Rt Hon Frank Field MP  
Chair of the Work and Pensions Committee  
House of Commons  
London  
SW1A 0AA

9 May 2019

Dear Mr Field

Thank you for your letter of 24 April 2019. I am pleased to be able to answer your specific questions about our approach to executive pensions.

I should begin by clarifying that Lloyds Banking Group operates a number of defined benefit pension schemes, often referred to as final salary pensions, including the specific arrangement for António Horta-Osório, Group Chief Executive. We run the third largest private sector defined benefit pension scheme in the UK, with 17,000 current colleagues accruing additional benefits for every year of continued service. While the pensionable pay used to calculate the final salary has been capped since 2014, the scheme remains open and active, with the value of their pension increasing with each year of service.

António’s defined benefit pension was a partial buy-out of his previous employer’s final salary pension entitlement. When he joined Lloyds in 2011 additional conditions linked to the share price were applied to ensure that this benefit was conditional on returning the taxpayer’s support for the Group, an objective he delivered – and exceeded – in 2017. In April 2019, António asked that his defined benefit pension should also be capped to his pensionable salary in 2014 with no future increases.

In addition to our defined benefit schemes we offer a defined contribution scheme, with an attractive contribution rate of up to 13 per cent available to the majority of the workforce. Since joining the Group, Antonio has also received an annual pension allowance as part of his remuneration. However, in light of the Investment Association’s revised guidelines that the contribution rate for incumbent executive directors “should be reduced over time to the contribution rate available to the majority of the workforce”, and notwithstanding existing contractual arrangements António requested in November that I and my committee review this pension, rather than wait for the next triennial review of our Directors’ Remuneration Policy, which starts this summer.

As a result António and my committee agreed that his pension allowance should be reduced from 46 per cent of base salary – as contracted – to 33 per cent from January this year. Thus, we consider the reduction in António’s pension marks an important step towards aligning executive pensions to the contributions received by the wider workforce. This is, as you know, a central recommendation of the Investment Association.
We considered as well the additional complexity in António's accountabilities arising from the implementation of ring-fencing earlier this year. We also took account of his total fixed remuneration relative to other UK bank CEOs. As a result, his fixed share award, which is based on the scope of his role, was increased by £150,000 to £1.05m. I should point out that the net result of these changes is that António's fixed pay for 2019 is lower than it would otherwise be, and with a greater proportion paid over five years, in shares linked to performance. This is despite the bank achieving excellent results in 2018.

Current contractual pension arrangements for our two other executive directors entitle them to receive an allowance of 25 per cent of base salary. No changes are proposed for this year, but this will also be part of the wider review my committee and I will shortly be undertaking.

The Board recognises the interest shown by your committees and indeed the public in executive pension and remuneration issues. We want our approach to be simple, clear and transparent, and to reflect all applicable principles and codes. That's why in recent months I and my colleagues have spent a lot of time with investors, the Investment Association and others to understand better their concerns. We recognise too that we have a duty to listen carefully to the wider debate and what it tells us about society's evolving expectations of business.

Our next remuneration policy review will cover all aspects of executive remuneration, and will be put to our shareholders next year. Our responsibility will be to balance the expectations of our shareholders and others with the need to ensure that we attract the people who will help us continue to succeed as a business and deliver our commitment to help Britain prosper. My committee's time will continue also to be focused on the remuneration and training of all colleagues. For example, we are committed to ensuring higher pay awards for colleagues who are lower paid, an approach that was agreed with our trade union partners and received strong support from their members.

Yours sincerely

[Signature]

Stuart Sinclair