

April 2010



PENSIONS NEWSLETTER RBP SUPPLEMENT

**For members of the Member Retirement Account (MRA)
with Retirement Benefit Plan (RBP) Benefits**

Introduction

This supplement to the MRA newsletter is for all those LSM employees who are members of the MRA but who also retain an entitlement under the RBP. It describes matters specific to the RBP; in particular in relation to funding and investment.

The year in focus

Since the last Newsletter, the Trustees have finalised the Annual Report as at 31 December 2008. The Trustees are pleased to confirm that the funding position of the RBP is still strong (and, much improved since the last formal valuation as at 31 December 2006). Further details are provided in the Summary Funding Statement, which again forms an integral part of this supplement.

Some of the highlights of 2008 were:

- The value of the RBP's assets stood at £47.6 million at the year end.
- Company contributions totalling £624,000 were paid into the RBP.
- Pensions and other benefits paid to members amounted to £2.6 million.

Investments

Asset Value

The market value of the RBP's assets fell over the accounting year from £56 million in December 2007 to £47.6 million as at December 2008. Please note these figures do not include AVC values. However, since the year end stock markets have begun to recover, and the value of the fund has increased to £51.3 million as at 31 December 2009.

Investment Performance

The Trustees are diligent on behalf of members in monitoring the performance of the investment manager. Performance is reviewed at every Trustees meeting and the investment manager is invited to attend Trustee meetings when deemed appropriate.

The investment return on the RBP's assets for the year ended 31 December 2008 was -10.3% and for the year ended 31 December 2007 was 6.5%, both in line with the index return.

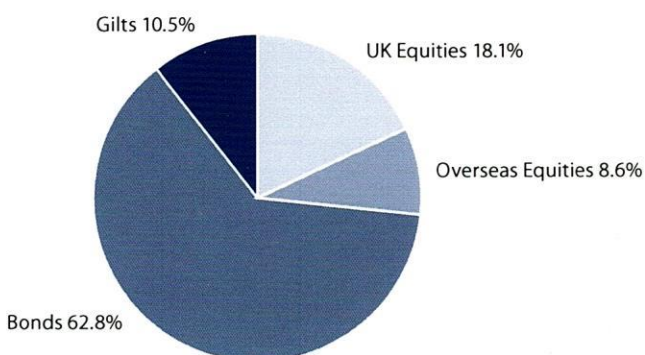
The return for the year ending 31 December 2009 was 14.1%. This demonstrates the strong recent recovery in stock markets.

All the RBP's assets are managed on behalf of the Trustees by Legal & General (L&G) in index-tracking funds. An index tracking fund is one which aims to track the average market return for specific asset classes. L&G is one of the largest "index-trackers" and has an excellent reputation.

Investment Strategy

As advised last year the Trustees reviewed their investment strategy in light of the results of the actuarial valuation as at 31 December 2006. The Trustees decided to reduce their exposure to risk by switching the majority of the Plan's equity holdings to bonds. This is because bonds are a more suitable investment for a maturing pension scheme.

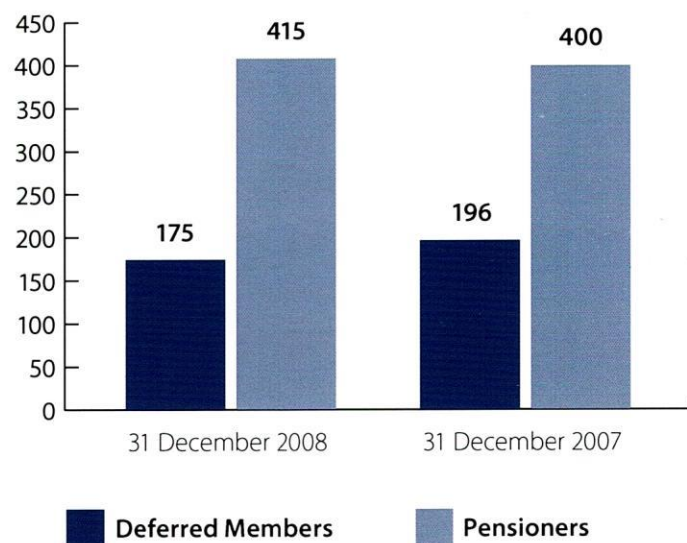
The distribution of the RBP's assets as at 31 December 2009 was as follows:



This switch has actually proved extremely beneficial during the recent turbulent market conditions as the RBP's exposure to equities and therefore their volatility has been significantly reduced.

How many members?

At 31 December 2008 the RBP had 175 deferred members and 415 pensioners. Comparative figures as at 31 December 2007 are 196 deferred members and 400 pensioners.



A pensioner member is someone who is already in receipt of a pension from the RBP. All of the remaining members of the RBP are deferred members because pensionable service has ceased and no further contributions are payable. Deferred members retain a right to their benefits which will come into payment in the future.

Retirement Options

If you have not already retired you will have the following options when you retire:

- Take your full pension, or
- Take a cash lump sum (currently tax free) and a reduced pension
- Transfer fund to another pension scheme

Pension Increases

Pensions under the RBP increase on the 15 April each year, at the following rates:

For members who left prior to 6 April 1988

- 3% per annum

For members who left after 6 April 1988

- 5% for service completed prior to 1 January 2000
- In line with the increase in the Retail Prices Index to a maximum of 5% for service completed after 1 January 2000.

VALUATION AS AT 31 DECEMBER 2008

Ongoing Valuation

The Trustees are now able to present the results of the latest funding assessment as at 31 December 2008, and are pleased to report an improvement in the funding position of the RBP since the last formal valuation as at 31 December 2006.

On a continuing basis the funding position of the RBP as at 31 December 2006 (the formal valuation) and at 31 December 2007 and 2008 (the annual updates) was as follows:

| Date of assessment | 31 Dec 2006 | 31 Dec 2007 | 31 Dec 2008 |
|----------------------|-------------|-------------|-------------|
| Liabilities | £56.8m | £51.4m | £44.5m |
| Assets | £54.6m | £55.7m | £47.7m |
| (Shortfall)/ Surplus | (£2.2m) | £4.3m | £3.2m |
| Funding level | 96% | 108% | 107% |

The improvement in the funding position since 2006 can be attributed to the additional contributions paid by LSM of £1.1 million during 2007 and £600,000 during 2008 together with changes to the financial assumptions over the two year period. The Trustees have also adopted a prudent investment strategy.

Whilst the Trustees are pleased to see a healthy 107% coverage at 31 December 2008, they are mindful that the funding position has been 'artificially' supported by the extreme market conditions at 31 December 2008. The Scheme Actuary has noted that if a further funding assessment was carried out as of a current date, the funding position may be lower than the 107% shown at the end of 2008.

In view of this, and despite the RBP having a surplus as at 31 December 2008, LSM have contributed to the RBP at a rate of £50,000 per month during 2009. The Trustees believe this demonstrates LSM's continuing commitment to provide appropriate financial support to the RBP.

The importance of LSM's support

The Trustees' objective is to have enough assets to pay pensions now and in the future. However, success of the funding plan relies on LSM continuing to support the RBP because:

- LSM will be paying the future expenses of running the RBP on an annual basis.
- The funding level can fluctuate and where there is a funding shortfall LSM will usually need to put in more money.
- The target funding level may turn out not to be enough so that LSM may need to put in more money.

Funding Update

You may be aware that the Trustees are required to carry out a formal valuation of the Plan to assess the level of funding on various prescribed bases at least every 3 years. Because the RBP was closed in 2006 the triennial valuation was brought forward to better assess the impact of the closure. Therefore, the next statutory valuation is not required until 31 December 2009 and work on this will be commencing shortly.

Winding-up Valuation

Legally, we are required to provide members with the following information:-

If the RBP had been wound up on the 31 December 2006, there would have been a deficit of around £29.45 million (assuming the assets of the RBP were used to secure members' benefits with an insurance company). The assets would have been sufficient to provide on average 65% of members' full benefits.

This may appear worrying but it is important to understand that, in the first instance, LSM would have been required by legislation to pay a lump sum into the RBP to finance the deficit of £29.45 million, if it were able to do so. If LSM had gone out of business and was not able to pay the amount required to secure the benefits in full, the Pension Protection Fund (PPF), which was established by the Government in April 2005, would provide for a minimum level of benefit. If you would like to know more about the PPF then please visit their website at www.pensionprotectionfund.gov.uk

The fact that we have shown the winding-up position does not mean that LSM is actually thinking of winding-up the RBP.

Payments to LSM

There have never been any payments to LSM out of RBP funds.

Important:

If you are thinking of leaving the RBP for any reason you should always consult a professional advisor, such as an Independent Financial Adviser, before taking any action.

Actuary:

Andrew Firbank (FIA) of JLT Benefit Solutions Ltd

Additional documents available on request

The full Actuary's Valuation Report following his check of the RBPs' situation as at 31 December 2006.

Summary RBP Accounts for the year to 31 December 2008

The following is an extract from the accounts for the year ended 31 December 2008. A full version is available upon request. Figures for the year ended 31 December 2007 are also provided for information.

| | 2008(£) | 2007(£) |
|--|-------------------|-------------------|
| VALUE OF THE RBP AT THE START OF THE YEAR | 56,048,029 | 54,590,621 |
| INCOME | | |
| Contributions: | | |
| <i>Company's:</i> | | |
| Normal | - | - |
| Special* | 624,070 | 1,150,112 |
| <i>Members:</i> | | |
| Normal | - | - |
| Special | - | - |
| Investment Income (interest on bank accounts) | 86,726 | 4,019 |
| Transfers in | - | - |
| Other Income | 99,138 | 281,027 |
| Transfers between sections | 20,291 | (65,628) |
| Total Income | 830,225 | 1,369,530 |
| EXPENDITURE | | |
| Benefits Payable | 2,586,577 | 2,773,367 |
| Payments to and on account of leavers | 132,844 | 140,073 |
| Insurance Premiums | 161,650 | 227,567 |
| Fees and Expenses | 252,216 | 189,681 |
| Total Expenditure | 3,133,287 | 3,330,688 |
| FUND BALANCE | | |
| Income <i>less</i> Expenditure | (2,303,062) | (1,961,158) |
| Change in Market Value of Investments | (6,108,001) | 3,418,566 |
| VALUE OF THE RBP AT THE END OF THE YEAR | 47,636,966 | 56,048,029 |

*Deficit removal payments

