

## **ROYAL MAIL PENSION REVIEW**

### **1. The Impact of Royal Mail's proposals**

As part of the consultation exercise, Royal Mail have written to every current DB scheme member providing a personal 'before and after' illustration of what the proposals will mean for them and the losses they can expect if they transfer into the inferior DC scheme from April 2018.

The table below sets out the percentage reduction in total pension 'before' and 'after' the proposed changes. Overall, the table shows the proposed change would mean that current DB members lose an average of 19% of their total pension (if they retire at 60) rising to a total loss of 28% (if they retire at 65).

However, the size of loss will vary quite significantly from less than a 5% reduction at one end of the spectrum to over 60% at the other. Those currently close to their retirement age will suffer the smallest losses but younger workers who are likely to spend more time in the inferior DC scheme will suffer the biggest hit. Section C members (who constitute 82% of the total membership of the RMPP) will therefore be more adversely affected.

<b>% Reduction</b>	<b>Pension at 60</b>	<b>Pension at 65</b>
	<b>Number of DB members affected</b>	<b>Number of DB members affected</b>
<5%	18,500	4,400
5-10	10,300	5,000
10-15	12,000	7,700
15-20	10,700	10,800
20-25	9,100	12,900
25-30	7,900	11,100
30-35	7,200	9,500
35-40	5,700	9,700
40-45	5,000	8,300
45-50	3,000	6,500
50-55	1,000	3,700
55-60	300	1,000
60-65%	0	200
<b>Average loss</b>	<b>19%</b>	<b>28%</b>

\*Note all examples **exclude** the basic state pension.

### **Royal Mail Pension Plan**

At present, there are 90,700 members in the RMPP Defined Benefit scheme broken down as follows:

- Section AB members with basic pay <£30,000 pa (13,100 employees)
- Section AB members with basic pay >£30,000 pa (2,700 employees)
- Section C members with basic pay <£30,000 pa (70,200 employees)
- Section C members with basic pay >£30,000 pa (4,700 employees).

Information on the age profiles and length of service are set out in the tables below:

<b>Age profile of Royal Mail Pension Plan</b>	
<b>Age</b>	<b>Number of members</b>
25 - 29	1,204
30 - 34	5,000
35 - 39	8,793
40 - 44	13,825
45 - 49	20,602
50 - 54	22,311
55 - 59	15,348
60 - 64	6,251
65 - 69	347

<b>The length of service of those in RMPP</b>	
<b>Age</b>	<b>Number of members</b>
5 - 9 years	7,144
10 - 14 years	22,182
15 - 19 years	21,789
20 - 24 years	10,342
25 - 29 years	19,260
30 - 34 years	7,672
35 - 39 years	4,283
40 - 44 years	912
45 - 49 years	92

### **RMPP Service up to March 2018**

Royal Mail's proposal would not reduce any benefits already built up in the RMPP to March 2018 – they only relate to the way benefits may accrue after that date. Under their proposal, Section C members would have a different basis of pension increase from 2018 onwards (for benefits built up to 31 March 2008).

At present, members' benefits in the RMPP are made up of the following:

- Pension benefits built up until 31 March 2012. These are held in a Government scheme called the Royal Mail Statutory Pension Scheme (RMSPS). The Government is legally responsible for these benefits and they are increased in line with RPI (up to 5% a year) until you take them or leave Royal Mail employment. There would be no change to these benefits.
- Pension benefits built up between 1 April 2012 and 31 March 2018 will continue to build up as they do now until 31 March 2018.
- From 1 April 2018, Section C members' pre-April 2008 benefits would be linked to increases in RPI (up to 5% a year) until they leave Royal Mail employment or take their benefits, rather than to Final Salary pensionable pay at the date they leave.

- Section A/B members' pre-April 2008 benefits would continue to be linked to the greater of increases in RPI (up to 5% a year) and/or Final Salary pensionable pay at the date they leave.
- The Final Salary link is required under the Section A/B rules in order to maintain increases at RPI (up to 5% a year) in the Royal Mail Statutory Pension Scheme. This is not a requirement under the Section C rules.

### **RMPP Service After April 2018**

From 1 April 2018 Royal Mail are proposing to close the current Defined Benefit scheme for future accrual and transfer employees into a Defined Contribution scheme. From that date, members would build up future benefits on a defined contribution basis.

In a DB scheme there is one pot of assets out of which all members' benefits are paid. But unlike DB schemes (which guarantee a pension amount based on your pensionable pay, pensionable service and rate of accrual), DC schemes provide no guaranteed amount - every member has their own individual pot of money which is invested to grow and the amount you receive depends in part on investment returns.

### **Examples of Financial Impact**

By way of illustration, set out below are a number of examples highlighting the potential impact of the proposed changes on current DB members in Sections A, B and C. (Please note for Section A members the examples illustrate the impact of the proposed changes if they choose to receive Section B benefits at retirement).

#### **Section B member: Pay £25,000 and retirement at 60**

- Age 55 with 35 years pensionable service in 2018
- Before changes: annual pension of £12,198
- After changes: annual pension of £11,362
- Total annual loss of £836 (7%)

#### **Section B member: Pay £40,000 and retirement at 60**

- Age 55 with 35 years pensionable service in 2018
- Before changes: annual pension of £19,517
- After changes: annual pension of £18,180
- Total annual loss of £1,337 (7%)

#### **Section B member: Pay £25,000 and retirement at 65**

- Age 60 with 35 years pensionable service in 2018
- Before changes: annual pension of £13,138
- After changes: annual pension of £12,002
- Total annual loss of £1,136 (9%)

### **Section B member: Pay £40,000 and retirement at 65**

- Age 60 with 35 years pensionable service in 2018
- Before changes: annual pension of £21,020
- After changes: annual pension of £19,203
- Total annual loss of £1,817 (9%)

### **Section C member: Pay £25,000 and retirement at 60**

- Age 50 with 20 years pensionable service in 2018
- Before changes: annual pension of £10,216
- After changes: annual pension of £8,128
- Total annual loss of £2,088 (20%)

### **Section C member: Pay £40,000 and retirement at 60**

- Age 50 with 20 years pensionable service in 2018
- Before changes: annual pension of £17,357
- After changes: annual pension of £13,715
- Total annual loss of £3,642 (21%)

### **Section C member: Pay £25,000 and retirement at 65**

- Age 50 with 20 years pensionable service in 2018
- Before changes: annual pension of £14,532
- After changes: annual pension of £10,140
- Total annual loss of £3,392 (23%)

### **Section C member: Pay £40,000 and retirement at 65**

- Age 50 with 20 years pensionable service in 2018
- Before changes: annual pension of £24,691
- After changes: annual pension of £17,047
- Total annual loss of £7,644 (31%)

Note: All examples **exclude** basic state pension.

### **Royal Mail Defined Contribution Plan (RMDCP)**

As well as securing a pensions solution for DB members, the Union's policy also commits us to improve current DC arrangements. The Defined Contribution scheme was opened in 2008 (when the DB scheme was closed to new entrants) and there are now over 40,000 DC members.

But the latest figures on the DC scheme reveal serious problems with the level of contributions currently being paid in and growing concerns about the benefits members will receive on retirement. The table below shows that only 12% of scheme members are currently paying the 15% top tier of contribution (where the employee pays 6% and the company 9%). Given that the pension industry believes employees should be making total (combined employee/employer) contribution of over 20% it is

now clear that the DC scheme may mean thousands of our members facing poverty and insecurity in retirement.

<b>Contribution Tier</b>	<b>Number of Members</b>	<b>% of Standard Tier Members</b>
Nurse – 1%/1%	13,310	
Standard – 4%/7%	19,346	68%
Standard – 5%/8%	5,850	20%
Standard – 6%/9%	3,380	12%
	<b>28,576</b>	
Total Plan members	<b>41,886</b>	

## **2. Member Feedback from Consultation**

After the first two weeks of the current Royal Mail consultation, the company say they have received 1,713 phone calls (of which 803 went on to speak to an advisor), 659 emails, 52 individual letters and 73 template letters.

The most frequently asked questions have been:

- Explain the Section C RPI/Final Salary link?
- How will the proposal affect me personally?
- How will the Death in Service benefit be affected?
- What will happen to the AVCs I've paid?
- Why is the state pension included in the examples?
- Why has the cost of benefits increased so much?
- What Section am I in?

Answers to all of these questions are available in the question and answer section at [www.royalmail.com/pensions](http://www.royalmail.com/pensions).

The most common themes reported back from scheme members are:

- Disagreement with the proposal.
- The £750 per member payment is a bribe/should be larger.
- Allowance should remain pensionable.
- Death Benefit should be higher.
- Section B and C members should not be treated differently/Section C should not lose the "Final Salary".
- All members should be equally affected irrespective of age/service.
- Company DC contribution rate should be higher.
- Reduce costs by increasing employee contribution/raising retirement age
- The company should reduce sick pay/sick absence and use the savings to keep the plan open.
- Senior Manager/Manager pay/bonuses should be reduced and savings reduced to fund the scheme.
- Dividends should be used to keep the plan open.

In addition to the above feedback provided by Royal Mail, the Union has also received a number of enquiries about the company's pension review. As well as expressing strong opposition to the proposal, the majority of questions have been less about members' personal circumstances (as Royal Mail have now provided individual illustrations) and more about questioning why the company is taking the decision to close the scheme for future accrual, the financial reasons behind it, why the investment strategy has been so poor and the overall negative impact their proposals will have both on members' future pensions but also their morale and long term commitment.