

Royal London Group Pension Scheme
Annual Report 2009

Your future is our priority

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FINANCIAL SENSE

Introduction

This report provides a summary of the Scheme's developments during 2009. 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 the 2007 members' 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

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

	2009	2008
Active Members	1,508	1,592
Deferred Members	13,646	14,097
Pensioner Members	8,088	7,950
Beneficiaries	2,302	2,318
Life cover only members	1,151	1,193
Total	26,695	27,150

What pension increases have been awarded?

Since the last annual report, pension increases have been awarded to all pensioners reflecting the full increase, if any, in the Retail Prices Index (RPI), in line with the Scheme's Trust Deed and Rules. Discretionary pension increases have also been awarded by the Sponsor, Royal London, to membership categories where the full increase was not covered by guarantees. Members in receipt of a pension will have been notified individually of any increase.

Further details of pension increases are provided on page 7 of this report.

Contributions paid to the Scheme by the employer and employees

During the year employee contribution rates were revised and implemented. Active members were given a choice of accrual rate with a corresponding contribution rate. The new contribution rates became effective from 1st April 2009.

Royal London, as the employer, commenced paying contributions to the Scheme. The contributions were paid at a rate of 25.9% (January to March 2009) and 24.9% (April 2009 onwards) of pensionable earnings, less employee contributions.



As a result of these changes, contributions to the Scheme increased to £13 million in 2009 from £1.2 million.

Contributions paid to the Scheme

	31 Dec 09 £'000	31 Dec 08 £'000
Active members contributions	1,489	1,156
Royal London contributions	11,554	-
Total	13,043	1,156

How have the Scheme's investments performed?

	2009	2008
RLGPS Performance	13.9%	(9.2)%
Benchmark Performance	12.4%	(10.8)%
Excess over benchmark	1.5%	1.6%

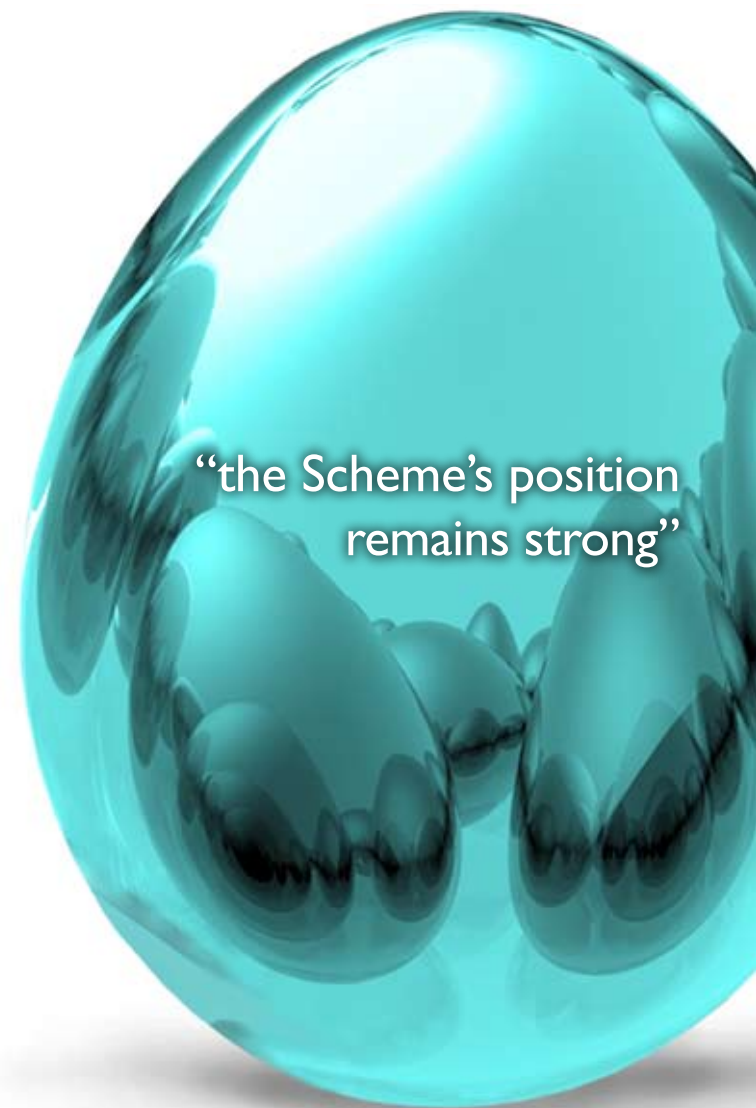
The Scheme's investment asset mix was revised in 2009 in order to reduce risk. The asset mix at the end of the period is shown on page 11.

How well is the Scheme funded?

As at 31 December 2009, the Scheme Actuary's assessment of the financial position of the Scheme indicated a shortfall in the assets relative to the liabilities, on an ongoing basis, which excludes any allowance for advance funding for future discretionary pension increases. The shortfall was £24 million corresponding to a funding level of 99%.

Further details of the Scheme's financial position as at 31 December 2009 are provided in the funding statement on pages 8 and 9.

The Scheme's financial position remains strong relative to other defined benefit schemes in the UK and it enjoys the support of a financially secure sponsor in Royal London. Royal London has a legal obligation to ensure that the benefit promises made to members of the Scheme are honoured.



“the Scheme's position remains strong”

Trustee Board

Who are the Trustee Directors?



Richard Balding
FCII, (63)

Appointed Chairman of the RLGPS Trustee Board in January 2004. Richard was previously Chief Executive Officer of United Friendly and a Trustee Director of UFGPS since 1980 and Chairman of the UFGPS Trustee from 1985.



Stephen Shone
BSc (Econ), FCA, (53)

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



Alistair Brogden
BA, FIA, (40)

Member of the Royal London 360° actuarial team based in Edinburgh and Isle of Man. Alistair was appointed a Trustee Director of RLGPS in August 2001. He was appointed Member Nominated Director for active members in June 2006 and reappointed in this role in January 2008.

Advisers

Secretary to the Trustee

Towers Watson Limited
(formerly Watson Wyatt Limited)

Scheme Actuary

J Howes of Towers Watson Limited

Investment adviser

Lane Clark & Peacock LLP
(appointed on 17 February 2010)

Towers Watson Limited
(formerly Watson Wyatt Limited)
(until 17 February 2010)

Legal advisers

Hogan Lovells International LLP
(formally Lovells LLP)

Slaughter and May

Auditor

PricewaterhouseCoopers LLP

Investment Manager

Royal London Asset Management Limited

Investment Custodians

HSBC Global Custodian



John Tovey
BSc, FIA, (62)

Former With-Profits Actuary and previously Chairman of RLSPF. John was appointed to the RLGPS Trustee Board in January 2004. Following his retirement from the Company, he was appointed Member Nominated Director for pensioner members in June 2006 and re-appointed from January 2008 and 2010.



Richard Main
MBA, BSc, ACIS, FPMI, (57)

Joined the RLGPS Trustee Board in June 2009 as the representative from Law Debenture (*the independent Corporate Trustee Director*) who were appointed to the RLGPS Trustee Board in 1995. Richard has been a director of Law Debenture for more than 10 years.



Administrators

Towers Watson 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



Richard E Balding

Chairman's Statement

From a low point in March 2009, UK equity returns of over 50% by the year-end provided evidence that the UK was on the road to economic recovery. However, at the time of writing, the outlook still remains uncertain and the funding levels of UK pension schemes in general remain depressed as increased inflation expectations and low interest rates have offset the increase in asset values.

Covenant

A pension scheme is ultimately reliant on its sponsor, which is legally required to meet any shortfall in its assets relative to its liabilities. From an RLGPS perspective, the Trustee directors view the covenant provided by Royal London as strong on the basis that Royal London comfortably meets all of its FSA regulated requirements. The Trustee believes Royal London is well positioned to deliver future profitable growth, having successfully come through the recent turbulent period.

Financial position

The Scheme Actuary's annual report as at 31 December 2009 showed that the shortfall on the ongoing funding basis had decreased from £28 million at the previous year-end to £24 million, broadly 1% of the Scheme's liabilities. This calculation excludes any allowance for the cost of granting future pension increases that are at the discretion of Royal London. Further details on the

Scheme's financial position are provided in the funding statement on pages 8 and 9.

Against this backdrop, discussions with Royal London to achieve a more detailed framework for dealing with deficits have taken place. Significant progress has been made with Royal London agreeing to provide an immediate contingent asset (i.e. a charge over specifically identified assets of Royal London) to the Scheme to cover the greater part of any deficit should the position deteriorate materially. The precise detail of the agreement is yet to be finalised but I hope to be able to report further progress next year.

Investment developments

The Trustee directors approved a proposal to amend the investment asset mix (see page 11). This resulted in the move of the remainder of the Scheme's holdings in fixed interest government bonds, corresponding to around 6% of the Scheme's assets, into index-linked government bonds. At the same time, it was agreed to sell £100 million of UK equities with the proceeds being reinvested in corporate bonds of appropriate duration. These changes were made to reduce the overall level of risk in the Scheme's investment strategy.

RLAM performance in the year was once again strong, primarily driven by good stock selection, with the achieved return of 13.9% being 1.5% ahead of the benchmark return.

Pension increases

Pension increases in 2009 were either low or zero for the majority of membership categories. The position has, however, changed in 2010 as inflation has spiked and the UK has started to emerge from recession. As in previous years, all pensioners have benefited from increases equal to the full increase in RPI inflation, made up of both guaranteed entitlement and, as necessary, discretionary awards by Royal London.

As the Scheme would have moved into deficit when discretionary increases were approved in 2010, Royal London agreed to make an additional contribution to keep the Scheme in balance.

Strategic options

The Trustee and Royal London continue to monitor the strategic options available to the Scheme. The Trustee directors have received training during the year on areas such as buy-in/outs, longevity hedging and enhanced transfer values so that they would be well placed to receive any proposals that may be forthcoming.

Trustee Directors and advisers

The Trustee Directors carried out a high-level review of all their advisers during August 2009 and concluded that a fuller review should be carried out of the Scheme's investment consultant. This fuller review was carried out in the fourth quarter of the year, with Lane Clark and Peacock being appointed as a new adviser.

Towards the end of 2009, John Tovey was reappointed to serve another term as the pensioner member nominated director. Subsequent to the year end, Tracey Ashworth-Davies resigned as a Trustee director following her resignation from Royal London – a replacement employer-nominated director is awaited at the time of writing. I would like to record my thanks to Tracey for her contribution during her period of office.

The focus for the rest of 2010 and into 2011 is likely to remain on the funding framework and the run up to the 2010 actuarial valuation, as well as on any strategic options that may be brought forward for consideration. The new coalition government has already announced a number of proposals which may have important implications for pension schemes; as always, we will carefully monitor the progress of these and any other government and regulatory changes for any effect that they may have on your Scheme.

Once again, I would like to express my appreciation to my fellow Trustee directors and to our advisors for their support and assistance throughout the last year.

Richard E Balding
Chairman of RLGPS Trustee Ltd
July 2010

Pension increases

Entitlement within the Scheme to guaranteed increases to pensions in payment varies depending on when the pension was accrued and in which of the various base schemes that now make up RLGPS. Some Scheme pensions are not guaranteed to increase after retirement; others are guaranteed to increase in line with inflation each year subject to certain maximum levels.

In addition to the guaranteed increase limits, Royal London, as sponsor, may decide to award additional increases on a discretionary basis. Typically, this has been where the inflation rate has exceeded any relevant guaranteed limit or where the base scheme design did not include any guaranteed limit.

The table (*top right*) shows pension increases actually awarded in 2009 and 2010 together with the applicable Retail Prices Index (RPI) for the relevant period. The figures illustrate that pension increases were awarded in line with the inflation rate applicable for the relevant period. Where the RPI is zero or negative, no pension increase was awarded.

The table (*bottom right*) shows the guaranteed pension increase levels for each of the base schemes. It can be noted by reference to both tables that discretionary pension increases were awarded by Royal London to former members of RLSPF and UFGPS for pensions secured before 6 April 1997 where there are no guaranteed increases or where the guaranteed level was below the level of RPI.

Pension increases actually awarded

Base Scheme	Pension increase 2010	Pension increase 2009	Retail Prices Index (RPI) 2010	Retail Prices Index (RPI) 2009	Inflation reference period used	Pension increase date
Refuge Assurance Superannuation Fund (RASAF)	4.4%	Nil	4.4%	(0.4%)	March	01 July
Royal London Group Pension Scheme (RLGPS) (members joining after 29 November 2001)	4.4%	Nil	4.4%	(0.4%)	March	01 July
Royal London Staff Pension Fund (RLSPF)	3.7%	0.1%	3.7%	0.1%	January	01 Apr
Scottish Life Directors' Retirement Benefits Scheme (SLDRBS)	0.3%	3.0%	0.3%	3.0%	November	01 Jan
Scottish Life International Officers' Retirement Benefits Scheme (SLIORBS)	4.4%	Nil	4.4%	(0.4%)	March	01 July
Scottish Life Officers' Retirement Scheme (SLORBS)	0.3%	3.0%	0.3%	3.0%	November	01 Jan
United Friendly Group Pension Scheme (UFGPS) Contracted - in members	3.7%	Nil	3.7%	Nil	February	01 Apr
Contracted - out members	3.7%	Nil	3.7%	Nil	February	01 Apr

Guaranteed pension increase levels

Base Scheme	In line with inflation, up to the following maximum levels		
	Pension accrued before 6 April 1997	Pension accrued between 6 April 1997 and 29 November 2001	Pension accrued after 29 November 2001
Refuge Assurance Superannuation Fund (RASAF)	7.5%	7.5%	7.5%
Royal London Group Pension Scheme (RLGPS) (members joining after 29 November 2001)	n/a	n/a	7.5%
Royal London Staff Pension Fund (RLSPF)	Nil	5.0%	7.5%
Scottish Life Directors' Retirement Benefits Scheme (SLDRBS)	3.0%	5.0%*	n/a
Scottish Life International Officers' Retirement Scheme (SLIORBS)	n/a	5.0%**	7.5%***
Scottish Life Officers' Retirement Benefits Scheme (SLORBS)	3.0%	5.0%	7.5%
United Friendly Group Pension Scheme (UFGPS) Contracted - in members	Nil	5.0%	7.5%
Contracted - out members	3.0%	5.0%	7.5%

* Pension accrued between 6 April 1997 and 15 December 2002 for former SLDRBS members

** Pension accrued between 6 April 1997 and 30 November 2002 for former SLIORBS members *** Pension accrued after 30 November 2002 for former SLIORBS members

Funding Statement

“How well is the Scheme funded?”

The results (*shown below*) 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.

Every three years the Scheme Actuary is required to carry out a formal actuarial valuation of the benefits accrued under the Scheme. The method used to calculate the liabilities depends on the purpose of the assessment. In all cases, the Scheme assets are compared with the liabilities, but the liabilities in each type of assessment vary, mainly in line with the assumptions adopted for the investment returns. The financial position of the Scheme was assessed on an 'ongoing' and a 'discontinuance' basis as at 31 December 2007 and again on estimated 'ongoing' and 'discontinuance' bases as at 31 December 2008 and 31 December 2009.

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 liability calculations underlying the financial assessments below also exclude, unless specifically stated, an allowance for advance funding for future discretionary pension increases on benefits earned by certain categories of members prior to 6 April 1997.

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 as shown in the “*Schedule of Contributions*” and in the “*Statement of Funding Principles*”.

Royal London
honours its promises

Financial assessment	Assets	Liabilities	Discretionary* increase	Total liabilities	Deficit	Funding level
without discretionary increases						
31 Dec 09 (£million)	1,725	(1,749)	-	(1,749)	(24)	99%
31 Dec 08 (£million)	1,577	(1,605)	-	(1,605)	(28)	98%
with discretionary increases						
31 Dec 09 (£million)	1,725	(1,749)	(178)	(1,927)	(202)	90%
31 Dec 08 (£million)	1,577	(1,605)	(108)	(1,713)	(136)	92%

* Allowance for advance funding for future discretionary pension increases. Discretionary pension increases are increases over and above guaranteed increases on accrued pensions. The increases are applied as and when decided by Royal London.

As stated above, the most recent formal actuarial valuation was undertaken as at 31 December 2007. The results of the valuation indicated that, on the ongoing basis, the Scheme's assets were in surplus of the amount needed to cover the liabilities accrued to the valuation date. The surplus was £178 million corresponding to a funding level of 110%.

The latest Scheme Actuary's estimated financial assessment of the Scheme as at 31 December 2009 showed, on the ongoing basis, a deficit of £24 million, representing a funding level of 99%.

At the end of 2008, the deficit was estimated at £28 million, representing a funding level of 98%.

Including an allowance for advance funding for future discretionary pension increases, the financial assessment as at 31 December 2009 reveals a deficit of £202m, representing a funding level of 90%. A similar assessment as at 31 December 2008 revealed a deficit of £136m (a funding level of 92%) whereas at the 31 December 2007 formal valuation there was a surplus of £48m (a funding level of 103%).

In discussions with the Company, the Trustee has agreed in principle to Royal London's proposal to remove, for reporting purposes, allowance for advance funding for future discretionary pension increases at the next triennial valuation. In consequence, if, in the future, the Scheme is in deficit Royal London would be required to make payments to fund any discretionary increases that the Company may decide to award.

Discontinuance assessment

The discontinuance assessment is based on the assumed conservative investment strategy that the Trustee would be expected to adopt if Royal London became insolvent and

unable to support the Scheme; or if Royal London decided to discontinue its involvement with the Scheme. In the latter case, the Company would be required to provide substantial funds on this discontinuance basis sufficient to eliminate any deficit. Under either scenario, no further benefits would be accrued and no more regular employee or employer contributions would be paid in. The assessment assumes that no new discretionary pension increases would be paid.

If the Scheme were to be discontinued, one option is for the Trustee to seek to buy insurance policies with an insurance company, which would then become responsible for paying members' benefits. This is known as a buy-out. The Scheme Actuary has estimated that on this basis at 31 December 2008 the Scheme had a deficit of around £420m and enough money to provide around 79% of members' guaranteed benefits (i.e. excluding provision for any future increases which were not guaranteed). The financial assessment at 31 December 2009 revealed a deterioration in this position, with the assets covering around 73% of the guaranteed liabilities at this date, representing a shortfall of around £630 million.

Scheme's assets expressed as a % of liabilities*

	31 Dec 09	31 Dec 08
'Ongoing' assessment	99%	98%
'Discontinuance' assessment	73%	79%

* Liabilities excluding advance funding for future discretionary pension increases

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.

Royal London's responsibilities and security of members' benefits

Royal London is responsible for ensuring that the Trustee is in a financial position to honour the benefit promises made to members of the Scheme by the Company. Provided Royal London remains solvent, it is required to maintain the funding of the Scheme, and members' guaranteed benefits may not be reduced.

In the event of Royal London becoming insolvent without sufficient funds to meet a prescribed test, 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 Scheme. Further information can be found on the PPF website at www.ppf.gov.uk

Payment to Royal London and Regulator actions

In compliance with legislation, the Trustee is able to confirm that (i) there has not been any payment to Royal London out of the Scheme's funds in the previous twelve months, (ii) the Scheme has not been modified by the Regulator and (iii) no directions or Schedule of Contributions have been imposed on the Scheme by the Regulator.

Summary financial statements

During 2009 the value of the Scheme's assets, including additional voluntary contributions (AVCs), increased by £149 million to £1,729 million from £1,580 million.

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 PricewaterhouseCoopers LLP. The audit report was unqualified and the auditor's statement about contributions to the Scheme was also unqualified.

The Scheme's investments partly recovered from substantial losses in 2008 due to improvements in economic conditions during the year.

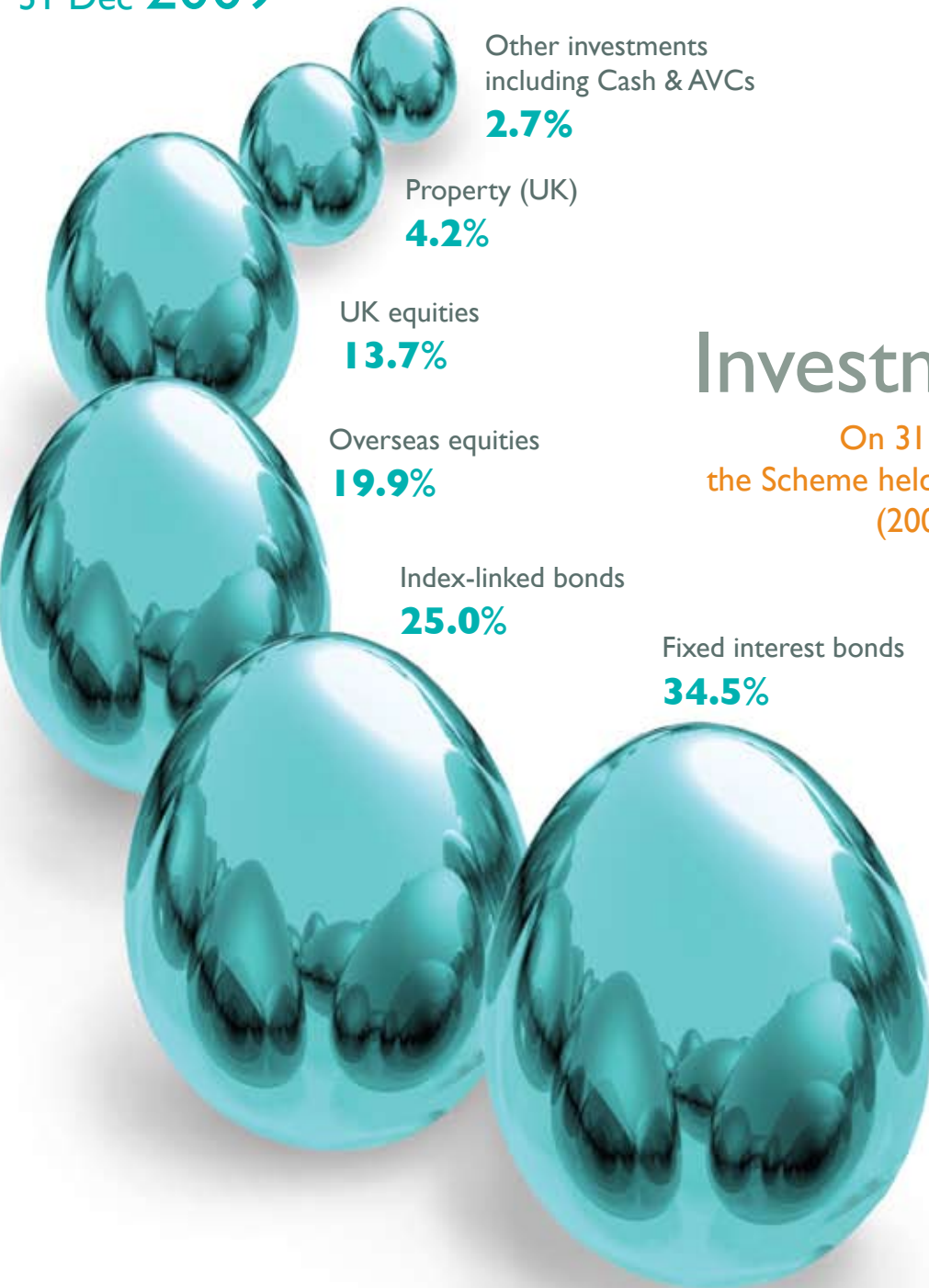
The strong performance of the Scheme's investment manager, as detailed on page 3, has also helped to limit the impact on the Scheme by generating performance above that of the benchmark portfolio.

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

	2009 £million	2008 £million	
Income			
Contributions received	13.0	1.2	Contributions paid by employees and Royal London plus additional voluntary contributions.
Investment income	61.5	62.8	Income from investments, less investment expenses.
Total income	74.5	64.0	Total of the above
Expenditure			
Pension benefits	(68.5)	(67.7)	Pensions and other benefits paid out to members and dependants.
Payments to leavers	(3.5)	(2.2)	Amounts paid out of the Scheme either as refunds of contributions or transferred to other schemes.
Expenses	(2.4)	(2.8)	Administration and other fees required for general management of the Scheme.
Total expenditure	(74.4)	(72.7)	Total of the above
Change in investment market values	149.0	(231.9)	Increase / (decrease) in market values of investments
Increase / (decrease) in fund in the year	149.1	(240.6)	Overall total of the above.
Net assets of the Scheme brought forward	1,579.6	1,820.2	Value of the Scheme at the start of the year.
Net assets of the Scheme carried forward			
	1,728.7	1,579.6	Value of the Scheme at the end of the year.
Assets			
Investment assets	1,728.3	1,580.5	Amount held in long-term investments.
Current assets	2.2	1.2	Amount owed to Scheme on a short-term basis.
Current liabilities	(1.8)	(2.1)	Amount the Scheme owes on a short-term basis
Net assets of the Scheme carried forward	1,728.7	1,579.6	Overall total of the above

31 Dec 2009



31 Dec 2008



Investment assets

On 31 December 2009,
the Scheme held the following investments
(2008 also shown)



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.

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