

BTPS

An update on the

Scheme's financial health



The Trustee is responsible for ensuring that the BT Pension Scheme ("BTPS" or "the Scheme") has sufficient funds to pay its liabilities (members' pensions). A full actuarial valuation must be carried out at least every three years as a detailed financial health check on the Scheme. Interim assessments also take place in the years between valuations. The purpose of this Summary Funding Statement is to provide you with a summary of the actuarial valuation of the Scheme as at 30 June 2023.

Results of the 30 June 2023 actuarial valuation

The actuarial valuation of the Scheme showed that on 30 June 2023, using the assumptions adopted for the valuation, the funding position was:

Assets



£37.33 billion

Liabilities



£41.03 billion

Shortfall



£3.70 billion

Funding level



91%

Changes in the shortfall since the 2020 valuation

Between June 2020 and June 2023, the funding shortfall reduced from £798 billion to £3.70 billion, which is broadly in line with the projected position from 30 June 2020.

The key driver for the reduction in the shortfall over the period was the £4.4 billion of contributions paid into the Scheme by BT Group. Based on these results (and on the results of annual updates performed since June 2020), none of the additional contribution provisions agreed with BT Group as part of the 30 June 2020 valuation (and retained as part of the 30 June 2023 valuation), have been required.

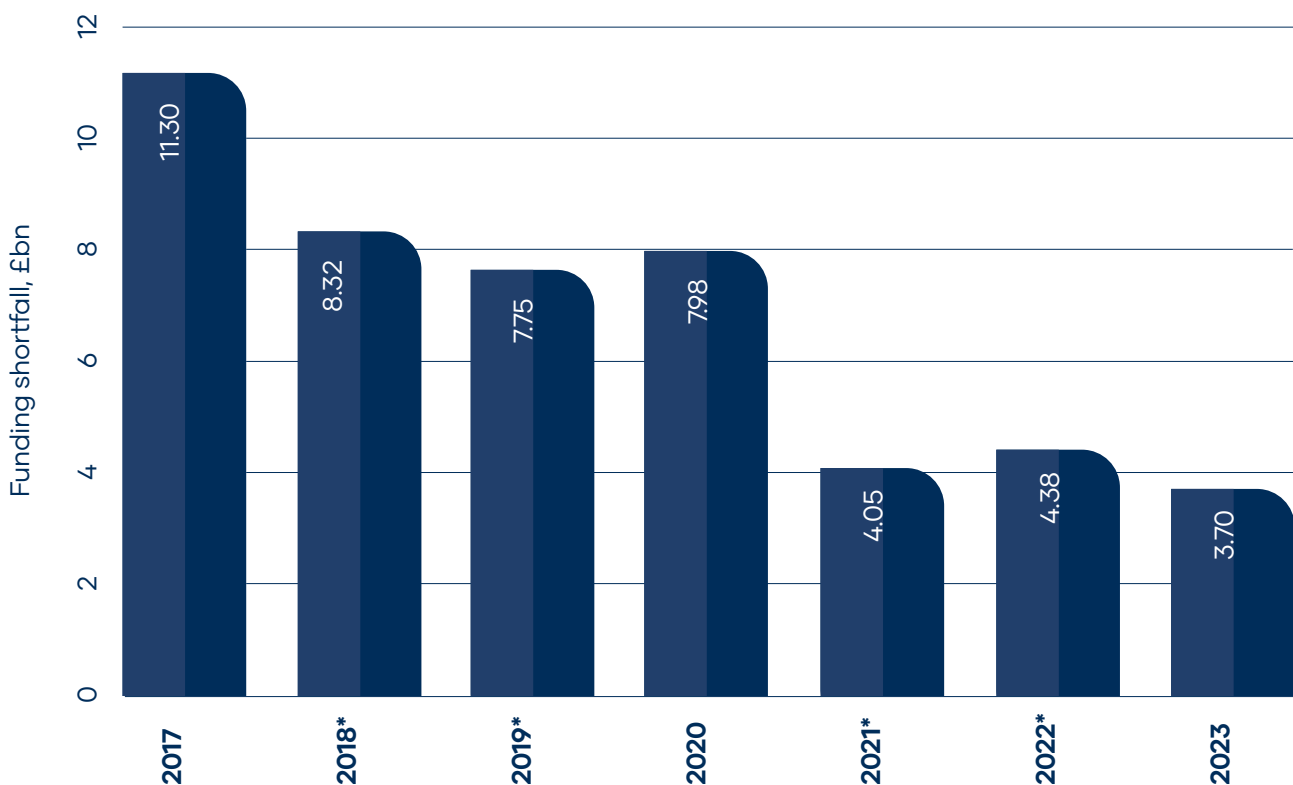
The reduction in the shortfall since the last formal valuation has been achieved despite a reduction in the value of the Scheme's assets. This is because whilst the value of the Scheme's assets

has fallen since 30 June 2020, the value of the pension liabilities has fallen by a greater amount.

The value of the Scheme's assets and liabilities both fell over the period due to the impact of higher long-term interest rate expectations, and the impact of £8.3 billion being paid out from the Scheme in respect of benefit payments to members.

Over this period, the Scheme's hedging programme helped to protect the Scheme's funding position against the impact of changes in interest rates and inflation. Careful management of these risks enabled the Scheme's shortfall to perform broadly in line with expectations, and based on the 2023 valuation outcome, the Scheme is expected to achieve full funding by 30 June 2030.

Progression of the funding shortfall since the 2017 valuation



* Interim funding valuation year

Changes since the 30 June 2022 interim assessment

The last Summary Funding Statement was issued in 2023 and explained the funding position at the 30 June 2022 interim assessment. Between 30 June 2022 and 30 June 2023, the shortfall decreased from £4.38 billion to £3.70 billion. A key driver for the reduction in the shortfall over the year was the £900 million of contributions paid

into the Scheme by BT Group and the updated view (made as part of the 30 June 2023 valuation) on future life expectancies. However, the impact of these were offset as a result of the impact of higher interest rates, increases to future inflation expectations and the returns on assets outside of the Scheme's hedging programme.

How will the shortfall be made up?

The Trustee and BT Group have agreed a recovery plan, which sets out that BT Group will pay additional contributions in the expectation of returning the Scheme to a fully funded position by 30 June 2030. The formal recovery plan ends on 31 December 2035, but in practice the Scheme is expected to reach full funding by 30 June 2030, as a result of the following:

BT Group will pay

£20m

in 2024...

... followed by

£10m

each year from 2025 to 2029.

BT Group will pay these contributions directly to the Scheme.

In addition, BT Group will pay

£690m

in 2024...

... followed by

£590m

each year from 2025 to 2029...

... followed by

£490m

in 2030.

BT Group will pay these contributions either directly to the Scheme or to the Scheme's co-investment vehicle. If these contributions are paid to the co-investment vehicle, funds will either pass to the Scheme or back to BT Group depending on the Scheme's funding position (as assessed over a series of dates between 2032 and 2042).



In addition, BT Group has agreed to pay up to a further £300 million per year to the Scheme, if needed, to meet any future emerging shortfall in excess of £1 billion up to 2026, or in excess of £500 million between 2026 and 2033. The need for these contributions will be assessed every six months. **This aspect of the agreement provides more certainty that the Scheme will achieve its path to full funding.**

What if the unthinkable happens and BT Group stop trading?

In this scenario, we assume that the Trustee would continue to run the Scheme with a low-risk, closely-matched investment strategy including additional margins for risk. On this basis and assuming no further contribution from BT Group, it was estimated that at 30 June 2023 the assets of the Scheme would have met around 80% of the liabilities (the estimate at 30 June 2020 was 71%).

Crown Guarantee: On the privatisation of BT in 1984, the Government provided the Scheme with a special protection in the form of an undertaking so that, in the unlikely event of a winding up of BT Plc, those liabilities of BT Plc to the Scheme which are covered by the undertaking would be met by the Government.

Task Force on Climate-Related Financial Disclosures (TCFD) Framework

We support the Task Force on Climate-Related Financial Disclosures (TCFD) Framework and our TCFD disclosure which reports on climate related risks and opportunities can be found on our website www.btps.co.uk/SustainableInvestment. A hard copy of this report is available on request.



Additional information we are required to provide

Since the last update, the Scheme has not made any payments to BT Group under Section 37 of the Pension Act 1995. We also confirm that The Pensions Regulator has not used any of its powers under section 231(2) of the Pensions Act 2004 in relation to the Scheme. In particular, it has not modified the Scheme, nor made any directions regarding the contributions or the calculation of the Scheme's funding position. The Trustee reserves its position on the application of Part 3 of the Pensions Act 2004 to the Scheme.

The 2023 actuarial valuation was undertaken in compliance with the Pensions Act 2004 and the Rules of the Scheme. The existence of the Crown Guarantee was not taken into account in reaching agreement on the 2023 valuation. The financial position of the Scheme and the level of BT Group's contributions will be reviewed at the next actuarial valuation, which is expected to be carried out as at 30 June 2026. The valuation documentation has been submitted to The Pensions Regulator as required by legislation.



Contact us

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