

BTPS Pension Increases in deferment for Employed Deferred Members in Section B

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 B, 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 B, pensions are increased in the same manner as under the Principal Civil Service Pension Scheme (PCSPS). This factsheet explains increases for Employed Deferred Members in Section B, and for members who left employment earlier who are subject to this Rule. If you are unsure if this applies to you, please do get in touch.

Currently, pensions will increase in deferment in line with inflation measured by the Consumer Prices Index (CPI). Increases are usually applied each year on 1 April. Note that 1 April is also the date on which pensions in payment are increased. When you retire, your first 1 April increase in payment will be for a full year, and hence you are not disadvantaged if you put your pension into payment at a different time of year.

The CPI increase is currently based on the September CPI increase and is confirmed by the Government. On 1 April 2023, this increase was 10.1%. For a full list of pension increases, please refer to <https://www.gov.uk/government/collections/public-service-pensions-increases>

If you have any GMP then this is increased in line with the contracting out laws, and this is broadly in line with the increase in National Average Earnings.

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 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, when you are using the Pension Calculator to run retirement quotes on the member portal 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 deferred pension increases. Your pension would usually increase every 1 April up to the NRA associated with when your benefits were accrued. Please note that the 1 April increase is usually incorporated in future dated retirement quotes in early March each year. Retirement quotes with pension start dates after 1 April run on the portal before March of that year would assume zero inflation and would not allow for the 1 April pension increase or any other future inflationary increases. This is because this information is not available before March each year, but rest assured your pension would be increased on each 1 April before your retirement.
- 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.

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 B 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 B 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: 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 at age 55, their pension is increased from 30 June 2018 to 1 January 2023 by 1.1811 (this is the pension increase in deferment as published by the government).

The member is aged 55 and 7 months, so the early retirement factor is 0.831 for pension for service to 31 March 2009. The early retirement factor is 0.664 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 in deferment and reduced for early payment

$$= £10,000 \times 1.1811 \times 0.831 + £10,000 \times 1.1811 \times 0.664$$

$$= \underline{\underline{£17,657}}$$

*This calculation is illustrative. How a pension is reduced for early payment differs slightly if a member was in active service before 6 April 1997 and the pension will change based on the retirement options 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). **This example is correct as at October 2023 and is based on the early retirement 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 B. 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.