

Equitable Life / Utmost Life and Pensions update June 2019 – Introduction to the Scheme

This update has been prepared following the publication of the Equitable Life 'Introduction to the Scheme' ('the Scheme') booklet and accompanying letter.

These documents were issued to policyholders at the end of May and have also been published on the Equitable Life website (www.equitable.co.uk), where further information will be made available as the Scheme progresses. The initial documents provide an overview of the process and set out some of the decisions Equitable has taken in devising the Scheme.

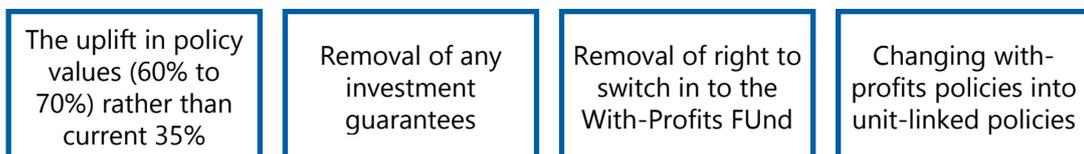
There is minimal action required at this point (although please note the point below about 'your right to object'). We have set out below our overview of the key issues covered in the Booklet.

Scheme Booklet – an overview

- In order to transfer its business to Utmost Life and Pensions ('Utmost'), Equitable will go through three separate processes:



- Owners of Irish policies will not be included in the transfer, but will remain part of Equitable which will become a subsidiary of Utmost.
- The updated timeline in the Appendix to this note sets out when further information will be received and the timing for Court Hearings and votes on the Scheme.
- The key features of the Scheme are:



- The uplift will have two parts for policies in force at the 'Implementation Date':
 - 'Primary Uplift' – for all 'policyholders' under the Scheme
 - 'Secondary uplift' – a further uplift will be paid reflecting the value of any 'investment guarantees' that a policy has, after taking into account the primary uplift. The investment guarantees come in a variety of forms and this will result in differing levels of additional uplift being paid to policyholders with different terms and conditions.

- A 'Policyholder Independent Expert' will prepare a report to consider whether the Scheme is in the best interests of members and this will be presented to the High Court. The Court will then determine if the Scheme can proceed.
- If the Scheme does not proceed, then policies would continue with no changes and Equitable would continue to be run as it currently is.
- If the Scheme is to proceed, then further information will be provided in a 'Decision Pack' and an 'Investment Choice Pack'. The Authority as the policyholder will then need to decide:
 - How to vote in relation to the Scheme. The Scheme will not go ahead unless:
 - More than 50% of the policyholders who vote, vote in favour (group scheme trustees have one vote in this part of the vote – the same as all policyholders)
 - Those who vote represent at least 75% of the total voting value of the policyholders who vote (group scheme trustees will have a proportionately larger impact on this part of the vote)
 - How the assets currently in the With-Profits Fund should be invested when they become unit-linked assets. There will be a default option.

At this stage, there is no action for the Authority to take, other than to note how Equitable Life intends to conduct the Scheme and the right that a policyholder has to object if they do not agree with the approach to treating all policyholders as one class, or any other part of the process.

Your right to object

One key aspect that the High Court will consider is whether it agrees with Equitable's view that policyholders should be able to vote on the Scheme as a single class of voters in one meeting. Equitable believe that the rights of the with-profits policyholders are sufficiently similar to allow them to do that.

While the details of some of the policies vary, the key benefits that the Scheme offers all policyholders and what they need to give up are, Equitable believes, the same or very similar.

Equitable has identified fifteen situations where they believe that policyholders might think that the Scheme would impact them differently from how it impacts others. Details of these situations and the reasons why Equitable do not think they prevent policyholders from voting in the same meeting are set out in the Booklet (pages 15 to 18).

As outlined above, the way in which the uplifts will be calculated does provide a degree of differentiation, in that the 'primary uplift' applies to all with-profits policyholders and the 'secondary uplift' will reflect the differences in the value of what is being given up.

Although no deadline has been given for registering an objection, we would expect that this should happen before the First Court Hearing on 22 July 2019.

What do policyholders give up if the Scheme is approved?

- Any investment guarantees that apply
- Capital distribution when they take benefits
- Future share in Equitable's profits and losses
- Membership of the Equitable
- The ability to make further with-profits investments
- 'Smoothed' investment returns

Barnett Waddingham's view

- Equitable has always had a policy of seeking to return 'excess capital' to with-profits policyholders as promptly as possible. Following the House of Lords' ruling in 2000, Equitable changed its bonus distribution policy and started to accumulate reserves as it sought to stabilise its position and to meet the solvency requirements imposed on it (and all other insurers).
- Equitable has long been seeking ways to return "capital into the hands of our policyholders" and the introduction of the capital distribution was the start of this process. The sale of the Society to Utmost Life & Pensions now gives them the opportunity to fully implement their plans.
- In itself, the Scheme of Arrangement being put forward to close the With-Profits Fund and to distribute the profits is not a surprise. The implementation of the Scheme will give those investors who have long sought to move away from Equitable, grounds to do so, with their fair share of the with-profits fund having been distributed.
- The suggested process (the Scheme) has similarities to the approach adopted when the Compromise Scheme (to remove guaranteed annuity rates) was implemented back in 2002. It does not appear unreasonable, with all with-profits policyholders receiving a share of the assets through the Scheme and those with 'investment guarantees' receiving an additional payment by reference to the value of the guarantees they are foregoing.
- We cannot see any reason to object to the process being put forward at this stage. We would suggest that policyholders now wait for the Policyholder Independent Expert's views on the Scheme and for the outcome of the First Court Hearing on 22 July, to see what further action might need to be taken.
- In the meantime, trustees should ensure that members do not encash their with-profits investments without understanding what they may be giving up, should the Scheme be implemented later this year/early next.

Unit-linked funds – Soft Closure

From 17 June 2019, Equitable will no longer accept new contributions or switches into the Fund of Investment Trusts or the Property Fund. Any existing holdings can remain in those funds, but new contributions will be directed elsewhere.

Sale update – timeline

Since our last update, a number of the items on the timeline have been completed, with the delivery slipping marginally on others, while some items have now been removed from the intended process.

Because the acquisition is complex, it is possible that there may be further delays or changes to the intended timeline, but both Equitable and Utmost are very keen to meet the planned transition date. If this does move, we do not believe it will be by a significant period.

An updated timeline is included in the Appendix to this update.

Next steps

The Authority should note the updated information above. If you consider that you have grounds for objecting to the terms of the Scheme, then this should be undertaken promptly.

If the Court permits the Scheme to take place, then further information will be provided by Equitable Life:

- On the levels of uplift to be provided;

- On the process for voting; and
- On the investment choices available, when assets are transferred to Utmost.

The Authority will then need to consider:

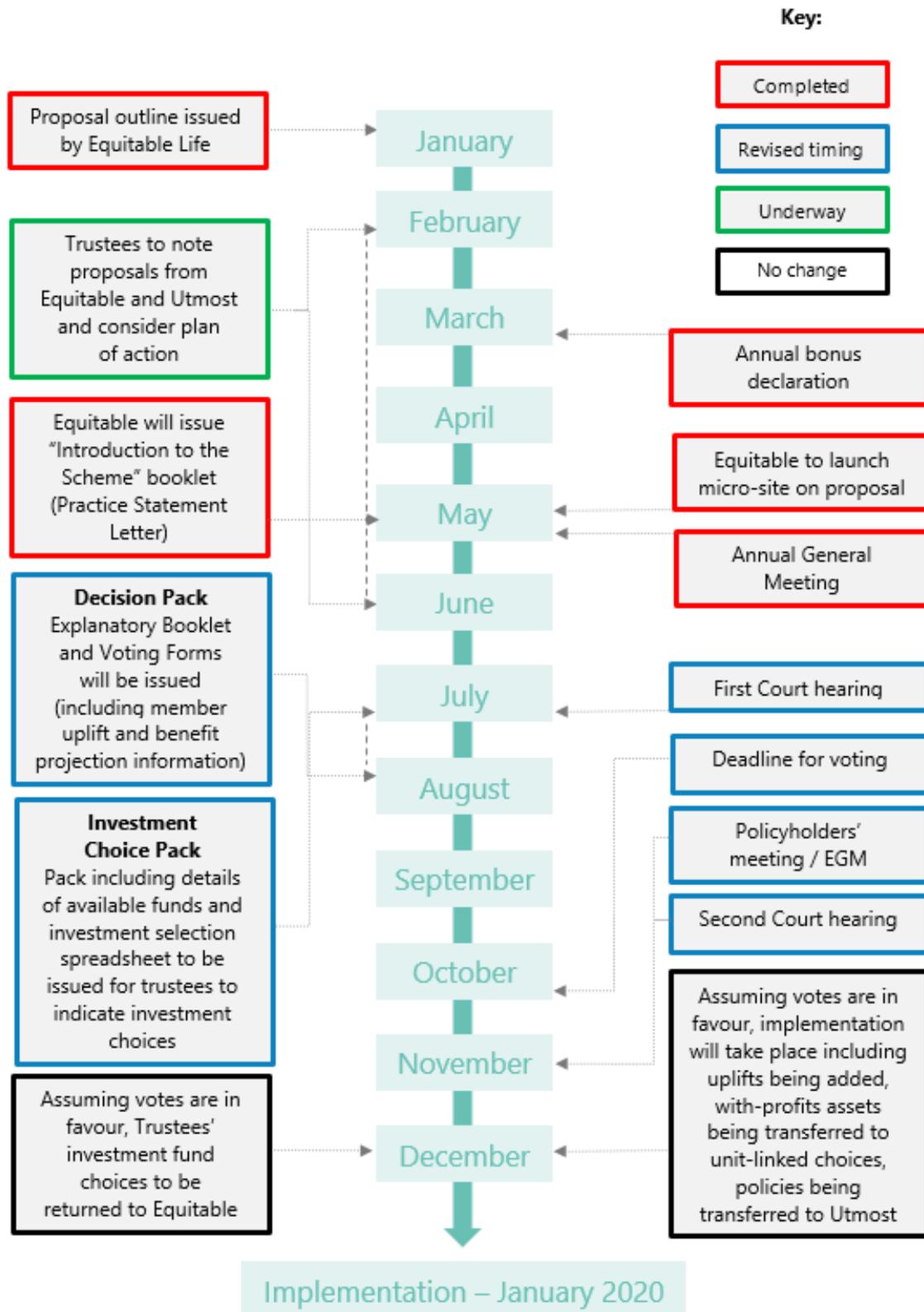
- The extent to which members should be involved in the decision making process;
- What course of action they should follow;
- How and when to communicate the likely changes to members.

We will engage regularly with Equitable and Utmost to keep abreast of their planning for the transfer of business and we will aim to keep you apprised of developments.

If you need any further information at this time, or a copy of a previous update, please let us know.

Martin Willis
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Appendix to the Update Timeline – June 2019



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