

BT Voluntary Pension Increase A Case Study

A BT Pensioner has been in touch with this website about the Pension Increase Offer from BT which is as follows:-

Pensioners Current Age = 65:

Current Pension = £14885,

increase offered = £ 2511

New Pension Amount = £17396

Additionally there will be annual inflation increases on a part of the pension equal to £3472 only

If the Offer is **not** accepted and assuming a life span of another 20Years

1. Assuming Inflation at 2% per annum £14885 would increase to £22118

2. Assuming Inflation at 4% per annum £14885 would increase to £32615

If the Offer is accepted and assuming a life span of another 20Years

3. Assuming Inflation at 2% per annum £17395 would become £17395 + £1667(£3472 x 2% compound for 20 yrs minus 3472) = £19063

4. Assuming Inflation at 4% per annum £17395 would become £17395 + £4136 (£3472 x 4% compound for 20 yrs minus 3472) = £21532

Clearly BT is aiming to lessen the pension costs as Pensioners live longer, so the longer the Life Span the less is the increase. In making a decision whether to accept the BT Offer one has to factor in life expectancy and how well inflation will be controlled and additionally the life expectancy of a spouse. One should also take into account that the initial increase £2511 is included in the pension every year and could total £50220 over 20 years – a difficult balancing act!

Calculating Compound Inflation increases.

Use the compound interest formula $M=P(1 + i)^n$

M = Final Amount (increased pension due to inflation)

P = Principal Amount (Your current pension)

i = Interest Rate (% Inflation rate expressed as decimal ie. 2.0% = 0.02

n = number of years (life expectancy)

The formula for item 2. above for an excel spread sheet is

=SUM(14885*(POWER(1+0.04,20)))

Here is an Automatic Calculator: <http://math.about.com/library/blcompoundinterest.htm>

See next page to see figures in table format

This is an alternative method of presenting the figures.

Assuming a Life Span of 20 Years				
BT Offer Accepted				Offer Not Accepted
Inflation Rate	The New Enhanced Pension	Pension Increase after 20 yrs	Pension after 20yrs	Pension after 20 yrs
2% for 20yrs	17396	*	19063	22118
4% for 20yrs	17396	**	21532	32615

*
 (£3472 x 2% compound for 20 yrs minus 3472

**
 (£3472 x 4% compound for 20 yrs minus 3472

Disclaimer

This case study is based on an actual offer to a member, who has provided the basic figures to me but the full details of the offer were not available to me. The figures and calculations are for guidance only and there is no guarantee of their accuracy. Any members receiving an offer must carry out their own calculations, obtain independent advice and or consult with the BT Help Line, before arriving at a decision to accept or reject. The website and the author accepts no responsibility for decisions made on the basis of this case study.

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