

<b>Committee:</b> Establishment	<b>Date:</b> 29 October 2019
<b>Subject:</b> Transfer of Equitable Life to Utmost Life and Pensions	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Decision</b>
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### **Summary**

The City of London Corporation in its capacity as an administering authority for the Local Government Pension Scheme (LGPS) offers scheme members the option to invest in further pension savings by way of an additional voluntary contribution (AVC) arrangement.

Originally this was provided solely by Equitable Life and more recently by Prudential Assurance Company and Standard Life. There remains 24 Corporation pension scheme members who have an AVC with Equitable Life, of which 16 invest in the With Profits Fund.

### **Recommendation**

The recommendation is for the Establishment Committee consider the proposal and

- agree the Corporation is to vote,
- vote for the transfer of Equitable Life business to Utmost Life and Pensions.

The vote must be completed no later than 10am on 30 October 2019.

### **Main Report**

#### **Background**

- Equitable Life have since 1999 struggled to meet investment guarantees for scheme members in the With Profits Fund. They have not accepted new business since December 2000 and have been seeking a solution to these issues.
- City of London Corporation in its capacity as an administering authority of the LGPS is also the sole Policyholder and the Eligible Member of the Equitable Life AVC arrangement.

#### **Current Position**

- Equitable Life are proposing a transfer of their business to Utmost Life and Pensions. Policyholders and Eligible Members have been asked to vote on this proposal in their capacity as the administering authority.
- It is not mandatory to vote, indeed it is possible to object to the proposal if the Corporation's pension scheme would be adversely affected. The City of London Pension Fund (LGPS) would not be adversely affected by the transfer of Equitable Life business to Utmost Life and Pensions. Two votes are required for

the proposal to go ahead:

Vote 1 - The Scheme

- increasing with-profits investments with an immediate one-off 'Uplift'
- removing any investment guarantees, and
- converting with-profits policies to unit-linked investments

Vote 2 - The Transfer

- To transfer to Utmost Life and Pensions the business of Equitable Life

5. The vote on the transfer must be completed by 30 October 2019 and a hearing is scheduled at the High Court for the 22 November 2019. If the proposal is successful it is intended for the transfer to take full effect on 1 January 2020.

**Challenges For Equitable Life**

6. Since 1999 Equitable life have been trying to find a solution and applied to the High Court to reduce the amount of bonuses they were required to pay to their With Profits AVC policyholders. Initially this was agreed only for them to be denied by the Court of Appeal and then the House of Lords. In July 2000 Equitable Life decided it was in the interest of members to find a purchaser for the society and when this failed they announced in December 2000 they would not write any new business. They have been operating as a run-off since then. This means that without new investment into the With Profits Fund, the value of the assets within the fund reduces over time. This makes it increasingly challenging for Equitable Life to meet its obligation of investment guarantees in the future.
7. At this time administering authorities took action to either retain Equitable Life, appoint another provider in substitute for Equitable Life or appoint another provider in addition to Equitable Life.

**The Proposal and Corporation AVC members**

8. The information provided by Equitable life indicates that by applying the proposed uplift immediately upon transfer to Utmost Life and Pensions all AVC members would have potential unit linked fund values in excess of the With Profits fund values currently held with Equitable Life.
9. Under the proposal each member is estimated to receive an uplift upon transfer of the business to Utmost Life and Pensions of at least 68% of their with-profits policy value. This represents their share of the with-profits assets distribution to be made by Equitable Life.
10. If the proposal is agreed then the uplifted policy values will be invested in unit linked investments with Utmost Life and Pensions. This unit linked investment will not have any investment guarantees and the values could fall as well as rise.
11. If the proposal is rejected, then Equitable Life would continue to operate their business as a runoff and the ability for them to pay the With Profits investment guarantees in the future will decline over time. It is very likely, therefore, that Equitable Life's proposal to transfer the business to Utmost Life and Pensions could be the most beneficial option for the Corporation's AVC scheme members.
12. As part of the proposal Utmost Life and Pensions have provided details of their investment funds and they have a wide range of investments across all types of risk. There has yet to be any communication between the Corporation and Utmost Life and Pensions with regards to fund selection, although this would be

anticipated following the High Court hearing and confirmation the transfer is to proceed.

**Appendices**

Appendix A Equitable Life summary of the proposed transfer

Appendix B Letter to scheme members

Appendix C Local Government Association background document

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