BIS | Department for Business Innovation & Skills

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STATUTORY INSTRUMENTS UNDER THE POSTAL SERVICES ACT 2011 TO IMPLEMENT THE GOVERNMENT'S PROPOSALS FOR THE ROYAL MAIL PENSION PLAN

The Postal Services Act 2011 enables the relief of the Royal Mail Pension Plan's (RMPP) huge and volatile pension deficit. This is a critical step in Government's commitment to secure the future of the universal postal service and help facilitate a sale of shares in Royal Mail. The statutory instruments laid today provide for the implementation of this policy on 1 April 2012, subject to the European Commission's approval for our plans under State Aid rules.

The instruments have been developed in close collaboration with the Trustee of the RMPP to help ensure member benefits and interests are protected.

The Transfer of Accrued Pension Rights Order establishes a new, unfunded public pension scheme - the Royal Mail Statutory Pension Scheme (RMSPS) - to take over the bulk of Royal Mail's historic pension liabilities. It establishes 31 March 2012 as the cut-off date up to which point all benefits built up by members will transfer across to the RMSPS. Royal Mail will retain ongoing responsibility for all benefits earned by members after this cut-off date. The order ensures that members are not disadvantaged by the transfer to the RMSPS in relation to the pension benefits they have accrued up to the cut-off date and includes specific safeguards against any subsequent amendment to the RMSPS. These safeguards mirror the protection of accrued pension rights that members currently enjoy in the RMPP.

As a result of this Order, all of the 432,000 members of the RMPP will have at least some of their pension rights in the new RMSPS. For pensioners and deferred[1] members all their benefits will transfer to the RMSPS while for current employees only their benefits accrued up to the cut-off date (i.e. 31 March 2012) will transfer. As a consequence current employees will receive pension payments from both the RMSPS and the RMPP when they retire. This is due to the RMPP remaining responsible for future accrual and for any increases to historic pensions that result from above inflation salary awards paid after the cut-off date of 31 March 2012.

The Government is committed to ensuring that members continue to receive as seamless a service as possible when their liabilities transfer to the RMSPS. A governance group is being constituted to monitor the ongoing administration and management of the scheme. I am delighted that the governance group will be chaired by Alan Pickering who has a wealth of experience in the area of pension provision. This group will also include a member nominated representative and representatives from the Royal Mail unions - CWU and Unite CMA - and in addition the National Federation of Occupational Pensioners. The RMSPS will continue, at least for a transition period, to be administered by the same in house Royal Mail team that administer the RMPP. As a result all members will continue to be able to use the same helpline numbers and points of contact for any queries they might have.

A 'Statement of Amendments' has also been published alongside the Statutory Instruments.[2] This document contains the changes to the RMPP's trust deed and rules that are required as a consequence of the transfer of assets and liabilities to the Government (e.g. to reflect the fact that current employees will have benefits in the two schemes). These changes are given effect by the Transfer of Accrued Pension Rights Order. One of the changes in the Statement of Amendments relates to the Post Office. In line with the provisions of the Postal Services Act, Post Office Limited (as opposed to Royal Mail) will not be for sale and the two businesses will therefore be separated. Edward Davey announced in January that a new long-term distribution agreement is already in place between the businesses, and they will separate operationally from 1 April 2012. Consequently, the changes set out in the Statement of Amendments include the creation of a new dedicated Post Office Limited section within the RMPP.

The second instrument - the Transfer of Assets Order - divides the RMPP's assets between the Government and the RMPP. It ensures the RMPP is left fully-funded in respect of its residual liabilities as at the 31 March 2012. As a result of the Government's action the ongoing RMPP will not only be left fully funded but will also be reduced in size from around £40 billion of pension liabilities to closer to £2.5

[1] Deferred members are those who have left employment with Royal Mail but have not yet retired (and so their pension is not yet in payment).

[2] The 'Statement of Amendments' has been placed in the Library of the House and will be published on the BIS website.

billion. This represents a much more manageable scheme for the company going forward.

The assets transferred to Government as a result of this process will be sold down in a measured fashion, with the proceeds transferring to the Consolidated Fund. Government intends to realise the majority of the assets within the first two years following the transfer, subject to any sale of assets representing value for money to the taxpayer. As a result of these considerations, it is likely that certain less liquid assets, such as property and private equity, will take longer to realise.

I am delighted to be able to lay these instruments before the House. They are a vital step towards securing the future of the universal postal service and ensure that the accrued rights of RMPP members are protected under a new Government pension scheme. The implementation of the legislation is dependent on the European Commission's approval under State Aid rules but we expect the decision to be forthcoming in the coming weeks. We intend to publish the text of this letter on the BIS website as background to the Statement of Amendments and other documents supporting the legislation.

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