



To: All BTPS Section B and C Team Members

Dear BTPS Member

Pensions review – details of the changes to your pension and what happens next

The pension consultation closed on 17 January 2018, where members of our two main pension schemes – the BT Pension Scheme (BTPS) and BT Retirement Saving Scheme (BTRSS) – asked us questions and sent their feedback.

We wrote to you on 5 February 2018 explaining that we were taking more time to review the feedback from team members in the BTPS and BTRSS and that we were continuing discussions with the CWU before we made any final decisions. Having considered the responses and with agreement from the CWU, we can now confirm the changes that will be made to your pension, and what happens next.

Decision on changes for BTPS team members

After much consideration, we are intending to close the BTPS to team members for future benefits on 31 May 2018. We also intend that, from 1 June 2018, BTPS team members will build up future pension benefits within the BTRSS, which we're pleased to further enhance in response to the feedback we received during the consultation.

We'll also make a new type of pension arrangement available to – a key aspect of our agreement with the CWU. It's intended that this arrangement – known as a 'hybrid' scheme – would combine elements of both defined benefit (like the BTPS) and defined contributions (like the BTRSS). As this will be a completely new pension scheme its governance and administration rules still need to be worked on and agreed with the CWU. We're aiming to make this available to you by 1 April 2019.

Your feedback

We've summarised the feedback raised by BTPS team members during consultation in a dedicated feedback report, which is available at <http://snip.bt.com/pensions>. If you'd like to view similar feedback reports for BTPS managers and BTRSS members, visit <http://snip.bt.com/pensions>

The changes

Following your feedback, we wanted to give you more time to understand and plan for the changes to the way you'll save for retirement, so we've extended the implementation date to 1 June 2018. We've made some improvements to the original proposals too.

The final changes are:

1. BT will close the BTPS to Section B and C team members. Our intention is to do so from 31 May 2018, in line with our previous announcement in relation to closure for managers. However, there are some complex administration-related issues that the Trustee is working to resolve. In the event that these issues impact the timetable we will provide a further update. We'll provide further updates regarding implementation in the next few weeks. Some BTPS team members were concerned that the changes would mean past BTPS benefits would be lost or 'frozen'. We want to reassure you that the benefits you've built up under the BTPS Rules to that date will remain protected, and will become deferred. These benefits will increase before retirement in line with CPI inflation in accordance with the rules of the scheme. You remain entitled to these benefits when you retire.



2. BT will make arrangements for you to join the BTRSS. This means your pension contributions from 1 June 2018 will go into a new BTRSS plan. Your new BTRSS pension will include:

- a further improved contribution structure, meaning you'll receive greater contributions from BT than the current standard terms, as shown in the table below:

Your contribution	Current level of BT contribution	Level of BT contribution proposed in the consultation	Level of BT contribution now agreed with CWU (available to you from 1 June 2018)
5%	8%	9%	10%
6%	8.5%	9.5%	10%
7%	9%	10%	10%

- a temporary higher contribution tier, where BT will contribute 11% of your BTRSS pensionable salary if you contribute 8%. This will be offered exclusively to members who join the BTRSS from the BTPS as part of the changes. In addition, we've responded to your feedback, and have extended the period this higher contribution tier will be made available to you – moving from three years to five years (until 31 May 2023 if the changes take effect from 1 June 2018 as planned).
 - additional transition payments into your BTRSS plan. This will support your move into the BTRSS as BT will pay an extra 2% of your BTRSS Pensionable Salary per year for up to 10 years. The duration of payments will depend on your age on 1 April 2018.
 - We also told BTRSS members previously that we would include London Weighting allowance as being pensionable and we've now included some further allowances which some people get. We'll update you with more on this in the near future.
3. We've also agreed to work with the CWU to offer you a new type of pension arrangement. We plan to make this available by 1 April 2019. It's intended that this new arrangement would combine elements of both defined benefit (like the BTPS) and defined contribution (like the BTRSS) schemes. This 'hybrid' scheme is primarily aimed at people on lower pay scales and would give you another option for your retirement savings, which could provide more certainty over your eventual benefit level.

We're still designing the hybrid scheme with the CWU. The key features we've already agreed are:

- The member contribution rate would be 6.25% of your total pensionable salary.
 - Members would build up a block of pension of 1/105ths of salary up to £17,500 plus a lump sum of three times that pension.
 - BT will also pay a contribution into a DC pot for all members. This will be 10% of pensionable salary earned over the £17,500 threshold used for the DB element. We've also agreed some transition payments for members wanting to move across to the hybrid scheme. We'll let you know more in the guide we're sending you soon.
4. In addition, we'll create an arrangement to enable former BTPS members to continue to pay additional contributions which could be transferred into the BTPS and used in a similar way to AVCs (Additional Voluntary Contributions). This would continue until 30 September 2019. We'll let you know more about this in the full guide we'll be sending to you soon.
5. For your other benefits - death and early retirement for example - you'll still receive all the benefits you're entitled to as a deferred BTPS member, although the BTPS redundancy policy will no longer apply. You'll also receive all the relevant benefits within the BTRSS. Full details of this will be in the guide we'll be sending you soon.



- Bring into effect new early retirement and flexibility options within the BTPS, which we're currently working through with the Trustee.

You don't have to make any decisions at the moment. We'll be sending you more details over the coming year when the hybrid option becomes available. In the meantime, you'll join the BTRSS on 1 June as set out in this letter.

Update on improved early retirement options

Later this year, once the 2017 pension valuation is completed, the BTPS Trustee is expected to review all the standard retirement, commutation and other factors that apply under the BTPS. This will include early retirement factors. These are the factors used for calculating reductions in your pension and lump sum if you choose to retire early before age 65. As the 2017 valuation is still in progress, any changes to the standard factors are unlikely to take place until later in 2018.

We're expecting the BTPS Trustee to update the early retirement factors when it carries out its review, but we would like members to benefit from improved terms earlier. So we're aiming to allow you to retire from age 55 onwards on improved early retirement terms from 1 June 2018, assuming you're still employed by BT at the date your pension commences. This implementation date is dependent on the 2017 valuation being finalised by then.

We're aiming to include full details of the factors in the guide we're sending you shortly, but we've shown some illustrative factors in the table below assuming a member retires early at age 55. Different factors apply for different BTPS sections, ages and periods of service that the benefits relate to (e.g. for benefits built up pre and post-1 April 2009 which have normal pension ages of 60 and 65 respectively). The factors shown below are illustrative only to demonstrate the broad impact of the revised factors. The factors are subject to final confirmation from BT and will only be finalised and communicated to members shortly after the 2017 valuation is agreed.

Illustration: Taking your benefits early at age 55

The table below shows the approximate increase per £1,000 of pre or post-1 April 2009 pension per year once the illustrative revised factors are applied. This assumes you're still employed by BT at the date your pension commences:

Period of service when benefits built up	Current factor at age 55	Reduced benefit after applying current factor to £1,000 of pension per year	Revised factor from 1 June 2018 (illustrative only)	Reduced benefit after applying revised factor to £1,000 of pension per year	Illustrative increase in pension using revised factors
Before 1 April 2009	0.76 (24% reduction)	£760 per year (£1,000 x 0.76)	0.83 (17% reduction)	£830 per year	+£70 per year (+9%)
From 1 April 2009	0.58 (42% reduction)	£580 per year (£1,000 x 0.58)	0.70 (30% reduction)	£700 per year	+£120 per year (+21%)

The factors shown in the illustration above are based on one potential approach for calculating the factors, which we have determined following initial discussions with the BTPS actuary. However, we can't confirm the actual factors until after the triennial valuation has been completed and they may well differ from the above.

Once BT has confirmed the early retirement terms, they're guaranteed to be available for retirements until at least 31 May 2019. BT will consider the terms that are provided from 1 June 2019 later in 2018 once the Trustee has made any changes to the standard BTPS factors. If at any time the BTPS standard early retirement terms are better, then the more generous factors would apply instead.

Other proposed retirement flexibility options from age 55

As well as the enhanced retirement factors, we're also planning to make it easier for you to be more flexible with your savings in retirement.



From 1 June 2018, we intend to improve our current flexible retirement policy by allowing you to take your BTPS pension early while you continue working at BT (for up to two years from the date you start taking your pension). Your actual leaving date will need to be agreed in advance and is subject to your manager's approval. You'll also be able to join the BTRSS while still employed.

We're still working through the details with the Trustee, but we also want to allow you to take your pre-1 April 2009 benefits earlier than your post-1 April 2009 benefits in the BTPS. If you're still employed by BT when you decide to take this option, the 'flexible retirement' policy above would apply and you'd need to agree a leaving date within two years. We hope to introduce this early retirement policy next year.

These terms would be available only if you are still employed by BT on the implementation date (which we intend will be 1 June 2018) and subject to BT's consent on a case by case basis. Continuation of the terms will be subject to regular review.

A new redundancy policy

We've agreed a new redundancy policy with the CWU that would cover all team members in BT plc. We'll provide an update on this soon.

Where you can find out more

All our communications, including those sent to other members in the pensions review, can be found at snip.bt.com/pensions. We'll also continue to update this site with FAQs.

We're currently preparing a guide that we'll be sending you soon, so look out for this in the post. We're also arranging a series of calls, webinars, and roadshows over the next few weeks and months which everyone will have the opportunity to join. Visit snip.bt.com/pensions for regular updates.

While our decision does address the escalating costs and risks of the BTPS, we feel it's also part of a fair approach for all and one that gives you flexible options.

My thanks to you and your colleagues for taking the time to participate in the consultation. Your feedback has played a real part in our final decision.

We'll be in touch soon.

Alison Wilcox

Group HR director

What happens next?

We'll be running webinars over the coming weeks to explain the changes to you in more detail. Visit snip.bt.com/pensions to book a place. And don't worry if you miss your place - we'll also be making replays available throughout the coming weeks.

There will also be roadshows at key sites to allow you to ask us questions.

You'll also soon receive a guide in the post containing:

- full details of the final changes and any decisions you'll need to make.
- detailed information about joining the BTRSS, including how to change your monthly payments into your plan if you want to maximise the contributions from BT. We'll also let you know more about how to use our retirement modeller.
- information about the dedicated support we'll provide you over the next few weeks, helping you understand the changes and make the move to the BTRSS for your future pension contributions.