

Annual Report 2015/16

To the Minister for the Cabinet Office, on
the Royal Mail Statutory Pension Scheme

Alan Pickering CBE

Chair of the Royal Mail Statutory Pension Scheme Governance Group

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Executive Summary

In 2015/16 the Royal Mail Statutory Pension Scheme (RMSPS) has continued to build successfully on the strong foundations put in place over the previous years. I am very pleased to report that the service provided to almost 402,000 members is still of a high quality and that the commitments made by Government to a seamless service with the ongoing Royal Mail Pension Plan (RMPP) are being maintained.

Our pension administrator, Royal Mail's Pensions Service Centre (PSC) in Chesterfield provides a high quality service with very few formal complaints. The RMSPS Management Team has continued to work closely and very productively with their counterparts in the RMPP, to build on the already close working relationship and maintain the alignment of the schemes.

The workload in discretionary cases did not increase as expected and complaints remain at an exceptionally low level for a scheme of its size. Financially, I am very happy to report that the accuracy of actual monthly payments was within 0.3% of the forecast. The administration costs were also below the budgeted amount, so I remain very impressed with the management and financial controls.

The Department for Business, Innovation & Skills (now, the Department for Business, Energy & Industrial Strategy) remains an interested stakeholder in the RMSPS and are an active member within our Governance Group because of changes within the Post Office Ltd.

Good progress was made on the early stages of the procurement for a new pension administration contract last year, however, the pace slowed down this year due to changes in management and issues with resources, which, hopefully, have now been resolved.

Overall, the Cabinet Office (CO) team are managing the scheme to a very high standard and I would like to thank all of those involved in making the RMSPS a success in its fourth year of operation. Additionally, I am grateful to the Minister for the Cabinet Office for meeting with me so I could brief him on progress and discuss relevant topics. I anticipate further productive meetings in the future.

I look forward to the coming year when we hope to maintain the high level of service to members and to make further progress on the procurement.

A handwritten signature in black ink that reads "Alan Pickering".

Alan Pickering CBE
Chair of the Royal Mail Statutory Pension Scheme Governance Group

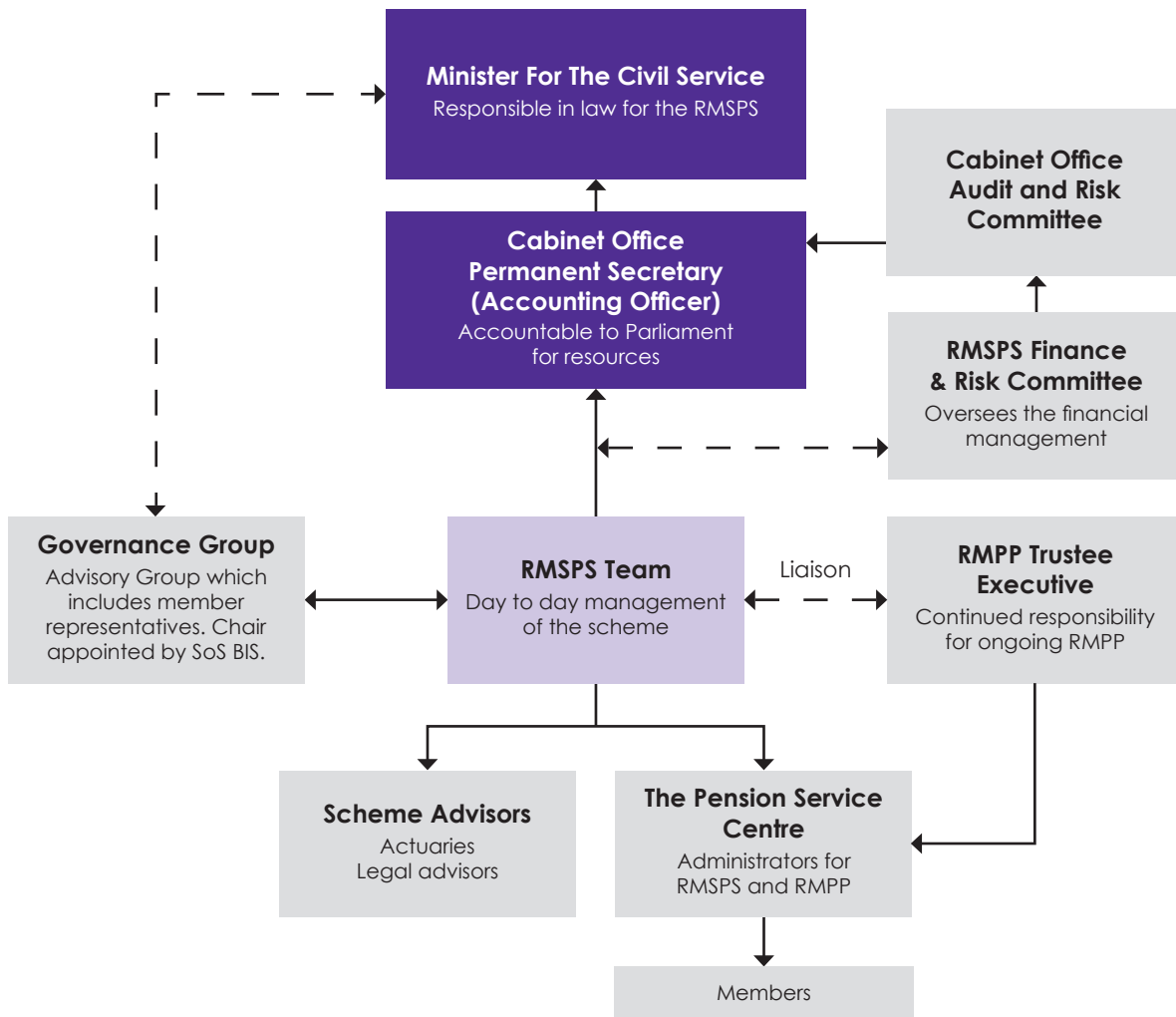
Governance Group

The scheme is overseen by the Governance Group (an advisory body) and I am happy to report that it operates effectively. The link with BIS is maintained by Paul Williams, attending to represent the BIS Secretary of State, otherwise the position the Group sits in within the Governance Structure remains the same (Figure 1).

The Group plays a large part in our engagement with the key stakeholders; providing assurances that the quality, seamless service is being delivered and receiving feedback from scheme membership, other stakeholders and employers.

Meetings are held every quarter and the Group receive a dashboard and report from the PSC and the RMSPS Management Team, alongside a number of papers on any issues or actions we have to make for the scheme or where we seek the Group's advice.

Figure 1 Governance Structure



Terms of reference and attendance

I am happy to report that the original objectives for the Group to be efficient and cost effective, transparent and robust, and compliant with both the relevant best practice and policy for public service schemes, have all been achieved. No changes have been made to the Group's terms of reference. A copy is included at Annex A.

Attendance at the meetings throughout the year is largely consistent, and engagement is good (Table 1).

A member of the RMPP Trustee Executive also attends the meetings and his input is invaluable in providing assurance of the delivery of the seamless service.

During the year, much corporate knowledge of the RMSPS was lost when three individuals, who were instrumental in bringing the scheme in from BIS, left the Cabinet Office. These roles were not filled permanently although some additional resource has been added to the RMSPS management team who now report to a newly appointed Government Chief People Officer, (CPO) within Cabinet Office. I have already started building my relationship with these people and the CPO as we enter another busy year of activity on the Scheme.

Table 1 Governance Group Attendance

Members (Attendees)	Apr 2015	Jul 2015	Oct 2015	Jan 2016
Chair of Governance Group	√	√	√	√
Treasury Nominated Rep	√			√
Royal Mail Group	√	√		√
UNITE – The Union	√		√	√
Post Office Limited		√	√	√
National Federation of Occupational Pensioners	√	√	√	√
Communication Workers Union (2 reps)	√√	√√	√√	√
Cabinet Office Members (2 reps)	√	√	√	√√
Department for Business Innovation & Skills	√	√		√

Governance Group themes

The RMSPS is not included in the scope of the Public Service Pensions Act 2013, however, since its inception the decision was made that the RMSPS would comply “with the spirit of it”. This year we continued our training programme by holding sessions on “making discretionary decisions”, “scheme audit and accounts” and “internal dispute procedures” presented by the Cabinet Office team and “scheme compliance” presented by PSC. All were received well and contributed greatly to our objective of improving knowledge of the RMSPS.

Towards the end of 2015, a one-off exercise was carried out to identify deceased members in Northern Ireland, which was due to a gap in the death registers used for checking existence. A number of members complained about the process, lack of consultation and difficulties they had in complying with the requests. Although the number of complaints (40), was small in comparison with the number of letters sent (549), the majority were members of the National Federation of Occupational Pensioners and this was raised at their annual conference and discussed at the Governance Group in January and in April 2016 letters of apology were sent to all.

The Finance and Risk Committee

The Finance and Risk Committee oversees the financial performance of the RMSPS and, although this is not part of my formal remit, I have been happy to observe that this committee provides a strong control mechanism for the scheme. The Chair, Jerry Page, who was part of the team who brought the RMSPS into the Cabinet Office, retired, and the new Chair, Helen Gibson, took on the role until January when she went on maternity leave. Jon Grayson will cover this role until Helen's return. The Committee meets every six months and at other specific times when required to respond to business need. The management accounts for 2015/16 were again unqualified.

Member communications

Member communications remain appropriate, effective and in alignment with RMPP, and the following were sent out in 2015/16:

- ↘ Pension increase letters and P60s to all pensioner members in March and April 2015.
- ↘ Annual benefit illustrations to those still in active service and a current value statement to deferred members in August/September 2015.
- ↘ Letters to members living overseas, aged over 80, were sent in February 2016 to seek confirmation of their continued entitlement.
- ↘ We use the RMPP website for members to access leaflets and information.

Reporting to the Minister

I met with the Minister in November 2015 to provide an update on the RMSPS and the meeting was constructive and productive.

The Minister was assured of the ongoing success of the scheme and the procurement work, and we agreed to meet in the next year to continue to provide him with updates of our progress.

Stakeholders

Employers of the RMSPS

Members of RMSPS come from two major employers; Royal Mail Group (RMG) and the Post Office Limited (POL) with associated employers. Both the POL and RMG are members of the Governance Group and regarded as key stakeholders of the scheme. Outside of the group I met with both employers separately; meeting with the RMG twice, and with POL twice.

A good relationship with the employers is particularly important for the RMSPS because of the unique position of the PSC. RMG own the PSC, which currently administers the pension scheme on behalf of the RMSPS and both employers. The three way relationship between employer, RMPP Trustees and the PSC is a complex one, but we continue to maintain open channels of communication with both employers so that we can take early action, should any changes be planned that might impact our RMSPS members. This year, these channels have been productive in discussing procurement and helping to ensure that any risks to continuity in service to members in putting a new contract in place are well managed.

Trade Unions

There are two major trade unions to which members of the RMSPS may belong; the Communication Workers Union (CWU), and Unite the Union (Unite). They are key stakeholders of the scheme and representatives of both unions attend the Governance Group.

Outside of the Group I met with the CWU once and Unite twice during the year. These meetings have been useful in highlighting any problems their members have contacted them about or anything that may become an issue.

Both unions have direct contact with the RMSPS Management Team throughout the year to discuss individual member problems and resolve them quickly, or to clarify more general issues relating to the scheme.

National Federation of Occupational Pensioners

The National Federation of Occupational Pensioners (NFOP) is the largest occupational pensioner organisation in the UK, providing help and support to almost 70,000 members, of which more than

26,000 are members of RMSPS. The NFOP is a non-political organisation, although it does lobby MPs and Peers, and regularly responds to Government consultations on issues affecting older people. They are a particularly engaged member of the Governance Group, contributing much feedback from members, and their leaflets are distributed along with our regular mailings.

The NFOP are represented on the Governance Group because of the historic links with the RMPP, and we have agreed that the PSC can issue NFOP membership application forms to RMSPS members who are close to retirement age.

The Royal Mail Pension Plan

I am pleased to report that the close day-to-day working relationship between the RMSPS Management Team and Royal Mail Pensions Trustees Ltd (RMPTL), who manage the RMPP, has been maintained. The two teams also meet formally on a quarterly basis to discuss a wide range of issues and proposals relating to membership, and to ensure the seamless service is delivered.

Over the year the RMSPS team have worked with the RMPTL on a range of joint operational areas such as:

- ↳ incapacitated child pension review;
- ↳ ill health retirement process;
- ↳ annual audit of the delegated powers given to PSC;
- ↳ guidance to PSC, including shared 'lessons learned' on processes;
- ↳ joint complaint cases, and;
- ↳ improving / simplifying the range of letters that both schemes use.

The RMPTL team's guidance, advice and support is invaluable, with the good working relationship being a significant contributory factor to the delivery of the seamless service.

Membership statistics

The RMSPS has two types of members; Pensioner members (who are in receipt of a pension from the RMSPS), and deferred members (who are not yet in receipt of their pension). Current statistics are shown below (Table 2). Numbers have remained fairly consistent in the last two years, but we expect the number of deferred members taking up their pension to increase sharply towards the end of the decade.

Table 2 Membership Statistics. Includes those with joint benefits: 97,023 deferred and 19,591 pensioners

Class of membership	Apr-12	Apr-13	Apr-14	April-15	April-16
Pensioners	183,829	183,798	184,954	186,219	188,906
Deferred	241,994	236,463	229,519	221,807	212,859
Total	425,823	420,261	414,473	408,026	401,765

The Pensions Service Centre

Contractual arrangement

I am pleased to report that the agreement with RMG for the services of their Pensions Service Centre (PSC), which is based on a sharing of the costs of the PSC between the RMSPS and RMPP, is working well. The good relationship established over the past four years, has been maintained so that we have all met our commitments to deliver a high quality service. PSC were again recognised in the pension administration industry by winning two awards for administration.

PSC provide a monthly scorecard report to the RMSPS Management Team. They also provide information for the RMSPS Quarterly Report, which is presented as part of the papers to both the Governance Group and the Finance & Risk Committee. Monthly meetings are held with PSC management team to review both the performance and quality of service under the contract and to identify and manage risks. The meetings also provide an opportunity to discuss policy areas and plans that the PSC or RMSPS management teams are working on that may impact each other.

I was pleased that the risk of pension payments not being made in the event of a business issue arising remains minimal; PSC have a robust business continuity plan, which was successfully tested in January 2016.

Performance and reporting

I receive a monthly dashboard and quarterly report, both of which include information on PSC performance. I am happy that the format, quality and content of the reports provide me with sufficient information to be assured that, in all aspects, the scheme is performing well. All targets have been achieved and, in many cases, exceeded.

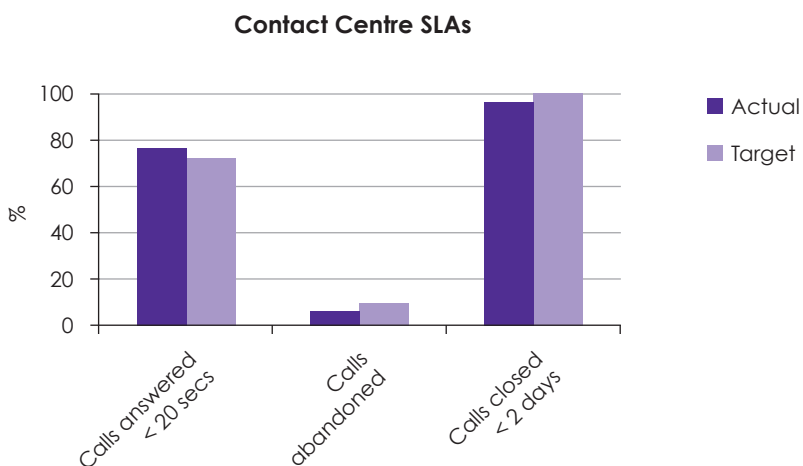
Overall performance against a target SLA of 100% across a range of areas relating to member services was achieved (Figure 2). This target of 100% has been met in 7 areas and the remainder were within tolerance. I was particularly pleased that one of these areas was pensioner payroll, where in excess of 2.5 million transactions are completed each year.

Figure 2 PSC performances against SLA of 100%



The contact centre, which hosts the member helpline, performed equally well (Figure 3). 77% of calls were answered within 20 seconds, against a target of 75% and 3% of calls were abandoned against a target of 5%. In the case of calls closed within 2 days, the target is 100% but 97% was achieved, which is realistic bearing in mind complex calls that will take longer than 2 days to resolve.

Figure 3 Performance of the Contact Centre



Overall, the level of customer satisfaction, which has a target of 95%, is extremely high, so I am very happy that RMSPS is delivering a quality service to its members (Figure 4).

Figure 4 Customer Satisfaction performance against 95% SLA



Overpayments

The amount of overpayments made and the percentage recovered is a strong indicator of the effectiveness of any pension administrator. The figures from the start of the RMSPS (April 2012) to April 2016, gives a better view of the rate of overpayments than looking at the year in isolation. I am pleased to report that PSC is still performing well with an overpayment rate which remains steady at 0.05% and to date 70% of overpayments have been recovered (Table 3). The balance is recovered through a rolling process of recovery over a period of years.

Table 3 Overpayments as at 31 March 2016

Total Overpayments (£)	Total Payments (£)	%
2,550,873	5,017,937,823	0.05%
Total Overpayments	Total Transactions	%
4,212	9,785,106	0.04%
OP's Recovered (£)	Total Overpayments (£)	%
1,796,591	2,550,873	70%

We continue to develop our processes to recover overpayments more efficiently. Achieving recovery where it is possible is our aim and whilst ensuring that resource is appropriately utilised so we do not unnecessarily chase overpayments where there is no realistic chance of recovery.

This is an area that the Governance Group monitors carefully.

Operations

Last year a temporary team were put in place to follow up on members who have not taken their pension at age 60 and this work was completed successfully. Another temporary team was put in place to start work on GMP reconciliation, which gave them a head start with getting information from HMRC and will result in improved data quality.

Issues

There were no issues within the Pensions Service Centre in the financial year.

Advisors to the scheme and their input

Actuarial advisors

The Government Actuary's Department (GAD) continues to play a key role in providing traditional actuarial services; they are a member of the Finance & Risk Committee.

Their advice on a wide range of queries and inputs to gathering information for the procurement has been invaluable and overall GAD has made a very worthwhile contribution to the success of the RMSPS because of their historic knowledge of the scheme.

Legal advisors

The lawyers in HM Treasury Solicitor's Department (TSol) (now known as Government Legal Department (GLD)) provided the RMSPS with primary legal advice.

The GLD team have provided an excellent legal service to the team, mainly in respect of advice on the scheme rules, overpayments and policy. Overall they have made a substantial contribution to the success of the scheme.

Casework

Discretions

The RMSPS has a wide range of discretionary powers in relation to death benefit payments and this is an area where volumes can be unpredictable so assumptions have to be made. There was an increase in actual cases of 36% from 2013/14 to 2014/15, however the actuals in 2015/16 reduced by 13% (from 633 to 549), which illustrates the unpredictability. The team have utilised this time to produce further guidance for PSC, which will, in turn, provide more time for them, should the cases increase next year.

Table 4 Discretionary decision cases

Type of cases	A	M	J	J	A	S	O	N	D	J	F	M	Totals
Discretions forecast	59	66	64	93	66	68	84	60	58	52	53	60	783
Discretions actual	51	50	56	43	37	59	47	51	40	35	39	41	549

The low level of complaints in this area shows that a quality service is delivered to members. The team work closely with RMPTL, who lead on the joint RMPP/RMSPS discretion cases.

Where there are particularly difficult or contentious cases, the RMSPS Discretions Panel can review and provide the Discretions Manager with support in coming to a decision. In this financial year,

one case was considered by the panel and agreement reached.

For joint discretion cases where power of delegation has not been given or where the outcome may be unclear or contentious, a joint Discretions Sub-Committee is in place to discuss and decide the cases. This is made up of members appointed by the RMPP Trustee board and members of the RMSPS Management Team. The committee have exercised their discretion on 13 cases during the last year.

I was pleased to receive the audit report on discretionary decisions, carried out by the RMSPS team that showed that there were no significant issues in the decisions made by the PSC or RMSPS team. The report made a number of good proposals where improvements can be made in processes or administration.

Complaints (dispute resolution)

The RMSPS operates a two stage dispute resolution procedure for dealing with complaints, which is similar to many other pension schemes. The number of Stage 1 and 2 cases has almost halved from last year. Some of this is due to lessons learned being implemented and some through better handling of initial complaints. I am pleased to report that the number of complaints is exceptionally low for a scheme of this size (Table 5).

Three cases went to the Ombudsman, who did not uphold the complaint on one case and on the other two cases we are still awaiting a final determination from the Ombudsman.

Table 5 – Total complaints received at each stage

Stage 1 PSC	Stage 2 RMSPS Team	Ombudsman
23	11	3

Financial management of the scheme

The RMSPS is the subject of a separate vote by Parliament to cover the cost of all pensions and pension related benefits. Additionally a budget is allocated to cover the administration cost of the PSC, which included; pension administration services (PSC), my salary, RMSPS team costs and the costs of advisors.

Pension payments

I am pleased to see that actual payments were within 0.3% of the forecast and that there were no issues raised in relation to the Vote (Table 6). The accuracy of forecasting is impressive, particularly in a scheme of this size.

Table 6 Monthly Pension Payments

	Forecast (£)	Actual (£)
YTD Total	1,326,335,000	1,321,808,467

Administration payments

Although the figures below show that actual spending, after income, was more than forecast, a credit note for £394,963 was not applied in time and the income was over-estimated by £150,000. After these are applied, the actuals were £54,321 lower than forecast budget, so I remain impressed by the tight financial control that the RMSPS team demonstrated, particularly as there were in-year budget cuts due to spending reviews.

Table 7 – Departmental RMSPS Budget

	Forecast	Actual
Paid	5,799,217	5,989,174
Income	-300,000	-149,315
Total	5,499,217	5,839,859

Annual accounts and external audit

I am pleased to report that following completion of an annual audit, the National Audit Office has recommended that the Annual Accounts should be certified with an unqualified opinion.

Policy issues

The quarterly management report provides me with an update on any policy issues that have arisen in the period. There have been no significant issues to report this year and the Cabinet Office team work closely with both RMPP and the PSC to identify any issues that could affect the scheme and seek to be pro-active to any that arise.

Discussions commenced with the Post Office on their plans to close their section of the RMPP and to ensure we understand any possible impacts on members or the rules.

Changes to the rules

No changes to the rules were made in the financial year and none are currently planned.

Other issues

There were no other major issues that impacted the scheme.

Future planning

While continuing to deliver a quality service to our members and meet business as usual obligations, the procurement for a new pension administration contract remains a major piece of work for 2016/17. There have been unexpected delays due to issues with resourcing, changes in management and a range of other issues, but the team are working towards awarding a contract by March 2017 and I have assurances that business as usual will not be effected through the procurement and transition to a new contract. There are new risks to manage and these are being carefully thought through to understand the impacts and the mitigating actions to take.

Discussions with the Post Office regarding their proposals to close their section of the RMPP will be concluded.

The team will also be monitoring work load carefully to identify where steps need to be taken on finding resources, should there be a sudden increase in cases.

Conclusion

I am pleased to be able to present a positive report for a year that has had a wide range of challenges for the team, who continue to deliver quality work at pace. Next year will be challenging in terms of business as usual and finalising the procurement. I am confident that the team, and everyone involved will do their best, while rising to any new challenges that invariably arise in a scheme of this size.

Annex A

Terms of Reference for the Governance Group of the Royal Mail Statutory Pension Scheme (RMSPS)

Effective Date: 1 April 2012 – agreed by the Group on 1 April 2014

1. Purpose of the Governance Group

The RMSPS Governance Group is an advisory group with four primary functions:

- ↘ It oversees the administration of the RMSPS scheme and receives reports that provide assurances on its performance and efficiency. This will include reporting on any feedback received from stakeholders from the scheme membership.
- ↘ It oversees and inputs into communications with the scheme membership and other stakeholders and reports back on any stakeholder views on business as usual or other additional communications.
- ↘ It monitors cross-scheme issues to ensure consistency and a seamless service for members.
- ↘ It develops co-operative working relationships with all of the stakeholders of the RMSPS and provides a forum to receive feedback from them on their organisations' or members views or issues with the scheme.

2. Changes to the terms of reference

- 2.1. The terms of reference can be amended by agreement between the Chair of the Governance Group and the Head of the Scheme Management of the RMSPS.

3. Appointment and removal of group members

- 3.1. The Chair of the Group is appointed by the Secretary of State (Minister for the Cabinet Office) for a two year term which may be renewed.

- 3.2. The Governance Group will have one member from each of the following nominating bodies;

- ★ Cabinet Office
- ★ HM Treasury
- ★ BIS
- ★ Royal Mail Group.
- ★ Post Office Limited
- ★ National Federation of Occupational Pensioners
- ★ Communications Workers Union (Two members)
- ★ UNITE the Union

- 3.3. Members of the Governance Group will be nominated by the bodies listed but will represent the interests of all of the Schemes' beneficiaries and stakeholders and not just those of the nominating body.

- 3.4. Governance Group members will be appointed for a two year term which may be renewed. For the first appointments in 2012, five group members will be appointed for one year only, but may then be further nominated. This is to avoid all members' terms of office ending at the same time.

- 3.5. Governance Group members are expected to attend all meetings in person and there will be no alternate representation.
- 3.6. Governance Group members may be removed at the decision of the Chair if they fail to attend three consecutive meetings.
- 3.7. Other than for non-attendance outlined in 3.6 a member of the Governance Group may only be removed from office during a term of appointment with the agreement of all other Governance Group members.
- 3.8. Members of the Governance Group may resign from the Governance Group by giving three months' notice in writing to the Chair.
- 3.9. With the exception of those nominated by civil service departments, members of the Governance Group will cease to be members of the Group upon ceasing to be members of the nominating body. Civil servant members who change departments may continue to serve on the Governance Group to the end of their term of office at the discretion of the Chair.
- 3.10. In the event of resignation or other removal, the Head of Scheme Management of the RMSPS will ensure that an alternative member is appointed within three months of the date of resignation or removal.
- 3.11. In the event of resignation or other removal, the Governance Group can continue to meet and conduct its business.

4. Conduct of Business

- 4.1. The Chair will report the activities of the Governance Group to the membership and to stakeholders, including the relevant Minister.
- 4.2. The Governance Group will meet at least quarterly. Meetings will generally be at fixed intervals, but may be moved from time to time to correspond with any significant events relating to the RMSPS, for example, a major communication with members.
- 4.3. The Chair of the Governance Group may call a meeting at any time providing two weeks' notice is given.
- 4.4. It is not anticipated that there will be any sub-groups to the Governance Group but the Group may invite specialists or relevant experts to attend the meeting from time to time.
- 4.5. The Scheme Management function of the RMSPS will provide secretariat support to the Governance Group.
- 4.6. Minutes of all Governance Group meetings will be recorded. Draft minutes will be circulated to the Governance Group members by the Secretariat and will be ratified by members at the next meeting.
- 4.7. Members of the Governance Group will receive induction and ongoing training on relevant subject areas. This will be included in the regular meetings

Nominating Unit	Individual	Term
Chair	Alan Pickering	To 31 March 2018
Cabinet Office	Tony Odams de Zylva (Robert Branagh)	to 31 March 2017
	Jerry Page (Helen Gibson, Jon Grayson)	to 31 March 2017
HM Treasury	Bill Rayner (Stephen Humphrey)	to 31 March 2018
BIS	Paul Williams	to 31 March 2017
Royal Mail Group	Douglas Hamilton	to 31 March 2017
Post Office Limited	Harpreet Singh	to 31 March 2018
National Federation of Occupational Pensioners	John Hearn	to 31 March 2018
Communications Workers Union (Two members)	Mark Baulch	to 31 March 2018
	Katrina Quirke	to 31 March 2018
UNITE the Union	Brian Scott	to 31 March 2017

Note: Replacement in the year, in brackets

