Dear Mr Field

Thank you for your letter of 25 September 2017.

By way of background, the BT Pension Scheme ("the Scheme") has around 300,000 members and includes 3 different sections, being Section A with c 11,000 members, Section B with c 205,000 members and Section C with c 84,000 members. The pension benefits of members in Sections A and B are based on those payable under the Principal Civil Service Pension Scheme. Consequently these benefits have increased annually by reference to changes in CPI following the move by the Government in 2011 to using CPI rather than RPI for public sector pensions.

For Section C members, pension benefits to date have been increased annually by reference to RPI. However the Scheme's Rules provide for RPI potentially to be replaced as an index in certain circumstances. BT has indicated to the Trustee that BT considers that these circumstances now apply and that the index should therefore change. However, given that this is ultimately a legal question, the Trustee has agreed with BT that BT should apply to Court to seek confirmation of the position.

A key role of the Trustee is to administer the Scheme's benefits in accordance with its Rules. As such, should the Court find that the Scheme Rules do provide for a change of index in the current circumstances then, subject to any appeal and to confirmation of what the replacement index should be (and assuming of course that there are no other matters requiring further determination), the Trustee would then administer the Scheme in accordance with that Court ruling.

To ensure that members' interests are protected, a Representative Beneficiary has been appointed who is a member of Section C of the Scheme. The Representative Beneficiary is being advised through the Court process by an independent team of lawyers (including an experienced pensions QC). The role of the Representative Beneficiary and her legal team is to ensure that all arguments and other matters of relevance to Section C members, whether active, deferred or pensioners, are properly put before the Court before the Court makes its determination. The Trustee is a participant in these proceedings, albeit on a neutral basis, and is liaising with both parties to ensure that all relevant questions, information and arguments are raised. We are confident that a robust process is being followed to date and, should this cease to be the case, will have no hesitation in raising our concerns to the Court.
The Court hearing is scheduled to take place in the week commencing 4 December and, as there will be a range of issues before the Court, we will know more when the Court delivers its judgment.

We have not liaised with Government on these proceedings as they relate to the interpretation of the Scheme's Rules rather than to the Crown Guarantee.

Turning to your final question, the Crown Guarantee covers the obligations BT plc has to the Scheme to fund the vast majority of pension benefits payable from the Scheme. Certain enhancements since privatisation and other minor aspects of these benefits may be outside the scope of the Crown Guarantee. Consequently it is possible on an insolvency of BT plc that the Pension Protection Fund could become responsible for some small aspects of Scheme pension benefits, depending on matters such as the overall funding position of the Scheme at that time.

Yours sincerely

Paul Spencer CBE
Chairman