

December 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 been busy dealing with the formal actuarial valuation as at 31 December 2009. Initial results were presented to the Trustees in July 2010 and negotiations with LSM regarding the funding of the Plan took place in November 2010. Full results are detailed in the annual Summary Funding Statement included within this newsletter. Some of the key financial highlights of 2009 were:

- The value of the RBP section of the Plan's assets stood at £51.2 million at the year end.
- Company contributions totalling £600,000 were paid into the RBP section.
- Pensions and other benefits paid to members amounted to £3.1 million.

Principal Advisers

In addition to the advisers mentioned in the MRA Newsletter, the Trustees are required to appoint a Scheme Actuary in respect of the RBP section of the Plan. The current Scheme Actuary is Andrew Firbank of JLT Benefit Solutions Ltd.

INVESTMENTS

Asset Value

The market value of the Plan's assets increased over the accounting year from £47.6 million in December 2008 to £51.2 million as at December 2009. Please note these figures do not include AVC values.

Since the year end stock markets have recovered further and the value of the fund has increased to £55.3 million as at 1 October 2010.

Investment Performance

The Trustees are committed to monitoring and assessing the performance of the Plan's investment manager. Performance is reviewed at every Trustees meeting and the investment manager is invited to attend Trustee meetings periodically.

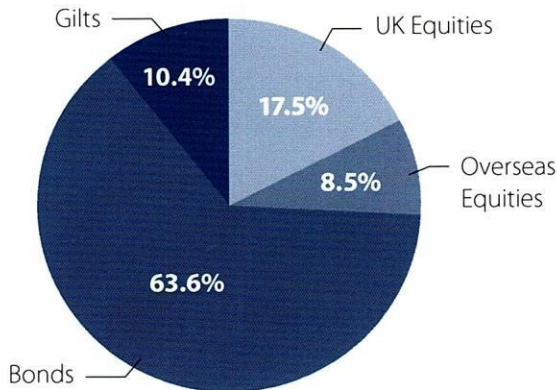
All the Plan's assets are managed on behalf of the Trustees by Legal & General (L&G) in index-tracking funds. An index tracking fund is one which aims to track the average market return for specific asset classes. L&G is one of the largest "index-trackers" and has an excellent reputation.

The investment return on the RBP's assets for the year ended 31 December 2009 was 14.1% and for the year ended 31 December 2008 was -10.3%, both in line with the index return. The positive return for the year ending 31 December 2009 demonstrates the strong recovery in stock markets over the period.

Investment Strategy

Following an in depth review of long term investment strategy carried out in 2008, the Trustees made a decision to switch the majority of the Plan's equity holdings to bonds. This proved to be a very prudent decision in view of the crisis in global equity markets throughout 2008 and into 2009. The Trustees will conduct a further in depth review of investment strategy in conjunction with the actuarial valuation as at 31 December 2009.

The distribution of the Plan's assets as at 1 October 2010 was as follows:



How many members?

At 31 December 2009 the RBP had 151 deferred members and 433 pensioners. Comparative figures as at 31 December 2008 are 175 deferred members and 415 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.

Important:

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

Recent Developments

Pension increases - proposed legislative changes

The government has announced its intention to change the index by which private sector pensions are increased. Currently there are obligations on private sector defined benefit pension schemes to provide increases at least in line with the change in the Retail Prices Index (this only applies to specific elements of pension, and the increases are capped). The government's proposal is to change the measure used from the Retail Prices Index to the Consumer Prices Index.

The full details of how such a change is to be introduced is in consultation. However, the Trustees are looking into the implications such a change might have for the Plan and will arrange for further information to be provided to members once the consultation is complete and the government has clarified its proposals.

Payments from the Plan to the employer

In order to satisfy a legal requirement, the Trustees are obliged to formally notify members of their decision to pass a proposed resolution to preserve powers which existed under the Plan's Definitive Deed and Rules (as they stood prior to 6 April 2006) to permit funds in the Plan to be paid to the employers, for example, if the Plan should have a surplus in the future. The Trustees' intention is for the proposed resolution to take effect from 6 April 2011.

Members should note that no payment to the employer is proposed. The purpose of the resolution is to comply with a legislative requirement that must be met in order to retain powers already provided under the Plan rules as they stood before 6 April 2006. As such, payment of funds to the employer remains subject to the relevant restrictions set out in the Plan's rules and legislation.

SUMMARY FUNDING STATEMENT AS AT 31 DECEMBER 2009

Ongoing Valuation

Since the last Summary Funding Statement was issued (as part of the Newsletter circulated earlier this year), the Trustees have completed the latest three-yearly valuation of the Plan as at 31 December 2009. The results of this are shown below.

Date of assessment	31 December 2009
Liabilities	£54.5m
Assets	£51.2m
(Shortfall)/Surplus	(£3.3m)
Funding level	94%

In broad terms, the slight deterioration in the formal funding position since 2006 can be attributed to the fact that investment returns over the three year period were less than expected. If it had not been for the deficit funding contributions paid by LSM and a general improvement in market conditions as at December 2009 the funding level would have been lower.

The fact that the Trustees adopted a prudent investment strategy also protected the funding position during the financial crisis in 2008.

31 December 2008 update

Members may recall that a significant improvement in the funding position as at 31 December 2008 (to 107%) was reported in the last Summary Funding Statement. However, the Trustees also cautioned at the time that this position partly reflected the impact of extreme market conditions at the date the "snapshot" was taken. Moreover, the 31 December 2008 figure was only an approximate roll forward of the formal results at 31 December 2006.

31 October 2010 Update

The Trustees have obtained an approximate update of the funding position as at 31 October 2010 and are pleased to report that this shows a slight improvement to 96% (a deficit of £2.5m). In order to remove this deficit, LSM have agreed to continue paying contributions of £50,000 per month. It is anticipated that together with future investment returns the deficit will be removed by March 2014.

The Trustees acknowledge that LSM have demonstrated an ongoing commitment to providing appropriate financial support to the Plan. Indeed, LSM have contributed to the Plan at the rate of £50,000 per month since 2008, despite the Plan showing a surplus as at the 2007 and 2008 updates.

Important:

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

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. The last statutory valuation was carried out as at 31 December 2009. In the years when a full valuation is not carried out, the Trustees are required to obtain an approximate annual assessment of the Plan's funding position. This approximate assessment is known as the Actuarial Report.

Winding-up Valuation

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

If the Plan had been wound up on the 31 December 2009, there would have been a deficit of around £16.21 million (assuming the assets of the Plan were used to secure members' benefits with an insurance company). The assets would have been sufficient to provide on average 76% 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 Plan to finance the deficit of £16.21 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 Plan.

Payments to LSM

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

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 Plan because:

- LSM will be paying the future expenses of running the Plan 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.

SUMMARY RBP ACCOUNTS FOR THE YEAR TO 31 DECEMBER 2009

The following is an extract from the accounts for the year ended 31 December 2009. A full version is available upon request. Figures for the year ended 31 December 2008 are also provided for information.

	2009(£)	2008(£)
VALUE OF THE PLAN AT THE START OF THE YEAR	47,636,966	56,048,029
INCOME		
Contributions:		
<i>Company's:</i>		
Normal	-	-
Special*	600,000	624,070
<i>Members':</i>		
Normal	-	-
Special	-	-
Investment Income	80,028	86,726
Transfers in	-	-
Other Income	-	99,138
Transfers between sections	93,798	20,291
Total Income	773,826	830,225
EXPENDITURE		
Benefits Payable	3,067,041	2,586,577
Payments to and on account of leavers	-	132,844
Insurance Premiums	218,578	161,650
Fees and Expenses	162,677	252,216
Total Expenditure	3,448,296	3,133,287
FUND BALANCE		
Income <i>less</i> Expenditure	(2,674,470)	(2,303,062)
Change in Market Value of Investments	6,274,496	(6,108,001)
VALUE OF THE PLAN AT THE END OF THE YEAR	51,236,992	47,636,966

* Deficit removal payments