

Committee: Establishment	Date: 29 October 2019
Subject: Transfer of Equitable Life to Utmost Life and Pensions	Public
Report of: The Chamberlain	For Decision
Report author: Matt Mott	

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

- a) agree the Corporation is to vote,
- b) 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

1. 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.
2. 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

3. 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.
4. 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

Contact: Matt Mott

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READ CAREFULLY - THESE CHANGES MIGHT IMPACT THE
VALUE OF YOUR PENSION SCHEME INVESTMENTS

Equitable Life

Definitions of terms in **bold italics** can be found in the
glossary in the enclosed Explanatory Booklet Part B.

Private & Confidential

C / O Mr M Mott

The Administering Authority For The Corporation Of
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August 2019

CRN: GI-0000009080

This letter and the enclosed documents
contain important information about a
Proposal that affects your pension scheme.
We strongly recommend you read them.

You are a *Scheme Policyholder* and a *Member*,
so are able to:

- Vote on the *Scheme* and the *Change to the Articles*
- Object if you feel your pension scheme may be adversely affected by the *Scheme* or *Transfer*.

If you have any questions call us on 0800 139 1531.
Opening hours are between 9am and 5pm on UK
working days.

Dear Mr Mott

Limited time to vote - these changes would affect your pension scheme

The time has come for us to ask you to vote. This pack provides full details about the *Proposal* we first told you about last year, so you can have your say on the future of the *Equitable*.

What the *Proposal* is

Part one, which is referred to as the *Scheme*:

- ▶ Increases your members' with-profits investments with an Immediate one-off *Uplift*.
- ▶ Removes *Investment Guarantees* (including any guaranteed annual increases) and any *With-Profits Switching Rights*; and
- ▶ Converts with-profits investments to unit-linked investments.

Part two, known as the *Transfer*:

- ▶ Transfers the *Equitable's* business to Utmost Life and Pensions. The *Transfer* does not require a vote, but it does need approval by the *High Court*. Trustees and pension scheme members are able to object if they feel their pension scheme will be adversely affected by the *Transfer*.

Information contained later in this letter explains how exactly the *Proposal* affects your pension scheme investments.

Why this pack is important to you

The *Proposal* can only go ahead if *Scheme Policyholders* and *Eligible Members* vote for it and the *High Court* approves it. There are two votes, and both need to be in favour and the *High Court* needs to approve the *Scheme* and the *Transfer* for the *Scheme* to become effective.

Vote 1: To approve the *Scheme*

Vote 2: To *Change the Articles* to make Utmost Life and Pensions the sole *Member* of the *Equitable*

Details about the *Scheme* and the *Change to the Articles* can be found later in this letter.

In this pack we have included the *Voting Forms* relevant to you. Details about the voting process can be found in *Section D of Explanatory Booklet Part B*.

If approved, these changes affect your pension scheme even if you voted against them or did not vote. This is why it is important that you read the information contained in this pack.

Information included in this pack to help you make a decision

The *Equitable Board* considered a number of alternative options for the future of the *Equitable* before deciding on the *Proposal* (details of the alternative strategies considered can be found on pages 23 to 25 of the enclosed *Explanatory Booklet Part B*). The *Board's* conclusion is that the *Proposal* is in the best interests of *Policyholders*. If approved, the *Proposal* achieves our aim of getting capital back to *Policyholders* as quickly and as fairly as possible. However, it is **important you make your own decision** based on your own scheme's circumstances, and the information in this pack is designed to help you do that.

Member Specific Data

If we hold a confirmed email address for your pension scheme, we will have sent a link to a secure portal where you can find member specific data. If we were unable to confirm with you an email address for your pension scheme, we have included the member specific data in this pack. We are providing you with the data in this way to enable you to pass this on to your members, to allow them to have their say.

This data shows how your members' with-profits investments may increase, and what *Investment Guarantee* would be removed, together with a projection showing how this might look at a particular point in the future, if the *Proposal* is approved. It also provides a comparable set of values should the *Proposal* not go ahead. We have also included the return required on the uplifted investments, to match the with-profits *Guaranteed Values* that would have been available at the member's retirement date we have on record, if the *Proposal* did not go ahead.

Explanatory Booklet Part A



This booklet provides you with key information about the *Proposal* and how it would impact your pension scheme and other *Policyholders*. It highlights the individual investor considerations that may be relevant to your members, which may help you decide whether this *Proposal* is right for them.

Explanatory Booklet Part B



This booklet provides details of the *Proposal* and describes the impact on your pension scheme. It covers the rationale for the *Proposal*, other options that have been considered and details of what support is available.

Summary reports from the *Policyholder Independent Expert* and the *Transfer Independent Expert* can be found in *Explanatory Booklet Part B* appendices VI and VIII. They consider the *Scheme* and the *Transfer* respectively.

Chamberlain's Department

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Date 9 October 2019

Dear

**Local Government Pension Scheme (LGPS)
Changes to Equitable Life Additional Voluntary Contribution (AVC) scheme**

I am writing to inform you of the potential changes that will affect your AVC contract with Equitable Life.

Equitable life is proposing to transfer their AVC provision to Utmost Life and Pensions and change the way in which your AVC is invested. It is not yet confirmed that this will happen, it is currently a proposal and below are the relevant points of that proposal.

The proposal

Part one

- Increase With-Profits Policy Values with an immediate one-off uplift
- Remove investment guarantees (including any guaranteed increases and any with profits switching rights)
- Convert With-Profits Policies to Unit Linked Policies.

Part two

- Policy holders (such as the City of London Corporation) and Pension Trustees have been asked to vote on a decision to transfer or they can object if their pension scheme would be affected by the transfer. This is not legally required
- Approval by the High Court is legally required
- Transfer of Equitable Life business to Utmost Life and Pensions

The vote on the transfer must be completed by 1 November 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.

Page 2 of 2

We will contact you again following the High Court hearing and share further information when we receive it. In the meantime should you have any questions please contact me on the details provided at the top of this letter.

Yours sincerely

Matt Mott
Pensions Manager

Equitable Life transfer to Utmost Life and Pensions

Requirement to provide an AVC arrangement

LGPS administering authorities are legally obliged to provide access to an in-house Additional Voluntary Contribution (AVC) arrangement for their members. This was an overriding requirement between 6 April 1988 and 5 April 2006 but is now only a requirement under the LGPS regulations themselves.

The overriding requirement was provided for by:

- section 12 of the Social Security Act 1986 from 6 April 1988 until 6 February 1994
- section 111 of the Pension Schemes Act 1993 from 7 February 1994 until 5 April 2006.

The Scheme requirement is currently provided for by regulation 17 of the LGPS Regulations 2013:

17. -(1) An active member may enter into arrangements to pay additional voluntary contributions ("AVCs") or to contribute to shared cost additional voluntary contribution arrangements ("SCAVCs") in respect of an employment.

(2) The arrangements mentioned in paragraph (1) must be a scheme established under an agreement between the appropriate administering authority and a body approved for the purposes under the Finance Act 2004 ("the AVC provider"), registered in accordance with that Act and administered in accordance with the Pensions Act 2004

In predecessor regulations the requirement has been provided for by:

- Regulation 60 of the LGPS Regulations 1997
- Regulation 25 of the LGPS (Administration) Regulations 2008

Equitable Life

Because of the legal requirement mentioned above, all LGPS administering authorities have entered into arrangements with one or more AVC providers. When the requirement was first introduced Equitable Life were a big player in the market and many funds appointed Equitable Life as their sole or joint AVC provider.

In 1999, Equitable Life launched court proceedings to enable it to force policyholders to accept bonus cuts. It won the first stage of its battle only to lose in the Court of Appeal and then the House of Lords.

Following the House of Lords ruling in July 2000 Equitable Life decided it was in the interest of members to find a purchaser for the Society. This failed and on 8

December 2000 it announced that it would not write any new business – it has been operating in run-off since then.

At this time LGPS administering authorities took action regarding:

- whether to retain Equitable Life as an AVC provider, and
- whether to appoint another AVC provider either in substitution for, or as an addition to, Equitable Life.

As a result, most LGPS administering authorities only hold AVC policies with Equitable Life in respect of historical AVCs but we think the amount invested across the whole of the LGPS is still significant.

The Proposal

On 15 June 2018, Equitable Life announced that it has entered into an agreement to transfer its business to Utmost Life and Pensions (previously Reliance Mutual).

Equitable Life's Proposal is made up of two main parts:

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

2. The Transfer -

To transfer to Utmost all of the business of Equitable Life except for certain excluded policies.

The Proposal involves three legal processes:

- (i) the 'Scheme', which is the legal process which would make the changes to the with-profits policies
- (ii) the Change to Articles, which would make Utmost the Equitable Life's only Member
- (iii) the Transfer, which is the legal process which would transfer the transferring business to Utmost.

In August 2019, Equitable Life wrote to all the LGPS administering authorities affected by the transfer (about 45) to advise them that as both 'Scheme Policy Holders' and 'Eligible Members' they are able to vote:

- 1. to approve the 'Scheme'
- 2. to 'Change the Articles'

Administering authorities are also able to object to the transfer of Equitable Life's business to Utmost Life and Pensions (which does not require a vote but does need the approval of the High Court).

The deadline for the receipt of postal and online votes is 10am on 30 October 2019.

Key points

1. Scheme Policyholders cannot choose to opt out of the Scheme. The Scheme will only go ahead if the statutory majorities are obtained in the vote on the Scheme. These are:
 - a majority of more than 50% of the Scheme Policyholders vote in favour of the Scheme, and
 - the Scheme Policyholders who vote in favour of the Scheme hold 75% or more of the total Voting Value of all the Scheme Policyholders who vote.
2. The Change to the Articles requires approval of at least 75% of the votes cast. If the Change to the Articles is not passed the Scheme will not be implemented.
3. LGPS administering authorities are able to split their vote in a way that represents the preferences of their members.
4. The Scheme will also not become effective unless Utmost obtains a Changes in Control Approval from the Regulators (the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA)), as a result of them becoming the sole member of Equitable.
5. If enough Scheme Policyholders vote for the Scheme and the Change to Articles is passed, Equitable Life intends to return to the High Court to ask it to approve (or “sanction”) the Scheme and the Transfer. This hearing is likely to take place on 22 November 2019.
6. Although there is no policyholder vote on the Transfer, all policyholders of the Equitable are able to raise concerns or object if they believe they will be adversely affected by the Transfer.
7. If the Proposal does not become effective, no Scheme Policyholder would receive any uplift and Equitable would continue to run as it does currently. They would try to find a different solution to the challenges they currently face, which they state include:
 - policyholders choosing to retire or take their benefits later than Equitable expect
 - regulatory requirements to set aside assets to provide for risks, rather than distribute them to their With-Profits Policyholders
 - Equitable becoming too small to function efficiently or cost effectively, and
 - other risks that materialise which mean that future policy payments have to decrease.

Full details about the Proposal is available at
WWW.EquitableLife/website.co.uk.proposalaug2019/index news

