

# £3.18 Billion Pension Schemes Deficit

A cursory glance at the balance sheets of most of the FTSE 100 companies shows that, despite the improvements in equity markets, the continuing problem of accumulated pension fund deficits has not gone away. A firm of actuaries recently estimated that the overall deficit under FRS17 for the UK defined benefit pension schemes of FTSE 100 companies is £37 billion as at July 2005.

**According to its 2004 Report and Accounts the Lloyds TSB Group had a pensions deficit of £3.18 billion. As the table below shows, of those finance companies in the FTSE 100 Lloyds TSB has the largest pensions deficit by far.** Like all those companies who find themselves in a similar position, Lloyds TSB has increased

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its contributions to the No 1 Pension Scheme, which accounts for most of the deficit, to 56.5% of pensionable salary with effect from 1st January 2004. In total the Bank made contributions of £374 million in 2004. If the Bank continues to make the same total contribution levels and the FRS17 deficit stays

Company	Year-end	2004		2003	
		Market value of assets £m	FRS17 surplus/ (deficit) £m	Market value of assets £m	FRS17 surplus/ (deficit) £m
Alliance & Leicester	Dec	1,062	(65)	851	(185)
Barclays	Dec	13,542	(2,230)	12,370	(1,624)
Friends Provident	Dec	795	(24)	633	(13)
HBOS	Dec	4,201	(1,695)	3,776	(1,496)
HSBC Holdings	Dec	10,818	(2,554)	10,148	(2,029)
Legal & General	Dec	942	(148)	864	(96)
Lloyds TSB Group	Dec	11,664	(3,187)	10,603	(3,055)
Northern Rock	Dec	200	(52)	180	(47)
Old Mutual	Dec	382	18	329	5
Prudential	Dec	4,220	(649)	3,990	(602)



**must set out over what period the deficit gap will be closed and provide details of the payment of additional employer contributions. If the Trustee Directors don't reach agreement with the Bank then the Regulator can impose a Recovery Plan and impose penalties.**

The Trustee Directors must provide the Union with a copy of the statement of funding principles, the latest actuarial valuation, the agreed Recovery Plan and a schedule of the Bank's contributions.

**LTU, together with its Actuary and Solicitor, will be seeking to ensure that the Trustee Directors get the best possible deal for the Pension Funds. The types of issues we would be seeking to discuss with the Bank/ Trustees include:**

- **What is the funding target for the Pension Schemes?**
- **What methodology and assumptions have the Lloyds TSB Trustee Directors used to determine the size of the deficit?**
- **How do the Trustee Directors intend to eliminate any shortfall in the Pension Funds?**
- **Over what period will they seek to eliminate the Pension Funds' deficit?**

This review of funding is likely to take a number of months to complete and we will keep members updated on the review through regular Newsletters.

## **Diversification Now**

Many large pension funds are moving away from actively managed funds and instead adopting a passive investment strategy whose aim would be to replicate the return on some broad market index at a minimum cost to the funds.

We understand that as part of its review of fund assets, the Directors of the Lloyds TSB No 1 and No 2 funds are currently reviewing their investment strategy for the next few years. Members will be aware that LTU have been extremely

concerned about SWIP's management of the Lloyds TSB No 1 and No 2 Funds. We believe that given SWIP's serial under-performance more of the Lloyds TSB Pension Funds should be moved to better performing funds, be they actively managed or index tracking. Given our ongoing concerns we have written to the Bank, a copy of the letter is set out in

the middle of this Newsletter, asking to be provided with details of the review.

We will keep members informed of our discussions with the Bank and the results of the review once that becomes available.

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## LTU's Pension Claim

LTU's continuing claim to harmonise and improve pension benefits includes the following:

- **Spouse's pension to be harmonised on the TSB basis of 2/3rds of the member's pension, both for death in service and retirement.**
- **State pension clawback to be removed from the Lloyds scheme with pensions in payment to be increased to the level at which they would have been paid had clawback not previously applied.**
- **Definition of 'pensionable salary' to include bonuses and other taxable benefits.**
- **Minimum Annual Increases of 3%.**

Because both the Pension Funds are in deficit, we have to be realistic about achieving any of our claim fully in the short term. However, the Bank's contributions in 2003 and 2004, the already announced movement of fund assets away from SWIP and a more benign investment environment could herald a period of strong growth for the Pension Funds and our claim will then become viable financially.

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Assistant General Secretary