

Bank Restructuring Plans, New Bonus Rules & Pensions

The Government and Bank have today announced major changes to the Lloyds Banking Group.

Under pressure from the European Union and UK Government to create more competition in the UK banking sector, the Bank will be forced to reduce its market share in personal accounts and mortgages through the disposal of parts of the business over the next four years in order to create a new, standalone bank. The new bank will be created from:

- All Lloyds TSB Scotland branches
- At least 250 Lloyds TSB branches in England and Wales
- All C&G branches
- All C&G savings and certain C&G mortgages
- The Intelligent Finance (IF) business
- The TSB brand

Although this unbundling is not likely to happen very quickly and could take up to 5 years to complete, it will have massive consequences for the staff working in all these areas, most of whom will be given no option but to transfer to work for the new employer. The Transfer of Undertakings (Protection of Employment) Regulations would govern the arrangements for transferring staff to another employer: a brief overview of this legislation, known as TUPE, is provided later.

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Other Key Developments

Two further key developments that will affect staff across the entire Lloyds Banking Group, where LTU's pressure upon the Bank and lobbying of UK Financial Investments (UKFI), which manages the Government's investment in Lloyds have paid off.

These are:

- **Pensions.** The Bank has finally come clean - as LTU has been demanding over a number of months - on the size of the Pensions deficit.
- **Bonuses.** Following concerted lobbying of the Government and UKFI, there are a number of improvements to the 2008 deferral arrangements.

TUPE: What It Means For Staff

All staff working for the operations that the Bank says it will now be selling to create a new Bank - Lloyds TSB Scotland; at least 250 branches in England and Wales; C&G Branches, Savings and some Mortgages; and Intelligent Finance - now face the prospect of being forced to work for whichever new employer eventually purchases the business.

This is likely to apply to all staff employed within the operations at the time that any sale is agreed.

The arrangements under which staff would be required to transfer employers are governed by legislation known as the Transfer of Undertakings (Protection of Employment) Regulations, more commonly known as TUPE.

The main objectives of the law are to:

- **Ensure that the recognised unions of staff to be transferred (i.e. LTU) are informed and consulted fully on the proposed transfer and its impact on staff.**
- **Ensure that the contracts of employment of staff are transferred automatically between employers and their terms and conditions protected.**

The TUPE Regulations provide the following protection for employees contracts transferring to new employers:

- The period of employment with the Bank - whether for LTSB, HBOS or companies (like C&G and IF) where staff were previously employed - is treated as continuous service once staff transfer from the Lloyds Banking Group to a new employer. Rights and benefits linked to length of employment remain; such as for redundancy, are protected.
- Any employees who are dismissed for reasons connected with the transfer can claim unfair dismissal.
- If worse contractual terms and conditions are offered by a new employer at the time of transfer then Lloyds Banking Group staff may

resign and claim constructive dismissal.

- If a new employer were to attempt to impose new terms and conditions by dismissing employees and re-employing them on new terms, the dismissal will be unfair.

It is particularly important that staff bear in mind that the Bank has argued previously that, in terms of remuneration, only Basic Salary is transferred to the new employer. A new employer seeking to cut costs might therefore argue that staff are not entitled to compensation for Flavours, Bonuses or participation in the Sharesave Scheme.

Pensions are also not legally protected.

In other words, staff transferring from the Lloyds Banking Group to another employer could, unless LTU successfully negotiated proper compensation or protection, suffer significant cuts in their overall income.

Real Protection Needed

It's important to stress that the protection provided by the TUPE legislation typically lasts only 12 months. After a year, employers have forced through changes in terms and conditions by arguing that these changes are unconnected with the transfer.

Furthermore, TUPE merely takes a 'snap shot' of existing staff terms and conditions - preserving rather than protecting them. So, for example, those benefits that might ordinarily have been expected to accrue over time - such as Basic Salary, Holiday Entitlement, etc - may no longer continue to do so!

It is therefore essential that LTU negotiates robust and effective protection for staff that we can be sure will last well beyond the first twelve months following transfer.

We will provide further detailed guidance on this in our next Newsletter.

Professional Union Representation Essential

If, as we expect, the various businesses are sold to a single alternative employer, LTU would automatically be the largest trade union representing staff and has considerable experience dealing with TUPE negotiations on behalf of staff.

LTU already represents 86% of LTSB branch staff in England and Wales, 72% of staff in LTSB Scotland branches, around 60% of C&G branch

staff and has a growing membership within Intelligent Finance.

Given LTU's tight focus on the Lloyds Banking Group, LTU would be alone in having the focus, commitment and membership strength to ensure that staff are represented effectively and protected.

Negotiations – on TUPE transfers are always difficult so to maximise our negotiating strength we will encourage any remaining non-members join LTU, the only fully independent Union in the group.

Bonus Arrangements For 2009

The reaction of members when the Bank announced the details of its participation in the Government's Asset Protection Scheme, which resulted in fundamental and far-reaching changes to the bonus arrangements, was one of absolute anger.

Since then LTU has waged a vigorous campaign, which has involved members writing to their MP's, LTU writing to Ministers at the Treasury and highlighting our concerns directly to the Chancellor, lobbying political parties at their annual conferences and numerous meetings with Senior Officials from UKFI, to get the Government and UKFI to allow the Bank to put in place more competitive bonus arrangements which reward genuine contribution to long-term profits growth and are not driven by excessive, short term risk taking.

The new bonus arrangements for 2009 are set out below and there are a number of significant improvements to the 2008 deferral arrangements. Like members, we would have hoped that there would have been no deferral arrangements in place at all, following the Group's withdrawal from the Government's Asset Protection Scheme but in the present political climate, with Vincent Cable from the Liberal Democrats and George Osborne for the Conservatives continuing to take every opportunity to accuse Banks and bank staff of single-handedly precipitating the current economic recession, without ever differentiating between Retail and Investment Banks, **the arrangements the Bank has managed to negotiate for 2009 are the best that could have been achieved in the circumstances.**

The 2009 bonus arrangements are as follows:

- **Staff and Managers, including those in the Branch Network, who are on quarterly sales bonus arrangements, will not be affected by the changes announced today. Those schemes will carry on in the normal way and bonus payments will continue to be paid quarterly.**
- **Staff earning up to £39k who are entitled to bonuses of less than £2k will be allowed to take cash in the normal way and that will be paid in March 2010. If bonuses are worth more than £2k then staff will get the first £2k in cash in March 2010 and the rest will be deferred and paid in Lloyds Banking Group shares. 50% of those shares will be paid in March 2011 and 50% in March 2012. Clawback will apply to the 2011 and 2012 deferred payments only and not the entire bonus.**
- **All staff earning more than £39k will be subject to the deferral and clawback arrangements but, in a significant change from last year, 50% of any bonus payment will be deferred for just 3 months and will be paid in shares or subordinated debt in June 2010. The remainder of any bonus payments will be paid in shares in March 2011 and March 2012.**

Now that the Group has withdrawn from the Asset Protection Scheme we will sit down and discuss the bonus arrangements for 2010 taking into account the principles set out by the FSA and Walker Review and the World Leaders at the G20 Summit in Pittsburgh. Members with any questions on the 2009 bonus arrangements can contact the Bedford Office on 01234 262868.

To join call 01234 262868... today!

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Pensions: An LTU Success

LTU has waged a lone campaign over many years to get the Trustees and the Bank to acknowledge the true extent of the pension scheme deficits for both the Lloyds TSB No 1 and No 2 Pension Funds and to put in place appropriate Recovery Plans to get the pension funds properly financed. We have said repeatedly those Recovery Plans needed to include significant up front contributions by the Bank.

When we published a report on the Lloyds TSB No 1 and No 2 Pension Funds from Hyman Robertson, our consulting actuaries, two years ago we said that the Trustees needed to use the correct actuarial assumptions in order to show the true extent of the pension deficits. **Today the Bank and Trustees have acknowledged that the combined deficit as at June 2008 for both Pension Schemes is £3.7 billion.**

In addition to that, the Trustees and the Bank have agreed to make an immediate contribution to both Schemes of £1 billion in the form of interests in a limited liability partnership that will have total assets of £5 billion.

This is a significant move on the part of the Trustees and the Bank and more than justifies all the pressure we have exerted on them and the Bank over many years.

Once we are in the full possession of the full actuarial valuations and the details of the limited liability partnerships those will be stress tested by the Union's Actuarial and Legal Advisers and will form the basis of a future Newsletter to members.

IAN PARTRIDGE
General Secretary

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