PENSIONS – ROYAL MAIL'S THREE CARD TRICK

Further to recent articles in the press concerning Royal Mail's intention to close the Royal Mail Pension Plan from April 2018, this pamphlet is designed to alert CWU members to the implications of the closure of the Pension Plan and highlight the implications of the closure of the RMPP.

Dear Colleague

Background

In June all members received a letter from Jon Millidge, Royal Mail Group HR Director, in which was the opening salvo from Royal Mail to close the Defined Benefit Scheme after 2018.

The Defined Benefit Scheme is the pension scheme which individuals joined who were in Royal Mail prior to 2008 (approximately 88,000 are in this scheme).

The magnitude of this Royal Mail decision is huge. Each year a member of the Defined Benefit Scheme receives a booklet which says the employees name and the words "Your Pension, in a nutshell".

If Royal Mail push ahead with their plans to close the Defined Benefit Scheme then what you have received in terms of this booklet indicating what your pension will be useless. IN A NUTSHELL your pension information will not be worth the paper it is written on.

The simple reason for this is it is based on the current Defined Benefit Scheme continuing post 2018 and based on your pension increasing year on year via actuarial increases.

If Royal Mail close the scheme then your pension assumptions are null and void.

The purpose of this document written by a group of workers and CWU members is to expose Royal Mail's plans and to alert members to the risk to their pensions.

However, what members of the Defined Benefit Scheme should not do is panic. The Defined Benefit Scheme is safe until 31 March 2018. The debate is what happens post 2018 with pensions.

This document is therefore aimed at explaining what Royal Mail want to do and what we believe should be the union's reaction. We realise pensions are often a complex issue but we have attempted to explain the pension issue in an easy format.

WHY DOES ROYAL MAIL WANT TO CLOSE THE DEFINED BENEFIT SCHEME?

Royal Mail, as part of their legal responsibilities, has to have a three yearly valuation of the Pension Plan to assess whether the Pension Scheme is affordable moving forward. In this case post 2018.

Royal Mail has indicated that due to the fact that financial markets have deteriorated since 2013 and that the performance of Government Gilts has been poor, that it intends to close the Defined Benefit Scheme after 2018.

WHO IS CURRENTLY IN THE DEFINED BENEFIT SCHEME?

Most members will know it as the Royal Mail Pension Plan. You will be in this scheme if you joined before 1 April 1987 (Section A/B) or if you joined after 1 April 1987 (Section C) up to when the final salary scheme closed in 2008.

After the closure of the final salary scheme, former Section A, B and C members entered into the CARE Pension Scheme (Career Average Revalued Earnings) from 2008.

This is the scheme Royal Mail have indicated is going to close post 2018.

Please see in the table below some of the ages and length of service of members in this scheme:

Age profile of Royal Mail Pension Plan

Age	of RMPP
25 – 29	1204 members
30 – 34	5000 members
35 – 39	8793 members
40 – 44	13825 members
45 – 49	20602 members
50 – 54	22311 members
55 – 59	15348 members
60 – 64	6251 members
65 – 69	347 members

The length of service of those in RMPP

5 – 9 years service	7144 members
10 – 14 years service	22182 members
15 – 19 years service	21789 members
20 – 24 years service	10342 members
25 – 29 years service	19260 members
30 – 34 years service	7672 members
35 – 39 years service	4283 members
40 – 44 years service	912 members
45 – 49 years service	92 members

WHAT WILL BE ROYAL MAIL'S PROPOSAL AFTER CLOSING THE DEFINED BENEFIT SCHEME?

Royal Mail in 2008 introduced an unagreed pension scheme for new entrants into Royal Mail.

This unagreed pension scheme is a vastly inferior pension scheme compared to the Defined Benefit Scheme.

The new pension scheme was called Royal Mail Defined Contribution Scheme. The biggest difference is that under the unagreed Defined Contribution Scheme all the risk is on the member and not on Royal Mail. This is in contrast with the Defined Benefit Scheme.

Since 2008 the Royal Mail unagreed pension scheme has increased in numbers due to new entrants coming into the company and the Government's automatic enrolment of individuals who had previously opted out of joining employers pension schemes.

When the new unagreed scheme was introduced it allowed a member to opt to pay pension contributions of either 3%, 4% or 5%. Royal Mail's contributions would have then been either 5%, 6% or 7%. It should be noted that Royal Mail under the Defined Benefit Scheme pay 17.1% pension contributions.

Royal Mail Unagreed Scheme

Table after 2008 contributions	
Member	**Royal Mail**
3%	5%
4%	6%
5%	7%

The CWU influenced the new pension scheme for the first time in negotiations under the Agenda for Growth Agreement. It was agreed to remove the 3% tier as this would not give individuals an adequate pension based on such a low contribution level.

Instead, new tiers were agreed based on the following:

Post June 2014	
Member	**Royal Mail**
4%	7%
5%	8%
6%	9%

This was agreed in recognition that for individuals to get a realistic pension they should invest at the higher tiers.

However, the numbers who continue to pay in at the lower percentages rates are growing:-

Employee	Royal Mail	
4%	7%	19346
5%	8%	5850
6%	9%	3380

The remaining 13310 members are on the introductory scheme where they pay 1% and Royal Mail pay1%.

IS THE ROYAL MAIL UNAGREED DEFINED CONTRIBUTION SCHEME A GOOD SCHEME?

In your own Royal Mail pension booklet which you receive every year is the following:-

Are you on target?

Research from the Department of Works and Pensions suggests if your salary is £23,000 a year, you should aim for a retirement income of £15,400.

Salary range per year	Percentage of salary needed in retirement
Up to £12,199	**80%**
£12,200 to £22,399	**70%**
£22,400 to £31,999	**67%**
£32,000 to £51,299	**60%**
£51,300 or above	**50%**

Therefore the current Defined Contribution Scheme is not a suitable replacement for our existing RMDB pension scheme. Nor is the Defined Contribution Scheme good enough for the 40,000 plus existing members in the Defined Contribution Scheme. It will be unacceptable if Royal Mail attempt to transfer all those in the current Defined Benefit Scheme into the Defined Contribution Scheme.

WHAT COULD THE FINANCIAL COST BE TO INDIVIDUALS?

Currently in Post Office Limited the union faces proposals to close the Defined Benefit Scheme and change it to a Defined Contribution Scheme which is similar to the current unagreed Royal Mail Scheme.

Post Office Limited's Senior Managers supplied some illustrations to the CWU and these are therefore factual:-

- For a 30 year old (who joined in August 2006) their annual pension would drop by £9,200 or 55%.
- For a 45 year old (who joined in August 1996) their annual pension would drop by £7,000 or 41%.
- For a 55 year old (who joined in August 1986) their annual pension would drop by £3,400 or 21% while their lump sum would fall by £15,600 or 31%.
- For a 60 year old (who joined in August 1991) their annual pension would drop by £2,000 or 15%.

Be under no illusion, regardless of age or length of service, everyone who was in the old Defined Benefit Scheme will be a loser. The only issue is how much of a loser.

ARE WE ALL IN THIS TOGETHER?

Whilst all uniformed grades face an attack on their pension and an uncertain retirement.

In contrast, senior Directors have no such worries. In July the top Directors were awarded an obscene amount of extra shares under **the long term incentive plan** for senior Managers:-

		Number of shares allocated as at 8.8.2016	Value of shares as at 8.8.2016 @ £511.50
1.	Moya Greene	107,800	£5,513,970.00
2.	Matthew Lester	93,474	£4,781,195.00
3.	Shane O'Riordian	68,875	£3,522,956.00
4.	Susan Whalley	70,843	£3,623,619.00
5.	Jon Millidge	64,448	£3,296,520.00
6.	Michael Newham	61,004	£3,120,354.00
7.	Jack Bertram	59,036	£3,019,691.00

		Number of shares allocated as at 8.8.2016	Value of shares as at 8.8.2016 @ £511.50
8.	Maaske DC Bie	59,036	£3,019,691.00
9.	Nicholas Landon	49,197	£2,516,426.00
10.	Michael Jeavons	48,213	£2,466,094.00
11.	Stuart Simpson	48,213	£2,466,094.00
12.	Stephen Cameron	48,193	£2,465,719.00
13.	Gary Simpson	46,245	£2,365,431.00
14.	John Agar	45,162	£2,310,363.00
15.	Derek Foster	27,550	£1,409,182.00

THIS TOTAL IS IN EXCESS OF £45 MILLION – and wait for it –

The author of the pension letter is Jon Millidge (No. 5 referred to above – he's got no worries about his future pension)

Based on these shares, these Managers will not be worrying about income after 2018 or when they retire.

How can these senior Directors look at themselves in the mirror each night when on the one hand they get paid a huge salary and a huge incentive and on the other hand they can decide to shatter the hopes of members of staff who believe by paying into the Royal Mail Pension Scheme since they started they would have a reasonable retirement. Instead these senior Directors are happy to shatter the hopes of their employees for a good pension when they leave the business.

WHY PENSIONS ARE IMPORTANT?

Over the last 12 months there have been some big changes regarding the State Pension and National Insurance contributions. Below we will attempt to explain these charges and why the Royal Mail pension scheme is so important to you.

PENSION SALARY EXCHANGE

In Royal Mail in late summer of 2015 members were given the option to move what is called Pension Salary Exchange (PSE). This helped both members and Royal Mail to reduce the level of National Insurance contributions that were introduced from 1 April 2016. With the introduction of the new State Pension came the end of what is termed contracting out. This meant that members of the RMPP would have to pay an extra 1.4% and Royal Mail would have to pay 3.4%. By opting for PSE this actually reduced the amount members would additionally have paid in increased National Insurance contributions from 6 April 2016.

New State Pension Age

The age at which people will be entitled to be paid their state pension has changed and unfortunately looks destined to change again with a Government review in 2017. In all probability, this will raise to 68. Currently a member receives their State Pension from 66 if male moving to 67 in 2016.

For women it is currently 63 moving to 65 by 2020 then in 2026 it will be the same as men, 67. But the Government wants to move all ages up from 67 to 68 in 2026. This will be reviewed in the 2017 review.

So unless you are able, or fit enough, to work until you are 66, 67, 68, which is extremely unlikely, you will therefore only have your Royal Mail pension to live on. You can therefore see why we must fight to secure a proper guaranteed pension amount that the current RMPP and DB schemes provide. The CWU believe that all members should be able to live with dignity in retirement.

WHAT THE CWU SHOULD DO?

At a CWU Policy Forum in March all CWU Branches and Postal Executive members agreed the following policies:-

1. **That any future pension scheme must commit Royal Mail to paying no less than the 17.1% they currently pay into the Defined Benefit Scheme.**

2. **That the CWU will oppose the closure of the Define Benefit Scheme up to and including an industrial action ballot.**

3. **That the CWU should attempt to improve the Royal Mail unagreed Defined Contribution Scheme.**

The purpose of this document is to now ensure that members know that the Defined Benefit Scheme is facing closure after 2018.

Royal Mail's preferred option is to simply move all the current members of the Defined Benefit Scheme into the unagreed and inferior Defined Contribution Scheme.

Be in no doubt – if this happens we all lose!

There have been lots of recent reports in the media highlighting the fact that Defined Contribution Schemes do not produce an adequate pension for individuals unless they work into their seventies.

With Royal Mail's strategy of lengthening outdoor delivery spans it is highly unlikely that members in Delivery will be fit and able enough to work into the late 50s let alone their 70s.

In addition, the CWU must start improving the unagreed Defined Contribution Scheme which has 40,000 members. In fact, anyone who joined Royal Mail after 2008 or have been automatically enrolled since the law changed.

At the moment these members who are in this scheme are not being adequately rewarded by Royal Mail compared to those in the Defined Benefit Scheme.

There is little doubt that within the next few months Royal Mail will formally confirm the closure of the Defined Benefit Scheme post 2018.

We must all be prepared to show our contempt for this Royal Mail decision. It is important that we give a clear indication that we are fed up with, firstly, Adam Crozier promising to safeguard our pensions and then Moya Greene. Only to be let down again.

There is a famous "Who" song which all members need to relay to Royal Mail and that is:

WON'T BE FOOLED AGAIN

We recognise that the evaluation may demonstrate that Royal Mail would have to pay 40% to safeguard the Defined Benefit Scheme post 2018 and that no company would do that.

However, let's be clear, we have paid our 6% contributions week in week out and given our loyalty and service over many years so the company could prosper. We deserve the best possible pension the company can afford, not just what Royal Mail and its shareholders want to pay.

Our pensions are worth fighting for. Remember our past and future pension service is safe up to March 2018, therefore it is important we do not panic and make a bad decision that only the tax man and Royal Mail will be happy about. The battle ground is the funding of future accrual/service from April 2018 onwards.

However, it is equally essential we start putting Royal Mail under pressure concerning what will happen to our pensions post 2018.

We will update you further in due course.

A communication by the
Defending your Pensions Campaign Committee.

Communication Workers Union defending you, defending your pensions.