



THE VALUE OF PENSIONS

We are aware of one female member of staff with a pension of £2,029 per annum at age 60 who has been offered a cash equivalent transfer value (CETV) of £176,000. That's 87 times the projected pension income.

Whilst it is true that not all transfer values will have the same multiplier, the transfer values being offered by the Trustee, which are calculated by the Scheme Actuary, taking into account discount rates, inflation, GMP revaluations, market conditions and mortality rates, are worth significantly more than the commutation factors used by the pension schemes when converting pensions into tax-free lump sums. Before we discuss commutation factors and transfer values, the Union is still receiving reports from members who are experiencing long delays in getting their transfer value quotes. The new administrator should have anticipated the level of demand for CETVs and put in place contingency plans to ensure that quotes were dispatched quickly. The Trustee Board should be writing to the administrator telling it to reduce the timescale for producing quotes from 6 weeks to 3 weeks. The length of time it takes to produce quotes is important because valuations are only valid for 3 months and unnecessary delays could cause members to be seriously disadvantaged. We have also noted that in some cases there are significant differences between initial CETV estimates being provided to members and the actual quotes received once members have opted out of their pension schemes.

We have seen differences of between 2% - 8% of the transfer values. If your initial transfer value was £500,000 and then 2 months later that's been reduced by 8%, mainly because of delays over which you've got no control, you are going to lose a lot of money. To get over this problem, the Trustee should guarantee the initial quotes.

COMMUTATION RATES

The cash equivalent transfer values being offered by

Branch Manager	- £15,450
Grade DU	£41,200
Pensionable Service	36 yrs
No. 1 Scheme Lump Sum (15)	£92,700
No. 2 Scheme Lump Sum (17.5)	£108,150
Customer Services Assistant	- £8,458
Grade A	£20,300
Pensionable Service	40 yrs
No. 1 Scheme Lump Sum (15)	£50,749
No. 2 Scheme Lump Sum (17.5)	£59,207
Local Director	- £37,208
Grade G	£89,300
Pensionable Service	40 yrs
No. 1 Scheme Lump Sum (15)	£223,249
No. 2 Scheme Lump Sum (17.5)	£260,457

the Trustee highlight the unreasonably low value of the commutation factors in all of the Bank's final salary pension schemes. The vast majority of pension schemes give members at retirement the opportunity to commute part of their total pensions into tax-free lump sums. The tax-free limit is 25% of the total pension. Not surprisingly, over 90% of members in the Bank's pension schemes commute part of their pensions and most take the maximum amount possible. It is the commutation factors which determine the size of the lump sum offered as an alternative to pension payments using a

straightforward formula. So for example, a commutation factor of 10 to 1 means that for every £1 a pension is reduced the member would get a £10 lump sum. Using that formula if a member gave up £5k of pension, he or she would get a £50k tax-free lump sum.

In the Lloyds Bank No 1 Pension Scheme the commutation factors are currently 15 to 1; so for every £1 of pension members give up at retirement they are entitled to a lump sum of £15. In the Lloyds Bank No 2 Scheme the commutation factors are 17.50 to 1. The same factors apply to men and women.

The difference in the commutation factors between the pension schemes, which we have discussed in previous Newsletters and which is best understood with reference to the examples opposite and overleaf, pales into insignificance when compared against the pension transfer values being offered to members to give up their pension benefits. Members are being offered 34, 49 and 87 times the value of their pension benefits compared to just 15 and 17.5 times that are being offered to those who commute part of their pension. In fact, staff being made redundant who give up some of their severance payment to buy added pension years are being told that it will cost them £49,000 of severance to buy £1,000 of pension benefit.

The current commutation factors, which have not been revised in-line with market conditions, are out of date and understate significantly the value of the benefits being given up. Pension scheme members are losing £millions because of this undervaluation. The Bank resists changes to the commutation factors because it knows full well that the overwhelming majority of staff will commute part of their pensions on the current factors anyway. There is no way the Bank would be able to get away with that kind of treatment if it was dealing with customers. In this case, the Bank should do the right thing and help its own staff to prosper. If the FCA regulated this it would certainly conclude that the customers were not being treated fairly.

ROLE OF TRUSTEES

Under the Lloyds Bank No 2 Pension Scheme, the rules say the formula for converting pensions into lump sum payments is left to the discretion of the Trustee and its actuarial adviser. In 2013 the Trustee has used that discretion and increased the factors from 15 to 17.50. However, in the Lloyds Bank No 1 Pension Scheme the rules say that the formula for converting pensions into lump sum payments must be agreed between the Bank, the Trustee and the Scheme Actuary. The Trustee of the Lloyds Bank No 1 Scheme had proposed changes to the

Personal Banking Manager

- £11,375

Grade C	£31,200
Pensionable Service	35 yrs
No. 1 Scheme Lump Sum (15)	£68,250
No. 2 Scheme Lump Sum (17.5)	£79,625

Risk Manager

- £31,718

Grade F	£101,500
Pensionable Service	30 yrs
No. 1 Scheme Lump Sum (15)	£190,313
No. 2 Scheme Lump Sum (17.5)	£222,031

Functional Specialist (IT)

- £18,020

Grade F	£69,200
Pensionable Service	25 yrs
No. 1 Scheme Lump Sum (15)	£108,124
No. 2 Scheme Lump Sum (17.5)	£126,144

commutation factors but those proposals were rejected by the Bank.

The Trustee should undertake an immediate review of the commutation factors for all its pension schemes. The results of those individual reviews should be published together with advice from the Scheme Actuary. If the individual scheme reviews propose changes to the commutation factors then those should be introduced immediately.

If the Scheme Actuary proposes changes to the factors for the Lloyds Bank No 1 Pension Scheme we would expect the Trustee to make it clear to the Bank that those factors should be introduced. If the Bank refuses, the Trustee should undertake an immediate review of its discretionary powers to see what pressure it can bring to bear on the Bank.

We will be writing to members with a suggested letter they can send to the Chairman of the Trustee Board. In the meantime, members with any questions can contact the Union's Bedford Office on 01234 262868 or email us at 24hours@ltu.co.uk.

Mark V Brown
General Secretary

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