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Chair's Annual Report

The PTL Governance Advisory Arrangement ('GAA')

March 2018

Equitable Life Workplace Personal Pension Plans

Contents

1 Introduction and Executive Summary

This report on the workplace personal pension plans provided by Equitable Life has been prepared by the Chair of the PTL Governance Advisory Arrangement ('the GAA'). It is our third annual report.

This report sets out our assessment of the value for money delivered to policyholders (see ***Section 2***). It also explains the background and credentials of the GAA (see ***Appendix 3***). The GAA works under Terms of Reference, agreed with Equitable Life, dated 9 November 2015. These are publicly available (see ***Appendix 3***).

The workplace personal pension plans provided by Equitable Life are all Grouped Personal Pensions (GPPs). Policies have been divided into three groups, where different charges or with-profits guarantees apply. More details about the numbers of policyholders and their funds are shown in ***Appendix 1***.

The GAA believes that deciding what represents 'value for money' is subjective and that value for money will mean different things to different people. We think value for money can be best judged by looking at the balance of all the costs paid by policyholders against the benefits and services provided from their policy, together with appropriate comparisons against other pension providers.

The GAA's opinion on the value for money delivered is that the GPPs offer reasonable to good value for money.

See ***Section 2*** and ***Appendix 2*** for more details of the value for money assessment.

A colour-coded summary of our value for money assessment is shown below:

Good ← → **Poor**	**Grouped Personal Pensions**
Investments	
Communications and support	
Risk management: operational and financial	
Other factors: administration, options at retirement, etc.	
Overall benefit	
Level of charges	
Overall value for money assessment	

The GAA has not formally raised any concerns with Equitable Life during the year but a number of challenges were raised (see ***Section 3.3***).

Arrangements have been put in place to ensure that the views of the policyholders can be directly represented to the GAA (see ***Section 3.4***).

If you are a policyholder and have any questions, require any further information or wish to make any representation to the GAA you should contact:

Equitable Life Assurance Society

Walton Street
Aylesbury
HP21 7QW

2 Value for money assessment

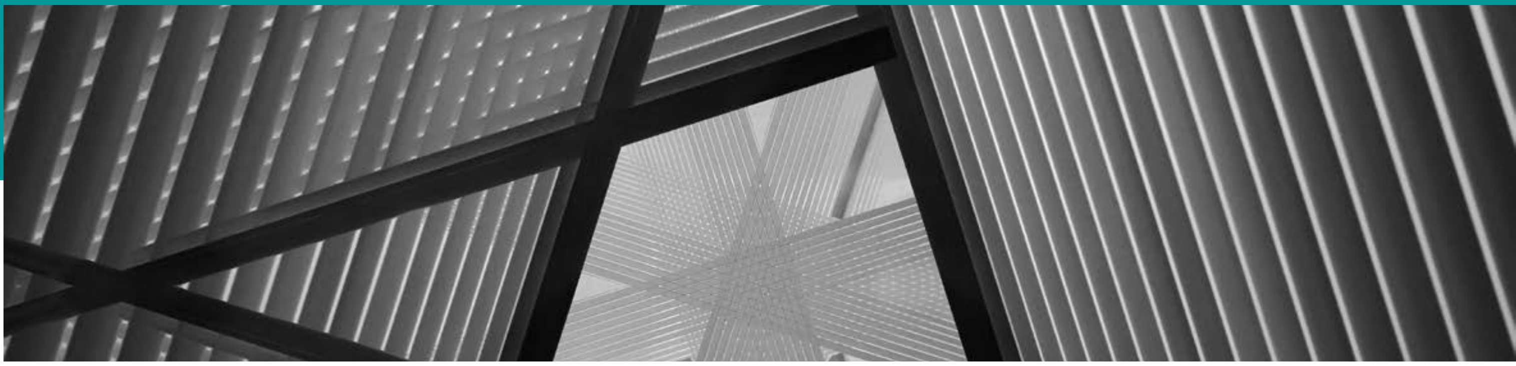
The GAA has assessed the value for money delivered by Equitable Life to its workplace personal pension policyholders by looking at cost versus benefits. More detail about how we have done this is set out in *Appendix 2*.

Key highlights of our assessment

- As Equitable Life is a closed mutual insurance society it has to distribute surplus capital fairly between all with-profits policyholders during the period of run-off. Our discussions with Equitable Life made clear that this is at the centre of all strategic decisions.
- Equitable Life take great care in managing the distribution of reserves to achieve this aim of fairness between all with-profits policyholders. Ensuring a fair distribution both now and in the future is a foremost principle.
- Equitable have undertaken steps to ascertain views of policyholders through surveys of with-profits and unit-linked policyholders and feedback requests for retirees and for policyholders who transfer out.
- The future leaving pattern of policyholders is hard to assess and best estimates have to be made for modelling and financial projections.
- Equitable also assess the balance between with-profits and unit-linked policyholders and has taken steps to make unit-linked charges better reflect the underlying investment costs and to equalise charges between different series of policyholders.
- The fact Equitable Life is not selling new products allows it to offer slightly more open guidance and communication to policyholders considering drawdown because it can easily demonstrate its independence and lack of conflict of interest compared to other providers.

- The GAA found a strong culture of customer service, which is commendable considering the firm is not taking any new customers.
- Policyholders need to transfer from Equitable Life if they wish to receive benefits by way of income drawdown, although partial withdrawals can be taken from policies. It is understandable that the costs of establishing such drawdown facilities from within Equitable Life may not be the best use of resources.
- The closed book status in run-off has associated characteristics which may impact on policyholders in certain circumstances – for example a reduction in unit-linked fund values could lead to increased annual management charges. Equitable Life manage the issues of the run-off closely.
- The investment review process was a key part of our discussions this year with Equitable Life. It will remain a key part in future years. In overall terms these discussions improved the GAA's perspective of the process undertaken.
- The unit-linked contract terms require significant under-performance before the investment managers can be changed, although this does not prevent interaction and discussion of performance on an ongoing basis.
- Equitable Life has reviewed its unit-linked fund range and removed a number of less widely used funds. There were very few policyholder queries which implies that the communication of the exercise was successful
- The investment instructions given to the investment managers in relation to with-profit funds are tightly defined and monitored.

Overall the GAA's opinion on the value for money delivered is that the GPPs offer reasonable to good value for money.



3 GAA activity and regulatory matters

This section describes the work that the GAA has done over the year and also covers the other matters which we are required to include in our annual report.

3.1 GAA actions this year

We prepared and issued a request for data on all the relevant workplace pension policies on 15 May 2017.

On 28 June 2017, members of the GAA visited Equitable Life to meet our main contact and representatives from the investment and administration teams. We discussed how the investment funds are managed and governed. We visited the administration teams to see in detail how some of their work is carried out and how they deal with policyholders, as well as meeting managers to discuss service standards and how these are monitored and managed.

Equitable Life provided all the key information we requested.

Following the publication of new FCA Rules on 20 September 2017 on the calculation methodology and disclosure by investment managers of transaction costs on investment funds, we requested details of these using the new methodology. The requirement applies from 3 January 2018 onwards. Whilst the regulator has confirmed the new methodology, at the time of finalising this report the industry is consulting on ways to ensure consistent reporting of this information.

The GAA held 5 meetings during 2017/18 to review and discuss the information we had received and to develop and improve the way that we assess value for money and report on this.

3.2 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 were agreed with the GAA for this purpose.

Equitable Life reviewed the pricing for unit-linked policies. This resulted in varying charges for expenses for different funds with effect from 1 April 2016. Charges now range from 0.5%pa to 1.0%pa. This applies to all series of policies, ending any difference between different series.

The GPPP2000 with-profit charges for expenses were reduced with effect from 1 April 2016 to 1.0%pa from 1.4%pa to bring these into line with the GPPP series policyholders.

3.3 Concerns raised with the Provider by the GAA and their response

The GAA has not formally raised any concerns with Equitable Life during the year covered by this report.

In the first year, we challenged the lack of lifestyling facility for policyholders who wish to reduce risk in their investments in the run up to retirement, Equitable Life commented that this process is not necessarily applicable to with-profits policyholders, which we accepted. Equitable Life believe that, following the introduction of greater flexibilities for policyholders, many would opt to take their funds as cash and therefore lifestyling (into bonds or cash) was no longer appropriate for them.

The challenges we made in 2016 relate to the investment oversight and review processes. We have questioned and discussed the investment review process for unit-linked funds at length including the committee structure and the roles of committees in setting of benchmarks and investment review. We also questioned the investment manager's terms of engagement. This interaction showed oversight is undertaken within certain restrictions in the terms of engagement.

In 2017 we have again challenged the investment oversight and review process. This interaction reiterated that oversight is undertaken within certain restrictions in the terms of engagement. We also reviewed the cyber security policies and implementation. We have worked with Equitable Life to solicit policyholders' views on Value for Money.

3.4 The arrangements put in place for policyholders' representation

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

- The role of the GAA and the opportunity for policyholders to make representations direct to the GAA has been communicated via the Equitable Life website and has been included on annual benefit statements since April 2016.
- Equitable Life will receive and filter all policyholder 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 policyholder or group of policyholders. Where Equitable Life determines that a communication from a policyholder is a representation to the GAA, it will be passed on in full and without editing or comment for the GAA to consider.

To date, no representations have been received via Equitable Life nor direct to the GAA.

4 Next Steps

This GAA report is for the year to 5 April 2018. 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:

- Assess the level of transaction costs within the individual funds.
- Give further consideration to the investment review process.
- Continue to challenge Equitable Life to ensure that, within their own resource constraints, costs and charges for members are minimised and represent value for money.

If you are a policyholder this report is for your information only and you do not have to take any action. If you do 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 on page 4.

Colin Richardson
Chair: PTL Governance Advisory Arrangement

Appendix 1

Summary of workplace personal pensions data at 31 May 2017

	GPPP 3.5% GIR With-profits fund available with 3.5% pa guaranteed investment return plus unit-linked	GPPP 0% GIR With-profits fund available with 0% pa guaranteed investment return plus unit-linked	GPPP2000 0% GIR With-profits fund available with 0% pa guaranteed investment return plus Unit-linked
Number of employers: non-qualifying for auto-enrolment	1,017	1,416	54
Total number of policyholders contributing / non-contributing	6,372 52 / 6,320	10,440 66 / 10,374	306 5 / 301
Total value of assets (market value)	**£173m**	**£128m**	**£2.2m**

All of these plans are not used for auto-enrolment.

Appendix 2

Value for money assessment

The GAA believes that value for money is necessarily highly subjective and will mean different things to different people over time, depending on what they consider important at that time. What is clear is that it is always a balance of cost versus benefits. There is not enough publicly available data to perfectly assess value for money in an absolute or relative way. We have, however, been able to carry out limited relative comparison of the costs and benefits of these workplace personal pension plans with similar products from similar providers.

The GAA has assessed the value for money delivered by Equitable Life to its workplace personal pension policyholders by looking at cost compared against our evaluation of the quality of the benefits.

We have looked at the benefits offered to policyholders in four main areas – investment, communications, risk management and administration, including other features such as the range of options available at retirement. In making our overall assessment of the quality of the benefits and standards achieved, where possible we have taken into account the likely needs and expectations of this group of policyholders, based on the information available to us.

We have looked at the total ongoing cost of the policy by analysing all the charges, which may be applied in a number of different ways.

Finally, we have considered the quality of benefits offered versus the charges deducted, to reach an overall opinion on value for money. Where possible, we have formed our opinion taking into account the benefits and charges of other similar providers.

In each area of benefits, in the tables on the next few pages we have described the features in the left hand column, based on the information given to us. Our opinion on quality is given alongside in the right hand column.

Where we have used technical pensions terms or jargon, these are explained in the glossary at the back of this report.

Description of arrangements	GAA assessment and opinion

Investment – Design and performance of investment strategies

Description of arrangements	GAA assessment and opinion
The GPPs do not have a default investment fund or strategy, but a significant proportion of policyholders are invested in the with-profits fund, particularly in the group of policies where there is a guaranteed return of 3.5%pa. There are no default investment options, and there have always been a limited number of Lifestyle strategies and Equitable Life have determined that adding a Lifestyle option for unit linked policyholders is not a good use of policyholders' money. In 2016 there was a review and rationalisation of funds and policyholder interests and views have been considered, moving and changing funds where necessary. This process was not completely independent as the contracted investment manager was the key participant in that review. Lifestyling was not available as an option until GPPP2000 series of policies which offered one lifestyling strategy based on switching to gilts and bonds over the 5 years prior to retirement. This has since been withdrawn. The with-profits fund is managed by an external fund manager, Blackrock. The guaranteed part of the with-profits funds matching the guaranteed liabilities concentrates on matching cashflows, with cash and liquid assets for the remaining monies. That equates to around £3.4 billion matched cash flows out of £4.4 billion. Cashflows over 7.5 years are matched with UK Government bonds with shorter term payments matched with corporate bonds. The Asset and Liability Committee defines the guidelines for Blackrock and reviews the unit-linked investment fund range.	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 policyholders are invested in with-profits funds which are managed very well in significant detail, or in unit-linked funds with a broad sweep of asset classes. The unit-linked funds are regularly reviewed through committee structures. The investment managers input directly into the Asset and Liability Committee and the Unit Pricing Committee which need to ensure they maintain the ability to scrutinise independently from the investment managers. We accept that the review process carries a risk of disproportionate cost for this number of policyholders. For with-profits investment management, the liaison, instruction and review between Equitable's Asset and Liability Committee and Blackrock appears very tight and well developed in detail.

Investment – Fund range available

Description of arrangements	GAA assessment and opinion
The unit-linked fund range gives policyholders a choice of 11 funds, covering single asset classes and some multi-asset managed funds. External fund managers, Aberdeen Standard Investments (previously Aberdeen which merged with Standard Life in August 2017), are responsible for managing the funds. The range has been reviewed in 2015 and significantly rationalised and simplified during 2016. Prior to review there had been over 100 funds (including some not available to workplace pension policyholders) which has now reduced to 11. There is no immediate impact of the Standard Life / Aberdeen Asset Management merger, the relationship predates the Aberdeen Asset Management purchase of Scottish Widows Investment Partnership. Some policyholders are also eligible to invest in the with-profits fund as one of the self select options.	We believe that a good range of funds is available for policyholders who wish to select funds, representing the major asset classes including a with-profits option. We believe the rationalisation and simplification was helpful to policyholders, and was implemented successfully. With-profits policyholders 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. It has been reviewed and subsequently withdrawn because policyholders are no longer required to buy an annuity.

Description of arrangements	GAA assessment and opinion
Investment – How investment performance of the fund range is reviewed and any changes made	
The investment review process was a key part of our discussions this year with Equitable Life. It will remain a key part in future years. In overall terms these discussions improved the GAA's perspective of the process undertaken. The performance of the with-profits fund and unit-linked funds are regularly reviewed by the Asset and Liability Committee, the Executive Committee and Board of Equitable Life. The terms of reference include reviewing investment performance figures against agreed investment objectives. Most unit-linked policyholders use the managed fund. This is managed by Aberdeen Standard Investments. The fund charges across the range of unit-linked funds vary from 0.5%pa to 1.0%pa. The main committees monitoring investments are the Asset and Liability Committee (Equitable Life internal only) which meets monthly; and the Joint investment Committee (Equitable Life and Aberdeen Standard Investments) which meets bi-monthly. The agendas for these committees show a wide-ranging remit. For unit-linked funds there are triggers for further discussion and Equitable believe that having reviewed and overhauled the unit-linked funds recently there is a need for these to run for a period of time to allow for proper performance reviews. The unit-linked contract terms require significant under-performance before the investment managers can be changed, although this does not prevent interaction and discussion of performance on an ongoing basis. The terms mean the Equitable Life do not, until 2022, have unfettered freedom to change unit-linked investment managers. The Asset and Liability Committee's Terms of Reference include investment oversight as follows: "The overall objective of the Committee is to deliver the Society's stated strategy "Carefully managing solvency to enable capital distribution and only then seeking to maximise return".	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. The rationalisation to 12 funds (including with-profits) is beneficial from both a governance viewpoint and to facilitate a manageable policyholder choice. The transition appears to have been undertaken smoothly. As with all features, further future development of investment options would have an associated cost which would have to be borne by the mutual's with-profits policyholders and therefore incurring such costs is not necessarily in the policyholders' best interests. The Committee structure to review unit-linked investment performance is substantial but the process has some limitations in the ability to make changes of investment manager if this became necessary. The rationalisation of the fund range was sensible and well-managed. The Asset and Liability Committee undertake their Terms of Reference comprehensively.

Description of arrangements	GAA assessment and opinion

Communications and Support – Statement of aims and objectives of investment strategies

The objectives of each unit-linked fund and the with-profits fund are stated and published on Equitable Life's website.	The description of fund objectives and how investment management is undertaken has been revised on the website, it should now be easier for policyholders to use the information in deciding whether to switch investment funds.

Communications and Support – Overall quality of written communications, including education on pension saving

Sample policyholder communications have been provided including an annual benefit statement, pre-retirement wake up letter and the open market option provided at retirement. Equitable Life have undertaken steps to ascertain views of policyholders through surveys of with-profits and unit-linked policyholders and feedback requests for retirees and for policyholders who transfer out. Equitable Life have liaised with the GAA on suitable survey questions for policyholders.	In our opinion, policyholder communications are of a high standard overall. The steps taken to seek member views are extremely positive.

Communications and Support – Other support, including telephone and online

General information is available on the website and policyholders can obtain details of their fund value and other support by telephone. Equitable Life has used policyholder focus groups since 2014 to test reaction to some proposed changes to communications. During 2016/2017 four focus groups were employed to test communications with with-profits policyholders with alternative drafts provided to each group. The feedback was used to produce the final letter issued to these policy holders in January 2017 and to gauge what action policyholders would take on receipt of the letter. Although policyholders cannot log onto the website to see their fund value, they can obtain this information over the phone during weekday working hours. The addition of half-yearly statements from 2017 is a further new additional benefit for members.	In our opinion, policyholder communications are of a high standard overall and policyholders have access to good telephone support. The customer support team appears well managed. Our visit to Equitable Life on 28 June 2017 encompassed meeting the telephone support teams. This showed particular commitment to a high quality service for policyholders including resourcing and re-allocation of resourcing to deal with varying work demands, together with a high level of management monitoring. Some policyholders 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.

Description of arrangements	GAA assessment and opinion
Communications and Support – When choosing retirement options	
Pre-retirement ‘wake-up’ letters are issued 2 years before the selected retirement date. However, policyholders can alter their stated retirement date. A second ‘wake-up’ letter is issued 6 to 7months prior to their retirement date. A further push for policyholder responses is undertaken before retirement, with a 5 year rollover of the retirement date if there is no response. This has been reviewed by Equitable Life and was changed to a 2 year rollover in April 2017. The ‘wake-up’ pack is sent 4 months prior to retirement age. Policyholders are pointed towards the Money Advice Service and Pension Wise service.	The retirement pack is concise, factual and generally helpful for policyholders. The documents are of a reasonable quality, and good support is offered via telephone support. It is understandable that investment in detailed projection and financial management internet tools by Equitable Life for policyholders may not be the best use of limited resources and have not been made available.
Risk Management – Security of IT systems and data protection	
Significant security measures are in place and were discussed with the GAA on our site visit. Many of these incorporate staff procedures, requirements and training. Cyber security is reviewed at quarterly meetings and testing of security levels. Outsourced IT suppliers are vetted after a comprehensive tendering process. A GDPR implementation program is in progress.	We believe that IT security and plans for GDPR compliance are adequate, based on the description of the frameworks given to us. Note that we have not taken any independent advice from cyber security or data protection experts to support this opinion.
Risk Management – Financial strength and stability	
The financial strength of Equitable Life is constantly considered as a central element of all decisions. While it does not have the depth of a large growing assurer, its financial position is carefully managed and issues of policyholder fairness are embedded in its structure – because some decisions which benefit some policyholders may be at the expense of other policyholders. As a result its resources are carefully managed.	The monitoring of the financial position is constant and detailed. This is reflected in variations to surrender terms over time and the overall risks and costs borne by Equitable Life. Equitable Life are taking all expected steps to manage this for policyholders.
Risk Management – Independent assurance of Firm controls	
The internal audit function includes input external to Equitable Life. With the exception of external audit review of internal controls over financial reporting, there is no separate assurance audit accreditation for internal processes. A detailed internal audit of risk management was undertaken in early 2016. This included: • Extent to which risk management arrangements support the achievement of strategic objectives • Performance of risk oversight committee duties for a range of committees • Strength of risk management within the Society’s culture	Given Equitable’s history and the centrality of fairness in its decision making and external scrutiny by policyholders, risk management is a key strength of Equitable Life today. Whilst no independent assurance of processes and procedures is carried out by an independent third party, we believe the internal audit process is appropriate and that actions are addressed where the audit identifies areas for improvement.

Description of arrangements	GAA assessment and opinion
The Asset and Liability Committee was specifically included within this review. The review concluded that the Risk Management Framework is generally functioning effectively and is embedded within the Society's Policies and processes. Also, the governance committees are adequately considering the Society's risk with risk actions being tracked through committees and frequently challenged and debated in committee meetings.	

Risk Management – Product Development process to assist policyholder outcomes

Description of arrangements	GAA assessment and opinion
There is a regular process of internal product review to ensure that products remain fit for purpose and suitable for policyholders.	We believe that the process of internal product review is appropriate and that actions are addressed where the audit identifies areas for improvement.

Risk Management – processes for protecting policyholders against fraud and scams

Description of arrangements	GAA assessment and opinion
Various processes are in place including multiple security checks before the provision of information and signature checking. Transfer requests are checked against registers of schemes and payments have a strict internal authorisation process.	Equitable Life are taking all expected reasonable checks against fraud and scams.

Administration service and core financial transactions

Description of arrangements	GAA assessment and opinion
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. Equitable Life has provided details of complaints to us in regard of Grouped Personal Pension Plans plus the outcome of the complaints. For the last 12 to 18 months these have run at the level of around 10 per annum of varying nature which is very low in relation to the number of policyholders. We visited the administration team in 2016 and discussed service levels, resourcing and processes with administration staff.	We believe the administration service provided to policyholders is of a good standard and that core financial transactions are processed promptly and accurately. Complaints are rare reflecting good service standards and are dealt with appropriately. The administration team we met showed that high standards of administration are maintained with strong management from administration team leaders.

Description of arrangements	GAA assessment and opinion

Other governance or support arrangements

Additional governance structures for the benefit of policyholders that are specific to Equitable Life include the With-Profits Committee for policyholders 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 very clear communications with with-profit policyholders regarding capital distributions when circumstances require. This is not straightforward to manage but clear points are made within the communications.	There are no additional benefits to policyholders by virtue of their membership, and we note that this is unlikely to be appropriate bearing in mind that as a mutual 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.

Retirement options

At retirement, policyholders can take their whole benefits as cash or withdraw a series of Uncrystallised Funds Pension Lump Sums (UFPLS). If policyholders want to select income drawdown they need to transfer out of Equitable Life. Partial UFPLSs are allowed subject to a minimum residual fund value of £2,500. A minimum £5,000 partial UFPLS amount applies. 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 the preferential annuity terms under an agreement with Canada Life.	The range of choice at retirement is reasonable for policyholders 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.

Charges and direct and indirect costs borne by policyholders

The Annual Management Charge (AMC) is 1.0%pa for with-profits. An additional annual charge of 0.5% is made for the with-profits fund to cover the costs of the guarantees. A reduced allocation rate of 95.5% applies in the very small number of cases where new contributions are being paid. The with-profits charge is subject to regular formal review comparing charges against expenses in the past and projected in the future run-off, taking into account changes to unit-liked charges. 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, because these were being subsidised by with-profits policyholders. This resulted in varying charges for different funds with effect from 1 April 2016. Charges range from 0.5%pa to 1.0%pa. This applies to all series of policies. A bid/offer spread of 4.5% applies to the small number of cases where unit-linked premiums are being paid, apart from the GPPP2000 contracts where no such bid/offer spread exists.	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 appropriate charge is considered carefully by the Equitable Board. Equitable Life have reviewed charges for unit-linked funds to ensure fairness between all policyholders and the new charges were introduced from 1 April 2016.

Description of arrangements	GAA assessment and opinion
Unit-linked investments are held in externally managed Open Ended Investment Company funds (OIECs). Equitable Life meets in full the Ongoing Charges Figures for each fund, with the exception of the Property Fund where those costs related to managing the property investments are borne additionally by the policyholders. This is known as the Property Expense Ratio. The Property Expense Ratio for the year to 31 December 2016 was 0.29% pa.	
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. Transaction cost calculation methodology required by the FCA and timings have now been clarified by the FCA with an effective date of 3 Jan 2018. As such there has been limited time since then to meet the requirement within the reporting period. Equitable Life have provided considerable 2017 information based on explicit costs incurred. Data on implicit costs is outstanding, which is required to fully comply with the new method. Equitable Life have requested and expect information for the start of 2018 shortly. The 2017 information showed small costs for the main managed fund and varied, but reasonable costs for other funds.	Limited information was provided on transaction costs, due to the difficulties of analysing implicit costs. Equitable Life have made efforts to provide information and details have been provided for each fund. The costs are difficult to analyse due to the impact of dilution charges. The GAA will look in more details at the transaction costs in future reports. The methodology and timing have now been clarified by the FCA. The industry is currently consulting on ways to ensure consistent reporting of this information. Within the contraints we have been able to conclude reasonable costs close to what may be expected. We are expecting to be able to provide fuller information next year.

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 policyholders.

Appendix 3

Background and credentials of the PTL Governance Advisory Arrangement

In February 2015 the Financial Conduct Authority (FCA) set out new rules for Providers operating workplace personal pension plans (called relevant schemes) to take effect from 6 April 2015. From that date, 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 of those pension plans and to
- Assess the 'value for money' delivered by the pension plans to those relevant policyholders.

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 was established on 6 April 2015 and has been appointed by a number of workplace personal pension Providers. 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 **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 **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 **www.deanwettonadvisory.com**.

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 is 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.

Terms of reference

The terms of reference agreed with Equitable Life can be found at:
www.equitable.co.uk/media/49927/gaa-tor-side-letter.pdf

Glossary

Allocation rate

The proportion of the investment that is invested. Any deduction is typically to cover set up costs. Where the allocation rate is more than 100%, this is typically to reduce the effect of other charges or costs.

Annual Management Charge or AMC

A deduction made by the pension provider or investment manager from invested assets, normally as a percentage of the assets. The AMC is generally how the pension provider or investment manager is paid for their services.

Annuity

A series of payments, which may be subject to increases, made at stated intervals, usually for life. If the annuity is 'joint life', it will continue to a spouse (usually at a lower rate) after the death of the original person receiving the payments ('the annuitant').

Core financial transactions

The essential processes of putting money into a pension policy or taking it out, namely:

- Investment of contributions
- Implementation of re-direction of future contributions to a different fund
- Investment switches for existing funds, including lifestyling processes
- Settlement of benefits – whether arising from transfer out, death or retirement

Default investment strategy

The investment funds into which contributions are invested for policyholders who do not select other specific investment funds from the full range of funds available.

Lifestyling

An automated process of switching investment strategy as a policyholder approaches retirement, in a way that is designed to reduce the risk of a policyholder's retirement income falling.

Transaction costs

A combination of explicit and implicit costs included within the price at which a transaction (i.e. buying or selling an asset) takes place.

UFPLS or Uncrystallised Funds Pension Lump Sum

A method of drawing cash from a pension pot without buying an annuity or using drawdown.

With Profits

An insurance contract that participates in the profits of an insurance company. The insurance company aims to distribute part of its profits to with-profits policyholders in the form of bonuses.

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