

First Actuarial joins forces with Royal Mail and CWU to introduce groundbreaking CDC pension scheme



Key outcomes



Happy membership – 90% of workforce voted for a CDC wage in retirement plus DB lump sum, within the Four Pillars of Security agreement



Cost efficiencies for Royal Mail – Fixing Employer contributions while offering an attractive pension scheme



A new chapter in industrial relations at Royal Mail – Union and management united in support for CDC

The Communication Workers Union (CWU) enlisted the help of First Actuarial when Royal Mail proposed replacing its Defined Benefit pension fund with individual Defined Contribution arrangements. Negotiations shaped First Actuarial's innovative proposal into Collective Defined Contribution (CDC) – a DC scheme paying an income for life, without the drawbacks of individual-based DC. Royal Mail and their advisers, CWU and First Actuarial, are now working with government on legislation to facilitate CDC.

The challenge | CWU opposes Royal Mail's DC pension scheme proposal

With privatisation, Trustees of the Royal Mail Pension Plan lost the security of government backing and adopted a cautious investment approach. This resulted in diminished returns that did not support future member benefits. An increase in Employer contributions loomed.

Viewing such an increase as unaffordable, Royal Mail proposed abandoning the Defined Benefit (DB) scheme and moving to Defined Contribution (DC) pension arrangements. This worried the CWU a great deal. "DC seemed to place unacceptable burdens on individual members," says Terry Pullinger, Deputy General Secretary (Postal) at the CWU.

DC also presented difficulties for Royal Mail. It is now illegal to retire people on age grounds, so if a pension scheme produces an inadequate income then the employer is left with elderly staff who have no alternative but to carry on working.

Recognising that some degree of change was inevitable, the Union set down two principles. "Firstly, people needed a wage in retirement to give

them dignity in their old age," says Terry. "But DC, in the form that Royal Mail was proposing, would not provide this."

Secondly, the CWU was committed to equality of pension provision for all. The DB scheme had closed to new entrants over 10 years previously, so every joiner from that point went into a DC scheme. "We wanted a new scheme that would give equal pension provision to everyone, including the 40,000 DC members," says Terry.

First Actuarial worked closely with the CWU to produce an alternative DB scheme design that would replace guaranteed annual pension increases with discretionary benefits. The CWU, though concerned about the reduced guarantee of member benefits, acknowledged that this was a better option than individual DC.

In the protracted negotiations that followed, however, Royal Mail rejected the proposal. They believed that even a mix of DB and discretionary benefits would run the risk of technical insolvency by generating a funding deficit on the business's balance sheet.

The solution

CDC – Delivering member benefits without putting Royal Mail at risk

Following the threat of industrial action over broader terms and conditions, Royal Mail and CWU found themselves in mediation. From the challenging pension discussions there emerged a plan for a new type of scheme, a Collective Defined Contribution (CDC) wage in retirement with a DB lump sum.

With CDC, contributions are defined, but they are pooled collectively rather

than being assigned to individual accounts. This arrangement gives members more reliable benefits than DC, and takes the burden of investment decision-making out of their hands. And the investment efficiencies that a collective scheme brings can result in better benefits or lower contributions.

The Scheme offers a career-average pension, which is similar to DB except

that the CDC wage in retirement pension can go down as well as up. "First Actuarial produced a convincing pension scheme model. We asked them to project a mail worker's wage back over 25 years to test it out, and it worked," says Terry. The CDC wage in retirement and DB lump sum produces an income that members can rely on.

The outcome

A groundbreaking approach to pensions provision

▶ A new chapter in industrial relations at Royal Mail

Having agreed that CDC offered both the Employer and workforce the best outcomes, Royal Mail and CWU proceeded to lobby jointly for legislation to facilitate CDC. Their unity marks a new chapter in industrial relations at Royal Mail.

"First Actuarial stood shoulder to shoulder with us, and together with Royal Mail we've helped make CDC

happen," says Terry. "We've got the support of the Minister for Pensions, who's pushing it with everything he's got, and we're working with the Department of Work and Pensions to pass the legislation needed. We had plenty of opponents and naysayers at the start, but they've all fallen away now and CDC has cross-party support."

▶ Happy CWU membership – with the promise of equality of provision and a wage for life

Providing a wage in retirement has been a cornerstone in negotiations. Rather than rely on a savings account, which is what DC is, Royal Mail workers will be able to retire without worrying that their money might run out before they die.

"The CDC wage in retirement and DB lump sum have been incredibly well

received by the CWU membership, which voted 90% in favour," says Terry. "We tell them that we're making history – CDC will be the first of its kind in this country, and they're quite proud. With a wage in retirement, and a Defined Benefit lump sum, CDC will give people far more chance of dignity in their old age than DC."

▶ Cost efficiencies for Royal Mail

For Royal Mail, the CDC wage in retirement is clearly a positive outcome too. They have fixed their pension contributions at the current level, and

the cost efficiencies mean that they can offer a more attractive pension than they could ever have hoped for with an individual DC scheme.



"I can't speak highly enough about First Actuarial – their people have been brilliant. The journey has been inspirational, nothing but a positive experience. The way they present their findings so a layperson or negotiator can work with them is first class. They're not up themselves, and nothing seems to faze them. They're not just fantastic at the calculations and modelling work – they passionately believe in the need for something new in pensions. I genuinely believe that they care about working people and their pensions."

Terry Pullinger,
Deputy General Secretary
(Postal), CWU

