BTPS

BTPS pension increases in deferment for Employed Deferred Members in Section C

Introduction

This factsheet gives the technical detail to understand how your BTPS pension receives inflationary increases each year before you start taking your pension. This is known as your period of deferment. It also explains how pension increases in deferment are calculated and applied and how this can affect the estimates you can see when you run pension quotes on the BTPS member portal for different retirement dates.

This factsheet applies to Employed Deferred Members in Section C, these are current employees of BT Group who left the Scheme as a result of closure on 30 June 2018.

How pension increases work in deferment

Your pension increases from when you left active service in the BT Pension Scheme (the Scheme) to your Normal Retirement Age (NRA) or when you start taking your pension if earlier. This is known as pension increases in deferment. As an Employed Deferred Member, the date you left the Scheme is the date the Scheme closed, 30 June 2018.

Increases in deferment are determined by the Scheme Rules and legislation. This means that for Employed Deferred Members in Section C, pensions will increase in deferment in line with legislation[1]. The Government's intention with this legislation is "to provide a degree of protection – but not total protection – against the impact of inflation". This factsheet explains increases for Employed Deferred Members in Section C, and for members who left employment earlier who are subject to this legislation. If you are unsure if this applies to you, please do get in touch.

Between 6 April 1978 and 5 April 1997, the Government offered pension schemes the option for the employer and the employee to pay reduced national insurance contributions if the pension scheme contracted out and provided a "Guaranteed Minimum Pension", GMP.

If you had service in this time, you would have paid reduced national insurance contributions, and the Scheme would set aside some of your pension as GMP. The remainder of your pension would be the excess over GMP, otherwise known as excess pension.

Excess

In line with legislation, your excess pension currently increases with inflation measured by the Consumer Prices Index (CPI). Inflation is applied based on the multiplication of the September CPI annual increases, up to and including the calendar year before your retirement and allows for the number of complete years in deferment. The overall increase is subject to a minimum and a maximum - your pension cannot decrease over the entire deferred period and cannot increase over the entire deferred period by more than 5% a year compound[2].

[1] This is defined in the Rules as *"the laws as to revaluation of accrued benefits set out in Chapter II of Part IV of the Pension Schemes Act 1993".*

[2] *The government reduced the maximum pension increases in deferment over the entire deferred period to 2.5% per year for service from 5 April 2009. The Rules of BTPS retained the 5% maximum yearly increase.*

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Example 1
In the following scenario where:

- member's date of leaving is 30 June 2018, and
- member’s retirement date is 14 December 2022, there are 4 complete years between date of leaving and date of retirement. The value to look-up in the table below would be the year 2022, and 4 complete years. The applicable increase is 1.079 (the pink box).

Table 1 –Section C inflationary increases to 2022

Year	2023	2022	2021	2020
<1 Complete Years	1	1	1	1
1 Complete Year	1.05	1.031	1.005	1.017
2 Complete Years	1.103	1.036	1.022	1.041
3 Complete Years	1.141	1.054	1.047	1.073
4 Complete Years	1.16	**1.079**	1.078	1.083
5 Complete Years	1.188	1.111	1.089	1.082
6 Complete Years	1.224	1.123	1.088	1.095

In more detail, the inflationary increase can be calculated by multiplying the annual September CPI increases, as set out in table 2 below.

Table 2 – annual September CPI increases

Year	September CPI increase (%)
2017	3
2018	2.4
2019	1.7
2020	0.5
2021	3.1
2022	10.1

So, 1.079 can be calculated by multiplying the annual September CPI increases from 2021 to 2018:

= 1.031 x 1.005 x 1.017 x 1.024

= 1.079

Example 2
In a similar scenario where:

- member's date of leaving is 30 June 2018
- member’s retirement date is now 2 January 2023,

there are no further complete years as we have not crossed his or her date of leaving of 30 June, but the year to look-up now is 2023 and 4 complete years. The applicable increase would be 1.16.

This explains the change that will appear on the BTPS portal Pension Calculator for pension quotes from the following 1 January onwards (once the September CPI figure has been programmed into the portal Pension Calculator). The figure may rise or fall depending on the relationship between the latest CPI figure and the one which it is replacing. Prior to the programming of the latest September figure, the Pension Calculator assumes that it is zero.

Table 3 – inflationary increases to 2023

Year	2023	2022	2021	2020
Complete Years	1	1	1	1
1 Complete Year	1.05	1.031	1.005	1.017
2 Complete Years	1.103	1.036	1.022	1.041
3 Complete Years	1.141	1.054	1.047	1.073
4 Complete Years	**1.16**	1.079	1.078	1.083
5 Complete Years	1.188	1.111	1.089	1.082
6 Complete Years	1.224	1.123	1.088	1.095

In more detail, the inflationary increase can be calculated by multiplying the annual September CPI increases.

Guaranteed Minimum Pension (GMP)

GMP increases annually in line with Section 148 Orders (previously known as Section 21 Orders). Section 148 Orders are based on the increase in the National Average Earnings Index each year.

These increases are applied on each 6 April after you left the Scheme, to when you retire, or if later, when your GMP is due to be paid, i.e. your 65th birthday for men, or your 60th birthday for women.

So, if you left the Scheme on 30 June 2018, and are younger than 60 on 6 April 2020, your GMP would be first increased on 6 April 2019 (and on each 6 April thereafter).

If you retire after the date your GMP is due to be paid, statutory increases are applied to your GMP from your 65th (men) or 60th (women) birthday up to your pension start date.

Early retirement factors

Your pension is payable from your Normal Retirement Age, 'NRA'. As an Employed Deferred Member your NRA is 65.

NRA is 60 for benefits you built up working for BT before 1 April 2009, and 65 for any benefits you built up from 1 April 2009. Members with service both before and after 1 April 2009, have BTPS benefits in two tranches. If this applies to you, it doesn't mean you can take your pension in two separate tranches — but it does mean the age you decide to take your pension at will determine whether early or late retirement factors will apply.

Your pension is reduced if you retire before you reach your NRA. This is known as "early retirement" and reflects the longer period your pension is payable for. The reduction is described as an 'Early Retirement Factor'. The intention of this reduction is to ensure that over the lifetime of a typical member, the value of the amount paid out is approximately equivalent to the value of the amount paid out had the pension been payable from NRA.

Early Retirement Factors are adjusted depending on the age of the member in complete months. The scale of the reduction is set by the Trustee, following actuarial guidance, and can vary from time to time. Note that Early Retirement Factors increase with age up to NRA where it is 1, so for a member aged 60, the Early Retirement Factor for pension relating to service before 1 April 2009 would be 1.

Running future dated retirement quotes on the BTPS member portal

Because of how your pension is adjusted depending on your age, and how your pension increases in deferment, you may see your pension change as you run portal quotes for different retirement dates, for the following reasons:

- If you change your retirement date, your age at retirement in complete months may change, so your pension is reduced for early payment less if you are retiring at an older age or reduced more if you are retiring at a younger age.

- Your pension has more or different increases. This might happen on:

  i. The anniversary of the date you left service, as your pension has an additional complete year. This would generally mean your pension increases, however, there are some situations where your pension could decrease, for instance inflation was negative between 2014 and 2015. Please note that the increase is usually incorporated in future dated retirement quotes once we know what inflation is, usually near the end of the calendar year. The retirement calculations used to generate pension quotes do not allow for future inflationary increases, but rest assured your pension will be increased.

  ii. 6 April. For Section C members, GMP has an increase based on National Average Earnings. Please note that the government typically publishes this in March, so the actual National Average Earnings isn't known for retirement dates after 6 April until March each year. The retirement quote on the portal would not allow for this increase until the National Average Earnings is published, but rest assured your pension would be increased with effect from 6 April by the National Average Earnings.

  iii. 1 January. As your pension is increased in deferment based on inflation to the September in the calendar year <u>prior</u> to your retirement, a retirement date of 1 January as opposed to 31 December of the preceding year would mean a different inflation figure would be used, although the number of years of inflationary increases would usually remain the same. For instance, a retirement date of 14 December 2022 would account for inflation up to September of the year preceding retirement, September 2021, whilst a retirement date of 2 January 2023 would account for inflation up to September 2022. This is demonstrated in tables 1 and 3 and examples 1 and 2.

     Please note that running a retirement quote with a retirement date from 1 January on the following year will not have the actual inflation applied until after the inflationary increases are published, typically in November each year.

- How your pension is adjusted based on your retirement choices (if you choose any option other than taking your Standard Scheme benefits at your Normal Retirement Age). These adjustments include retiring early and changes from time to time to reflect changes in the other variables that affect the value of the pension paid over the lifetime of a typical member. How your pension is adjusted is reviewed regularly to make sure the adjustments remain appropriate, taking into account the Scheme Rules, legislation and market conditions, amongst other things.

- There may be other exceptional situations where your pension changes as you change your retirement date, for example if you are divorced and have a Pension Sharing Order.

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One-off early adjustment applied in 2023

Due to the current very high levels of inflation, for Section C members only, once the known September CPI was published, this was allowed for in the early retirement calculations for members retiring between 19 October 2023 and 31 December 2023 on an exceptional basis. This was instead of waiting to apply the change on 1 January, which would be the usual approach.

Late Retirement

The BTPS Rules don't allow for late retirement so you should take your pension at or before your BTPS NRA. The exception to this is if you are still working for BT Group.

For members in Section C with service pre and post 1 April 2009 who decide to retire between their 60th and 65th birthdays, only the part of your pension payable from age 65 will be reduced for early retirement. The part payable from age 60 will be increased for late retirement up to your 65th birthday, or your retirement date, whichever is earlier.

For members of Section C who remain employed with BT Group after their 65th birthday and defer taking their pension, the late retirement increases continue to be applied from age 65 until the date the member leaves BT or retires (if earlier).

Example 3: applying increases in deferment and reducing pension for early payment before NRA

For a member who was born on 15 May 1967, left BT on 30 June 2018 with £10,000 pension for service to 31 March 2009 and £10,000 pension for service from 1 April 2009 to 30 June 2018.

If this member decided to retire on 1 January 2023, their pension is increased from 30 June 2018 to 1 January 2023 by 1.16 (see table 3).

The member is aged 55 and 7 months, so the early retirement factor is 0.790 for pension for service to 31 March 2009. The early retirement factor is 0.631 for pension for service from 1 April 2009. So, the pension at retirement, for a member with no GMP is:

Pension at retirement on 1 January 2023

= Pension at date of leaving increased with inflation and reduced for early payment

= £10,000 x 1.16 x 0.790 + £10,000 x 1.16 x 0.631

= **£16,484**

Note that how a pension is reduced for early payment differs slightly if a member has GMP, and the pension will change based on the retirement option chosen, for instance giving up pension for additional tax-free lump sum (cash commutation) or giving up future inflationary increases for a higher starting amount ('pension increase exchange or PIE).

If the same member was to choose a retirement date of 14 December 2022, then the member is aged 55 years and 6 months, and the inflationary increase is based on calendar year 2022 (table 1).

The early retirement factors reduce slightly to 0.787 for pension for service to 31 March 2009 and 0.629 for pension for service from 1 April 2009.

Pension at retirement on 14 December 2022

= £10,000 x 1.079 x 0.787 + £10,000 x 1.079 x 0.629

= **£15,279**

Example 4: Allowing for GMP

For members with service between 6 April 1978 and 5 April 1997, it is highly likely that they would have GMP. GMP increases differently to retirement.

If the same member in Section C, born on 15 May 1967, left BT on 30 June 2018 with £10,000 pension for service to 31 March 2009, of which £2,000 was GMP, and £10,000 pension for service from 1 April 2009 to 30 June 2018. And if the same member decided to retire on 1 January 2023, their pension in excess of GMP is increased from 30 June 2018 to 1 January 2023 by 1.16 (see table 3).

GMP is increased from 30 June 2018 to 1 January 2023 (using Section 148 Orders) by 1.146, based on the increase in the National Average Earnings Index each year.

The member is aged 55 and 7 months, so the early retirement factor is 0.790 for pension for service to 31 March 2009 in excess of GMP. The early retirement factor for GMP is 0.860. The early retirement factor is 0.631 for pension for service from 1 April 2009. So, the pension at retirement is:

Pension at retirement on 1 January 2023

= Pension at date of leaving increased with inflation and reduced for early payment

= £8,000 x 1.16 x 0.790 + £2,000 x 1.146 x 0.860 + £10,000 x 1.16 x 0.631

= **£16,622**

The calculations provided are illustrative and correct as at October 2023 and they are based on the factors in place at that time. The Trustee is obliged to periodically review the actuarial factors we use to calculate pensions for example, if economic conditions change. This means that the actuarial factors used by the Scheme are subject to change.

October 2023

The Scheme Rules and overriding legislation

Your benefits are always subject to the BTPS Rules which apply to you and legislation in force from time to time. This document is intended for information only and is not intended to give rise to any different or independent rights or entitlement to benefits from the Scheme. If there's any difference between what's in this document and the BTPS Rules or legislation, the BTPS Rules and legislation will take precedence.

The summary information set out in this document is based on the BTPS Rules and the legislation in force in October 2023 which is relevant to benefits in Sections C. Every effort has been made to make sure that the summary information in this document is accurate and helpful. However, it is not possible to provide every detail of how Scheme benefits work in this document. The full details of your Scheme benefits are always as set out in the BTPS Rules which apply to you, and legislation.