

## Annual General Meeting - Questions and Answers

### Introduction

At the Annual General Meeting held on 18 May 2005, 23 questions were asked. A number of themes were covered and a summary is set out below:

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#### A. With-profits annuities

##### *Anniversary statements*

The level of payment of a with-profits annuity changes each year on the policy anniversary. Currently, the process which produces the statements to tell with-profits annuitants the new level of their pension each year is the same process which makes the first payment. This means that, at best, annuitants only get one or two days notice of the new amount. We will look at whether we can find a way to give more notice to with-profits annuitants of changes to the level of their pensions.

##### *Calculations*

With-profits annuities were set up anticipating a rate of bonus set at the outset (and shown on the anniversary statements). The guaranteed element of the annuity reduces by the anticipated bonus rate each year. The anticipated bonus rate implies an anticipated overall rate of return (for policies effected before 1 July 1996 the rate of return is 3.5% greater than the anticipated bonus rate, for later policies it is the same). Broadly speaking the underlying annuity each year is reduced by the anticipated return and increased by the bonus actually allocated. The resulting underlying annuity is compared to the guaranteed annuity and the higher of these two amounts is paid. Although the mechanics are complicated, we will look at whether we can find a way to give a clearer explanation to annuitants of how their pension has been calculated.

##### *Bonus*

As explained above, the with-profits annuity payment in a year is determined by considering the underlying annuity value and the minimum guaranteed annuity and paying the higher amount. Where the guaranteed annuity level is the higher, the addition of a non-guaranteed bonus in a year may not affect the

amount of annuity actually payable. However, the allocation of a non-guaranteed bonus does affect the underlying annuity and that may affect the comparison in later years. This interaction of underlying (non-guaranteed) values and minimum guaranteed values is the same as applies to other with-profits policies.

With-profits annuities are now reasonably fairly treated in comparison with other with-profits policies. The outstanding difference is that we have yet to recover 3% of the cost of Guaranteed Annuity Rates (GARs) from with-profits annuities (planned to be recovered by withholding 1.5% of bonus for two years). The Board decided to defer the recovery for this year.

The compromise scheme gave with-profits annuity policies an uplift of 2.5% to the Total Annuity Benefit and, separately, an uplift of 0.5% to the Guaranteed Annuity of policies effected before 1 July 1996 and an uplift of 4.0% to the Guaranteed Annuity of policies effected from that date. Later reductions in final bonus have not affected the guaranteed benefits under with-profits annuity policies.

Although the Society's stability has improved, it is not in a position to declare a guaranteed bonus.

#### *Options*

The idea of 'rebasings' with-profits annuities (making a large reduction now, to reduce the anticipated bonus rate) is not being pursued. Very few annuitants showed any interest in the idea when we wrote to them about it in 2002. A reduction of the size needed to make a significant impact in the anticipated bonus rate is not attractive.

The suggestion that the Financial Services Compensation Scheme would have protected with-profits annuitants at 90% of the level of their annuities in 2001 is a misunderstanding. At best the protection would have been at 90% of the guaranteed element of the annuity which would have continued to reduce. In the event, the Society has paid with-profits annuitants considerably more than that (and expects to continue to do so in the future).

#### **B. The future of your Society**

If the best way forward to improve policyholders' interests requires a fundamental change in the Society's structure (for example, as mentioned in the Chairman's presentation (which can be found on the equitable website [http://www.equitable.co.uk/content/content\\_17.asp](http://www.equitable.co.uk/content/content_17.asp) , unitisation of the with-profits fund or sale to another organisation) that would only take place with the approval of policyholders. Some types of change might also require Court approval.

The need for policyholder approval for any structural change is one reason why it is important for the Society to conduct research to determine in a scientific way how policyholders may feel about the options we could consider.

The Society is not authorised to give individual policyholders financial advice and we recommend policyholders take independent financial advice about their personal circumstances.

### **C. Legal matters**

The Society is very limited in what it can say in respect of suing the former directors and former auditors as these claims are currently before the Court.

Any compensation paid to the Society from the Court case would be added to the with-profits fund for the benefit of continuing with-profits policyholders.

The costs of the litigation have been shown in the Report and Accounts each year. We have paid a total of £22.4m to the end of 2004. We anticipate this total cost to rise to about £35m by the end of the hearing (and we have made appropriate provision in the accounts for these costs).

The legal advice we have received remains privileged.

### **D. Administration**

#### *Managed Pension Review*

Fewer than 1,000 cases remain to be addressed under the Managed Pension Review and inevitably they will include some of the more difficult cases. The Society's records are as complete as when the new Board took over. However, in some circumstances we need information that was not obtained at the point of sale or was not held at that time. Where a particular piece of information cannot be found, we will carry out a review on the basis of the information we have.

#### *Pensions Ombudsman*

Some complaints are referred to the Pensions Ombudsman and some are referred to the Financial Services Ombudsman. This is a consequence of the different jurisdictions of the two services. Broadly, the Pensions Ombudsman deals with pension schemes and the Financial Services Ombudsman deals with individuals. However, there should be no material difference in terms of the quality and fairness of their rulings.

#### *Rectification scheme*

The rectification scheme (2003) was needed because changes in the economic environment gave the original scheme the capability of proving to be unfair. The original scheme was also very complex and slow to administer. The new scheme was developed with the help of extensive legal and actuarial advice. Lord Browne-Wilkinson and Chris Hairs (experts who approved the former

scheme) were informed of the changes we made and neither objected. The new scheme has proved very successful and the individual scheme has been completed.

#### **E. Halifax agreement**

The Society has contractual liabilities in respect of the pension obligations for its former staff. These liabilities arose from the Halifax deal which was completed by the former board. The liabilities are shown in the Report and Accounts.

The Halifax agreement had a final potential payment of up to £250m which was conditional on the former sales force achieving production and profitability targets in 2003 and 2004. There will be no final payment as the targets were not achieved.

#### **F. Remuneration**

Although the work to stabilise the Society is not complete it is appropriate to reward the Chief Executive in respect of the various staging posts achieved along the way.

Mr Thomson received a very good reference from Scottish Widows and he was appointed by the previous board in full possession of the facts. The current Board is very happy with his performance as Chief Executive.

#### **G. Expenses**

The Society discloses the expense of running the business in the Report and Accounts. We also make provision for ongoing expenses as the fund runs off and we believe that we can run the business in the future within those allowances.

#### **H. Tax on pensions**

We have lobbied the government to restore the tax status of pension funds and we will continue to do so. Our membership of the recently formed Association of Mutual Insurers will give us access to an association which will have more influence than a single organisation.

#### **I. Sale of assets**

The Society arranged to sell a number of artefacts following the relocation of its London offices. In June 2005, the final item of significance (a painting by Thomas Gainsborough) will be sold at auction by Christie's.

#### **J. Minutes of the AGM**

The formal minutes of the Annual General Meeting are now available on the Society's website [http://www.equitable.co.uk/content/content\\_17.asp](http://www.equitable.co.uk/content/content_17.asp)