

BT PENSION REVIEW UPDATE



TO ALL CWU MEMBERS IN BT

10.10.08

Dear Colleague,

As negotiations on the BT Pension Review have now reached a crucial stage I am writing to update you on developments. I would stress that talks are continuing and nothing has yet been agreed.

BT PENSION SCHEME

BT has made a powerful case to the Union about why there is a need to change the BTPS. There are many reasons for this including:

- People are living longer
- Investment returns are falling
- The cost of the BTPS has risen steeply, and is currently costing BT £650M a year
- BTPS costs are likely to rise again in December 2008 Valuation – a fact exacerbated by the credit crunch
- BT pension expenditure is restricting the company's ability to invest in new products and services
- Most major UK pension schemes have undergone significant changes in the last 5 years

These are issues that we cannot ignore, and cannot be fixed by a short term solution.

By reaching an agreement this year we can secure the best possible deal for our members, and ensure the sustainability of the BTPS for the future.

SUSTAINABILITY

The union is pressing BT for an unequivocal commitment to the future of the BTPS. We must see that BT's commitment is real and tangible and that proper funding will be in place. Above all, we must ensure that any agreed changes will stand the test of time.

POTENTIAL CHANGES TO THE BTPS

BT has proposed a number of changes in order to reduce costs and minimise financial risk. BT says that benefits built up to date are protected. BT's proposed changes are summarised below and would apply to section B and C members. Section A members are protected under BTPS rules and, for as long as they remain Section A members, the proposed changes would not apply to them.

Increase normal pension age: Any new pension age would apply to service built up after the change. The union recognises the general trend in the UK towards a higher pension age. However, we believe any such change must be phased in.

Increased Membership Contributions: Whilst recognising the cost of pensions has risen any increase must not be excessive.

Move to Career Average: This would mean future pensions would be calculated on average salary over a period of time. This would be done by calculating a pension on an individual's salary in each year. This is then increased until normal pension age using a formula typically linked to inflation/salary. We are exploring this option further with BT.

Reduce Accrual Rates: Accrual rates define how quickly a pension builds up over time. Currently the rates are 1/80th in Section B plus a 3/80th lump sum and 1/60th in Section C. The union will not accept a major reduction in accrual rates.

Reduce Pension Increases: Currently retirement pensions are increased by either inflation in Section B, or inflation up to 5% in Section C. Any reductions would reduce the real value of pensions over time and are therefore unacceptable.

Remove Allowances: Currently some allowances, including London Weighting and shift payments, count towards pensionable salary. If these were removed it would significantly reduce pensionable salary for a large number of members, which would be unacceptable.

RISK REDUCTION INITIATIVES

Separately BT has proposed a number of initiatives solely designed to help reduce future financial uncertainty associated with the running of the BTPS. The proposals would include increased membership options. We are discussing these in more detail.

BT RETIREMENT PLAN AND SYNTEGRA LTD FLEXIBLE PENSIONS PLAN

At the moment BT matches member contributions between 4% and 10%. BT is considering an increase in Company contributions.

As part of this change, BT is looking at the way these benefits are delivered with a view to reducing costs and increasing investment options.

The union believes that improvements to these schemes are essential to provide adequate retirement benefits. An increase in BT contributions is essential.

Furthermore, any change to the way in which the BTRP operates must protect members interests.

NEXT STEPS

While nothing has yet been agreed we have reached a critical point. I expect that negotiations will either successfully conclude or break down by the end of this month. If we do reach agreement then we will consult members in a ballot before any changes are implemented.

If BT attempts to implement any changes without our agreement, this will trigger an immediate ballot for strike action.

I recognise that this is a difficult issue for people. I remain convinced that we can secure the BTPS for the future and significantly improve the BTRP so that it is amongst the best in the UK.

I will keep you informed of developments as they occur, but in the meantime, please make your views known to your local CWU Branch or rep.



Yours faithfully,

A handwritten signature in black ink that reads "Andy Kerr". The signature is written in a cursive style.

Andy Kerr

Deputy General Secretary (Telecoms & Financial Services)