

Pension Scheme Valuations

Members of the No 1 and No 2 Pension Schemes will have recently received letters from the Bank detailing the outcome of the latest valuations. According to these valuations the No 1 and No 2 pension schemes are in surplus to the tune of £539 million and the funding levels of the No 1 and No 2 Funds are currently 103% and 105% respectively.

However, before we start congratulating the Investment Managers one should not forget that the valuations are based on the same actuarial assumptions used in 2005 and they are worthless in terms of determining the current size of the pension schemes' deficit. Equally much of the performance improvement referred to in the letters will have been lost as a result of the recent falling stock market. Pension deficits at the UK's 350 largest companies have increased by £40 billion since the start of the year, according to a report produced by Morgan Stanley and some pension schemes have tried to mitigate the impact stock market volatility can have on the value of their funds by moving from equities to bonds. But even that will only offer limited protection because a proposed change in the accountancy rules could actually wipe out the reduction in liabilities for those pension schemes that have made the move.

Why Actuarial Assumptions Are Key?

The turmoil in the stock markets only tells part of the story and the real problems have still yet to be tackled by the Trustee Directors of the No 1 and No 2 Pension schemes. Valuations of pensions funds are only as good as the actuarial assumptions used. If the actuarial assumptions are too optimistic, in respect of say investment returns, or pessimistic in determining how long members of a scheme are going to live, then that can impact seriously on the liabilities of pension funds.

One of the key actuarial assumptions is trying to determine how long members of the pension scheme are going to live. Not knowing how long people are going to live represents a large risk to pension schemes that promise to pay members' benefits for the rest of their lives. If people are going to live longer pension funds are going to have to pay out more benefits.

Members may recall that Hymans Robertson, a firm of internationally recognised actuaries, said in their reports "...the most recently published projections for future improvements in life expectancy would result in life expectancy around 2 years longer than the assumptions made. If this more prudent life expectancy assumption is adopted, it could increase liabilities by around 7 %". That change alone would add £314 million to the liabilities of the No 1 Fund and £662 million for the No 2 Fund.

The Pension Regulator, who can order pension schemes to increase contributions to their final salary pension schemes, has recently said that it will use force if necessary to ensure that companies use more realistic projections when determining how long workers will live after they retire.

There is a range of other actuarial assumptions, such as investment returns, pension increases and taking cash at retirement, which could also increase the liabilities of the No 1 and No 2 pension schemes. Members will recall that, based on the information they had available at the time, Hyman Robinson concluded that Lloyds TSB's two largest Pension Funds had a total deficit of over £4.3 billion.

Member Nominated Trustees

LTU's Executive Committee will be putting forward one candidate for the Lloyds TSB No 1 Pension Scheme (Lloyds heritage staff) and one for the Lloyds TSB No 2 Pension Scheme (TSB heritage staff).

No 1 (Lloyds Bank) Pension Scheme:

Keith Cullup (Retired) - Keith works for LTU as a Consultant in individual case representation and was previously Senior Manager of Slough Central Branch until his retirement. Keith was Chairman of the Union and a member of its Executive Committee for many years. He has also served as an Employment Tribunal member and is a member of the Individual Review Panel of Oxfordshire County Council.

No 2 (TSB Bank) Pension Scheme:

Richard Smith (Senior Personal Banking Manager) - Richard has been a key member of the Union's Salesforce Negotiating Committee for 9 years. Richard's been in the Bank for 20 years.

In the case of a contested election the Union's Executive Committee will be seeking the support of all members of LTU in ensuring the election of our nominations onto the Lloyds TSB No 1 and No 2 Trustee Boards. Members with any questions on this Newsletter can contact the Union as follows:



Mark V Brown
Assistant General Secretary