# Scheme Design Statement

October 2024

Royal Mail
COLLECTIVE PENSION PLAN

# This statement provides a **summary of the overall design** of the Royal Mail Collective Pension Plan (the Collective Plan), including:

- A summary of how much you contribute and the rate you build up benefits in the Collective Plan
- A summary of how your benefits are adjusted over time
- An explanation of how the Trustee will monitor risks to the Collective Plan
- A summary of the procedure that would be followed in the event the Collective Plan is discontinued

If you'd like more detailed information about how the Collective Plan works and its benefits, you can find the Collective Plan's Handbook at **www.rmcollectiveplan.com/documents-forms.**

# The Collective Plan, and the money you and everyone else pays into it, is looked after by a group of Trustee Directors.

They're independent of Royal Mail and work together to manage the Collective Plan, making important decisions about how it is run, such as the investments.

They're a group of people from a range of different backgrounds, some are from Royal Mail, some from the Trade Unions and some are pensions professionals too – known as professional Trustees.

**Tell us what you think...**

**Complete our short survey** to tell us what you'd like to see more (or less) of.

**Or scan me to go to the survey.**

**https://r1.dotdigital-pages.com/p/7XFW-J6K/thank-you-for-your-feedback?pfredir=1**

# A quick note on the Scheme Design Statement

This statement has been written with you in mind. It doesn't give you any legal rights.

It gives you some basic information about the design of the Collective Plan, without getting into the kind of detail where you need to be a pensions expert or a lawyer to understand it.

Sitting behind this statement is something called a 'Trust Deed & Rules'. The 'Trust Deed & Rules' is the document that gives you legal rights, and it's far more technical – it needs to be because it's the legal document that governs the Collective Plan. It can change from time to time.

If you would like more information about the Collective Plan generally, the Trustee has prepared a Collective Plan Handbook that summarises a wide range of information in relation to the Collective Plan.

The Collective Plan's Handbook and Trust Deed & Rules are available on the Collective Plan's website at **www.rmcollectiveplan.com/documents-forms.**

Don't forget that the Trust Deed & Rules can change (so you need to check that you're looking at an up-to-date version), and you can refer to it alongside this Scheme Design Statement.

All benefits summarised in this Scheme Design Statement are subject to the Trust Deed & Rules, as amended from time to time. If that ever says something different to what's written here, the Trust Deed & Rules are right – we're telling you this so you know that this document should only be used as a guide, rather than as a substitute for looking at the Collective Plan's Trust Deed & Rules if there's anything you're particularly interested in.

# The **basics**

There are **two sections** to the Collective Plan:

1. **The Collective Defined Contribution or 'CDC' Section** – that's the Section that builds up your **income for life** (it can also be known as Collective Money Purchase or 'CMP'). The benefits it provides are not guaranteed.
2. **The Defined Benefit Lump Sum or 'DBLS' Section** – this one builds up your **lump sum** at retirement, and any booster payments you choose to make. The benefits under this Section are guaranteed by Royal Mail once earned.

## There are two types of pay that we mention in this document:

**Basic pay**

This is the base pay for your role. It doesn't include any extra pay, such as overtime, allowances and bonuses.

**Pensionable pay**

Your pensionable pay is your basic pay, plus other payments such as allowances and bonuses that may count towards your pension, depending on the terms of your employment.

If you work part-time, overtime will also count as part of your pensionable pay, up to the point where your hours match those of a full-time contract for your role, provided that those hours are paid at the same rate as basic pay.

# How the Collective Plan works

## First things first: how does the Collective Plan work, and what do you need to pay?

The Royal Mail Collective Pension Plan is a tax registered scheme with HMRC.

For most, once you've been working for Royal Mail for a year, you'll join the Collective Plan but, there are some exceptions, which are detailed in the Collective Plan's Handbook, which can be found at **www.rmcollectiveplan.com/documents-forms**.

This should happen automatically without you doing anything, but if you think it may not have done, contact Royal Mail's HR Services.

### You'll pay in 6% of your Pensionable Pay

This is based on your basic pay, plus any payments, allowances or bonuses that are counted.

**You have the option to pay an additional 1% of your pensionable pay to boost your lump sum.**

&

### Royal Mail pays in 13.3% of your Pensionable Pay

+ Royal Mail pays 0.3% of your pensionable pay towards ill health premiums - anything left over from this is paid into the Collective Plan.

**If you pay the 1% booster contribution towards your lump sum, Royal Mail will also pay 1% more.**

## The full breakdown of the contributions are:

| | Contributions as % of pensionable pay | | |
|---|---|---|---|
| | Royal Mail | Employees | Total |
| **Income for life – CDC Section** | | | |
| **Income for life** (including operational expenses & continuity reserve) | 11.2% | 4% | 15.2% |
| **Lump sum – DBLS Section** | | | |
| **Lump sum** (including operational expenses, risk reserve & Collective Plan death benefits) | 2.1% | 2% | 4.1% |
| **Total paid into the Collective Plan** | **13.3%** | **6%** | **19.3%** |
| **Lump sum booster (optional)** | | | |
| **Lump sum** booster | 1% | 1% | 2% |
| **Total** | **14.3%** | **7%** | **21.3%** |

**In addition, the following may be paid by Royal Mail into the Collective Plan:**

| | Royal Mail | Employees | Total |
|---|---|---|---|
| **Ill health premiums*** | | | |
| **Ill health premiums** | 0.3% | 0% | 0.3% |

*These payments do not form part of the Collective Plan, and the Trustee is not responsible for the payment of the benefits they will provide.

# About the full breakdown of the contributions

## Income for life - CDC Section

### CDC Available Assets

The money held in the Available Assets of the CDC Section is used to provide your **income for life**. 10.9% of pensionable pay is allocated to the CDC Available Assets from Royal Mail's contribution.

### CDC Operational Expenses

A sum equal to 0.2% of pensionable pay is taken from Royal Mail's contribution and is allocated to build a reserve for operational expenses. This is expected to cover each year's operational expenses, with the balance building a reserve for future expenses. If expenses are higher than this, money will be taken from the Collective Plan, Royal Mail will not make additional contributions.

### CDC Continuity Reserve

A sum equal to 0.1% of your pensionable pay is also taken from Royal Mail's contributions and allocated to build a reserve which can be used if an event occurs that threatens the ongoing existence of the Collective Plan and it needs to be discontinued (see page 18 for more information).

## Lump sum - DBLS Section

Contributions to the DBLS Section are held in a general fund which is used to pay members' benefits in line with the provisions of the Collective Plan's Trust Deed & Rules. Some of Royal Mail's contribution is allocated into a "Risk Reserve" as described below (and any Additional Voluntary Contribution (AVC) payments are dealt with separately). Operational expenses for the DBLS Section and the Collective Plan **lump sum** death benefits are also paid from the general DBLS fund.

### DBLS Risk Reserve & DBLS Booster Risk Reserve

A sum equal to 0.2% of your pensionable pay will be allocated to the DBLS Risk Reserve and 0.2% of pensionable pay will go into the DBLS Booster Risk Reserve in respect of members who have made booster contributions. In each case, they will be paid from Royal Mail's contribution.

# Ill Health Premiums

On top of the 13.3% (or 14.3% if you choose to pay the **lump sum** booster) that Royal Mail pays into the Collective Plan, Royal Mail also allocates a sum equal to 0.3% of your pensionable pay to pay ill health premiums. These are paid to a health insurer to provide ill health benefits to eligible Royal Mail employees. These payments do not form part of the Collective Plan (and the Trustee is not responsible for the payment of the benefits they will provide). For more information about these benefits, contact Royal Mail's HR Services.

The Trustee understands that Royal Mail intends to pay into the **lump sum** (DBLS) Section of the Collective Plan whatever is not needed from the 0.3% of pensionable pay, to pay ill health premiums. Anything paid in will be pooled with everyone else's money and invested together.

# When the time comes to retire, you'll get two things:

## Your income for life

For each year you pay in, this will be based on:

**$1/80^{th}$**

of your pensionable pay in that year

Each year, your **income for life** is likely to change.

The **aim** is to provide increases to help keep up with the cost of living, but your income **could go down** as well as up, even after you've retired.

**+**

## Your one-off lump sum at retirement

For each year you pay in, this will be based on:

**$3/80^{th}$**

of your pensionable pay in that year

**The amount is guaranteed** if you get it at age 67.

The aim is to increase this to help keep up with the cost of living. At any time, the guaranteed amounts include only the increases already given.

There are also benefits which may be payable from the Collective Plan to your dependants when you die.

You can find more information in the Collective Plan's Handbook, which is available to view and download at **www.rmcollectiveplan.com/documents-forms.**

# Your **income for life**

The Collective Plan is designed for you to start getting your **income for life** at age 67. You build up 1/80th of all your pensionable pay earned each year while paying into the Collective Plan. The aim is to increase this to help keep up with the cost of living; however, this increase is not guaranteed.

We know talking in 80ths sounds a bit odd, but it's how pension plans like this one work out what you might get.

**So, using an example:**

**If your pensionable pay was £26,000 over a year, in that year, you'd initially build-up £325 (i.e. £26,000/80) as a yearly income from age 67.**

**+**

**If your pensionable pay was £26,500 in the next year, you'd build-up another £331 (i.e. £26,500/80), giving a total of £656 as a yearly income from age 67.**

**...**

**Over time, it will build up to provide your income for life in retirement.**

In addition to this, the Collective Plan also aims to increase everyone's **income for life** over time to help keep up with the cost of living.

However, there is no promise or guarantee as to the rate or amount of **income for life** provided by the Collective Plan. Everyone's **income for life** is adjusted each year by the same percentage, even after you've retired, so that the cost of everyone's incomes stays in balance with the value of the Collective Plan's assets.

**This means your income for life could go down, as well as up, both before and after you start getting your income for life.**

See page 14 for more information about how your **income for life** is adjusted.

# Your lump sum

The Collective Plan is designed for you to get your **lump sum** at age 67, and builds up year by year, separately from your income for life. It is paid as a one-off amount at the same time you get your income for life.

Your **lump sum** also builds up at a proportion of your pensionable pay - at a rate of 3/80ths of any pensionable pay earned while paying into the Collective Plan. But, unlike your income for life, the **lump sum** you build up won't go down – it's guaranteed.

**So, again using an example:**

**If your pensionable pay was £26,000 over a year, in that year, you'd build-up £975 (i.e. £26,000 x 3/80) as a lump sum when you reach age 67.**

+

**If your pensionable pay was £26,500 in the next year, you'd build-up another £994 (i.e. £26,500 x 3/80), giving a total of £1,969 as a lump sum when you reach age 67.**

...

**Over time, it will build up to provide your lump sum in retirement.**

Before you get your **lump sum** at retirement, the Collective Plan aims to increase your **lump sum** each year to help keep up with the cost of living. If the **lump sum** investments perform well, it's likely that your **lump sum**, along with everyone else's, will increase.

**Any increases to your lump sum, once granted, will also be guaranteed by Royal Mail so cannot be taken away in the future.**

You might be able to get your **lump sum** tax-free, depending on how much you've built up and the tax rules when you get your **lump sum**.

You can find more information in the Collective Plan's Handbook, which is available to view and download at **www.rmcollectiveplan.com/documents-forms.**

# When to get your **income for life** and **lump sum**

The Collective Plan has what's known as a 'Normal Retirement Age'. It's the age that the Collective Plan uses to calculate the **lump sum** and **income for life** that you'll get.

The Collective Plan's Normal Retirement Age is 67.

You don't have to get your **income for life** and **lump sum** at that age though – you could get them any time from the minimum pension age (currently 55 and expected to rise to 57 from 2028).*

However, they're both likely to be lower than if you did so at the Collective Plan's Normal Retirement Age.

> *Please note that, depending on your circumstances, either Royal Mail or the Trustee has the right to refuse payment of your **income for life** and **lump sum** before age 67.

**The reasons for this are:**

- We'd expect to pay your **income for life** for more years if you take it earlier, so the payments are reduced to help balance your income out over your lifetime.
- You'll have been paying in for a shorter period of time, so the total amount built up will be less than if you stayed in the Collective Plan until the Normal Retirement Age.
- There's less potential for investment growth to enhance your **lump sum** (including any booster payments) and **income for life**, so your **lump sum** and **income for life** are reduced.

Regardless of the age you choose, when you decide to get your **income for life** and **lump sum** paid to you, it'll be both elements at the same time – it's all or nothing (unless you've already transferred out one element). If you're still working for Royal Mail, you would have to leave the Collective Plan to get your **income for life** and **lump sum**. This would mean that Royal Mail (and you) would stop making payments to the Collective Plan and you'd stop building up your income for life and **lump sum**.


# Boosting your Retirement Savings

You can't pay less than 6% of your pensionable pay, but you can pay in more to get more when you retire.

There are **two ways** to get more from the Collective Plan.

**1. Boost:**

You can pay 1% more towards your **lump sum**. If you do, Royal Mail will also pay an extra 1% to boost your **lump sum**. Have a look on **www.rmcollectiveplan.com/save-boost** for more information.

**2. Additional Voluntary Contributions (AVCs)**

You can also pay AVCs into a separate pot – it doesn't count towards your **income for life** or **lump sum**. It won't be matched by Royal Mail, but you can usually get tax relief on what you pay.

You'll save these AVC payments in a separate pot within the Collective Plan, and they will have different rules regarding how you can access them. Visit **www.rmcollectiveplan.com/documents-forms** and download our AVC Handbook for more information.

# How your income for life and lump sum are adjusted each year

# Income for life

For your **income for life** (which is payable from the 'CDC Section'), this adjustment is calculated each year following a process set out in the Collective Plan's Trust Deed & Rules.

**It is a complicated process but in summary it works as follows:**

- The Trustee will carry out an exercise each year with the Scheme Actuary, called a "valuation".
- The valuation looks at whether there are enough assets in the Collective Plan's **income for life** Section (also known as the 'CDC Section') to increase every member's **income for life** in every future year that the income is expected to be paid. This looks across the whole membership (so includes members who haven't yet got their incomes as well as those who already have).
- To do this, the Trustee must make some assumptions about what will happen in the future, for example the assumed investment returns on the CDC Section's assets, and how long members will live on average. These assumptions must be the Trustee's central estimate of what they think will happen in the future.
- The valuation looks at the member's **income for life**, earned by all members. If it shows that there are enough assets to support an increase for every future year that incomes are expected to be paid, the next step is to work out the level of that increase. This is worked out as a rate with reference to assumed future inflation, by considering what future increases in the Consumer Prices Index (CPI inflation) are assumed to be e.g. the rate of increase could be worked out to be 1.5% a year above assumed future CPI inflation, or 1% a year below the assumed future CPI inflation.

- The actual increase awarded on 31 March each year is then calculated by reference to CPI inflation over the year to the previous 30 September. For example, if the assets are shown to support increases at 1% above assumed future inflation, and CPI inflation in the year up to the last 30 September was 2%, then the increase on 31 March in the current year would be 1% + 2% = 3%.

- If there are not enough assets to pay the current level of **income for life**, then the income must decrease this year. In the event that decreases of more than 5% are needed, they'll be spread over two or three years (on 31 March each time), so the reduction in everyone's income won't happen all in one year.*

- It is important to note that if, in one year, it is decided that decreases of more than 5% are needed (so that the decreases are split over two or three years) and in the next year it is decided that further decreases are necessary, these can apply in addition to the decreases which are already due to be applied.

- It doesn't matter if you've already started getting your **income for life** or not, everyone's **income for life** will go up, or down, by the same percentage.

- Regardless of whether **income for life** already earned is being increased or decreased, members who are paying into the Collective Plan will still earn an **income for life** of 1/80th of pensionable pay for each new year of membership. This earned **income for life** will be adjusted the following year, on 31 March. It could go up, down or stay the same, in line with other **income for life** which has already been earned.

> *The first-year decrease would usually be 5%, with any balance up to 5% applied in year 2, and any balance over that of up to 5% applied in year 3. The exception to this is if three 5% decreases are not enough, in which case all three years will be at the same level (for example, a 6% decrease would be applied each year for three years if the overall decrease was 18%).

## Lump sum

The process is similar for your **lump sum** (which is payable from the 'DBLS' Section), except it cannot decrease.

It is based on the assets in the **lump sum** Section (also known as the DBLS Section) and cost of paying everyone's **lump sums** in the future. These can change in different ways to the assets and benefit costs in the income for life Section. Therefore, the **lump sum** Section adjustments each year will usually be at a different rate to the adjustments applied in the income for life Section.

If there are not enough assets to pay the current **lump sum** for all members at age 67, the assets of the **lump sum** Section must be topped up by Royal Mail.

# How the Trustee manages risks to the Collective Plan

One of the roles of the Trustee is to monitor risks to the Collective Plan.

There is a risk management policy to help the Trustee manage risk. Part of the purpose of this policy is to make sure the Trustee is always thinking about risks and what to do about them. The policy outlines how the Trustee will think about risk throughout the year. When the Trustee makes decisions, they will also consider whether the decisions will impact the risks to the Collective Plan.

The Trustee and its advisers have thought about some of the biggest risks to the Collective Plan and written them all down.

**Three things are then thought about for each risk:**

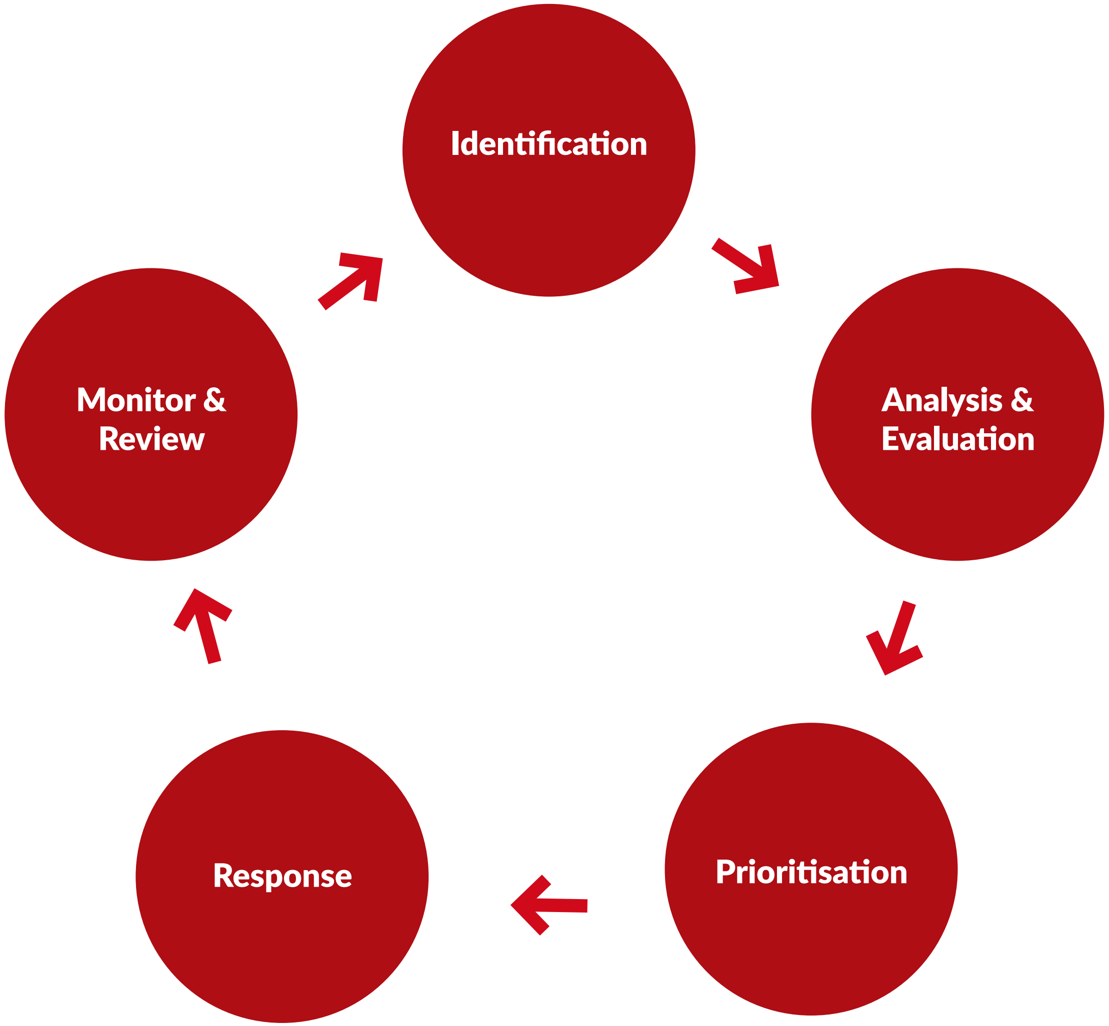
1. How likely it is that the risk could happen.
2. If the risk did happen how much difference would it make to the Collective Plan and could it negatively impact the rate or amount of benefits in the Collective Plan.
3. What can be done about the risk. Would it be ok to accept it, can it be made less likely to happen, can it be moved somewhere else (for example giving a risk to an insurer by taking out insurance) or can it be avoided by stopping doing something?

   All of these things are thought about and written down in a risk register, where each risk is given a risk rating. This provides a document that the Trustee can keep looking at and thinking about. This helps them notice as things change and think about what it means for the Collective Plan and whether action could be taken to help reduce the risks.

The design of the Scheme's CDC Section (the Section which pays your **income for life**) means that what you receive from the Collective Plan can go up, down, or stay the same. Part of the risk register is about checking the Trustee is monitoring the things that can make a difference to whether your benefits go up or down. This includes many risks, like investment performance, inflation, interest rates, making sure advisers and the Trustee are doing their jobs properly and monitoring that the payments of contributions are made on time (and making sure the Collective Plan data is accurate).

Because there are lots of different risks that can make a difference to the Collective Plan it is important that the Trustee is always looking at risks.

**This means the process runs in a continual circle, as outlined below:**




# What would happen if the Collective Plan is discontinued?

The Collective Plan has been designed with the intention that it will be open for the long term.

However, as with any pension scheme, there are some circumstances in which one or either of the CDC or DBLS Sections could be discontinued. In this event, contributions to the affected Section would stop and everyone would stop building up benefits in that Section. The Trustee then determines whether to continue to run-on the Section as a 'closed' Section or to 'wind-up' the Section.

If the Trustee decides to continue to run a Section 'closed', no new benefits would build up, but generally, nothing else would change. Your **income for life** or **lump sum** would be paid to you at retirement based on the period of time you paid into the Collective Plan. The Trustee would also continue to perform valuations each year (see page 14) to see if benefits need to be adjusted.

If the Trustee decides to (or has to) 'wind-up' a Section, then no new benefits would build up and the assets of the Section would usually be split up in order to provide every member with a replacement retirement benefit.

This could take up to two years to make the necessary arrangements. The Trustee will be responsible for calculating everyone's share of the assets and this will be periodically updated up to the point at which they are moved, or paid out of the Collective Plan, in line with the processes summarised below.

There are circumstances where the law may require the Trustee to wind-up. Where the Trustee is able to decide whether to run as a closed Section or to wind-up, their decision will include consideration of whether there are enough reserves available in the Section to meet all future expected expenses of running a closed Section. If a Section is run-on as closed, it is expected that at some point in the future, when the number of members has decreased significantly, the Trustee would then decide to wind-up the Section.

# Winding-up the CDC Section

The Collective Defined Contribution (CDC) Section is the Section of the Collective Plan which is designed to provide your **income for life**.

If the CDC Section were to be wound-up, your benefits would be moved to another pension arrangement and you would no longer receive an **income for life** from the Collective Plan.

If you have already started getting your **income for life** from the Collective Plan (or start to get your **income for life** from the Collective Plan during the period of winding-up), you will receive monthly payments until the benefits are moved or paid out of the Collective Plan. Your **income for life** would usually be at the rate at which it was when wind-up started (or, if your **income for life** starts during wind-up, normally at the rate it would have been at the start of wind-up). It could however go down during this time, if it is assessed that the assets would be insufficient to pay the **income for life** if it were for life and if the Collective Plan were not in wind-up (a bit like the way in which it could go down before the Section began to wind-up).

Under the Trust Deed & Rules of the CDC Section, each member's benefits have to be used in one of the ways permitted by law. This means that each member's benefits would, at the end of the wind-up, either be transferred to a permitted type of pension arrangement or to an annuity with an insurance company (who would then pay you a regular guaranteed income in retirement), which can be chosen by the member. If no choice is made then it would be transferred to a permitted type of pension arrangement, or an annuity with an insurance company, chosen by the Collective Plan Trustee. The Trustee would write to you to let you know what choices you have (if there is more than one option) and what is proposed to happen to your benefits if you don't make a choice.

Following the transfer, there is no guarantee that you will receive the same payments as you would have received under the CDC Section, in fact you would usually get different payments. If the assets are used to purchase an insured annuity, the income you receive from the annuity is very likely to be significantly lower than what you had built up towards your **income for life**.

If a member were to die whilst the winding-up arrangements were being made, an income would be expected to be paid to a qualifying dependant and the Trustee would make arrangements to pass on at the end of the process the remaining value of the deceased member's share of the assets to their dependants (or their next of kin or survivors, if they did not have any dependants).

The Trustee expects to be able to pay the day to day running costs and the costs of winding-up the CDC Section from the reserves that it builds up from payments taken from Royal Mail's contributions.

# Winding-up the DBLS Section

The Defined Benefit Lump Sum (DBLS) Section is the Section of the Collective Plan which is designed to provide your **lump sum**.

The DBLS Section could be discontinued and wound-up alongside or separately from the CDC Section, and each member's benefits would then have to be moved out of the Collective Plan in line with the Trust Deed & Rules of the DBLS Section.

At the end of wind-up process most member's benefits are expected to be transferred to another pension arrangement. Like with the CDC Section, this could be to an arrangement chosen by the Collective Plan Trustee or the member. For some members their benefits may be able to be paid as a cash lump sum, though this is only available if you are close enough to retirement and your **lump sum** is below a certain amount set out in law, and may be subject to the consent of Royal Mail. Under the Trust Deed & Rules of the DBLS Section, members' benefits could also be used to purchase an annuity with an insurance company (a regular guaranteed income in retirement).

As with the CDC Section, the amount transferred would be based on the estimated cost of paying your **lump sum** had the DBLS Section continued.*

If the DBLS Section is to be wound-up, it may not have enough money to provide everyone's benefits in full. If this happens, Royal Mail will have to top up the DBLS Section enough to pay the **lump sums** (but without any further increases). If this is not possible, for example, if the Royal Mail Group became insolvent, your **lump sum** benefit could be reduced. In such circumstances, you may receive a reduced benefit from a compensation arrangement set up by the Government called the Pension Protection Fund. More information can be found at **www.ppf.co.uk.**

As the with CDC Section, there would be a period of time between the start of the winding-up process and members' benefits being moved or paid out of the Collective Plan. If you retire or die during this period, your **lump sum** would normally be paid as the same amount it would have been at the start of wind-up.

Also, funds from the DBLS Section would be used to meet the costs of running the DBLS Section during this period, unless Royal Mail agreed to pay such expenses.

*Similarly to the **income for life** Section, the transfer value for each £ per year of your **lump sum** is usually higher the older you are. For example, if a 66-year-old and a 20-year-old had built up the same amount of **lump sum** to date, the transfer value for the 66-year-old is usually much higher than the transfer value for the 20-year-old. This is because the Collective Plan needs to start paying benefits sooner for older members. For younger members, the investments will have more time to grow before their benefits are payable, and so it is estimated that not as much money needs to be held now to pay those benefits. In other words, as members get closer to retirement, the transfer value would usually grow until it is enough to meet the estimated cost of starting to pay their benefits.

# Additional Voluntary Contributions (AVCs)

If the Collective Plan is being wound-up, the value of any Additional Voluntary Contributions (AVCs) you hold in the Collective Plan would also have to be moved or paid out of the Collective Plan, along with your other benefits, under the Trust Deed & Rules of the DBLS Section. As these are held as individual pots in your name, there is no share of the assets to calculate. Once your pot has been realised, the proceeds will be used in one of the ways summarised above.