Equitable Life

Your questions answered

14 September 2007

Questions and answers for with-profits annuitants

Why is this a good deal for me?

The main benefit for with-profits annuitants is that they will join Prudential which is one of the largest and strongest insurers in the UK. Prudential will put your with-profits annuity policy(ies) into an actively managed fund which has greater bonus earning potential than the current Equitable Life fund. However, because of the riskier nature of the assets such as equities, it is possible that investment returns, and therefore bonuses, could be lower than if your annuity had remained with Equitable Life. You should also be aware that, like any other company, Prudential's financial strength might change in the future.

What will my policy look like after the transfer?

There will be no changes to the terms of your policy other than to substitute Prudential for Equitable Life and Prudential will take over the responsibility for all aspects (including payment) of your annuity. For example, the minimum benefit levels guaranteed under the policy (including any declared bonus) will be maintained as will your anticipated bonus rate. If your policy provides benefits for a spouse they will also be transferred. If your policy provides for the annuity to be paid for a minimum period of time, it will continue to do so.

Will the proposal stop my annuity reducing? What guarantees do I have that my annuity will be greater after the transfer?

Whether your annuity reduces will depend on the bonus rate anticipated in your policy and the bonus rates declared by Prudential - the higher the anticipated bonus rate, the more difficult it will be for investment returns to exceed it. Also, there are no guarantees where investment management is involved. We can say that because Prudential will have much greater investment freedom and an active investment policy, there is greater potential for higher bonuses than Equitable Life could provide. However, because of the riskier nature of assets such as equities, it is possible that investment returns, and therefore bonuses, could be lower than if your annuity had remained with Equitable Life (indeed in some circumstances non-guaranteed bonuses might not be paid).

Will the charges under the policy change when it transfers to Prudential?

No. Prudential will run the business at the level of charges no higher than that which Equitable Life currently uses. Indeed, Prudential has committed to maintain charges in future at no higher than the current level, whereas Equitable Life may have to increase the charges taken out of the policy.

Why has the DCPSF in Prudential been chosen for the transfer?

The DCPSF (Defined Charge Participating Sub-Fund) is a sub-fund within Prudential's long term insurance fund. It is used by Prudential for business which has a fixed level of charges and no exposure to the actual expenses of administering the business; Prudential's shareholders make a profit if the charges are greater than the costs and a loss otherwise. Prudential's shareholders do not share in the investment return of this fund as they do in Prudential's main with-profits fund. The gross investment return (before tax and charges) allocated to the DCPSF is the same as that allocated to Prudential's main with-profits fund (but, whereas in Prudential's main with-profits fund, policies benefit from 90% of profits arising from the investment return and other sources, in the DCPSF policies benefit from 100% of the investment return).

How do I know I will get a fair return from Prudential?

Prudential will create a new separate bonus series within the DCPSF to which only the transferring with-profits annuities will be allocated. Prudential will introduce bonus rates (for that bonus series) in the same form as Equitable Life's. Bonuses will be declared by Prudential with the aim of paying out the achieved returns on the underlying investments over the remaining lifetime of the transferring with-profits annuities, allowing for the smoothing of the peaks and troughs of investment performance and for Prudential's expectations of future mortality.

What happens if the transferred annuitants live longer than expected?

Equitable Life and Prudential (and other life companies) make assumptions about future improvements in life expectancy in managing annuity business. Prudential will manage the transferred annuities based on their forecasts of life expectancy for the transferring policyholders. Should actual experience in any particular year differ from what is expected then any financial effect will be passed to Prudential's main with-profits fund (not the DCPSF).

In the future Prudential, like other life companies, may decide that its life expectancy forecasts need to be updated in the light of experience and revised mortality expectations. If this happens, then the with-profits annuitants will be protected in two ways. Firstly, Prudential's With-profits Committee (the independent committee responsible for overseeing fair treatment of Prudential's with-profits policyholders) will need to approve the change as being fair to with-profits annuitants. Secondly, if the Committee decides the change is fair, the financial impact will be restricted so that it does not affect annuity income by more than 0.5% pa (compound) compared with using Prudential's current forecasts – any greater impact will be covered by Prudential's main with-profits fund.

What are the costs to me of the transaction?

Equitable Life has built up a reasonable amount of Excess Realistic Assets (the difference between the value of the liabilities of Equitable Life including final bonus and the total value of the assets), sufficient to meet stringent regulatory requirements. This capital is necessary to protect against adverse situations but in benign conditions could be distributed to policyholders. Under the deal these Excess Realistic Assets will be shared between transferring and remaining policyholders. The amount of Excess Realistic Assets for the transferring policyholders, less transaction costs and other adjustments (detailed in the Policyholder Circular in sections 5 and 7 of Part V), if any, is to be added to the transferring policies as a special bonus addition.

In the absence of any deal the costs of the deal and the adjustments (which add up to approximately £100 million and are detailed in the Policyholder Circular in section 5.3 of Part V) and Prudential's up-front charges of around £50 million (detailed in Policyholder Circular in section 7 of Part V) to cover the cost of investment and mortality guarantees etc could in theory, over time, be distributed to policyholders. However there is no certainty that future conditions remain benign, hence no guarantee that Equitable Life's working capital would continue to accumulate, or that if it did it would be available for distribution to policyholders.

Will there be a special bonus and how much will it be?

A special bonus addition may arise because the Society will no longer need the annuitants' share of Equitable Life's Excess Realistic Assets. Part of the with-profits annuitants' share of the Excess Realistic Assets will be used to cover costs arising from the transfer (including Prudential's 'up front' charges to cover the costs of guarantees) and any balance will be available to with-profits annuitants in the form of a special bonus addition to their policies. It will depend on values at the time of the transfer and other than to say it is not expected to be significant, it is too early to say how much might be available.

We firmly believe that the proposal is right for with-profits annuitants even if there is nothing available as a special bonus.

There are a number of costs and adjustments to the transferring policyholders' share of Equitable Life's Excess Realistic Assets. Full details of these costs and adjustments can be found in the Policyholder Circular - sections 5 and 7 of Part V.

Will I have an interest in the inherited estate of Prudential's WPSF?

The Transferring Policies will have no interest in any possible future distribution or reattribution of the inherited estate of Prudential's WPSF.

What is the Equity Backing Ratio (EBR) of the Prudential fund and what are the implications for me?

The EBR is a measure of the investment profile of a fund, being the percentage of the fund value which consists of assets such as equities and property. Prudential currently has a target EBR of 70 per cent for the asset pool that will be used to back the Transferring Policies. By contrast, the EBR of Equitable Life's fund is less than 20 per cent.

Over the longer term, equity and property assets are generally expected to out-perform other asset types such as fixed interest and cash. Prudential's higher EBR and investment flexibility therefore enhances the benefit prospects for with-profits annuitants over the longer term.

That out-performance is not certain and the greater exposure to equity and property assets is likely to give rise to more volatility of underlying investment returns. In certain scenarios, this means that levels of non-guaranteed income could be lower than if the transfer had not taken place. In the event of particularly adverse investment returns, the income paid to policyholders would be no lower than the levels guaranteed under the policies, which are not affected by the Scheme.

It should be noted there is a risk that under certain circumstances, for example, adverse investment conditions, the EBR of Prudential's asset pool could reduce, thereby reducing the prospects for investment out-performance, albeit with reduced volatility.

What has the Independent Expert said about the transfer?

The Independent Expert's report is summarised in the Policyholder Circular (see below). With respect to Equitable Life's with-profits annuity policies he concludes that, in his view:

- For Transferring Policies, the Scheme will give rise to benefit expectations which are different to those applying in Equitable Life currently. This is primarily a reflection of the significantly greater exposure to equity-type investments following implementation of the Scheme compared to the position currently. This greater level of exposure is similar to that which the holders of Transferring Policies may have expected when effecting their policies.
- While the Scheme may result in future benefits payable on Transferring Policies which are similar to those which would have applied in the absence of the Scheme, it may also result in future benefits which are either materially greater than or materially less than those which would have applied in the absence of the Scheme. Whereas the potential upside is unlimited, the downside is limited by the guarantees under the policies, which will be unaltered by the Scheme. Considering the portfolio of Transferring Policies as a whole, the reasonable benefit expectations of the holders of Transferring Policies in aggregate will not be adversely affected by the Scheme.
- The security of the Transferring Policies' guaranteed benefits will be enhanced by the Scheme.

When will the transfer happen? Do I need to tell my bank?

If all the requirements and safeguards are met, the transfer is planned to complete on 31 December 2007. After the transfer, the responsibility for making your annuity payments will transfer from Equitable Life to Prudential and Prudential will pay your annuity from that point. However, Equitable Life will pay some instalments of annuity due around the transfer date a little earlier than usual to ensure that payments are not disrupted during the transfer to Prudential. With-profits annuitants will be contacted again nearer the time. **You will not need to inform your bank or take any other action.**

Who will I need to contact at Prudential for service?

Prudential will write to all transferring policyholders near to the transfer date to provide details of their customer services telephone number and address.

Questions and answers for other with-profits policyholders (including trustees of pension schemes)

Why is this a good deal for me?

Removing the with-profits annuities from Equitable Life will improve the prospects of finding an attractive strategic opportunity for the remaining policyholders. It will also remove the risk that the cost of paying the with-profits annuities will increase if the annuitants live longer than expected.

How do I know that the with-profits annuitants will only take their share of Equitable Life's assets?

Your Board of Directors has a duty to ensure that the terms of the agreement are fair to each group of policyholder. Having taken advice from legal, actuarial and financial experts, the Directors have unanimously recommended the proposal to policyholders. The terms of the agreement have also been studied by Equitable Life's Actuarial Function Holder and With-profits Actuary and, separately, by an Independent Expert. You can find summaries of their reports in the Policyholder Circular and we have also published all of these reports in full on our website. In addition, the Court would not allow the transfer to proceed if they believed that the proposed transfer was unfair to policyholders. The Financial Services Authority will review the proposed transfer and will provide a view to the Court as to whether or not it objects to the transfer, to assist the Court in making a decision.

The proposal seems to give the with-profits annuitants what they want – a move to a new provider. Why should Equitable Life also pay them a special bonus and why won't it pay a special bonus to non-annuitants?

The principle here is fairness to each group of policyholders. The proposal is that the with-profits annuitants should take their part of Equitable Life's assets with them (about 20%).

Part of Equitable Life's assets is retained to support the Society's financial position and is not currently used to support policy benefits. We call this amount 'Excess Realistic Assets.' The with-profits annuitants are entitled to their share of Equitable Life's Excess Realistic Assets, because we will no longer need it to support their part of the business. After allowing for certain costs, a special bonus addition is a simple way of allocating to the annuitants their share of the Excess Realistic

Assets. The special bonus, if any, is not expected to be significant. We cannot allocate Excess Realistic Assets to other policyholders at this stage, because we still need those assets to support the remaining business.

If the with-profits annuitants leave Equitable Life won't the average cost of running the business for the remaining policyholders rise?

Yes, but part of the with-profits annuitants' share of the Excess Realistic Assets will be retained by Equitable Life to compensate the remaining policyholders for that effect.

What has the Independent Expert said about the transfer?

The Independent Expert's report is summarised in the Policyholder Circular (see below). With respect to Equitable Life's remaining with-profits policies he concludes that, in his view, there will be no material adverse impact of the Scheme on the reasonable benefit expectations of the holders of policies remaining in Equitable Life and that the security of the guaranteed benefits under these policies will remain at an acceptable level following implementation of the Scheme.

Why is this the best way forward?

Your Board considered a number of strategies including approaches from other third parties. We are clear that the proposed transfer represents the best approach for all policyholders. Based on our discussions and research with thousands of policyholders over several years, none of the other alternatives considered would have been as attractive to policyholders as the proposed transfer to Prudential.

Other proposals would be much more complex, involve significant changes to policy terms, create greater risks for policyholders and would be expected to be much less likely to appeal to a broad range of policyholders than the proposed transfer. Policyholders have little enthusiasm for converting with-profits annuities to non-profit policies (for example, to provide fixed reducing pensions).

The Board also believes that the proposed transfer is preferable to rejecting strategic change in favour of continuing to run all of Equitable Life's business within the current framework. With-profits annuitants would not benefit from Prudential's size and strength and if the proposed transfer does not happen, the chances of finding a strategic opportunity for other policyholders would be reduced.

What if I have other questions?

This document gives high level answers to various questions which may arise. Further detailed information is included in the Policyholder Circular which also sets out what other documentation relating to the transfer is available and how this may be obtained. For example, the complete reports of the Actuarial Function Holder, the With-profits Actuary and the Independent Expert are available on our website www.equitable.co.uk

We have also set up a special helpline on 0800 408 0097 (00 800 1020 1040 if calling from outside the UK).

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