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# Paving the way

to a better future

Royal London Group Pension Scheme **Annual Report 2007**

“ The Royal London Group Pension Scheme remains one of the strongest occupational schemes in the UK ”

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

On 31 December 2007 there were 27,098 members in the Scheme split as follows:

Active members	1,756
Deferred members	14,441
Pensioners	7,794
Beneficiaries	2,329
Life cover only members	778
<b>Total</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 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?**

There were no changes made to the Scheme’s investment strategy in 2007. Royal London Asset Management achieved an investment return 0.5% higher than the return on the benchmark portfolio.

RLGPS performance	6.1%
Benchmark performance	5.6%

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### How well is the Scheme funded?

Every three years, the Scheme Actuary is required to carry out a formal actuarial valuation of the Scheme. These valuation calculations have been carried out as at 31 December 2007 and the results have recently been agreed between the Trustee and the Company.

At the valuation date the Scheme had a total surplus of £48 million or 3% in excess of its liabilities. The Scheme remains one of the strongest occupational pension schemes in the UK and, in Royal London, enjoys the support of a financially secure sponsor with realistic free assets of £1.9 billion.

Assets (excluding AVCs)	£1,817 million
Liabilities	£1,769 million
<b>Total Surplus</b>	<b>£48 million</b>

# 27,098

members in the scheme at 31 December 2007

### How is increasing life expectancy affecting the Scheme?

The Trustee continues to monitor trends in this area and has updated the valuation assumptions to reflect the latest available data in this area. The figures in the table below show assumed years of average life expectancy for members at age 65.

	Male	Female
Age 65 in 2007	86.1	88.2
Reaching age 65 in 2027	88.0	89.5

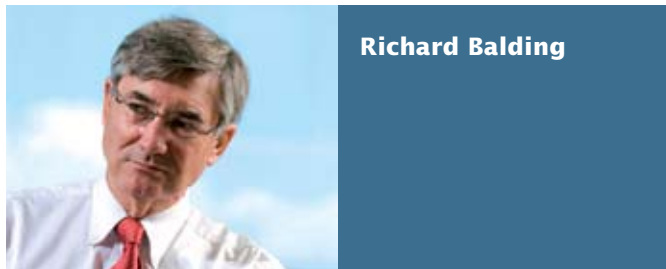
### Important note

In a departure from recent years, this year's summary report has been divided into two separate sections: the first section relates to specific developments since the last report, whilst the second section relates to background information which remains largely unchanged from year to year.

In future years, the intention is to issue a shorter report containing only new developments over the previous year.

As such, this year's report, including the background section (A Guide to the RLGPS), should be retained for future reference.

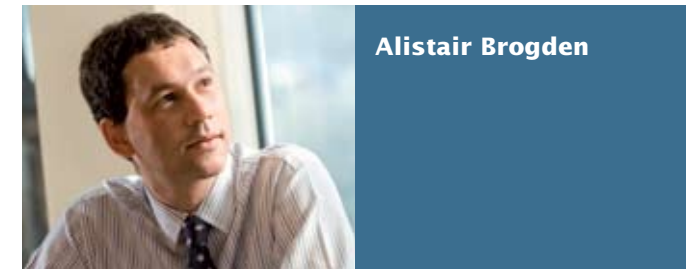
**Paving the way.** The Scheme is governed by the trustee company, Royal London Group Pension Scheme Trustee Ltd. The Trustee Board of Directors is responsible for safeguarding the interests of the Scheme members and ensuring that the Scheme is run in line with the Trust Deed and Rules.



**Richard Balding** FCII (61) is 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 (51) is 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.

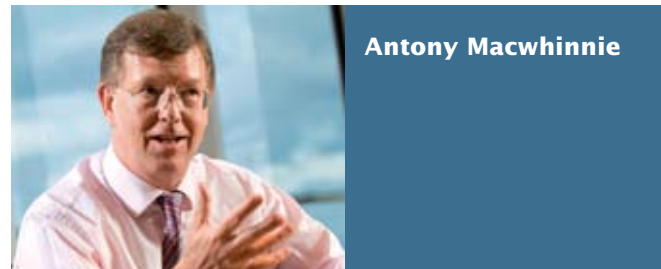


**Alistair Brogden** BA, FIA (38) is a member of the Royal London actuarial team based in Edinburgh, became a Trustee Director of RLGPS in August 2001 and was re-elected as a Member Nominated Director on 1st January 2008.

Trustee meetings are held at least once every three months to monitor how the Scheme is performing and to discuss any issues requiring Trustee views or decisions.



**John Tovey** BSc, FIA (60) is a 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.



**Antony Macwhinnie** MA (Oxon), ACA, MSI (52) joined the RLGPS Trustee Board in June 2006 as the representative from Law Debenture (the independent Corporate Trustee Director). Law Debenture has been a Trustee of the Scheme, and of the United Friendly scheme, since 1995.



**Tracey Ashworth-Davies** BSc. (Psychology), Qualified as Chartered Secretary (45) is Group Human Resources & Corporate Affairs Director of Royal London, was appointed to the RLGPS Trustee Board in April 2007.

**A year of stability.** A pension scheme can ultimately be judged a success if all of its members receive the benefits they are entitled to under the Trust Deed and Rules and, in doing so, they receive a good level of administration service. In the meantime, how should a trustee board, effectively operating as the directors of the pension scheme, assess whether any particular year is a successful one?



**Richard E Balding**  
Chairman

### Feedback from members

In an attempt to address this question, the RLGPS Trustee Board has developed its own objectives and has carried out an informal self-assessment relative to these objectives at the end of each of the last two years. The results of these self-assessments have been positive. However, the Board is conscious of the limitations of self-assessment and in early 2007 it was agreed that wider external feedback should be sought on the operation of the Scheme from members.

The Directors are extremely grateful to those members who responded and further information on this is included in the Question and Answer section starting on page 13.

### Financial position as at 31 December 2007

The three-yearly actuarial valuation of the Scheme as at 31 December 2007 has now been completed by Jonathan Howes, the Scheme Actuary.

The results of this valuation showed that, as at 31 December 2007, the Scheme's assets (excluding AVCs) of £1,817 million exceeded the Scheme's 'ongoing funding' liabilities of £1,769 million by £48 million or 3%.

This represents a reduction from the estimated surplus position of £231 million at the end of 2006, reflecting

unfavourable investment market movements during 2007 and an increased allowance for people living longer.

However, despite the fall in the amount of surplus, it is very positive to be able to say, as I have in all my previous statements, that the Scheme remains well funded with assets in excess of the ongoing funding liabilities

### Investment

I am pleased to report that Royal London Asset Management (RLAM) had a further good year, providing an overall return on the Scheme's investments of 6.1%, which was 0.5% higher than the benchmark return of 5.6%. This means that the cumulative out-performance over the three years to 31 December 2007 was more than 2%, which was in excess of the target set by the Board.

In August 2007, the Board reviewed the potential options for future funding and investment strategies in the context of recent developments in market practice. This included consideration as to how the Scheme's ongoing funding target may develop over the next 20 to 30 years and how different investment strategies could be employed over that period. The Board also received a presentation on liability-driven investment.

**Member Nominated Directors.**

The Board established a sub-committee early in 2007 to discuss new legislative requirements in this area and that sub-committee met in April 2007 and reported back to the Board in May the same year. The sub-committee's recommendations were approved by the Board and an announcement was sent out to all members, which explained how the two member director positions were to be restructured and invited applications for these positions.

Ten members were put forward and a selection panel chaired by the independent trustee director and including two other directors interviewed all of the candidates who met the qualifying criteria. On this occasion, Alistair Brogden and John Tovey were again selected as the successful candidates and will serve terms of 4 and 2 years respectively.

**Other changes**

In other developments, Royal London announced that a salary sacrifice arrangement was to be introduced for contributory active members with effect from 1 February 2008. Under this arrangement, which results in lower National Insurance payments for both members and the Company, members accept an equivalent reduction in

salary in exchange for moving to a non-contributory basis. The Scheme is unaffected by this as the reduction in salary is paid into the Scheme by the Company.

The Board approved a relatively modest change to the Scheme's transfer out basis to reflect new legislation in this area and has been advised of planned changes to the Scheme's AVC options.

**Next steps**

As always, I would like to record my thanks to my fellow directors for their support over the year.

The current focus is on a review of the Scheme's investment strategy. I look forward to reporting on this in due course.

**Richard E Balding**  
Chairman of the Royal London Group Pension Scheme  
Trustee Limited

“ I am pleased to confirm that the Scheme remains well funded with assets in excess of the ongoing funding liabilities ”

**6.1%**

overall return on the Scheme's investments, which was 0.5% higher than the benchmark return of 5.6%.

**Well balanced.** The objective of the Scheme is to pay benefits to you, as members, as they fall due. The Trustee needs to understand how likely the Scheme is to be able to pay the benefits that will fall due so that contribution levels can be set appropriately.

The Scheme Actuary carries out a full valuation every three years, most recently as at 31 December 2007. The development of the Scheme's financial position on an approximate basis is monitored every three months.

### **Results of the funding valuation as at 31 December 2007**

The valuation compares 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 calculation 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 the two main measures in a full valuation as at 31 December 2007. The results of these two assessments are described below.

### **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.

The valuation of the Scheme as at 31 December 2007 showed, on the ongoing basis, that the Scheme's assets of £1,817 million were greater than its liabilities (or technical provisions) of £1,769 million, resulting in a surplus of £48 million or 3%. 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 results demonstrated there is no current requirement for Royal London to make contributions until the position is again reviewed in the 2010 valuation.

If a future valuation reveals a deficit on the ongoing assessment, then it has been agreed with Royal London that the Scheme would seek additional funding from them with the aim of correcting the deficit within a period of no longer than five years (this funding would

be over and above the cost of accruing benefits). In addition, it has been agreed by the Trustee and Group that, should the Scheme's estimated funding level fall below 95%, the Trustees will review all the circumstances and consider whether and at what stage to seek additional contributions or alternative forms of security from the Group.

Last year's report showed that, at the previous full valuation on 31 December 2004, the Scheme's assets of £1,552 million exceeded the Scheme's liabilities on the 'ongoing' measure of £1,445 million by £107 million, or 7%. The lower surplus as at 31 December 2007 is a result of changes in investment market conditions between the two dates and the decision to strengthen the assumptions used to value the benefits paid by the Scheme, including an increase in members' life expectancy.

### **The 'discontinuance' assessment**

Royal London remains financially strong and at 31 December 2007 had significant realistic free assets available to support the Scheme in excess of £1.9 billion. It is Royal London's intention that the Scheme should carry on into the future.

## The assets of the Scheme expressed as a percentage of the Scheme's liabilities

### Ongoing assessment

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However, the discontinuance position, which we are required to disclose, 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. Two options would be available. The first would be 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 second, and more likely option, is that the Trustee would run the Scheme as a closed fund and use the assets to pay your benefits, although no further benefits would be accrued. In this scenario, the Trustee would be likely to invest most of the assets in government bonds, as these are the most secure type of investment.

The Scheme Actuary has estimated that as at 31 December 2007 the Scheme would have been around 80% funded under both of these options, with a shortfall of assets of around £450 million.

Solvent companies are required to maintain the funding of their schemes even in a discontinuance situation by

meeting the additional buy-out costs or paying required contributions to a closed fund.

In the unlikely event of Royal London becoming insolvent, the Pension Protection Fund (PPF) might take over the Scheme and pay compensation to members. However, the PPF would not cover all the benefits provided by the RLGPS. Furthermore, as at 31 December 2007 the Scheme Actuary assessed that RLGPS held sufficient assets to provide higher benefits on a discontinuance basis than those that would have been provided by the PPF. Further information and guidance is available from the PPF; please refer to their contact details in the "A guide to the Royal London Group Pension Scheme".

### Payment to Royal London and Regulator actions

We are required by legislation to tell you that there has not been any payment to Royal London out of the Scheme's funds in the previous twelve months. We are also required to tell you 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.



### 'Discontinuance' assessment

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During 2007 the value of the Scheme's assets, including AVCs valued at £3 million (2006, £3 million), increased by £29 million from £1,791 million at 31 December 2006 to £1,820 million at 31 December 2007. The table shown on the right is a summary of the figures shown in the annual report and accounts of the Scheme, which were audited by the independent auditors, PricewaterhouseCoopers LLP.

### Summary of annual audited accounts

	2007 £million	2006 £million	
<b>Income</b>			
Contributions from employees	1.6	1.1	Contributions paid by employees, plus additional voluntary contributions
Change in investment market values	45.9	78.1	Increases in market values
Investment income	50.9	45.4	Income from investments less investment expenses
<b>Total income</b>	<b>98.4</b>	<b>124.6</b>	
<b>Expenditure</b>			
Pension benefits	(64.8)	(62.7)	Pensions and other benefits paid out to members and dependants
Payments to leavers	(2.7)	(3.4)	Amounts paid out of the Scheme either as refunds of contributions or transferred to other schemes
Expenses	(1.9)	(2.0)	Administration and other fees required for general management of the Scheme
<b>Total expenditure</b>	<b>(69.4)</b>	<b>(68.1)</b>	
<b>Increase in fund in the years</b>	<b>29.0</b>	<b>56.5</b>	Overall total of the above
Net assets of the Scheme brought forward	1,791.2	1,734.7	Value of the Scheme at the start of the year
<b>Net assets of the Scheme carried forward</b>	<b>1,820.2</b>	<b>1,791.2</b>	Value of the Scheme at the end of the year
<b>Assets</b>			
Investment assets	1,821.4	1,792.1	Amount held in long-term investments
Current assets	0.5	1.2	Amount owed to the Scheme on a short-term basis
Current liabilities	(1.7)	(2.1)	Amount owed by the Scheme on a short-term basis
<b>Net assets of the Scheme carried forward</b>	<b>1,820.2</b>	<b>1,791.2</b>	

On 31 December 2007, the Scheme held the following investments (2006 also shown):





**Solid response.** The Trustee Directors wish to thank everyone who participated in and provided responses to the feedback questionnaire included in last year's members' annual report. There was an excellent response to this questionnaire with over 1,350 members taking the time to respond.

Overall, the feedback was very encouraging with over 98% of respondents indicating that the summary report was informative and easy to understand, whilst providing useful information about the Pension Scheme. In addition, over 500 individual comments were provided – many of these related to the content of the summary report but a significant number also related to positive comments on the general operation of the Scheme. All of these comments were transcribed to a report that was presented and discussed at the November 2007 Board meeting. Wherever possible, comments have been taken on board in the production of this year's report.

The Chairman of the Trustee Board is pleased to provide responses below to some of the key issues that members commented on.

**Q** A number of members asked for more information and analysis to be provided on some topics in the report, such as a breakdown of the Scheme's investments, analysis of investment performance and a breakdown of expenses. Do you think this information can be provided in the report?

**Richard:** A wealth of additional information, including

the items mentioned, is readily available in the annual report and audited accounts, which is available on request at the address given in the Contact details section of the supplementary publication entitled "A Guide to the Royal London Group Pension Scheme" and on the internet at [www.royallondongroup.co.uk](http://www.royallondongroup.co.uk).

Our intention is for the summary members' report to be a compact and easy-to-understand document that contains the most essential information for members, whereas the annual report and accounts is intended to be a more comprehensive and technical document.

**Q** What consideration have you given to the cost of producing the report? Several members have suggested that the report should be in a more concise form and made available on the internet to reduce production costs.

**Richard:** We continuously explore ways of producing the report in a cost effective way without impacting the quality of the report. With regard to the content of the report we have aimed to strike a balance that provides sufficient relevant information in a user-friendly format. We are aware that many members have access to the internet and that producing the report in electronic form

# 98%

of proportion respondents who said the summary report was informative.

would be cheaper. At the same time we still need to provide for members who do not have access to the internet. This idea will be developed in future in an attempt to reduce the number of printed reports necessary, provided that this fits in with pension regulations.

As a first step we have made this year's issue available on the internet and it can be accessed through Royal London's website at [www.royallondongroup.co.uk](http://www.royallondongroup.co.uk).

**Q** The design of recent summary reports has been unnecessarily glossy and expensive, with small print which is difficult to read. Some members preferred graphs to the images used. What is your response to this?

**Richard:** We have taken on board these comments and starting with this issue we are printing on recycled paper. The text size has been enlarged and we have tried to provide a clear background with strong colours and clear graphs and images. Many of the definitions which were previously shown in small print have been placed in a glossary page (“Jargon buster”) in the “Guide to the Royal London Group Pension Scheme”.

**Q** There were a number of members who commented that they had not received their annual pension benefit statement, while others have commented that they would like more information to be provided on their statement. What has the Trustee done so far to address these issues?

**Richard:** Annual benefit statements are provided to active members only. Some members may not have received their statement if their address has changed

and the Administrators have not been informed. Members’ comments regarding changed addresses have been passed on to Watson Wyatt. Please ensure that you provide any change of address details to Watson Wyatt and enable us to keep our records up to date.

The annual pension statements are designed to communicate to members the essential facts about their pension in a concise and standardised form. Many of the requests that we received for additional information to be included in pension statements related to items that are specific to particular individuals and it may be more appropriate to provide this information on request through the appropriate contact listed in the Contact details section in the “Guide to the Royal London Group Pension Scheme”.

**Q** Did you receive any responses relating to topics other than the summary report? If so what action has been taken concerning these matters?

**Richard:** Nearly all the responses we received for issues outside of the summary report were to do with operational issues concerning the Scheme at an administrative level. Most of these have been dealt with or are in the course of being dealt with by Watson Wyatt.

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“ We want you to let us know what you think of this report ”

Finally, I would like to thank once more all those who provided us with their valuable feedback. This feedback will help us improve the quality and relevance to members of the summary report and I hope you continue to find the report valuable. We welcome comments from members wishing to make further suggestions for improving any aspect of the Scheme’s communication.

## Who are the advisers?

Secretary to the Trustee  
Scheme Actuary

**Watson Wyatt Limited**  
**J Howes of Watson Wyatt Limited**  
– appointed 17 December 2007

Investment Adviser  
Legal Advisers

**Watson Wyatt Limited**  
**Lovells LLP**

Auditor  
Investment Manager

**Slaughter and May**  
**PricewaterhouseCoopers LLP**  
**Royal London Asset Management Limited**

Investment Custodians  
Administrators  
Current AVC providers

**HSBC Global Custodian**  
**Watson Wyatt Limited**  
**Clerical Medical Investment Group Limited**

Bankers

**Scottish Life**  
**Scottish Widows**  
**Equitable Life Assurance Society**  
**HSBC Bank plc**  
**National Westminster Bank plc**