Wage in Retirement Scheme (WinRS)

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Background

- Royal Mail section of RMPP is currently in surplus
- The surplus is being used to subsidise the company’s contribution rate but is expected to run out in 2018
- Royal Mail currently pay 17.1% of pensionable salaries. This will have to rise to over 50% from 2018
- The current cost to Royal Mail is £400m which will rise to over £1bn

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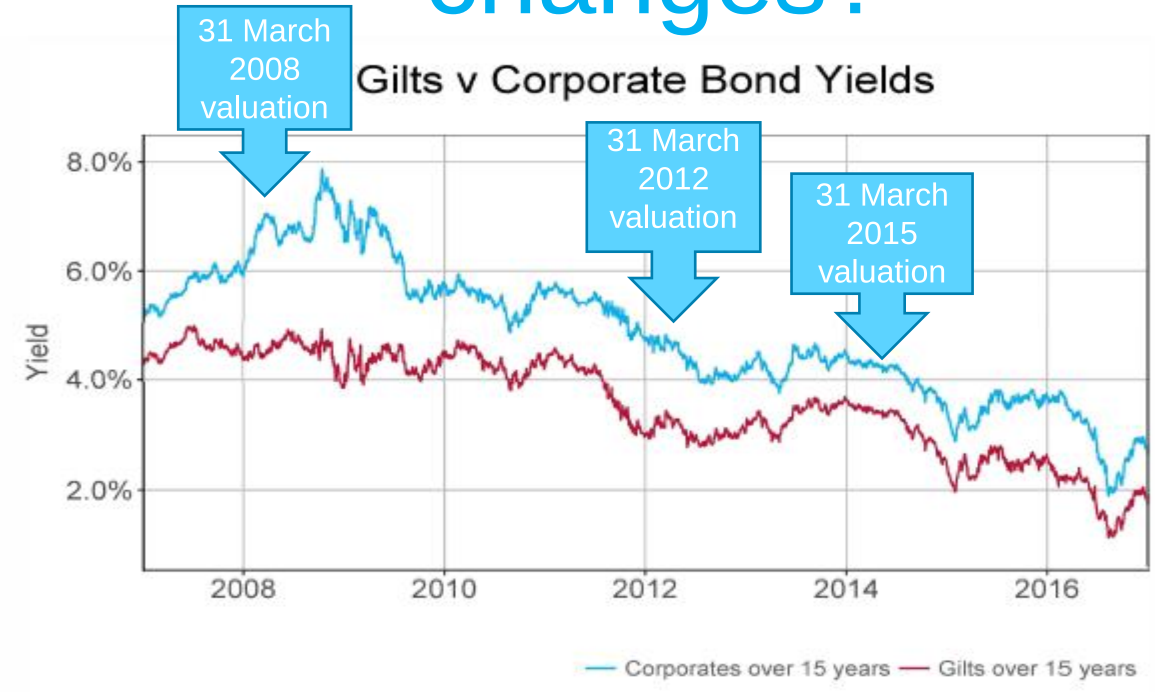
Why is Royal Mail making these changes?



- Falling gilt yields – increase the cost of defined benefit pension provision
- Predicted future service rate of 50%+ is unaffordable

Royal Mail's proposal

- Terminate defined benefit accrual in RMPP on 31 March 2018
- From 1 April 2018 members build up benefits on a defined contribution basis (either in new section of RMPP or in RM DC Plan)
- Royal Mail will increase its contributions to DC by 1% on each tier

Member contribution	Current employer contribution	Proposed employer contribution
4%	7%	8%
5%	8%	9%
6%	9%	10%

- Royal Mail expects to pay around the same amount in pensions and NI in 2018-19 as it did in 2015-16
- Active RMPP members at 31 March 2018 will receive one-off £750 payment

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CWU counter proposal for a new DB scheme

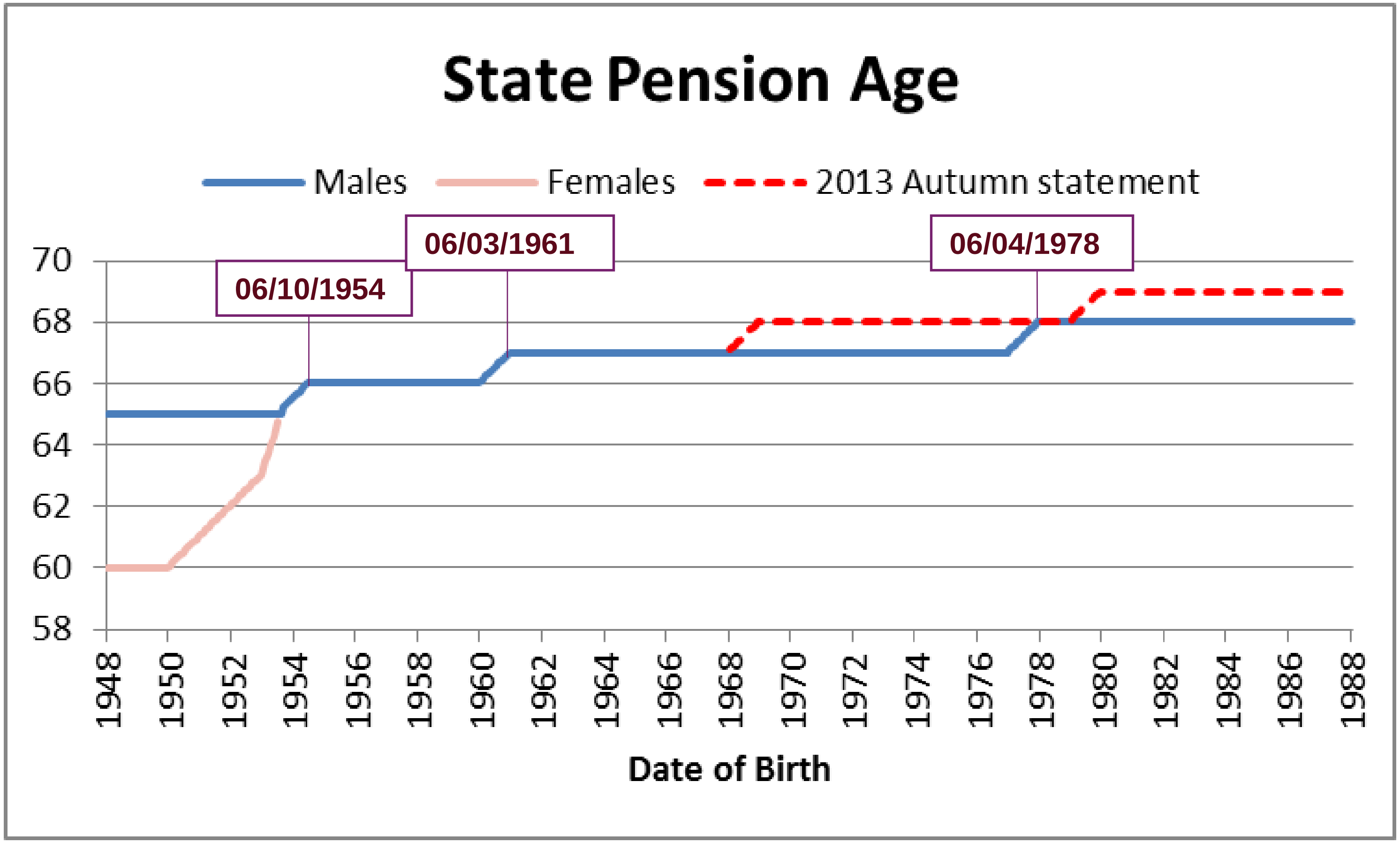
The Wage in Retirement Scheme (WinRS)	
Standard design features	
Scheme type	Target Career Average
Member contributions	6%
Employer contributions	17.1% (to be kept broadly fixed)
Pension accrual rate	1/60
Partner pension	50% of member's pension
Normal Retirement Age	State Pension Age (and moving with SPA)
Cash	By commutation
Lump sum on death in service	4 x salary

CWU proposal for a new DB scheme

The Wage in Retirement Scheme (WinRS)	
Special design features	
Target revaluation before retirement	RPI
Guaranteed revaluation before retirement	Nil
Target increases in retirement	RPI
Guaranteed increases in retirement	Statutory minimum

- Under current legislation, pensions in payment must increase annually in line with CPI (subject to a maximum of 2.5%)
- There is no legal requirement for deferred pensions to revalue – so long as active benefits are also not revalued
- Scheme would be open to all staff and used for auto-enrolment

What is SPA?



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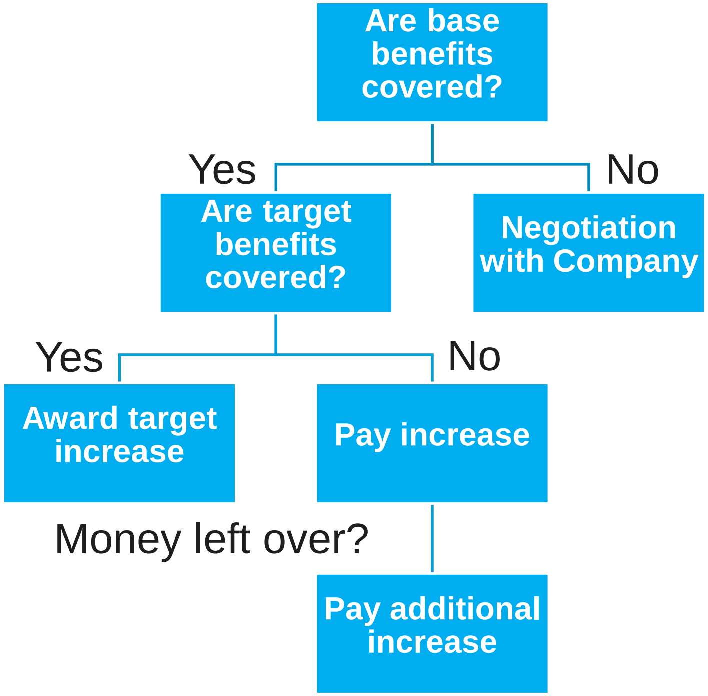
Managing the funding

- Contribution rate set to cover "target" benefits not "base" benefits
- Funding checked annually:



Other key elements

- New trustee board of members and employer representatives
- An investment strategy based on growth assets – set out in the Statement of Investment Principles
- All employees can join the scheme and the scheme will be used for auto-enrolment

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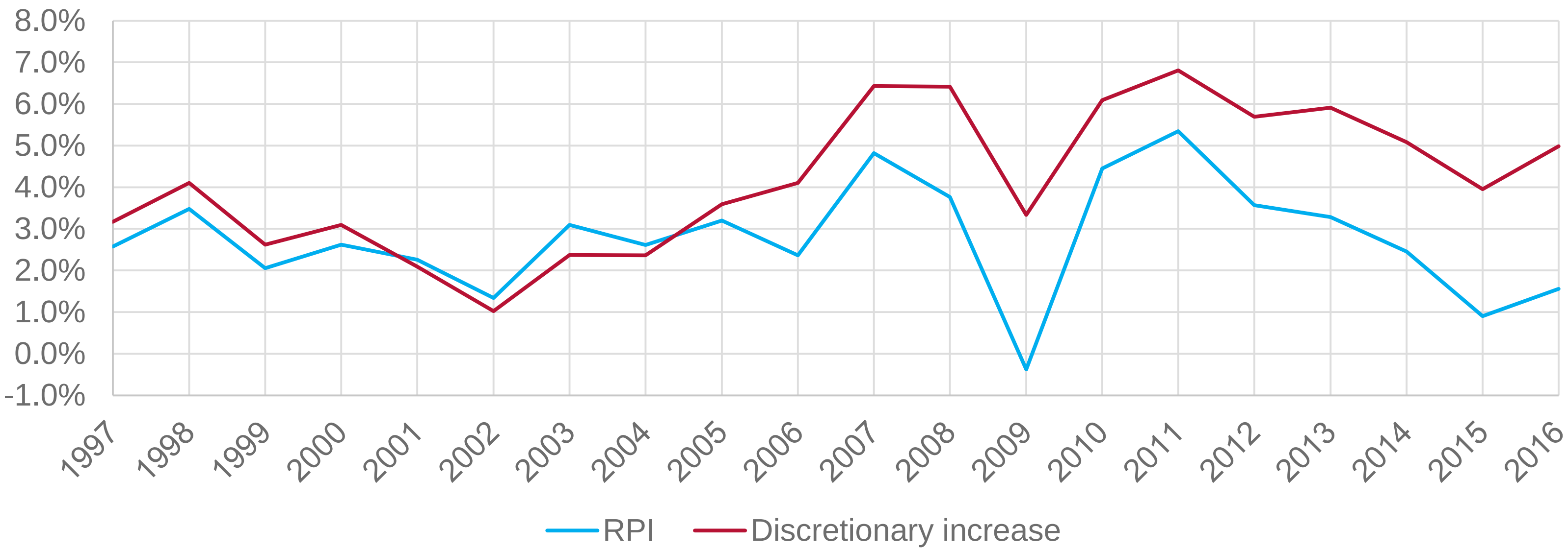
Will it work?

- Tested how the scheme would perform if it had been set up 20 years ago
- Assumes the scheme is invested 50% in UK equities and 50% in overseas equities
- The chart compares the annual increases awarded with the target increase of RPI



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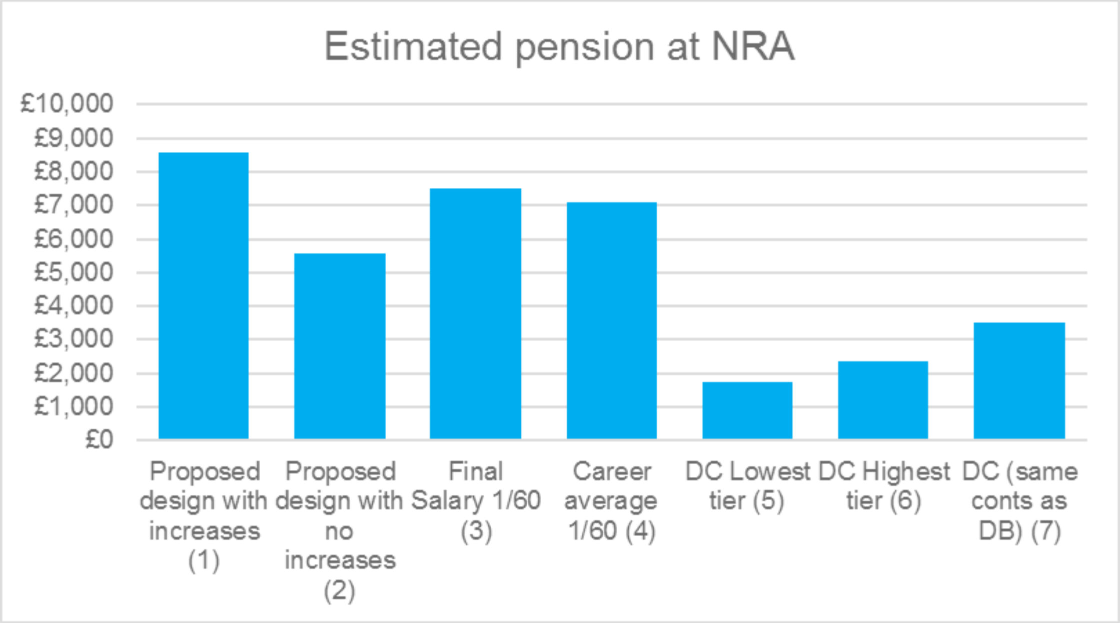
Estimated pension at NRA



- Example member has completed 21 years' service
- Salary growth in line with historic salary increases received on OPG grade at the maximum rate of basic pay (1996 to 2016)
- Discretionary increases in (1) are from our model
- The Career Average 1/60 (4) scheme revalues at RPI (max 5%) based on last 21 years' RPI data
- The member is assumed to contribute 6% (i.e. the same as the proposed design) to the DC fund (6)

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