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General Secretary: Mark Brown

Chris Cummings
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Dear Mr. Cummings

Lloyds Banking Group – Executive Remuneration & Pensions

Affinity is the largest independent trade union representing staff in Lloyds Banking Group.

The Investment Association has said that it will highlight companies who pay pension contributions to executive directors at rates above the majority of the workforce. Andrew Dixon, Director of Stewardship and Corporate Governance at the Investment Association said: "The IA's Remuneration Principles set out shareholder expectations on executive pension contributions should be aligned with the majority of the workforce".

Mr. Antonio Horta-Osorio, Group Chief Executive, Lloyds Banking Group has received a pension contribution worth 46% of his base pay since he was appointed in 2011. In 2018, Mr. Horta-Osorio's pension allowance was worth £573,000.

The research we have undertaken in the past, a copy of which is attached, shows that no other CEO gets the same pension allowance. HSBC announced a number of years ago that it was reducing the pension allowance of the then Chief Executive, Stuart Gulliver, from 50% to 30% of base pay because it said: "feedback from shareholders that cash in lieu of pension was higher relative to large FTSE 100 companies".

Royal London Asset Management has said in the past: "An area of concern is generous executive pension payments. Companies that grant executives cash payments, in lieu of pension, upwards of 30% or 40% are not uncommon in the FTSE 100. This raises concerns and questions about pension fairness, with staff below executive level often receiving a fraction of this amount in their pension pots." It went on to say "We do not think executives should receive preferential treatment with regards pension payments". In respect of Lloyds Banking Group, it says: "LBG stands out as a laggard on this issue offering a pension benefit of 50% of base salary to the CEO".

Last year, Lloyds suffered its first significant shareholder rebellion, after more than a fifth of investors refused to back its remuneration report. In its most recent announcement on executive remuneration, the Group has said that Mr. Horta-Osorio's pension allowance will be reduced from 50% to 33% of base pay from 2019. However, in a surprising move, the Group's Remuneration Committee has said that Mr. Horta-Osorio's fixed share award - which was introduced in 2014 following the introduction of a cap on the variable element of remuneration by the European Union - will increase from £900,000 to £1,050,000. The Remuneration Committee says:

> "As a result of taking on the role of Chief Executive of the Ring-Fenced Bank from 1 January 2019 in addition to his existing responsibility as Group Chief Executive, it has been determined that the Fixed Share Award for Antonio Horta-Osorio should be increased to £1.05 million. At the same time, the Group Chief Executive has agreed to reduce his Pension Allowance to bring this closer to that of the majority of the colleagues. His Pension Allowance will reduce from its current contractual level of 46 per cent of base salary to 33 per cent of base salary".

The Remuneration Committee's explanation for reducing Mr. Horta-Osorio's pension but increasing his fixed pay is rather puzzling given that the ring-fenced bank and non-ring-fenced bank are part of Lloyds Banking Group and he's already being paid - £6,270,000 in 2018 - for running the whole bank anyway. It would appear that the Remuneration Committee having been forced to reduce Mr. Horta-Osorio's pension allowance have ignored the spirit of the new rules by increasing his fixed pay so he's no worse off. Furthermore, the vast majority of Lloyds staff are in defined contribution pension schemes and the maximum employer contribution is 13% of base salary, that's significantly less than the 33% being given to the Group Chief executive.

The Group Chief Executive also continues to benefit from a defined benefit pension, which will be worth 6% of his base salary in the 12 months before he retires. Mr. Horta-Osorio's is still the only member of staff in Lloyds Banking Group who gets a final salary pension based on his salary before he retires. Staff who are members of one of the Group's defined benefit pension schemes had the salary accrual element of their pensions withdrawn a number of years ago whilst the Bank was under Mr Horta-Osorio's stewardship.

It was not the intention of the Investment Association's new remuneration principles for firms to reduce pension contributions and for executive directors to then be compensated in the form of fixed emoluments. This is a big test for the IA's new remuneration rules and we believe that it should 'red-top' Lloyds Banking Group.

Yours sincerely

Mark V Brown
General Secretary