

# Royal London Group Pension Scheme

Annual Report 2004



# A brighter future for you

**The first year following the merger of the Royal London Group Pension Scheme (RLGPS) and Royal London's three other main pension arrangements has been a year of consolidation, with many of the year's activities focusing on the completion of various issues relating to the base schemes and putting in place appropriate plans for the future.**

## **Review of financial risks**

**One of the first exercises undertaken by the new Trustee Board was to carry out a high level review of the merged Scheme's financial position. The review considered the key financial risks faced by the Scheme and the extent to which the assets and liabilities may be affected differently by changes in investment markets.**

## **Financial strength**

**It is reassuring to report that the merged Scheme remains one of the best funded pension schemes in the UK. At a time when there are numerous reports of UK companies with significant pension deficits and, more disturbingly, reports of employees receiving significantly lower benefits than they had expected when companies have been unable to fund their pension schemes adequately, the financial strength of RLGPS should be a source of great comfort to members.**

# A brighter future for you

**The first formal actuarial valuation of the merged Scheme has now been completed as at 31 December 2004 and the results show that there was a surplus of assets over liabilities at that date of £107 million.**

In the light of the valuation results, it has been agreed that Royal London will continue with its contribution holiday and that no further changes should be made to the Scheme's investment strategy. This position will be reviewed formally as part of the next actuarial valuation due no later than 31 December 2007. However, the Trustee Board will continue to monitor the financial position of the Scheme during the intervening period.

## Legal documentation

Looking forward, an exercise is underway to consolidate all of the legal documentation governing the operation of the Scheme. This is a significant task; whilst the Scheme has only one Trust Deed, it has various sets of rules relating to the individual base Schemes. It is expected that this consolidation will take most of 2005.

## Composition of the Trustee Board

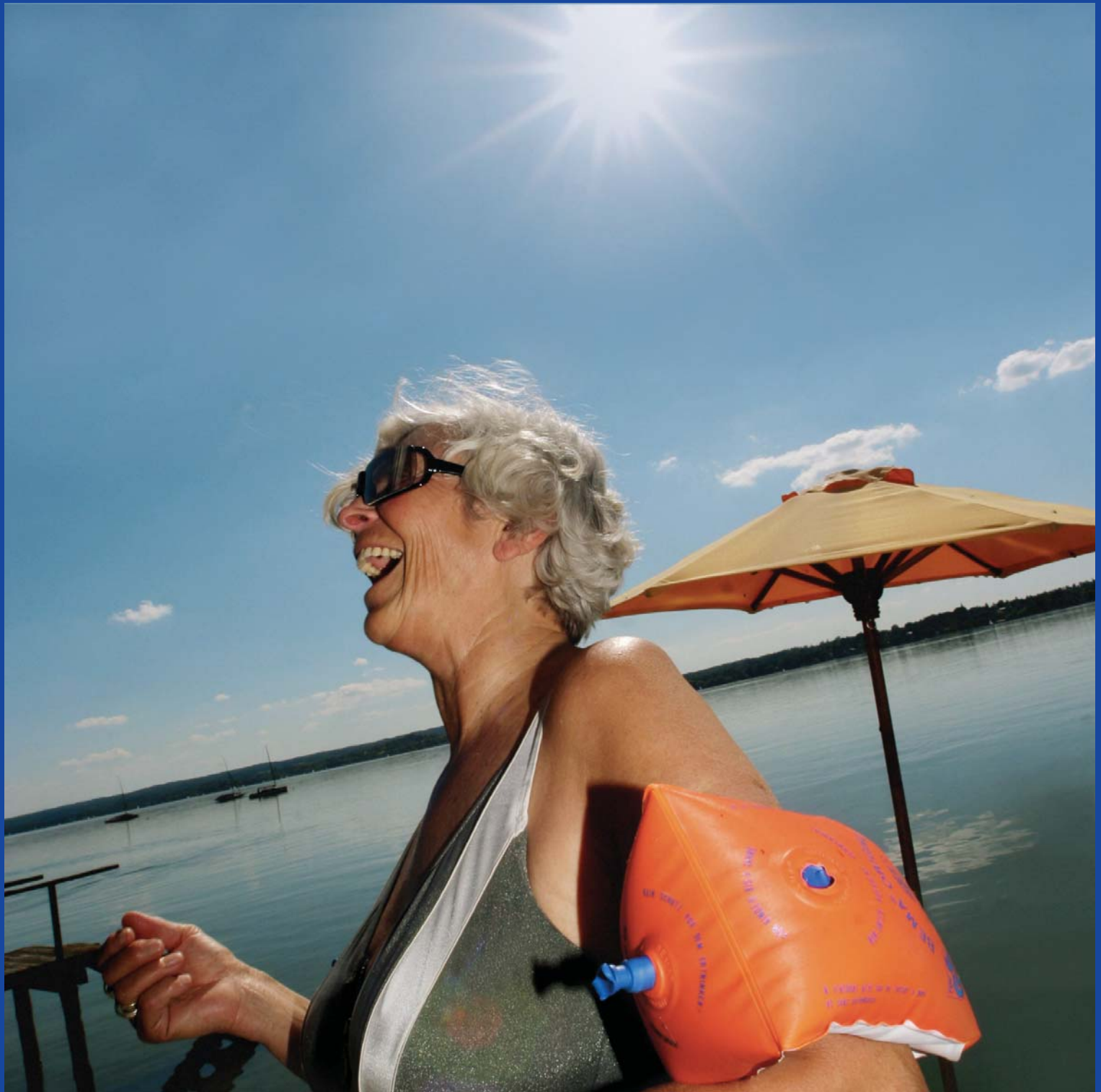
Following the merger at the end of 2003, the composition of the Trustee Board was changed to reflect a broad cross-section of interests, including representation from each of the former Trustee bodies. Given the high profile challenges facing pension schemes and the particular scheme-specific legacy issues, I believe that this wealth of experience will continue to be of great benefit to the Scheme and its members.



**Chairman of  
the Trustee Board  
Richard Balding**



*Did you know...  
...that the Scheme  
paid out almost  
**£60 million**  
in pensions and  
retirement lump  
sums during 2004*



# Your pension in safe hands

**The structure of the Trustee Board ensures that there is representation from each of the four former Trustee bodies in place before the merger. The Board includes two Directors who have been nominated under interim Member Nominated Trustee Director arrangements, an independent Corporate Trustee Director (The Law Debenture Pension Trust Corporation plc) and the Chairman, who is also independent of Royal London.**

## **What happens at a Trustee meeting?**

The Scheme is governed by the Trustee Company and its Board of Directors is responsible for ensuring the Scheme is run in line with the Trust Deed and Rules.

Trustee meetings are held at least every quarter in order to monitor the ongoing performance of the Scheme and discuss any issues where Trustee views or decisions are needed. The Trustee secretary and advisers, including the Scheme legal and investment advisers and the actuary, also attend meetings as appropriate.

An ongoing business plan provides a structure for each meeting, ensuring that all key areas are reviewed on a regular basis, for example investments, Scheme administration and future strategy. Additional meetings may be held for specific matters such as discussion of the results of the actuarial valuation.

The Trustee Board has set up various sub-committees to cover specific topics in depth and who report back to the Trustee Board. The sub-committees are set up as required and normally consist of two or three of the Trustee Directors and involve any advisers considered appropriate. Currently there are sub-committees reviewing the Scheme legal documentation, governance and individual member cases.

## **Governance**

A governance sub-committee was established by the Trustee towards the end of 2004 to investigate all aspects of the Trustee Board's governance in light of best practice. Governance policies aim to ensure effective running of a scheme which helps secure members benefits, and include areas such as trustee training, processes for decision making and controlling risks.

The work of the sub-committee initially focussed on two key areas. Firstly the risks faced by the scheme were assessed, together with the ways in which these risks are controlled and monitored. Secondly, the roles and responsibilities of the Trustee Directors and their professional advisers were reviewed.



The Board (left to right) Brian Duffin, John Tovey, Alistair Brogden, Bruce McNess, Richard Balding, Stephen Shone & Alan Kellett

**Brian Duffin** was appointed to the RLGPS Trustee Board in January 2004, having previously been a Trustee of SLORBS since 1999. He joined Scottish Life as a trainee actuary in 1976 and held various positions before becoming Group Chief Executive of Scottish Life in 1999. He is currently Group Executive Director and a member of the Royal London Board.

**John Tovey** retired from his role as With-Profits Actuary at the end of July 2005, having worked for Royal London in a number of actuarial roles since joining the Company in September 1970. He was appointed as a Director of the Trustee Board following many years as a Trustee of RLSPF, including almost ten years as Chairman.

**Alistair Brogden** joined Royal London in 1991 as part of the actuarial team in Colchester and has worked in a variety of roles, both actuarial and pensions administration related. Since April 2002, he has been located in Edinburgh working in the actuarial team. A current Active Member of the Scheme, he became a Trustee of RLGPS in August 2001 and is the current Active Member Nominated Director.

**Bruce McNess** has represented Law Debenture (the independent Corporate Trustee Director) since it was first appointed as a Trustee of the Refuge pension schemes in 1995. He is a Director of Law Debenture which is a leading independent pension scheme trustee company and has a wide experience of pension scheme governance.

**Richard Balding** was appointed as Chairman of the Trustee Board for RLGPS on 19 January 2004 after being a Trustee Director of UFGPS since 1980 and Chairman of the UFGPS Trustee Board since 1985. He first joined United Friendly Insurance in 1965 and was appointed as a Company Director in 1972. From 1986 Richard served as Chief Executive until the merger with Refuge Assurance in 1996, continuing for two years as a Non-Executive Director with United Assurance Group.

**Stephen Shone** is the Group Finance Director and on the main Board of Royal London. He was appointed a Trustee for RLGPS and RASF in 2000 and was also a Trustee Director of UFGPS. Stephen trained as a chartered accountant with KPMG and then joined Prolific Group as Finance Director. From 1990 until 1998 he held various positions at Irish Life, including Group Chief Financial Officer, before joining Royal London in 1999.

**Alan Kellett** was employed by Refuge Assurance PLC for 38 years and has been a pensioner since taking early retirement in 1995. He was appointed as a Member Nominated Trustee of the former RASF in 1996 and as an RLGPS Trustee in December 2001. Alan is the Pensioner Member Nominated Director.

# Facts & figures

**At 31 December 2004 the Scheme held net assets of £1,552 million, which is an increase of £83 million on the 2003 figure of £1,469 million.**

	<b>2004 £m</b>	<b>2003 £m</b>	
<b>Income</b>			
Contributions from employees	0.4	0.4	Contributions paid by some employees, plus additional voluntary contributions
Transfers in	0.5	1.7	Benefits from other schemes transferred into RLGPS by active members. Such transfers are now suspended
Investment returns	144.7	148.5	Income from investments plus increases in market values, less investment management expenses
	<b>145.6</b>	<b>150.6</b>	
<b>Expenditure</b>			
Pension benefits	(59.2)	(52.8)	Pensions and other benefits paid out to members and dependants
Payments to leavers	(1.6)	(4.5)	Amounts paid out of the Scheme either as refunds of contributions or transferred to other Schemes
Expenses	(1.9)	(5.7)	Administration and other fees required for the general management of the Scheme
	<b>(62.7)</b>	<b>(63.0)</b>	
<b>Increase in fund in the year</b>	<b>82.9</b>	<b>87.6</b>	Overall total of the above
Net assets of the Scheme brought forward	1,469.5	1,381.9	Value of the Scheme at the start of the year
<b>Net assets of the Scheme carried forward</b>	<b>1,552.4</b>	<b>1,469.5</b>	Value of the Scheme at the end of the year
<b>Assets</b>			
Investments	1,553.4	1,469.1	Amount held in long term investments
Other current assets & liabilities	(1.0)	0.4	Amounts owed (by)/ to the Scheme on a short term basis
	<b>1,552.4</b>	<b>1,469.5</b>	

The figures shown for 2003 are a consolidation of those from the 4 schemes that were in place during the year.

## Investments

There is no right or wrong answer as to how a pension scheme should invest its assets – it is for the Trustee to decide, following consultation with the Company, as to an appropriate balance between seeking higher returns and managing the potential downside risks of market falls.

In 2004 there was very little change to the investment holdings, but in February 2005, following discussion between the Trustee Board and Royal London, 5% of the fund was moved from equity holdings into bonds.

During 2004, RLGPS enjoyed a 10.2% return on its investments, which was 0.2% above the benchmark return. In the first half of 2005, a return of 6.5% has been achieved, 0.4% above the benchmark return for the period.

The benchmark return is based on index returns from the Trustee’s agreed holdings in equities, bonds and property. Improved returns against the benchmark indicate good judgement in:

- varying the amounts invested in equities, bonds and property within prescribed constraints; and/or
- good selection of investments within each asset class

## Why change our investments?

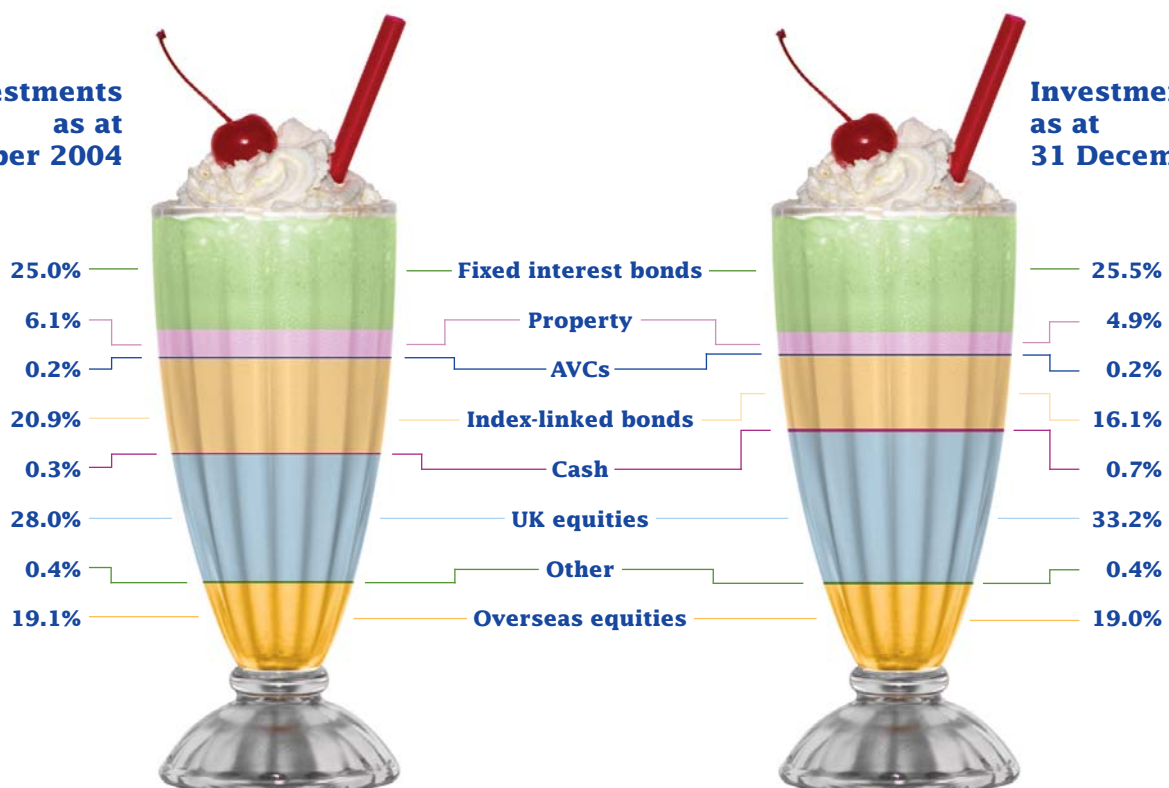
In determining an appropriate investment strategy, the Trustee will typically consider the following main factors:

- the extent to which the Scheme can call on Royal London for financial support
- the current financial strength of the Scheme
- its own risk beliefs and expectations for returns from equities, bonds and other asset classes
- the maturity profile of the Scheme (i.e. the relative numbers of pensioners compared to other members)

It is the final one of these factors that is the reason for the change in the investments in 2005, as it is generally accepted that as a pension scheme matures a greater proportion of its investments should be in bonds. Bonds produce an income stream of known payments which can be viewed as broadly matching the payments made to pensioners.

As the Scheme continues to mature, it is to be expected that there will be further moves to increase the bond holdings. Equally, the Trustee will continue to review the investment strategy from time to time in the light of changes to the other factors.

**Investments as at 31 December 2004**



# How are we doing?

## How are the investments controlled?

- The Trustee Board is required by law to produce a Statement of Investment Principles (SIP) which sets out the general investment policy and objectives for the Scheme.
- This SIP is regularly reviewed by the Trustee and the Investment Manager must work within the guidelines it sets out.
- The Investment Manager is responsible for the selection of specific investments and the management of the assets in accordance with the investment objectives.
- The Trustee Board reviews the performance of the Investment Manager against the set objectives.

### *Did you know...*

*...that as at 31/12/04 the scheme had around 27,000 members, made up of approximately 10,000 pensioners, 14,000 deferred members and 3,000 active members.*

## Understanding more about the long-term financial strength of the Scheme

The Trustee's main objective is to ensure that the Scheme has sufficient funds to be able to pay benefits to members as they fall due. Have you ever wondered how the Trustee goes about doing this?

The answer is by carrying out assessments which compare the value of the Scheme's assets with the amount required to pay benefits to members (known as the Scheme's liabilities).

Whilst the market value of the Scheme's assets is readily available, the calculation of the Scheme's liabilities is rather more complex and requires assumptions to be made about a number of factors, including how long people will live and the return that will be earned on the Scheme's investments.

The Trustee uses the results of these calculations to help decide where to invest the pension scheme assets and also to assess the level of contributions required from Royal London.

Different assessments are carried out for different purposes, with the main difference between the assessments being the assumed level of investment returns.

## The ongoing funding assessment

This assessment is used to determine the required level of contributions and is the key output from the three yearly actuarial valuation. The assumed investment return is based on the expected returns from the actual assets held by the Scheme.

## The FRS17 accounting assessment

This is a theoretical situation, prepared annually for inclusion in Royal London's accounts, which looks at what would happen if the Scheme only invested in a certain type of corporate bonds. It is a more cautious assessment than the ongoing assessment as it doesn't take into account the expected higher returns from the Scheme's equity holdings. As a result, the position on this measure is typically lower than the ongoing funding assessment.

## Discontinuance position

This assessment looks at what would happen if Royal London closed the Scheme to new members and existing members no longer accrued any further benefits. To pay members their guaranteed benefits in this situation there are two alternatives:

Firstly, the Scheme could transfer liabilities and transfer over part of the fund to an insurance company, who would then become responsible for paying the pensions.

Alternatively, the Trustee could continue to manage the Scheme and use the Scheme assets to pay the benefits to members.

As long as the Company was solvent at the discontinuance date, Royal London would be responsible for ensuring that the Scheme was fully funded at that point in time.

## RLGPS results as at 31 December 2004

Two assessments have been completed as at 31 December 2004 – the ongoing funding assessment and the FRS17 accounting assessment.

The ongoing funding assessment showed that the Scheme's assets exceeded the value of the liabilities in today's terms by an amount of about £107 million, resulting in a funding level of 107%.

The FRS17 accounting assessment, as expected, shows a slightly lower surplus of £43 million, equating to a funding level of 103%. It is particularly pleasing that the Scheme continues to be funded at over 100% on this measure at a time when liabilities have increased significantly - over the last 2 years, changes in expectations of bond returns and improvements in mortality have increased the liabilities by over £175 million. Also, as reported last year, only a few companies in the top 100 quoted on the UK stock market have pension schemes with FRS17 funding levels above 100%.

At this stage the hypothetical discontinuance position has not been finalised as discussions are continuing about the approach the Trustee would take in such a scenario. However, it is expected that the position will be significantly stronger than the corresponding position for the majority of UK pension schemes. Further details on this position will be provided in next year's report.

# What's new and how it affects you



**Some aspects of the Pensions Act that was published in 2004 are being put into place this year, primarily the Pension Protection Fund and the new Pensions Regulator. Other parts of the Act have yet to be implemented. Here's an update on some of the new legislation:**

### **Pension Protection Fund**

The Pension Protection Fund came into effect on 6 April this year and will be funded by an annual levy paid by defined benefit schemes. Its aim is to guarantee 90% of a members pension entitlement (or 100% for current pensioners over normal retirement age), up to a limit of £25,000 per year, in the event of an employer being unable to fund the scheme through insolvency. The fund will also provide compensation to members in cases of fraud or misappropriation of assets.

### **Pensions Regulator**

On 6 April 2005 the new Pensions Regulator took over from OPRA (the Occupational Pensions Regulatory Authority) as the new regulatory body for occupational pension schemes in the UK. The new regulator is taking more of a risk based approach than OPRA and will be focusing more on schemes where fraud, inadequate governance or poor administration mean members' benefits are considered to be at risk. Increased powers for the regulator mean that more action can be taken against poorly run schemes and cases of underfunding. Well run schemes will benefit from a simplification in administration requirements.

### **Tax simplification**

New rules for tax on pensions come into force on 6 April 2006. Much of the legislation concerns individuals with pension pots in excess of £1.5 million, but there are some changes that affect other members. Exact details have yet to be confirmed, but there will be differences in how a lump sum on retirement is calculated and members are likely to find they have more flexibility in the split between a lump sum and a pension.

#### ***Did you know...***

***...that net assets of the Scheme have increased by £83 million during 2004 to £1,552 million, after paying almost £60 million in pensions***

# All you need to know & who to call

## Pension increases

Since the last annual report, pension increases have been awarded in 2005 reflecting the increase in the Retail Prices Index (RPI) in line with the Scheme's Trust Deed and Rules. Members in receipt of a pension will have been notified separately of these increases.

## Notification of pensioner deaths

There have been a number of recent instances of cases where the Scheme's administrators have not been informed of a pensioner's death until a few months have passed. In some cases, the delay has been over a year.

In such instances, the Trustee is required to recover any overpayments that may have been made from the date of the pensioner's death. Therefore, to avoid the strain that this can put on the member's family's finances, it is important that the administrators are promptly informed of all deaths.

## Joint life pensions

On a similar theme, there are a significant number of historic Refuge and United Friendly pensions that were set up on a joint life basis. In brief, this means that they are paid at the original level until the death of the first life, be it the member or their spouse, and then reduced to a lower level.

In such cases, the death of the first life must be promptly notified to the administration team so that the amount being paid can be adjusted. Again, there have been several recent examples of there having been a delay in the receipt of this notification, leaving the Trustee having to reclaim the overpayments made.

Please also note that the joint life benefits are only payable to the two lives identified at the date of retirement. In most circumstances, this is the member and their spouse at the date of retirement. This means that a pension cannot be paid on the death of a member to a second spouse should the member have remarried.

If you require clarification as to whether you are affected by this, please contact Watson Wyatt LLP.

## Nomination forms

Nomination forms are requests for the payment of any benefits from the Scheme on a member's death. While the form does not bind the Trustee, it makes clear your wishes. The forms can be easily overlooked or forgotten but it's important that they're kept up to date, particularly in the event of a change in marital status or the birth of a child.

Active members can find forms on the intranet at the back of the Royal London Group Pension Scheme – A guide to your benefits.

Pensioners within the 5-year guarantee period who would like to update their form should contact Watson Wyatt LLP for a copy.

## Transfers into the Scheme

The Trust Deed and Rules state that Royal London is responsible for deciding whether or not the Scheme should accept transfer payments in respect of members' previous pension arrangements.

In January 2004, the Trustee was advised by Royal London that the Scheme should not accept any future such payments. Accordingly, whilst transfers that were being processed at that time were allowed to complete, there are to be no further transfers in to the Scheme.

This decision is in line with the approach adopted by the majority of UK companies.

## Appointment of Pensioner Member Director

In line with the Trustee arrangements notified to members in January 2004, there are two Member Nominated Trustee Directors, being an active member and a pensioner member of the Scheme. On their appointment in 2004 it was agreed that their initial terms of service would be four and two years respectively. At the start of 2006 the position of Pensioner Member Nominated Director, currently held by Alan Kellett, therefore comes up for re-appointment. Further details of the appointment process can be obtained on request from Watson Wyatt LLP.

## Your Benefits

Watson Wyatt LLP will send active members a Benefit Statement each year outlining their personal benefit entitlement under the Scheme. Pensioners will receive a letter notifying them of any pension increases awarded.

## Contact details

If you have any queries about your pension, need to change any of your details or would like more information about the Scheme, please contact us as follows:

**Active members:** contact Employee Services, Royal London Group, Royal London House, Alderley Road, Wilmslow, Cheshire SK9 1PF. Telephone 01625 605106.

**Pensioners and deferred members:** contact Watson Wyatt LLP, 1 Wellington Place, Wellington Street, Leeds LS1 4AP. Telephone 0113 234 3222.

## Any problems?

There is an internal disputes procedure in place to try to resolve any disputes between members, prospective members or beneficiaries and the Trustee.

If you have any problems or would like to receive a copy of the procedure, please write to the Secretary of the Trustee at Watson Wyatt LLP at the address given above.

### You can also contact:

The Pensions Advisory Service (TPAS, formerly known as OPAS), a body that has been set up to help and advise anyone experiencing difficulty with their pension at:

11 Belgrave Road, London SW1V 1RB.  
Telephone: 0845 6012923.

### Or

The Pensions Ombudsman, an organisation that helps settle complaints connected with pension schemes, at the same address or by telephoning 020 7834 9144.

The Pensions Regulator, the new regulatory body set up to supervise occupation pension schemes, can be contacted at:

Napier House, Trafalgar Place, Brighton BN1 4DW.  
Telephone: 0870 606 3636.

## Additional information

A pension scheme booklet for current active members and a copy of last year's report to members can be found on the group intranet.

A copy of the Scheme's formal annual report and accounts is available on request from the contacts shown above.

## Glossary

<b>RLGPS</b>	Royal London Group Pension Scheme
<b>UFGPS</b>	United Friendly Group Pension Scheme
<b>RLSPF</b>	The Royal London Staff Pension Fund
<b>SLOBBS</b>	The Scottish Life Officers' Retirement Benefit Scheme
<b>RASF</b>	Refuge Assurance Superannuation Fund

## Advisers

### Secretary to the Trustee

Watson Wyatt LLP

### Scheme actuary

K Lewis of Watson Wyatt LLP

### Administrators

Watson Wyatt LLP

### Independent auditors

PricewaterhouseCoopers LLP

### Legal advisers

Lovells

### Investment manager

Royal London Asset Management Limited

### Investment custodians

JP Morgan Chase

### Current AVC providers

Clerical Medical Investment Group Limited  
Scottish Life (a division of The Royal London Mutual Insurance Society Limited)

### Bankers

HSBC Bank plc

