

# WIRRAL COUNCIL

## PENSIONS COMMITTEE

27 JUNE 2011

<b>SUBJECT:</b>	<b>EQUITABLE LIFE</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF FINANCE</b>
<b>RESPONSIBLE PORTFOLIO HOLDER:</b>	
<b>KEY DECISION</b>	<b>NO</b>

### 1.0 EXECUTIVE SUMMARY

1.1 This report informs Members of progress in the implementation of a compensation scheme for members of the Equitable Life With-Profits scheme impacting on members and former members of the Merseyside Pension Fund in house AVC scheme and a distribution of profits scheme announced by the Company.

### 2.0 RECOMMENDATION

2.1 That Members note the report.

### 3.0 REASON FOR RECOMMENDATION

3.1 There is a requirement for Members of the Pensions Committee to be kept up to date with legislative developments to carry out their decision making role in order to enable them to make informed decisions.

### 4.0 BACKGROUND AND KEY ISSUES

4.1 Equitable Life was appointed as the sole in house AVC provider for Merseyside Pension Fund from April 1988. Among the range of savings options offered by the Company was a With-Profits plan which was chosen by a large number of scheme members who decided to pay AVCs (1,682 members in 2001).

4.2 Following legal challenges about the operation of the Equitable Life With-Profits Fund and a decision of a case against the Society in the House of Lords on 20 July 2000, the Company was put up for sale and was closed to new business on 8 December 2000. Merseyside Pension Fund made a decision at that time on behalf of scheme members to redirect any further AVC With-Profits contributions received to the Society Building Society deposit arrangement.

4.3 In July 2001 Equitable Life imposed a 16% cut in the value of with-profits pension policies with restrictions on further growth to be applied.

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- 4.4 Merseyside Pension Fund appointed Standard Life originally to provide a choice of AVC additional provider in March 2001 and later, following the closure of Equitable Life to new business, also appointed Prudential as an additional provider.
- 4.5 In Autumn 2001 Merseyside Pension Fund negotiated a bulk transfer with a reduced Market Value Adjustment (MVA) reduction for those members who wished to move their funds out of with-profits with Equitable Life with payment made on 1 February 2002. Due to the MVA adjustments that would have applied on switching from with-profits many members chose to leave existing AVC funds with Equitable Life.
- 4.6 Following a number of inquiries including one by the Parliamentary Ombudsman into the conduct of business by Equitable Life in respect of the operation of its With-Profits Fund and guaranteed annuity payments, a compensation scheme has been set up by the Government to provide some financial compensation for those who suffered financial loss in certain specified circumstances.
- 4.7 A total of 446 current active and deferred members of Merseyside Pension Fund still have money invested in the Equitable Life With-Profits Fund and many others have retired, died, left or transferred out of the With-Profits Fund since the House of Lords decision in 2000 (including 332 members who chose to join in the bulk surrender option negotiated in 2001 which enabled members to transfer out of Equitable Life to Standard Life), and it is still unclear who may be eligible for any compensation payment.
- 4.8 Merseyside Pension Fund has submitted a number of representations to the Treasury and to the Independent Commission on Equitable Life Compensation in order to seek to ensure that members of group AVC schemes are treated fairly in comparison to individual policyholders with the Company.
- 4.9 The Treasury has published a document entitled "The Equitable Life Payment Scheme design" in May 2011.
- 4.10 For Group Policies such as that held by Merseyside Pension Fund in respect of members who paid into With-Profits AVCs with Equitable Life the Company has insufficient data to contact any members eligible for a compensation payment directly and will be liaising with trustees (Merseyside Pension Fund) in order to obtain up to date data.
- 4.11 **Members of group schemes are therefore unlikely to be contacted or receive any compensation payment due to them within the first 12 months of the compensation scheme.**
- 4.12 Whether any members of the Merseyside Fund group AVC plan are entitled to any compensation payment and if so the amount of it has not yet been finalised or announced.

- 4.13 The Treasury document does not make clear whether any compensation payment due will be made as one payment to Merseyside Pension Fund to then distribute to individuals or separate individual payments by crossed warrants **within three years from now**.

#### **Distribution of capital to policyholders**

- 4.14 The Society has been looking at how it can transfer to policyholders some of the surplus solvency capital that it holds. It explains that it is important to have rainy day money, of course, which is what solvency capital is. But it is also important that with-profits policyholders leaving the Society receive their fair share of capital, provided there is enough left for those who remain.
- 4.15 Therefore from 1 April 2011, the Society has earmarked a sum equivalent to 12.5% of policy values at 31 December 2010 to enhance payments for with-profits policyholders who leave the Society. This includes those who retire or choose to switch out of the With-Profits Fund.
- 4.16 The amount of the enhancement is not guaranteed and may go up or down in the future. With-profits policies have a guaranteed benefit which is the minimum amount payable on maturity, death or at a time specified in the policy. That guaranteed benefit is not affected by the enhancement.
- 4.17 Further details are contained in the letter from Equitable Life dated 28 March 2011 attached at Appendix 1.

#### **5.0 RELEVANT RISKS**

- 5.1 Members who are considering switching out of the Equitable With-Profits arrangement will be warned of the need to seek independent financial advice before making any decision to give up guarantees that they currently enjoy.
- 5.2 Despite the representations made by Merseyside Pension Fund to the Treasury and the Independent Commission there is no certainty at present as to how group scheme investors such as members in the group AVC plan will be treated in terms of any compensation payments.

#### **6.0 OTHER OPTIONS CONSIDERED**

- 6.1 None.

#### **7.0 CONSULTATION**

- 7.1 Merseyside Pension Fund will be informing all members who may have an interest in the option to benefit from the capital distribution offer currently available and the compensation scheme when final details are available.

#### **8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

- 8.1 None arising from this report.

## **9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

9.1 Merseyside Pension Fund will be required to carry out a significant communication exercise when any financial compensation arrangement is finalised and may be required to forward any compensation payments to members affected.

## **10.0 LEGAL IMPLICATIONS**

10.1 None arising from this report.

## **11.0 EQUALITIES IMPLICATIONS**

11.1 None arising from this report.

11.2 Equality Impact Assessment (EIA)

(a) Is an EIA required? No

## **12.0 CARBON REDUCTION IMPLICATIONS**

12.1 None arising from this report.

## **13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

13.1 None arising from this report.

FNCE/120/11

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## **APPENDICES**

1 – Letter dated 28 March 2011 from Equitable Life re bonus distribution.

## **REFERENCE MATERIAL**

Lord Penrose Report of the Equitable Life Inquiry published 8 March 2004

Letter dated 13 September 2010 to Mark Hoban MP Financial Secretary to the Treasury

Letters dated 8 November 2010 and 1 December 2010 to Brian Pomeroy Chair of the Independent Commission on Equitable Life Payments.

HM Treasury “The Equitable Life Payment Scheme design” dated May 2011

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>