Statement of Funding Principles

Hermes Group Pension Scheme ("the Scheme")

This statement was prepared by Hermes Pension Trustees Limited, the Trustee of the Scheme on 21 March 2024 for the purposes of the actuarial valuation as at 30 June 2023 after obtaining the advice of Adam Stanley, the actuary to the Scheme. This statement has been agreed by BT Pension Scheme Trustees Limited ("the Employer").

The Statutory Funding Objective

This statement sets out the Trustees' policy for securing that the statutory funding objective, namely that the Scheme must have sufficient and appropriate assets to cover its technical provisions, is met.

Technical Provisions

Method
The actuarial method used to calculate the technical provisions is the Projected Unit Method.

Assumptions
A full list of all assumptions that have been used to calculate the technical provisions can be found in Appendix A.

An explanation of the most significant assumptions is set out below.

Discount interest rate
Following discussions between the Trustee and Employer, it was agreed that some allowance for additional expected returns above those available on the Bank of England nominal gilt curve would be anticipated on the Scheme's assets. To allow for the intended de-risking of the Scheme's investment strategy, the allowance for these additional expected returns reduces linearly from 0.88% per annum initially to 0.5% per annum from 2030 onwards.

Retail Prices Index ("RPI") price inflation
RPI price inflation affects the assumptions for increases to pensions in payment for some members as well as revaluation for career average benefits and revaluation of GMP in deferment. RPI price inflation has been derived from market expectations, using the Bank of England implied RPI inflation curve.

Consumer Prices Index ("CPI") price inflation
CPI price inflation affects the assumptions for pension increases in deferment for benefits in excess of GMP, increases to pensions in payment for former HPS members and increases in payment to GMP accrued post 5 April 1988. CPI price inflation at the valuation date has been derived based on the RPI price inflation assumption less 1.0% per annum up to 2030 and 0.1% per annum from 2030.

Pension increases
The pension increase assumptions have been derived by applying the Black Scholes model to the appropriate inflation assumption, with a volatility of 1.3% per annum.

Salary inflation
In line with the previous valuation, salary inflation is assumed to be in line with CPI price inflation.

No allowance has been made for promotional salary escalation above and beyond normal salary escalation.

Mortality
The base tables adopted for the post-retirement mortality assumptions are 87% of the SAPS Series 3 ("S3PA") tables for males and 97% of the S3PA tables for females.

The Trustee and the Employer have agreed a prudent allowance for future improvements in longevity in line with the CMI 2022 core projections with the default smoothing parameter and default data weightings, an initial addition of 0.7% and with a long-term rate of improvement of 1.5% per annum for both males and females.

The AC00 tables have been used for the pre-retirement mortality assumptions.

Discretionary Benefits and benefit enhancement on redundancy

At the request of the Employer and upon payment of any contributions that the Trustee (with the advice of the Scheme Actuary) may consider appropriate, the Trustee will increase any benefit or provide additional benefits under the Scheme. The Trustee and the Employer have agreed that only discretionary benefits actually granted will be taken into account in the calculation of technical provisions.

Under the Scheme rules, some employed-deferred members are entitled to enhanced retirement benefits on redundancy and some other cases of early retirement. The Trustee has agreed with the Employer that advance provisions for future redundancy and early retirement cases will not be made and that the Employer will meet the cost of such enhancements when they arise, as certified in each case by the Scheme Actuary, unless the Employer and the Trustee agree otherwise, based on actuarial advice and having regard to the Scheme's funding levels and its funding and investment strategy at the time.

Eliminating a shortfall

If the assets of the Scheme are less than the technical provisions at the effective date of any actuarial valuation, a Recovery Plan will be put in place. A Recovery Plan is not required for the 30 June 2023 valuation as the assets of the Scheme exceed the technical provisions at that date.

Frequency of Valuations

The Scheme's latest valuation under Part 3 of the Pensions Act 2004 was carried out as at 30 June 2023 and subsequent valuations are expected to be obtained every 3 years after that. An actuarial report on developments affecting the funding level of the Scheme will be obtained at each intermediate anniversary of that date.

The Trustee may obtain a full valuation instead of an actuarial report if they believe that events have made it unsafe to continue to rely on the results of the previous valuation as the basis for the current level of contributions. However, the Trustee will consult the Employer before doing so.

Further information

Information on payments to the Employer, contributions to the Scheme by other parties and Cash Equivalent Transfer Values is set out in Appendix C.

Signed on behalf of the Trustee, Hermes Pension Trustees Limited	**Date**

Signed on behalf of the Employer, BT Pension Scheme Trustees Limited **Date**

Signed on behalf of the Employer, BT Pension Scheme Trustees Limited **Date**

Appendix A
Technical Provisions Assumptions

Financial Assumptions

Item	Derivation
Discount interest rate pre and post-retirement	Bank of England Gilt curve plus 0.88% p.a. at 30 June 2023 reducing linearly to 0.5% p.a. from 30 June 2030
RPI price inflation	Bank of England implied RPI curve
CPI price inflation	RPI price inflation less 1.0% p.a. up to 2030, then RPI less 0.1% p.a. from 2030
Salary inflation	CPI price inflation
Pension increases pre-retirement:	
> Former HPS members (Pension Increase Review Orders)	CPI price inflation (uncapped floor 0% p.a.)[1]
> excess over GMP	CPI price inflation
> GMP	RPI price inflation + 1% p.a.
Pension increases post-retirement:	
> Former HPS members (Pension Increase Review Orders)	CPI price inflation (uncapped floor 0% p.a.) [1]
> other members	RPI price inflation capped at 5% p.a.[1]
> Post 88 GMP	CPI price inflation capped at 3% p.a. [1]

[1]*Caps and floors for pension increases are allowed for using Black-Scholes methodology with an annual inflation volatility of 1.3% for both RPI and CPI price inflation.*

Market Conditions at 30 June 2023

Year	Annual forward rate on curve			
	Bank of England Gilt Curve	Discount Rate	Bank of England Gilt implied RPI Curve	CPI inflation
2023	5.44%	6.32%	3.54%	2.54%
2028	3.84%	4.45%	3.59%	2.59%
2033	4.47%	4.97%	3.61%	3.51%
2038	4.91%	5.41%	3.57%	3.47%
2043	4.48%	4.98%	3.13%	3.03%

Demographic Assumptions

Item	Assumption
Mortality pre-retirement	AC00 tables
Mortality post-retirement - Base table - Future improvements - Initial addition - Smoothing parameter - Long term rate of improvement - Data weighting (w2020, w2021, w2022)	 - 87% (males) / 97% (females) of the S3PA tables - projected from 2013 in line with the CMI 2022 core model - initial addition of 0.7% - default (7.0) - 1.5% p.a. for both males and females - default (w2020 0%, w2021 0%, w2022 25%)
New entrants	No allowance
Withdrawals	No allowance
Ill health retirements	No allowance
Early retirement	No allowance
Late retirement	No allowance
Age difference of dependants	Males 3 years older than females
Commutation	Members assumed to commute 15% of their pensions at retirement using the factors in force at the valuation date
Proportion married	75% at retirement or earlier death, reducing over time in line with agreed mortality assumptions
Expenses: > Administration	 £3.0m at the valuation date
> Pension Protection Fund Levies	Nil, met by the Employer
> Investment Expenses	No explicit allowance. Discount rates are set net of investment expenses
> GMP Equalisation	£0.5m reserve in respect of the estimated impact of the requirement to equalise GMPs between men and women

Sample rates for each assumption can be found in Appendix B.

Appendix B
Sample Rates for Standard Tables used

Mortality in retirement

Age	Male life expectancy	Female life expectancy
60	88.1	89.9
65	88.3	89.9
70	88.7	90.1
75	89.5	90.6
80	90.7	91.5

Appendix C
Additional information required to meet Scheme Funding Regulations

Payments to the Employer

There is no power to make payments to the Employer out of funds held whilst the Scheme is ongoing. On winding up, however, if surplus assets remain once all beneficiaries have had their benefits secured in full (and after the requirements of the Pensions Act 1995 have been complied with) these will be paid to the Employer.

Contributions to the Scheme by Other Parties

No party may contribute to the Scheme other than the Employer or a Scheme member.

Cash Equivalent Transfer Values ("CETVs")

At each valuation the Trustee will ask the actuary to advise them of the extent to which the assets are sufficient to provide CETVs for all members without adversely affecting the security of the benefits of other members and beneficiaries. Where coverage is less than 100% of benefits, the Trustee will consider reducing CETVs as permitted under legislation, after obtaining actuarial advice as to the appropriate extent and taking into account other material considerations such as the strength of the Employer's covenant.

If at any other time, after obtaining advice from the actuary, the Trustee is of the opinion that the payment of CETVs at a previously agreed level may materially worsen the security of the benefits of other members and beneficiaries, the Trustee will consider commissioning an insufficiency report from the actuary and will decide whether, and to what extent, CETVs should be reduced.

The insufficiency report may also take into consideration to what extent and in what way the liabilities should be divided having regard to different priorities on winding up, with the highest priority being given to the benefits that would apply were the Scheme to enter the PPF.