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The Equitable Life Assurance Society is a mutual Society registered in England No. 37038. Registered Office: City Place House, 55 Basinghall Street, London EC2V 5DR, United Kingdom.

The Equitable group comprises: The Equitable Life Assurance Society, University Life Assurance Society.

**Equitable Life**

27 May 2002

Dear Policyholder,

### **Options for with-profits annuitants**

I promised to write to you following the completion of the Society's vitally important compromise scheme with some thoughts on what we might do for you if you wish to change your annuity, for example rebasing your annuity or changing it in some other way. I also enclose some information following the 15 April bonus announcements which clarifies the impact on with-profits annuities.

As you will have seen from our recently published Annual Report for 2001, Equitable Life is now in a more stable position and the overall health of the Society has improved. We are solvent and also meet the demanding regulatory financial requirements of the insurance regulator. The successful completion of the compromise scheme means we are £1bn stronger and the fundamental uncertainty of the Guaranteed Annuity Rate issue has been removed. This process is significant in restoring the health of the Society.

### **The legal constraints**

Before offering possible options to you I must highlight that, in a similar way to all other providers, we are constrained as to what we can do because of legislation. We cannot enhance the benefits of one group of policyholders if there is no equivalent benefit to the members in general in our doing so. Therefore, we have to make sure that any change for with-profits annuitants is at insignificant cost to other policyholders, otherwise we could face a legal challenge that we were acting inappropriately.

Due to the law relating to pensions and the practical difficulties it would present, the option to surrender an annuity and to transfer it to another company is not available.

When your with-profits annuity was taken out you chose to anticipate a particular rate of bonus. If the actual bonus is higher than this rate then the amount of the annuity will increase in that year, whereas if the actual bonus is lower the annuity will decline. The higher the anticipated bonus rate, the higher the initial annuity but the greater the risk that the annuity will fall.

Some policyholders took out their policies when interest rates (and inflation) were much higher than they are today, and anticipated a high rate of bonus. They may have hoped that high investment returns would give their annuities modest increases in the long term. In those circumstances, if inflation had continued at a high level, the purchasing power of the annuity would have been eroded sharply each year by inflation.

We now have an economy with much lower inflation and bonus rates. As a result many with-profits annuities are declining from year to year because the actual bonus rate is lower than the anticipated bonus rate. However, low inflation means that the purchasing power of the annuity is not eroded so much.

### **So what options are available?**

In real terms, measuring the purchasing power of the annuity, there may be no great difference between these two scenarios. Nevertheless, there is no doubt that many policyholders feel a difference and have said they might be interested in rebasing their annuity to change to a lower anticipated bonus rate. Essentially, this allows policyholders to change the decision they took when the policy was effected, where a balance was struck between the current level of annuity and the prospects for future inflation and bonus rates.

We can illustrate the impact of rebasing with the following examples, based upon total gross annuity, which assume a reduction of 3.5% (i.e. from 7.5% p.a. to 4% p.a.) in the anticipated rate of bonus:

#### **Example 1 – Joint Life Annuity for a Male Annuitant providing a 50% widow’s Annuity (Male and Female both aged 65)**

Existing annuity payable at the date of the rearrangement	£400 per month
Anticipated overall rate of return (bonus) chosen at the outset of the policy	7.5% pa
New anticipated overall rate of return (bonus) as a result of the rearrangement	4% pa
New annuity payable as a result of the rearrangement	£285 per month
Cross-over point	12 years

The new annuity is lower than the current one, but the gap closes until the situation is reversed. After the cross-over point, the new annuity is higher than the current one would have been, and the gap continues to grow. In this example, the cross-over point is about 12 years away. The amounts have been calculated to have an equivalent actuarial value so that other policyholders are not disadvantaged.

#### **Example 2 – Joint Life Annuity for a Male Annuitant providing a 50% widow’s Annuity (Male and Female both aged 75)**

Existing annuity payable at the date of the rearrangement	£400 per month
Anticipated overall rate of return chosen at the outset of the policy	7.5%pa
New anticipated overall rate of return as a result of the rearrangement	4%pa
New annuity payable as a result of the rearrangement	£310 per month
Cross-over point	9 years

In this example, the cross-over point occurs after about 9 years and, thereafter, the new annuity will be higher than the current one would have been.

The new annuity for a single male or for a single female annuitant aged 65 or 75 would be slightly higher than the above.

The exact relationship between the current and new annuities depends primarily on the difference between the current and future assumed bonus rates (it also depends on things like age and the level of any spouse's pension). As a guide, a difference below 3.5% will generally lead to a reduction that is slightly less than proportionate, and for a difference above 3.5%, the reduction will tend to be more than proportionate to these examples.

In the case of the two examples above, even with a greater initial reduction in annuity payments, the year in which the annuity would start to pay out more than it would under the current chosen rate of return would vary little. This variation would, however, be greater for younger annuitants.

Every with-profits annuity has a current level of payment and a minimum guaranteed level of payment. The intention is that both would change by the same proportion.

### **Summary**

Only you can decide whether you feel that taking this sort of reduction in pension now is worth the improvement in the prospects for the future. Any changes would be done on a policy-by-policy basis by your individual choice, not by a universal scheme – we can only justify doing this if a reasonable number of annuitants choose to pursue this offer.

These changes have to be done at no cost to the continuing policyholders, so the option takes account of future expected mortality improvements as well as the economic cost of the income stream before and after the change. It is therefore unlikely that the change will be of interest to policyholders who are in poor health.

### **Next steps**

If you might be interested in re-arranging your annuity please write by 30 June to P O Box 180, Walton Street, Aylesbury, HP21 7GZ. Please quote 'our reference' from the top of this letter in the heading of your reply. We are unable to give advice on this matter. However, you may wish to consult your financial adviser.

Individual responses will not be acknowledged, but in due course, we will report on the level of interest from annuitants and, if appropriate, what the next steps will be.

Yours sincerely,



Charles Thomson  
**Chief Executive**

**Effect of 15 April 2002 announcement on Equitable with-profits annuities**

The performance of your with-profits annuity is determined by the rates of return set for such policies investing in the with-profits fund. On 15 April 2002 Equitable announced an overall rate of return in respect of with-profits annuities of 3.75% p.a. for 2001. The interim rate of return effective from 1 January 2002 is also set at 3.75% p.a. (for policies effected after 19 July 2000 both rates are set at 4.75% p.a.).

These rates of return are used to calculate the non-guaranteed part of your annuity payments due from the next applicable policy anniversary (typically, the next anniversary on or after 15 April). The other component of your annuity – the guaranteed part – is not affected by the recent bonus announcement, and will continue to change to take account of the rate of adjustment you selected at the outset of the policy (depending on the rate of bonus you anticipated).

The statement sent to you at the policy anniversary will show exactly how your next year's payments are affected (if an anniversary has passed since 15 April you will already have received such a statement). There is no effect on payments before that anniversary.