

# LTU's Call To Action On Early Valuation

In our last Newsletter we reported that the Trustees had rejected LTU's proposal to bring forward the next full actuarial valuation rather than waiting for it to be carried out next year. We have received no explanation from Ewan Brown, the Chairman of the Trustee Board, for the Trustees decision despite sending a detailed letter which was published in our last Newsletter.

Mr Brown may feel that he doesn't have to justify the decision of the Trustees to LTU but he and the Trustees most certainly do have to account for their actions to members of the pension scheme on whose behalf they act. The Trustees can ignore us but they can't ignore you.

LTU has put together a series of letters for members of the No 1 and No 2 Fund to send to the Chairman of the Trustees asking for information about the deliberations of the Trustee Board and details of the legal and actuarial advice received by the Trustee Board on the specific issue of bringing forward the full evaluation. Those letters, which are enclosed with this Newsletter, will also be available to download on the Union's web site. We would urge members to complete their address details and send one of those letters, or a combination of them if you want, to the Chairman of the Trustee Board immediately and ensure that any responses are copied in to the Union's Bedford Office.

Members with any questions on the Union's campaign can contact the Union's Bedford Office on 01234 262868 or email me at [Mark.Brown@ltu.co.uk](mailto:Mark.Brown@ltu.co.uk)

## Case For Independent Trustees

Our disagreement with the Trustee Board over the timing of the next valuation confirms what we have long believed: that it is important to have strong, independent Trustees appointed from outside the Bank. This cannot be underestimated especially if the Bank should find itself subject to a takeover

Members will be aware of the recent takeover of Alliance Boots plc by KKR, one of the largest private equity firms in the world. In a recent letter to the Financial Times the Chairman of Boots said that in evaluating the takeover bid from KKR his only concern was what was in the best interests of the shareholders and not pension scheme members. The Trustees of the Boots Pension Scheme were asking for up to £1 billion to be injected into their fund amid concerns about future scheme funding in view of the high levels of debt involved in KKR's £11.1 billion takeover deal. KKR offered originally to boost the pension fund by just £50 million.

Realising that the Regulator has limited powers when it comes to takeovers John Watson, the Chairman of the Trustees, then set about a very public campaign of embarrassing and cajoling KKR back to the negotiating table. In the process of that campaign he attracted the media, politicians, trade unions and members of the pension scheme in a campaign which eventually resulted in a deal which secured substantial additional up front

and future funding for the Alliance Boots scheme. It was Mr Watson's uncompromising stance that secured the additional funding and had he taken a less forthright approach in discussions with both KKR and Alliance Boots then he might not have got as much as he did. No one could argue that he didn't look after the interests of pension scheme members.

You may be asking what that's got to do with Lloyds TSB and the answer is independence. If Lloyds TSB was ever subject to a takeover, members of our pension scheme would want to ensure that their Trustees were engaging forthrightly in discussions with their employer and with any potential suitor to ensure that pensions were properly funded. Currently, a majority of the Trustees were appointed by the Bank, which we believe is completely unsatisfactory. It means that the Bank decides who control a fund that the Bank doesn't own – it belongs to the fund's members.

## Change Needed – Now!

What is needed now is:

- 50% of the Trustees should be elected directly on a one person, one vote basis by the members to give them a direct say in how their pension fund and their money is managed;
- the remaining Trustee seats should be filled by the appointment of professional independent Trustees from outside the Bank with no previous commercial links with Lloyds TSB;
- the Chairman of the Trustee Board should also be an entirely independent Trustee appointed from outside the Bank.

This would give very senior executives of the Bank the right to stand for election, if they chose to do so, but would leave the election open to the decision of the members. The current position, where the Bank decides who should control a fund which belongs to pension fund members and not the Bank, is highly objectionable.

## Pensions Key Facts

- Hyman Robertson, a leading firm of UK Actuaries,

have concluded that under the new funding regime the ongoing deficit in the LTSB No 1 and No 2 Pension Funds could be in excess of £4.3 billion.

- The annual contributions required to eliminate a £4.3 billion deficit over a 10-year period could be £550 million a year. Currently the Bank is just paying £138 million per year.
- The annual contribution required to fund future pension benefits for active staff would need to increase to 31.4% of pensionable salaries for the No1 Fund and 30.6% for the No 2 Fund. That is significantly more than Watson Wyatt's assumption of 23.2% for the No 1 Fund and 22.7% for the No 2 Fund. That alone would significantly increase the Bank's annual contributions.
- The life expectancy of pension scheme members is one of the most important assumptions in calculating the value placed on pension fund liabilities. Hyman Robertson said that the most recently published projections would result in life expectancy of 2 years longer than the assumptions made by Watson Wyatt. That change would alone would add £662 million to the liabilities of the No 1 Fund and £314 for the No 2 Fund.

## Pension Fund vs Shareholders

Any prudent person looking at the assets and liabilities of the LTSB Pension Funds would conclude that they are under-funded. But instead of dealing with that under-funding the Bank and Trustees have tried to undermine the work produced by Hyman Robertson. And we now understand why. Instead of using some of the proceeds of profit growth to increase contributions to the pension funds the Bank has decided instead to increase the interim dividend by 5% to 11.2p. In fact, if the Bank had made contributions based on the actual deficit of £4.3 billion then its profits would have been significantly reduced for the next few years and it certainly wouldn't have been in a position to increase its dividend.

Good though increased profits and increased dividends are, in this case the losers have been pension scheme members.

Mr E Brown  
Chairman  
Lloyds TSB Group Pension Trust (No 1) Limited  
25 Gresham Street  
London  
EC2V 7HN

Dear Mr Brown

In your recent note to staff you said that the Trustees have a legal obligation to act in the best interests of all the Pension Scheme members. Trust law says that for staff their best interests means their financial interests and the Trustees have an obligation to do everything in their powers to secure the best returns for staff. That legal obligation is the same whether it's ensuring that the Trustees appoint the best performing Investment Managers or by achieving the best possible deal for pension scheme members in respect of securing maximum contributions from the sponsoring employer. How do you reconcile your legal obligations and the Trustees decision not to bring forward the full actuarial valuation?

Yours sincerely

Mr E Brown  
Chairman  
Lloyds TSB Group Pension Trust (No 1) Limited  
25 Gresham Street  
London  
EC2V 7HN

Dear Mr Brown

I refer to your recent communication to staff regarding the funding of the Lloyds TSB Pension Schemes. You referred to an Interim Valuations that had been carried out by Watson Wyatt on behalf of the Trustees that showed the deficit for both funds was now down to £300 million. Given that you have now made these documents part of public debate on the state of the pension funds I should be grateful if you could send me copies of those valuations.

Yours sincerely

Mr E Brown  
Chairman  
Lloyds TSB Group Pension Trust (No 1) Limited  
25 Gresham Street  
London  
EC2V 7HN

Dear Mr Brown

I understand from LTU that the Trustees have decided not to bring forward the next full valuation. As a member of the Pension Scheme I should be grateful if you would provide me with a copy of the minutes of all the Trustee meetings relating to your discussions on this issue. I would also like to see details of any legal or actuarial advice you have received from your professional advisers in respect of the proposal to bring forward the actuarial valuation. If you have received no such advice I should be grateful if you would explain why the Trustees decided not to avail themselves of any advice on this important issue.

Yours sincerely

Mr E Brown  
Chairman  
Lloyds TSB Group Pension Trust (No 1) Limited  
25 Gresham Street  
London  
EC2V 7HN

Dear Mr Brown

In a recent article in Pensioners Advance the Union referred to the Regulatory Code of Practice, Section 134 which says "Where Trustees normally obtain triennial valuations, they should consider obtaining one for an intervening year instead of an actuarial report wherever, after taking advice from the actuary, it seems to them that events have made it unsafe to continue to rely on the results of the previous valuation as the basis for the current level of contributions." Surely the two reports from Hymans Robertson make it impossible for the Trustees to rely on the last full valuation as the basis for determining ongoing contributions into the Lloyds TSB Pension Schemes.

I should be grateful if you could answer the following questions:

Did the Trustees take advice from the Scheme Actuary to determine whether the evidence contained within the Hymans Robertson reports made it unsafe for the Trustees to rely on the 2005 valuation as the basis for the current level of contributions? If not, why not?

If they did provide advice to the Trustees on this specific point can I see a copy of that advice and an explanation from you why the Trustees chose to ignore it?

Did all the Trustees attend the meeting?

Was the issue put to a vote of the Trustees? If yes, what was the outcome of that vote?