

# Summary Funding Statement

## Results of the interim funding assessment of the BT Pension Scheme (the Scheme) as at 30 June 2016

The Trustee is responsible for ensuring that the Scheme has sufficient funds to pay its liabilities (benefits to members). At least every three years the Scheme Actuary completes an actuarial valuation, with an interim assessment in the years between valuations. The last formal actuarial valuation was at 30 June 2014. The purpose of this statement is to provide you with a summary of the recent interim funding assessment of the Scheme as at 30 June 2016.

## Reminder of the results of the 30 June 2014 actuarial valuation

The actuarial valuation of the Scheme on a 'going concern' basis showed the funding position on 30 June 2014, using the assumptions agreed by the Trustee and BT. A summary of this is shown opposite.

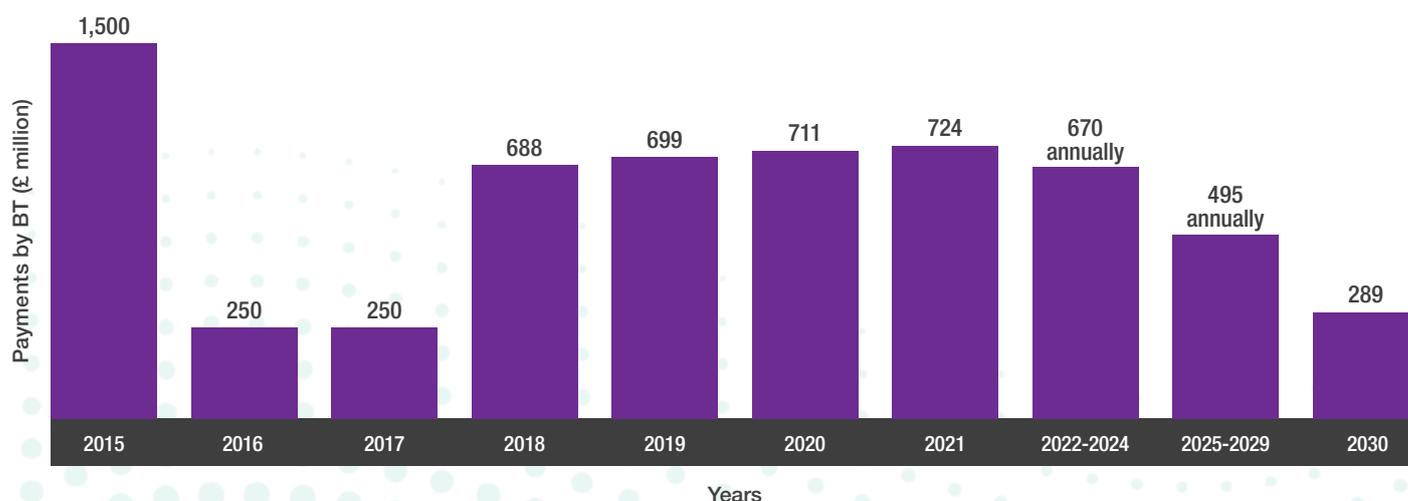
This represented a funding level of 85%

| 30 June 2014  | £ million      |
|---|----------------|
| Market value of assets  | £40,349        |
| <b>Total value of accrued liabilities</b>                             | <b>£47,393</b> |
| Funding shortfall (difference between the assets and the liabilities) | £7,044         |

BT and the Trustee agreed that the funding shortfall at the 30 June 2014 valuation should be 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 length of the recovery plan reflects BT's long-term and sustainable cashflow generation and ensures a balance between repairing the funding deficit and enabling BT to invest in the sustainable growth of the business.

The chart below illustrates the agreed recovery plan. Under this recovery plan, payments amounting to £1.5 billion were paid by BT in March and April 2015, and £250 million was paid in both March 2016 and March 2017. From 2018 to 2024, BT will make payments in line with the 2011 agreement (an average of £690 million per annum). After that, BT will pay £495 million per annum through to 2029 with a final payment of £289 million in 2030.

## Recovery plan contributions



At the 30 June 2014 valuation, 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 agreements secure an updated funding plan for the Scheme, supported by a range of enhanced protections. 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.

## 30 June 2016 interim assessment

The Trustee has received an actuarial report from the Scheme Actuary on the funding position of the Scheme as at 30 June 2016. This is not a full triennial valuation exercise and there is no requirement for it to be agreed between the Trustee and BT. It uses an approach that the Scheme Actuary regards as consistent with that adopted for the 2014 valuation of the Scheme, allowing for changes in investment market conditions.

In last year's Summary Funding Statement, we reported that the funding shortfall had increased to £9,960 million at 30 June 2015. Since then, over the year to 30 June 2016, the funding shortfall has increased further to £13,901 million.

|                                    | 30 June<br>2015 | 30 June<br>2016 |
|------------------------------------|-----------------|-----------------|
|                                    | £m              | £m              |
| Market value of assets             | £43,084         | £46,101         |
| Total value of accrued liabilities | £53,044         | £60,002         |
| Funding shortfall                  | £9,960          | £13,901         |

There have been positive investment returns of 11.9% and deficit payments made by BT during the 12 month period to 30 June 2016. However, this has been more than offset by an increase in liabilities due to the continuing downward trend of low long-term interest rates, which has led to the increase in the deficit. The Trustee continues to monitor the financial position of the Scheme closely and the Scheme Actuary will carry out a formal actuarial valuation as at 30 June 2017 at the latest. BT's contributions to the Scheme are not affected by this update and will be reviewed as part of the next formal actuarial valuation.

## Other information

The Pensions Act 2004 states that we 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. This interim assessment therefore shows the funding position on a 'going concern' basis. We are also required by law 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 on a closed fund basis 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 is estimated that at 30 June 2014 the assets of the Scheme would have met around 63% of the liabilities assessed.

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, ongoing contribution obligations of BT plc to the Scheme would be met by the Government, known as the Crown Guarantee. Further information is available on the Scheme website ([www.btpensions.net](http://www.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 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 [www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk), or by writing to **Pension Protection Fund, 12 Dingwall Road, Croydon, CR0 2NA**.

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

We are required to tell you if any payments have been made 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.

### Data Privacy Notice

The Trustee of the BT Pension Scheme is the 'data controller' of your personal data for the purpose of the UK Data Protection Act 1998. Please note that the Trustee may use personal information about you and your dependants for reasons connected to its administration of the Scheme (including, for example, the calculation and payment of benefits) and the putting in place of appropriate insurance to provide long-term protection and income to the Scheme.

The Trustee may disclose personal information about you and your dependants to members of its group of companies, professional advisers (such as Willis Towers Watson and the Scheme Actuary) who in certain circumstances will also be 'data controllers', service providers, administrators (such as BT Pensions Scheme Management Limited and Accenture), BT plc (as the sponsoring employer of the Scheme) and members of its group of companies, and insurance companies (such as Prudential Insurance Company of America), as may be necessary or desirable to administer the Scheme and/or comply with contractual obligations relating to it. This may require the personal information to be sent to, and stored or processed at, a country outside of the European Economic Area. Where the country to which the personal information is transferred may not offer an equivalent level of protection for personal information to the laws of the UK, we will take reasonable steps to ensure that the personal information is treated securely.

## BT Pension Scheme



Issued by:

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Please note:

The Scheme Rules govern your benefits under the Scheme, and in the event of conflict between this Statement and the Rules, the Rules take priority.