



## Results of the interim funding assessment of the Scheme at 30 June 2018

The Trustee is responsible for ensuring that the Scheme has sufficient funds to pay its liabilities (benefits to members). 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 statement is to provide you with a summary of the recent interim funding assessment of the Scheme at 30 June 2018.

### Reminder of the results of the 30 June 2017 actuarial valuation

The actuarial valuation of the Scheme showed that at 30 June 2017, using the assumptions adopted for the valuation, the funding position was:

	£ million
Market value of assets	49,344
Total value of accrued liabilities (technical provisions)	60,639
Funding shortfall (difference between the assets and the liabilities)	11,295

This represented a funding level of 81%.

Following Union agreement and a consultation with its employees, BT plc ('BT') closed Sections B and C of the Scheme to future accrual from 30 June 2018 for the majority of members ('closure'). This did not impact benefits for anyone who became a Deferred member or Pensioner of the Scheme before this date. The closure was not reflected in the funding shortfall at 30 June 2017.

### How is the funding shortfall being addressed?

The funding shortfall (known as 'the deficit') revealed by the valuation is being eliminated by a series of lump sum payments from BT to the Scheme (known as a 'recovery plan') over the period to 31 March 2030. The chart below illustrates the agreed recovery plan.



Under the agreed recovery plan, BT will pay a total of £4.5 billion by 30 June 2020, of which BT have already paid £2.85 billion. This £2.85 billion was made up of a £850 million cash contribution paid in March 2018 and a £2 billion contribution in June 2018. After 30 June 2020, there then follows payments of £700 million in 2021 and 2022, and of £907 million each year to 2030 when the final payment is made.

The Trustee and BT also entered into new legally binding agreements on several other matters in order to improve the security of the Scheme for the benefit of members. These arrangements with BT secure an updated funding plan for the Scheme supported by a range of protections with substantial contributions in the near term. They ensure the Scheme's funding needs are met over a reasonable period whilst enabling BT to invest in the future of its business for the benefit of all its stakeholders.

## Changes in the deficit since the 2017 valuation

The last Summary Funding Statement was issued in 2018 and explained the funding position at the 30 June 2017 valuation. The Trustee has received an actuarial report from the Scheme Actuary on the funding position at 30 June 2018. That update ('interim assessment') uses an approach that the Scheme Actuary regards as consistent with that adopted for the 2017 valuation of the Scheme, allowing for changes in investment market conditions and changes to the Scheme's membership. It therefore provides a financial health check for the Scheme, albeit it does not represent a full valuation and so does not need to be agreed between the Trustee and BT. Consequently it does not affect the contributions BT are due to pay under the recovery plan agreed at the 2017 valuation.

The Scheme Actuary's interim assessment suggests that between 30 June 2017 and 30 June 2018 the Scheme deficit reduced from £11,295 million to £8,321 million.

	£ million	
	30 June 2017	30 June 2018
Market value of assets	49,344	51,507
Total value of accrued liabilities	60,639	59,828
Funding shortfall	11,295	8,321

This represented a funding level of 86%.

The fall in the deficit was largely due to the deficit funding contributions of £2,850 million paid by BT in the first half of 2018, although the return on the Scheme's assets being higher than assumed under the 2017 valuation assumptions was also beneficial. The deficit at 30 June 2018 includes allowance for the Scheme closure which had only a small impact on the Scheme's deficit. Since the 30 June 2018 interim assessment date, financial markets have been somewhat more volatile than previously. The impact of this volatility on the Scheme is reduced by the various hedging strategies in place, and the Trustee continues to monitor the financial position of the Scheme on a regular basis.

The 2017 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 determining the results of the 2017 valuation or the 2018 interim assessment. The financial position of the Scheme and the level of BT's contributions will be reviewed at the next actuarial valuation, which is expected to be carried out at 30 June 2020.

Issued by: BT Pension Scheme Trustees Limited, One America Square, 17 Crosswall, London, EC3N 2LB.

Please note: The Scheme rules govern your benefits under the Scheme, and in the event of conflict between this communication and the Rules, the Rules take priority.

## Other information

The Pensions Act 2004 states that the Scheme Trustee must share the following information with you.

### The Scheme Actuary's estimate of solvency

The intention is for there to be enough money in the Scheme to pay pensions now and in the future, but this partly depends on BT remaining solvent. The Trustee is generally required to provide members with the Scheme Actuary's statutory estimate of solvency, which considers the position in the event of the Scheme being discontinued.

The Scheme Actuary has assessed this solvency position assuming that a low-risk, closely-matched investment strategy is adopted and including additional margins for risk. On this basis and assuming no further contribution from BT, it was estimated that at 30 June 2017 the assets of the Scheme would have met around 62% of the liabilities assessed on this basis.

However, in the unlikely event that BT became insolvent, there are additional protections which should be available to members – the Crown Guarantee and protection from the Pension Protection Fund (PPF).

- **Crown Guarantee:** On privatisation of BT plc in 1984, the Government provided the Scheme with a special protection in the form of a guarantee which provides that, in the unlikely event of a winding up of BT plc, the majority of outstanding liabilities of BT plc to the Scheme would be met by the Government. Further information is available on the Scheme website at [btpensions.net](http://btpensions.net)
- **Pension Protection Fund (PPF):** The PPF was set up by the Government to protect individuals' pension benefits where a company becomes insolvent. Should BT plc become insolvent, the Scheme would enter into a PPF assessment period. It is expected that any deficit in relation to the majority of Scheme liabilities would be met by the Crown Guarantee. Other liabilities would either be met by the PPF or, if the funding level was sufficient, by the Scheme. To the extent that the PPF does apply, there are limits on the amounts paid by the PPF and for most members this would give lower benefits than those provided by the Scheme, particularly in terms of pension increases. Further information is available on the PPF website at [pensionprotectionfund.org.uk](http://pensionprotectionfund.org.uk), or by writing to **The Pension Protection Fund, Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA**

### Repayment to BT and modifications imposed by the Pensions Regulator

We are required to tell you if any payments have been made under section 37 of the Pensions Act 1995 (broadly payments of surplus) to BT from the Scheme since the last Summary Funding Statement was issued. We confirm that no such payment has been made to BT from the Scheme. We also confirm that the Pensions Regulator 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.