
England's first hybrid retirement plan gets a tentative start

By Editorial Staff Tue, Feb 6, 2018

Under a recent agreement, the Royal Mail will contribute 13.6% of members' pensionable pay to a new type of DB/DC hybrid plan and union members will contribute 6%. Government approval will be required.



After months of negotiations, Britain's Royal Mail and the leadership of the Communications Workers Union (CWU) have agreed to create the United Kingdom's first "collective defined contribution" (CDC) retirement plan. It will deliver non-guaranteed retirement income to participants.

The Royal's defined benefit pension (RMPP) will stop accepting contributions on March 31, 2018. It will be replaced by CDC, a hybrid of defined contribution and defined benefit that has been dubbed "defined ambition" in the U.K.

But there's a big hurdle left. Royal Mail and the CWU must lobby the British government to make legislative and regulatory changes so that they can establish their plan, IPE.com reported. CWU members must vote on the proposal and have been encouraged by the union to accept the deal.

Under an agreement made public this week, Royal Mail will contribute 13.6% of members' pensionable pay to the new CDC plan and union members will contribute 6%. The plan would pay a target level of income in retirement, but the income level would not be guaranteed.

A "defined benefit cash balance scheme" will exist alongside the CDC. It would fund the payment of guaranteed lump sums to members at retirement, with discretionary increases if investment performance allows. Until a CDC scheme is officially launched at Royal Mail, employees will save into the company's existing defined contribution plan and the new cash balance fund.

Royal Mail said the new pension arrangement would cost roughly £400 million (€457 million or \$563.65 million) per year. That's comparable to the cost of its existing DB pension, but without the longevity risk or market risk. Last year, Royal Mail warned that its annual pension costs could reach £1bn (€1.124 billion) if the RMPP were not changed.

The new pension arrangement is "an affordable and sustainable solution that enables us to continue to innovate and grow and to meet the intense competition with confidence," said Moya Greene, Royal Mail's CEO, in a statement.

The birth of UK CDC

In 2015, the UK passed primary legislation to allow defined ambition plans, but the government abandoned the idea and has not yet introduced the secondary legislation required to make them possible. In

November, the Work and Pensions Select Committee of the UK's parliament launched an inquiry as to how the plans would work.

The Select Committee wants to "retain some of the best features of [defined benefit pensions] in a different age when employers are no longer willing or able to sustain the burden of final salary promises to employees, who could club together and pool the risk themselves," Frank Field, chair of the committee, said this week.

The committee's call for evidence closed yesterday with 19 responses so far made public. Respondents include academics, consultants, trade bodies and pension funds, including master trust NEST and Dutch civil service scheme APG.

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