BTPS

State Pension Offset
Factsheet

Introduction

The BT Pension Scheme (the Scheme) has recently received a number of queries about the State Pension Offset applicable under the rules of Sections B and C of the Scheme and the impact this has on members. To help, we have set out the legislative background to the State Pension Offset below, followed by an explanation of how the State Pension Offset operates in relation to the Scheme.

The State Pension — background

Before 6 April 2016, individuals who reached State Pension Age (**SPA**) and had paid sufficient National Insurance Contributions (**NICs**) were entitled to receive the basic State Pension. However, if an individual paid *additional* NICs they were also entitled to an *additional* pension to "top up" the basic State Pension. From 1978 to 2002 the *additional* pension was known as the State Earnings Related Pension Scheme (**SERPS**). From 2002 until April 2016 SERPS was replaced by the State second pension (**S2P**). If a scheme met certain quality tests, the Government allowed it to be used for "contracting out". If a scheme was contracted out, both the scheme employer and the scheme's members paid lower NICs to the Government, on the condition that the scheme had to provide a minimum level of pension benefits to members.

Up until April 2009, Sections B and C of the Scheme were contracted out of the additional State Pension. This meant that both BT and Scheme members in these Sections paid lower NICs, but in return did **not** build up any additional State Pension. As part of this arrangement, the Scheme agreed to provide members with a guaranteed minimum level of pension benefits that had similarities with the additional State Pension that was surrendered.

From 6 April 2009 Sections B and C of the Scheme ceased to be contracted out and contracted back into the additional State Pension. This meant that from this date members in these sections paid higher NICs and started to build up an entitlement to an S2P pension to top up their basic State Pension.

In addition, BT compensated members for the additional NICs that they were required to pay. You will have seen this presented on your payslip as an allowance.

On 6 April 2016 the provision of State Pension from the Government was significantly changed. For those reaching their SPA on or after that date the two-tier system (i.e. a basic State Pension plus, where applicable, an S2P pension) was ended and a new *single-tier* flat-rate State Pension was introduced. This means that whilst your Scheme benefits continue to build up in the same way as previously, your total State Pension after 6 April 2016, when added to your Scheme benefits, will not necessarily be the same overall as it would have been if the Government hadn't changed the State Pension. As a result of this, some members may be better off, and some members may be worse off. Please see page 2 for further explanation on why this is the case.

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How does the State Pension Offset operate under the Scheme's rules?

In April 2009, a reduction was introduced to the Section B and C rules, known as the State Pension Offset. The reduction was designed at the time to be broadly equivalent to the S2P pension members had begun to build up (because the Scheme had ceased to contract out), with the intention that members' overall State and Scheme pensions would be as near as practicable the same as if the Scheme had continued to contract out. The State Pension Offset, which reduces the member's Scheme pension from their SPA, was calculated using a fixed formula that has been prescribed in the Scheme rules since April 2009.

As explained above, in April 2016 the then State Pension was replaced with a new single-tier pension. There are significant differences in how the new single-tier pension is calculated compared to its predecessor, two-tier, arrangement. The State Pension Offset, when added into the Scheme rules in April 2009, did not directly track the S2P pension or any subsequent changes to it. As such, although since April 2016 the State Pension Offset in the Scheme continued to be applied using the same fixed formula prescribed in the Scheme rules since its introduction in 2009 (and similarly, BT continued to pay the National Insurance allowance as it has always done since 2009), there was no longer a link between how the State Pension Offset in the Scheme was calculated and how the State Pension was calculated.

BT, following consultation with its recognised unions, issued announcements in early 2016 directly to all active Scheme members at that time advising them of these State Pension changes and the likely impact on benefits in general terms. Initial discussions between BT and its unions on this were overtaken by the decision, agreed between BT and the unions, to close Sections B and C of the Scheme to future accrual on 30 June 2018.

As a result, the new situation introduced by the changes in State Pension arises only in respect of benefits accrued between 6 April 2016 and 30 June 2018. Consequently, for many members any difference in benefits resulting from the 2016 revised State Pension approach is likely to be small in the context of their overall benefits. Many, although not necessarily all, members will have built up their combined State Pension and Scheme benefits over that period at a greater rate than they would have done under the old State Pension system, and so will be better off overall as a result. However, whether members will be better or worse off will depend on their individual circumstances. The Scheme does not hold sufficient information about a member's State Pension entitlements to assess this on a case by case basis.