

Questions relating to the need for a review

Why is BT reviewing the arrangements of the UK pension schemes?

Through the review, BT will look at the best ways to make sure the pension schemes are flexible, fair and sustainable in the long-term. BT has three pension schemes in the UK; the BT Pension Scheme (BTPS), the BT Retirement Plan (BTRP) and the Syntegra Limited Flexible Pension Plan (SLFPP). The review will consider the best way to protect the pension schemes and ensure that they move with the times.

Why did BT take a contribution holiday in respect of the BTPS in the early 1990s?

At that time, the Inland Revenue was very careful to ensure that pension schemes were not used as a tax avoidance tool by employers and subsequently, penalised those schemes and companies who had too much money in their pension schemes. This was called an “excessive” surplus.

Like many other UK pension schemes, BT's contributions to the BTPS were reduced in the early 1990's. This was at a time when the BTPS was in significant surplus (on an actuarial funding basis) and the Company received advice that contributions should be suspended until the next valuation to avoid further surplus arising.

Would the current review be necessary if BT had not taken this contribution holiday to the BTPS?

Yes, the pension review would still be necessary. The review is mainly looking at how best to structure the provision of future pension benefits earned in the future by BT employees. The costs of providing future service benefits in the BTPS has significantly increased due to a number of factors including people are living longer in retirement, the financial returns on pension scheme investments are lower than they were, and increased Government regulations and taxation which have added to costs.

We also proposing to give members more flexibility regarding their past service benefits already built up and at the same time reduce the risk to BT associated with these pension liabilities.

How much money does BT put into the BTPS?

BT makes an annual contribution to the BTPS to cover the cost of benefits being built up as well as top-up payments to cover the increased cost of paying for the benefits that scheme members have accrued. Over the last ten years, BT has made a total of £2.5bn in top-up payments

At the last valuation as at December 2005, BT agreed to fund the deficit of £3.4 billion over a ten year period and has already paid £840m towards this with further top-up payments of £280m per annum payable for seven years.

Why don't BT and other FTSE 100 companies lobby the government to try and reduce the burden of legislation on the pension arrangements, rather than reducing the benefits that I receive?

BT is fully involved in consultations with the relevant pension and government bodies when a change in legislation is proposed. Much of the recent changes to pensions legislation and regulation are intended to give greater protection to pension schemes and the security of accrued benefits.

However, this has led to increased costs. For example, BT has made substantial top-up payments and worked with the BTPS Trustee to reduce the risk in the Scheme's investment strategy. It is also important to remember that increased legislation is only one reason for the review. Defined Benefit schemes, like the BTPS, have been affected by other external factors.

In what way do external factors impact on BT's pension arrangements?

Defined Benefit schemes, like the BTPS, have been affected by three main external factors.

- In the last 20 years the average life expectancy in the UK has increased by 3 - 4 years and is expected to continue to increase. Clearly, this trend adds to the cost of operating schemes, costs that were not originally planned for.
- Future income from investments is likely to be lower as long term interest rates are generally lower. Also, there has been a shift towards lower risk investments such as government bonds, which are considered more secure, but have a lower expected return. This means that you have to invest more today to provide each pound of pension in the future.
- Pensions are now subject to more Government regulations and legislation which has added to the overall cost of administering schemes.

We also recognise that people generally want more flexibility to manage their finances to meet their own particular circumstances.

You say government regulations are increasing and driving up the costs associated with our pensions, could you give me more information about this?

The government has taken a keen interest in pensions aimed at simplifying how schemes operate and the rules they need to abide by. New accounting standards, the

levy paid to the Pension Protection Fund, the powers of the Pensions Regulator are all adding towards the ongoing cost of maintaining and administering pension schemes. The levy paid to the Pension Protection Fund has increased every year since it was introduced and it would be unrealistic not to expect these costs to continue increase annually in the future. The Pensions Regulator is ensuring that trustees are aware of their duties by ensuring that funds are adequately financed, that their investment strategies do not involve too much risk and that they take into account the increase in expected future life expectancy. This all means that BT, like other companies, is required to pay additional amounts into the pension scheme.

Additionally, the taxing of pension fund income from 1997 continues to be a burden to BTPS costing over £50m a year (over £500m since it began).

What is the current surplus or deficit of the BT Pension Scheme?

As pension scheme assets and liabilities move around each day, the deficit or surplus (the funding position) in any scheme when measured on a particular date will only provide a snapshot of the position at that date. On any other date the surplus or deficit will differ.

To further complicate the situation, there are different ways in which the funding position of any pension scheme is measured depending on the purpose of the calculations. For example, the Trustees will use an ongoing funding model which assumes that the scheme continues until the last benefit is paid. This is calculated formally once every three years as part of the triennial valuation. The last triennial valuation was carried out on 31 December 2005 and showed a deficit of £3.4bn. BT agreed to fund this deficit over a ten year period and has already paid £840m towards this with the balance due in the coming years. The BTPS undertakes a 'mini' valuation each year, and issues a funding update to members each year. The next full valuation is due to be carried out on 31 December 2008; however, we will not know the results of this until well into 2009.

The Company is required to measure the position of the BT Pension Scheme (BTPS) on an annual basis for the Report and Accounts using the International Accounting Standards (IAS19). This standard requires the company to use different assumptions to estimate the liabilities to those used by the Trustees and enable investors to compare different companies on a like for like basis. They are not therefore comparable to the Trustee's funding position but these calculations are updated each quarter and thus are able to provide more regular updates. Using the IAS19 basis, at 30 September 2008 the BTPS showed a surplus of around £1bn, down from a surplus of £2.9bn at 31 March 2008, at the end of the Company's last financial year.

To what extent has the pension scheme been strained by being drawn upon to fund early voluntary Release packages and is this the real reason for the need for BT to make large top up payments?

BT has made additional special payments to meet any funding strains on the Scheme from past Release and Newstart programmes. BT has not made any redundancies triggering enhanced retirement benefits for many years.

The main reasons for the significant contributions that BT has made over the last 10 years are higher pension costs due to members being expected to live longer, future expected investment returns being lower than previously assumed and changes in the regulation of defined benefit schemes like the BTPS.

Questions relating to the consultation process

How will the consultation process work?

The negotiations with the Unions and the Trustees have now been concluded, and from 13 November we have entered into a formal 60 day consultation process with all members of the three schemes. All members should by now have received a consultation pack. Members will have until 13 January 2009 to submit any questions and comments about the changes. We will review all the comments and questions before confirming the final changes that will be made.

See page 34 of the consultation pack.

Who is involved in the review?

All members of the BTPS, BTRP and SLFPP along with employees potentially eligible are involved in the review. In the lead up to the formal consultation we have discussed our proposals with both the BTPS Trustee and the Unions (Connect and the CWU), recognising how important pension arrangements are. The Unions are key stakeholders representing the interests of many of our employees and will provide valuable input to the review process.

When will employees hear more about the review?

Employees will have received the consultation pack setting out the proposals under the review. This website has been set up to provide the more detailed information as well as questions and answers to frequently asked questions.

We are not able to reply to questions that relate to individual's personal circumstances. However, we will respond to the broad themes we receive from feedback and questions in future communications and update the Q&As on the website.

When will we get to have our say about the changes and how much influence do we have in this process?

We have completed our discussions with the Unions and Trustees and have issued a consultation pack. You now have the opportunity to give your feedback on the proposals and we will review the comments we receive.

Please explain the process for introducing any changes, and the voting rights of the members of each scheme?

We have issued a consultation pack and the 60 day consultation period has started on 13 November. There are no voting rights, as such, although there is the opportunity for you to give us feedback on the proposals. We will review the comments we receive and then decide what changes (if any) to introduce.

Do you plan to hold ‘pension planning’ surgeries?

We will not be able to give people one-to-one individual financial advice but do intend to provide information to enable you to understand the proposed changes and how these may affect you. The majority of the communications will be via the website or by email. The formal consultation documents have already been posted to your home address. There is a ‘modeller’ on the website which you will be able to use to see how potential changes might affect you and there are also some case study scenarios in the consultation pack.

We plan to hold inter-active web chats and knowledge calls and a ‘question time’ event that will be recorded for playback afterwards for those who did not attend. There will be additional communications within the lines of business as well.

How can you change the pension terms contained in my contract?

Membership of BT's pension arrangements is subject to the terms as set out in the rules for each arrangement. These rules include a right for the BT and Trustees to change them from time to time. This has been demonstrated in the 1990s when benefit improvements were made and more recently when the additional choice and flexibilities introduced by legislation in April 2006 were extended to members.

When does the consultation period start and finish?

The consultation period will run from the 13 November 2008 to 13 January 2009.

Is BT going to close the BTPS defined benefit scheme?

We have made it clear that it is not our intention to close the BTPS. The package of proposed changes, if implemented, would allow us to continue to provide future service benefits in BTPS.

Questions relating to Section A

Will I be opted into S2P if I stay in Section A?

No. If you remain in Section A then you will continue to be contracted-out of S2P for as long as you remain a Section A member.

Section A – if I opt to move to Section B will I be able to backdate my S2P membership?

No. It will not be possible to back-date contracting-out of S2P.

Can I accrue more than 40 years service in Section A?

Yes. If you continue contributing to the Scheme you can accrue additional Pensionable Service beyond the 40 years.

What is the difference between Section A and Section B?

The main difference is that Section A pension is based on 94% of pensionable pay, whilst for Section B it is based on 100% of pensionable pay. For service from 1 April 2009 all the proposed 'new' Section B terms would apply to Section B members, including those Section A members who opt for Section B terms.

Why is my pension only 94% of Section B?

Section A was originally set up on a non-contributory basis. When Section B was set up all employees received a salary increase of 6% and had to contribute 6% of their pensionable pay to the pension scheme. Section A benefits mirrored those of the PCSPS whilst Section B, although providing similar benefits to Section B reflected the fact that the Scheme was contributory. Most Section A members have, in the past, chosen to be subject to Section B terms because generally Section B terms were higher.

I am a member of BTPS Section A; can you make changes to my pension?

Special provisions apply to certain members of Section A of the BTPS where members need to consent to certain types of changes. However, Section A provides a lower pension formula than Section B and in practice virtually all Section A members now elect to receive their benefits under Section B. Changes can be made to Section B.

If existing Section A people choose to remain in the scheme and continue to work until 60 can they build up additional pensionable years beyond the 40 years max?

Yes. The 40 years Pensionable Service limit on accruing additional Pensionable Service has been removed.

As a Section A member, and if I opt to remain so, does this mean that I will still be able to retire at 60 on a full pension even if you raise the retirement age to 65 for section B members?

Yes, you will still be able to retire at age 60 without an early retirement reduction. However, you will be retiring on Section A terms which provides a pension based on 94% of Final Pensionable Pay.

What happens if I elect to be subject to Section B terms?

If you elect to be subject to Section B terms, your pension would be based on full Final Pensionable Salary for pre-1 April 2009 Pensionable Service and on the 'new' Section B terms for benefits built up from 1 April 2009. This means that, in respect of benefits built up from 1 April 2009, you would have to pay the 'new' higher Section B contributions, the Normal Retirement Age of 65 would apply, benefits would build up on a Career Average Revalued Earnings basis and the benefits would be contracted in to S2P – see the Section A Factsheet..

If you do not wish to contribute at the higher 'new' Section B rate, you may elect to continue to contribute at the standard contribution rate of 6% of Pensionable Pay. In this case, your pension would accrue at the rate of 1/90th of your Final Pensionable Pay plus a lump sum of three times your pension;

If you change to Section B terms after 1 April 2009 any underpaid contributions for the period from 1 April 2009 to the date your contributions increase to the "new" Section B rate, will be treated as a debt to be deducted from your lump sum at retirement, unless alternative arrangements are made to clear the debt.

How are the benefits built up before and after 1 April 2009 treated at retirement?

If your pension would be paid before age 65 the benefits built up before 1 April would have a an early retirement reduction appropriate to a normal retirement age of 60 (0% at 60), and benefits built from 1 April 2009 would have an early retirement reduction appropriate to a normal retirement age of 65. But see the information contained in the Section A Factsheet (available on this website) and the section headed "What if I'm close to retirement?" on page 9 of the Consultation Pack.

Questions relating to other earnings

I am a shift worker - how will my shift allowance be counted in future, both before and after the change?

There will be no change for service before 1 April 2009. In respect of service from 1 April 2009, any pensionable shift allowance in any particular year will be included within the benefit calculations for that year.

Questions relating to Added Years and AVCs

I have a current Added Years contract. Do I have to pay this off by April 2009?

No. Your current Added Years contract will continue on the same terms until the contract comes to an end.

Will the option to buy Added Years with my lump sum still be there if I take Newstart?

Currently members who take Newstart can apply for some of their Leaver payment to be paid into the Scheme to purchase additional pension and lump sum under the Increase your Pension (IYP) option. There is no intention to discontinue this option at the present time.

I am currently buying Added Years under Section B of the BTPS; will I still be allowed to do so if the changes are implemented?

Yes. Your current contract will continue on the existing terms and based on final pensionable pay. It is proposed that any new contract taken out from 1 April 2009 will be on the new Career Average Revalued Earnings basis with a Normal Retirement Age of 65.

Can you still pay Additional Voluntary Contributions under section C in the new scheme?

Yes. You can still contribute Additional Voluntary Contributions (AVCs). Added Years are and continue to be only available to Section A and B members.

Questions relating to Retirement and Normal Retirement Age

Does the review plan to increase the Normal Retirement Age of the pension scheme?

Yes. It is proposed to change the Normal Retirement age for future benefits to age 65. However, benefits already built up to the date of change will continue to be paid as if they still had a Normal Retirement Age of 60.

See page 9 of the consultation pack.

If I leave on 1 May 2012 will the easement apply for the three-year period before I go?

No. The three year easement ends on 31 March 2012.

If I make use of the easement will this also mean that CARE does not apply to me?

No. The easement applies only to the Normal Retirement Age of 65. It does not apply to any of the other proposed changes.

When you say my current pension benefits are protected, what do you mean?

We mean that your pension benefits are legally protected. The benefits you have built up over the years cannot be taken away from you. For example, if you have been a member of the BTPS and have built up say 10 years worth of pension at the date of change payable without reduction from age 60, this part of your total pension will still be payable from age 60 without reduction even if the Normal Retirement Age increases to age 65.

For those members in the SLFPP and BTRP, the funds held for you, made up of your own and company contributions and any investment returns, would continue to be held in your name. It is not possible for the company to 'reclaim' the contributions already paid on your behalf once you have completed two years pensionable service. If you leave the Schemes within two years, you are entitled to a refund of your contributions or a transfer to a new arrangement.

Will the review remove the option to take a lump sum on retirement?

No. It is not proposed to remove the option to take a lump sum. For Section C members, if the proposed changes are implemented, for future build up of benefits, a lump sum is guaranteed.

Is it true that employees can now leave BT as early as 50, not through any Newstart package, and are able to claim and be paid their BT pension? If so, how can this be allowed and what impact is it having on the pension fund?

Under current legislation, an individual can begin to receive their pension from any age after 50. Under the current rules of the pension scheme, any benefits taken before age 60 would be reduced for early, and therefore longer, payment. From 6 April 2010, legislation will increase the minimum retirement age to 55, however, for most members of the BTPS, the current minimum retirement age is protected at age 50. The adjustment for early and therefore longer payment is calculated to ensure that it does not have an impact on scheme funding levels.

Members of the SLFPP and the BTRP, are currently able to receive their pension benefits from age 50. However, with effect from 6 April 2010, the minimum age will be 55 as per the change in legislation.

I'm eligible to draw my pension now, should I do this before the review makes any changes?

This is your individual choice. The review will not affect the pension that you have built up, this is protected whether or not you retire now or later.

Would a possible increase in the Normal Retirement Age affect the pension benefits built up to 1 April 2009 with regards to the actuarial reduction if drawing the pension early, for example before age 60?

BTPS pension coming into payment before Normal Retirement Age are actuarially reduced as they are paid early and for longer. Pensions accrued at the date of change will continue to be based on the existing NRA (for the BTPS, this is age 60) and therefore any actuarial reduction on that part of your total pension will be calculated by reference to age 60. For benefits accrued from 1 April 2009 the reduction appropriate to an NRA of 65 will be applied.

You say the existing rights of deferred members are protected. As well as their pension, does this also apply to the age at which they normally get their pension?

Any changes that might be made to the Normal Retirement Age (NRA) will only affect those benefits accrued after the date of change. As members who have already left but not yet retired (deferred members) will have built up all their benefits prior to the date of change, any change to NRA would not affect them.

What would happen if you complete 40 years Pensionable Service before 2012? How would this affect my pension as I won't be 60 till 2013?

If you complete 40 years' Pensionable Service before 2012 and leave with an immediate pension before 1 April 2012 the early retirement reduction will apply as if the normal retirement age was 60. That is the same as at present.

If you draw your pension after 31 March 2012, that part of your pension which was earned before 1 April 2009 would have an early retirement reduction appropriate to a Normal Retirement Age of 60, whilst pension earned from 1 April 2009 would have a reduction applied appropriate to a Normal Retirement Age of 65.

Can you please confirm that benefits already accrued, up to the cut off point, will be index linked and therefore grow with inflation until they are drawn?

Benefits accrued up to 1 April 2009 will not be index linked until the pension is drawn but will be based on Final Pensionable Pay at leaving or retirement (whichever is earlier). If you leave employment or opt out of Scheme membership, the deferred pension will be increased in line with the Retail Prices Index (capped at 5% pa for Section C members) until it comes into payment.

If I take my pension at 60 and keep on working for BT beyond 1st April 2009 will I have to contribute to the state second pension and if so how much?

If I take my pension at 60 and keep working for BT beyond 1 April 2009, will I have to contribute to the State Second Pension and if so how much?

If you are over State Pension Age (SPA) you will not have to pay NI contributions. If you are under SPA then you will have to pay contracted-in NI contributions until age 65 or until you stop working, if sooner. When compared to being contracted out, contracted in NI contributions (in the vast majority of cases) are 1.6% higher on earnings between the Lower Earnings Limit (currently £90pw) and the Upper Earnings Limit (currently £770pw). BT also pays an additional 3.7% on those earnings.

A number of people will have two distinct pensions if the changes are accepted, one based on final salary and the other on a CARE basis. Will it be possible to defer the CARE pension component to take advantage of the current retirement age and not suffer a reduced CARE pension simply by having to take this pension earlier?

Whilst the way in which pension is calculated will be different for service from 1 April 2009, you will have a single pension payable from the BTPS. Pension built up before and after 1 April 2009 must be taken at the same time. It is not possible to split the pension between two dates.

Will the portion of the BTPS pension still payable at age 60 be based on the final salary at 60 or the salary at the time any changes to the scheme are made?

The portion of pension built up before 1 April 2009 would be based on Final Pensionable Pay at retirement (or your date of leaving the scheme if earlier).

At the moment section B people over the age of 50, if made redundant by BT, would receive a full enhanced pension payable immediately. Under the review is BT planning to change Section B to remove this?

Allowances and pension enhancement terms on redundancy are excluded from the pension review and will be reviewed separately, on a without prejudice basis.

Is it true that if you are due to retire in the next three years then every thing remains the same?

No. Only the Normal Retirement Age of 60 will remain the same. In other words, if you leave BT before 1 April 2012 and draw your pension immediately any early retirement reduction applicable will be as if the change to Normal Retirement Age had not occurred. However, your pension benefits built up from 1 April 2009 will be on a Career Average Revalued Earnings basis and different benefit accrual formula for Section C members. You may also have to pay higher member contributions or elect to change your benefit accrual formula in return for maintaining the 6% member contribution rate. You will also cease to be contracted out for service after 1 April 2009.

Leaving Service

I am a deferred member and have received details of the pension (and the lump sum) which will be payable to me at age 60, can these be changed?

No. The pension and lump sum rights already built up are protected by law and cannot be changed unilaterally by the company. Those members with deferred pensions under the BTPS will continue to have the right to claim these from age 60.

If I'm planning to leave the company will this review affect my pension?

The pension benefits you have built up during your membership of a BT pension scheme are protected whether or not you leave BT. If you are still an active member of a scheme at the time of the changes, only future benefits built up after the date of change would be affected. Benefits built up before the date of change will not be affected.

If I were to leave BT under the early leaver terms, would my pension be affected by the review?

If you leave before any changes to the scheme have been implemented, you will not be affected. As with any other members, if you leave before the changes are introduced, benefits accrued before the changes are protected, those built up after the change will be calculated under the new basis. Any Leaver payments under future Leaver programs are not part of this review.

How will the review affect those who are about to leave the company, or those who have already left, under the Newstart program?

Those who have already left the company, whether under Newstart or any other leaver program, are considered as 'deferred pensioners' or pensioners if they have elected to commence receiving their pension, and will be treated in the same way as existing deferred pensioners and pensioners i.e. there will be no changes to the benefits built up whilst they were employed by BT but we may be able to offer deferred pensioners more flexibility in how the pension is taken.

If you are due to leave BT under a paid Leaver or Newstart program before 1 April 2009, the review will not affect your pension benefits. If you are due to leave after the changes have been implemented your future pension benefits from that time will be affected in the same way as for anyone else. But, please remember that the benefits which you have already built up are legally protected.

What are the Early Retirement Factors and how are they calculated?

If you draw your pension before the Normal Retirement Age (60 for service before 1 April 2009 and 65 for service from 1 April 2009), your pension will be reduced because it is paid early and for longer. The reduction in your pension would be around 5% p.a. for each year that it is paid before your Normal Retirement Age.

Contributions

Is an increase in individual contributions to maintain current benefit levels being considered?

The consultation pack sets out the range of options we are considering. Members can build up additional pension rights by paying Additional Voluntary Contributions (or purchase Added Years if a Section A or B member)

General Questions

Will the index linking of pension payments be removed as part of this review?

Under the SLFPP and the BTRP, the choice of whether or not to receive a pension which is indexed linked remains with each individual member as they retire.

For the BTPS it is not proposed to make any changes to the index linking provisions. This means that Section A and B deferred pensions, and pensions in payment, will continue to be increased in line with the RPI. For Section C members pensions will be increased by 5% or the rise in the RPI if less. Future build up of pension under the CARE arrangements are revalued prior to leaving/retirement as described in the consultation pack.

I joined the final salary scheme and currently, I have an Added Years arrangement. One benefit that was mentioned when I joined was the opportunity to contribute to a scheme which rewarded loyalty and long service. How will the review change my benefits?

Existing Added Years contracts will continue on the terms in force at the commencement of the contract. BT has stated it is not its intent to close the BTPS which is expected to continue to provide a competitive defined benefit scheme for its members. This review has become necessary as a result of many issues that are now influencing the cost of pensions. The decision to review was not taken lightly and, in fact, the majority of UK employers have already completed a similar exercise. We have to review our arrangements if we are to remain competitive in our markets and continue to provide job opportunities for our employees. The review also aims to ensure the schemes are sustainable in the longer term.

It is important to bear in mind that membership of a well managed pension scheme, like the BTPS, does reward loyalty and long service because your pension builds up each year that you are in the scheme and these benefits will be protected.

By implementing changes, we will be in a better position to ensure that the scheme remains affordable. This will allow the ongoing security of the scheme to be strengthened providing members with the opportunity to make long term retirement plans.

I have already completed 40 years pensionable service. Am I still able to take my pension but carry on working?

Yes. You can take your pension if you wish subject to the scheme rules which include an early retirement reduction if you draw your pension before 60, even if you continue working for BT. This change was made in April 2006, further information can be found on the Pensions Simplification pages of the BT intranet here:

http://humanresources.intra.bt.com/index/reward/rpensions/announcement_changes_a_rising_from_pension-link

Any pension benefit earned after the date of change would have an early retirement reduction appropriate to a Normal Retirement Age of 65.

Can I opt out of BTPS and be paid what ‘my pot’ is worth today?

You can opt out of BTPS and either have a deferred pension, transfer the value of your ‘pot’ to alternative pension arrangements at any time, or if you are over 50 you can apply to have your pension paid immediately with an appropriate early retirement actuarial reduction on account of early payment.. You should remember, however, that the benefits which you have built up to date are protected. Only future benefits will be affected once any changes are implemented.

You say benefits are protected, but does this mean that both the contributions that I’ve put in as well as those of the company are safe?

Benefits in the BTPS built up to the date of change are protected and will not be affected by the review process. For Defined Contribution Scheme members, contributions paid into the Schemes are safe but their value will move in line with the investment choices selected by the member and can move up and down.

I’m eligible to draw my pension now, should I do this before the review makes any changes?

This is your individual choice. The review will not affect the pension benefits that you have built up to the date of change; this is protected whether or not you retire now or later. It is only benefits built up from the date of change that will be affected.

Will the proposed changes that come from this review be phased in?

It is intended that the changes will be implemented from 1 April 2009. It is proposed that there will be an easement for BTPS members who intend to retire before 1 April 2012 – see page 9 of the consultation pack for details. The change to contracting out is proposed to commence from 6 April 2009 and contribution increases to the BTPS will be phased in over 2009/10. Employer matching contribution increases to the new Defined Contribution Scheme, where applicable, will also be phased in over two years.

Will there be a period of notice where I'm able to take my pension before changes come into effect?

Any benefits already built up are protected by law and the changes will affect only future service for those still contributing to the schemes. Therefore, there is no need to

offer a notice period where members can take their pension before changes come into effect.

If I'm planning to leave the company will this review affect my pension?

The pension benefits you have built up during your membership of a BT pension scheme are protected whether or not you leave BT. If you are still an active member of a scheme at the time of the changes, only future benefits built up after the date of change would be affected.

How will the review affect those already drawing a pension?

The review will not affect the benefits of those already drawing a pension.

You state that you are not able to change my rights, but I had the right to retire early after 40 years and this was taken away from me. How can that be?

It is important to distinguish between actual entitlements and expectations. When we made this change as a result of new UK age legislation, we received many questions from members who felt that there was a right to retire early after 40 years service with an actuarially reduced pension and that this right remained. However, to retire early on enhanced terms, was not in fact a 'right' as, a benefit such as this, would require company consent and BT would be required to pay additional sums into the pension scheme to pay for the enhancement.

Who are the Pension Trustees and what do they do?

The Trustees are responsible for managing BT's pension schemes and act independently to represent the interests of scheme members. They operate according to a scheme's Trust Deed and Rules. The Trustees are a mix of BT employees, full-time union officials and external advisers; their names and responsibilities can be found at www.btpensions.net for BTPS and BTRP and at <http://humanresources.intra.bt.com/index/reward/pexcsi/slfppplan-link/slfpptrustees.htm> for the SLFPP.

BTRP and SLFPP

Do you plan to reduce the benefits of those in the BTPS to increase the benefits available to the SLFPP and BTRP members?

The consultation pack sets out various proposals that would give people more flexibility and choice over their pension arrangements at the same time making sure that BT's overall pension arrangements are affordable, sustainable and competitive in

the long-term. We would like to achieve a fairer distribution of benefits between members of all three schemes. This does not mean that we will favour any one scheme over another. It is our intention to ensure that the liabilities and risks associated with any of BT's current UK pension arrangements do not impinge on the benefits that BT is able to provide to the members of its other schemes. It is true however that generally, benefits payable from the BTPS will be at a lower level in future after the change and higher matching contributions will become payable in the new Defined Contribution Scheme.

Questions relating to the modeller

Where can I find the modeller?

The modeller can be found on this website at:

<http://www.btpensionsreview.net/?menuId=50&pageId=213>

Should I put my Smart or non-Smart salary into the modeller?

You should use your non-Smart salary in the modeller.

Why do the pension modeller results not tie up with my benefit statement?

The reason is likely to be due to differences in the way benefit statements are calculated compared to the way calculations are carried out by the modeller.

The following Q&As will provide further details:

How is my benefit statement calculated?

Your projected pension at age 60 is based on:

- Your estimated final pensionable pay at the date of the benefit statement and
- Your expected pensionable service at age 60. This will include extra credited service from Added Years contracts for Section A and B members

The benefit statement uses the current estimated final pensionable pay figure to estimate your benefits at retirement, without projecting it forward.

I have entered 0% for future salary growth and the results are not consistent with my benefit statement. Why is this?

To calculate your expected pension benefits under the current benefit terms, the modeller:

- Firstly allows for salary growth up to your chosen retirement date (in this case - no increases), then

- Adjusts the pension at retirement to give a figure in today's price terms, allowing for inflation of 3% (whereas the benefit statement makes no adjustment)
- Using a salary growth assumption of less than 3% is likely to lead to expected benefits (under the current terms) that are less than the figures shown on your benefit statement.

To give an example:

John is expecting no further salary increases

Allowing for his service up to age 60, he is expecting to retire in 2013 with a pension of £10,000 pa. This figure is shown on his benefit statement.

Due to inflation, a pension of £10,000 pa would not purchase the same amount as it would today

To enable comparison of retirement benefits payable from different ages, the modeller expresses the figures in today's price terms and shows the pension as £8,700 pa (in today's price terms)

Why are the results shown in today's prices?

The modeller removes the impact of future inflation to give an indication of the value of your projected benefits in current price terms.

This means that you can better compare benefits payable from different retirement ages (if you run the modeller using different retirement ages).

Why do I need to enter a salary growth assumption?

The choice of salary growth assumption is particularly important to help illustrate the impact of the change to a Career Average Revalued Earnings approach for future service benefits. The modeller allows you to vary the assumption for future salary growth to help illustrate the potential impact.

I think the pension modeller is giving figures that are too low as my pension from added years is not included.

Pension arising from existing Added Years contracts (for Section A and B members) is not affected by the pension changes. The charts that are produced by the modeller do not include the pension arising from Added Years.'

However, an indication of the pension available from existing Added Years contracts is shown in the notes to the charts (for members aged under 60).

Why does the salary growth assumption affect the part of the pension relating to benefits earned before 1 April 2009?

Pension earned before 1 April 2009 is not impacted by the proposed changes and would remain linked to your final pensionable pay. Therefore the benefits will be affected by the salary growth assumption.

Why does the modeller illustrate pension allowing for 90ths accrual? I thought it was meant to be 80ths accrual.

It is proposed that from 1 April 2009, all BTPS members will build up pension of 1/80th a year and a lump sum of 3/80ths a year.

It is also proposed that Section B members and some Section C members will increase their contributions to the BTPS.

For these members, there is an option to keep the current 6% contribution rate and instead receive future benefits based on a 90ths accrual rate. The modeller will illustrate this option where it is applicable. Further details of this option are shown on pages 24 and 25 of the consultation pack.

Questions for members who will have left BT by 1 April 2009

I am a deferred member and have received details of the pension (and the lump sum) which will be payable to me at age 60, can these be changed?

The pension and lump sum rights already built up are protected by law and cannot be changed unilaterally by the company. Those members with deferred pensions under the BTPS will continue to have the right to claim these from age 60.

I am a deferred member; will my early retirement terms be changed as part of the pensions review?

BTRP and SLFPP members are able to apply for early retirement at any age after age 50. In 2010, pension's law states that this minimum retirement age will change to age 55. It is unlikely that the review will affect these provisions.

BTPS members are able to take their pension benefits from any age after 50. The majority of BTPS members will retain this right after 2010 when the pension's law alters the earliest retirement age to 55.

The change in the minimum retirement age, has been set by law and is not a change which is introduced by BT.

Under the BTPS, the early retirement factors are agreed by the Trustee and they are periodically reviewed to ensure that those receiving early, and therefore longer payment of their pension, do not affect the funding position of the scheme. All factors, such as those used for early retirement, are normally reviewed after completion of a triennial valuation. The next of these is due at 31 December 2008

with the results expected during 2009. After completion of the valuation, the Trustees will normally decide whether the early retirement factors need to be amended. If so, the revised factors would normally apply to all early retirements after the review has been completed. This is a normal process and not part of the wider pension review which BT is undertaking.

Further Help

How do I find out about the benefits which are held for me under the BTPS, BTRP or SLFPP?

There is additional information available at:

http://www.btpensions.net/BTPS/btps_home.htm for the BTPS,

http://www.btpensions.net/BTRP/btrp_home.htm for the BTRP and

<http://www.btpensionsreview.net/?menuId=1&pageId=97> for SLFPP members.

Where can I go for more help?

If you are having difficulty in finding information or using the modeller, you can call the UK Pension Review Line on freephone 0808 156 0559 (Mon – Fri 8:30 – 5:50). Please note that they cannot answer queries on how you might personally be affected by the proposed changes or provide financial advice, but they will be able to provide generic pension information to assist you in understanding the proposed changes.

Please do not contact the Pensions Peopleline run by Accenture HR Services or Fidelity as they cannot and will not answer any questions on BT's UK Pension Review, or its impact on individuals.