The Equitable Life saga takes a step forward

In June 2018, Equitable Life announced a Proposal, which would include closing the with-profits fund and transferring all policies to Utmost Life and Pensions. Just over a year later, the High Court has granted approval for Equitable Life to write to Policyholders with details of the Proposal, how they can vote on it and the tight timescales involved.

At a glance

What you need to know

- Equitable Life has proposed to convert with-profit policies into unitised funds and transfer all policies to Utmost.
- Members will lose out on potentially valuable with-profits guarantees, in return for a one-off uplift.
- Policyholders have now been asked to vote on the proposal and packs have already been received by schemes.
- Deadline for voting is 30 October 2019.
- If approved then Policyholders also need to elect investment fund choices for the transfer to Utmost (due to occur in January 2020).

At a glance

What you need to do next & how XPS can help

- We encourage all trustees to use their vote on this important issue.
- Trustees should seek advice about how to vote and what may be in the best interest of their members.
- XPS has developed a pragmatic approach which factors in members’ needs and provides a clear indication of how to vote.
- Trustees should also take advice on which fund options are most appropriate for their members.
- We recommend that all trustees discuss this with their XPS contact and we will set out how we can support them with their decision making.

We strongly encourage trustees to use their vote and carefully consider the merits of the Proposal. Trustees should seek formal advice on how to cast your vote and the implications for their members. XPS can help with this and provide direct and pragmatic advice.

Alan Greenlees – Head of DC Investment, XPS
Background
Equitable Life closed to new business in 2000. Many defined benefit (DB) pension schemes have legacy defined contribution (DC) policies with Equitable Life in the form of with-profits funds. Often, these were for members’ additional voluntary contributions (AVCs).
Since then, most trustees have felt unable to switch providers given that any change to the Equitable Life with-profits investments could result in the loss of terminal bonuses, guaranteed annuity rates and possible market value adjustment may be applied (i.e. reductions in members’ fund values). These can have a significant detrimental impact on individual members’ funds.
In June 2018, Reliance Life (now rebranded as Utmost Life and Pensions) and Equitable Life agreed on the core outlines of a Proposal. This could result in significant changes to members’ policies.
That Proposal, first floated last year, has now reached a stage where trustees need to take action.

Key Feature of the Proposal

- Increase the current value of with-profit policies by way of a one-off uplift (expected to be c60%)
- Convert all with-profit policies to unit-linked policies
- Remove all investment guarantees (including annual increases) and any with-profits switching rights
- Transfer all policies to Utmost Life and Pensions (rebranded from Reliance Life in March 2019)

The Proposal is complex and requires several layers of approval before it can proceed.
The first stage was for Equitable Life to receive approval from the High Court, which was granted on 22 July 2019.

This left Equitable to communicate details on the Proposal to Policyholders and seek their votes.

Equitable Life communications
Equitable Life has sent detailed information to all Policyholders (i.e. pension scheme trustees) in August 2019 to help them decide how to vote. This consists of two separate communications:

A Decision pack, which includes a personal illustration setting out what the proposed changes could mean to policy values (both now and in the future), and an explanatory booklet and voting forms.

Trustees are able to split their vote on behalf of their members and it is not an ‘all or nothing’ option for schemes.

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It is possible to split the value of votes you have (see note 1) overall. If you want to do that, complete the boxes below to indicate the percentage of this total voting value you wish to allocate FOR and AGAINST this Scheme.

Relating to 100%

Please sign and date the box below to confirm your voting choice.
Signed (please indicate in what capacity you are signing)

Print name: |

Date: |

An ‘Investment Choice’ pack, which includes details of the unit-linked funds available if the Proposal goes ahead, and a form for Policyholders (trustees) to indicate their choice(s).

We believe that there are beneficial elements of the Proposal and that many members will stand to be better off if it is approved. However, member circumstances should be taken into account and we recommend that trustees seek formal advice on the Proposal before casting their vote.

We don’t believe in undertaking a detailed member-by-member analysis to support this advice, but instead adopting a more pragmatic and cost-effective approach.

Chris Barnes – Head of DC Technical Committee, XPS
The Proposal consists of two votes (one to convert the with-profits policies, and one to transfer to Utmost) and instructions about investment choices. There are some important aspects regarding the voting.

The Proposal can only go ahead if:
- At least 50% of Policyholders vote in favour of it; and those who vote in favour hold at least 75% of the total value of the with-profits fund.
- Only Policyholders that have with-profit policies are being asked to vote.
- Policyholders can split their vote between ‘yes’ and ‘no’ proportionately, according to the potential impact on members.
- The deadline for voting by post is 30 October 2019.
- Policyholders can vote in the Annual General Meeting in person, on 1 November 2019.

The High Court must also then approve the deal, which is scheduled for 22 November 2019.

It is worth noting that the High Court recently blocked the transfer of the annuity business from Prudential to Rothesay Life – but circumstances surrounding that were very different to Equitable Life.

Subject to the High Court then approving the deal, the Proposal is due to be implemented on 1 January 2020.

Formal advice on voting
The changes set out in the Proposal represent significant changes to members’ investments. Whilst not compulsory we recommend you seek formal written advice providing clear direction to you on how to vote in a manner that will be in your members’ interests.

What happens if ‘No deal’?
If the Proposal does not go ahead, Policyholders will remain invested with Equitable Life, within the existing with-profits funds.

All the existing challenges of operating the with-profits funds as managed by Equitable Life would remain and there would be no uplift.

Mapping funds to Utmost
If the Proposal is approved then the with-profit policies will transfer to Utmost and be placed into unitised funds.

In this case, Policyholders will need to nominate into which unit-linked funds their investments are transferred.

If Policyholders do not make a fund choice, members’ investments will be held in cash by Utmost for 6 months, then transferred into the default fund. This could see members lose out on investment returns.

It is therefore important that Policyholders make an investment decision. The deadline for making these fund choices is 13 December 2019.

Member communications
Trustees should consider how they will communicate and support their members, the vast majority of whom are not receiving communications directly from Equitable Life, and are therefore reliant on information from trustees.

Equitable Life suggests that trustees forward the Member Specific illustrations to members to get their views. However, trustees should consider how they would take members’ feedback into account, and also the tight timescales involved.

In our view, it is therefore likely to be more practical and pragmatic to send members a brief update of events, followed by further details in due course.

XPS will be supporting trustees faced with this important but difficult decision on whether to approve the change based on their own members’ interests and profiles; and advising into which of Utmost Life’s funds to invest their members’ funds.

For this latter part especially, trustees will require bespoke investment advice even if they vote against the change, but the Proposal is still approved by the majority of Policyholders and the High Court passes the motion.

Alan Greenlees – Head of DC Investment, XPS
How XPS can help you

**Step 1** - Policyholders receive voting pack and member illustrations.
Please pass this to XPS so we can provide guidance on how to vote.

**Expected late August / early September 2019**

**Step 2** - XPS undertake analysis of impact on members and provide formal written advice on how to vote.
This will be a pragmatic and scheme-specific approach. We will perform light touch analysis on the affected members to provide clear guidance on how trustees should vote.
We will discuss this advice with trustees and the implications of voting on their members.

**October 2019**

**Step 3** - Policyholders submit vote before end of October 2019
Trustees can elect to vote in line with advice received or otherwise.

**By 30 October 2019**

Proposal is not accepted by Policyholders - No deal scenario and policies remain with Equitable Life.
Proposal is accepted by Policyholders - will move to the next stage and High Court for approval.

If accepted - High Court decision expected late November 2019

**Deadline of 13 December 2019**

**Step 4** - Whilst the High Court is considering approval, Policyholders receive fund mapping advice from XPS and make nominations to Utmost
Note if no decision is made then transferred funds will sit in cash for 6 months before moving to a default nominated by Utmost.

**December 2019**

**Step 5** - Communications to members
Exercise to provide members with an update on the changes and which funds they will be mapped to.

**Beginning 1 January 2020**

**Step 6** - Equitable Life policies are converted and transferred to Utmost
Funds will be mapped to Utmost in line with elected fund options or will be held in cash if being switched into the default.

XPS will support trustees on this and do the heavy lifting, allowing them to focus on other key pension matters.
Summary

Policyholders will have a matter of weeks to receive and consider advice about how they could vote and the proposed fund mapping to Utmost.

We acknowledge that this is a significant issue affecting a number of members. However, we do not wish to over engineer the solution when we think our pragmatic approach is justifiable, is in the members’ best interests and will ultimately lead to the same conclusion. The advice will leverage off our DC research efforts and our large client base to ensure that we can provide trustees with value for money and support them each step of the way.

We recommend trustees proceed as illustrated earlier. We believe that this will give them peace of mind that this is being managed effectively and proportionately.

Please speak to the authors or your regular XPS contact for further information.

About us

XPS Pensions Group is the largest pure pensions consultancy in the UK, specialising in actuarial, investment consulting and administration. The XPS Pensions Group business combines expertise, insight and technology to address the needs of over 1,000 pension schemes and their sponsoring employers on an ongoing and project basis. We undertake pensions administration for over 870,000 members and provide advisory services to schemes of all sizes including 25 with over £1bn of assets.

For further information, please get in touch with Alan Greenlees or Chris Barnes.

Alan Greenlees
Head of DC Investment

0113 284 8048
alan.greenlees@xpsgroup.com

Chris Barnes
Head of DC Technical Committee

0203 725 7014
christopher.barnes@xpsgroup.com

Alternatively, please speak to your usual XPS contact.

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