



# PENSIONS NEWSLETTER

## For members of the Member Retirement Account (MRA) with Retirement Benefits 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's financial highlights

- The value of the RBP section of the Plan's assets stood at £56.1 million at the 2011 accounting year end.
- Company contributions totalling £600,000 were paid into the RBP section.
- Pensions and other benefits paid to members amounted to £2.8 million.

### The Plan's Trustees and their Advisors

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.

The Scheme Actuary is an expert appointed by the Trustees to provide them with advice on funding the Plan; in particular, how well funded is the Plan and what contributions should be paid. The Scheme Actuary measures the financial state of the Plan by placing a value on the pension benefits that have built up and comparing this with the value of the assets that the Plan holds.

### Investments

#### Asset Value

The market value of the Plan's assets increased over the accounting year from £54.5 million in December 2010 to £56.2 million as at December 2011. The value of the fund has since increased to £59.2 million as at 31 December 2012. Please note these figures do not include AVC values.

#### Investment Performance

The table below sets out the performance of the funds that the Plan is currently invested in over various periods to 31 December 2012.

	QUARTER TO 31 DECEMBER 2012	YEAR TO 31 DECEMBER 2012
Standard Life GARS	1.4	8.5
Baillie Gifford DGF	3.1	11.5
L&G AAA-AA-A Corporate bonds Over 15 Year Index	1.5	12.3
L&G Investment Grade Corporate Bond Over 15 Year Index	1.7	13.1
L&G Over 5 Year Index Linked Gilts	5.1	0.5

The Standard Life and Baillie Gifford funds are growth funds invested in a range of asset classes. As shown in the table above it is pleasing to note that these funds have produced positive returns over the quarter and year to 31 December 2012.

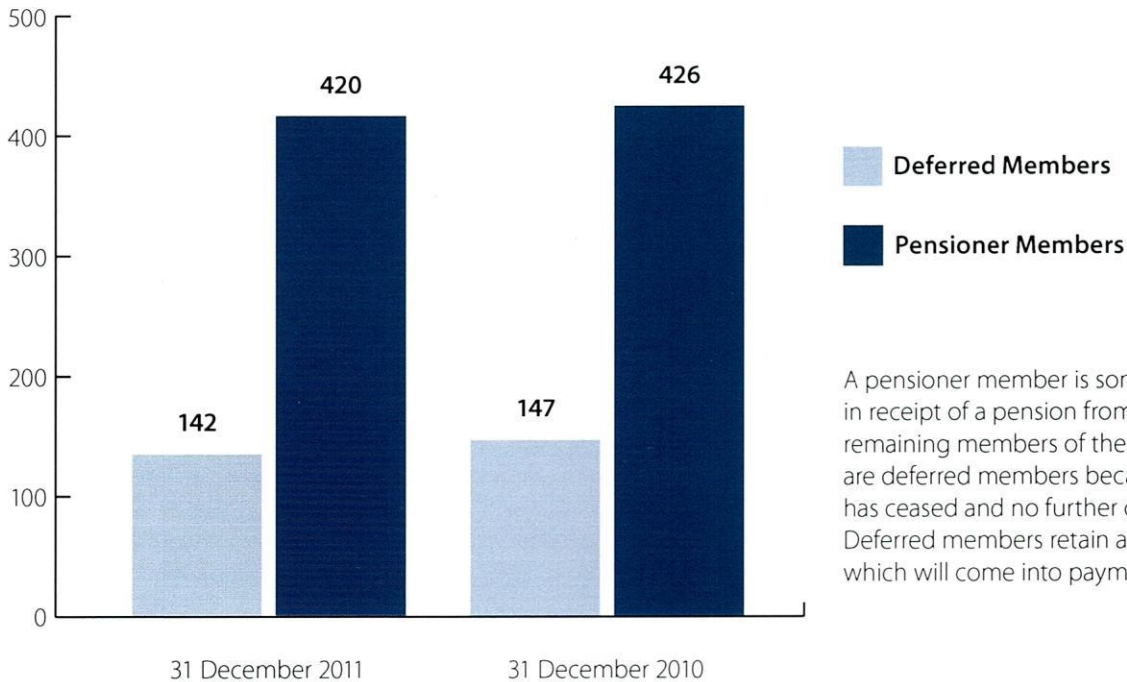
The three L&G funds are invested in corporate bonds and index-linked gilts. The majority of the Plan's assets is invested in the L&G AAA-AA-A Corporate Bonds Over 15 Year Index Fund, with circa £36m invested.

The Trustees monitor the performance of the Plan's investment managers at every Trustees' meeting and the investment managers are invited to attend Trustee meetings periodically.



## How many members?

At 31 December 2011 the RBP had 142 deferred members and 420 pensioners. Comparative figures as at 31 December 2010 are 147 deferred members and 426 pensioners.



A pensioner member is someone who is already in receipt of a pension from the Plan. All of the remaining members of the RBP section of the Plan 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 funds 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.

## Summary Funding Statement as at 31 December 2011

### Ongoing Valuation

The Trustees are now able to present the results of the latest funding assessment as at 31 December 2011.

On a continuing basis the funding position of the Plan as at 31 December 2011 (the annual update) and at 31 December 2009 (the formal valuation) was as follows:

	YEAR ENDING 31 DECEMBER 2011	YEAR ENDING 31 DECEMBER 2009
Liabilities	£59.3	£54.5m
Assets	£56.2	£51.2m
Shortfall)/Surplus	(£3.1)	(£3.3m)
Funding level	95%	94%

The funding position has worsened slightly since the last update prepared as at 31 December 2010 (from 98% to 95%). Nonetheless, it is still a small improvement on the position as at the last valuation date, 31 December 2009.

Some volatility in the funding level between valuations is to be expected as market conditions vary. In particular, the value placed on the liabilities has been adversely affected by the significant fall in bond yields in the inter-valuation period although this has been more than compensated for by a combination of good investment returns, lower than expected inflation and the payment of deficit funding contributions by LSM.

LSM continues to pay substantial contributions of £50,000 per month to pay off the deficit. It is anticipated that together with future investment returns the deficit will be removed by March 2014. The Trustees acknowledge LSM's ongoing commitment to support the Plan.

### 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.

### 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.

### Payments to LSM

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

### 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](http://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.**

#### 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.



## Summary RBP Accounts for the year to 31 December 2011

The following is an extract from the accounts for the year ended 31 December 2011. A full version is available upon request. Figures for the year ended 31 December 2010 are also provided for information.

	2011(£)	2010(£)
<b>VALUE OF THE PLAN AT THE START OF THE YEAR</b>	<b>54,614,294</b>	<b>51,236,992</b>
<b>INCOME</b>		
Contributions:		
<i>Company's:</i>		
Normal	–	–
Special*	600,000	600,000
<i>Members':</i>		
Normal	–	–
Special	–	–
Investment Income	32,873	75,982
Transfers in	–	–
Other Income	115,318	–
Transfers between sections	6,810	12,673
<b>Total Income</b>	<b>755,001</b>	<b>688,655</b>
<b>EXPENDITURE</b>		
Benefits Payable	2,632,163	2,484,636
Payments to and on account of leavers	–	–
Insurance Premiums	177,627	173,244
Fees and Expenses	168,438	163,724
<b>Total Expenditure</b>	<b>2,978,228</b>	<b>2,821,604</b>
<b>FUND BALANCE</b>		
Income <i>less</i> Expenditure	(2,223,227)	(2,132,949)
Change in Market Value of Investments	3,818,906	5,510,251
<b>VALUE OF THE PLAN AT THE END OF THE YEAR</b>	<b>56,209,973</b>	<b>54,614,294</b>

\* Deficit removal payments