

## LLOYDS BANKING GROUP HARMONISATION OF TERMS AND CONDITIONS. UNITE UPDATE NO 2.

### FOCUS ON PENSIONS AND RETIREMENT

**Not surprisingly since the announcement of the Banks proposals on the Terms and conditions on 3 Dec we have had lots of feedback and questions. Many of these have been about pensions. Members are reminded that Unite has rejected the proposed package of proposals including the pensions changes. We will not consider agreement unless we believed our members were happy for us to do so through democratic means of consultation.**

Of course the news on pensions is not all bad because for many of those who are in the Defined Contribution or Money Purchase scheme the proposals mean they would have more money going into their pension pot for the future than currently is the case. Also there would be no restriction in future based on the age of colleagues meaning any new entrants to the Bank would be put straight into the pension scheme as the default and they would have to make a conscious decision to opt out. This is clearly a responsible attitude for the employer to take.

The changes however to the Defined Benefits( Final Salary) schemes are a different thing altogether! Initially members were telling us about the relief they felt that the Final Salary Schemes were going to continue when many had feared they would be closed. However this is now turning to grave concern and anger in some cases as people start to understand what the capping at 2% or RPI (whichever is the lower) for future increases to pensionable salary really means in the long term.

Pensions is a complicated subject meaning many people tend to switch off , make wrong assumptions or worse still think everything will be ok if they ignore it. For that reason we have decided to focus this bulletin on the issue of the pension change proposals in order to demystify some of it and to get members thinking about what it means for them as an individual. This bulletin summarises what the changes might mean for members of the Final Salary schemes but we have prepared a much more detailed set of Q&As which can be found on our website. Go to [www.unitetheunion.org.lloyds](http://www.unitetheunion.org.lloyds) to check this out. It's vital reading.

We also want to encourage members to continue to tell us and the Bank about their views on the pensions. Some of these views might have changed since you first gave the Bank your feedback!

Here are some questions and answers which should help to make things clearer. These are not intended to give members advice about what action to take regarding their own pension provision. Unite cannot provide such advice and members should seek advice independently.

#### **How are final salary scheme pensions currently calculated?**

When you come to retire a calculation is made based upon how many years service you have completed and your pay in the final 12 months of your employment. Members accrue their pension at the rate of one 60th of their final years pay multiplied by the number of completed years service. Therefore someone with 30 years service could receive a pension of 30/60ths (in other words 50%) of that final years pay figure. This is a simplified explanation as periods of part time service are taken into account However this example is only intended to be a general guide.

#### **What changes have been proposed by LBG?**

For those colleagues who are members of the Defined Benefits (or Final Salary )pension schemes, LBG proposes that growth in the pay used to calculate pensions in the defined benefit pension schemes be capped at 2% each year, or RPI (rate of inflation) if lower.

#### **In simple terms what this means is that:**

- the salary figure used to calculate your pension when you retire, can only increase by a maximum of 2% each year
- this would be a maximum of 2% of your pensionable salary not your actual salary
- unless you never had another pay rise before you retire, your pensionable salary would be lower than your actual salary and the gap would only widen between the 2 figures year on year
- if your pay rise in any year was lower than 2% or RPI your pensionable pay would increase by the amount of your pay rise
- if you didn't get a pay rise in any one year your pensionable salary would not increase.

For example in the first year after this capping took effect for someone earning £20,000 year who receives a 3% pay rise, and the rate of RPI is 1.5% it means.

- 1) your actual annual salary would increase by 3% to £20600
- 2) your pensionable salary would increase by 1.5% to £20300 (you could call this a shadow salary)

### **Should members expect better or worse pensions as a result of the change?**

Active members are likely to be worse off. However active members are likely to be significantly worse off and in some circumstances very substantially worse off. Deferred and pensioner members are not affected.

### **Is there protection for pension for service already completed?**

No. The cap also applies to pension for past service in as much that all of your service including that already completed would be used to calculate your pension based on your shadow salary when you retire not your actual salary.

### **What is the effect on future service?**

The scheme will continue providing new defined benefit pension for members but on significantly worse terms.

### **How could the proposals affect a 40 year old with 20 years past service if inflation is in line with the current Bank of England predictions?**

Assuming the member continues in active service over the twenty years until retirement at 60 the impact is:-

- Instead of a pension of two-thirds of final pay the member would expect a pension of just over one-third of final pay. Half the pension is lost.

(These figures assume that future inflation averages 3.5% over the period and future real increases in pay are 2% pa (for market adjustments and promotion).

### **And if inflation is higher?**

In the above example if inflation averages 5% instead of 3.5% the impact becomes:-

- Instead of a pension of two-thirds of final pay the member would expect a pension of around one-quarter of final pay.

### **If inflation were to be much higher, at 10% say?**

- The total pension will be one-tenth of final pay.

Inflation is not at 10% now, but this scale of inflation is not unprecedented. The last time inflation ran out of control was in the 1970s when it averaged 13%. The question is why members should have the risk imposed on them, especially when government policy is that pensions from accrued service should be protected against inflation.

### **How does capping affect those at the top of their pay band?**

Being at the top of the pay band does not make the inflation impact any less acute. Pay bands generally increase each year according to the bank's market data making future pay rises possible (though not guaranteed). Where market movement in the pay scales is higher than 2% the proposal means that as actual pay may stay at the top of the band, capped pensionable pay moves down the band.

### **Are benefits unchanged if inflation stays below 2%?**

No. Active members lose benefit for the difference between future pay growth and inflation and no extra pension is earned for promotional increases which take the member over the annual 2% cap. If inflation is expected to remain below 2% there is no reason in Unite's view to put in a cap at 2%.

### **If the proposal goes ahead, would members be better off withdrawing from the scheme and joining the new DC scheme?**

Unite will not and should not give any member advice about what to do about their own individual pension provision.

Individual specialist advice would be needed. However, members need to understand that if they withdraw from the scheme freezing their past service entitlement they would have a leaver's pension that revalues at inflation capped at 5%, not 2%. This, together with a joining and making contributions to the Defined Contribution scheme, could give a higher benefit outcome than the capped scheme, if inflation does increase

### **How could the proposal be modified?**

Unite are considering a number of counter proposals which could be put to the company which if agreed may be more palatable to members whilst still giving the Bank the certainty on cost which they so desperately are seeking to do by bringing forward these proposals. We will communicate further on this in due course.

## **RETIREMENT AGE**

Some members have taken it from the Banks booklet that the retirement Age being set at 65 means they would be unable to access their pension without deductions being made until the age of 65. Alternatively people have taken it that they must remain at work until they are 65.

In fact what it means is that the Bank would expect colleagues to stop work at age 65. Colleagues would not need to give notice that they intended to stop at age 65. Colleagues wishing to continue to work after age 65 would have to request permission to do so. The Bank would have to consider the request but would not have to agree nor give reasons why they did not agree. This is the current situation in LTSB but in HBOS colleagues can currently continue to work past 65 without needing to seek the agreement of the Bank.

### **Remember:**

- visit our website [www.unitetheunion.org/lloyds](http://www.unitetheunion.org/lloyds) for a more detailed version of this bulletin
- Let the Bank have your reaction to the pensions proposals through the Interchange facilities so that they are in no doubt what colleagues think
- Email [lbg.support@unitetheunion.org](mailto:lbg.support@unitetheunion.org) to let us have your thoughts
- Unite is the only union recognised in all areas of Lloyds TSB.
- Unite is the only union recognised in both Lloyds TSB and HBOS
- Unite has a network of 150 MPs and has broad political and media influence
- Unite has a workplace reps structure of 150+ to ensure your voice is heard at negotiations

Only Unite and Accord members will be able to take part in our Consultation exercise in January. To join Unite you can do so by going on line at [www.unitetheunion.org](http://www.unitetheunion.org) or by calling the LBG helpline on 08081 449595. Alternatively contact your local rep who would be only too happy to help. If you are interested in being a rep, please click on [www.unitetheunion.org/lloyds](http://www.unitetheunion.org/lloyds) for more information.

**Gwyn Bates/ Wendy Dunsmore  
National Secretaries, Unite**