

Extraordinary General Meeting - question and answer summary

At the EGM on 26 October 2007, questions were asked by 23 members and their proxies. A summary of the themes covered is set out below:

1. Potential Government compensation
2. Calculation of the transfer
3. Prospects for with-profits annuitants after transferring to Prudential
4. Smoothing
5. The future for remaining policyholders
6. Outstanding claims against the Society
7. Miscellaneous

Potential Government compensation

The Parliamentary Ombudsman is currently investigating the regulation of the Society. If she reaches a finding of maladministration with regard to the regulators and that maladministration led to injustice, she has the power to recommend to Parliament that the Government should pay compensation.

We will support in any way we can the fair distribution of any such compensation to policyholders. We have no reason to suppose that the transfer of with-profits annuitants to Prudential will have any effect on their prospects for compensation.

Prudential has also confirmed that it will support the fair distribution of Government compensation to policyholders.

The Government's reaction to Northern Rock appears markedly different to its reaction to the problems at Equitable Life. It was noted that Northern Rock is a bank and that the failure of a bank may be regarded by Government as creating the risk of systemic failure (a run on other banks). The response in respect of Equitable Life is simply that no statement will be made until the Parliamentary Ombudsman's report is available. At that time, it will be helpful to try to influence MPs and journalists to support Equitable Life's policyholders. Equitable Life has meetings with MPs in preparation for this coming period.

Calculation of the transfer

The proposal effectively sets out the methodology for working out the appropriate amount of funds to transfer to Prudential along with the with-profits annuity policies. The actual figures will be calculated when we have the figures for the end of the year. The calculations will, therefore, allow for the best information available at that time (rather than the latest available when the mailing was produced).

Although the amounts relating to the transfer are described in monetary terms the actual transfer will involve a transfer of assets (Government and corporate bonds, property, equities as well as cash).

An enormous amount of effort has gone in to ensuring that the terms of the transfer will provide the with-profits annuitants with their rightful share of the Society and no more. That is clearly a fundamental part of the proposal and there are a number of safeguards to ensure that objective is achieved.

The 0.5% pa deductions for the cost of guaranteed annuity rates which are proposed to continue until 2010 will be allowed for in the calculation of the transfer amount, so those deductions will continue after the transfer. (These deductions have been described in the Society's statement of bonus in the Annual Reports for several years.)

The costs of completing the transaction are estimated in the documents at £35 million. The costs are substantial because of the amount of work involved in such a large and complex transaction. The allocation of costs is weighted towards the with-profits annuitants because they will see the most immediate benefits from the transfer.

Prospects for with-profits annuitants after transferring to Prudential

Whether annuities reduce after the transfer will depend on the anticipated bonus rate in the policy and the bonus rates declared by Prudential. (Note: With-profits annuity policies which started before 1 July 1996 include a guaranteed investment return of 3.5% pa. This means that they require an overall allocated investment return of 3.5% more than the stated anticipated bonus rate in order to maintain a level pension.)

Because Prudential will have much greater investment freedom, 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 the annuities had remained with Equitable Life.

Projected figures were not provided in the documentation as they could easily distract members from the relatively straightforward principles of the transfer. Many policyholders appreciate the value of greater investment freedom and the prospect of having a proportion of their funds in equities and property closer to the proportion available when their with-profits annuities were purchased. However, the impact on different policies with different rates of anticipated bonus is complex to illustrate and the fundamental choice of a future rate of investment return with which to illustrate is always going to be unreliable.

Consideration of what Prudential pays in bonus to its existing with-profits annuities is not helpful, because the structure of those policies is different from Equitable Life's with-profits annuities.

Prudential will determine bonuses for the transferred policies in the same way that Equitable Life did, but the outcome will reflect the Prudential's investment performance (net of the costs set out in the documents and smoothing), not Equitable Life's investment performance.

The Society will no longer need the annuitant's share of the Excess Realistic Assets (the difference between the value of the liabilities of Equitable Life including final bonus and the total value of the assets). Part of the with-profits annuitants' share of the Excess Realistic Assets will be used to cover costs arising from the transfer and any balance will be available to with-profits annuitants in the form of a special bonus addition to their policies. We have tried not to build expectations because the bonus, if any, is unlikely to be a significant amount.

There has been media speculation about the future of Prudential, but the protections provided for with-profits annuitants in the transfer would be preserved even if that part of Prudential's business was subject to some future sale.

Smoothing

It is not necessary for a 'smoothing kitty' to be built up by Prudential in the early years after the transfer. The surplus assets in Prudential's WPSF will be used to support smoothing for the transferring policies, as they are for Prudential's other with-profits business.

Over time the impact of smoothing for the transferring policies on Prudential's WPSF should be zero, but from time to time the balance between the transferring policies and Prudential's WPSF may be positive or negative.

The future for remaining policyholders

In the hope that the transfer of with-profits annuitants to Prudential will be supported by members and the Courts, work has started to prepare the data book for the remaining business. This will enable the Board to move as quickly as possible to see what long term strategies are available for those (80%) who remain. Any alternatives will be measured against the option of running off the business by the Society itself.

Outstanding claims against the Society

The Society is rigorous in its handling of claims because, as a mutual, the cost of paying claims inevitably comes from what could otherwise be paid to other policyholders.

Having taken legal advice, we believe that there are no valid generic claims.

With regard to individual claims, in the interests of members, the Society continues to try to settle valid claims and to defend the Society against claims which we believe are not valid.

The Society has made appropriate provision for the potential cost of settling those claims which we believe will be valid. If, in the event, the provision is greater than is eventually needed for such claims, the balance will remain with the Society.

Miscellaneous

A small number of minor errors were identified in the Policyholder Circular after it was printed and these are listed in the errata document on the Society's website.

The option of reducing the anticipated bonus rate under a with-profits annuity has been suggested as an attractive concept at various times in the past. However, the impact on the annuities of a significant immediate reduction in income has always removed the apparent appeal.

We continue to be unable to transfer annuities on an individual basis.

The financial position of the Society means that although it is stable and secure, it will not be possible to reopen it again to new business.

The latest figure for the Excess Realistic Assets is £849 million at 30 June 2007 (this is in the interim review, in Part VII of the Policyholder Circular).

The date for the meeting (falling in half term) was largely dictated by the timescales necessary for the transfer, if approved, to be completed at the end of the year.

The Board will consider the suggestion by a member that the Society could make a charitable donation to the Samaritans, though there was little support from members attending the meeting.