Advance

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May 2017

PENSIONS EQUALISATION

The respective legal teams in our landmark discrimination case on the equalisation of pensions are discussing and, hopefully, agreeing the questions that will be put to the High Court. Our expectation is that the case will be heard in early 2018.

Members will recall that following the commencement of our legal action, the Department of Work and Pensions issued a consultation document seeking views from the pensions industry and other interested parties on a "new methodology for equalising pensions for the effect of inequalities caused by Guaranteed Minimum Pensions (GMPs), and potential changes to GMP conversion legislation that may be needed to enable equalisation to take place".

It was the last methodology, published in 2012, which caused the pensions industry to suggest that equalising GMPs would cost up to £20bn.

In response to the consultation paper many respondents suggested that the Government should not consider any action until the outcome of LTU's legal action against the Bank had been decided. The Government said "Notwithstanding our opinion on equalisation [The Government agrees with our analysis of the legal position], we will consider our position in the light of any action taken by Lloyds Trade Union and any legal decisions resulting from that action". LTU's case is being watched by the whole of the pensions industry and Government and the outcome will determine whether 5 million women get increased pension benefits.

Mark Brown
General Secretary

LTU'S LANDMARK PENSION DISCRIMINATION CASE

£20 BILLION	THE COST OF EQUALISING GMPS
165 THOUSAND	FEMALE MEMBERS OF THE BANK'S PENSION SCHEMES COULD BE ENTITLED TO PENSION INCREASES
5 MILLION	WOMEN COULD ALSO BENEFIT FROM GMP EQUALISATION
2.4 THOUSAND	PENSION SCHEMES, INCLUDING SOME OF THE BIGGEST IN THE COUNTRY, COULD BE AFFECTED BY LTU'S LEGAL ACTION

Inside...

THE RUSH TO CASH IN PENSIONS ...

Many retired members of staff have asked the Union whether the rush to cash in pensions, which they have heard a lot about recently, is going to affect the future viability of the Bank's final salary pension schemes.

Whilst we can understand the concerns raised by members the first thing to note is that the pension funds are, by law, required to hold assets that meet the value of their pension schemes liabilities. On top of this, there is also a required solvency buffer of additional assets to help protect the fund against adverse deviations in experience.

However, that said the fact that a large number of staff are "cashing out" of the pension schemes is a source of concerns and something the Union's Actuary is looking at in detail.

WHAT'S THE ISSUE?

Final salary transfers are available to what are known as 'deferred scheme members', those staff who have either left the Bank or left one of the Bank's final salary pension schemes.

Whilst the vast majority of deferred members will have left the Bank, there is an increasing number of active staff who are moving from one of the final salary pension schemes to the 'Your Tomorrow' money purchase pension scheme especially since the 0% pension cap was introduced.

For the overwhelming majority of active staff, it's in their best interests to remain in a final salary scheme.

It seems that attractive cash equivalent transfer values are now being offered by many pension schemes - up to 50 times the projected pension income - and new pension freedoms are causing scheme members to look at this issue.

The Financial Times recently quoted Baroness Altman, the former Pensions Minister, who cashed in two of her pensions. She said "The sums were attractive to me and it was hard to imagine the offers going any higher. The Financial Times' chief economic commentator, Martin Wolf, said:

> "At current ultra low interest rates, the transfer value of a defined-benefit pension has become significantly overvalued.
>
> It seems sensible to take advantage of that fact. I have done so. Could that be the wrong decision? Yes. But I would have to live to 100 and the pre-tax return on investments would have to be zero. If the latter were to be true, capitalism would truly be dead".

The increase in values has been driven by low yields on government bonds. When those fall the cost of paying for future pension promises rises. So the cash offered today for future pensions has also risen.

In the vast majority of cases it's still in the individual's best interest to stay in their pension scheme. Those who take the cash give up the security of an index-linked guaranteed pension. Under the Government's regulations members are required to take independent financial advice.

We have urged those members who are considering seriously taking advantage of the transfer values to take proper advice with a reputable IFA and consider all the issues carefully before they consider giving up their gold-plated pension.

EXECUTIVE PAY IN LLOYDS BANKING GROUP …

Executive rewards are under growing scrutiny and much of that is related to payments made under what are called Long Term Incentive Plans (LTIPs).

In its recent Green Paper entitled 'Corporate Governance Reform', the Government said:

> "…there is widespread perception that executive pay has become increasingly disconnected from both the pay of ordinary working people and the underlying long-term performance of companies. Executive pay is an issue of significant public concern…".

The general feeling is that the link between pay and performance is poorly aligned and LTIPs have become insufficiently stretching.

LTU has looked at LBG's new Group Ownership Share Plan (GOSP) for Executive Directors and what's clear is that some of the performance metrics are not particularly stretching. We calculate that the three Executive Directors could earn 40% of their total GOSP awards for very little effort. In the case of the Group Chief Executive (GCE), that would be worth £1,475,842. The GCE's maximum payment is £3,689,605.

LTU has written to the Bank's largest investors detailing our findings. A copy of our report can be found on the Union's website.

OCTOBER COURT DATE FOR HBOS LAWSUIT …

The High Court case in respect of alleged losses suffered as a consequence of Lloyds TSB's acquisition of HBOS Plc in January 2009 and the subsequent recapitalisation of the merged entity will be heard on the 2nd October 2017.

The case is expected to last 12 weeks.

Sir Victor Blank, Eric Daniels, Timothy Tookey, Helen Weir, George Truett Tate and Lloyds Banking Group are all named defendants in the lawsuit.

The Lloyds Action Group, which includes about 6,000 investors and City institutions, alleges that the named directors of Lloyds TSB breached fiduciary and other duties owed directly to shareholders when advising them that the acquisition of HBOS and the connected Government recapitalisation of Lloyds Banking Group were in their best interests, and in procuring shareholders' approval of the transactions on the basis of misleading information and the concealment of the true financial position of HBOS.

The Lloyds Action Group claims that the defendants are liable for the losses suffered by Lloyds TSB shareholders through the dilution of their shareholdings as a result of the issuing of shares to HBOS shareholders and to the Treasury.

The Lloyds Action Group calculates that the total losses suffered were in the sum of approximately £6 billion.

We will update members on the High Court action in the next edition of Advance.

NOTHING TO GLOAT ABOUT …

Forget all the propaganda and PR spin, the fact is the cash gain of £900 million made following the final disposal of the Government's shareholdings in Lloyds Banking Group does not take into account the cost of purchasing the shares in the first place.

The money needed to buy the shares was provided by longer term funding in the form of Gilts, government bonds on which the Government is still paying interest.

The independent National Audit Office concluded that:

> "The income generated by fees and interest is less than would be expected from a normal market investment and has not compensated the taxpayer for the degree of risk accepted by taxpayers in providing the support.
>
> Once the opportunity cost and risks are factored in, the schemes have represented a transfer from taxpayers to the financial sector".

And those who had shares in LBG before the takeover are still heavily out of pocket. A saver with shares worth £10,000 on the eve of the HBOS deal would find that they are now worth £2,620 and they had suffered six years without a dividend. Staff were encouraged to buy shares as part of their pensions, and they have not been compensated for bailing out HBOS.

Finally, if the Government had put £21bn in a Lloyds current account it would have got significantly more back after 8 years than £900m.

READING & HBOS …

The Financial Conduct Authority has reopened its investigation into whether there was a cover up of criminal activity in HBOS Reading before the merger with Lloyds Banking Group and whether those activities were notified properly to the regulator at the time. The FCA has said:

> "The FCA's investigation is focussing on the extent and nature of the knowledge of these matters within HBOS and its communications with the Financial Services Authority after the initial discovery of the misconduct".

We understand that an internal report written by an investigator after the HBOS/Lloyds TSB Merger had been completed refers to a paper that was prepared in 2008 for the HBOS Executive Committee describing the fraudulent activity that had taken place at the Reading based Impaired Assets team. Members will be aware that Mr. Harry Baines, Chairman of the Lloyds Banking Group Pensions Trustee Limited, was not an Executive Director of at the time but he was on the Bank's Executive Committee, and would have been aware of any report produced on fraudulent activity at HBOS Reading.

We have written to Andrew Bailey, the Chief Executive of the FCA, saying:

> "The FCA's investigation into the issues in Reading and what, if anything, was discussed by the HBOS Executive Committee needs to be conducted quickly and all the internal evidence, including emails and reports, must be published if the FCA is to avoid accusations of a cover up. If there is evidence that the Executive Committee of HBOS were aware of the issues in Reading and agreed not to disclose those to the FSA and shareholders, we would expect sanctions to be brought against all those involved. If there is any evidence that Mr. Baines was involved in a cover up, and that can only be determined by the FCA, then we would expect him to be removed from the Chairmanship of the Lloyds Banking Group Trustee Board without delay".

We will keep members informed of developments.