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General Secretary: Mark Brown

Rt Hon Frank Field MP
Chair, Work and Pensions Committee
House of Commons
London
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3rd April 2019

Dear Mr. Field

Executive Remuneration & Pensions

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 Investment Association's Remuneration Principles set out shareholder expectations on executive pension contributions and our members have been clear that this is an issue of fairness and pension contributions should be aligned with the majority of the workforce".

It is clear from the recent press coverage on this issue that a number of the biggest banks have used a variety of mechanisms to try to circumnavigate the Investment Association's Remuneration Principles.

Lloyds Banking Group's most recent announcement on executive remuneration said that Mr. Horta-Osorio's pension allowance would be reduced from 46% to 33% of base pay from 2019. However, the Group's Remuneration Committee has said that Mr. Horta-Osorio's fixed share award - which he gets for turning up to work - will increase from £900,000 to £1,050,000. 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 share award so he's no worse off. Furthermore, the vast majority of staff in Lloyds 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 and other Executive Directors.

Moreover, it was only as a result of the union's campaign on pensions that Mr. Horta-Osorio was forced to give up his final salary pension benefit. Mr. Horta-Osorio was the only member of staff in Lloyds Banking Group who still had 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who are members of one of the Group's defined benefit pension schemes had the salary accrual element of their pensions withdrawn a number of years ago by Mr. Horta-Osorio.

Standard Chartered has sought to redefine basic pay in order to boost the pension allowance of its Chief executive, Mr. Bill Winters. Its new pay policy shows that the ratio of pension contributions to salary fell from 40% to 20% in 2019. But the Bank changed the definition of basic pay and included share-based payments, which resulted in the Chief Executive's pension allowance rising to £474,000 this year from £460,000 in 2018.

HSBC originally tried to argue that after taking into account tax and national insurance payments, the pension allowance for its Chief Executive was in line with the maximum contributions paid to staff. Shareholders said that the bank was undermining the new rules and the Group reduced its payments to Executive Directors from 30% to 10% of base pay.

The explanations offered by the various Remuneration Committees for their actions are specious and it's clear they are part of the problem and not the solution. In Lloyds Banking Group, the Remuneration Committee under the Chairmanship of Mr. Stuart Sinclair and previously, Ms. Anita Frew, did nothing about the fact that the Group Chief Executive was still entitled to a final salary pension despite the fact that such a benefit had been removed from all staff in 2014.

The Investment Association will decide how it intends to deal with Remuneration Committees who have attempted to undermine its rules. Many shareholders, customers, employees and the general public are sick to the back teeth of chief executives and boards who are only interested in feathering their own nests. You recently said: "the gap between those at the top and ordinary workers seems bigger than ever. If voluntary measures to curb bosses' pensions are proving easy to game, then Parliament ought to ask whether the government needs to step in."

We would urge the Work and Pensions Select Committee to launch an inquiry and make Remuneration Committee Chairmen explain their actions

Yours sincerely

Mark V Brown
General Secretary