
Jan-Dec CPI (Section C)	2.7%	2.0%	0.5%	0.2%	1.6%

Based on the current construction of the indices, CPI is generally expected to be lower than RPI.

For example, the annual increases in RPI and CPI to 31 December 2016 were 2.5% and 1.6% respectively, a difference of 0.9%. If RPI were 0.9% higher than CPI in the future, for every £1,000 of pension built up after 1 April 2018, an increase based on RPI would be £9 higher than an increase based on CPI.

3. Limit future increases in BTPS Pensionable Salary to CPI inflation

From 1 April 2018, we're proposing to limit future increases in BTPS Pensionable Salary to CPI inflation each year. This means that, each year:

- If your BTPS Pensionable Salary would otherwise have increased over the year by less than or up to the increase in CPI inflation that year, your BTPS Pensionable Salary would still increase by the same percentage.
- If your BTPS Pensionable Salary would otherwise have increased over the year by more than the increase in CPI inflation, any increase above CPI would, in future, be categorised as non-pensionable and wouldn't be included in your BTPS Pensionable Salary. You'd still receive the full increase in your pay.

Your contributions and death benefits would be calculated based on your BTPS Pensionable Salary, and so they'd be affected by this proposed change.

Your benefits under Proposal 2: continued

This proposed change is important because BTPS benefits for active members are linked to their salary. Past and future salary increases are a big factor behind the escalating costs and risks of the BTPS. Under Proposal 2, we need to manage how much of any salary increases you may get would count towards your pension. So in future, we expect that active BTPS members would only receive salary increases where any part of the increase above CPI inflation would be non-pensionable.

Example

Yana's BTPS Pensionable Salary at 31 March 2018 is £30,000, and she receives a salary increase of 3% over the year. Before the proposals, her BTPS Pensionable Salary would have increased by the full 3% to £30,900 at 1 April 2018.

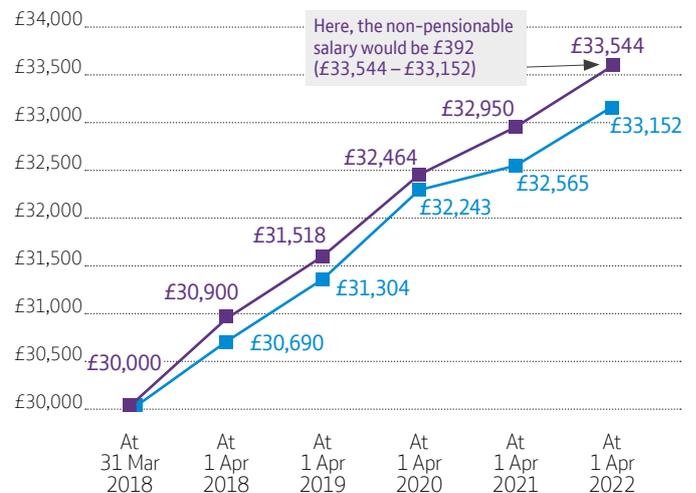
Let's assume that the annual increase in CPI over the year is 2.3%, which is lower than her actual salary increase of 3% that year. Under this proposed change, Yana's BTPS Pensionable Salary at 1 April 2018 would be limited to 2.3%, and her BTPS Pensionable Salary from 1 April 2018 would be £30,690. The remaining £210 of her salary increase would be deemed as non-pensionable. She would still receive the full £30,900 as pay.

Let's say in the second year at 1 April 2019, her salary increases by 2%, from £30,900 to £31,518. If CPI over the second year remained at 2.3%, her pay rise would be below CPI, meaning that the full percentage salary increase would apply to her BTPS Pensionable Salary. Her BTPS Pensionable Salary would therefore increase to £31,304 (full 2% increase applied to £30,690), and the non-pensionable element of her salary would be £214 (£31,518 less £31,304).

We can summarise this in a table below, and continue the example further:

Date	Full salary increase over the year	CPI increase over the year	Under current terms	Proposed changes – CPI limit to BTPS Pensionable Salary		
			BTPS Pensionable Salary (full salary increase applied)	BTPS Pensionable Salary (lower of full salary increase or CPI increase applied)	Non-pensionable salary	Total salary
31 March 2018	Starting BTPS Pensionable Salary: £30,000					
1 April 2018	3.0%	2.3%	£30,900	£30,690 (increase limited to 2.3%)	£210	£30,900
1 April 2019	2.0%	2.3%	£31,518	£31,304 (full salary increase of 2.0%)	£214	£31,518
1 April 2020	3.0%	3.0%	£32,464	£32,243 (full salary increase of 3.0%)	£221	£32,464
1 April 2021	1.5%	1.0%	£32,950	£32,565 (increase limited to 1.0%)	£385	£32,950
1 April 2022	1.8%	2.0%	£33,544	£33,152 (full salary increase of 1.8%)	£392	£33,544

Yana's pensionable and non-pensionable salary over time



Impact on BTPS benefits built up to 31 March 2018

The limit on future increases to BTPS Pensionable Salary will also be applied to benefits built up to 31 March 2018.

BTPS benefits built up before 1 April 2009 are linked to your Final Pensionable Salary, meaning your pension is based on your BTPS Pensionable Salary near the time you retire (or leave the BTPS if earlier). The CPI limit would apply to your BTPS Pensionable Salary from 1 April 2018 if this proposed change goes ahead.

BTPS benefits built up from 1 April 2009 are on a career average or CARE basis. Under this proposed change, these benefits would increase each year until you retire (or leave BTPS if earlier) by the lower of 1) the increase in CPI 2) the increase in RPI and 3) the increase in your BTPS Pensionable Salary.

Team members' 1 January 2017 pay increase was subject to a BTPS Pensionable Salary cap. For simplification, Yana's BTPS Pension Salary of £30,000 at 31 March 2018 is shown after this cap.

Proposed changes to your future pension benefits

4. Increase member contributions

Currently, the vast majority of team members pay either 6% or 7% of their BTPS Pensionable Salary into the BTPS. The amount you pay depends on the section of the BTPS you're in and whether your BTPS Pensionable Salary is above or below the Contribution Earnings Threshold (CET), which is currently £49,185.

NI allowance

You also currently receive an additional allowance (the 'NI allowance') in your pay each month that relates to the changes made in 2009. This allowance is shown on your pay slip as the 'Pensions Contract-in NI adj'. On average, the value of this allowance is equal to around 1% of BTPS Pensionable Salary.

Current member contribution rates

Contribution rate based on BTPS Pensionable Salary	Section B	Section C
If earning below CET	7.0% less NI allowance	6.0% less NI allowance
If earning above CET	8.5% less NI allowance	7.0% less NI allowance

Proposed member contribution rates

We're proposing to increase member contributions for BTPS team members, and to use the same rate for Section B and C members. BT also proposes to vary member contributions by grade, to reduce the impact of higher contribution rates on those less able to afford them. BT also proposes to stop paying the NI allowance to members from 1 April 2018.

Grade	1 April 2018 onwards
D1, C3, C2, C1	9.0%
B2, B1	8.0%
A2	7.0%

Example – impact on take-home pay

The table below sets out some example salaries for team member grades, along with the approximate effect on their take-home pay if member contributions are increased as proposed:

Grade	Maximum salary	Proposed contribution rate	Impact on take-home pay under proposed increases to member contributions	
			Section B	Section C
C3	£36,000	9.0%	£65 less per month	£85 less per month
B2	£28,000	8.0%	£33 less per month	£49 less per month
A2	£22,000	7.0%	£13 less per month	£25 less per month

5. Changes to death, medical retirement and other benefits under Proposal 2

If Proposal 2 is implemented, you'll still be entitled to benefits on death and ill health. These would be calculated taking into account the different benefits relating to pensionable service from 1 April 2018 under the new proposed terms. There's more information on these and other benefits on pages 42-46.

Under Proposal 2, BT is also proposing to change redundancy benefits. The Government's minimum pension age is 55. So, we propose increasing the minimum age when you qualify for redundancy enhancements from 50 to 55.

Because we're proposing to increase member contribution rates from 1 April 2018, some Section B members with Added Years contracts might find their total contributions would exceed the current limit of 15% of BTPS Pensionable Salary. Nothing would change for them and they'll be able to contribute over 15%. Under the proposed changes, there would be no new Added Years contracts after 1 April 2018.

Option to join the BTRSS

Under Proposal 2, the default position for BTPS team members after 31 March 2018 would be to continue building up BTPS benefits on the new reduced terms. However, we expect that some members may prefer to move to the BTRSS.

At the moment, if members voluntarily opt out of the BTPS, they can't join the BTRSS.

However, as part of Proposal 2, active members in the BTPS on 31 March 2018 may be allowed to join the BTRSS as set out in Proposal 1, provided that they confirm in writing that they have received financial guidance and fully understand the consequences of leaving the BTPS, and as long as BT consents.

Once a member leaves the BTPS, they would not be able to rejoin.

Member illustrations

On the following pages, we show how both Proposals 1 and 2 would affect six typical BTPS team members. These use a mix of ages, service and salaries.

And on the next page, the left-hand column shows the member's benefits if none of the proposed changes are made, and the other columns show what might happen to their benefits under either Proposal 1 or Proposal 2.

For each team member, we've shown what the impact of the changes would be if they retire at the BTPS Normal Pension Age of 65. For BTRSS illustrations, we've assumed that the member leaves the BTPS on 31 March 2018 and joins the BTRSS from 1 April 2018.

The effect of the proposed changes on your expected pension income will be specific to your own personal circumstances. Early in the consultation, we'll send you information individual to you that can be used with our online pensions modeller to help you understand the impact of the proposed changes on you in more detail.

Member	Section of BTPS	Age at 1 April 2018	Pensionable Service at 1 April 2018	Pensionable Service remaining from 1 April 2018	Pensionable Salary at 31 March 2018	Grade
1 – Rick	B	52	35 years	13 years	£28,000	B2
2 – Carmen	B	55	35 years	10 years	£39,000	D1
3 – Hetal	B	57	39 years	8 years	£36,000	C3
4 – Jim	C	46	20 years	19 years	£28,000	B2
5 – Amy	C	49	25 years	16 years	£39,000	D1
6 – Nadia	C	54	30 years	11 years	£36,000	C3

It's important to note that the amounts shown in the illustrations depend on a number of assumptions. These are explained on the next page.

Understanding the illustrations

Pension benefits in retirement

In each illustration, bar charts show the member's expected retirement income from their BT pension arrangements both before and after either Proposal 1 or Proposal 2 is implemented. On the right we've set out an example of how the illustrations are presented. The total pension income is summarised directly above the bar charts. This amount decreases at State Pension age when the State Pension Offset is applied to a member's BTPS benefits. However, the member would also start to receive their State Pension (which is not shown here).

What do the bar charts show?

Before change – the left-hand column shows the member's expected BTPS pension if none of the proposed changes are made, and assuming the member remains employed with BT and a member of the BTPS until age 65.

After change – the other columns of the chart show what could happen to the member's benefits under either Proposal 1 or Proposal 2. Under Proposal 1, benefits from the BTRSS are not guaranteed and would depend on the amount of contributions paid, investment returns, how you choose to take your plan at retirement and any charges. The figures shown are just examples.

Each member would also be able to take a tax-free lump sum at retirement. The illustrations assume that members take the maximum lump sum available, and this amount is shown above the bar charts in each case.

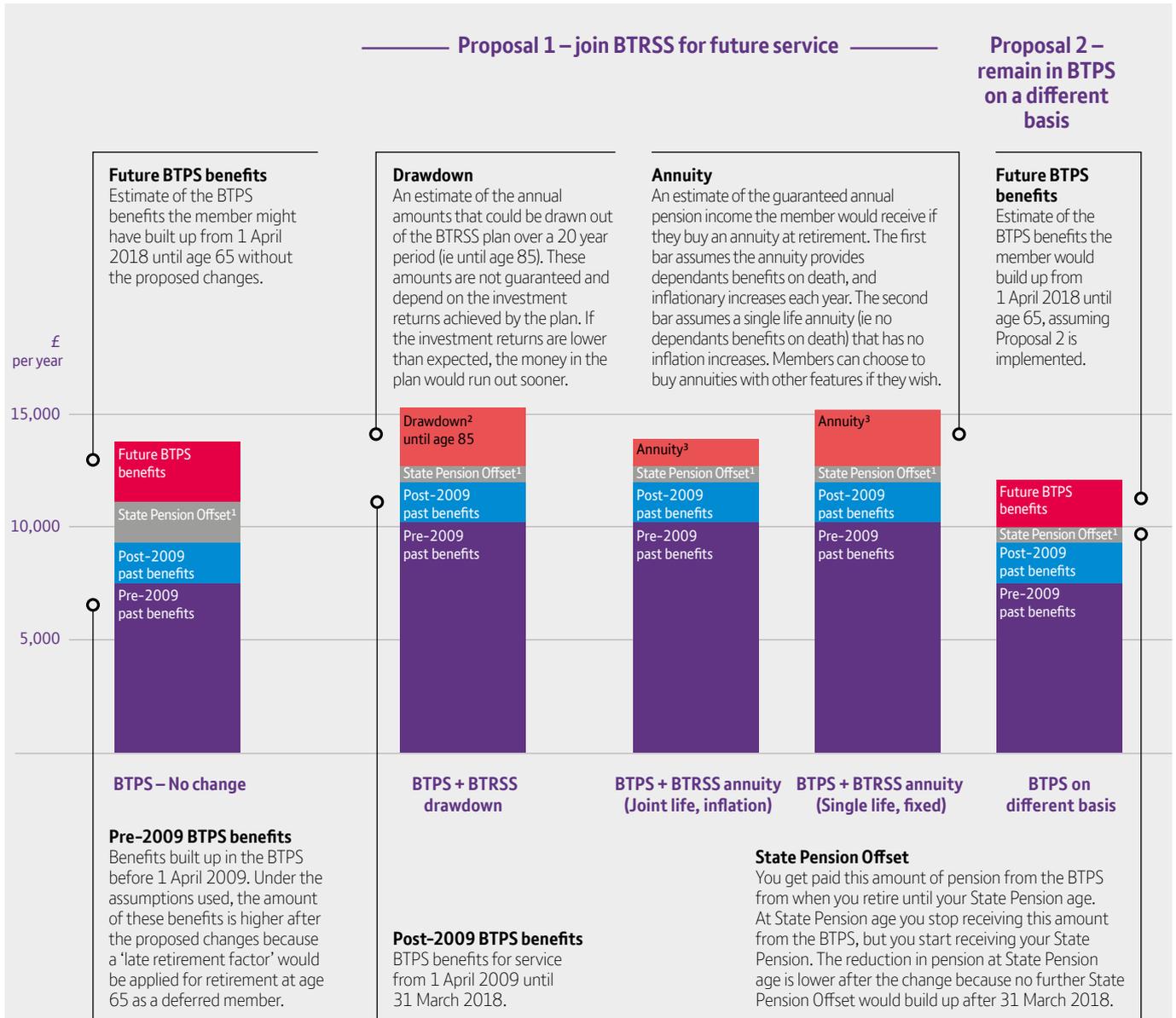
Member's pension contributions

Below the bar charts is an estimate of how the proposed changes might affect the member's pension contributions and their take-home pay (not shown on the page opposite).

Remember that in the BTRSS, the member would be able to choose how much they contribute each month. For each illustration we've therefore shown the effect on both contributions and retirement benefits if the member pays:

1. Their proposed 'default' BTRSS contribution rate, based on their current BTPS contributions (see page 12 for details).
2. The same contribution rate that they'd pay under Proposal 2, which varies by grade.

How to read the illustrations



Notes on graph

- At State Pension age (SPA) the BTPS Pension is reduced by the State Pension Offset and the member will start to receive their State Pension. Under both Proposals 1 and 2, the State Pension Offset would stop building up on 31 March 2018 and is therefore lower than under the 'no change' scenario.
- Under drawdown, the BTRSS plan is assumed to be taken as regular income over the period from retirement to age 85. The amount taken is assumed to increase each year in line with inflation. The member's plan is assumed to remain invested and to grow in line with inflation in retirement.
- Members assumed to buy an annuity with their BTRSS plan, with two different types of annuities illustrated. The first bar assumes the annuity provides a 50% dependants' pension on death, and inflationary increases each year. The second bar assumes a single life annuity that has no pension increases.

The illustrations are based on the following assumptions:

- Figures are expressed in today's prices, allowing a better comparison of benefits for members of different ages and periods to retirement.
- Members draw all their benefits (built up both before and after 1 April 2009) at their Normal Pension Age of 65.
- Members remain at BT and contributing to their pension scheme until their retirement.
- Salary growth is in line with inflation at 2.5% per year. For illustration purposes BTPS Pensionable Salary and BTRSS Pensionable Salary are assumed to be the same amount. In practice there are some differences between the two schemes in terms of what is included in these definitions (see the Glossary for more details).
- Deferred increases to the BTPS pension in line with inflation at 2.5% per year. No allowance is made for Guaranteed Minimum Pensions.
- The projections do not allow for the option to convert some BTPS pension increases for a higher starting pension. This will still remain available to members if the proposed changes are implemented.

- State Pension Offset assumed to increase each year in line with inflation at 2.5% per year before State Pension age.
- In the Proposal 1 scenarios, the pre-2009 BTPS benefits are increased by the late retirement factors currently in force. These are subject to regular review by the scheme. The current factors are higher than the assumed increase in BTPS Pensionable Salary and so the deferred pre-2009 benefits are higher than in the 'no change' scenario.
- For both BTPS and BTRSS benefits, members take the maximum amount of tax-free cash available (25% of the value of the benefits). For the BTPS, this means they exchange some of their pension for extra tax-free cash based on the factors currently in force. These are subject to regular review by the scheme. In practice, members can choose to take different amounts of tax-free cash.
- Members are assumed to invest in the BTRSS 'low involvement option', and to receive investment returns of 5% each year until retirement. Because the projections allow for inflation of 2.5% a year, the effective growth rate is 2.5% a year above inflation. Standard Life makes a similar assumption in its retirement modeller. This is in line with rules set out by the Financial Conduct Authority (FCA).
- The annuities are based on the Statutory Money Purchase Illustration (SMPI) assumptions as set out in actuarial guidance from the Financial Reporting Council. This includes an allowance of 4% of the value of the BTRSS plan for expenses.
- Proposed transition payments have been included in the BTRSS figures.
- Net contributions based on relevant rates, thresholds and allowances for the 2017/18 tax year. Contributions under 'before change' reflect the current NI allowance in place for BTPS members. No allowance is made in estimating a member's tax position for any other income they may receive.
- Members are assumed to participate in Smart pensions.

Other important notes

- Examples shown are illustrative only (based on KPMG analysis) and are not designed to show an individual's circumstances or to be used for financial or other retirement planning purposes.



Rick

Age

52

Section

B

Grade

B2

Before change

Tax-free lump sum
£92,100

Pension income
£13,800 p.a.
reducing to £12,000 p.a.
from SPA¹

Proposal 1

After change – Close the BTPS and join BTRSS for future service

If Rick pays **6%** of BTRSS Pensionable Salary
(his proposed BTRSS default contribution rate)

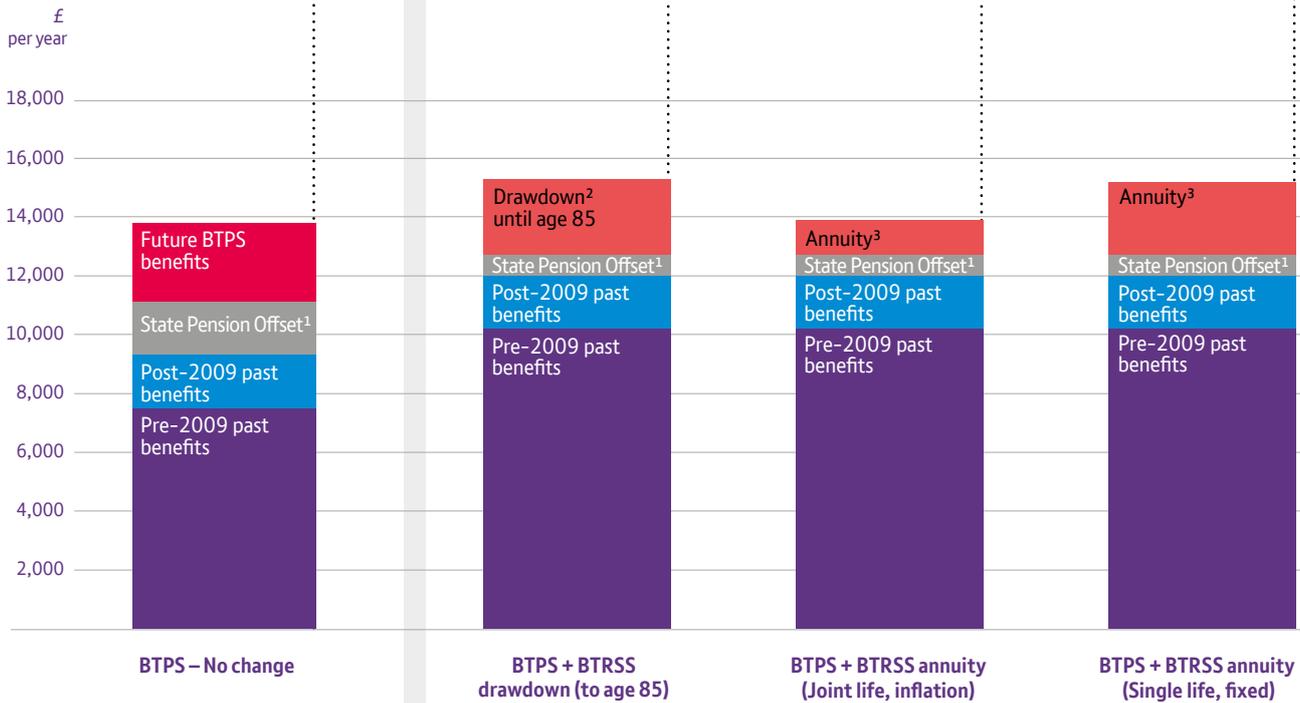
Tax-free lump sum
£101,900
BTPS: £84,700
BTRSS: £17,200

Total BTRSS plan at retirement is £68,700
25% assumed to be taken as lump sum, with the remainder available to provide an income, as illustrated below:

Pension income
£15,300 p.a.
reducing to £14,600 p.a.
from SPA¹

Pension income
£13,900 p.a.
reducing to £13,200 p.a.
from SPA¹

Pension income
£15,200 p.a.
reducing to £14,500 p.a.
from SPA¹



Rick's monthly pension contributions

Before change

Gross contribution (per month) **£138**
Net contribution* (per month) **£94**

After change

Proposal 1 – join BTRSS

Gross contribution (per month)
Net contribution* (per month)

At 6% member contribution rate

£140
£95

At 8% member contribution rate

£187
£127

Pensionable service to 31 March 2018

35 years

Future BT service to age 65

13 years

Pensionable salary

£28,000p.a.

If Rick pays **8%** of BTRSS Pensionable Salary (this would be the same contribution rate as under Proposal 2)

Tax-free lump sum

£104,800

BTPS: £84,700
BTRSS: £20,100

Total BTRSS plan at retirement is £80,300
25% assumed to be taken as lump sum, with the remainder available to provide an income, as illustrated below:

Pension income
£15,700_{p.a.}
reducing to £15,000_{p.a.}
from SPA¹

Pension income
£14,100_{p.a.}
reducing to £13,400_{p.a.}
from SPA¹

Pension income
£15,600_{p.a.}
reducing to £14,900_{p.a.}
from SPA¹

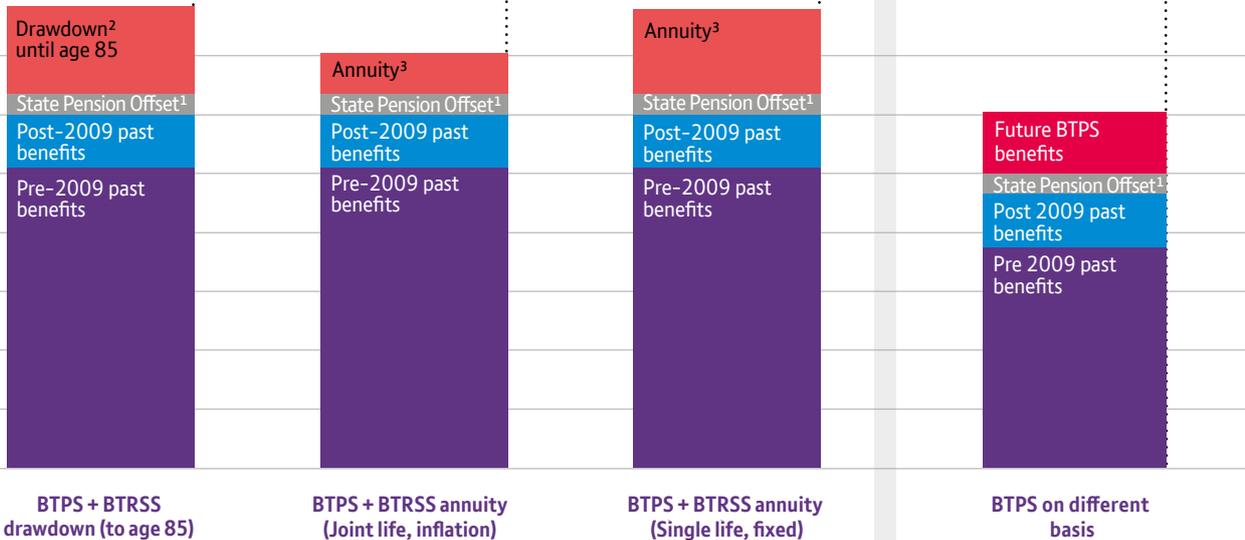
Proposal 2

After change – Remain in BTPS on a different basis

Tax-free lump sum

£81,300

Pension income
£12,100_{p.a.}
reducing to £11,400_{p.a.}
from SPA¹



Proposal 2 – BTPS on different basis

At 8% member contribution rate

Gross contribution (per month)

£187

Net contribution* (per month)

£127

* Net contributions based on relevant rates, thresholds and allowances for the 2017/18 tax year. Gross contributions under 'No change' reflect the current National Insurance allowance paid to BTPS members since 2009.

Notes

Please see page 21 for information on how to read this illustration and for important details of the assumptions that have been used.

The figures assume the member takes all of their benefits at age 65, which is the Normal Pension Age in the BTPS.

Please note the benefits from the BTRSS are not guaranteed and would depend on the amount of contributions paid, investment returns, how you choose to take your plan at retirement and any charges.



Carmen

Age
55

Section
B

Grade
D1

Before change

Tax-free lump sum
£119,800

Pension income
£18,100 p.a.
reducing to £15,800 p.a.
from SPA¹

£
per year

25,000

20,000

15,000

10,000

5,000



BTPS – No change

Proposal 1

After change – Close the BTPS and join BTRSS for future service

If Carmen pays **6%** of BTRSS Pensionable Salary

(her proposed BTRSS default contribution rate)

Tax-free lump sum
£135,100

BTPS: £117,500
BTRSS: £17,600

Total BTRSS plan at retirement is £70,200
25% assumed to be taken as lump sum, with the remainder available to provide an income, as illustrated below:

Pension income
£20,200 p.a.
reducing to £19,100 p.a.
from SPA¹

Pension income
£18,900 p.a.
reducing to £17,800 p.a.
from SPA¹

Pension income
£20,200 p.a.
reducing to £19,100 p.a.
from SPA¹



BTPS + BTRSS
drawdown (to age 85)



BTPS + BTRSS annuity
(Joint life, inflation)



BTPS + BTRSS annuity
(Single life, fixed)

Carmen's monthly pension contributions

Before change

Gross contribution (per month) **£189**
Net contribution* (per month) **£128**

After change

Proposal 1 – join BTRSS

Gross contribution (per month)
Net contribution* (per month)

At 6% member contribution rate

£195
£133

At 9% member contribution rate

£293
£199

Pensionable service to 31 March 2018

35 years

Future BT service to age 65

10 years

Pensionable salary

£39,000p.a.

If Carmen pays **9%** of BTRSS Pensionable Salary (this would be the same contribution rate as under Proposal 2)

Tax-free lump sum

£139,200

BTPS: £117,500
BTRSS: £21,700

Total BTRSS plan at retirement is £86,800
25% assumed to be taken as lump sum, with the remainder available to provide an income, as illustrated below:

Pension income

£20,900_{p.a.}

reducing to £19,800_{p.a.} from SPA¹

Pension income

£19,200_{p.a.}

reducing to £18,100_{p.a.} from SPA¹

Pension income

£20,800_{p.a.}

reducing to £19,700_{p.a.} from SPA¹

Proposal 2

After change – Remain in BTPS on a different basis

Tax-free lump sum

£108,200

Pension income

£16,300_{p.a.}

reducing to £15,200_{p.a.} from SPA¹



BTPS + BTRSS drawdown (to age 85)



BTPS + BTRSS annuity (Joint life, inflation)



BTPS + BTRSS annuity (Single life, fixed)



BTPS on different basis

Proposal 2 – BTPS on different basis

At 9% member contribution rate

Gross contribution (per month)

£293

Net contribution* (per month)

£199

* Net contributions based on relevant rates, thresholds and allowances for the 2017/18 tax year. Gross contributions under 'No change' reflect the current National Insurance allowance paid to BTPS members since 2009.

Notes

Please see page 21 for information on how to read this illustration and for important details of the assumptions that have been used.

The figures assume the member takes all of their benefits at age 65, which is the Normal Pension Age in the BTPS.

Please note the benefits from the BTRSS are not guaranteed and would depend on the amount of contributions paid, investment returns, how you choose to take your plan at retirement and any charges.



Hetal

Age
57

Section
B

Grade
C3

Before change

Tax-free lump sum
£115,500

Pension income
£17,400 p.a.
reducing to £15,400 p.a.
from SPA¹

£
per year

25,000

20,000

15,000

10,000

5,000

Future BTPS benefits
State Pension Offset¹
Post-2009 past benefits
Pre-2009 past benefits

BTPS – No change

Proposal 1

After change – Close the BTPS and join BTRSS for future service

If Hetal pays **6%** of BTRSS Pensionable Salary
(her proposed BTRSS default contribution rate)

Tax-free lump sum
£134,600
BTPS: £121,800
BTRSS: £12,800

Total BTRSS plan at retirement is £51,000
25% assumed to be taken as lump sum, with the remainder available to provide an income, as illustrated below:

Pension income
£20,100 p.a.
reducing to £19,100 p.a.
from SPA¹

Pension income
£19,200 p.a.
reducing to £18,200 p.a.
from SPA¹

Pension income
£20,100 p.a.
reducing to £19,100 p.a.
from SPA¹

Drawdown² until age 85
State Pension Offset¹
Post-2009 past benefits
Pre-2009 past benefits

BTPS + BTRSS
drawdown (to age 85)

Annuity³
State Pension Offset¹
Post-2009 past benefits
Pre-2009 past benefits

BTPS + BTRSS annuity
(Joint life, inflation)

Annuity³
State Pension Offset¹
Post-2009 past benefits
Pre-2009 past benefits

BTPS + BTRSS annuity
(Single life, fixed)

Hetal's monthly pension contributions

Before change

Gross contribution (per month) £175
Net contribution* (per month) £119

After change

Proposal 1 – join BTRSS

Gross contribution (per month)
Net contribution* (per month)

At 6% member contribution rate

£180
£122

At 9% member contribution rate

£270
£184

Pensionable service to 31 March 2018

39 years

Future BT service to age 65

8 years

Pensionable salary

£36,000p.a.

If Hetal pays **9%** of BTRSS Pensionable Salary (this would be the same contribution rate as under Proposal 2)

Tax-free lump sum

£137,600

BTPS: £121,800
BTRSS: £15,800

Total BTRSS plan at retirement is £63,200
25% assumed to be taken as lump sum, with the remainder available to provide an income, as illustrated below:

Pension income

£20,600_{p.a.}

reducing to £19,600_{p.a.} from SPA¹

Pension income

£19,400_{p.a.}

reducing to £18,400_{p.a.} from SPA¹

Pension income

£20,500_{p.a.}

reducing to £19,500_{p.a.} from SPA¹

Pension income

£16,000_{p.a.}

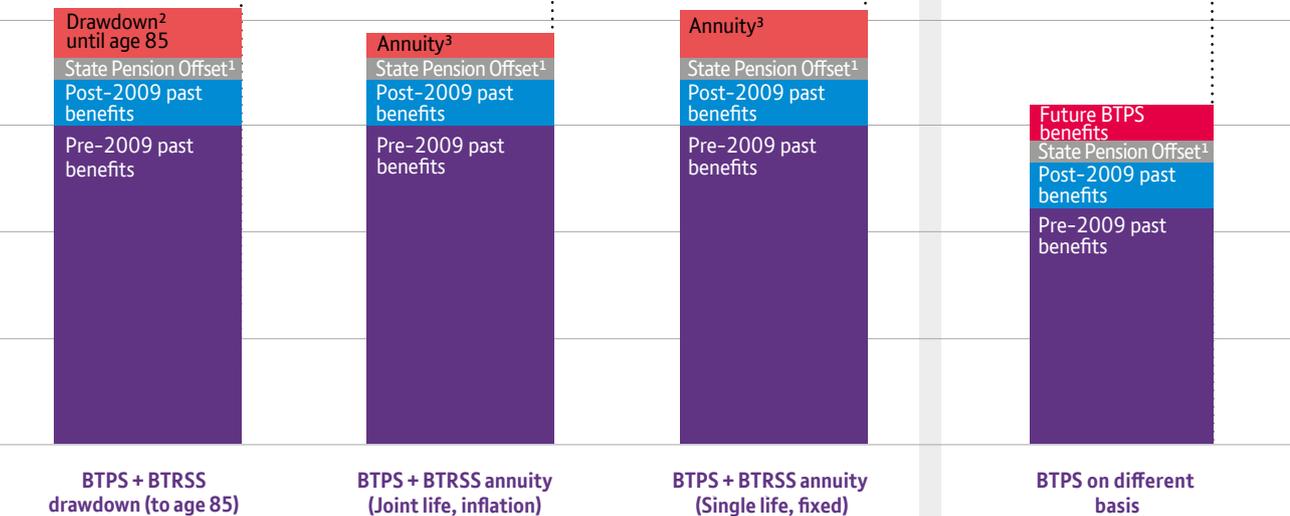
reducing to £15,000_{p.a.} from SPA¹

Proposal 2

After change – Remain in BTPS on a different basis

Tax-free lump sum

£106,900



Proposal 2 – BTPS on different basis

At 9% member contribution rate

Gross contribution (per month)

£270

Net contribution* (per month)

£184

* Net contributions based on relevant rates, thresholds and allowances for the 2017/18 tax year. Gross contributions under 'No change' reflect the current National Insurance allowance paid to BTPS members since 2009.

Notes

Please see page 21 for information on how to read this illustration and for important details of the assumptions that have been used.

The figures assume the member takes all of their benefits at age 65, which is the Normal Pension Age in the BTPS.

Please note the benefits from the BTRSS are not guaranteed and would depend on the amount of contributions paid, investment returns, how you choose to take your plan at retirement and any charges.



Jim

Age
46

Section
C

Grade
B2

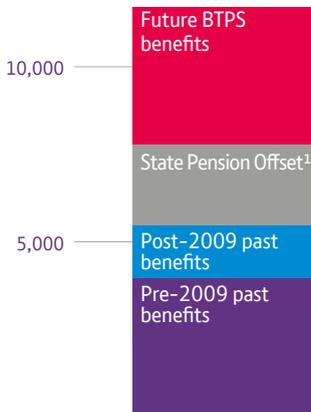
Before change

Tax-free lump sum
£77,800

Pension income
£11,600 p.a.
reducing to £9,300 p.a.
from SPA¹

£
per year

15,000



BTPS – No change

Proposal 1

After change – Close the BTPS and join BTRSS for future service

If Jim pays **5%** of BTRSS Pensionable Salary
(his proposed BTRSS default contribution rate)

Tax-free lump sum
£73,500
BTPS: £49,000
BTRSS: £24,500

Total BTRSS plan at retirement is £98,200
25% assumed to be taken as lump sum, with the remainder available to provide an income, as illustrated below:

Pension income
£11,000 p.a.
reducing to £10,300 p.a.
from SPA¹

Pension income
£8,900 p.a.
reducing to £8,200 p.a.
from SPA¹

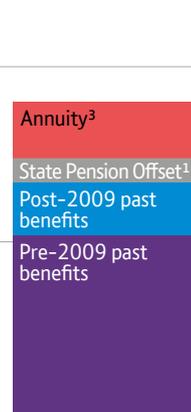
Pension income
£10,800 p.a.
reducing to £10,100 p.a.
from SPA¹

£
per year

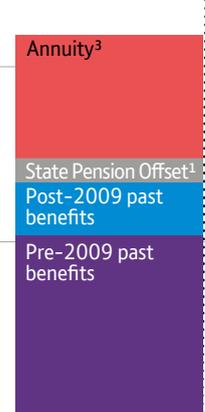
15,000



BTPS + BTRSS drawdown (to age 85)



BTPS + BTRSS annuity (Joint life, inflation)



BTPS + BTRSS annuity (Single life, fixed)

Jim's monthly pension contributions

Before change

Gross contribution (per month) £114
Net contribution* (per month) £78

After change

Proposal 1 – join BTRSS

Gross contribution (per month)
Net contribution* (per month)

At 5% member contribution rate

£117
£79

At 8% member contribution rate

£187
£127

Pensionable service to 31 March 2018

20 years

Future BT service to age 65

19 years

Pensionable salary

£28,000p.a.

If Jim pays **8%** of BTRSS Pensionable Salary (this would be the same contribution rate as under Proposal 2)

Tax-free lump sum

£80,500

BTPS: £49,000
BTRSS: £31,500

Total BTRSS plan at retirement is £126,000
25% assumed to be taken as lump sum, with the remainder available to provide an income, as illustrated below:

Pension income

£12,000p.a.

reducing to £11,300p.a. from SPA¹

Pension income

£9,400p.a.

reducing to £8,700p.a. from SPA¹

Pension income

£11,800p.a.

reducing to £11,100p.a. from SPA¹

Pension income

£9,200p.a.

reducing to £8,500p.a. from SPA¹

Proposal 2

After change – Remain in BTPS on a different basis

Tax-free lump sum

£62,000



BTPS + BTRSS drawdown (to age 85)



BTPS + BTRSS annuity (Joint life, inflation)



BTPS + BTRSS annuity (Single life, fixed)



BTPS on different basis

Proposal 2 – BTPS on different basis

At 8% member contribution rate

Gross contribution (per month)

£187

Net contribution* (per month)

£127

* Net contributions based on relevant rates, thresholds and allowances for the 2017/18 tax year. Gross contributions under 'No change' reflect the current National Insurance allowance paid to BTPS members since 2009.

Notes

Please see page 21 for information on how to read this illustration and for important details of the assumptions that have been used.

The figures assume the member takes all of their benefits at age 65, which is the Normal Pension Age in the BTPS.

Please note the benefits from the BTRSS are not guaranteed and would depend on the amount of contributions paid, investment returns, how you choose to take your plan at retirement and any charges.



Amy

Age
49

Section
C

Grade
D1

Before change

Tax-free lump sum
£116,800

Pension income
£17,500 p.a.
reducing to £14,700 p.a.
from SPA¹

£
per year

25,000

20,000

15,000

10,000

5,000



BTPS – No change

Proposal 1

After change – Close the BTPS and join BTRSS for future service

If Amy pays **5%** of BTRSS Pensionable Salary
(her proposed BTRSS default contribution rate)

Tax-free lump sum
£117,600
BTPS: £89,700
BTRSS: £27,900

Total BTRSS plan at retirement is £111,600
25% assumed to be taken as lump sum, with the remainder available to provide an income, as illustrated below:

Pension income
£17,600 p.a.
reducing to £16,500 p.a.
from SPA¹

Pension income
£15,500 p.a.
reducing to £14,400 p.a.
from SPA¹

Pension income
£17,400 p.a.
reducing to £16,300 p.a.
from SPA¹



BTPS + BTRSS
drawdown (to age 85)



BTPS + BTRSS annuity
(Joint life, inflation)



BTPS + BTRSS annuity
(Single life, fixed)

Amy's monthly pension contributions

Before change

Gross contribution (per month) **£156**
Net contribution* (per month) **£106**

After change

Proposal 1 – join BTRSS

Gross contribution (per month)
Net contribution* (per month)

At 5% member contribution rate

£163
£110

At 9% member contribution rate

£293
£199

Pensionable service to 31 March 2018

25 years

Future BT service to age 65

16 years

Pensionable salary

£39,000p.a.

If Amy pays **9%** of BTRSS Pensionable Salary (this would be the same contribution rate as under Proposal 2)

Tax-free lump sum

£127,400

BTPS: £89,700
BTRSS: £37,700

Total BTRSS plan at retirement is £150,700
25% assumed to be taken as lump sum, with the remainder available to provide an income, as illustrated below:

Pension income

£19,100_{p.a.}

reducing to £18,000_{p.a.} from SPA¹

Pension income

£16,200_{p.a.}

reducing to £15,100_{p.a.} from SPA¹

Pension income

£18,800_{p.a.}

reducing to £17,700_{p.a.} from SPA¹

Pension income

£14,700_{p.a.}

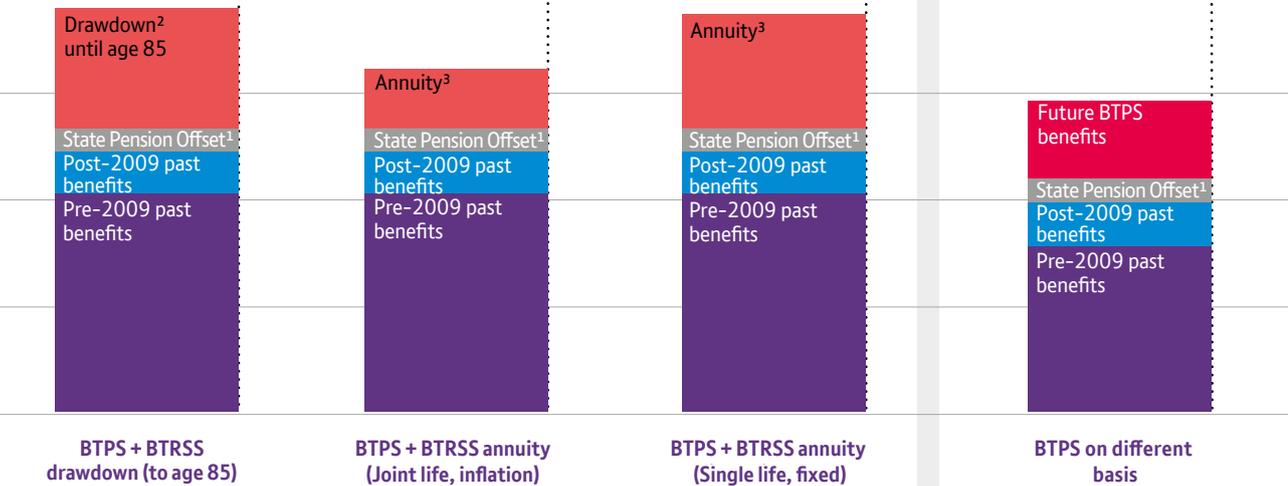
reducing to £13,600_{p.a.} from SPA¹

Proposal 2

After change – Remain in BTPS on a different basis

Tax-free lump sum

£98,300



Proposal 2 – BTPS on different basis

At 9% member contribution rate

Gross contribution (per month)

£293

Net contribution* (per month)

£199

* Net contributions based on relevant rates, thresholds and allowances for the 2017/18 tax year. Gross contributions under 'No change' reflect the current National Insurance allowance paid to BTPS members since 2009.

Notes

Please see page 21 for information on how to read this illustration and for important details of the assumptions that have been used.

The figures assume the member takes all of their benefits at age 65, which is the Normal Pension Age in the BTPS.

Please note the benefits from the BTRSS are not guaranteed and would depend on the amount of contributions paid, investment returns, how you choose to take your plan at retirement and any charges.



Nadia

Age
54

Section
C

Section
C3

Before change

Tax-free lump sum
£109,600

Pension income
£16,400 p.a.
reducing to £14,200 p.a.
from SPA¹

£
per year

20,000



BTPS – No change

Proposal 1

After change – Close the BTPS and join BTRSS for future service

If Nadia pays **5%** of BTRSS Pensionable Salary
(her proposed BTRSS default contribution rate)

Tax-free lump sum
£118,600
BTPS: £101,900
BTRSS: £16,700

Total BTRSS plan at retirement is £66,700
25% assumed to be taken as lump sum, with the remainder available to provide an income, as illustrated below:

Pension income
£17,800 p.a.
reducing to £16,800 p.a.
from SPA¹

Pension income
£16,600 p.a.
reducing to £15,600 p.a.
from SPA¹

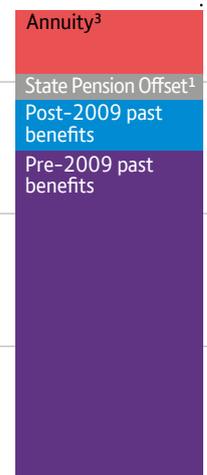
Pension income
£17,700 p.a.
reducing to £16,700 p.a.
from SPA¹



BTPS + BTRSS drawdown (to age 85)



BTPS + BTRSS annuity (Joint life, inflation)



BTPS + BTRSS annuity (Single life, fixed)

Nadia's monthly pension contributions

Before change

Gross contribution (per month) **£145**
Net contribution* (per month) **£99**

After change

Proposal 1 – join BTRSS

Gross contribution (per month)
Net contribution* (per month)

At 5% member contribution rate

£150
£102

At 8% member contribution rate

£270
£184

Pensionable service to 31 March 2018

30 years

Future BT service to age 65

11 years

Pensionable salary

£36,000p.a.

If Nadia pays **9%** of BTRSS Pensionable Salary (this would be the same contribution rate as under Proposal 2)

Tax-free lump sum

£124,500

BTPS: £101,900
BTRSS: £22,600

Total BTRSS plan at retirement is £90,300
25% assumed to be taken as lump sum, with the remainder available to provide an income, as illustrated below:

Proposal 2

After change – Remain in BTPS on a different basis

Tax-free lump sum

£97,900

Pension income

£18,700_{p.a.}

reducing to £17,700_{p.a.} from SPA¹

Pension income

£17,000_{p.a.}

reducing to £16,000_{p.a.} from SPA¹

Pension income

£18,600_{p.a.}

reducing to £17,600_{p.a.} from SPA¹

Pension income

£14,700_{p.a.}

reducing to £13,700_{p.a.} from SPA¹



BTPS + BTRSS drawdown (to age 85)



BTPS + BTRSS annuity (Joint life, inflation)



BTPS + BTRSS annuity (Single life, fixed)



BTPS on different basis

Proposal 2 – BTPS on different basis

At 9% member contribution rate

Gross contribution (per month)

£270

Net contribution* (per month)

£184

* Net contributions based on relevant rates, thresholds and allowances for the 2017/18 tax year. Gross contributions under 'No change' reflect the current National Insurance allowance paid to BTPS members since 2009.

Notes

Please see page 21 for information on how to read this illustration and for important details of the assumptions that have been used.

The figures assume the member takes all of their benefits at age 65, which is the Normal Pension Age in the BTPS.

Please note the benefits from the BTRSS are not guaranteed and would depend on the amount of contributions paid, investment returns, how you choose to take your plan at retirement and any charges.

What we're proposing for other members of our pension arrangements

We're also proposing changes for BTPS managers and current BTRSS members. If you would like full details of these proposed changes, please visit

snip.bt.com/pensions

BTPS members

For BTPS managers, we're proposing the same changes as set out under Proposal 1, including the extra flexibilities in how they take their benefits from age 55 onwards.

BTRSS members

For BTRSS members, we're proposing to improve the standard contribution structure of the scheme by increasing BT's contribution rates.

Our combined proposals for the BTPS and BTRSS mean the costs associated with providing our pension arrangements would actually increase. We would also continue to make top-up payments into the BTPS.

Support during the consultation

We understand that we're proposing big changes to something that matters a lot to you. So it's important that you fully understand what we're planning to do and why. That way you can participate in the consultation process effectively.

If you would like more information or support, you should:

- visit our consultation site at snip.bt.com/pensions, which hosts all the information about the review, including videos and answers to frequently asked questions
- look out for personal information we'll be sending you in the post in the next few weeks. You can then use that with a modeller we'll be launching soon, allowing you to plan out different scenarios
- arrange a time for us to call you if you have an unanswered question by visiting www.bt-pensionconsultation.com
- contact the Helpdesk on **0800 083 5056** or bt.consultation@wealthatwork.co.uk
- book your place at a seminar or webinar at snip.bt.com/pensions

How to give us feedback

The formal consultation period starts on 15 November 2017 and is due to end on 17 January 2018. During this time you can send us your formal feedback on the changes by:

- emailing us at bt.consultation@wealthatwork.co.uk
- writing to us at **BT Client Services Team,
Level 1, Bull Wharf,
Redcliff Street,
Bristol BS1 6QR**

If you are represented by the CWU, you can also provide feedback through the union.

Your feedback is an important part of the consultation process, so please make the time to give us your comments.

We won't be able to consider any feedback we receive after 17 January, so make sure you send it earlier if you're using the post.

We'll consider all your feedback before we make any final decisions. We'll then let you know what we've decided.

Other useful contact details

For more information about the BTPS, visit www.btpensions.net

For more information about the BTRSS, visit www.btirementsavingscheme.com

Neither Standard Life nor the BTPS administrator can answer questions about the proposed changes in the document.

The Pensions Advisory Service provides free and impartial information for pension scheme members. You can find out more at www.pensionsadvisoryservice.org.uk or by calling **0300 123 1047**.

The Pensions Regulator is responsible for ensuring that pension schemes comply with UK legislation. They can be contacted at www.thepensionsregulator.gov.uk

Glossary of terms

Accrual	In a defined benefit scheme such as the BTPS, this is the rate at which pension benefits build up. You'll get a certain amount of pension benefit for each year of pensionable service.
Active members	BTPS or BTRSS members who are still paying into their pension schemes.
Added Years	Subject to certain restrictions, active Section A and B members can currently buy more years of pensionable service to increase their benefits when they retire.
Additional Voluntary Contributions (AVCs)	BTPS members can pay extra contributions into the BTPS that are invested into a fund and which, adjusted for investment returns, are applied at retirement to provide additional pension and/or lump sum benefits.
Annuity	This is a contract with an insurance company you can buy when you retire to give you a guaranteed income for the rest of your life.
Assets	Investments held within the BTPS or BTRSS from which your retirement benefits are paid. Types of investments held might include equities, government and corporate bonds or cash.
Benefits	Money that is paid out of a pension scheme.
BT Pension Scheme (BTPS)	The BTPS is a defined benefit pension scheme where your pension and other benefits are broadly based on how long you've been a member of the BTPS and your BTPS Pensionable Salary. All benefits are set out in the BTPS Rules.
BT Retirement Saving Scheme (BTRSS)	The BTRSS is a defined contribution pension scheme where the contributions are defined, but the level of benefits isn't guaranteed.
BTPS Pensionable Salary	<p>In the BTPS this is your basic salary including any London Weighting and certain other allowances but excluding overtime.</p> <p>Members who joined the BTPS on or after 1 June 1989 have their BTPS Pensionable Salary limited to the Earnings Cap.</p>
BTRSS Pensionable Salary	In the BTRSS, this is typically your basic salary. When calculating BT contributions and death and medical retirement benefits, BTRSS Pensionable Salary is subject to the Earnings Cap. The Earnings Cap doesn't apply when calculating member contributions. We're proposing to include London Weighting allowance in BTRSS Pensionable Salary from 1 April 2018.
CARE/Career Average	Career Average Revalued Earnings/Career Average pension schemes. These are schemes where the pension benefits built up each year are based on your Pensionable Salary for that year. This is different to final salary schemes where the pension benefits are based on your Pensionable Salary near your retirement (or date of leaving the scheme if earlier).
CET	Contribution Earnings Threshold. Each year on 1 January, your BTPS Pensionable Salary is compared to the CET and your contribution rate is set. The CET for 2017/18 is £49,185, and is reviewed annually. Members pay higher contributions if their BTPS Pensionable Salary is above the CET.

Child	Generally speaking this is someone under the age of 17 (or 23 if they're in full-time education) who is financially reliant on a scheme member. See the Rules of the BTRSS or BTPS for a full definition.
Contributions	This is the money you and BT pay into your pension scheme.
Contribution rate	This is the percentage of your BTPS or BTRSS Pensionable Salary you or BT pay into your pension scheme.
CPI	Consumer Price Index. CPI measures inflation based on changes in the total price of a 'basket' of consumer goods and services purchased by typical households.
Defined Benefit (DB)	A defined benefit pension scheme is where a member's pension and other benefits are calculated based on their service and pensionable salary. The BTPS is our main defined benefit scheme.
Defined Contribution (DC)	A defined contribution pension scheme is where members and employers pay contributions based on a percentage of the member's salary. Contributions are defined, but the level of benefits isn't guaranteed. The BTRSS is our main defined contribution scheme.
Death benefits	Money paid to a member's spouse and/or dependants after the member dies.
Deferred member	This is a member who has left a scheme but has not yet retired.
Deficit	The amount by which a scheme's liabilities exceed its assets.
Drawdown	The option to take money out of your BTRSS pension plan to give yourself a flexible income when you retire. Any money left in the plan remains invested and could still increase or decrease. If you decide to draw down your pension, you'd need to manage your money carefully to make it last for as long as you need it – once your plan runs out, it's gone for good.
Early retirement	This is when a member retires before their Normal Pension Age and starts taking their pension immediately.
Earnings Cap	A cap on the amount of your pensionable salary. For the 2017/18 tax year, the cap is £154,200 (so if pensionable salary is more than that, we'll treat it as if it's £154,200). We review the cap every year.
Final Pensionable Salary	The salary used to calculate your benefits built up in the BTPS before 1 April 2009.

Glossary of terms continued

Liabilities	Amounts which a DB pension scheme has to pay now and in the future.
Lifetime Allowance	This is the limit set by the Government on the amount you can build in registered pension schemes without paying more tax. The Lifetime Allowance is currently £1 million.
Low involvement option (default)	An investment option that's designed to make it simple for you to invest for retirement. Your money is automatically invested in this fund when you join the BTRSS unless you decide to invest elsewhere. The low involvement option currently uses the SL Passive Plus III Universal Strategic Lifestyle Profile. There's more information on the BTRSS website: www.bretirementsavingscheme.com/bt/investment-choices/your-investment-options/the-low-involvement-option
Lump sum	A one-off cash payment you can get when you retire. You can usually take up to 25% of your pension benefits tax-free. In the BTRSS you can take more than this, but it would be subject to income tax.
Medical retirement	Medical retirement benefits are explained on page 42 of the guide.
National Insurance (NI)	This is tax that the Government takes from both workers and employers. The amount depends on how much the worker earns. Some Government benefits, such as the State Pension, depend on how much National Insurance you've paid.
National Insurance allowance (NI allowance)	This is an additional allowance in your pay each month that relates to changes made to the BTPS in 2009. It appears on your payslip as the 'Pensions Contract-in NI adj'.
National Living Wage	The National Living Wage covers all working people aged 25 and over. It's currently £7.50 per hour.
National Minimum Wage	The National Minimum Wage covers people under 25. It's currently £7.05 per hour for those aged 21-24, £5.60 per hour for ages 18-20 and £4.05 per hour for under-18s.
Normal Pension Age	Normal Pension Age is the age you can retire and start receiving a pension from the BTPS without reduction for early payment. This is currently age 65.
Pensionable Salary	This is defined differently in the BTPS and BTRSS. Check BTPS Pensionable Salary or BTRSS Pensionable Salary for more detail.
Pensionable service	This is normally the length of time you've been in a pension scheme.
RPI	Retail Price Index. The index of retail prices for a sample range of items published by the Office of National Statistics.

Section A/B/C	<p>BTPS members are in one of three sections, depending on when they joined:</p> <ul style="list-style-type: none"> • Section A – members employed by the Post Office before 1 December 1971 • Section B – members who joined the scheme between 1 December 1971 and 31 March 1986 (or Section A/B members who left BT and subsequently rejoined after 31 March 1986) • Section C – members who joined the scheme on or from 1 April 1986 until it closed on 31 March 2001.
SL Passive Plus III Universal Strategic Lifestyle Profile (default)	This is the 'low involvement option' fund selected by Standard Life. Your BTRSS contributions are automatically invested in it when you join, unless you choose a different fund.
Smart pensions	Smart pensions are when you agree to give up part of your salary and BT contributes that amount to your pension instead. Because your salary is lower, both you and BT pay less NI Contributions.
SMPI	Statutory Money Purchase Illustration. These are guidelines set out by regulatory bodies to illustrate the amount of future pension in 'real terms' that might become payable to members when they retire.
Standard contribution rates	These are the standard rates of contributions that BT pays into the BTRSS, depending on the rate of contributions that members make.
Standard Life	Standard Life is an investment management company. It administers and provides the BTRSS.
State Pension	The money you may receive from the Government at State Pension age.
State Pension age	The age at which you start being paid the State Pension. This depends on your gender and date of birth. Check yours at www.gov.uk/state-pension-age/y/age
State Pension Offset	<p>Since 2009, an offset (or reduction) is applied to Sections B and C members' BTPS pensions when they reach State Pension age. When your State Pension starts to be paid, you get a higher additional state benefit, because in 2009 you stopped 'contracting out' of the State Second Pension and started to build up that extra state benefit.</p> <p>Because you get this extra amount from the Government, your BT pension is reduced. The intention was that you'd get broadly the same amount overall at State Pension age (though, due to State Pension changes made by the Government in 2016, it will not exactly match).</p> <p>The application of the State Pension Offset means that your actual overall BTPS build-up rate ('accrual' rate) is less than 1/80th once your State Pension starts to be paid.</p>
Transition payments	These are extra BTRSS contributions that, under Proposal 1, we're proposing to pay to BTPS team members moving to the BTRSS for a period of up to 10 years, depending on your age on 1 April 2018.
Trustee	The Trustee of the BTPS ensures that it is run in accordance with its Rules.

Frequently asked questions and answers

Consultation process

- Q** Is the Trustee of the BTPS involved in the proposed changes?
- A** 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.
- Q** What will BT do about the feedback it gets during the consultation?
- A** 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.
- Q** I don't think I'm a BTPS member. What should I do?
- A** Please check your latest pension benefit statement or your payslip. Either of these will tell you which scheme you're in.
- Q** I'm on maternity/paternity/sick leave/leave of absence and won't be able to attend one of the seminars. Where can I get further support?
- A** You can book a place at a webinar or view a recording on the consultation site at snip.bt.com/pensions. The site also has all the information and documents we've sent out during the consultation and wider pensions review. If you can't access the intranet, you can contact your line manager who will be able to help you.
- You can also contact our Helpdesk by emailing bt.consultation@wealthatwork.com or calling **0800 0835056**.
- Q** Will BT offer me access to independent financial advice?
- A** While BT isn't offering access to, or paying for, independent financial advice, we have provided a lot of information to help explain the proposals to you. And we have set up a dedicated helpline on **0800 083 5056** to help answer any questions that you may have.
- After consultation, BT will make a final decision and give you all the information you'll need to understand how the final changes will affect you.
- If you want independent financial advice, you can find a local adviser at www.unbiased.co.uk. If you do, you'll have to pay for it yourself.
- Q** What if I retire or leave BT before the consultation is over, or before BT decide on the final changes?
- A** The current BTPS terms would apply. If you're a Section C member, please read the enclosed leaflet about the review of using RPI for pension increases in payment.

The BTPS

- Q** Are all active BTPS members affected by the proposed changes?
- A** The vast majority of BTPS members are affected by the proposed changes. There are some small groups of members such as those in Section A or members who transferred under TUPE with special arrangements who are affected in a different way (fewer than 150 active BTPS members). We have communicated to those members separately.
- Q** I work part time. How do these changes affect me?
- A** Your BTPS benefits would be calculated using your full-time equivalent BTPS Pensionable Salary, but your pensionable service would be adjusted to reflect your part-time hours (as is currently the case).
- For BTRSS benefits, both your and BT's contribution rates, and the benefits payable on your death or ill health, would be based on your actual pay which would already reflect your part-time hours.
- Q** What happens if Proposal 2 is implemented and I get promoted to a manager role after 1 April 2018?
- A** If Proposal 2 for BTPS team members and the closure proposal for managers are implemented, then when you get promoted, you'd become a deferred member of the BTPS at that point and join the BTRSS on the same terms as other managers who joined from the BTPS.
- If any enhancements or transition payments are still payable at the time you're promoted, you'd be entitled to those but only from the point you joined the BTRSS. You wouldn't get any backdated enhancements because you would've been building up benefits in the BTPS before your promotion.

The BTRSS

- Q** If I join the BTRSS, can I take my BTPS and BTRSS benefits at different times?
- A** Yes. There is no requirement to take your BTPS and BTRSS benefits at the same time. Note that any early retirement terms and flexible working policies (including the need for BT consent to take your BTPS pension whilst still continuing to work for BT) would continue to apply.
- Q** Will BT make more changes to my pension in the future?
- A** This guide sets out all our current proposed changes. We cannot rule out the possibility that we might propose making more changes in the future.
- Q** Do I have to join the BTRSS?
- A** Please bear in mind that, under Proposal 1, if you opt out of the BTRSS, you would need BT consent to rejoin, and you won't receive the transition payments we've proposed.
- Under Proposal 2, if you opt out of the BTPS, you won't be able to rejoin in the future.
- Please note that BT won't contribute to any personal pension scheme you have.

Other

- Q** How much is my State Pension? How do I find out how much State Pension I have?
- A** 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 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.

Medical retirement, death, redundancy and other benefits affected by the proposed changes

	Current (remain in active service) Sections B and C	Proposal 1: Leave BTPS and join BTRSS from 1 April 2018	Proposal 2: Stay in BTPS on different basis from 1 April 2018	
Benefit	Benefits for active members of the BTPS	Deferred benefits from the BTPS	Benefits from the BTRSS	
Medical retirement	<p>If you satisfy BT's medical retirement criteria, you would receive an immediate pension and lump sum which wouldn't be reduced on account of early payment.</p> <p>Your unreduced benefits would also be enhanced, subject to an overall 40-year pensionable service cap (or, if less, the pensionable service you would complete up to your Normal Pension Age), as follows:</p> <p>Section B (assuming at least 10 years of pensionable service):</p> <p>Service enhanced by the higher of:</p> <ul style="list-style-type: none"> • adding 6²/₃ years; • 75% of the additional pensionable service (based on post-2009 benefits) you would have received had you remained in active service until 65; or • (if relevant) increasing pensionable service to 20 years. <p>Section C (assuming at least five years of pensionable service):</p> <p>Service enhanced by 75% of the additional pensionable service (based on post-2009 benefits) you would have received had you remained in active service until 65.</p>	<p>Deferred members who remain employed by BT would apply to BT to receive their deferred pension early on ill-health grounds if they satisfy BT's medical retirement criteria and leave BT employment.</p> <p>If the deferred member has already left BT employment, they can apply to the Trustee (not BT) for such unreduced benefits. The Trustee applies BT's medical retirement criteria taking account of medical evidence available at the time of the member's application.</p> <p>If you make such an application once you have become a deferred member on 1 April 2018, and the decision-maker (BT or the Trustee as appropriate) is satisfied that the medical retirement criteria are met, the following benefits would be payable:</p> <ul style="list-style-type: none"> • Benefits based on pensionable service at 31 March 2018 (together with inflationary increases up to the date you draw your pension). • No reduction would be applied for early payment on ill-health grounds (for Section C members, this is subject to the discretion of the decision-maker). 	<p>If you satisfy BT's criteria for ill health retirement, a lump sum of 20% of BTRSS Pensionable Salary for each year until age 65, is payable, subject to BT discretion, into the BTRSS.</p> <p>This payment is at BT's discretion, and does not apply to anyone whose terms include Permanent Health Insurance.</p> <p>In addition, you are able to apply to Standard Life for the payment of your BTRSS fund, if you are under 55. This is subject to meeting Standard Life's conditions and tax requirements.</p>	<p>The current position would continue, but any enhancements to service would be based on post-1 April 2018 benefits.</p>

	Current (remain in active service) Sections B and C	Proposal 1: Leave BTPS and join BTRSS from 1 April 2018	Proposal 2: Stay in BTPS on different basis from 1 April 2018	
Benefit	Benefits for active members of the BTPS	Deferred benefits from the BTPS	Benefits from the BTRSS	
Sick pay	Currently, payment of full rate or half rate sick pay (as appropriate) is payable until you have been absent for up to 365 days within a rolling four-year period. After this, sick pay at pension rate ('SPPR') is payable if you are an active BTPS member. See the Sick Pay Procedure on the BT intranet at http://hr.bt.com/en-gb/performance-reward/miscellaneous/sick-pay for further detail.	As a deferred BTPS member, you would no longer be eligible to SPPR.	You would still be eligible for payment of full or half rate sick pay (as appropriate) but not to SPPR.	The current position would continue.
Retirement in the interests of efficiency	In exceptional cases, where a member does not satisfy BT's medical retirement criteria, BT may nevertheless agree to a member's retirement in the interests of efficiency. In this case an active member's pension is paid immediately on leaving BTPS active service (from age 50) and before Normal Pension Age without actuarial reduction.	Retirements in the interests of efficiency (in which the actuarial reduction is waived) would no longer be available as an option. On leaving employment you would continue to be able to take your pension at any age from age 50. The pension would be subject to a reduction for payment before Normal Pension Age.	BTRSS benefits can be paid from any age after 55. If you are under age 55 and suffering from ill health you are able to apply to Standard Life for the payment of your BTRSS fund (subject to meeting Standard Life's conditions and tax requirements).	The current position would continue.

Medical retirement, death, redundancy and other benefits affected by the proposed changes continued

Benefit	Current (remain in active service) Sections B and C	Proposal 1: Leave BTPS and join BTRSS from 1 April 2018	Proposal 2: Stay in BTPS on different basis from 1 April 2018	
	Benefits for active members of the BTPS	Deferred benefits from the BTPS	Benefits from the BTRSS	
Death in service before drawing your BTPS pension – Lump sum^{1,3}	A minimum lump sum of 3 x your Final Pensionable Salary (or, for Section B members, if greater the lump sum which would have been paid had you taken active ill health retirement at the date of your death).	<p>Section B: The higher of:</p> <ul style="list-style-type: none"> • 1.25 x Final Pensionable Salary as at 31 March 2018 • the lump sum you would have received if you had drawn your benefits due to ill health on 31 March 2018 • 5 x your deferred pension • a refund of all your BTPS pension contributions with interest. <p>Section C: A lump sum equal to the value of the additional retirement lump sum you built up between 1 April 2009 and 31 March 2018.</p>	<p>A cash lump sum of 10 x BTRSS pensionable salary up to a maximum equal to the Lifetime Allowance (and subject to any restrictions imposed by the insurer).</p> <p>The value of your BTRSS plan (ordinarily payable as a lump sum, but can be used to provide a pension for your dependants, should they so decide).</p>	The current position would continue, but calculated taking into account the CPI limit on BTPS Pensionable Salary which will apply from 1 April 2018.
Death in service before drawing your BTPS pension – Pension¹	<p>Section B (assuming at least 10 years of pensionable service):</p> <ul style="list-style-type: none"> • Half the pension you would have received if you had taken active medical retirement at the date of your death. (Some adjustments for members with pre-1972 service may apply.) <p>Section C (assuming at least five years of pensionable service):</p> <ul style="list-style-type: none"> • Half the pension you would have received if you had taken active medical retirement at the date of your death. <p>A pension may also be paid to a dependant child or children².</p>	<p>Half your deferred pension as at the date of your death.</p> <p>A pension may also be paid to a dependant child or children².</p>	None. However the death in service lump sum would be significantly higher than your current entitlement.	The current position would continue, but any enhancements to service would be based on post-1 April 2018 benefits.

	Current (remain in active service) Sections B and C	Proposal 1: Leave BTPS and join BTRSS from 1 April 2018	Proposal 2: Stay in BTPS on different basis from 1 April 2018
Benefit	Benefits for active members of the BTPS	Deferred benefits from the BTPS	Benefits from the BTRSS
Death after drawing your BTPS pension¹	Half the pension you were receiving at the date of your death plus a lump sum if you died within five years of drawing your pension.	Half the pension you were receiving at the date of your death plus a lump sum if you died within five years of drawing your pension.	You will have control over the type of benefit that you provide for your dependants. Before age 75, the value of any pot remaining on your death can be passed to your dependants or next of kin, free of inheritance tax. Should you decide to purchase a pension with an insurance company when you retire, you may want to consider whether or not you include a pension for your dependant. In addition, if you're still an active BTRSS member at the date of your death, you'll also be entitled to the BTRSS death in service lump sum benefits.
Redundancy	If members aged 50 and over are made redundant and draw an immediate pension, their benefits would not be reduced on account of early payment. Section B members are also entitled to a service enhancement of their service up to age 60 subject to a maximum of 6 ² / ₃ years and a maximum of 40 years' total pensionable service.	The redundancy enhancements are only available to BTPS active members so no redundancy enhancements would be payable.	BT does not currently operate any redundancy policy for team members. Where BT needs to make changes to its workforce it seeks wherever possible to support affected employees by offering redeployment and voluntary paid leaver schemes. The waiver of the actuarial reduction in Sections B and C, and Section B service enhancement would only apply if you are made redundant over the age of 55. Any service enhancement would be based on post-1 April 2018 benefits.

Medical retirement, death, redundancy and other benefits affected by the proposed changes continued

	Current (remain in active service) Sections B and C	Proposal 1: Leave BTPS and join BTRSS from 1 April 2018	Proposal 2: Stay in BTPS on different basis from 1 April 2018
Benefit	Benefits for active members of the BTPS	Deferred benefits from the BTPS	Benefits from the BTRSS
AVC facility	Active members can make Additional Voluntary Contributions to the scheme.	There is no opportunity for deferred members to pay Additional Voluntary Contributions to the BTPS.	Members of the BTRSS can choose the level of contributions that they make. There may be some restrictions to ensure that your pay meets the National Living Wage and National Minimum Wage requirements.
Section B Added Years contracts	Active Section B members can purchase Added Years of pensionable service, subject to certain restrictions.	Existing Added Years contracts will cease from 1 April 2018 and you will receive the benefits already purchased under the contract. As a deferred member it will not be possible to buy more Added Years and no new contracts will be available.	Members of the BTRSS can choose the level of contributions that they make. There may be some restrictions to ensure that your pay meets the National Living Wage and National Minimum Wage requirements.
'Returned Member' rights	In certain circumstances Section A and B members who have left service and become re-employed by BT can rejoin Section B. ('Returned Members')	No further Returned Member rights for former Section B members of the BTPS returning to BT employment.	Former Section B members of the BTPS returning to BT employment would be offered membership of the BTRSS on the same terms as new joiners at that time.
			Eligible Returned Members who return to BT employment as a team member will be able to rejoin Section B for future service, but on post-1 April 2018 terms. The choices for Returned Members are set out in the BTPS Rules.

Scheme rules and BT policy prevail where there is any discrepancy.

- 1 These benefits would be payable to a spouse, civil partner, or if none, then at the discretion of the Trustee, someone financially dependent on you.
- 2 Child benefit paid until 17 or 23 if in full-time education.
- 3 Any lump sum death benefit will normally be paid free of inheritance tax as the payment is made under discretionary trust. The Trustee has a discretion over who receives the payment and in what proportions. It takes into account your wishes but cannot be bound by them.
- 4 For the 2017/18 tax year, the Earnings Cap is £154,200.

Your notes

Your notes

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