

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel
Decision:	18 June 2010
Title:	Update on current situation regarding Equitable Life
Reference:	1761
Report From:	County Treasurer

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1. Executive summary

- 1.1. The purpose of this report is to provide the Panel with an update on the situation with the anticipated compensation for Equitable Life policy holders.

2. Background

- 2.1. The pension provider, Equitable Life (EL) lost a House of Lords appeal in July 2000 regarding its decision to cut guaranteed bonuses for some policy holders. The cost to EL of losing this appeal was estimated at £1.5bn, which effectively made EL insolvent. EL put themselves up for sale and cut the ongoing rate of growth of all their with-profits policies.
- 2.2. EL failed to find a buyer and closed their doors to new business in December 2000. Over the years that followed, EL continued to reduce the rates of growth on their with profits funds, as well as increasing the penalty charge for policyholders to transfer out of the fund.
- 2.3. The collapse of EL affected thousands of policyholders, some of whom launched legal proceedings against the company. Since 2000, there have been a number of investigations into the failings of both EL and the UK regulators, who have been accused of being excessively lenient in ensuring that EL was solvent.

3. Additional Voluntary Contribution arrangement with Equitable Life

- 3.1. Local Government Pension Scheme (LGPS) regulations require the administering authority to appoint an organisation to administer a money purchase pension scheme so that LGPS members can pay additional voluntary contributions (AVC) as a top up to their main pension benefits. EL were appointed as the AVC provider for the Hampshire Pension Fund

in 1988. In April 2000, there were over 1,700 contributors to the in house AVC with a total fund value of £8.1m.

- 3.2. As a result of the House of Lords ruling in July 2000, a letter was sent to all contributors setting out the situation and detailing the revaluation of the with profits funds. The advice from the Fund Actuary was for contributors to continue paying contributions but for the Panel to consider the provision of an alternative AVC provider.
- 3.3. It was decided to tender for an additional AVC provider and to continue to make EL available to all contributors, until the outcome of the sale of the company was known.
- 3.4. An update letter was sent in December 2000 advising contributors that whilst they could continue to invest with EL, they were strongly urged to review how their future AVCs were invested. Contributors were given the option to temporarily cease contributions or to invest in a building society fund with the option to transfer back to with profits in the future.
- 3.5. In 2001, Eagle Star (now Zurich) was appointed as an additional AVC provider for the Hampshire Pension Fund. All existing EL contributors were contacted with the option of transferring to Eagle Star, although by this time EL had increased the cost of transferring out to 15% of the fund value.
- 3.6. In August 2001, the Fund Actuary advised contributors that the prospects of the EL with profits fund was so poor they could not see a reason for continuing to contribute. A bulk surrender was negotiated for members wishing to use their accumulated AVC funds to buy service credit in the LGPS. The cost of transferring under this option was reduced to 7.5% and 151 members took advantage.
- 3.7. In 2002, information was sent with annual benefit statements to the remaining EL contributors advising them that no further contributions would be paid into the with profits fund but instead contributions would be paid into the building society fund. Since 2002, an option form for transferring AVC providers has been enclosed with each annual statement sent to EL contributors.
- 3.8. In April 2010, there were 383 EL members (172 with preserved benefits) with a total fund value of £1.5m. £27,500 of contributions were paid to EL during 2009/10 (though these were invested only in the deposit based funds).

4. Compensation for Equitable Life policy holders

- 4.1. In 2007, the European Parliament called on the UK government to compensate EL policyholders after MEPs voted in support of a critical report from a committee of enquiry set up to examine the crisis. The report blamed the UK government for failing to ensure that EU legislation on insurance had been implemented properly.
- 4.2. The Parliamentary Ombudsman published a report in 2008 which said that ministers should set up a compensation scheme for EL policyholders and the Government announced in 2009 that it would compensate those policy

holders hardest hit. Sir John Chadwick was commissioned to report into the impact of the EL losses.

- 4.3. The new coalition has gone further and has pledged to “implement the Parliamentary and Health Ombudsman’s recommendation to make fair and transparent payments to Equitable Life policy holders, through an independent payment scheme, for their relative loss as a consequence of regulatory failure.”
- 4.4. There is still no detail of how the compensation scheme will work, or which policyholders will receive payments. Sir John Chadwick’s third and final report is due to be published in July 2010 and it is anticipated that more details of the compensation payment scheme will be available then.
- 4.5. Pensions Services will contact all affected EL policyholders when details of the scheme are known.

5. Conclusions

- 5.1. Throughout the EL collapse, contributors to the EL AVC funds have been kept informed of their options. The Fund appointed an additional AVC provider to allow an alternative option for contributors.
- 5.2. The remaining EL contributors are sent details of the Zurich AVC funds together with an option form for transferring with their annual benefit statements.
- 5.3. Once details of the compensation scheme are known, this information will be shared with the affected EL policyholders.

6. Recommendation

- 6.1. That the Panel notes this report and the County Treasurer produces a further report to the Panel when the details of the compensation scheme have been finalised.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	yes/no
Corporate Business plan link number (if appropriate):	
Maximising well-being:	yes/no
Corporate Business plan link number (if appropriate):	
Enhancing our quality of place:	yes/no
Corporate Business plan link number (if appropriate):	
OR	
This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because actions are required to maintain appropriate arrangements for admission bodies.	

Other Significant Links

Links to previous Member decisions:		
<u>Title</u>	<u>Reference</u>	<u>Date</u>
Direct links to specific legislation or Government Directives		
<u>Title</u>	<u>Date</u>	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

- 1.1 Equality objectives are not considered to be adversely affected by the proposals in this report.

2. Impact on Crime and Disorder:

- 1.2 The proposals in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.