

**CHAIR'S ANNUAL REPORT:**  
**The PTL Governance Advisory Arrangement**  
**For Equitable Life workplace pension schemes**



March 2016

**Opinion on value for money**

**The GAA's opinion on the value for money delivered is that following the changes proposed by Equitable Life in response to the Independent Project Board (IPB) the GPPs are reasonable to good value for money.**

**1. Introduction**

In February 2015 the Financial Conduct Authority (FCA) set out new rules for Providers operating workplace pension plans (called relevant schemes) to take effect from 6 April 2015. From that date, those Providers had to have set up an Independent Governance Committee or appointed a Governance Advisory Arrangement whose principal functions would be to:

- Act solely in the interests of the relevant policyholders (i.e. the members) of those pension plans; and to
- Assess the “value for money” delivered by the pension plans to those relevant policyholders.

For the remainder of this report “relevant policyholders” are referred to as “members”.

The FCA rules also require that the Chair of each Independent Governance Committee and Governance Advisory Arrangement produce an annual report setting out a number of prescribed matters.

The PTL Governance Advisory Arrangement (referred to in the rest of this report as “the GAA”) was established on 6 April 2015, and has been appointed by a number of workplace pension scheme providers. This is its first annual report in respect of Equitable Life’s workplace pension schemes. These were all Grouped Personal Pensions (GPPs) at commencement and include with-profits and unit-linked investment choices. Policies have been divided into 3 groups, where different charges or with-profits guarantees apply. The vast majority of policies and funds under management relate to GPPs set up before 6 March 2000, with different guarantees applying to with-profits investments in policies written before and after 1 July 1996. The GPPP2000 series of policies set up after 5 March 2000 is a much smaller group where different charges apply.

The GAA operates under Terms of Reference, agreed with Equitable Life, dated 9 November 2015. These are publicly available as shown in part 3 of this report.

## **Overall assessment of value for money**

Value for money is necessarily highly subjective, meaning different things to different people over time depending on what they consider important at that time. What is clear is that it is a balance of cost versus benefits.

It should be noted that there is inadequate publically available data to perfectly assess value for money in an absolute or relative way. We have, however, been able to carry out limited relative comparisons of the costs and benefits of these workplace personal pension plans with similar products from similar providers.

The GAA's opinion on the value for money delivered is that following the changes proposed by Equitable Life in response to the Independent Project Board (IPB) the GPPs are reasonable to good value for money. The GAA has borne in mind the particular circumstances of Equitable Life, as a mutual society closed to new business, in making its assessment. Further details are in the following sections of this report.



## 2. Statement on the credentials of the GAA

The GAA was established by PTL.

PTL is a specialist provider of independent governance services primarily to UK pension arrangements. Amongst other appointments we act as an independent trustee on several hundred trust based pension schemes and we sit on a number of IGCs. We have oversight or responsibility for in excess of £120bn of pension assets. More information on PTL can be found at [www.ptluk.com](http://www.ptluk.com).

All of PTL's Client Directors have been appointed to the GAA. More information on each of them, their experience and qualifications can be found at <http://ptluk.com/team/>

Dean Wetton is also a member of the GAA. Dean is independent of PTL. Information on his experience and qualifications can be found at <http://www.deanwettonadvisory.com/consultants/index.html>

PTL, its Client Directors and Dean Wetton are independent of all of the Providers participating in the GAA in so far as:

- They are not directors, managers, partners or employees of any of the Providers, or any company within their groups, or paid by them for any role other than as members of the GAA nor are they members of the share option or performance related pay schemes of any of the Providers nor have they been within the last five years
- They do not have a material business relationship of any description with any of the Providers, or any company within their groups, and have not done so within the last three years.

Any potential conflicts of interest are recorded in a log and considered by the GAA in accordance with its conflict of interest policy.

The members of the GAA are appointed by the board of PTL. The board are satisfied that individually and collectively the members of the GAA have sufficient expertise, experience and independence to act in the interests of the members of the Providers' pension plans.

### 3. Value for money assessment



Name of Provider: Equitable Life

Contact address for questions or further information: Equitable Life Assurance Society,  
Walton Street, Aylesbury, HP21 7QW

Terms of reference: The terms of reference can be found at:

[www.equitable.co.uk/media/49927/gaa-tor-side-letter.pdf](http://www.equitable.co.uk/media/49927/gaa-tor-side-letter.pdf)

#### The GAA's opinion on the value for money delivered by Equitable Life:

##### 3.1 Benefits to members

The GAA has considered the benefits delivered to members in a number of different areas.

##### 3.1.1 Investment

###### *Evidence provided*

The GPPs do not have a default investment fund or strategy, but a significant proportion of members are invested in the with-profits fund, particularly in the group of policies where there is a guaranteed return of 3.5%pa.

*"Default investment strategy" refers to the investment funds into which contributions are invested for members who do not select specific other investment funds from the range of other funds available.*

The performance of the with-profits fund and unit-linked funds are regularly reviewed by the Asset and Liability Committee of Equitable Life. The terms of reference include reviewing investment performance figures against agreed investment objectives.

The unit-linked fund range gives members a choice of around 20 funds, covering single asset classes, active and passive management and multi-asset managed funds. External fund managers, Aberdeen Asset Management, are responsible for managing the funds. The range has been reviewed in 2015 with a view to rationalising it during 2016.

The objectives of each unit-linked fund and the with-profits fund are clearly stated and published on Equitable Life's website.

Lifestyling was not available as an option until the GPPP2000 series of policies which offered one lifestyling strategy based on switching to gilts and bonds over the 5 years prior to retirement. Fewer than 90 policies remain in force where this strategy was chosen and it is no longer available to other policyholders for accumulated or future contributions.

*"Lifestyling" means an automated process of switching investment strategy as a member approaches retirement, in a way that is designed to reduce the risk of a member's retirement income falling.*

### *GAA assessment and opinion*

There are no formal default funds reflecting no requirement for or expectation of these at the time of policy commencements when Equitable Life was open to new business. Most members are invested in with-profits funds which are managed very closely, or in funds with a broad sweep of asset classes, thus dampening volatility to some extent.

We believe that a good range of funds is available for members who wish to select funds, representing the major asset classes and including a with-profits option. The fund range has been reviewed and will be rationalised during 2016.

Members with policies written before 1 July 1996 benefit from a guaranteed investment return of 3.5% pa in the with-profits fund, which we believe represents a valuable benefit.

The lifestyling strategy was only available to a very small number of policyholders although we note that it has not been reviewed to reflect that members no longer need to buy an annuity.

Evidence has been provided that the characteristics and net performance of the investment strategies are regularly reviewed by the With-Profits and Asset and Liability Committees.

Although information on the unit-linked funds has been provided, the GAA has not reviewed in detail the investment performance of each available fund by reference to consistency with its objectives and the expected degree of volatility.

As with all features, further development of investment options would have an associated cost which would have to be borne by the mutual society members and therefore incurring such costs is not necessarily in the members' best interests.

### **3.1.2 Member Communications and Support**

#### *Evidence*

Sample member communications have been provided including annual benefit statements, pre-retirement wake-up packs and the open market option provided at retirement.

General information is available on the website and members can obtain details of their fund value and other support by telephone.

Equitable Life uses focus groups to test reaction to proposed changes. In 2014, this method was used to look at proposed changes to annual benefit statements, which were introduced in 2015. There is evidence that members appreciated the changes. In 2015, focus groups were used to look at ways of improving communications with unit-linked policyholders.

### *GAA assessment and opinion*

In our opinion, member communications are of a high standard overall and members have access to good telephone support.

Although members cannot log into the website to see their fund value, they can obtain this information over the phone during weekday working hours.

Some members did request access to personal information online as part of the unit-linked policyholders focus group work, but at present Equitable Life feel that the cost of developing this cannot be justified and the GAA supports this view.

### **3.1.3 Additional factors**

#### *Evidence*

Administration is carried out in house and evidence has been provided of performance against service standards of 5 and 10 working days.

If the agreed Service Standards are met, core financial transactions will be processed promptly and accurately.

Additional governance structures for the benefit of members that are specific to Equitable Life include the with-profits committee for members invested in the with-profits fund, as well as the considerable external scrutiny of some aspects of the running of Equitable Life by Parliament amongst others.

There are no additional (financial or other) benefits to members by virtue of their membership of the GPP.

At retirement, members can take their whole benefits as cash or withdraw a series of Uncrystallised Funds Pension Lump Sums (UFPLS) subject to various conditions on the minimum sum taken and remaining. Alternatively, as well as the open market annuity option, they can choose to transfer to another provider for flexi-access drawdown or take advantage of preferential annuity terms under an agreement with Canada Life.

### *GAA assessment and opinion*

We believe that the administration service provided to members is of a good standard and that core financial transactions are processed promptly and accurately.

There are no additional benefits to members by virtue of their membership, and we note that this is unlikely to be appropriate bearing in mind that the Society's only source of funds is now the with-profits fund.

With-profits policyholders will benefit from the additional governance provided by the with-profits committee. We have also noted positively the considerable external scrutiny of Equitable Life and the regular reviews of charges for expenses and guarantees.

The range of choice at retirement is reasonable for members without encompassing all flexible options. Although a transfer to another provider is required for flexi-access drawdown, no penalty or charge is applied on retirement at or after age 55 (or age 60 for protected rights benefits) and any guaranteed benefits are paid out in full.

As commented above in relation to investment options and further website development, the costs involved in offering new retirement options (such as flexi-access drawdown) would have to be weighed very carefully against the benefits for members.

### **3.2 Charges and direct and indirect costs borne by members**

#### *Evidence*

The Annual Management Charge (AMC) for pre 2000 GPPs is 0.5% pa across all unit-linked funds and 1.0% pa for with-profits. An additional annual charge of 0.5% is made for the with-profits fund to cover the cost of guarantees. A bid/offer spread of 4.5% or reduced allocation rate of 95.5% applies in the very small number of cases where new contributions are being paid.

The GPPP2000 series originally had no bid/offer spread and 100% allocation rates, with a corresponding higher AMC of 0.9% pa for unit-linked and 1.4% pa for with-profits. These charges will be reduced with effect from 1 April 2016 to 0.5% and 1.0% respectively as a result of Equitable Life considering the level of charging for FPPP2000 policies as part of the IPB review. As new contributions are very low across all policies, Equitable Life considers that the rationale for the different pricing no longer applies.

Following the recapture of the unit-linked business from Lloyds Banking Group in 2015, Equitable Life decided to review the pricing for unit-linked policies, as these are being subsidised by with-profits policyholders. This will result in varying charges for different funds with effect from 1 April 2016. Charges will range from 0.5% to 1.0%.

#### *Transaction costs*

Transaction costs for the with-profits fund are effectively absorbed by Equitable Life. With-profits investments share in the profits and losses of the Society and the investment return passed on to policy values is a smoothed return at the discretion of the Society.

Unit-linked investments are held in externally managed Open Ended Investment Company funds (OEICs). Equitable Life meets in full the Ongoing Charges Figure for each fund, with the exception of the Property Fund where those costs related to managing the property investments are borne additionally by the members. This is known as the Property Expense Ratio. The Property Expense Ratio at December 2014 was 0.41% pa.

Members may also bear dilution adjustments, which can be applied to the pricing of the OEICs depending on whether the fund is expanding or contracting. No information has been provided about the level of dilution adjustments, which will form part of the transaction costs borne by members.

#### *GAA assessment and opinion*

The AMC for with-profits of 1.0% (plus 0.5% pa for the cost of guarantees) represents a level of charge that is around average amongst providers who were part of the IPB review, based on the GAA's experience.

The AMC for unit-linked funds of 0.5% represents a level of charges that is well below average amongst providers who were part of the IPB review, based on the GAA's experience. Equitable Life have now reviewed the charges for unit-linked funds to ensure fairness between all policyholders and the new charges will be introduced from 1 April 2016. The GAA will reassess value for money based on the new charges in next year's report.

Limited information has been provided on transaction costs, due to the difficulties of analysing dilution charges. The GAA will look in more detail at transaction costs in future reports.

### **3.3 Overall assessment of value for money**

In our opinion the GPPs represent reasonable to good value for money, taking into account the benefits offered to members.

## **4. Other matters**

### **4.1 Independent Project Board (IPB)**

The IPB issued a report into workplace pensions in December 2014 following a previous report from the Office of Fair Trading in 2013. The FCA required all pension Providers who were subject to the IPB report to make proposals to governance committees (in this case the GAA) by 30 June 2015, and for the Provider to agree a plan to address the risk of high charges of workplace pension savers in group pension arrangements. Equitable Life provided their proposals to the GAA in line with this timescale and proposals have been agreed with the GAA for this purpose.

These proposals have been outlined above.

### **4.2 Concerns raised with the Provider by the GAA and their response.**

The GAA has not raised any concerns with Equitable Life.

### 4.3 The arrangements put in place for members' representation



The following arrangements have been put in place to ensure that the views of the members can be directly represented to the GAA:

The role of the GAA and the opportunity for members to make representations direct to the GAA will be communicated to members via the website and future annual statements.

Equitable Life will receive and filter all member communications, to ensure that this channel is not being used for individual complaints and queries rather than more general representations which may be applicable to more than one member or group of members. Where Equitable Life determine that a communication from a member is a representation to the GAA, it will be passed on in full and without editing or comment for the GAA to consider.

## 5 Next Steps

This GAA report is for the period up to 5 April 2016. The process of annual reports under the FCA requirements is ongoing and further annual reports will be required. In the next year the GAA will analyse in more detail the areas which will continue to be of prime importance in value for money for policyholders.

If you are a member and have any questions, require any further information or wish to make any representation to the GAA you should contact Equitable Life at the address shown in part 3.

A handwritten signature in black ink, which appears to read 'C. D. Richardson'.

Colin Richardson

Chair: PTL Governance Advisory Arrangement