Benefits on ill health, redundancy and early retirement

For employee members – Section A/B

Normally, the benefits you build up will be paid to you when you reach Normal Retiring Age (NRA). However, there are some circumstances where you may take your benefits early as explained in this guide.
Introduction

The Postal Services Act 2011 (the Act) introduced powers for the Government to take over responsibility for the majority of the assets and liabilities of the RMPP.

The Government has established a new pension scheme (the RMSPS) which will be responsible for paying the benefits that members of the RMPP had built up to the end of 31 March 2012 (the cut-off date). The RMPP will remain responsible for all pension benefits earned by members after the cut-off date (as well as some increases applicable to benefits earned up to the cut-off date and all Bonusplan and Flexiplan AVC accounts). This means that only those who were active members of the RMPP on 1 April 2012 will have any benefit entitlement from the RMPP.

Members who were already pensioners at the cut-off date will receive their entire pension from the new Government scheme – the RMSPS – as will those members who had left employment with the Company or opted out of the RMPP on or before the cut-off date but were not immediately in receipt of a pension (deferred members).

Members who were in employment with the Company on 1 April 2012 will receive two payments when they start to receive their pension – one from the RMSPS in respect of pension accrued up to the end of the cut-off date and the other from the RMPP in respect of pension accrued after the cut-off date (as well as some increases applicable to benefits earned before the cut-off date, as mentioned above).

The way that benefits will be allocated between the RMSPS and the RMPP is complex but the following explains broadly how it will be achieved.

- A benefit is calculated, on the same basis as if the Act had not been passed:
  - **Calculating what the RMPP pays**
    The RMPP will pay a sum which is equal to the overall benefit described above, less what you would have had from the RMPP if this calculation were done as at 31 March 2012;
  - **Calculating what the RMSPS pays**
    The RMSPS pays the benefits built up to the end of the cut-off date.

These calculations are carried out by the Pensions Service Centre (PSC).
Normally, the benefits you build up will be paid to you when you reach Normal Retiring Age (NRA). However, there are some circumstances where you may take your benefits early. This guide explains the benefits that you may be entitled to in the following circumstances:

- If the Company decides that you qualify for ill health retirement with immediate pension;
- If you are made redundant by the Company and qualify for immediate payment of your pension; or
- If you decide to take early payment of your benefits (and the Company agrees to this). In this situation, you will also need to read the guide ‘Flexible retirement options and benefits’, available to download from www.royalmailpensionplan.co.uk or on request from the PSC.

You will not be eligible to receive any enhancements for early payment of your benefits on ill health grounds if any of the following circumstances applies:

- You are not employed by the Company and your benefits are preserved;
- You have opted out of the RMPP and so are no longer contributing; or
- You have chosen a flexible retirement option which includes payment of your NRA 65 benefits.

However, you can still apply for ill health early payment; details can be found in the guide ‘Your options on leaving the RMPP – Section A/B’.

The benefits detailed in this guide only apply to members who are still employed by the Company and contributing to the RMPP on or after 1 April 2012.

This guide is intended to be a summary of the provisions of Sections A and B of the RMSPS and the RMPP as they relate to your benefits on ill health, redundancy and early retirement.

The RMSPS is governed by formal Rules. Responsibility for managing the scheme rests with the Manager of the RMSPS. If there is a conflict between the Rules and this guide (insofar as it relates to benefits payable from the RMSPS), the Rules will prevail.

The RMPP is governed by formal legal documents known as the Trust Deed and Rules and is managed by the Trustee. If there is a conflict between those documents and this guide (insofar as it relates to benefits payable from the RMPP), the Trust Deed and Rules will prevail.

This guide reflects current tax laws.
Retirement on ill health grounds with immediate payment of benefits

If the Company ends your reckonable service by retiring you because of ill health, then you will receive benefits equal to:

- The benefits you have built up to the date you actually retire, calculated in the same way as for retirement at Normal Retiring Age (see pages 5 and 6 of the ‘Guide to benefits – Section A/B’); provided that, if your NRA 60 benefits are already in payment, they will continue to be paid at the same level;
- An additional annual pension calculated as 1/80th of your CSDB pensionable salary over your last 12 months’ reckonable service before your retirement, for each year (and part year) of your additional reckonable service credit; plus
- An additional lump sum of three times this additional annual pension.

Your additional reckonable service credit, in this case, is calculated as the higher of:

- An enhancement to increase your reckonable service up to 20 years;
- An additional 6½ years’ reckonable service; or
- An enhancement of 75% of the reckonable service you would have completed between the date you actually retired and age 65.

Please note: Your additional reckonable service credit cannot be greater than the reckonable service you could have completed between the date you actually retire and age 65.

If you worked part-time, your additional reckonable service credit will be calculated on a pro-rata basis (based on your actual part-time hours worked during your actual reckonable service).

As for retirement at Normal Retiring Age, the maximum combined pension and lump sum you can get would be that calculated using a maximum of 45 years’ reckonable service.
Example:
Steve retires due to ill health on 30 September 2012 at age 48. Steve has 28 years’ full-time total Company service and 28 years’ reckonable service (of which 23½ years were earned before 1 April 2008 and 4½ years on or after 1 April 2008). This total reckonable service is enhanced in whichever of the following ways gives Steve the best result:

1. Up to 20 years (not applicable in this example since Steve already has over that amount of service);
2. By 6½ years; or
3. By 75% of the reckonable service Steve would have completed between the date he actually retires and age 65 – that is 75% of 17 years = 12¾ years.

The highest amount in this example is, therefore, option 3, 75% of Steve’s potential future reckonable service. Therefore, his additional reckonable service credit is 12¾ years.

If Steve’s actual CSDB pensionable salary over the 12 months from 1 October 2011 to 30 September 2012 is £20,000, his additional pension would be:

\[ \frac{1}{80} \times 12.75 \times £20,000 = £3,187.50 \text{ a year} \]

The additional lump sum would be:

\[ £3,187.50 \times 3 = £9,562.50 \]

These benefits would be paid on top of the benefits that Steve had built up based on his actual reckonable service to 30 September 2012 (calculated in a similar way to the normal retirement example on pages 5 and 6 of the ‘Guide to benefits – Section A/B’).
Leaving the Company on ill health grounds with a lump sum payment

If you leave the Company on ill health grounds, other than those shown on pages 4 and 5 (permanent incapacity), you will be entitled to preserved benefits from the RMPP together with your pre 1 April 2012 benefits preserved in the RMSPS.

You may also receive a separate lump sum payment from the Company (not from the RMSPS and/or the RMPP).

Please note: The ill health test used by the Company, for the purposes of the separate lump sum that might be paid outside the RMSPS and/or the RMPP, is a different test from the one that is set out in the Rules of the RMSPS and the RMPP and in this guide. Please refer to the National Ill Health Retirement Agreement between the Company and the Unions (a copy is available from your Union or HR department).
Retirement on redundancy with immediate payment of benefits

Except for members in a grade represented by the CWU, if you are retired on the grounds of redundancy, after age 55, you will receive benefits equal to:

- The benefits you have built up to the date you actually retire, calculated in the same way as for retirement at Normal Retiring Age (see pages 5 and 6 of the ‘Guide to benefits – Section A/B’) provided that, if your NRA 60 benefits are already in payment, they will continue to be paid at the same level;
- An additional annual pension calculated as 1/80th of your CSDB pensionable salary over your last 12 months’ reckonable service before your retirement, for each year (and part year) of your additional reckonable service credit; and
- An additional lump sum of three times this additional annual pension.
Your additional reckonable service credit, in this case, is calculated as the lower of:

- \( 6\frac{3}{4} \) years; and
- The number of years of *reckonable* service you could have completed between the date you actually retire and age 65.

**Please note:** Your additional reckonable service credit cannot be greater than your actual *reckonable* service up to the date of retirement.

If you worked part-time, your additional reckonable service credit will be calculated on a pro-rata basis (based on your actual part-time hours worked during your actual *reckonable* service).

If you are in a CWU represented grade, you will only receive enhanced benefits on redundancy if the Company decides that they will apply to you. Otherwise, your benefits will remain preserved until you reach Normal Retiring Age or you choose to take your benefits early (see the ‘Guide to benefits – Section A/B’ for more details and also the guide ‘Your options on leaving the RMPP – Section A/B’).
Flexible retirement
You may be able to take some or all of your benefits whilst remaining in Company employment. These options will be available once you reach the Minimum Pension Age (which is age 55). Note that in cases of ill health retirement, there is no minimum age for receiving your benefits.

If you are interested in flexible retirement, you can find out about the options available to you and how your other benefits (for instance death benefits) are affected by reading the following guides, which can be downloaded from www.royalmailpensionplan.co.uk or are available on request from the PSC:

- Flexible retirement options and benefits
- Benefits payable when you die – Section A/B

General notes on early retirement
If you decide to take your NRA 60 benefits or NRA 65 benefits before Normal Retiring Age you may, after age 55, take your pension and lump sum immediately if agreed by the Company. Your benefits will be worked out in the same way as for retirement at Normal Retiring Age on pages 5 and 6 of the ‘Guide to benefits – Section A/B’, but will be based on your reckonable service and applicable salary at the date of taking your benefits.

Your pension and lump sum will be reduced for early payment on a basis determined by the Actuary.
The reduction applied to your pension for early payment will depend on a number of factors, in particular your age when you take your benefits and the proportion of your benefits which relate to **reckonable service** before and after 1 April 2010, as follows:

- Your **NRA 60 benefits** will be paid without reduction if you take those benefits on or after your 60th birthday;
- If you take your **NRA 60 benefits** before age 60, they will be reduced by a factor (calculated by the **Actuary**) related to the number of years (and part years) between the date you take them and your 60th birthday;
- Your **NRA 65 benefits** will be paid without reduction if you take those benefits on or after your 65th birthday; and
- If you take your **NRA 65 benefits** before age 65, they will be reduced on a basis (calculated by the **Actuary**) related to the number of years (and part years) between the date you take them and your 65th birthday.

**Are there any tax consequences?**

Since April 2011, the **Annual Allowance** has been £50,000 and it is expected to be fixed at that level until at least 2015/16. You can carry forward any Annual Allowance that you have not used from the previous three tax years to the current tax year. Any benefits built up in excess of the Annual Allowance will be taxed at your marginal rate of income tax.

Pension savings are tested against the Annual Allowance on retirement unless your retirement is with HMRC’s definition of severe ill health. Usually, that exemption only applies if you are unlikely to be able to work at any time up to State Pension age.

Further details about the Annual Allowance can be accessed via the information page at [www.royalmailpensionplan.co.uk](http://www.royalmailpensionplan.co.uk).
Glossary of terms

**Actuary** – An expert on pension scheme assets and liabilities, specialising in life expectancy and probabilities (the likelihood of things happening) for insurance and pension purposes. The Actuary for the RMPP is appointed by the Trustee and the Actuary for the RMSPS is appointed by the Government.

**Additional Voluntary Contributions (AVCs)** – Extra contributions you can pay to increase your RMPP benefits. You may pay up to a total of 100% of your taxable pay to the RMPP should you wish, including your normal contributions of 6% of contributory pay. However, please be aware that if you wish to pay significant additional pension contributions, they may have to be restricted to ensure that any normal regular deductions can still be made from your earnings. Details of the AVC arrangements are included in the Guide to Additional Voluntary Contributions which can be downloaded from www.royalmailpensionplan.co.uk or requested from the Pensions Service Centre.

**Company**

- For the RMG section, Royal Mail Group or any of its associated or subsidiary companies which are participating in the RMPP; and
- For the POL section, Post Office Limited.

**CSDB pensionable salary** – Means ‘Career Salary Defined Benefit’ pensionable salary. This is used to calculate the part of your benefits that relates to your service on or after 1 April 2008. It is the amount of your pay used to work out your pension and other benefits during each Plan Year. It is equal to your annual rate of basic pay, plus any other amounts stated as contributory in your terms and conditions of employment during the 12 months up to and including each renewal date.
Ill health – Means serious physical or mental ill health (not simply a decline in energy or ability) such that, in the opinion of the Company, you are permanently incapable of:

- Carrying out your duties;
- Carrying out such other duties as the Company might reasonably expect you to perform; and
- Engaging in employment with any other employer which, in the opinion of the Company, would be reasonable and appropriate for you.

However, if you:

- Become entitled to preserved benefits; and
- You were in reckonable service on 31 March 2000,

ill health means physical or mental disablement which permanently prevents you from providing regular and efficient service in your post.

The Company’s decision as to whether you are in ill health will be final.

Confirmation will be required from a registered medical practitioner that you are (and will continue to be) incapable of carrying on your occupation because of physical or mental impairment. In addition, if you are under 55 when you apply for a pension on ill health grounds, you must have ceased carrying on your occupation.

Manager – The Secretary of State or those to whom he has delegated responsibility for management of the RMSPS.

Minimum Pension Age (MPA) – The earliest age at which you are able to begin receiving your pension benefits (except on ill health retirement where there is no minimum age). The MPA changed from age 50 to age 55 with effect from 6 April 2010.

Normal Retiring Age (NRA) – In relation to reckonable service before 1 April 2010, this is your 60th birthday. In relation to reckonable service on or after that date, it is your 65th birthday.

NRA 60 benefits – Pension and lump sum benefits you earned during reckonable service prior to 1 April 2010, where the applicable Normal Retiring Age is 60.

NRA 65 benefits – Pension and lump sum benefits you earned during reckonable service on and from 1 April 2010, where the applicable Normal Retiring Age is 65.
Preserved benefits – If you leave service (or opt out of membership), you will then be entitled to preserved benefits (also called deferred benefits) which would normally be paid from Normal Retiring Age.

Reckonable service – This is the service which is used to work out your pension benefits. It includes service as an RMSPS and/or RMPP member, service transferred in from other pension schemes and additional service bought by Additional Voluntary Contributions (AVCs) or additional Company contributions. It does not include any periods during which you opted out of the RMPP. The maximum reckonable service used to calculate benefits is 45 years.

RMPP – Royal Mail Pension Plan.

RMSPS – Royal Mail Statutory Pension Scheme.

Trustee – Royal Mail Pensions Trustees Limited – the organisation that manages the RMPP in accordance with its Trust Deed and Rules.

‘We’ ‘Us’ ‘Our’ – The Manager of the RMSPS and/or the Trustee of the RMPP.
Get in touch

For further information about benefits on ill health, redundancy and early retirement or for more general information about the RMPS or the RMPP, you can contact the Pensions Service Centre (PSC) using the details below.

Pensions Service Centre
PO Box 500
CHESTERFIELD
S49 1WX

0114 241 4545 or Postline network users can call 5456 4545

pensions.helpline@royalmail.com

www.royalmailpensionplan.co.uk

Please quote your full name, date of birth and either your National Insurance number or membership number when contacting the PSC.

All booklets are also available to download from the website at www.royalmailpensionplan.co.uk.