

Trustee report 2011



Looking after **your** pension

Welcome

to the Trustee's Report on the Royal Mail Pension Plan.

This Report gives you the financial headlines for the last Plan year. It also provides more information about the Trustee's role in relation to the Postal Services Act 2011.

The Act has now been passed. The Government has stated its intention that, with European Union State Aid approval, it will relieve Royal Mail of its legacy pension deficit from March 2012. When this happens, please be assured that the Government is committed to ensuring you receive the benefits you have in the Plan in the same way as before.

For the time being however, the Trustee continues to look after your pension and it is very much business as usual, with benefits continuing to be built up and paid as before. The Trustee is working with the Government and Royal Mail Group to protect your pension and move seamlessly into the new pension structure.

During the year, the value of the Plan's assets increased from £25,984 million to £27,657 million.

431,622

The number of
people in the Plan at
31 March 2011

£27.7 billion

The value of the Plan's
assets at 31 March 2011

To find out more, go to:
www.royalmailpensionplan.co.uk

SECURITY FOR THE FUTURE



Jane Newell

OBE JP BA FRSA – Chair

As a member of the Royal Mail Pension Plan (the Plan), you may be wondering how the Postal Services Act 2011 will affect your benefits in the Plan.

I appreciate that we are entering a period of significant change, and I hope we can reassure you about your pension benefits.

What does the Postal Services Act mean for the Plan's members?

The Act, which includes a 'pensions solution', received Royal Assent in June. The pensions solution is that Plan benefits will be split into two parts at a date chosen by the Government – the target date is 31 March 2012:

1. The benefits earned up to the chosen date will be transferred to a new public service scheme, backed by the Government;
2. The benefits that employee members earn after that date will continue to build up in the Plan as before.

All members will be sent more information about this process when the details have been finalised.

The Government has stated that it is committed to paying and protecting the benefits that you have earned. The Government is now in the process of seeking European Union State Aid approval for the pensions solution.

What is the Trustee's view of the Act?

The Trustee supports the pensions solution part of the Act. It has no view on other parts of the Act.

As I wrote in my letters of January and June 2011, the Trustee believes the pensions

Why should I read this?

You should read this to learn more about the Trustee's views on the Postal Services Act and what the next steps are for the Plan.

solution "is a good and fair deal for all members of the Plan". The Government has given the following commitments, which we believe protect members' benefits:

- Your benefits will not be adversely affected by their transfer to the new public service pension scheme;
- Your benefits will be legally protected from future changes in the same way as now;
- The Government will stand behind the transferred benefits; and
- Any employee member benefits the Plan retains will be fully funded at the chosen date.

Who will administer my pension?

The Pensions Service Centre in Chesterfield will continue to look after your pension records. If you have a question about your pension, you can speak to the Pensions Service Centre (details on the back page) or email: pensions.helpline@royalmail.com

Once again I would like to thank my fellow Trustee Directors, the Trustee Executive and the Pensions Service Centre for their dedication and commitment to the Plan over the past year.

Jane Newell OBE
Chair of Trustee
Royal Mail Pension Plan

WHAT THE TRUSTEE HAS DONE THIS YEAR

Why should I read this?

You should read this to find out what the Trustee did last year and who the Trustee Directors are.

The Trustee Board met seven times during the year to 31 March 2011. Among the issues we discussed were:

- The pensions solution within the Postal Services Act. This is now a major programme with seven project teams working on the implementation of the solution.
- New Additional Voluntary Contribution (AVC) arrangements – these were introduced in October 2010. Bulk transfers of nearly £60 million, from old AVC providers (other than any with-profits funds) to the new arrangements with Zurich Assurance Ltd, took place in November 2010.
- Monitoring the Employer covenant – this included analysis of the cash position and other measures of financial and operational performance.
- The Plan's investment strategy and the management of liabilities.
- Adoption of the Financial Reporting Council Stewardship Code and UN Principles for Responsible Investment.
- Revision of all Plan booklets.
- Consideration of the Government's decision to move to the Consumer Prices Index – rather than the Retail Prices Index – for increases to pensions, concluding that the change had to be made where applicable.

To help the Trustee to operate effectively, the Board has six Sub-Committees: Administration, Audit and Accounts, Discretions, Internal Disputes Resolution, Funding and Investment. Sub-Committees meet regularly.

Who's who

Jane Newell OBE JP BA FRSA – Chair
Independent Trustee

Mark Ashworth MA FCIS

A Director, and representative of Law Debenture which is a professional independent trustee of pension plans

Phil Browne

Member of the National and Postal Executive of the Communication Workers Union

Graeme Cunningham

Executive Council member of UNITE-CMA

Jonathan Evans OBE BSc

Company Secretary of Royal Mail Group until May 2010

Martin Gafsen BA Solicitor MBA

Property Director of Royal Mail Estates

Paul Kennedy

Midlands Divisional Representative for the Communication Workers Union

Geoff Lindey BSc FFA

Independent Trustee and former investment manager for pension funds

Alwen Lyons BA ACMA

Company Secretary for Post Office Ltd

Lionel Sampson

Senior Policy Advisor, Postal Department, Communication Workers Union

Bob Wilde FCMA

Formerly Head of Pensions Finance for the Post Office

	Meetings attended	Meetings could have attended
Jane Newell	7	7
Phil Browne	7	7
Graeme Cunningham	7	7
Jonathan Evans	7	7
Martin Gafsen	7	7
Paul Kennedy	7	7
Law Debenture Pension Trust Corporation plc (Mark Ashworth)	7	7
Geoff Lindey	6	7
Alwen Lyons	7	7
Lionel Sampson	7	7
Bob Wilde	7	7



From left to right: (standing) Jonathan Evans, Graeme Cunningham, Lionel Sampson, Bob Wilde, Phil Browne, Martin Gafsen, (sitting) Mark Ashworth, Paul Kennedy, Jane Newell, Geoff Lindey, Alwen Lyons.

PLAN FUNDING – AN UPDATE

As you know, in the next year or so the Plan's structure and membership is expected to change significantly. The Trustee is focused on working with the Government on the pensions solution and at this stage has not asked the funding expert (the Actuary) to carry out a funding check for 2011.

Given that the Plan's investment return (8.0%) was higher than the benchmark return (6.7%) and Royal Mail Group continued to pay deficit contributions, all other things being equal, the funding level is not expected to have decreased during the last year. You can read more about the Plan's investments on page 7. We will send you an update on Plan funding once we know more.

In the meantime we set out below the funding levels of the Plan as at 31 March 2009 and 31 March 2010. Plan funding levels change as the market value of the Plan assets rise or fall and the assumptions used by the Actuary are updated.

	31 March 2009	31 March 2010
Value of assets:	£20.2 billion	£26.0 billion
Value of liabilities:	£30.5 billion	£34.4 billion
Funding deficit:	£10.3 billion	£8.4 billion
Funding level:	66%	76%

The funding level improved in the year to 31 March 2010 mainly due to strong investment returns and, as a result, the deficit decreased by £1.9 billion.

What are the Trustee and Royal Mail doing about the deficit?

We can reassure you that our commitment to reducing the deficit remains a priority. The Trustee and Royal Mail are continuing with the recovery plan that was developed to repair the deficit and help protect your pension.

Why should I read this?

Read this for an update on Plan funding.

The recovery plan was described more fully in the 2010 Annual Report, but its key points are:

- Deficit payments of £282 million a year (rising in line with inflation) will be paid into the Plan, plus contributions of 4% of contributory pay from 1 April 2013 until 31 March 2023. These contributions, together with returns on the Plan's assets, are expected to eliminate the deficit over 38 years.
- Royal Mail set aside £1 billion for the Plan in 2006. This amount has risen in value to £1.2 billion and remains available for the Plan to call on if necessary.

The interests of members and the security of their benefits were the foremost considerations for the Trustee when coming to this agreement. We believe that this was the best arrangement that could be achieved in order to protect members' pensions. With State Aid approval from the European Union, it will be replaced by the pensions solution that forms part of the Postal Services Act.

In last year's Report we informed you that the Pensions Regulator had substantial concerns about the deficit and other aspects of the funding agreement which the Trustee had reached with Royal Mail Group. We can report that discussions continue with the Pensions Regulator in relation to these concerns and the potential impact of the Postal Services Act.

YOUR VIEWS



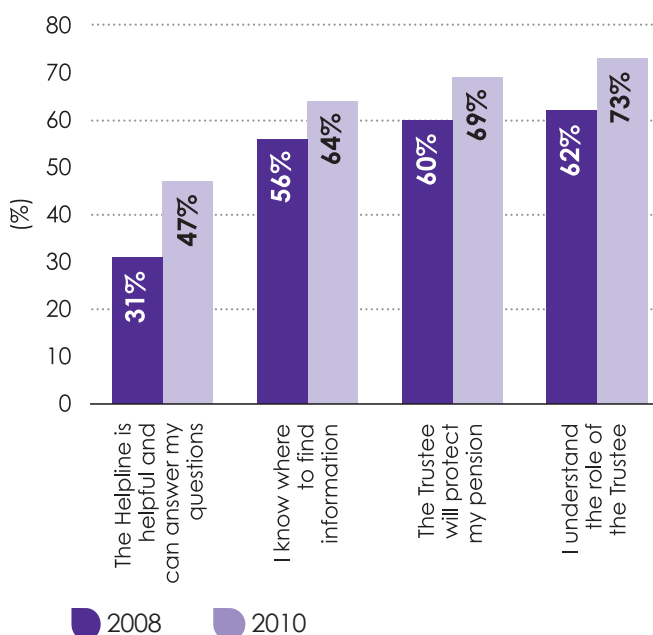
Why should I read this?

You filled out a survey for us at the end of 2010 helping us to shape our communication strategy. Read on to find out what the results were.

The Trustee is committed to helping you understand the Plan. Pensions can be a complicated topic, and so we have taken steps to ensure our communications are clear and give you the information that you need. In 2008 we asked you for your views on the information we send you. We used your feedback to review our strategy, making a conscious effort to improve our communication with you. Last year, we sent out another survey to see if we had achieved this aim.

The Trustee's communication strategy aims to raise the level of personal awareness and understanding of the Plan and its benefits. The 2010 feedback saw an improvement in your views about Plan communications between 2008 and 2010.

Headline results



More of you said that you have an understanding of the Trustee's role, and that you have a greater understanding of the Trustee's responsibility to protect your pension. We were glad to receive the positive feedback on the Helpline service available to members.

For all nine questions which were asked in both the 2008 survey and the 2010 survey, the percentage of respondents who agreed or strongly agreed with the statement has increased.

Thank you for completing the survey. We will use your responses as we continue to review our communication strategy, helping to improve further our member communications.

Pensions increase for pensioners and deferred members

In July 2010, the Government announced it was altering how it measures changes in the cost of living for future pension increases, moving from the Retail Prices Index to the Consumer Prices Index. This change, which came in time for the April 2011 increases, affected the way in which the Plan increases deferred pensions and some pensions in payment.

We sent pensioners an announcement about the effect of these changes to increases on pensions in payment with their pensions increase letter in April 2011. More information about the impact of this change for employee members or deferred members has been enclosed with your current value statement or benefit illustration. This change has affected many pension schemes, in both the public and private sectors. It is unrelated to the Postal Services Act and the 'pensions solution'.

INCOME AND OUTGOINGS

Why should I read this?

Read this to find out how the Plan's finances and investments have progressed in the year.

Below we show how much money came in and out of the Plan during the year to 31 March 2011.

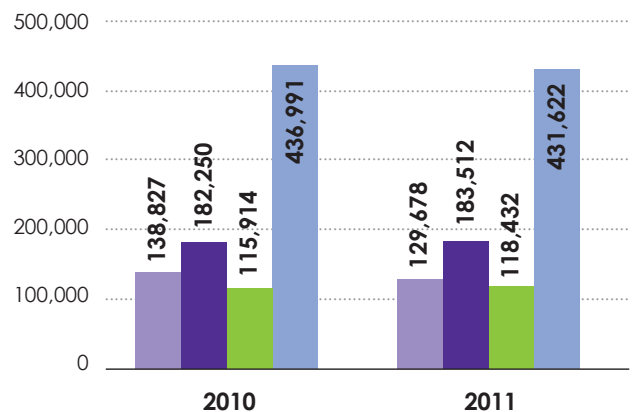
		2010	2011
	Value at start of year	£20,250m	£25,984m
+	Income	+£1,539m	+£1,468m
-	Outgoings	-£1,213m	-£1,316m
+/-	Change in the value of investments	+£5,408m	+£1,521m
=	Value at 31 March	£25,984m	£27,657m

The Plan's total pension payments for last year were £912 million. During the year, Royal Mail Group paid £757 million into the Plan and members paid in £157 million.

The figures shown are a summary of the Fund Account and Net Assets Statement included in the Plan's audited accounts. The Trustee is pleased to confirm an unqualified audit opinion on the accounts and an unqualified audit statement about contributions. This means that the auditors confirmed that contributions were paid as scheduled, and that they approved the Plan's accounts without any reservations. You can access the Plan's full Report & Accounts at: www.royalmailpensionplan.co.uk

Scheme membership

Because the Plan is now closed to new employee members the proportion of deferred members and pensioners, as you would expect, is growing and the number of employee members is gradually going down.



■ Employee members
 ■ Pensioner members
 ■ Deferred members
 ■ Total





FOCUS ON INVESTMENTS

The Plan holds a wide range of investments in the UK and overseas including shares, bonds, cash, property and other types of assets to spread its risks and meet its duty to pay pensions.

What happened to the Plan's investments during the year?

During the year, the Plan's assets provided a return of 8.0%. This compares favourably with the Plan's benchmark return, which rose by 6.7%. The benchmark uses the return on index-linked bonds plus a margin as an indication of the change in value of the Plan's liabilities.

Investment returns



Investment strategy

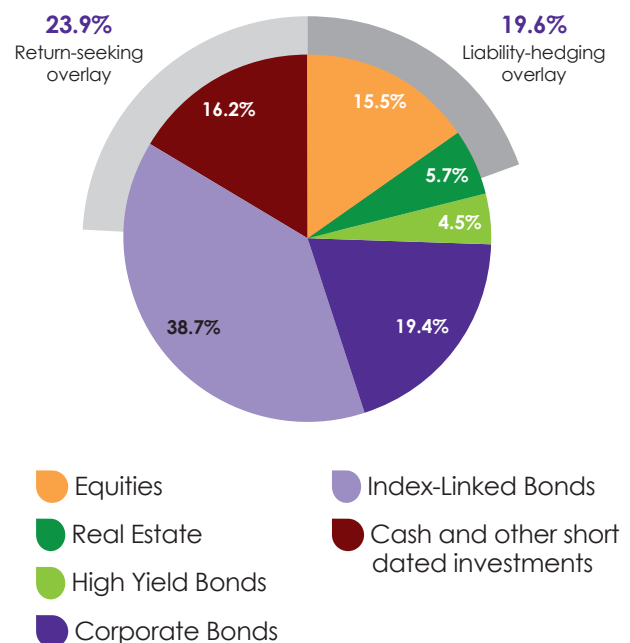
The Plan's overall investment strategy aims to meet pensions and other benefits payments when due. Because the Plan has to pay pensions both now and many years into the future, it needs to have the right mix of investments to provide growth (shares) and security (bonds).

As reported last year, following a comprehensive review of its property investments, the Trustee appointed LaSalle Investment Management from 1 June 2010.

The Trustee undertook a full review of investment strategy during the year. Within the Plan's bond allocation, an additional manager – Loomis Sayles – was appointed on 4 April 2011.

To give the Plan similar levels of returns with lower levels of risk, the Plan uses investment hedging. These are shown as the 'liability-hedging overlay' and the 'return-seeking overlay' in the pie chart below.

Spread of investments at 31 March 2011



HELP WITH YOUR PENSION



Above: Tom Heighington collecting the 'Engaged Investor Team Excellence in Administration' award on behalf of Pensions Service Centre in July 2011.

If you need help with your pension, please call the Pensions Service Centre on:

Pensioner Helpline: **0845 603 0043**

Member Helpline: **0114 241 4545** or

Postline: **5456 4545**

or email the Pensions Service Centre at:

pensions.helpline@royalmail.com

or write to: **Pensions Service Centre**

PO Box 500, Chesterfield S49 1WX

Website: **www.royalmailpensionplan.co.uk**

Employee members – Additional Voluntary Contributions (AVCs)

You can use AVCs to boost your benefits at retirement and benefit from tax relief. AVCs are invested in your name and are used to provide tax-free cash or pension when you retire. The Plan continues to offer AVCs and, as we mentioned on page 3, new arrangements were introduced last year. If you are interested in AVCs, learn more by visiting: **www.royalmailpensionplan.co.uk**

Pensioners and deferred members – keep in touch

We rely on you to keep us up to date. If you move home and do not inform us, we may not be able to pay your pension. It is also important to keep your Death Benefits Nomination form up to date, as a lump sum may be payable in the event of your death, unless you retired more than five years ago. If the Trustee does not have access to an up-to-date Nomination form, then there may be a delay in paying the lump sum. You can access a new form on the Plan's website or ask the Pensions Service Centre to send you one (contact details above).

All members – protecting your dependants

For Section A/B members, please check that you have completed a Direction of Death Benefits form, otherwise tax may be payable on any lump sum after you die.

For Section C members, please check that you have completed a Nomination form which reflects your current wishes so that these can be considered if you die and a lump sum is payable.

Please note that if you are a pensioner of any section (but not a dependant), a lump sum death benefit will be payable if you die within five years of taking your benefits. You can access a new form on the Plan's website or request one from the Pensions Service Centre.

If you have problems reading this Report and need a larger print size version, please contact the Pensioner Helpline on 0845 603 0043 or Member Helpline on 0114 241 4545.