

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 17 May 2021 for the purposes of the actuarial valuation as at 30 June 2020 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 Trustee’s 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 pre and post retirement

Following discussions between the Trustee and the Employer, it was agreed that some allowance for additional returns (above those available on gilts) would be anticipated on the Scheme’s assets. To allow for the intended de-risking of the Scheme’s investment strategy, the allowance for additional out-performance in the discount rate reduces linearly from 1% per annum initially above the return on the Bank of England Gilt curve to 0.6% per annum above the return on the Bank of England Gilt curve 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 Gilt RPI 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 curve less a deduction of 1.0% per annum up to 2030 and a deduction of 0.4% per annum from 2030.

On 25 November 2020, the UK Government and UK Statistics Authority issued a response to their joint consultation on aligning the RPI with the CPI including owner occupiers’ housing costs (“CPIH”). Based on this, and absent any unforeseen event, the RPI will be calculated in the same way as the CPIH from February 2030. To reflect this post-valuation date event, when calculating the Technical Provisions at effective dates on or after 25 November 2020 (in particular for annual actuarial reports) the post 2030 CPI assumption will be calculated as RPI – 0.1% per annum.

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 86% of the SAPS Series 3 ("S3PA") tables for males and 93% 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 2019 core projections with the default smoothing parameter of 7 and 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 2020 valuation as the assets of the Scheme exceed the technical provisions at that date.

The Trustee and the Employer have agreed that any funding shortfalls identified at a valuation should be eliminated as quickly as the Employer can reasonably afford by the payment of additional contributions over the recovery period. In determining the actual recovery period at any particular valuation the Trustee's principles are to take into account a number of factors, including:

- the size of the funding shortfall;
- the risk that the value of the Scheme's assets may deteriorate further against the technical provisions and the solvency liabilities of the Scheme; and
- the Trustees' assessment of the financial covenant of the Employer.

Frequency of Valuations

The Scheme's latest valuation under Part 3 of the Pensions Act 2004 was carried out as at 30 June 2020 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

17 May 2021

Signed on behalf of the Employer, BT Pension Scheme

Date

Trustees Limited

17/5/2021

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

Date

17 May, 2021
