CONDUENT

FYI® Alert
For Your Information®

UK

Volume 2018 | Issue 31 | 21 June 2018

The Equitable Life Assurance Society to Close

Equitable Life announced on 15 June 2018 that it has entered into an agreement to transfer the Society and all of its policies to Reliance Life. This is expected to be finalised towards the end of 2019.

It has announced that it expects to be able to increase the current 35% capital distribution on with-profits policies to between 60% and 70%, creating a potential windfall for members.

Trustees of pension schemes holding policies with Equitable Life are advised to communicate this information to relevant members.

Failure to inform members who take or transfer their benefits could lead to Pensions Ombudsman claims against trustees.

In this issue: Background | The Announcement | Action for Trustees | Comment

Background

The Equitable Life Assurance Society (Equitable Life) was established in 1762 and is the UK's oldest mutual insurer. At its peak it had around 1.5 million policyholders with funds of £26 billion under management.

Between 1956 and July 1988 Equitable Life sold pension policies with an option to choose at the retirement date between a fixed Guarantee Annuity Rate (GAR) and the current annuity rate at the date of retirement. No additional premium was charged for this guarantee. In 1993 the then current annuity rate fell below the GAR prompting GAR policyholders to exercise their rights. Equitable Life did not hedge or reinsure adequately against the GAR risk. Instead Equitable Life sought to rely on a discretion of the directors in accordance with its Articles of Association to reduce its terminal bonus paid to GAR policyholders. When in July 2000 the House of Lords ruled GAR policies had to be given the GAR, and the Equitable Life directors' discretion could not be used to reduce them, Equitable Life had no way of funding the £1.5 billion increase in long term liabilities. Thus on 8 December 2000, with Equitable Life on the verge of collapsing, it closed to new business and reduced payments to existing members.

The European Parliament issued a report in June 2007 following a fifteen month investigation. It concluded the UK regulatory system was in part at fault for the Equitable Life situation. A year later, in 2008, the Parliamentary Ombudsman completed a four year investigation into Equitable Life accusing the UK regulators of a comprehensive failure. This led to the Government providing limited compensation to nearly a million policyholders through the Equitable Life Payment Scheme (ELPS).

The Announcement

Equitable Life announced on 15 June 2018 that it has entered into an agreement to transfer the Society and all of its policies to Reliance Life Limited (Reliance Life). Reliance Life is a newly formed and authorised UK Life Company established as a specialist UK run-off manager.

Potential Windfall

The impact on with-profits policyholders whose policy is in force on the day the proposal is implemented will be to:

- increase the current 35% capital distribution to a level expected to be between 60% to 70%;
- close the with-profit fund, which means the guaranteed values under with-profit policies end along with any guaranteed annual increases;
- convert with-profit policies to unit-linked funds selected by policyholders; and
- transfer the policies to Reliance Life.

Action for Policyholders

Equitable Life and Reliance Life will now progress a Scheme of Arrangement and Part VII Transfer which will include a vote by members of Equitable Life on the conversion of the with-profit policies, which will be followed by a Court hearing to approve the transactions. Policyholders will be sent full details regarding the process later this year, with a vote taking place in mid-2019 and the High Court hearing to approve the proposal towards the end of 2019.

(A Part VII Transfer is a court sanctioned legal transfer of some or all of the policies of one company to another and is governed by Part VII of the Financial Services and Markets Act 2000.)

In most occupational pension schemes, the policy holders will be the trustees, for example in relation to AVCs held by members with Equitable Life. Thus it will be trustees rather than scheme members who will be asked to vote on the proposal in due course.

Action for Trustees

Whilst it could be argued that trustees do not have to bring this announcement to the attention of scheme members with Equitable Life with-profits policies, failing to do so is likely to result in complaints from members who take their benefits or transfer them before the Equitable Life deal is finalisedand who are unaware of the deal.

A prudent course of action would be for trustees to communicate this announcement to all members whose benefits include with-profits policies. The proposed uplift will, for most with-profit policies, represent a significant enhancement.

Equitable Life is issuing new payment of benefit forms which asks trustees to confirm that “The member is aware of the potential uplift to with-profits policies in 2019. The member understands that any withdrawals taken from the with-profits investment before then will not benefit from that additional uplift.”

Comment

After Equitable Life closed to new business in 2000, it was inevitable that the Society would come to an end at some point. This announcement comes as a bit of a surprise but not a shock. It brings to an end the long running equitable Life saga and brings certainty to with-profit policyholders.

Authors
Gary Crockford, Head of Knowledge Resource Centre
Sandra Moss, Senior Technical Consultants

Produced by the Knowledge Resource Centre
The Knowledge Resource Centre is responsible for national multi-practice compliance consulting, analysis and publications, government relations, research, surveys, training, and knowledge management. For more information, please contact your consultant or call us on 0800 066 5433.

This publication is for information only and does not constitute legal advice; consult with legal, tax and other advisors before applying this information to your specific situation.

CONDUENT