Royal Mail Senior Executives Pension Plan ("RMSEPP") Newsletter to Members

Introduction

I hope that you have all kept safe during the past year which was a very difficult period for many and I hope that you continue to remain in good health.

In our recent Newsletters we reported that all of the future benefit payments due from the RMSEPP have been underwritten by insurance contracts with Scottish Widows and Rothesay and that RMSEPP is no longer dependent on Royal Mail to support Members' benefits.

Your Trustees continue to monitor our insurance providers closely as the unprecedented economic situation continues; they remain a safe harbour, providing a very high level of security for RMSEPP Members.

In this Newsletter we have provided an update of progress since our last communication. In the Appendix we have included a summary of information from the latest available Plan Accounts for the year ending 31 March 2020, together with unaudited figures (which are subject to change) at 31 March 2021.

A copy of the full audited Report & Accounts is available to all Members on request. Work has begun on drafting the Report & Accounts for 31 March 2021 which should be signed by the end of September 2021 and we will provide a summary in our next Member communication. Members can also view the audited Report & Accounts on the Plan's website www.members.pensionpal.co.uk/royalmailseniorexecutivespensionplan.

Recap on recent financial developments

As explained previously, the bulk insurance policies with Rothesay and Scottish Widows are assets of the Plan and provide cash flows into the Plan that match the benefits payable to Members. In addition to these insurance policies there are residual assets which may be needed to cover outstanding liabilities and the future costs of winding up the Plan.

In September 2019 the Trustees issued a full redemption notice to the M&G UK Property Fund, which requested M&G to sell all the Plan's units. This is not an immediate process and the Plan has been receiving redemption payments as and when M&G have sold properties. The Plan has received a number of redemption payments since September 2019 and as at March 2021 we have a remaining balance with M&G of around £2m (from an initial holding in 2019 in excess of £13m). The Plan is waiting for M&G to sell further properties so that they can repay the final amount due to the Plan.

In the September 2019 Newsletter we reported that the Company had made a temporary loan of £7.75m to the Plan to enable the outstanding Rothesay premium to be paid in full. The Trustees have since repaid the Company in full using the proceeds from the sale of units in the M&G UK Property Fund.

In addition to the bulk insurance policies and the remaining M&G Property Fund assets, the Plan holds an amount totalling £5.75m in the BlackRock Liquidity Fund. This is available immediately should the assets be needed. The remaining £2m with M&G will be invested in the BlackRock Liquidity Fund as soon as redemption payments are received. The Trustees also hold a sufficient amount in the Plan's bank account which is operated by the Plan Administrators, Willis Towers Watson (WTW), to ensure we can always make benefit and transfer payments and meet the Plan's running costs.

You will see from the Appendix that at 31 March 2020 the Plan was in a very strong position, with £9.8m in residual assets after securing Members' benefits by policies of insurance. Although the Plan does need to settle some outstanding liabilities from these residual assets, the Trustees are confident that these will be comfortably met by the residual assets.

Other developments

You may have seen comments in the Press that occupational pension schemes are required to make some further changes to ensure that they treat men and women equally. The Plan has generally provided equal pensions but there is a technical issue identified in a recent case that marginally affects a small element of the Plan's pensions known as Guaranteed Minimum Pensions (GMPs). The GMP changes date back to pensions earned in the 1990s and it is a complex exercise to assess the precise impact of the GMP Equalisation requirements. The Trustees are working with our advisers and we already know that it does not affect many of our Members. Once we have completed the work it may be that a small number of Members may see a relatively small increase to their benefits. Our Administrators, WTW, will write to you if you are affected.

You may also have seen that the Government has announced changes to the Retail Prices Index (RPI) which has historically been used as the way inflation is measured in the UK. These changes will make RPI more similar to the Consumer Prices Index (CPI). Past increases in CPI have usually been lower than increases in RPI. Some of the difference is caused by technical short-comings in the formula used to calculate RPI.

Whilst the changes to RPI do not come into effect until 2030 and do not affect the security of your benefits, as things stand at present, the changes will eventually reduce the future pension increases expected by many members of UK pension schemes, including some Plan members. Consequently, the Government's announcement is being challenged by a number of major UK pension schemes. We will keep you informed of developments.

Members will be aware that, for regulatory compliance, the Plan's investments are managed in accordance with a strategy set by the Trustees having regard to advice given by the Plan's investment adviser, Aon. The Plan's investment strategy and associated risk management strategy are recorded in a document known as the Statement of Investment Principles (the SIP). It is now a requirement for trustees of pension schemes, such as RMSEPP, to publish their SIP on a publicly available website.

The website www.members.pensionpal.co.uk/royalmailseniorexecutivespensionplan is now available and includes the following documents:

- Statement of Funding Principles
- Statement of Investment Principles (SIP)

- Historic Member Newsletters
- Annual Report & Accounts

From 2021 the Trustees must also publish an Implementation Statement explaining, amongst other things, how we have followed the objectives and policies set out in our SIP. This will appear on our website later in the year.

What happens next?

As we explained in an earlier Newsletter, the Trustees have drawn up two separate project plans – one that covers our current responsibilities and the other that identifies the detailed actions that will be required to implement the Plan's eventual winding-up.

The main task in the first project plan was the completion of an audit of the Plan's benefits and dealing with any changes that may be required as a result. I am pleased to confirm that this benefit audit has now been completed and WTW are in the process of writing to the Members whose benefits have been impacted. A very few Members may see a relatively small increase in their benefits; no benefits have been reduced.

Now that the benefit audit work is complete and once the GMP Equalisation work has been concluded, the insurers will calculate any balancing premium that may be due to secure the final Plan benefits. In due course, but still a while away, a position will then have been reached where individual policies of insurance with Scottish Widows and Rothesay can be assigned to Members in their own names and the insurers can pay pensions directly to individual Members. Members' benefits will then be met in full by the insurers and the responsibility for your benefits will lie with the insurers.

The Company has recently given notice to the Trustees of its intention to wind-up the Plan and this is currently being considered by the Trustees. The Company is aware that winding up the Plan involves a lengthy and formal governance process which will commence at the appropriate time. You should be aware that after settlement of all of its liabilities and expenses, the Plan is likely to have a small amount of residual assets. If this is the case, the Company must consider how those assets should be used and (if the Company considers they should be repaid to the Company) must consult with Members. The Trustees will keep Members updated as those discussions progress.

The Trustees have now begun work with our advisers to prepare more detailed project plans to manage the Plan through to its ultimate wind-up. We will keep you informed of progress.

Member Nominated Trustees (MNTs)

As we reported in our September 2019 Newsletter, there is a requirement for one third of the Trustee Board to be nominated by the membership. The current Member Nominated Trustees (MNTs), Jerry Cope and Moira Brennan reached the end of their term during 2019 and both confirmed that they were happy to stand again as MNTs. There were no other nominations so I am delighted to report that Jerry and Moira will continue to serve for a further term, ending in 2024 by which time it is highly likely that the Plan will be fully wound-up.

Do you want to know more?

If you want to know more about the Plan there are several documents available to you on request (and some are included in the Trustees' website mentioned above). You can ask WTW for a copy of the following:

- The full audited Report & Accounts for the Plan for 2019/2020
- The Statement of Funding Principles (this sets out the Plan's funding target and how this is to be achieved)
- The Schedule of Contributions (this shows the rates of contributions being paid into the Plan)
- The report on the 2018 Actuarial Valuation (this sets out the results of the last full assessment of the Plan's funding position)
- The Statement of Investment Principles (this sets out the Trustees' investment strategy)

Other Matters

Managing the Plan on behalf of the Members

The Trustees place particular emphasis on the good governance and efficient management of the Plan, including close scrutiny of all running costs.

During the year there were eight Trustee meetings.

At the end of the Plan year, the Trustees were as follows:

David Hargrave	Chair, Employer-nominated Professional Trustee
Moira Brennan	Member-nominated Trustee
Jerry Cope	Member-nominated Trustee

As at 31 March 2021, all Trustees had successfully completed the Pensions Regulator's online trustee training modules, the "Trustee Toolkit".

Contact details

The Plan Administrator's contact details, for notifying a change of address or requesting a copy of a document listed above, are as follows:

Address: Royal Mail Senior Executives Pension Plan, Willis Towers Watson, PO Box 545, Redhill, RH1 1YX

Email: RMSEPP@willistowerswatson.com

Please let the Plan Administrator know if you have moved home, if you would like to find out more information about accessing your benefits, or transferring your pension so it can be accessed more flexibly. If you are considering any of these options, please seek specialist independent financial advice.

In conclusion

This Newsletter explains the continuing steps that the Trustees are taking to administer the Plan to the highest governance standards and to ensure that Members are provided with the best possible security for their benefits. The purchase of the bulk insurance policies with Rothesay and Scottish Widows allows the Trustees to meet that objective.

We will provide a further update later this year including progress made on the winding up process.

If you have any questions on the Plan in general, please contact our Plan Administrators using the contact details above.

I hope that you will have found this Newsletter informative.

David Hargrave, Chair of the Trustee Board

APPENDIX - Financial Summary

In addition to the insurance policies with Scottish Widows and Rothesay Life the Plan held the following assets as at 31st March 2020:

M&G Property Units	£ 3.3m
Cash	£ 6.5m *
Total Net Assets	£ 9.8m

**Total cash figure includes the assets held in the Trustees' bank account.*

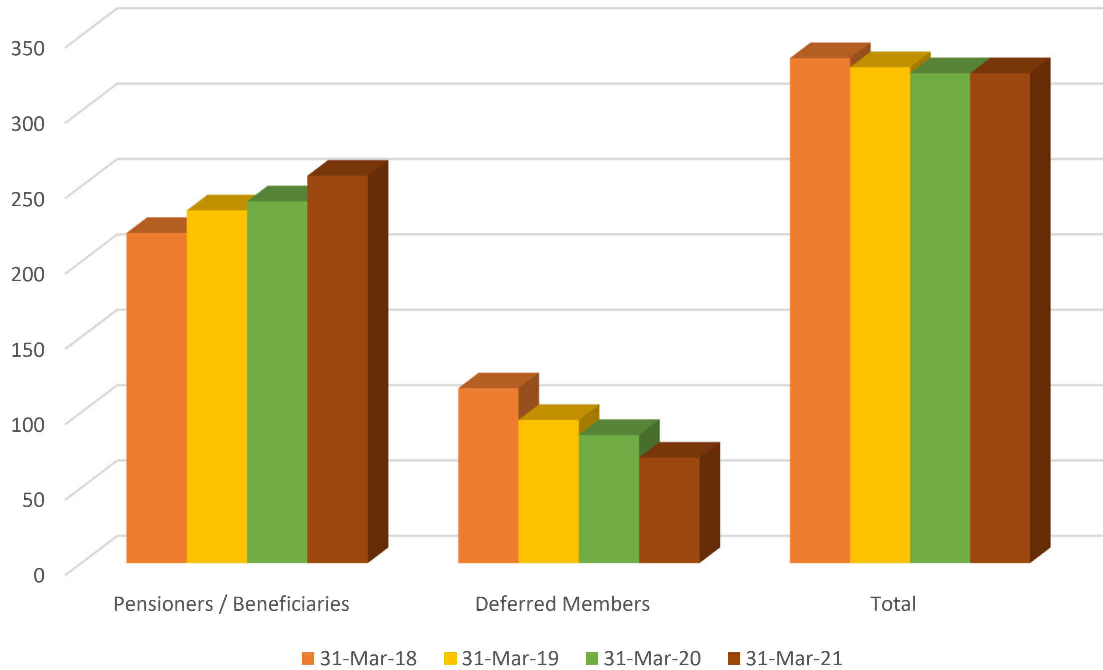
The total of £9.8m at 31 March 2020 represents the remaining net assets at the year-end after having paid all Members' benefits due from the Plan and all Plan management expenses incurred during the year. These management expenses totalled c£700,000 for the year.

The unaudited asset values for 31 March 2021, over and above the policies held with Scottish Widows and Rothesay Plan show the total net assets as £9.7 million, of which c£2 million is invested with M&G, c£5.57 million in the BlackRock Liquidity fund and the balance in the Trustees' bank account.

Membership Summary

Membership

The chart below shows how the membership has changed from 31 March 2018 to 31 March 2021:



**The membership figures at 31 March 2021 are unaudited and subject to change.*

Your latest Summary Funding Statement as at 31 March 2020

The Trustees obtain a full valuation of the Plan every three years. This is carried out by the Scheme Actuary. The purpose of the valuation is to check the Plan's funding position and make sure the assets in the Plan can meet future pensions. The last full valuation was carried out at 31 March 2018. The Plan Actuary also carries out reviews in the years between valuations. These reviews provide us with an approximate update of the Plan's funding position and the last such review was carried out at 31 March 2020.

The valuation at 31 March 2018 showed that the Plan's assets were equal to 111% of the Plan's funding target (which is called the technical provisions).

In September 2018, the Trustees purchased annuities from Rothesay, which covered any Plan benefits which were not already insured with Scottish Widows.

At both 31 March 2019 and 31 March 2020, the Plan's assets were equal to 102% of the Plan's funding target. The reduction from 2018 is explained by the fact that the cost of purchasing annuities is high. All benefits members receive from the Plan are now covered by insurance policies and for this reason the Plan's funding position remained broadly unchanged over the period between 1 April 2019 and 31 March 2020.

The Employers have paid £500,000 annually to meet expenses involved in running the Plan plus any levies required by the Pension Protection Fund ("PPF").

There has not been a refund of surplus to the Employers from the Plan’s assets since we issued the last Summary Funding Statement.

The Pensions Regulator can change the Plan, give directions about working out its technical provisions or impose a Schedule of Contributions. The Pensions Regulator has not used its powers in this way for the Plan.

What if the Plan winds up?

As part of the valuation, the Plan Actuary must also look at the Plan’s solvency if it started to wind up (come to an end). At 31 March 2018, the Plan's assets were estimated to cover 97% of the solvency funding target. As at 31 March 2020 the Plan had purchased annuities to cover all benefits in the Plan, so if the Plan were wound up then Members' benefits would be covered in full.