



# ***Navigating for our members' future***

Royal London Group Pension Scheme  
***Annual Report 2008***

# Summary of developments in 2008

## Introduction

This report provides a summary of the Scheme's developments during 2008.

For background information and references, which remain largely unchanged from year to year, please refer to "A Guide to the RLGPS", that was sent along with last year's report.

If you require a replacement copy of "A Guide to the RLGPS" please contact the Scheme's administrators.

This report, the guide and the annual report and financial statements are also available on the Royal London Group website:

[www.royallondongroup.co.uk/corporategovernance/reportandaccounts](http://www.royallondongroup.co.uk/corporategovernance/reportandaccounts)

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## Who are the members of the Scheme and how many are there?

On 31 December 2008 there were 27,150 members in the Scheme increasing from 27,098 members in 2007 due to a rise in the number of life cover only members.

The membership is split as follows:

	<b>2008</b>	<b>2007</b>
Active Members	<b>1,592</b>	1,756
Deferred Members	<b>14,097</b>	14,441
Pensioner Members	<b>7,950</b>	7,794
Beneficiaries	<b>2,318</b>	2,329
Life cover only members	<b>1,193</b>	778
<b>Total</b>	<b>27,150</b>	<b>27,098</b>

## What pension increases have been awarded?

Since the last annual report, pension increases have been awarded reflecting the increase in the Retail Prices Index (RPI), in line with the Scheme's Trust Deed and Rules. Discretionary pension increases have also been awarded by Royal London to membership categories that do not have guaranteed increases. Members in receipt of a pension will have been notified separately of these increases.

## How have the Scheme's investments performed?

The Scheme's investment strategy was amended in 2008 to increase the proportion of corporate bonds held within the Scheme's fixed interest portfolio and decrease the proportion of government fixed interest gilts held.

	<b>2008</b>	<b>2007</b>
RLGPS Performance	<b>(9.2)%</b>	6.1%
Benchmark Performance	<b>(10.8)%</b>	5.6%
Excess over benchmark	<b>1.6%</b>	0.5%

*“a scheme overview shows that it remains in a relatively strong position”*

Royal London Asset Management (*RLAM*), the Scheme’s investment manager, achieved an investment return 1.6% higher than the return on the benchmark portfolio.

### How well is the Scheme funded?

Every three years, the Scheme Actuary is required to carry out a formal actuarial valuation of the benefits accrued under the Scheme, with the most recent formal valuation undertaken as at 31 December 2007. The results, measured on an ongoing basis, indicated that the Scheme’s assets were 103% of the amount needed to cover the liabilities accrued to the valuation date, which equated to a surplus of £48 million.

	2008	2007
	£ million	£ million
Assets (excluding AVCs)	<b>1,577</b>	1,817
Liabilities	<b>1,713</b>	1,769
Total (deficit)/surplus	<b>(136)</b>	48

Over the three year period between formal actuarial valuations, the Trustee is required to carry out annual reviews of the Scheme’s financial position. An assessment of the Scheme’s financial position as at 31 December 2008 indicated a shortfall in the assets relative to the liabilities on an ongoing basis of £136 million corresponding to a funding level of 92%.

Further details of the Scheme’s financial position as at 31 December 2008 can be found on page 8 of this report.

Whilst the Scheme has benefited from starting from a better funding position than many other UK pension schemes, it is not immune from the extraordinary market developments we have recently seen. However, the Scheme’s position remains strong relative to other defined benefit schemes in the UK as the Scheme enjoys the support of a financially secure sponsor in Royal London.

Further, Royal London has a legal obligation to ensure that the benefit promises made to members of the Scheme are honoured.



# Trustee Board

“Who are the Trustee Directors?”



**Richard Balding**  
FCII, (61)

Chairman of the RLGPS Trustee Board, was appointed on 19 January 2004 after previously being the Chief Executive Officer of United Friendly and a Trustee Director of UFGPS since 1980 and Chairman of the UFGPS Trustee since 1985.



**Stephen Shone**  
BSc (Econ), FCA, (52)

Group Finance Director of Royal London, was appointed as a Trustee Director of RLGPS and RASF in 2000 and was also a Trustee Director of UFGPS.



**Alistair Brogden**  
BA, FIA, (39)

Member of the Royal London actuarial team based in Edinburgh, became a Trustee Director of RLGPS in August 2001 and was re-elected as a Member Nominated Director on 1st January 2008.

## The advisers

**Secretary to the Trustee**

Watson Wyatt Limited

**Scheme Actuary**

J Howes of Watson Wyatt Limited

**Investment adviser**

Watson Wyatt Limited

**Legal advisers**

Lovells LLP

Slaughter and May

*“Our regular meetings are vitally important to maintain performance and solve issues”*



**John Tovey**  
BSc, FIA, (61)

Retired former With-Profits Actuary of Royal London, was first appointed as a Company Nominated Director of the RLGPS Trustee Board, then elected as the Pensioner Member Nominated Director in June 2006 and was re-elected as a Member Nominated Director on 1st January 2008.



**Richard Main**  
MBA, BSc, ACIS, FPMI, (56)

Joined the RLGPS Trustee Board in June 2009 as the representative from Law Debenture (*the independent Corporate Trustee Director*) where he has been a director for more than 10 years. Law Debenture have been a Trustee of the Scheme since 1995.



**Tracey Ashworth-Davies**  
BSc. (Psychology)  
*Qualified as Chartered Secretary, (46)*

Group Human Resources & Corporate Affairs Director of Royal London, was appointed to the RLGPS Trustee Board in April 2007.

#### **Auditor**

PricewaterhouseCoopers LLP

#### **Investment Manager**

Royal London Asset Management Limited

#### **Investment Custodians**

HSBC Global Custodian

#### **Administrators**

Watson Wyatt Limited

#### **Current AVC providers**

Clerical Medical Investment Group Limited  
Scottish Life (*a division of The Royal London Mutual Insurance Society Limited*)  
Scottish Widows plc  
Equitable Life Assurance Society

#### **Bankers**

HSBC Bank plc  
National Westminster Bank plc



# Chairman's Statement

The second half of 2008 was a period of unprecedented developments in investment markets across the world, with the impact of these developments being felt in all areas of activity and continuing to the present time.

Pension schemes have been no exception, with the significant fall in equity prices and reduction in interest rates leading to substantial reductions in ongoing funding levels.

## Protection within a defined benefit scheme

There are significant advantages in membership of a defined benefit scheme such as the RLGPS in that it is well placed to provide members' benefits into the future despite the fluctuations in investment markets, which will inevitably occur over the life of the Scheme.

Firstly, under legislation, the sponsor, in our case Royal London, is required to maintain funding of its scheme at an appropriate level. Thus, provided Royal London continues successfully in business, members may be confident of receiving the benefits they are entitled to under the Trust Deed and Rules. As an

important part of its responsibilities, the Trustee monitors Royal London's covenant on a regular basis and as a result has been able to take comfort from the strength of the underlying business of its sponsor.

Secondly, members have the additional advantage of the Pension Protection Fund (PPF), which was introduced in 2005, as a safety net for the majority of their benefits. The relatively low annual premiums that the Scheme pays to this fund is a positive indicator, as it shows that the PPF views the Scheme as one that is relatively low risk.

## Financial position

Details of the Scheme's updated financial position can be found on pages 3, 8 and 9.

It is obviously disappointing that the Scheme has fallen into deficit. However, it is some comfort that as the Scheme's investment strategy relies to an important extent on more secure investments, such as bonds, its position relative to the average UK pension scheme is actually expected to have improved. During this period, in addition to his usual reporting, the Scheme Actuary has been asked to produce more frequent updates to ensure that the Trustee and Royal London are kept fully aware of the development of the Scheme's financial position.

As events unfolded in 2008, the Scheme fell below 95% funded in December 2008. Following discussions with the Trustee, with effect from 1 January 2009, Royal London commenced paying contributions representing the balance of cost for employees of

## *There are significant advantages in membership of a defined benefit scheme such as the RLGPS*

their future benefit accrual, currently estimated at £12 million a year. Discussions with the Company regarding the framework for dealing with deficits are continuing.

### **Investment strategy**

The Trustee had a session at the April 2008 meeting exploring the Trustee Directors' views on investment beliefs. This was a very useful discussion, which helped to frame the main areas of focus for the Trustee and Royal London as we continue to monitor investment opportunities, which could improve the risk/return trade-off for the Scheme.

At the May 2008 meeting, the Trustee discussed the Scheme's bond holdings with a view to benefiting from the higher yields available on corporate bonds. It was agreed to transfer 10.5% of total assets from existing government fixed interest bonds to increase the Scheme's exposure to corporate bonds. This new strategy was implemented in stages by RLAM during the second half of the year.

As the year end approached, the Trustee also reviewed its standing policy each quarter to "rebalance" the investment portfolio to bring it back into line within agreed ranges for each investment category, following market movements in the period. The Trustee was concerned that it would otherwise have been required to "top up" its equity portfolio at the expense of bonds at a time of economic uncertainty. It was agreed that the rebalancing policy should be suspended until further notice.

### **Royal London developments**

Towards the end of last year, given increasing costs, Royal London consulted with active members about proposed changes to the level of their future pension provision and member contributions. New arrangements are being phased in between April 2009 and April 2011. A range of accrual rates with contribution levels were offered to active members on an individual basis. As these changes have no impact on members' benefits earned previously, the Trustee's involvement has simply been to ensure that the Scheme's administration practices are updated to reflect these changes.

### **Pension increases**

The Trustee is required to provide increases to pensions in payment on terms that are set out in the Scheme's Trust Deed and Rules. In certain membership sections, pension increases are guaranteed up to the amount of any increase in RPI, subject to certain specified limits. To the extent that the payment of increases is discretionary the award is also subject to the approval of the Company. For historic reasons, the different membership sections within RLGPS receive increases, which are payable based on the RPI increases ending in different months.

The use of the RPI measure for assessing pension increases, as opposed to any other inflation measure, is standard within UK pension schemes. On this measure, inflation has fallen dramatically since September 2008. In consequence, in line with the change in RPI this year, former RLSPF members have already received an increase of 0.1% and former RASF and UFGPS members have

received no increase. The Trustee Directors are very much aware of members' concerns regarding inflation and the value of their pensions, particularly during a period when many elements of pensioners' expenditure have not moved in line with RPI. It is, therefore, perhaps appropriate to take this opportunity to emphasise that the Trustee is able to award pension increases only as determined by the Scheme's Trust Deed and Rules. In addition, Royal London has awarded, where appropriate, members discretionary increases equivalent to the guaranteed increases.

### **The challenge ahead**

Whilst it will take a combination of a recovery in investment markets and contributions from Royal London to restore the Scheme to a surplus position, the Trustee Directors' current focus in these difficult times is very much on working with Royal London to ensure that the Scheme's strategic funding and investment plans remain appropriate both in the short-term and in the context of longer-term considerations.

In conclusion, I would like to thank my colleagues on the Trustee Board, all our service providers and the Royal London Board for their continued strong support during a challenging period in the life of the Scheme.

Richard E Balding  
Chairman of RLGPS Trustee Ltd

# Funding Statement

“How well is the Scheme funded?”

The results (*shown right*) compare the value of the Scheme’s assets with the amount required to pay your benefits (*known as the Scheme’s ‘liabilities’*). The calculation of the Scheme’s liabilities requires certain assumptions to be made - for example, how long people will live, future investment returns and inflation rates.

The method used in the calculations depends on the type of assessment that is being carried out, as different assessments are carried out for different purposes. In all cases, the Scheme assets are compared with the liabilities, but the liabilities in each case vary, mainly in line with the assumptions adopted for the investment returns. The financial position of the Scheme was assessed on both an ‘*ongoing*’ and a ‘*discontinuance*’ basis in the full valuation as at 31 December 2007 and on an estimated basis as at 31 December 2008. The results of these assessments are described opposite.

The assets referred to throughout this section of the report exclude any assets backing benefits secured by additional voluntary contributions (AVCs) paid by Scheme members.

## The ‘ongoing’ assessment

The ongoing assessment assumes that the Scheme will continue into the future and is, therefore, able to adopt realistic investment assumptions based on prudent expected long-term returns. It is also used to determine the level of any contributions Royal London should make in the future (*referred to as the “funding plan” and “schedule of contributions”*).

The valuation of the Scheme as at 31 December 2007 showed, on the ongoing basis, that the value of the Scheme’s assets of £1,817 million was greater than the value of its liabilities (*or technical provisions*) of £1,769 million, resulting in a surplus of £48 million, or a funding level of 103%. As at 31 December 2008, the financial assessment of the Scheme revealed a deficit on the ongoing funding basis of £136 million or a funding level of 92%. The reduction in the ongoing funding level of the Scheme during 2008 was due, in main, to poor asset performance.

## The ‘discontinuance’ assessment and security of members’ benefits

The discontinuance position is an assessment of what might happen if Royal London became insolvent and unable to

support the Scheme or if Royal London decided to discontinue the Scheme. Under either scenario, no further benefits would be accrued and no more regular employee or employer contributions would be paid in. Further, it is likely that the benefits provided would not include any discretionary pension increases that are paid to certain members of the Scheme. The Trustee is required by law to provide you with this information on the Scheme’s discontinuance position. It does not imply that there is any intention, on the part of either Royal London or the Trustee, to discontinue the Scheme.

If the Scheme were to be discontinued, the Trustee would seek to buy insurance policies with an insurance company, which would then become responsible for paying your benefits. This is known as a buy-out.

The Scheme Actuary estimated that the Scheme would have had enough money to provide around 86% of members’ benefits with an insurance company (*excluding discretionary increases*) at 31 December 2007, a shortfall of assets of around £300 million. The financial assessment as at 31 December 2008 revealed a deterioration in this position, with the assets covering around 79% of the liabilities at this date, representing a shortfall of around £420 million.

*Royal London is responsible for ensuring that the benefit promises made to members of the Scheme are honoured*

### Royal London's responsibility

Royal London is responsible for ensuring that the benefit promises made to members of the Scheme are honoured. An important result of this is that, provided Royal London remains solvent, members' guaranteed benefits cannot be reduced and Royal London is required to maintain the funding of the Scheme. Therefore, members can plan their finances based on a known level of income in retirement.

In the event of Royal London becoming insolvent without sufficient funds to meet a prescribed test, the Pension Protection Fund (PPF) would be expected to take over the Scheme and pay compensation to members.

However, the PPF would not cover all the benefits provided by the RLGPS. Further information can be found on the PPF's website at [www.ppf.gov.uk](http://www.ppf.gov.uk).

### The value of the Scheme's assets expressed as a % of the Scheme's liabilities:

	31 Dec 2008	31 Dec 2007
	%	%
'Ongoing' assessment	92	103
'Discontinuance' assessment (no allowance for discretionary pension increases)	79	86

### Payment to Royal London and Regulator actions

In compliance with legislation, the Trustee is able to confirm that there has not been any payment to Royal London out of the Scheme's funds in the previous twelve months.

The Trustee is also able to confirm that the Scheme has not been modified by the Regulator and that no directions or Schedule of Contributions have been imposed on the Scheme by the Regulator.

# Summary financial statements

## "Reassurance"

During 2008, the value of the Scheme's assets, including additional voluntary contributions (AVCs), decreased by £240 million to £1,580 million at 31 December 2008 from £1,820 million at 31 December 2007. The table (right) is a summary of the figures shown in the annual report and financial statements of the Scheme, which were independently audited by Pricewaterhouse Coopers LLP. The audit report was unqualified and the auditor's statement about contributions to the Scheme was also unqualified.

As can be observed in the summary financial statements (right), the Scheme's investments suffered substantial losses due to the turbulent economic conditions during the year. The impact on the Scheme of these falls in investment markets has been mitigated to an extent, however, as investment income was largely sufficient to meet benefit payments out of the Scheme, avoiding the need to sell assets at a loss.

The encouraging performance of the Scheme's investment manager, as detailed on page 3, has also helped to limit the impact on the Scheme by generating performance above that of the benchmark portfolio.

The net assets of the Scheme in the accounts include additional voluntary contributions (AVCs), which are not included in the asset figures provided on pages 3, 8 and 9.

### Summary of annual audited financial statements

	2008 £million	2007 £million	
<b>Income</b>			
Contributions received	1.2	1.6	<i>Contributions paid by employees and Royal London plus additional voluntary contributions.</i>
Investment income	62.8	50.9	<i>Income from investments, less investment expenses.</i>
<b>Total income</b>	<b>64.0</b>	52.5	<i>Total of the above</i>
<b>Expenditure</b>			
Pension benefits	(67.7)	(64.8)	<i>Pensions and other benefits paid out to members and dependants.</i>
Payments to leavers	(2.2)	(2.7)	<i>Amounts paid out of the Scheme either as refunds of contributions or transferred to other schemes.</i>
Expenses	(2.8)	(1.9)	<i>Administration and other fees required for general management of the Scheme.</i>
<b>Total expenditure</b>	<b>(72.7)</b>	(69.4)	<i>Total of the above</i>
<b>Change in investment market values</b>	<b>(231.9)</b>	45.9	<i>(Decreases)/increases in market values of investments</i>
<b>(Decrease)/increase in fund in the year</b>	<b>(240.6)</b>	29.0	<i>Overall total of the above.</i>
Net assets of the Scheme brought forward	1,820.2	1,791.2	<i>Value of the Scheme at the start of the year.</i>
<b>Net assets of the Scheme carried forward</b>	<b>1,579.6</b>	1,820.2	<i>Value of the Scheme at the end of the year.</i>
<b>Assets</b>			
Investment assets	1,580.5	1,821.4	<i>Amount held in long-term investments.</i>
Current assets	1.2	0.5	<i>Amount owed to Scheme on a short-term basis.</i>
Current liabilities	(2.1)	(1.7)	<i>Amount the Scheme owes on a short-term basis</i>
<b>Net assets of the Scheme carried forward</b>	<b>1,579.6</b>	1,820.2	<i>Overall total of the above</i>

On 31 December 2008,  
the Scheme held the following investments  
(2007 also shown):

31 Dec  
2008



34.9%

Fixed interest bonds

20.4%

Index-linked bonds

18.1%

UK equities

19.9%

Overseas equities

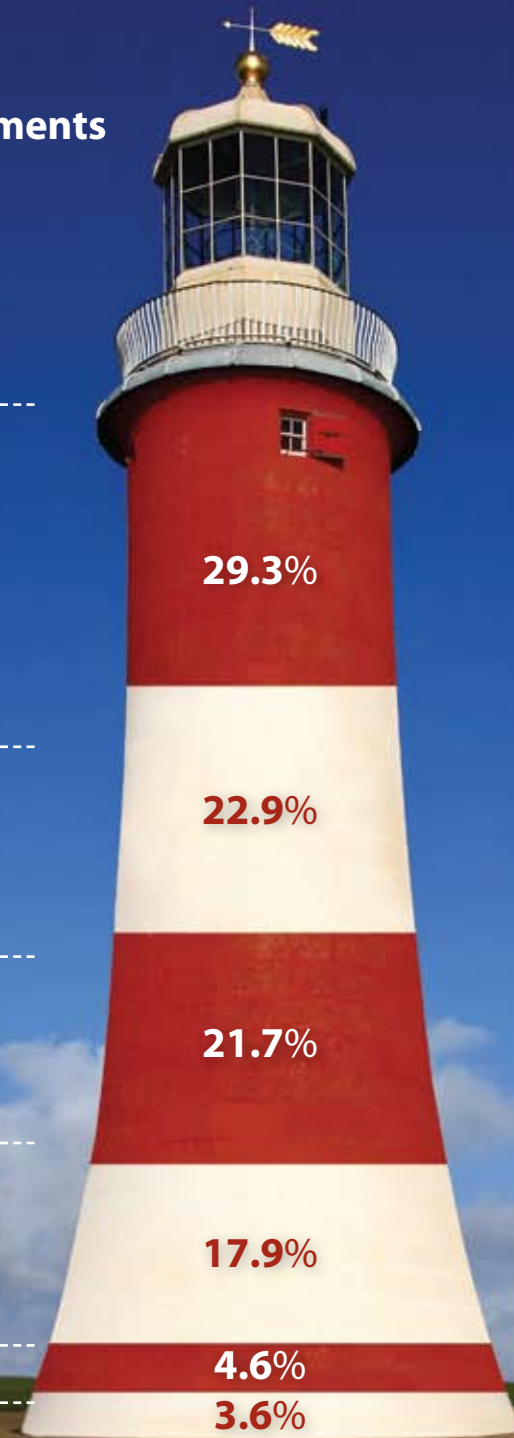
4.4%

Property (UK)

2.3%

Other investments including  
Cash & AVCs

31 Dec  
2007



29.3%

Fixed interest bonds

22.9%

Index-linked bonds

21.7%

UK equities

17.9%

Overseas equities

4.6%

Property (UK)

3.6%

Other investments including  
Cash & AVCs



## *Environmentally friendly*

This report and accounts has been produced using vegetable based inks. It has also been printed on paper which is produced using 100% de-inked post-consumer recovered fibre at a mill that has been awarded the ISO 14001 certificate for environmental management. The pulp is bleached using an elemental chlorine free process.

To view this Annual Report online, please visit  
[www.royallondongroup.co.uk/corporategovernance/reportandaccounts](http://www.royallondongroup.co.uk/corporategovernance/reportandaccounts)

