From the Chair

19 October 2017

Rt Hon Karen Bradley MP
Secretary of State for Digital, Culture, Media and Sport
Department for Digital, Culture, Media and Sport
100 Parliament Street
London
SW1A 2BQ

Dear Karen

BT Pension Scheme

You may be aware that the Committee has taken considerable interest in the regulation and sustainability of defined benefit pension schemes.

I recently wrote to Paul Spencer CBE, Chairman of the BT Pension Scheme trustees, regarding the forthcoming High Court case which may result in benefits in Section C of the scheme being uprated by the CPI rather than the RPI. I asked him whether the Government was in any way involved in discussions over indexation of scheme benefits, given that the scheme is underpinned by a Crown guarantee. Mr Spencer replied:

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.

I also asked Mr Spencer which scheme benefits are protected by the Crown Guarantee and which by the Pension Protection Fund (PPF). His response did not precisely specify the scope of the respective guarantees, stating instead that:

[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.

The Government would appear to have a significant interest in the outcome of the case, given that the Crown Guarantee makes it a major stakeholder in the scheme.
and the indexation change will presumably massively reduce the contingent liability borne by the Government in the event of BT's insolvency. It is therefore surprising that the Government should have had no involvement in BT plc's decision to modify the basis for uprating benefits.

I would be grateful if you could please clarify:

1) Does the Government have a view on the decision by BT plc to pursue a switch from RPI to CPI indexation? If so, what is it?

2) Have BT plc or the BT scheme trustees briefed your Department about the switch to CPI?

3) What is the Government's understanding of which benefits in the BT scheme are protected by the Crown guarantee and which by the Pension Protection Fund?

4) What is the current valuation of the BT Pension Scheme liabilities underwritten by the Crown guarantee and how will this change if scheme benefits if the switch to CPI goes ahead?

5) Can you confirm that the benefits of BT Pension Scheme members who transfer to the new Openreach company will see no change in the extent to which the Crown Guarantee covers their benefits?

I enclose my letter to Mr Spencer, and his reply, for your reference.

Best wishes and I look forward to hearing from you.

Rt Hon Frank Field MP
Chair
From the Chair

25 September 2017

Paul Spencer CBE
Chairman
BT Pension Scheme Trustees Limited
One America Square, 17 Crosswall
London, EC3N 2LB

Dear Mr. Spencer

BT Pension Scheme

As you may be aware, the Work and Pensions Committee has taken considerable interest in the regulation and sustainability of defined benefit pension schemes. I read with interest the recent newspaper coverage of the forthcoming High Court case which may result in benefits in the BT scheme being uprated by the CPI rather than the RPI. I understand the trustees consented to the sponsor’s approach.

I would be grateful if you could please clarify:

1. On what basis did the trustees agree that a switch to CPI indexation would be in the best interests of the beneficiaries? Were you, for example, provided with assurances about the distribution of future profits or commitments to employer contributions?

2. Was the Government in any way involved in discussions over indexation, given the scheme has a Crown guarantee?

3. Which benefits in the scheme are protected by the PPF rather than the Crown guarantee?

Best wishes and I look forward to hearing from you,

Rt Hon Frank Field MP
Chair
The Rt Hon Frank Field MP
Chair
Work and Pensions Committee
14 Tothill
London
SW1H 9NB

4 October 2017

Sent by e mail and post

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