



# CDC - a first class idea

**Richard Poole speaks to Laura Blows, legal director, pensions and employee benefits, Royal Mail Group, about its collective DC proposal**

**The proposal to create a collective DC (CDC) scheme for Royal Mail members follows months of negotiations with the Communication Workers Union (CWU). How did the decision to create a CDC scheme – something that has yet to exist in the UK – occur?**

We had frank and detailed discussions with the CWU about our future pension arrangements. They had to be sustainable, affordable and secure, for both members and the company. 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 that would meet our objectives, providing the best outcome for members and the company. Royal Mail and the CWU committed in principle to the future introduction of a CDC scheme and agreed to jointly lobby government to make the necessary legislative and regulatory changes so a CDC scheme can be established.

**Please could you describe the proposed new CDC scheme to me – its structure and how it will work? How does it differ to the DB/DC/cash balance schemes provided by Royal Mail?**

Our proposal – assuming the relevant legislative changes can be made – is for future pension arrangements that

combine a CDC scheme with a defined benefit lump sum scheme (DBLSS) sitting alongside it.

Royal Mail's proposed arrangements would target, although not guarantee, providing a similar level of member benefits as the Royal Mail Pension Plan – the defined benefit scheme that closed to future accrual in its current form on 31 March 2018.

The CDC scheme would provide members with a target income during retirement, with the DBLSS providing a guaranteed lump sum at the point of retirement.

Under the arrangements we are proposing, risk would be shared between members and the company. The CDC scheme would pool risk amongst its members, while the company would guarantee a minimum lump sum at the point of retirement through the lump sum scheme.

Had we not made changes to the Royal Mail Pension Plan – our defined benefit scheme – contributions were expected to increase to around £1.2 billion, which was simply unaffordable. Under our proposed arrangements, the ongoing annual cash cost of pensions will continue to be around £400 million.

**What are the barriers that are still to be overcome for the CDC scheme to be implemented – e.g. government secondary legislation required or legal technicalities, members voting in favour etc?**

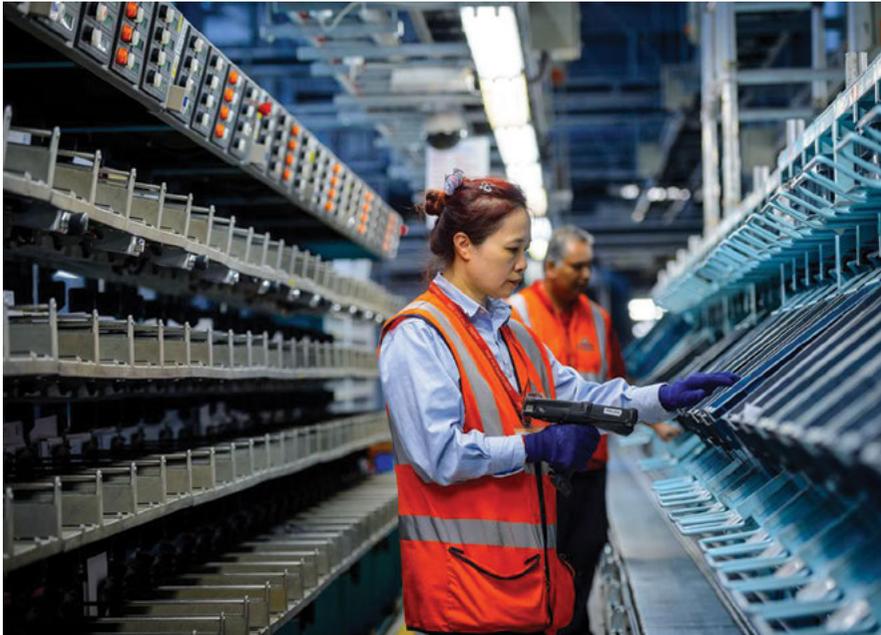
Royal Mail and the CWU have started to assess what legislative changes would be required to enable a CDC scheme to be introduced. We have recently shared our initial thinking with the Department

for Work and Pensions (DWP). Clearly, it would be for the government and the DWP to decide what legislative changes, if any, would actually be introduced.

**Assuming it does become possible, what would be the next stages to get the CDC scheme up and running? What are the practicalities involved with this? When would you ideally want it to be operational?**

We want to introduce the CDC scheme as soon as possible, but it is too early to put timings on it at this stage. It is the early stage of discussions with government. We think we have a strong case and are hopeful that the legislative and regulatory changes we seek will be made. While we seek the necessary changes, there is lots of work to do. We have agreed the key features of the proposed scheme, and are working through the detailed scheme design. From there, the rules must be written – in line with legislative and regulatory changes – including a clear governance and disclosure framework. And there will be work to do to link the scheme with





members collectively, but the company guaranteeing a set lump sum at retirement.

### **How will you be communicating the changes to members?**

We have already sent a letter and booklet to members to explain our proposed pension arrangements. Both Royal Mail and the CWU have been communicating widely to help our workforce understand CDC. As well as our internal communications channels such as our in-house TV programme and magazine, we offer a pensions helpline to help our workforce better understand what our pensions agreement means for them. Of course, assuming the legislative changes can be made, and when we have clarity over implementation timescales, we will develop a detailed and comprehensive communications programme in the run up to the launch of the new arrangements.

### **What are your thoughts on hopefully being the first employer in the UK to provide a CDC scheme to its staff? Do you think CDC will have a significant role in the future of the UK pensions industry?**

We are very keen – as are the CWU – to see CDC become a reality in the UK. We believe CDC is right for our workforce and our business. We also see CDC schemes as an important third option in the UK pensions landscape, complementing those currently available.

**Written by Laura Blows**



our existing HR and payroll systems.

In the meantime, transitional arrangements are in place for our colleagues. From 1 April 2018, they now either participate in our new defined benefit cash balance scheme – which sits within the old Royal Mail Pension Plan and provides a lump sum on retirement – or in our improved defined contribution plan.

### **What would be the governance structure of the CDC scheme?**

We envisage offering a CDC scheme under similar governance arrangements to those currently used for defined benefit schemes. That is, a trust-based model where the board of trustees are responsible for running the scheme and administering its benefits, managing its investments and communicating actively with members. Under any pension scheme, communication and transparency are key. This is particularly important for CDC schemes, where the target nature of the benefits, the specific way in which benefits are calculated from the available assets of the scheme and how risks are shared between the members of the scheme, must be communicated very clearly. We are committed to doing this, in collaboration

with the trustees appointed to oversee the scheme and our unions.

### **What will be the benefits of a CDC scheme – for both Royal Mail and its pension scheme members?**

We see several advantages that CDC schemes can offer members. Importantly, such schemes 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.

Under our proposed arrangements, risk would be shared between members and Royal Mail, with the risks associated with the target pension being borne by