

**HERTFORDSHIRE COUNTY COUNCIL**  
**INVESTMENT COMMITTEE**  
**WEDNESDAY 6 MARCH 2002 AT 2 PM**

**Agenda Item No:**

**7**

**EQUITABLE LIFE UPDATE**

**Report of the Finance Director**

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**1. Purpose of the Report**

To inform members of the recent developments with Equitable Life.

**2. Summary**

- 2.1 The compromise proposal has been approved whereby with-profit fund holders agree to give up the right to legal action against Equitable and the right to guaranteed annuities in exchange for an up-rating of policy values.
- 2.2 Equitable have withdrawn, retrospectively, the facility for employers to transfer groups of policy-holders away from Equitable at preferential rates, known as “bulk transfers”.
- 2.3 The only option now available to obtain preferential rates is for the Committee to decide that all Equitable policy holders must transfer to Standard Life leading to the cessation of the AVC arrangement with Equitable Life.
- 2.4 If the Committee decide to close the Equitable Life scheme and transfer all policy holders to Standard Life, those nearing retirement will suffer a penalty which they will not have time to recoup.
- 2.5 If the Equitable Life scheme is left in place, individual policy-holders will still be able to transfer to Standard Life, although the exit penalty may be higher than if the scheme as a whole transfers.

**3. Conclusion**

The Equitable Life scheme should be left in place and those individuals who have expressed interest in the bulk transfer option should be notified that this is no longer available and their transfer will take place on the terms available for an individual transfer.

## **4. Background**

### **4.1 The Compromise Proposal**

- 4.1.1 In September 2001 Equitable Life put forward a compromise proposal to resolve the problem of guaranteed annuity rate (GAR) policy holders. This was reported to the November Investment Panel.
- 4.1.2 Following consultation with members and policy holders, the Finance Director voted for the proposals on behalf of all those in the Hertfordshire scheme.
- 4.1.3 The proposals were approved by the majority of policy holders and subsequently ratified by the High Court.
- 4.1.4 As a result, Halifax plc will release an additional £250m of funding which will be used to increase the value of GAR policies by 17½% and other with-profits policies by 2½%.
- 4.1.5 These upratings to policy values are expected to be implemented in March 2002.

### **4.2 Bulk Transfer Application**

- 4.2.1 As part of the consultation process on the compromise proposals, approximately 800 with-profits policy holders were asked whether they wished to take part in a bulk-transfer of policies from Equitable to Standard Life, if the penalty for doing so was no greater than for individual transfers (currently a 10% reduction in policy value).
- 4.2.2 Approximately 200 (25%) people initially replied positively to this, and a list of names was submitted to Equitable on 30 November 2001 requesting a quote for bulk transfer items.
- 4.2.3 A response was not received from Equitable until the end of January 2002. This offered a 5% reduction for those in the bulk transfer arrangement. The list was revised for some late respondents (approximately 30) and resubmitted to Equitable on 8 February 2002.
- 4.2.4 On 18 February 2002, Equitable announced that:
- they would no longer process bulk transfer requests, back-dated to 1 February 2002;
  - no transfers at all will be processed until the policy uprating has been processed.
  - all partial transfers from a scheme (i.e. not covering the whole scheme membership) will then be treated as individual transfers suffering the relevant penalty as determined by Equitable at the time;
  - more favourable terms will potentially be available where a scheme's trustees (in Hertfordshire's case the Committee members) decide to surrender the entire scheme.
- 4.2.5 The proposed options on which members' views are sought are:
- a) to notify those policy-holders who were to be part of the bulk transfer that this option is no longer available and that we will ask for their policies to be transferred on an individual basis unless they state that they no longer wish to transfer. Other policies would be left in place.

- b) To notify all policy-holders including 254 holders of unit-linked and building society policies that, unless we receive a majority of objections within a fixed time-scale, we will request closure of the Hertfordshire Equitable Life Scheme and transfer all policies to Standard Life.
- 4.2.6 Option a) is preferable to option b) in that policy-holders not wishing to transfer will not suffer a penalty which, if they are near retirement age, they may not be able to recoup.
- 4.2.7 The only disadvantage of option a) is that those individuals who thought they would get a reduced penalty as part of the bulk transfer will buffer the individual transfer rate.

## **5. Financial Implications**

- 5.1 There are no direct financial implications for the County Council.