

Royal Mail's Journey to CDC

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A bit about Royal Mail Group

- **Royal Mail Group is the largest delivery company in the UK** – where it operates as Royal Mail and Parcelforce Worldwide.
- **Royal Mail Group is one of the UK's largest employers**, directly employing around **142,000** people.
- **One in every 194 jobs in the UK** is provided by Royal Mail Group.
- Royal Mail and CWU remain committed to providing the **best possible pension arrangements**.
- **We want to be able to offer a CDC scheme to our 142,000 strong workforce as soon as possible.**

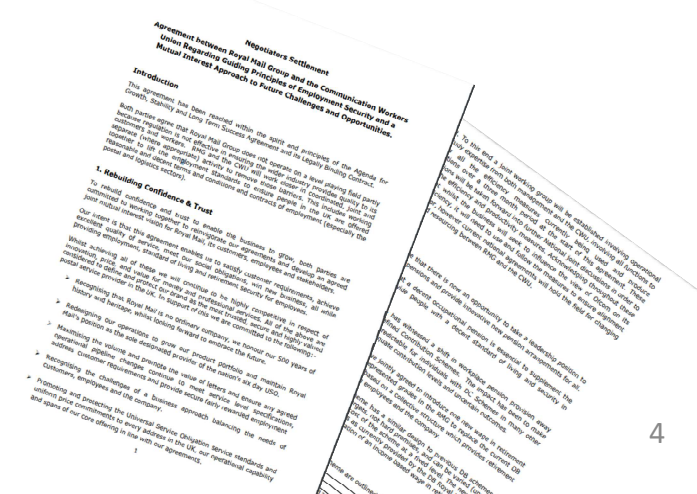


The DB scheme had become unaffordable

- The affordability of the Royal Mail Pension Plan (the Plan) - a career average scheme - has been a problem facing the Company for several years. **The Plan closed to future accrual on 31 March 2018.**
- This was a very hard decision to make. But the increase in the cost of the Plan meant it was no longer affordable:
 - If no changes were made, contributions to the Plan were expected to grow from around **£400 million a year to over £1.2 billion a year.**
 - Royal Mail contribution to the scheme was **17.1% of salaries** – but without change it **would have risen to over 50%** from April 2018
- Royal Mail initially proposed moving future accrual to an **improved DC Plan.** Later in the negotiations, Royal Mail proposed a **DB Cash Balance scheme** – which addressed employee feedback and built on the CWU's WinRS proposal.
- The DB Cash Balance scheme is a transitional scheme, while we seek the necessary changes needed to establish a CDC scheme.

The agreement to pursue a CDC scheme

- We had frank and detailed discussions with the CWU about our future pension arrangements.
- Over many months **we explored a number of different pension design options**, but for various reasons none of them met our needs.
- After a helpful mediation process and further talks, **we agreed that CDC was a progressive option which would meet our objectives**, providing the best outcome for members and the Company.
- Royal Mail and CWU have **committed to work together to call on the Government to introduce the necessary legislation to enable CDC**.
- Our agreement on pensions combines two elements of benefit:
 - **A Collective Defined Contribution target pension; and**
 - **A Defined Benefit lump sum on retirement**



The benefits of CDC – for employee and employer

- Royal Mail is **committed to providing the best possible pension arrangements** for its staff.
- CDC pensions have **benefits for both employees and employers.**
- We see several advantages that CDC schemes can offer:
 - They can **take a less conservative investment strategy** in members' later years, allowing **higher potential returns**
 - Unlike individual DC schemes, they **do not require members to purchase an annuity** if they want to receive an income for life in retirement, and they can benefit from an overall reduction in costs through **economies of scale**
 - CDC schemes can also be **simpler for members**, who are not faced with making decisions about investments or what to do with their benefits at retirement.
- The combination of these features makes for a **more efficient design for members** when compared with a pure Defined Contribution scheme, but with **no benefit guarantees to be underwritten by the Company.**
- Royal Mail and CWU are working together to explain CDC to our workforce. **Clear communications about the target benefit will be key.**

Royal Mail and CWU working together to call for CDC in the UK

- Royal Mail and CWU have **committed to work together to call on the Government to introduce the necessary legislation to enable CDC.**
- Royal Mail and CWU **gave joint evidence to the Work and Pensions Committee inquiry** into CDC schemes.
- We are in **discussions with Government.**
- In his evidence to the Select Committee **Pensions Minister Guy Opperman MP said “we are minded to assist”**. The DB White Paper also confirmed DWP are looking into how CDC could be enabled with a more minimal set of regulatory changes.
- We think we have a **strong case** and are **hopeful that the legislative and regulatory changes we seek will be made.**

