BTPS

Pension Increase Exchange (PIE) factsheet

For BT Pension Scheme (BTPS) members in Section C

Additional information on Pension Increase Exchange for members putting their benefits into payment

One of the options you may have at retirement is to exchange part of your pension (which will, if you do not choose this PIE option, increase in the future) for an initially higher flat pension (that does not increase).

This factsheet, to be read along with Your Pension Guide, gives more detail about the PIE option and explains how taking this option could impact your pension, and some considerations that you may wish to take into account when deciding whether or not to take up the Pension Increase Exchange option.

This information should not be construed as advice and if you are in any doubt as to whether to take up this option, you should seek financial advice.

This document provides only a summary description of certain benefits under the BT Pension Scheme (BTPS). Your benefits are always subject to BTPS Rules and relevant legislation. If there's any difference between what's in this document and BTPS Rules or legislation, the BTPS Rules and legislation will take precedence.

How does the pension increase exchange (PIE) option work?

You do not need to choose the PIE option. If you do not choose this option, your pension in excess of contracted-out benefits earned before 6 April 1997 (known as Guaranteed Minimum Pension (GMP)), will receive increases in payment every April.

In the UK, there are legal requirements for the minimum level of pension increases. However, for the part of your pension earned before 6 April 1997 (excluding GMP), it may be possible to provide a flat pension. If you choose this option the flat pension will not receive any increases in payment, but it will be paid at an initially higher rate.

Some additional points to note are that:

- the remainder of your pension will not be affected by taking this option and it will increase as set out in the Rules of the Scheme from time to time.
- taking the option could increase the tax-free cash lump sum available to you on retirement.
- the terms for the conversion depend on your age at retirement and are set by the Trustee and agreed with the Company.
- the amount of pension that can be converted will depend on the level of your GMP.
- If there is insufficient pension earned before 6 April 1997 in relation to the GMP, this option will not be available to you.

Your decision is a personal one and you should consider the option carefully before making a decision – it may, or may not, suit your lifestyle needs. If you do take up the option, your pension payments will be higher initially. However, it is important to understand that this higher pension initially is in exchange for receiving lower overall increases in the future and so your pension under this option may reach a point in the future where it is lower than it would be were you not to choose this option.

There are a number of factors that you may wish to consider before deciding whether to take up the option. Some of these factors are considered in the table below. Everyone's personal circumstances are different, so some of these points may be more relevant than others.

Factor	Why you may decide to choose PIE	Why you may decide against choosing PIE
Your lifestyle Your lifestyle may mean you'd prefer a higher pension now.	You want a higher initial pension while you're more able to enjoy things like travel and other activities, or because you have greater financial commitments like a mortgage.	You'd prefer a higher pension later in retirement as you're concerned about the effects of inflation and the future cost of living.
Effect of inflation The rising cost of living may erode the value of your pension if it doesn't increase to keep pace.	You think that a higher initial pension is enough protection against the effects of inflation, or that inflation will be low during your retirement.	You believe that pension increases will help protect the spending power of your money. If inflation turns out to be high and you've taken an option with PIE, you may not be able to keep up your current standard of living.
Other income Depending on how the pension you're exchanging compares to your other sources of income; PIE may have a higher or lower impact on your finances.	You feel the part of your pension that you can exchange is small compared to other income you get that's inflation linked e.g. your State Pension or other pension benefits. If your other income increases in line with inflation, it may protect you against high inflation.	The part of your pension you can exchange forms a large part of your income. You might want this income to increase each year in line with inflation, so your standard of living is more protected. If you choose PIE, you won't have as much protection against high inflation.
How long you might live We pay you a pension for life. So, the longer you live, the longer we'll continue to pay your pension.	You don't think you'll live until the total pension payments you'd get with PIE equal the total payments you would have had without PIE.	You think you may live beyond the point at which the total pension under both options is expected to be equal.

What your loved ones will get when you die If you have a dependant who'll get a pension when you die, part of their pension won't increase under PIE.	Your dependant has other sources of income if you die and so won't need to rely solely on your BTPS pension to protect their standard of living against inflation.	Your dependant will probably rely on your BTPS pension if you die and would need it to protect their standard of living against long-term inflation.
State benefits A higher pension under PIE will affect the calculation of means-tested benefits.	You don't get means-tested benefits.	You do get means-tested benefits and an initial higher pension under PIE may reduce your entitlement to these.
The tax you pay Choosing a higher initial pension may mean you have to pay more tax.	Your tax situation will not change if you get a higher initial pension.	A higher initial pension may change your overall tax situation. For instance, it may push you into a higher tax bracket.

Get expert help

We strongly recommend taking financial advice before making any decision relating to your pension benefits including, in particular, if you are considering PIE.

MoneyHelper, part of the Money and Pension Service (MaPS) is also able to provide you with free and impartial guidance. You can contact MoneyHelper on 0800 011 3797 or by visiting **moneyhelper.org.uk**

Note that if, at any point, you have a complaint or dispute concerning your membership of the BT Pension Scheme that cannot be resolved informally, you may invoke the Scheme's internal dispute resolution procedure (IDRP). This procedure can only be used to resolve a dispute with the Trustee.

If your complaint cannot be resolved under the Scheme's IDRP, you can refer your complaint to the Pensions Ombudsman free of charge. The Pensions Ombudsman deals with complaints and disputes which concern the administration and/or management of occupational and personal pension schemes.

The Pensions Ombudsman usually expects members to have made a formal complaint to the Scheme and followed the Scheme's IDRP before referring the complaint to the Ombudsman's Adjudication Service.

The contact details for the Pensions Ombudsman are as follows

The Pensions Ombudsman, 10 South Colonnade, Canary Wharf, E14 4PU

Telephone: 0800 917 4487

Email: enquiries@pensions-ombudsman.org.uk

Website: www.pensions-ombudsman.org.uk

How will my pension increase in future?

A pension in excess of the GMP that has been in payment for a full year on 1 April will be increased in line with the cost of living in the year to the preceding December (subject to maximum of 5% each year). Currently, the BTPS Rules link the cost of living to the Retail Prices Index (RPI).

Pensions that have been in payment for less than a full 12 months at 1 April, will receive a proportionate increase.

The increases on the GMP element of your pension depend on the date you reach State Pension age. See Your Pension Guide (for your Section) for a summary of the increases which apply to your GMP. The Pension Guide is available on our Scheme website at **btps.co.uk/FormsAndGuides**

No increase will be given on any pension you have surrendered under the Pension Increase Exchange option.

What have RPI increases been in the past?

The increases in RPI for the last 10 years have been as follows (measured from December to December):

Year	Increase in RPI
1 April 2024	5.0%
1 April 2023	5.0%
1 April 2022	5.0%
1 April 2021	1.2%
1 April 2020	2.2%
1 April 2019	2.7%
1 April 2018	4.1%
1 April 2017	2.5%
1 April 2016	1.2%
1 April 2015	1.6%

Average: 3.05%

Please note: Increases to RPI in the past may not be a reasonable guide to the future (in particular, the Government has proposed changes to the calculation of RPI from 2030). As mentioned above, if the increase in RPI were to be more than 5% in any year, the pension increase would be limited to 5%.

What would taking PIE look like in terms of my annual pension compared to not taking it?

The charts illustrate how much pension you might receive over time.

The grey line is £100 of annual pension increasing by 3% a year. The orange line is £145 of annual pension that doesn't increase.

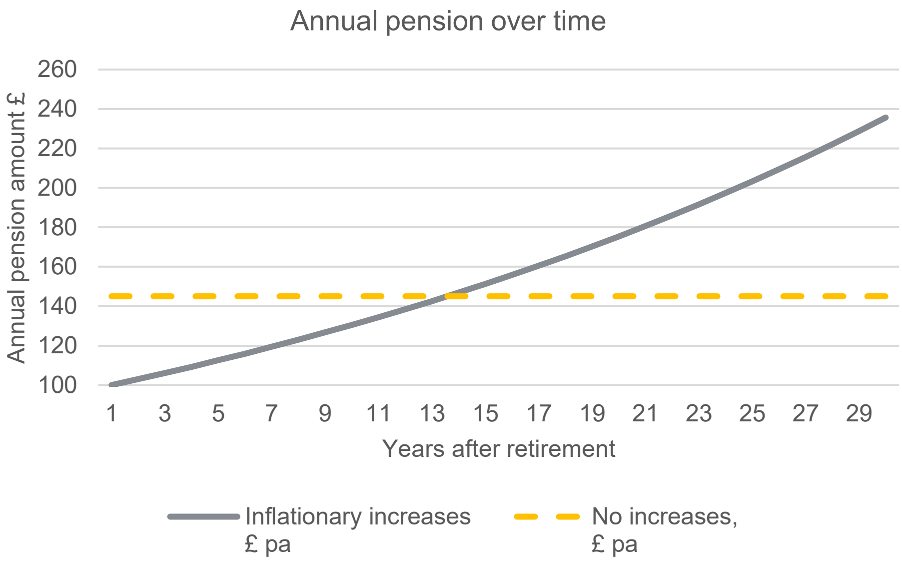
3% has been chosen for this illustration to allow for a 1% gap between RPI and CPI and 2% is the long-term CPI inflation target for the Bank of England, however actual future inflation could be higher or lower than this. In these examples, £1 of increasing pension would be exchanged for £1.45 of flat pension, based on a PIE conversion factor of 1.45. The PIE conversion factors differ depending on age, which at the time of writing, is 1.45 at age 60.

Your total pension is likely to increase in a different way to the illustrations as:

- If you were employed by BT before 6 April 1997, you are likely to have GMP which cannot be converted
- If you left employment after 5 April 1997, the part of the pension relating to that period of service is not eligible for conversion
- Inflation is unlikely to be 3% for every year in the future, and could be significantly higher or lower
- How your pension is adjusted based on your retirement choices, including retiring early, changes from time to time to reflect changes in the other factors that affect the value of the pension paid over the lifetime of a typical member. These factors are reviewed regularly to make sure they remain appropriate, taking into account the Scheme Rules, legislation and economic factors, amongst other things.

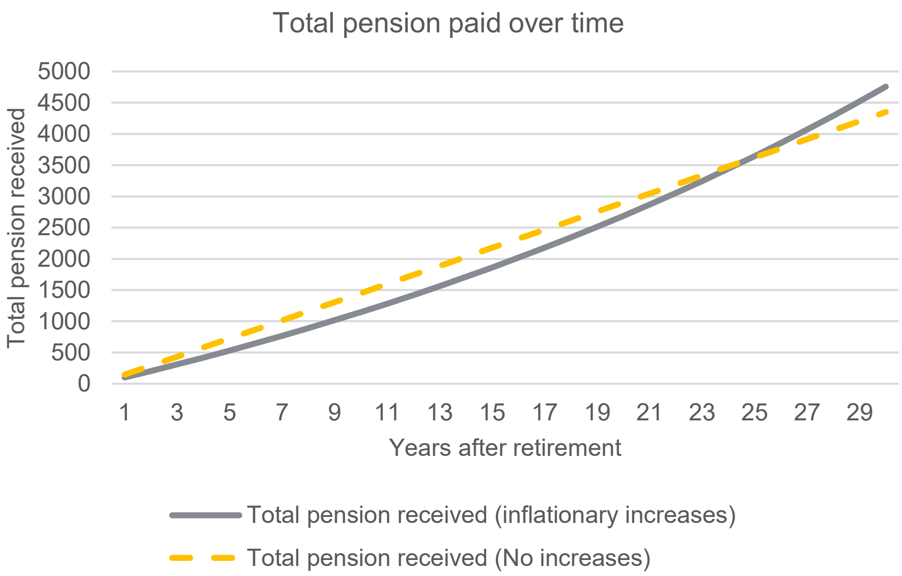
You should also be aware that opting for PIE will also affect your spouse's pension, as part of their pension will also become non-increasing. You may wish to consider this when deciding whether or not to take up the Pension Increase Exchange option.

The chart below shows how much pension you would receive each year:



So, in this example, if RPI inflation was 3% each year, in 13 years you would receive £100 x 1.03 x 1.03 x … x 1.03 = £146.45 pension, which is higher than the £145 pension you would have received every year had you opted for PIE. This £146.45 pension would continue to increase with inflation each year.

The chart below shows how much pension you would receive in total over time:



The grey line shows the cumulative amount of pension you might receive if you did not opt for PIE. The orange line shows the cumulative amount of pension you might receive if you did opt for PIE.

So, if RPI inflation is 3% from now onwards, you would receive more money in total during your retirement, over the next 24 years if you choose PIE.

In reality, RPI inflation will not be 3% for every year. The next two scenarios show what might happen if inflation is:

a) higher in the short term;

b) higher for a sustained period of time

RPI inflation is unlikely to follow the exact pattern of each of these scenarios, but these scenarios give more detail about how inflation could impact your pension, and you may wish to consider this when deciding whether or not to take up the Pension Increase Exchange option.

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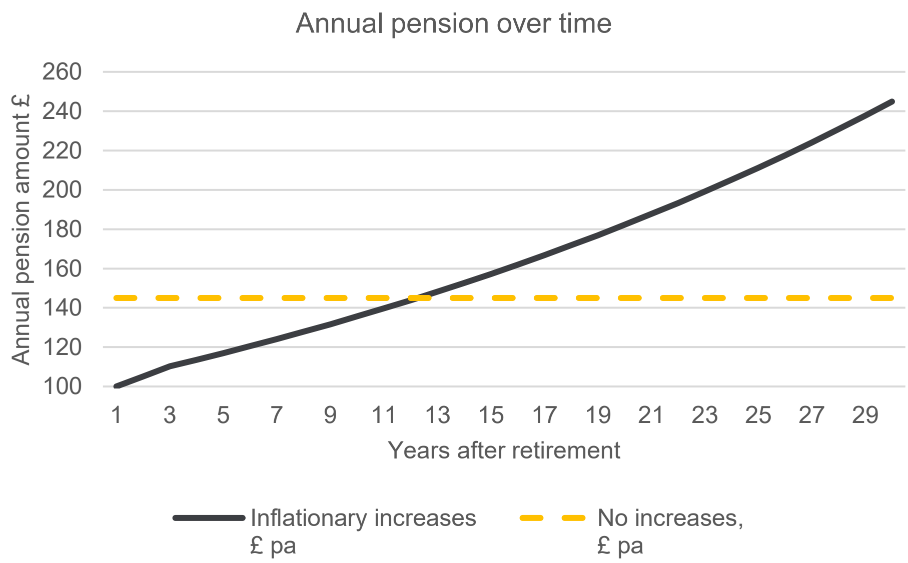
What impact would higher short-term inflation have?

The grey line is £100 of annual pension increasing by 10% (capped at 5% p.a. in line with Section C Scheme Rules) for the first two years, then 3% for each subsequent year. The orange line is £145 of annual pension that doesn't increase.

£1 of increasing pension would be exchanged for £1.45 of flat pension, based on a PIE conversion factor of 1.45. The PIE conversion factors differ depending on age, which at the time of writing, is 1.45 at age 60.

The chart below shows how much pension you would receive each year:



In this example, if RPI inflation was 10% (capped at 5% p.a. in line with Section C Scheme Rules) for the first two years then 3% for each subsequent year, in 12 years you would receive £148.17 pension, which is higher than the £145 pension you would have received every year had you opted for PIE. This £148.17 pension would continue to increase with inflation each year.

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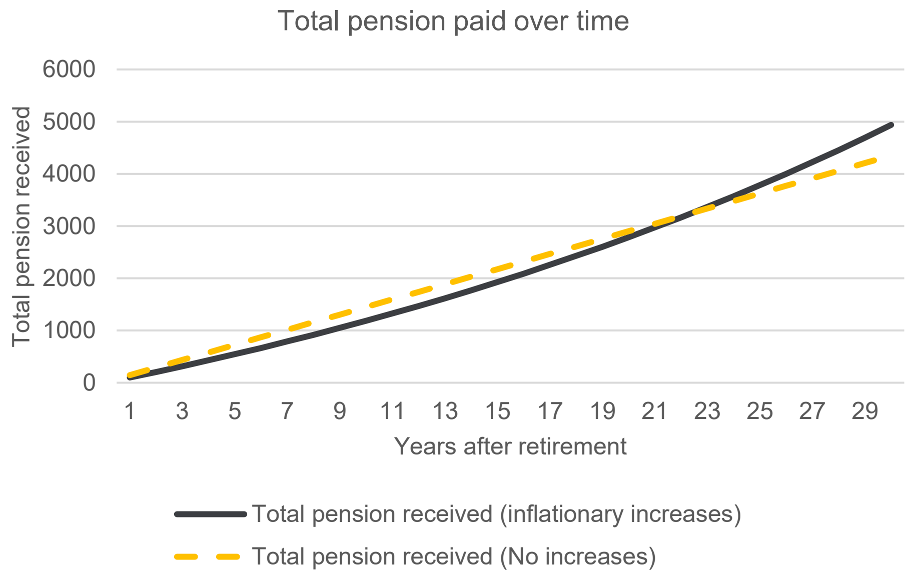
The chart below shows how much pension you would receive in total over time:



The grey line shows the cumulative amount of pension you might receive if you did not opt for PIE. The orange line shows the cumulative amount of pension you might receive if you did opt for PIE.

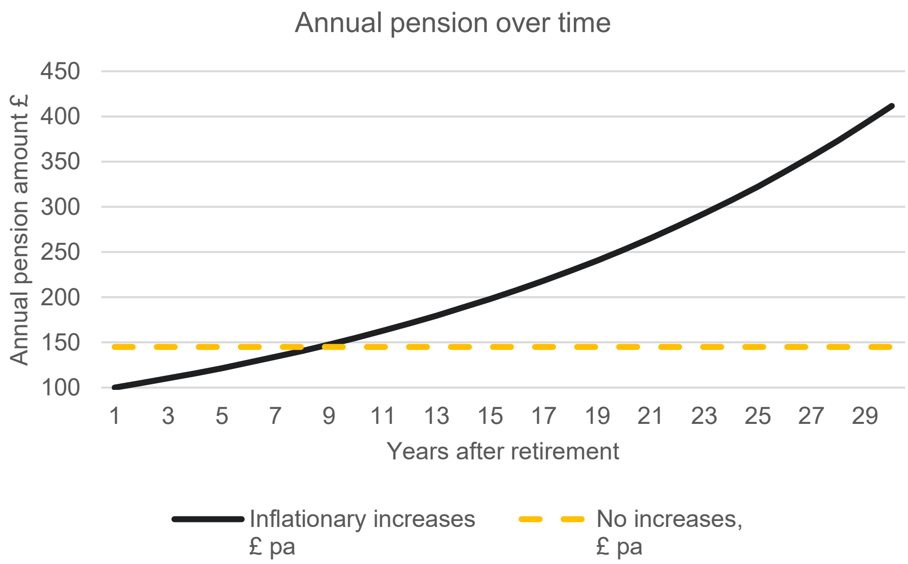
So, if RPI inflation is 10% (capped at 5% p.a. in line with Section C Scheme Rules) for the first two years and 3% each year after, you would receive more money in total during your retirement, over the next 22 years if you choose PIE.

What if inflation continued to be higher?

The grey line is £100 of annual pension increasing by 5% a year. The orange line is £145 of annual pension that doesn't increase.

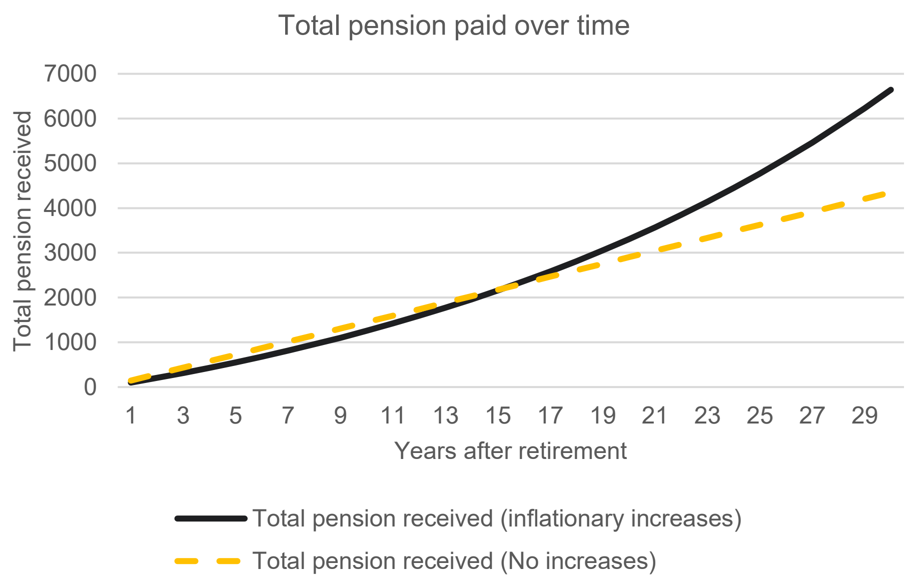
£1 of increasing pension would be exchanged for £1.45 of flat pension, based on a PIE conversion factor of 1.45. The PIE conversion factors differ depending on age, which at the time of writing, is 1.45 at age 60.

The chart below shows how much pension you would receive each year:



In this example, if RPI inflation was 5% a year, in 8 years you would receive £147.75 pension, which is higher than the £145 pension you would have received every year had you opted for PIE. This £147.75 pension would continue to increase with inflation each year.

The chart below shows how much pension you would receive in total over time:



The grey line shows the cumulative amount of pension you might receive if you did not opt for PIE. The orange line shows the cumulative amount of pension you might receive if you did opt for PIE.

So, if RPI inflation is 5% a year, you would receive more money in total during your retirement, over the next 15 years if you choose PIE.

November 2024