

BT's UK Pension Review

Changes to

**BT Retirement Plan (BTRP) and Syntegra
Limited Flexible Pension Plan (SLFPP)**

from April 2009

Contents

3	Introduction
4	Employee consultation
4	Summary of changes
5	The changes in detail:
5	– Cessation of contributions to existing schemes
5	– Contribution rates
6	– Scheme structure
6	– Timescales
7	– The default position
7	– Investment options and charges
8	– Lifestyle options
8	– Transfer of existing BTRP and SLFPP balances
8	– SMART Pensions
9	– Tax relief on contributions
9	Helpline and website
10	What support is available?
11	What happens next?
12	Appendix A – Investment choice table for BTRP
13	Appendix B – Investment choice table for SLFPP
14	Appendix C – Decision tree

Introduction Please read this

This booklet sets out the changes to BT's UK Defined Contribution (DC) pension arrangements:

- **BT Retirement Plan (BTRP); and**
- **Syntegra Limited Flexible Pension Plan (SLFPP).**

The changes to BT's UK pension arrangements are effective from 1 April 2009 and follow a formal 60 day consultation period. **You will need to take action by 16 March 2009** and it is important you read this booklet so you understand what you will need to do. You will also receive further information during February.

An extensive review process began in May 2008 and involved comprehensive discussions with the recognised trade unions (CWU and Connect).

BT proposed a number of changes to its UK pension arrangements as part of an overall package designed to help them remain affordable, sustainable, competitive and provide greater choice and flexibility.

The consultation pack detailing these proposals was sent to people by post in early November 2008. The pack, and other information, is available on the pension review website at

<http://www.btpensionsreview.net>



Employee consultation

The 60 day consultation period ran from 13 November 2008 to 13 January 2009. All UK pension scheme members were given the opportunity to provide feedback on the proposed changes. We received over 3,200 emails and just over 2,200 people who raised specific queries received individual responses. Additionally, over 3,000 calls were made to the pension helpline. Answers to common questions were published on the pension review website. The vast majority of the feedback and queries came from members of the BT Pension Scheme. We received feedback from around 200 members of the BTRP or SLFPP.

We have published a consultation feedback report which covers the key themes and issues that were raised. This is available on the pension review website at www.btpensionsreview.net

Summary of changes

Having considered the amount and content of the consultation feedback along with the results of the union ballots, we are implementing the changes as proposed from 1 April 2009, summarised below.

- A new defined contribution contract based pension arrangement will be set up with Standard Life and called the BT Retirement Saving Scheme (BTRSS).
- The BTRSS will be administered by Standard Life and governed by a management committee consisting of BT and union representatives and an independent chair.
- A new improved contribution structure will apply to the new scheme, BTRSS, and all existing members of the BTRP and SLFPP will be invited to join.
- BT intends that the BTRP and SLFPP will no longer receive BT or member contributions after 31 March 2009.
- For new employees who join the BTRSS, a new higher default level of employee contributions will be introduced.
- SMART Pensions will also be introduced as the default for new employees.

After a comprehensive selection process, Standard Life has been chosen to provide the new scheme. They have been providing financial services for over 180 years and around seven million people worldwide rely on them for their financial needs. Special conditions will apply to existing BTRP and SLFPP members on international assignments at 1 March 2009. They will be contacted individually about how the new arrangement will apply to them.

You will be sent a personal copy of a brochure on the new BTRSS in mid February by Standard Life. This will give full details of how it works and the contribution and investment options available to you. Details on how to enrol into the BTRSS will be provided at this time.

The changes in detail

Cessation of contributions to existing schemes

It is intended that employee and matching employer contributions to the existing pension plans (BTRP and SLFPP) will cease from 31 March 2009 when the new, improved, defined contribution scheme is launched.

Contribution rates

A new contribution structure will be implemented from 1 April 2009. For the majority of members the changes will result in an immediate (or potential) higher pension contribution from BT. The contribution increase from BT will be phased in over two years.

Contributions		
Member contributions (% of pensionable salary)	BT contribution (% of pensionable salary from 1 April 2009)	BT contribution (% of pensionable salary from 1 April 2010)
4	5	6
5	7	8
6	7.5	8.5
7 and above	8	9

For members paying contributions of 5% or above there will be a minimum BT contribution of £1,250pa from 1 April 2009. This will increase to £1,500pa from 1 April 2010. These minimum contributions will be applied pro rata for part time employees or people who leave during the year. Members may continue to pay contributions above 7% (up to 100% of pensionable salary). These contributions will not be matched by BT except as described below.

Current members of the BTRP and SLFPP, whose pension contributions attract a rate of matching BT contributions at 31 March 2009 higher than those in the above table, will continue to receive employer contributions at their current rate to the new scheme. This higher rate of contributions will continue for as long as they make contributions at a rate where a higher rate of matched contributions would have applied under the BTRP or SLFPP.

SLFPP members whose contribution levels are less than 4% will be able to continue at their current rate. BT will continue to match the contributions at the rate applicable under the SLFPP matching structure. In addition, SLFPP members who would have received a higher matching contribution than that set out in the table above as a consequence of moving to a higher age band prior to 1 April 2010, will receive matching contributions in accordance with the SLFPP scale.

BT will undertake a joint review of the new BTRSS with CWU and Connect from April 2011 ahead of the introduction of personal accounts and the associated pension reforms expected in 2012.

Scheme structure

The BTRP and SLFPP are set up as occupational pension schemes, each established under a Trust Deed and have individual boards of trustees who manage the scheme for the benefit of members.

From 1 April 2009, a new contract based defined contribution scheme, called the BT Retirement Saving Scheme (BTRSS), will replace the BTRP and SLFPP, managed by Standard Life. BT intends that the BTRP and SLFPP will no longer accept new members from this time and no further contributions from employees or matching employer contributions will be paid into these plans.

The BTRSS will be administered by Standard Life and overseen by a management committee consisting of BT and union representatives and an independent Chair. In simple terms, a contract based scheme with an insurance company, in this case Standard Life, is an individual contract between the insurer and the employee through which BT contributes toward the employee's retirement.

By moving to the BTRSS with Standard Life, members will be able to take advantage of the latest technology available and greater flexibilities introduced by recent legislation. This aims to achieve:

- Low charges.
- Greater provision of financial information.
- Wider investment choice.
- Flexibility in the way retirement benefits are taken.

Members will be given the opportunity wherever possible to transfer their existing balances in the BTRP and SLFPP to the new BTRSS. New employees from 1 April 2009 will automatically be enrolled in the BTRSS and the new employee default contribution rate will be 5% of pensionable salary.

Timescales

It is intended that the last contributions paid into the BTRP and SLFPP will be in respect of members' salaries in March 2009, along with the associated employer matching contributions in the normal way. Please note that for administration reasons, contribution and investment changes cannot be made to the BTRP or SLFPP after 9 March 2009.

Full details of the BTRSS will be issued in mid February to existing BTRP and SLFPP members who must decide whether or not to join the new scheme and also if they wish to use SMART Pensions (see page 8 for details). Contributions paid with effect from 1 April 2009, deducted at the end of April 2009, will be invested in the BTRSS in May 2009 and monthly thereafter.

If you are a member of the BTRP or the SLFPP, you should complete the enrolment form for the BTRSS before 16 March 2009 if you wish to save for your retirement using this scheme from 1 April 2009, as it is intended that all contributions to the BTRP and SLFPP will cease from this time. Details of how to do this will be published in a booklet on the new scheme that will be sent to you in mid February. If you do not enrol in the new scheme you may be treated as having opted out and your death in service benefits will be as for an optant out.

Members will be able to access the BTRSS website and use a modeller to illustrate the effect of changing planned retirement age and varying the amount you pay into the BTRSS. Employees who join the BTRSS will have until 31 March 2009 to decide whether to amend their April contributions and change their investment selections. Thereafter, contribution or investment choices can be amended at any time.

Members will receive a welcome pack from Standard Life in mid April recording their decisions.

The default position

Members who enrol in the BTRSS will have pension deductions (including Additional Voluntary Contributions) made from their salaries at the same rate as currently contributed to either the BTRP or the SLFPP (as applicable). The matching employer contribution will be paid at the current rate applicable under the BTRP or SLFPP unless the new scale (see page 5) provides a higher matching contribution in which case the higher rate of employer matching will apply.

For BTRP members, the BTRSS will invest the contributions in accordance with their instructions in force on 31 March 2009 into identical investment choices available within the BTRSS investment platform (see investment choices and charges table for BTRP members in Appendix A).

For SLFPP members, the BTRSS will invest the contributions in accordance with their instructions in force on 31 March 2009 into broadly equivalent investment choices available within the BTRSS investment platform (see investment choices and charges table for SLFPP members in Appendix B).

Investment options and charges

Members of the new BTRSS will be able to choose their investments from a wide range of options in the new scheme. Detailed information on the investment options will be covered in the member booklet to be sent to preferred mailing addresses around the middle of February. Full information will also be available to members online and from a dedicated helpline (details will be included in the member booklet).

Choosing funds to invest in can often be a daunting task. The BTRSS will offer the following:

- A default investment fund incorporating a ‘lifestyle’ investment strategy for members who do not wish to make active investment decisions.
- A suggested core range of funds for members to consider if they wish to build their own investment portfolio.
- Access to a wide range of specialist funds for those who are more comfortable with making investment decisions.
- Access to ‘self investment’ where members can manage their own portfolio by directly buying and selling investments via their pension account.

Members will be able to manage their pension investments via the member website or over the telephone.

Charges apply to each member’s account and will depend on the investment strategy chosen by that individual (full details will be contained in the BTRSS member booklet).

For existing members of the BTRP or SLFPP, the investment choices in force on 31 March 2009 for each individual will be mapped across to the new scheme. Some of the existing investment funds are available in the BTRSS, but where the same investment fund does not exist, members will be placed into a broadly comparable investment fund. Each current scheme has a ‘default lifestyle’ fund and these are being replicated as far as possible under the BTRSS. This will be explained in full detail in the member booklet.

Members will be able to amend their investment choices as part of the enrolment process (and at any time once they are a member of the BTRSS and have their account details).

Lifestyle options

Currently members of both the BTRP and the SLFPP can select a target retirement age. This is used for the lifestyle phase of the plans where investment choices are adjusted in accordance with a set pattern prior to retirement. This adjustment commences seven years before the target retirement age in the case of BTRP and five years before in the case of SLFPP members. The existing lifestyle options will be replicated in the BTRSS. There will be the opportunity to change the target retirement age and investment options once the BTRSS is up and running.

Transfer of existing BTRP and SLFPP balances

Once existing members of the BTRP and SLFPP have enrolled in the BTRSS and the first contributions have been invested, there will be an opportunity wherever possible, to transfer existing account balances from the BTRP and SLFPP to the new arrangement. Members of each scheme will receive further information about the potential option to transfer a few weeks after the BTRSS is up and running.

BT will be working with Standard Life and the trustees and the administrators of the BTRP and SLFPP wherever possible to coordinate transfers from the old schemes for those members who wish to do so.

This is known as a 'bulk transfer' and can have advantages for individual members such as:

- Simple paperwork will be available to effect the transfer.
- The process will be coordinated on the member's behalf.
- Terms will be available to ensure no penalty is applied on the transfer between arrangements.
- It should minimise any delay in cashing assets in the old scheme and reinvesting in the new (particularly important in times of high market volatility).
- Subject to satisfying statutory conditions, those with entitlements to greater than 25% tax free lump sums from their account value pre April 2006, may be able to preserve this right via a bulk transfer process.

SMART Pensions

Participation in SMART Pensions will become automatic for all new employees from 1 April 2009. There will be the opportunity to opt out. For existing members of the BTRP or SLFPP, SMART Pensions will apply in accordance with existing instructions in force as at 31 March 2009. For higher rate tax payers there may be further advantages to opt for SMART Pensions (see section on tax relief on contributions, page 9).

SMART Pensions is a way that you and BT can pay less in National Insurance (NI) contributions. It increases your take home pay without reducing your BTRSS pension benefits. You can find more information on SMART Pensions at <http://humanresources.intra.bt.com/index/reward/pensions/smartpensions-link>

Please note: UK employees who go on an international assignment and move onto the expatriate payroll are not eligible to make contributions on a SMART basis.

Tax relief on contributions

Currently under the BTRP and SLFPP, all member contributions are deducted from pay before income tax is calculated. For example, if a member contributes £100 per month, this amount is shown on their payslip and is deducted from pay before tax is applied. Whether a member is a basic or higher rate taxpayer, they will automatically receive the correct amount of tax relief by this method.

For the BTRSS, any member contributions made after 1 April 2009 will be deducted net of basic rate tax from net (after tax) salary. Standard Life will recover basic rate tax on members' behalf from HM Revenue & Customs (HMRC) and add it to their pension account.

To illustrate how this works:

A member contributes £100 per month to the BTRSS. The amount shown as a pension contribution on the employee's payslip will be £80.

Contribution taken from net monthly salary – basic tax rate (currently 20%)	£100pm x 80% = £80 per month
Standard Life will recover basic rate tax (currently 20%)	£100pm x 20% = £20 per month
Amount received by Standard Life each month	£80 from employee £20 from HMRC
Total contributions	£100

For members who pay income tax at the higher rate (currently 40%) an additional amount of tax relief would be due, which in this example is a further 20% or £20 (being the difference between the higher rate and the basic rate of tax). Higher rate taxpayers will need to claim the additional tax relief either by writing to their income tax office to request a change to their tax code or via their self assessment annual tax return.

Overall, under the BTRSS, the level of personal tax relief is the same. It is delivered automatically for basic rate taxpayers with higher rate taxpayers reclaiming the difference from HMRC.

BT will be discussing with HMRC the possibility of making adjustments for higher rate taxpayers via payroll so as to avoid individual members needing to contact HMRC to arrange this separately. As an alternative, members can utilise SMART Pensions which effectively provides immediate full tax relief and also National Insurance savings as the personal contribution by a member is replaced by an employer contribution.

Helpline and website

Standard Life will provide a dedicated customer services team along with a freephone telephone number. Details will be provided in the member booklet which will be sent to the member's preferred addresses in mid February. Members (and prospective members) of the BTRSS will be able to contact the team to ask any questions about the BTRSS and, once enrolled, amend employee contribution levels or change investment choices. Standard Life will also make a comprehensive website available.

Please do not contact Peopleline as they will be unable to assist with detailed questions relating to the BTRSS.

What support is available?

Standard Life will support you with your retirement planning by offering you the following:

- A flexible retirement savings scheme where you can take benefits from age 50 (55 after 6 April 2010).
- More choice if you wish to select your own funds.
- Opportunity to self invest.
- Bespoke literature to help you understand the scheme.
- Online tools to help support your decision making and for keeping your investments on track.
- Dedicated pension website to access information on your scheme.
- Helpline to answer any administration or scheme queries.

Why Standard Life?

Standard Life has been selected as the company which will run the new BTRSS. Standard Life has been looking after its customers for over 180 years and currently approximately seven million people worldwide rely on them for their financial needs.



Like most people, you want to know that your financial future is in good hands. Standard Life places a great deal of importance on getting your money to work hard for you; that's why we believe you can have confidence in them.

Standard Life is regulated by the Financial Services Authority.

Awards and recognition

Standard Life believe they offer a world class service, are passionate about service and pride themselves on providing personalised, high quality administration for group pension clients.

They were voted Five Star Life and Pensions Provider at the Financial Adviser Service Awards for the 13th consecutive year in 2008. Some other awards they have won are listed below:

Money Marketing Awards

- Voted Company of the Year – 1999 to 2005, 2007 and 2008.
- Voted Best Pension Provider – 2004 to 2008.

Financial Adviser Life and Pensions Awards

- Best Group Pension Provider 2008
- Best Self Invested Pension Provider 2008

What happens next?

You will receive further information on the BTRSS direct from Standard Life, including how to enrol in the scheme, during February.

We believe the new scheme provides a quality and competitive defined contribution pension scheme for BT people offering choice and flexibility.

If you are a member of BTRP or SLFPP, you must complete the enrolment form before 16 March 2009 if you wish to save for your retirement using this scheme from 1 April 2009, as BT intends that all contributions to the BTRP and SLFPP will cease from this time.

Appendix A – Investment choice table for BTRP

For the BTRP, the same funds are available under the new BTRSS, so members' current individual investment choices can be replicated. The current BTRP 'default' fund is also being mapped across to the BTRSS.

The existing fund choices (by plan) and the new BTRSS choices along with the Annual Management Charges (AMC) are shown in the table below:

Fund name	Current BTRP charge (%)	New BTRSS charge (%)
Schroder Life OEP Global Equity Fund*	1.00	0.68
Legal & General Global (50/50) Equity Index*	0.65	0.29
Legal & General Pre-retirement Fund*	0.62	0.29
Legal & General Cash Fund*	0.60	0.25
Legal & General UK Equity Index Fund	0.60	0.29
Legal & General over 15 year Index-Linked Index Fund	0.60	0.29

* These four funds are the component parts of the current BTRP default fund. The effective charge for the earlier growth period of this default fund used in the BTRP lifestyle phase is 0.79% pa. The equivalent charge under the BTRSS is approximately 0.45% pa.

Please note the above charges apply whilst members remain employees of BT. The charges for the BTRSS will be increased by 0.3% pa, one year after leaving BT employment.

The above charges are not guaranteed and can be changed by Standard Life, no changes would be made without appropriate notice and consultation.

Appendix B – Investment choice table for SLFPP

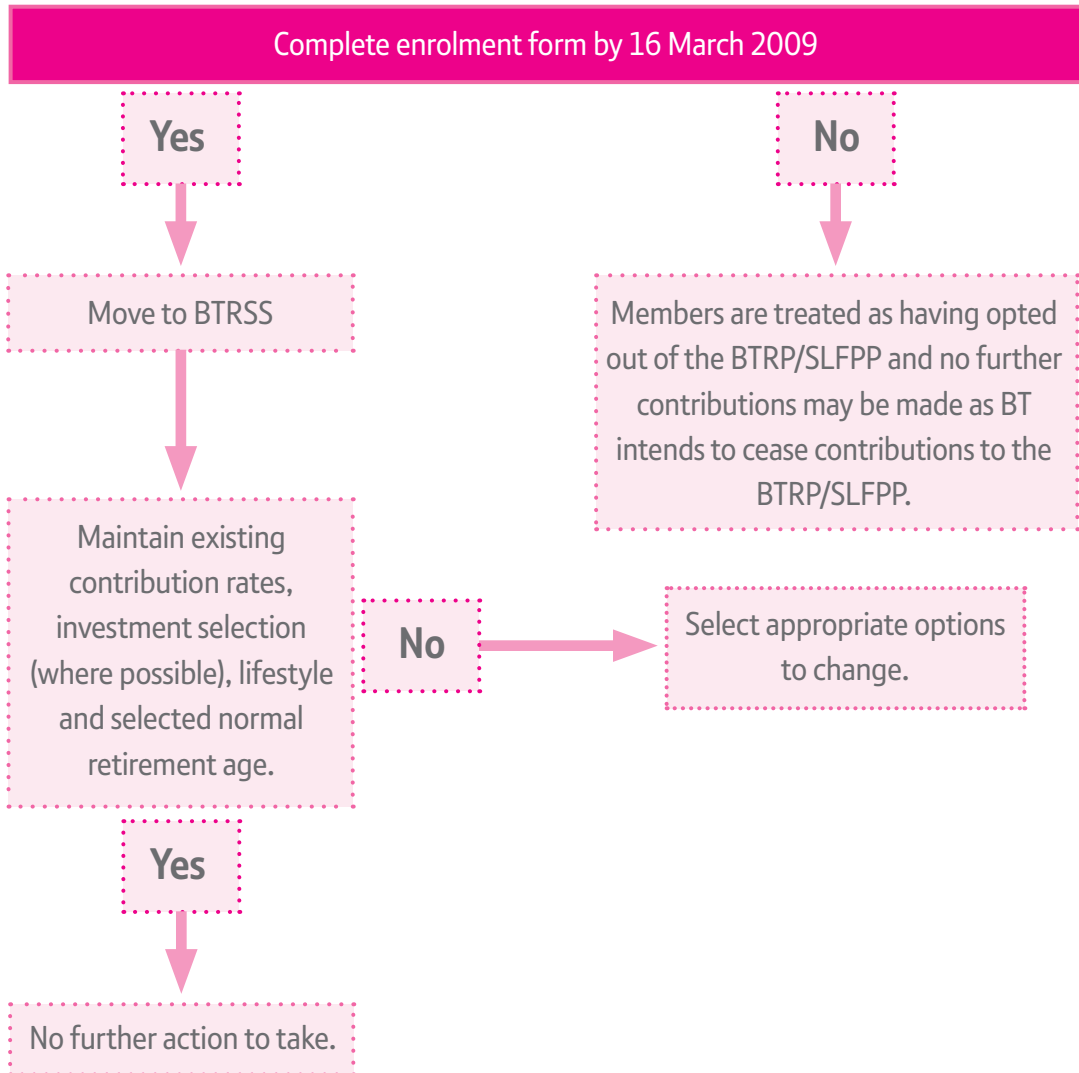
For the SLFPP, the same funds are not available under the new BTRSS, so members' current individual investment choices will be mapped to broadly comparable funds. The current SLFPP 'default' fund will be replaced by a new default fund which has many of the same characteristics as the current default.

The existing fund choices (by plan) and the new BTRSS choices along with the Annual Management Charges (AMC) are shown in the table below:

Current SLFPP Fund	Current SLFPP charge (%)	New BTRSS charge (%)	Replacement Fund
Fidelity Cash Pensions	0.25	0.25	SL managed cash fund
Fidelity Index-Linked Bond	0.25	0.25	SL index Linked Gilts
Fidelity Pension Annuity	0.25	0.25	SL protection Fund
Fidelity UK Fund	0.80	0.48	SL UK Equity
Fidelity Exempt America MM	0.80	0.48	SL American
Fidelity Europe (inst)	0.80	0.48	SL European
Fidelity Japan (inst)	0.80	0.48	SL Japanese
Fidelity South East Asia (inst)	0.80	0.48	SL Far East
Syntegra Global Equity Fund (mix of ten funds) DEFAULT Lifestyle Fund	0.65 reducing to 0.25 at retirement	0.45 reducing to 0.25 at retirement	Replacement Global Equity Fund (mix of four funds)

The above charges are not guaranteed and can be changed by Standard Life, no changes would be made without appropriate notice and consultation.

Appendix C – Decision tree



***Please note:** this document is only a summary description of benefit changes. BT's pension arrangements are governed by the Rules of the respective arrangements from time to time. If there is any discrepancy between the description of benefits (or any other scheme information issued) and the Rules of the BT pension arrangements, the Rules of the BT pension arrangement will prevail. The BTRSS will be subject to the Standard Life terms and conditions which will be provided as part of the enrolment process.*

Published by BT HR employee communications.

February 2009

© British Telecommunications plc 2008
Registered office: 81 Newgate Street, London EC1A 7AJ
Registered in England No. 1800000
PHME: 57372

Designed by: SHILLING Communication

Printed in England by Howitt Ltd.
Printed on Revive 50:50 Silk, which is produced using 50%
recovered waste fibre and 50% virgin wood fibre. All pulps
used are elemental chlorine free (EFC).

