



Special delivery

► **As the first company in the UK to look to introduce CDC pensions for its workers, Royal Mail has been busy working with governmental and regulatory bodies to build the framework. Jack Gray speaks to its head of corporate pensions, Angela Gough, about her role in implementing that design**

► **Why did Royal Mail decide it wanted to adopt a collective defined contribution (CDC) pension scheme for its workers?**

On 31 March 2018, the Royal Mail Pension Plan closed to accrual of career salary benefits. It closed because if it had remained open in that form, annual contributions by Royal Mail would have risen to unaffordable levels. At that time, the team had detailed discussions with our union, the Communication Workers Union (CWU), about our future pension arrangements.

We were committed to delivering the best possible pension arrangements for our people. We agreed with the CWU that meant they had to be sustainable, affordable and secure.

We agreed with the CWU that people who worked for Royal Mail and Parcelforce should have a pension plan that gives them two things: a cash lump sum and a wage in retirement. Together, we designed the collective pension plan and agreed it would be the right option for our people, as well as being sustainable for the company in the long term. The proposed scheme would be affordable for Royal Mail and for scheme members, with contribution rates that are similar to our current plans.



► **Did the size of the company make the decision to pursue a CDC scheme easier?**

Yes, it is a huge business with roughly 140,000 people, of whom we expect around 120,000 to go into the plan on day one. We are really well set up for a scheme of this type, a collective plan makes sense for a company of our scale.

► **You joined the company as head of corporate pensions in February. To what extent were you involved in the**

development of the CDC scheme?

In terms of designing the plan, that happened before I joined. I've spent a lot of time getting up to speed on everything that has already happened to make the collective plan a reality. I have been really impressed by what the team has already achieved over the past few years. I've come in as head of corporate pensions and I am leading the team to implement the new plan. That involves liaising with key stakeholders and unions, the Department for Work and Pensions

(DWP), The Pensions Regulator (TPR), and leading a team of around 30 colleagues, plus external suppliers and advisers to deliver everything we need for the new plans, including the administration systems, communications and our application for authorisation.

➤ What were the challenges in being the first company in the UK to look to adopt a CDC scheme?

A scheme of this size is not going to be without its challenges to implement. The key thing was, when we first came up with the idea, UK pensions legislation did not allow for CDC schemes, so we are really pleased that the UK government recognised that CDC schemes were worth committing that legislative time and effort to. Not just for Royal Mail's sake but for the wider benefit of the wider UK pensions landscape. That was a big challenge, but we got there and the government has been really supportive.

When Royal Mail first started talking about CDC, everybody had their own idea about what CDC meant and often that was quite a different scheme design to ours, so the team spent a lot of time explaining how our design would work and how it was different to other CDC designs that people had seen elsewhere.

➤ Did Royal Mail look to other countries with CDC pensions when developing its own plan?

When the team was developing the design of the new plan, they did look at CDC designs in other territories, such as the Netherlands. It's important to understand that many of their CDC schemes were originally DB and were converted when they came into funding difficulties, so they have a very different heritage and mindset to our scheme design. One of the key features of our scheme design is that the rules don't allow the trustees to put off making difficult decisions, such as reducing pensions if a valuation shows that to be necessary. That's to help with the criticism that CDC schemes can allow

problems to be ignored and passed onto future generations. I think we did learn things from other countries' schemes and ours will be a bit different.

➤ Have you experienced demand for CDC schemes from others in the pensions industry?

The team has had conversations with a few people from around the pensions industry, including potential sponsors. I do not think anybody has gone out there on the record as potentially looking to implement CDC, but I think we know there is interest in the market.

➤ Has there been any benefits of being the first company to look to adopt a CDC scheme?

We are really pleased to be pushing CDC pensions forward. We genuinely believe that it will be a valuable addition to UK pensions as an alternative to DC and defined benefit pensions. We recognise that we are the only company right now that is implementing a CDC scheme, but our hope is that once the legislative and regulatory framework is in place that will give others the confidence to move forward with schemes of their own.

➤ What are your priorities for the CDC scheme members?

The key thing for us is that the scheme provides a wage in retirement and lump sum when people come to retirement. I think the interesting thing about a CDC scheme rather than a DC scheme, for example, is the fact that investments pre-retirement can be invested in a way that doesn't require de-risking so early. Pensions can be held in return-seeking assets for longer pre-retirement, which gives potential higher returns. At retirement, members do not have to make those difficult choices that they would have to in a DC scheme, and, in retirement, the scheme doesn't de-risk as quickly, so there is potential for higher returns and members can benefit from pooling longevity risk without paying a premium to an insurance company

for an annuity. Obviously, returns aren't guaranteed, incomes can go up and down, and will do depending on investment performance and demographics, but the collective model allows for those potential higher returns.

➤ How have you been communicating the changes with members?

The way that you communicate CDC is really important, and being clear and transparent is key about the nature of the benefits, the specific way the benefits are calculated and how the risks are shared. Both Royal Mail and the CWU have communicated widely to help the workforce understand the concept of CDC through internal comms channels and we've recently engaged pension communication experts to help us make sure future consultation with employees and the scheme's member communications are as clear and engaging as possible. Once legislative changes have been made and we've got more clarity of the timescales we will develop a more detailed and comprehensive comms programme for launch.

➤ Is there any timescale as to when Royal Mail will launch its CDC scheme?

There is a number of steps we have to go through before we can launch. The DWP consultation on the draft regulations ran until 31 August. Once they have considered the comments they receive, the final regulations will need to go to parliament.

Once that has happened and the Royal Mail board has given its final approval and everything is set up, we will also need to get the plan authorised by TPR, and they are dependent on the regulations so they can prepare their code of practice. The exact timetable is a matter for the government but, if everything does go smoothly, we're hoping to launch the plan in 2022.

➤ Written by Jack Gray