
trustee report

looking after your pension



Your update from the Trustee of the Royal Mail Pension Plan

welcome

to this year's Report on the Plan from the Trustee.

The past year has been an uncertain one for the world's economy. The Plan, in common with other UK pension schemes, has suffered quite dramatic falls in value. In March we wrote to you about the Postal Services Bill being debated in Parliament. However, as you will have seen in our July letter, the Government announced that they will not be proceeding with the Bill at this time.

In the meantime your benefits continue to build up and/or be paid in the same way despite the economic downturn. In addition, the Trustee continues to monitor the Plan's investments closely to ensure that the balance between security of pension payments and the potential for growth of assets is appropriate.

The Trustee would like to reassure you that it is 'business as usual' for the Plan. This Report gives you the headline developments over the last year. If you have any more questions about the Plan, please let us know through the Pensions Service Centre. Their contact details are on the back page.

£20.3 billion

The value of the Plan's assets
at 31 March 2009

443,254

The total number of people in
the Plan at 31 March 2009

Update on

Postal Services Bill

Answering your questions

Jane Newell OBE, our Chair

Why should I read this?

You should read this to learn more about the Trustee's overall strategy for protecting your benefits and for an update on the Plan's future.

How is my pension protected?

Given last year's financial turmoil, and the current uncertainty about the future of Royal Mail, I understand that you may be concerned about your pension. The first thing I would like to say is that the Plan remains able to pay benefits as they fall due.

In the unlikely event that Royal Mail became insolvent, the Plan has some protection, from the extra £1 billion that Royal Mail has set aside for the Plan. A further safeguard for your benefits is the Pension Protection Fund, which provides compensation (within certain limits) to members of pension plans that are left unable to pay all benefits, due to their employer becoming insolvent.

What effect does the economic downturn have on my pension?

Although the economic downturn has been hitting the headlines, it is important to realise that the Plan's fall in value of £3 billion is not a 'real' loss unless the Plan has to sell its investments at a loss. I can confirm the Plan is not in a position where it needs to sell assets to meet pension payments.

What did the Postal Services Bill mean for the Plan?

I wrote to you in March about what the Government's proposed Postal Services Bill meant for the Plan. The Bill's main proposals for the Plan were:

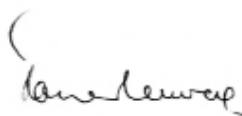
- The Government taking on responsibility for Plan benefits earned before 16 December 2008. All Plan benefits built up before that date would be transferred to a new Government scheme. This would not affect your level of pension; and
- The continuing existence of the Plan, which would be responsible for benefits earned after 16 December 2008. This means that employee members (those still paying contributions into the Plan rather than pensioner or deferred members) would have ended up being in two different plans.

I should say that at the time of writing, the Government has put these proposals on hold. The Trustee will be engaging with Royal Mail to find an appropriate way forward for the Plan.

What is the Trustee's role in any change for the Plan?

The Trustee's role is very straightforward and is the same as it has always been: to protect the benefits of the Plan's members. All the Trustee Directors, whether Union or Group nominated, independent or pensioner, have a legal duty to do this.

We will write to you with more information as it becomes available.



Jane Newell OBE, Chair

About our Trustee

Why should I read this?

You should read this to find out who the Trustees are and how they run the Plan.

The Plan is managed by Royal Mail Pensions Trustees Limited. There are 11 Trustee Directors: 5 are nominated by Royal Mail; 4 by the unions; 1 elected by a pensioner ballot; and an independent Chair, who is appointed by Royal Mail with the agreement of the Unions.

Phil Browne was elected to one of the Communications Workers Union positions from 1 October 2008 replacing Kevin Shaw, who had served as a Trustee for the past 11 years.

The Trustee Board met formally 7 times during the year and the issues addressed included:

- Investment strategy
- Funding update
- Postal Services Review
- Review of the employer covenant (an assessment of how fully Royal Mail can meet its financial obligation to the Plan)
- Implementing the move from final salary to career salary defined benefits

All of the Trustee Directors have completed the Pensions Regulator's training course, the 'Trustee Toolkit'. To help the Trustee operate effectively, it has 6 Sub-Committees: Administration, Audit and Accounts, Discretions, Internal Disputes Resolution, Funding and Investment. Sub-Committees meet on a regular basis.



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

Who's who

Jane Newell OBE JP BA FRSA
Chair Independent Trustee

Mark Ashworth MA FCIS
A Director of, 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

Martin Gafsen BA Solicitor MBA
Property Director at Royal Mail Group

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
Head of Mails and Retail Marketing in Post Office Limited

Lionel Sampson
Senior Policy Adviser, Postal Department, Communication Workers Union

Bob Wilde FCMA
Pensioner Trustee formerly Head of Pensions Finance for the Post Office

	Meetings attended	Meetings could have attended
Jane Newell OBE Chair	7	7
Phil Browne (appointed 1 October)	4	4
Graeme Cunningham	7	7
Jonathan Evans OBE	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
Kevin Shaw (mandate ended 30 September)	2	3
Bob Wilde	5	7

Check on Plan funding

Why should I read this?

You should read this to find out more about how the Plan funding is checked and how it has been affected by the economic downturn.

A key measure of the Plan's financial health is how well it is funded. Like many salary-linked pension plans in the UK, the Plan's funding has been hit by falls in the value of its assets. This means that the Plan is less well funded this year compared to the last two years.

How do you measure the Plan's financial health?

We look at the balance between the estimated cost of providing the benefits due to members against the money in the Plan at a certain date. The aim is for the Plan to be fully funded. In reality, the Plan can be more than fully funded or have a shortfall in its funding, as investments rise and fall in value or the cost of providing pensions increases (mainly as a result of people living longer).

2009 formal check on funding

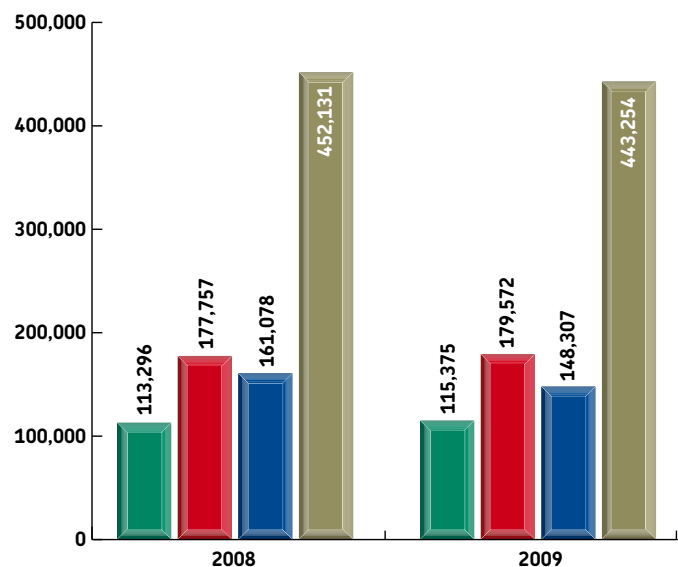
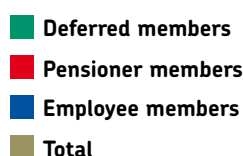
Every three years, a formal funding check (actuarial valuation) is carried out. As part of the formal check, the Trustee and Royal Mail will discuss how the cost of the Plan's benefits is worked out, with the help of the Plan Actuary (a pension funding expert). These discussions look at all the assumptions used in the three-year funding check to see how they need to change.

For example, the funding check looks at life expectancy to determine the amount of money needed to pay pensions. A small change in the assumptions can have a significant effect on the funding level. This detailed assessment of the funding level as at March 2009 is currently underway and discussions between the Trustee, Royal Mail and the Plan Actuary have begun.

The previous formal check as at 31 March 2006 showed a funding shortfall of £3.4 billion. The 2008 interim check revealed that the deficit had increased to £5.9 billion. The results of the 2009 funding check are not likely to be known until early/mid-2010. The Trustee will publish the results in next year's Trustee Report. As you may have seen in the press, the funding shortfall is expected to have deteriorated, primarily due to investment market conditions and increasing life expectancy.

People count: our members

Following the closure of the Plan to new members from 1 April 2008, total membership numbers have reduced.



Focus on CSDB pension for employee members

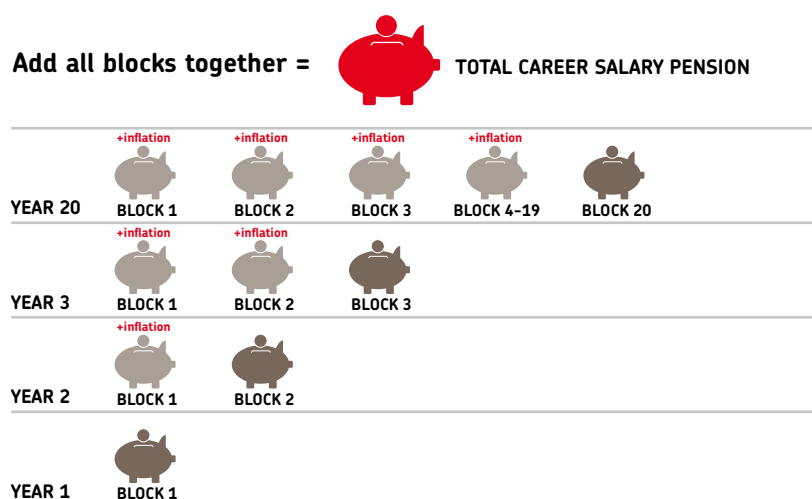
Why should I read this?

You should read this section to find out how CSDB pension works, and about this year's pensions increase.

In response to one of the questions in last year's survey of members, many people said they did not understand how Career Salary Defined Benefit (CSDB) pension works. We explain how CSDB pension works below:

From April 2008, you build up a block of pension for each year you work. So if you work 20 years, you build up 20 blocks of pension. To protect the value of your pension against inflation, each block grows in line with inflation each year up to a maximum of 5% a year. (Please note that if inflation falls so low that it becomes negative, your pension would not be reduced.) So at the end of 20 years, the block of pension you earned in year one will have grown in line with inflation over 19 years and the block earned in year two will have grown with inflation over 18 years, and so on for each block.

How a Career Salary Pension builds up



The Benefit Illustration enclosed (for employee members only) shows the amount of your total pension, if you stay in the Plan until you retire, based on your current salary, and does not include allowance for any inflation-related increases to your pension or any pay increases. You can find out more in the booklet 'A detailed guide for members', available from the Pensions Service Centre.

Pensions increase for pensioners and deferred members

Pensions were increased by 5% in April 2009 in line with the increase in the Retail Prices Index (RPI) for the year to September 2008. This increase was in line with the Plan's Trust Deed.

For members over State Pension Age, the Plan and the State share responsibility for payment of the increase.

You can find out more in the booklet 'Pension Payment and Increases', available from the Pensions Service Centre.

If you have a complaint

A complaint procedure is in place to help resolve your complaint. Call the Pensions Helpline for more information on **0114 241 4545**

Income and **outgoings**

Why should I **read this?**

You should read this to find out how the Plan's finances have progressed in the year, and how the Plan's investments fared last year.

Below we show how much money came in and went out of the Plan during the year to 31 March 2009.

		2008	2009
	Value at start of year	£23,460m	£23,688m
+	Income	£1,487m	£1,441m
-	Outgoings	£1,145m	£1,124m
-	Change in the value of investments	£114m	£3,755m
=	Value at 31 March	£23,688m	£20,250m

The Plan's total pension payments for last year were £844 million. During the year, Royal Mail paid £869 million into the Plan and members paid in £173 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 that the accounts contain 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 approved the Plan's accounts without any reservations. You can access the Plan's full Report & Accounts at: www.royalmailgroup.com/pensions

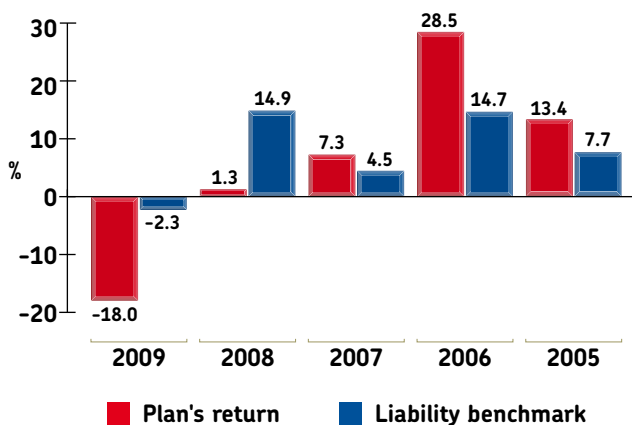
Investment update

Over the past year, you may well have been concerned by the turmoil in the world's financial markets as Lehman Brothers became insolvent and some of the UK's biggest banks, such as HBOS and Royal Bank of Scotland were forced into mergers or had to be rescued by the Government.

The Plan holds a wide range of investments in the UK and overseas including shares, bonds, cash, property and other types of assets to help spread its risk. But as the Plan holds around 50% in shares and commercial property, the value of these holdings has been affected by the economic downturn. The Plan has increased its holdings of index-linked bonds during the year. Index-linked bonds help meet the long-term cost of providing benefits for the Plan because their returns are linked to inflation and mirror any increases to pensions.

Plan's investment performance

During the year, the impact of the credit crunch and the worsening global economy resulted in the value of the Plan falling.



The chart above shows that market conditions for company shares and property have been very challenging in the past 2 years.

The Plan's investment return is compared with the liability benchmark, which uses the returns on index-linked bonds to value the Plan's liabilities.

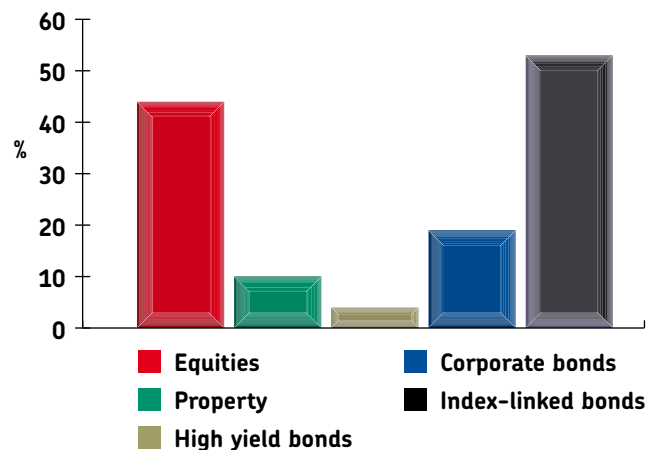
As noted on page 4, the funding shortfall for the last 12 months is expected to have increased. This is in part due to the decrease in the value of the Plan's assets being greater than the decrease in the value of the liabilities which, by contrast, were relatively stable.

Investment strategy

The Trustee aims to choose investments that provide the right mixture of growth and security for the current membership profile. In broad terms, the investments can be split into shares in companies, also known as equities, and property (both growth seeking) and bonds (security providing).

Following the closure of the Plan to new employee members in 2008, and after taking advice from its investment consultants, the Trustee continued to move its assets away from equities and property with the aim of giving the Plan funding greater security.

Target split of investments at 31 March 2009



The above allocations, which exceed 100%, include investments through derivatives which enable the Plan to reduce risk whilst maintaining expected investment returns.

Help with your pension

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

Pensioner Helpline 0845 603 0043

Member Helpline 0114 241 4545
or Postline 5456 4545



Or email 'Pensions Helpline' in Lotus Notes or access an e-Helpline at:

www.royalmailgroup.com/pensions

Or write to: **Pensions Service Centre, PO Box 500, Chesterfield S49 1WX**

Please put your full name, date of birth and your National Insurance number or Pension Plan number on anything you send us.

Members – why not...

Think about saving more for retirement

You can save more for retirement with additional voluntary contributions (AVCs), which benefit from the same tax relief as your normal Plan contributions. You can choose how your AVCs are invested from a range of funds. More information about your options is available from the Pensions Service Centre. Please note that the Plan no longer accepts transfers from other schemes.

Update your death benefit nomination form

If you die while you are an employee member, death benefits are payable from the Plan. Benefit payments may be delayed or taxed if we don't have an up-to-date nomination from you. If you haven't completed a nomination form, or have married, divorced, registered a civil partnership, had a child or your circumstances or wishes have changed since you last completed one, you can obtain a new form from the Pensions Service Centre, or download a copy from the Royal Mail Pensions website.

Keep in touch

If you no longer work for Royal Mail but are entitled to a pension from the Plan, don't forget to tell us if you move so we can keep in touch and pay your pension when it becomes due.

Pensioners – don't forget to...

Let us know when you move house. If we can't get in touch with you, we may not be able to pay your pension. If you have been retired for less than 5 years when you die, a lump sum will be payable on your death, so please keep your nomination form up to date, otherwise there may be a delay in paying benefits. If you need a new nomination form, please ask the Pensions Service Centre for one or download a copy from the website.

If you have problems reading this Report and need a larger print size version, please contact the Pensioner or Member Helpline.