

Advance

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Bank Slashes Pension For 55,000 Staff

Nick Perkins reports...



The Bank has decided that the best way to meet the challenges of integration and to drive the business forward over the next few years is to devalue the very benefit which has kept most staff working for Lloyds TSB and HBOS.

The very staff who are the DNA of Lloyds TSB and HBOS and who helped build those organisations over many years, have, not to put to fine a point

on it, been sold down the river by journeymen most of whom will be here today and gone tomorrow.

If you have a pension pot of millions then a significant reduction in your pensionable salary is something you can manage but for staff it is going to cause real hardship either now, through trying to make up the shortfall in their pensions through AVC's or paying into a second pension, or later when they eventually retire and are able to see the big difference between the pension they receive and what they would have received had the Bank honoured its commitments to staff.

When that time comes, staff will feel that they have been defrauded, morally if not legally, of their rightful pension entitlement.

So rather than looking on their employment with fond memories they will feel a burning resentment that the

Bank has robbed them and their families.

Bank Proposals

The protections of the Lloyds TSB No 1 Pension Scheme means that the only way the Bank could change benefits for everyone was through changes to basic salary and the definition of what constitutes pensionable pay.

The Bank will seek to enforce those changes through the use of new contracts of employment which will be issued in March.

The Bank's proposals are:

- To limit pensionable pay increases with effect from April 2010. Thereafter pensionable pay will only increase by 2%, or inflation (Retail price Index), or pay increases whichever is the **lowest**. In future if a member of staff is awarded a salary increase of 5% then anything over 2% or RPI if less will be non-pensionable. In effect going forward staff will have

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a new pensionable salary and a basic salary.

- Life cover will be based on the full basic salary and not pensionable salary.
- It will be a condition of future pay rises that not all the increase will be pensionable. Staff who refuse to accept that condition will not be offered the pay rise. Before the new contracts are issued LTU will be writing to all members explaining to them how to respond to the condition laid down by the Bank.

Pension Misery For The Many

In a previous LTU Newsletter we asked Lane, Clark and Peacock, one of the leading firm of Actuaries in Europe, to estimate based on a number of assumptions the potential loss in value that members of the Lloyds TSB Pension Schemes would suffer if certain benefits were ceased or changed. We asked them to look at ten typical jobs across the Group and we have asked them to revisit their findings based on the proposals now put forward by the Bank.

Benefit projections provided to the Union by the Bank, show that a member of staff earning £20k per annum with 25 years left to retirement, of which there are up to 12,672 staff in the Lloyds TSB No 1, No 2 and HBOS Pension Schemes, will see their pension benefits reduced by £5k per annum.

If that person lives until 80 he or she will see their total benefits reduced by at least

£100k.

Using the same calculations, someone earning £40k will see his or her pension benefits reduced by £200k and someone earning £80k per annum will see total pension benefits slashed by some £400k. Even the member of staff earning £40k with 5 years left to retirement will see their pension benefits reduced by £2k per annum and if they live until 80 then their total benefits will be reduced by £40k.

They have no chance whatsoever of making up that shortfall and as a result of the Bank's desire to cut costs, retirement plans are going to be shelved.

Naked Opportunism

The Bank has taken the cynical decision to use the current economic and banking crisis as an opportunity to cut costs. It is desperately opportunistic and will be resisted strongly by this Union and its members. We will not stand by and see our members' futures being sacrificed by the Bank jumping on the most dubious of bandwagons.

Many of the problems companies have had with pension funding stemmed directly from the fact that in the 1990's they started taking money out of their pension funds. Other issues have made pension funding more difficult now, such as increased longevity, but there's little doubt that employers' pumping-up their profits, and therefore Top Executive income from bonuses and share options, by stopping

funding in the good years, has been a key factor. Maintaining contributions then would have made pension funds much more secure now.

Employees should not pay for that greed.

PIP Members Worse Off

For members of the PIP schemes the Bank is proposing, subject to Trustee approval, to move them across to a new scheme in 2011. This new scheme will be contracted-in, with no minimum age limit, automatic enrolment and with a default contribution of 3%.

Of the 20,332 members of the LTSB PIP schemes, 15,621 pay the default contribution of 2% and the Bank makes a contribution of between 6.5% and 10.5% dependent on age. Under the new scheme those 15,621 members of the LTSB PIP schemes can either maintain their 2% contributions or increase them to 2.5% in year 1 and then increase them to 3% thereafter in addition to paying increased National Insurance contributions.

Those who keep their contribution at 2% (plus National Insurance which will mean an extra 1.5%), which will be the majority of staff, will see their contributions from the Bank reduce by 0.5% for those aged 25-30, 2.5% for those aged 30-45 and 4.5% for those aged 45+.

The Bank is offering staff the opportunity to save more and get more but knowing full well that in the present climate most

staff will not be able to afford it.

Pensioners and deferred members are not affected by these changes.

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. **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 future articles in Advance.

The Pensions Act 2008

Much has been written about how the Pensions Act 2008 will affect employers. But beyond personal accounts and increased pension costs from auto-enrolment and compulsory contributions, little has been said about the avalanche of other factors HR departments need to consider.

David Hix, associate director at Jelf Employee Benefits, says: "This is probably the biggest change to pensions since the 1950s. Over 10 million people in the UK could be auto-enrolled into pension schemes on the same day. Yet few employers seem to be giving this any attention."

According to Watson Wyatt's 2009 FTSE 100 Defined Contribution Pension Scheme Survey, only one-third of FTSE 100 companies have considered the Pensions Act's effect on their pension schemes come 2012, so it is clear employers have some catching up to do.

"The lack of planning to date by many employers is understandable, given the uncertainty around details of the legislation," says Hix.

"But, considering the size of the fines being talked about, and even the potential threat of custodial sentences for wilful failure to comply, this is scary stuff."

How the Pensions Act 2008 will work:

- From 2012, employers will have to automatically enrol all staff aged over 22 years and earning more than about £5,000 into a workplace pension plan.
- Organisations will not have to sign up employees for personal accounts if they automatically enrol them in an occupational pension scheme with the same, or better, benefits.
- Employers must contribute a minimum of 3% of qualifying earnings. Workers must pay in 4%, topped up with 1% as tax relief from the government.
- Employees can choose to opt out, but if they do so, they will be automatically re-enrolled every three years thereafter.
- If personal accounts are used, the money will go into a default fund, unless the employee chooses otherwise. It is likely staff will get a few simple investment options to choose from.
- Personal accounts are being developed by the Personal Accounts Delivery Authority (Pada).

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If you would like to know more about becoming a Homesitter, please contact:

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