HM TREASURY

The Equitable Life Payment Scheme design

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Foreword

In May 2010 the Government pledged to "implement the Parliamentary and Health Ombudsman's recommendation to make fair and transparent payments to Equitable Life policy holders, through an independent payment scheme, for their relative loss as a consequence of regulatory failure." Fairness and transparency and, additionally, simplicity have continued to be the driving principles behind the Government's approach to delivering on this pledge. Because of the years of waiting and frustration that more than one million policyholders have endured, the Government has moved swiftly to ensure that the Scheme is in place as quickly as possible, so that those who have suffered losses as a result of maladministration are finally able to receive redress.

At an early stage, the Government announced that there would be no means-testing as part of this Scheme, and that the estates of the deceased would be eligible for payment. When the Government subsequently published Sir John Chadwick's report, it recognised the contentious nature of his advice and thought it right to open it up to public debate. We listened to and took on board the views of interested parties.

At the Spending Review, the Government announced that in the region of £1.5 billion would be made available to the Scheme. While this figure was not as high as some might have hoped, the Government had to take into account the impact on the public purse – a view that the Parliamentary Ombudsman expressed in her report. We had to balance the needs of affected policyholders against those of taxpayers and users of public services more generally at a time when the Government has to tackle the largest peacetime budget deficit in the UK's history.

Despite the challenging fiscal situation, the Government found a way to put forward a proposal that is fair to both policyholders and taxpayers.

The Scheme design reflects the Government's core principles, and also the relevant analysis of Sir John Chadwick and his actuaries, Towers Watson, and the advice of the Independent Commission on Equitable Life Payments. It is essential that policyholders can understand how payments have been calculated and the process by which they will receive any payments that they are due.

In keeping with the Government's commitment to transparency, this document sets out, in detail, the Scheme design for policyholders, Members of Parliament and other interested parties, including:

- the Scheme rules;
- the Scheme administration and timetable;
- the methodology behind loss and payment calculations;
- the Scheme's approach to making payments;
- the details of the queries and complaints procedure; and
- the plans for communicating with policyholders.

Having spent a great deal of time in dialogue with interested parties, the Government is now approaching the final stages of preparation before the Scheme begins to make payments to policyholders. The Government's ambition is for these payments to begin before the end of June.

Mark Hoban

Financial Secretary to the Treasury

1 Introduction

1.1 The Equitable Life Payment Scheme ('the Scheme') is due to be launched before the end of June 2011. This document sets out the origins and design of the Scheme:

- **Chapter 2** provides a brief summary of the Scheme, including key information for policyholders;
- the **main body** (Chapters 3 to 12) provides an overview of the Scheme design, including an outline of the rules for calculating losses and payments, and the process for communicating with and making payments to policyholders; and
- **Annex A** provides technical information on the Scheme design, including detail of the rules and assumptions used in the calculation of losses and payment amounts. It should be read as the definitive technical description of the Scheme design and used by those wanting to understand the technical detail of the Scheme. It contains a glossary of terms used throughout the document.

A Note on Terminology

1.2 The term 'policyholder' is used throughout this document to ensure that it is understandable. The term refers to the named individual(s) or trustee(s) associated with each policy. For simplicity's sake, in using this terminology in much of the main body of the document, the assumption is made that the policyholder is the recipient of any payments due under the Scheme. This is the case for most policies. However, it should be noted that there are some exceptions to this rule, and that in some cases the Scheme will make payments to persons (payees) who are not policyholders (see Chapter 5 for further details).

2 A Brief Summary of the Equitable Life Payment Scheme

2.1 This chapter contains a summary of the Scheme. The Scheme rules and other details have been simplified to highlight the main features and key information for policyholders and other readers. Further detail of the Scheme is set out in the main body of the document (Chapters 3 to 12) and in the technical annex (Annex A).

The Equitable Life Payment Scheme

2.2 The Equitable Life Payment Scheme is a scheme set up by the Government for those persons who were adversely affected by the maladministration in the regulation of Equitable Life. In October 2010, the Government accepted that Equitable Life policyholders had suffered Relative Losses totalling £4.3 billion.[1] Taking into account other pressures on the public purse, it announced an allocation of funding in the region of £1.5 billion for payments to these policyholders.

2.3 The Government has designed the Scheme around the principles of fairness, transparency and simplicity. The purpose of this document is to set out how the Scheme will work in practice.

2.4 The design of the Scheme has drawn on advice and representations from interested parties including:

- the Parliamentary and Health Service Ombudsman's report *Equitable Life: a decade of regulatory failure*,[2] which recommended that the Government establish a payment scheme;
- Towers Watson's actuarial advice and calculation of Relative Losses;[3]
- the 2010 Spending Review representations and evidence from interested parties; and
- the advice from the Independent Commission on Equitable Life Payments[4] ('the Independent Commission') on principles for allocating the available funding between policyholders, and whether any should be paid as a priority.

2.5 The Treasury has asked National Savings and Investments (NS&I) to deliver the Scheme on its behalf.

2.6 To ensure that the Scheme is robust in its ability to make the required volumes of payments and to communicate with policyholders, it will build up operational capacity from June onwards.

2.7 The Scheme is expected to begin making payments before the end of June 2011. Policyholders need take no action at this stage. The Scheme will contact policyholders directly, so there is no need for them to contact the Scheme.

[1] Towers Watson has since revised this figure to £4.1 billion. This was driven by continued improvements made to the calculations, refinements of individual policies' Relative Loss calculations, addressing data issues and on-going review of individuals' Relative Losses. See the letter from Towers Watson to the Financial Secretary to the Treasury (18 January 2011) in Independent Commission for Life Payments Scheme: achieving a fair allocation and order of payments (ICELP), 21 January 2011, pp.79-81.

[2] Equitable Life: a decade of regulatory failure, Parliamentary and Health Service Ombudsman, July 2008.

[3] Actuarial Advice to Sir John Chadwick, Towers Watson, 14 July 2010; and Actuarial Advice to the Independent Commission on Equitable Life Payments, Towers Watson in ICELP, 21 January 2011.

[4] ICELP, 21 January 2011.

Who is eligible for the Scheme?

2.8 There are three types of Equitable Life policy that are eligible for the Scheme. To be considered eligible for the Scheme, a policyholder must hold, or have held, one (or more) of these policies:

1 *Accumulating With-Profits (AWP).* There are two broad categories of AWP policy:

- *Individual* policies – purchased by, and held in the name of, an individual (or joint) policyholder; and
- *Group/Group scheme* policies – predominantly occupational pension schemes purchased by trustees on behalf of scheme members.

2 *Conventional With-Profits (CWP).*

3 *With-Profits Annuity (WPA).*

2.9 To understand which Equitable Life products falls into one of these policy categories, please see the full list of products on page 22.

2.10 That policy must:

- in the case of CWP and WPA policies, have been purchased between 1 September 1992 and 31 December 2000 inclusive; and
- in the case of AWP (both individual and Group scheme) policies, either have started between 1 September 1992 and 31 December 2000 inclusive, or had a premium payment made into it between 1 January 1993 and 31 December 2000.[5]

2.11 For a **policyholder to be considered 'eligible' for the Scheme**, they must have invested in an AWP, CWP or WPA policy between these dates.

2.12 **To be considered for payment**, the policyholder must hold (or have held) at least one eligible policy that has made a 'Relative Loss'.

2.13 In essence, Relative Loss is the difference between the actual returns received, or expected to be received, from Equitable Life and the assumed returns that the policyholder would have received if they had invested the same amount in a similar product in a comparable company.[6] This means that:

- if the value of the Equitable Life policy is less than it would have been at a comparable company, the policy would be deemed to have made a *Relative Loss*; and
- if the value of the Equitable Life policy is *greater* than it would have been at a comparable company, the policy would be deemed to have made a *Relative Gain.*

2.14 Policies could have made a Relative Loss or a Relative Gain, depending on how they performed compared to similar products at comparable companies. It is only those policies that have made a Relative Loss that may lead to a payment. Where a policyholder has more than one policy, any gains will be offset against any losses wherever it is fair and practical to do so.[7] Where a policyholder has an individual policy and is a member of a Group policy, this is not feasible. In these instances the individual policy and Group policy will be treated separately for the purpose of the Scheme.

[5] See Chapter 5 for further information on eligible policies.
[6] See Chapter 6 for the full definition of Relative Loss, and how it is calculated.
[7] Exceptions are set out in Chapter 7.

When can I expect to hear from the Scheme?

Individual policyholders

2.15 In accordance with the advice the Government received from the Independent Commission on Equitable Life Payments, the Scheme aims to:

- **commence payments to WPA policyholders[8] before June 2012**;
- in terms of order of payment to AWP and CWP policyholders, **prioritise the oldest policyholders** for earlier payment; and
- **prioritise payments to estates of deceased policyholders**, recognising that contact has to be made with administrators and executors once they have been traced, which could take time.

2.16 The Scheme will aim to contact **all eligible individual policyholders** before June 2012, regardless of whether they will receive a payment. To be eligible for the Scheme, policyholders must meet the criteria set out on page 8. Information provided to policyholders will include a statement explaining the value of any payment and, if applicable, details on when they can expect to receive it.

2.17 The Scheme will make contact with eligible policyholders using contact information supplied by Equitable Life and Prudential (for policyholders who had their policy transferred to Prudential). A data tracing service will be used to check and verify these details.

2.18 This means that:

- **for those receiving a payment before June 2012**, this payment will be sent soon after the letter and statement;
- **for those receiving a payment in year two or three of the Scheme (i.e. June 2012 onwards)**, the Scheme will write to these policyholders before June 2012, explaining when they can expect to receive their payment and its value. The payment itself will follow;
- **policyholders who are not receiving a payment,** either because they did not make a Relative Loss or because they made one that falls below the minimum payment level,[9] will also receive a letter and statement before June 2012 explaining the calculation; and
- other policyholders who may have had a policy with Equitable Life but are not eligible will not receive any direct communication.

Group policyholders

2.19 In principle, Group policyholders who are to receive a payment will be treated the same as holders of individual policies. However, there are additional complexities in retrieving contact information for members of Group schemes, which will take time to resolve. Therefore, members of Group schemes may not be contacted until after June 2012. For Group scheme members who are not due a payment, the Scheme will inform the policy trustee and leave it to the trustee's discretion as to how it will inform its members.

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[8] Where appropriate, WPA policyholders are also referred to as 'annuitants' in this document.

[9] The minimum payment level is set at £10, as recommended by the Independent Commission. See ICELP, 21 January 2011, .p7.

Exceptional cases

2.20 There may be exceptional cases where it is not possible to adhere to the processes or timelines set out above. This may happen, for example, if the policyholder is deceased (in which case the Scheme will seek to trace and make payment to the executor or administrator of the policyholder's estate as a matter of priority), or if there is incorrect information in the data provided to the Scheme by Equitable Life and Prudential. The Scheme will make every reasonable effort to avoid unnecessary delays in making payments.

How much will my payment be?

2.21 If the policyholder has made a Relative Loss, there are three factors that will determine the value of the payment received under the Scheme:[10]

1. What type of policy was purchased:
   - **all Relative Losses on WPA policies will be covered in full**; and
   - **the funding set aside by the Government for AWP and CWP policies will be allocated on a *pro rata* basis**, in proportion to the size of policyholders' Relative Losses. This means AWP and CWP policyholders will receive 22.4 per cent of their Relative Losses.
2. Whether the loss is 'small': the Government accepts the Independent Commission's recommendation that a £10 *de minimis* level should be applied beneath which payments should not be made, to avoid disproportionate administration costs. The £10 *de minimis* will not apply to WPA policyholders.
3. Whether an individual has more than one policy and whether there have been losses or gains on each of them. Where it is fair and practicable to do so, the Scheme will:
   - **offset Relative Losses and Relative Gains across all policies** held by one policyholder. In other words reducing the Relative Loss accordingly if a policyholder has any other policies that have made a gain.[11]
   - **take a collective view of all policies held by a policyholder when applying the £10 *de minimis***. This means that policyholders with small losses spread across a number of policies will not be disadvantaged compared to those with an equivalent loss on a single policy.

2.22 The **two decision tree diagrams overleaf summarise the key steps** in determining whether a policy is eligible for the Scheme, and whether the policyholder will receive payment.

How will payments affect benefits, tax and tax credits entitlements?

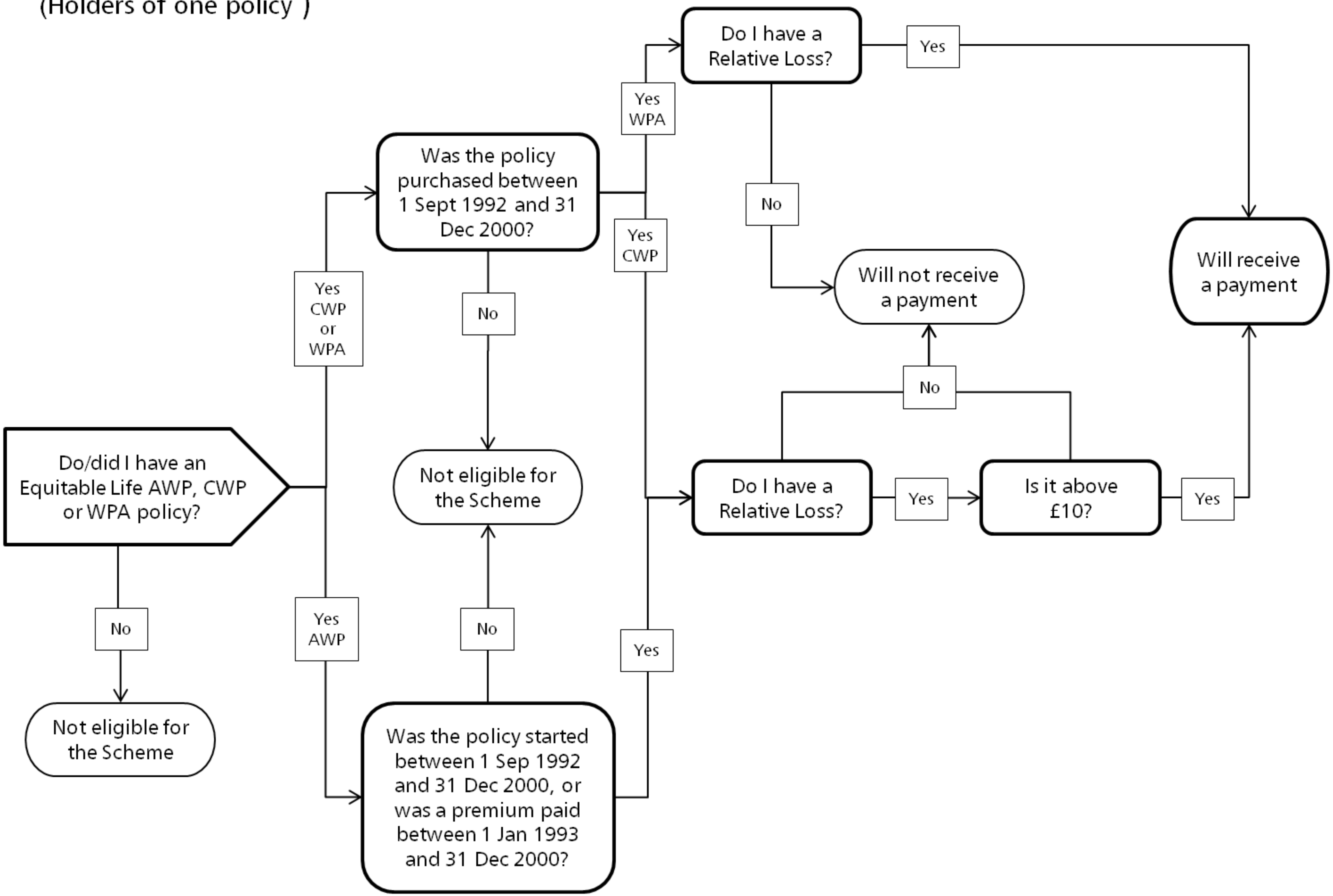
2.23 Authorised payments made through the Scheme will be free of UK Income Tax, Capital Gains Tax, or (in the case of companies) Corporation Tax.

2.24 All authorised payments made through the Scheme will not affect policyholders' eligibility for child or working tax credits. For the purposes of social security – including Pension Credit – and social care, the payments will be classed as income (for WPA payments) or as capital (for payments in relation to the other policy classes), and will affect eligibility for social security payments in the same way as any other change to their income or capital.

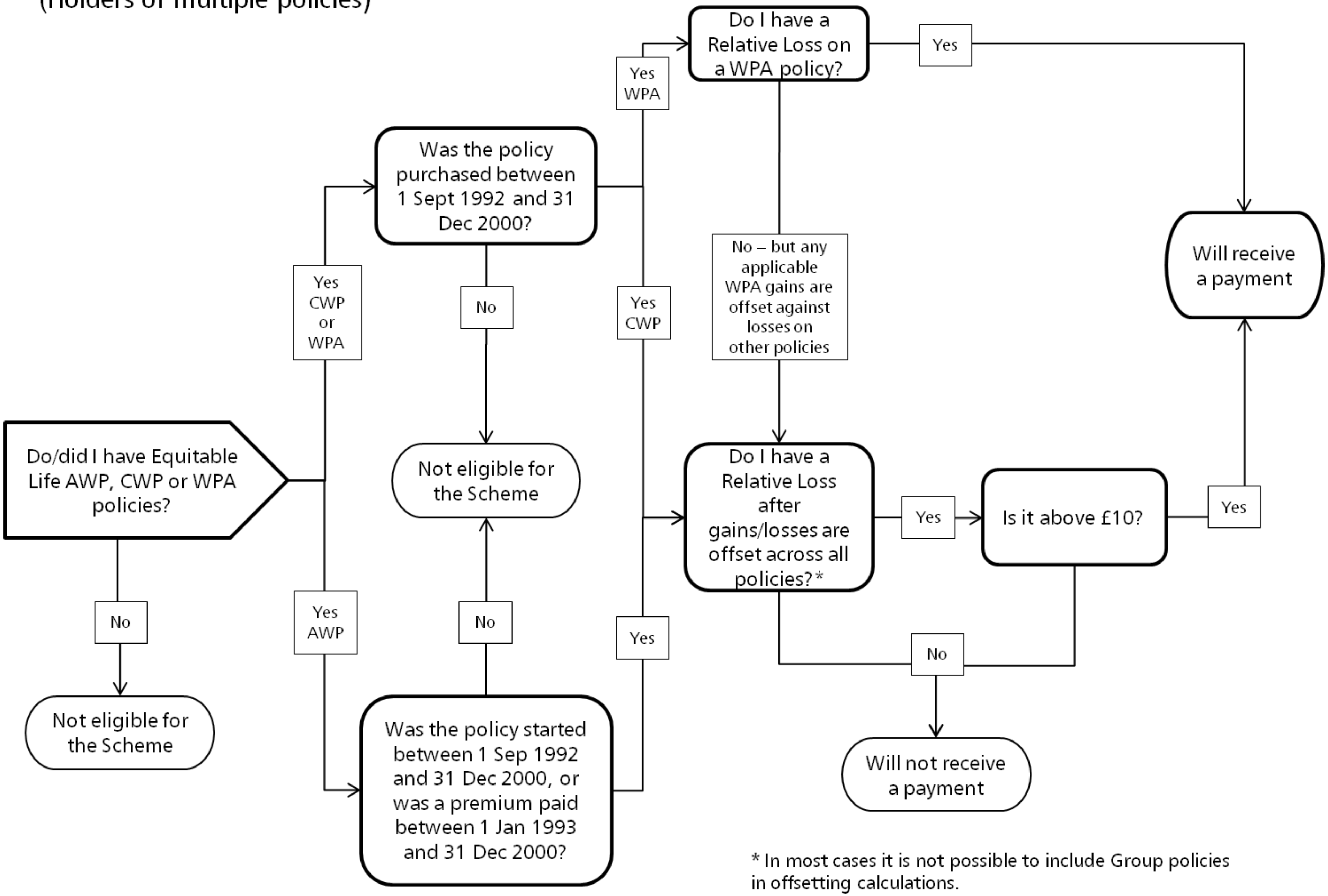
[10] The Scheme payment allocation reflects the Independent Commission's recommendations.

[11] There are some exceptions where offsetting will not be applied. See Chapter 7 for details.

Will I receive a payment from the Scheme?
(Holders of one policy)



Will I receive a payment from the Scheme?
(Holders of multiple policies)



* In most cases it is not possible to include Group policies in offsetting calculations.

How will payment be made?

AWP and CWP policies

2.25 The Scheme will make a **single 'lump sum' payment** to holders of AWP and CWP policies. Policyholders who hold more than one AWP and/or CWP policy will receive a single payment for their combined losses on the policies where possible.

Group policies

2.26 Group policyholders will receive a **single 'lump sum' payment** where possible. This will be a separate payment from any AWP, CWP or WPA payments they may receive.

WPA policies

2.27 WPA policyholders will receive **annual payments** from the Scheme. The first payment, which in most cases will be made in the first 12 months of the Scheme, will be sent soon after a letter and a statement. Future annual payments will then be made automatically by electronic bank transfer. Policyholders will be asked to supply relevant bank account details.

2.28 It should be noted that there are a number of additional complex features associated with the payment of Relative Losses for WPA policies. The Scheme will therefore make payments as follows:

- payments for each policyholder's past losses – in other words Relative Losses suffered prior to 31 December 2009 – **will be spread evenly over the first five years of the Scheme**;
- payments for future losses – in other words Relative Losses that the policyholder continues to suffer (since 1 January 2010) as a result of annuity payments being lower than they would have been had the policyholder purchased a similar product with a comparator company – will begin in the first 12 months of the Scheme and continue to be made annually in arrears for the lifetime of the policy;[12]
- where a policyholder has died before the start of the Scheme, all of their past losses and any future losses they have accrued (i.e. those accrued between 1 January 2010 until date of death) will be paid as a single lump sum to their estate. If there is a surviving second annuitant on the policy, they will receive any past losses accrued between the date of death of the first annuitant and December 2009, as well as any subsequent future losses. These will be paid on an annual basis as above;
- on the death of a policyholder who is already in payment under the Scheme, any outstanding losses (past or future) will be paid in a single lump sum to their estate. If there is a surviving second annuitant on the policy due payments under the Scheme, their losses will be paid on an annual basis as above; and
- the Scheme will honour fixed term and guaranteed periods.

[12] It should be noted that where policyholders have both past Relative Gains and estimated future Relative Losses on their WPA policies, then the past gains will be offset against the future losses. In practice this will mean that payments to these policyholders will not commence until the cumulative future losses exceed the value of the past gains.

How do I find out more?

2.29 In addition to eligible policyholders receiving a letter and statement from the Scheme, a website and call centre will be available to respond to general queries.

2.30 The **website** (http://equitablelifepaymentscheme.independent.gov.uk) will contain information on eligibility and how the Scheme works. The Government recognises that for some policyholders a website will not be the easiest way to find information, therefore a dedicated call centre will also be available.

2.31 The **call centre's** trained staff will be able to resolve most queries, or answer general questions about the Scheme's design. However, for security reasons personal information relating to a specific policy(ies) or policyholder(s) cannot be given over the phone. Therefore, policyholders are strongly urged to wait until they receive their letter and statement from the Scheme before contacting the call centre.

2.32 If policyholders have queries or complaints, they can submit them to the Scheme in writing or via the call centre. It is not possible for policyholders to challenge the rules of the Scheme through the queries and complaints procedure. Policyholders may only challenge their calculation in cases where those rules have been incorrectly applied to their policy or policies. In these cases the policyholder will be asked to supply supporting documentation in connection with their claim.

What do I need to do next?

2.33 Policyholders do not need to take any action at this point. There is no requirement to register with the Scheme to be part of it. The Scheme will make contact with eligible policyholders as explained above, using information supplied by Equitable Life and Prudential (for policyholders who had their policies transferred to Prudential). A data tracing service will be used to check and verify these details. The Scheme will aim to locate and contact eligible policyholders directly, informing them of any payments due where applicable. The only exception is for Group scheme members who will not be receiving a payment. In these instances the Scheme will inform the Group trustee, who will decide how to inform its members.

2.34 If any policyholders have moved since they bought their policy and have provided their new address to Equitable Life, Prudential or their Group scheme, the Scheme should also have it.

3 Background

The Events at Equitable Life

3.1 Founded in 1762, Equitable Life is a mutual insurance company owned by its members. From 1957 to 1988 Equitable Life sold significant volumes of policies that included a guaranteed annuity rate (GAR). These policies provided a fixed rate at which policyholders were entitled to purchase an annuity on retirement.

3.2 In July 1988 Equitable Life stopped selling policies with GARs, although existing policies remained valid and further premiums could be made on the same terms.

3.3 By the end of 1995, immediate annuity rates had fallen below the level of the GARs and subsequently fell further. This made it more expensive for Equitable Life to pay out on its GAR policies. In response to this, Equitable Life adopted a differential terminal bonus policy which reduced the level of terminal bonus paid to policyholders exercising their GARs and thus equalised the benefits taken by GAR and non-GAR policyholders.

3.4 In January 1999, in response to complaints about the legitimacy of the differential terminal bonus policy, Equitable Life launched legal action against a representative GAR policyholder, Mr Hyman. This was in order to seek the Court's confirmation that the Society's approach was lawful. In September 1999, the High Court ruled that the Society was entitled to operate its differential terminal bonus policy. However, the case then went on to the Court of Appeal and eventually to the House of Lords. On 20 July 2000, the House of Lords ruled against the Society with the effect that Equitable Life could no longer apply its differential terminal bonus policy.

3.5 The House of Lords decision significantly increased Equitable Life's liabilities. In an attempt to secure a fresh injection of capital, Equitable Life put itself up for sale. When no buyer could be found, the Society closed its doors to new business on 8 December 2000.

3.6 In the following years, many policyholders who left the fund early were subjected to Market Value Adjustments (MVA), and cuts were also made to policy values.

3.7 In July 2004, the Parliamentary Ombudsman announced that she would carry out an investigation into the prudential regulation of Equitable Life in the decade leading up to the closure of the Society to new business. Following extensive investigation, she published her report *Equitable Life: a decade of regulatory failure* in July 2008.

3.8 In the report, the Parliamentary Ombudsman made 10 findings of maladministration and five findings of injustice. Her central recommendation was that the Government should establish and fund a compensation scheme with the aim of restoring those who suffered a Relative Loss to the position they would have been in if the maladministration had not occurred.[1] The Parliamentary Ombudsman also accepted that "it would be appropriate to consider the potential impact on the public purse of any payment of compensation."[2]

[1] Parliamentary and Health Service Ombudsman, July 2008, p.395.

[2] Ibid, p.392.

The Government's Response

3.9 The Government responded to the Parliamentary Ombudsman's report in January 2009. It agreed that there were some instances of maladministration by public bodies, but rejected a number of the Parliamentary Ombudsman's findings, including that compensation should be awarded. Recognising the injustice suffered by policyholders, the Government instead announced plans to set up a scheme for making ex-gratia payments to those policyholders who were most affected by the maladministration.

3.10 Sir John Chadwick, a former Lord Justice of Appeal, was asked in January 2009 to advise the Government on the design for an ex-gratia payment scheme.

3.11 Following the Parliamentary Ombudsman's report, the Equitable Members Action Group (EMAG) subsequently launched a judicial review into the Government's decision to reject some of the Parliamentary Ombudsman's findings and her recommendation for a compensation scheme. The Court handed down its judgment in October 2009, in which it rejected EMAG's legal challenge to the proposed ex-gratia scheme. However, it upheld the challenge to the Government's rejection of some of the Parliamentary Ombudsman's findings. The Government subsequently accepted those findings on which the challenge was upheld.

3.12 In May 2010, the Government pledged to "implement the Parliamentary and Health Ombudsman's recommendation to make fair and transparent payments to Equitable Life policy holders, through an independent payment scheme, for their relative loss as a consequence of regulatory failure".

3.13 Sir John's Chadwick's final report was published on 22 July 2010, along with a letter from his actuarial advisors, Towers Watson, setting out estimates of the loss figures produced at each stage of his methodology. The loss figures at these different stages were estimated to range from between £400-500 million to £4.0-4.8 billion.[3]

3.14 At the same time, the Government introduced the Equitable Life (Payments) Bill on 22 July 2010 to authorise the Treasury to incur expenditure in making payments to policyholders through the Scheme.

The Independent Commission on Equitable Life Payments

3.15 The Independent Commission on Equitable Life Payments was appointed in July 2010. The Commission consisted of Brian Pomeroy CBE (Chair), John Howard and John Tattersall. It was asked to:

- "recommend how best to fairly allocate funds provided for the Equitable Life Payment Scheme as part of the Autumn 2010 Spending Review to those persons found to have suffered Relative Losses as a result of accepted Government maladministration; and
- advise on any groups/classes of persons that should be paid as a priority."[4]

3.16 The Government asked the Independent Commission to consider the estates of deceased policyholders as part of the Scheme, and to avoid means testing as a method for deciding how payments should be allocated between policyholders. The Independent Commission was also asked to have regard to Sir John's findings on 'disproportionate impact' and the impact of its recommendations on the basis of gender, age, ethnicity and disability.

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[3] Advice to the Government in relation to the proposed Equitable Life payment scheme, The Office of Sir John Chadwick, 22 July 2010; and the letter from Towers Watson to the Financial Secretary to the Treasury, 21 July 2010.

[4] See the original Independent Commission Terms of Reference (www.hm-treasury.gov.uk/d/equitablelife_commission_tor.pdf).

Funding available for the Scheme

3.17 On 20 October 2010, as part of the Spending Review, the Government announced that the Relative Losses suffered by policyholders amounted to £4.3 billion,[5] based on an acceptance of all the Parliamentary Ombudsman's findings of maladministration and injustice. Broadly speaking, this is the difference between what with-profits policyholders who invested from September 1992 received or would receive from their policies, and what they would have received if they had invested elsewhere.

3.18 Against a backdrop of significant pressures on the public purse, and taking into account the Parliamentary Ombudsman's view on public purse considerations, the Government announced that it would make in the region of £1.5 billion available for the Scheme. £1 billion of this would be available over the first three years of this Spending Review period.[6]

Consultation

3.19 The Government invited representations from interested parties in the run-up to the Spending Review announcement. Responses showed that WPA policyholders had been particularly heavily impacted because they were, in effect, trapped in policies often providing a declining income in their retirement. WPA policyholders are also likely to be older and less able to mitigate their losses. The Government therefore decided at the time of the Spending Review to:

- cover the full cost of Relative Losses to policyholders who purchased WPA policies between 1 September 1992 and 31 December 2000 inclusive.[7] This will be paid through ongoing regular payments; and
- allocate £1 billion as part of the Spending Review, to cover the first three years of payments to WPA policyholders and lump sum payments to all other policyholders with Relative Losses.

3.20 The Government amended the Independent Commission's Terms of Reference as follows:

- recommend how best to fairly allocate the £775 million of funding provided for the Equitable Life Payment Scheme in the first three years of the Spending Review to those persons found to have suffered Relative Losses as a result of accepted Government maladministration, excepting WPA policyholders and their estates; and
- advise on any groups/classes of persons that should be paid as a priority with regard to timing of payments, again excepting WPA policyholders and their estates.[8]

[5] Towers Watson has since revised this figure to £4.1 billion. This was driven by continued improvements made to the calculations, refinements of individual policies' Relative Loss calculations, addressing data issues and on-going review of individuals' Relative Losses. See the letter from Towers Watson to the Financial Secretary to the Treasury (18 January 2011) in ICELP, 21 January 2011, pp79-81.

[6] The estimated £1.5billion will be split as follows: £775 million will cover *all* payments to policyholders with AWP, Group and CWP policies. This is equivalent to 22.4 per cent of their Relative Losses. The remainder will cover payments to With-Profits Annuitants with Relative Losses, including contingency to cover uncertainties in the projections for their future losses.

[7] The current estimate at the time of the Spending Review announcement was £620 million. Towers Watson has since revised this figure to £615 million following continued improvements made to the calculations, refinements of individual policies' Relative Loss calculations, addressing data issues and on-going review of individuals' Relative Losses. For further information see the letter from Towers Watson to the Financial Secretary to the Treasury (18 January 2011) in ICELP, 21 January 2011, pp79-81.

[8] See ICELP, 21 January 2011, pp.65-67.

The Recommendations of the Independent Commission on Equitable Life Payments

3.21 On 26 January 2011, the Government published the Independent Commission's report. Its recommendations (which exclude WPA policies, as these were not in its remit) were:[9]

- a ***pro rata* allocation of the available quantum**, in proportion to the size of Relative Losses, principally on the grounds that no group of policyholders has been identified which in the Commission's view merited favourable treatment at the expense of other policyholders;
- a **single policyholder view, wherever practicable**, endorsing the inclusion in the Methodology of offsetting Relative Gains against Relative Losses where policyholders hold multiple policies. This would better direct funds towards those individuals that have suffered net Relative Losses across their Equitable Life portfolios;
- a ***de minimis* amount, in the region of £10, beneath which payments should not be made**. This reflected the fact that payments below this amount would be disproportionate to the administrative costs of making them while being, in the Commission's view, of negligible significance to those who do not receive them. The Commission recognised that the costs of administering payments to members of Group Schemes and to estates of deceased policyholders may justify a higher *de minimis*; and
- prioritisation of payments to the most elderly policyholders and to the estates of deceased policyholders.

3.22 The Government welcomed the Commission's report and accepted the principles it recommended.

[9] Ibid, p.8.

4 The Equitable Life Payment Scheme

The Scheme Outline

4.1 The driving principles behind the Scheme design set out in this document are fairness, transparency and simplicity. The Scheme is designed to meet the needs of policyholders first and foremost; it will seek to make the payments as quickly as is practical, with minimal requirement for input from policyholders.

4.2 The Scheme will be split into two separate strands:

- payments in relation to WPA policies: in most cases, these will be made as annual payments to policyholders who have suffered Relative Losses on their WPA policies; and
- one-off payments to holders of AWP, Group and CWP policies who are due to receive a payment, which will be staged over a three year period.[1]

4.3 The Treasury has selected National Savings and Investments (NS&I) to deliver the Scheme on its behalf. The Scheme will be run independently of the Treasury. As far as is possible, the Scheme will utilise existing NS&I infrastructure in order to minimise administration costs.

4.4 Contact details for policyholders have been passed on to the Scheme from Equitable Life and Prudential. The Scheme will endeavour to locate and contact policyholders directly. Policyholders who are eligible for the Scheme will receive a letter and a statement from the Scheme as appropriate; where they are due a payment, the amount will be set out clearly in the statement together with the expected timing of the payment.

4.5 The notable exception is for Group scheme members who are not due to receive a payment. In these instances the Scheme will inform the Group trustee who will then decide how to inform its members.

4.6 A website and call centre will also be available to respond to general queries, once the Scheme is live. The website will contain information on eligibility and how the Scheme works. The call centre's trained staff will be able to resolve general queries and answer general questions about the Scheme. However, for security reasons specific personal information relating to a payment cannot be given over the phone. Therefore, policyholders are strongly urged to wait until they hear from the Scheme before trying to contact the call centre. The call centre will be open from 8am to 8pm Monday to Friday (excluding Bank Holidays), and 8am to 12pm on Saturdays.

Scheme Commencement and Closure

Commencement

4.7 It is intended that the Scheme will start making payments before the end of June 2011.

[1] The estates of deceased policyholders (including WPAs) will also receive a one-off payment.

4.8 Most WPA policyholders can expect to receive their first payment by June 2012. Payments for WPA policyholders' past losses will be evenly spread over the first five years of the Scheme, and future losses will paid by the Scheme over the lifetime of the policyholder, or for the fixed or guaranteed term of the policy. This means that most WPA policyholders will receive annual payments up to 2016, and many of those with future losses will also receive payments in subsequent years.[2]

4.9 The Scheme intends to make all payments to AWP, Group and CWP policyholders – including estates – who are due to receive one within three years. The only exception will be those cases where there are extensive difficulties in identifying the payee (see Chapter 5) for a policy or in circumstances whereby the payment is subject to an ongoing query or Independent Review (see Chapter 11).

Closure

4.10 In order to appropriately manage delivery of the Scheme, once all reasonable endeavours have been made to trace and make payments to eligible policyholders, a date will be set beyond which a policyholder can no longer:

- make a claim for eligibility;
- raise a query;
- make a complaint;
- request a re-calculation; or
- request their case be reviewed by the Independent Review Panel.

4.11 Deadlines will be appropriately publicised in advance so that policyholders can have full opportunity to contact the Scheme and, where appropriate, enter the Independent Review process.

4.12 It is intended that the Scheme will remain open until eligible WPA policyholders have received their final payments. However, the Government will need to have regard to the administrative costs associated with keeping the Scheme open for an extended period. It will keep the matter under review, and may consider alternative arrangements for making outstanding payments in later years if it becomes appropriate to do so.

[2] As set out in Chapter 9, in most cases WPA past losses will be paid over a five year period, and future losses will commence in year one of the Scheme and be paid until the death of the policyholder (and other annuitants on the policy) or until the end of any guaranteed or fixed term periods.

5 Eligibility for the Scheme

5.1 Chapters 5, 6 and 7 set out information on:

- eligible policies and payees under the Scheme (Chapter 5);
- the methodology and assumptions used to calculate Relative Losses for eligible *policies* (Chapter 6); and
- the calculation of payments to *policyholders* who are to receive them (Chapter 7).

5.2 The Scheme rules and calculations, including the underpinning assumptions used, take into account the extensive analysis undertaken by Towers Watson (including in its Actuarial Advice to Sir John Chadwick),[1] responses received from interested parties before the Spending Review, and the recommendations of the Independent Commission.

5.3 Further detail on these calculations and assumptions is contained in Annex A.

Policies That Have Suffered Relative Loss

5.4 Holders of policies that have suffered Relative Loss are eligible for a payment calculation under the Scheme (loss and payment calculations are made in accordance with the principles and features set out in Chapters 5 to 7).

5.5 Relative Loss is the difference between the value of a notional policy which the policyholder might have held had they made an investment in a similar product in a comparator company's with-profits fund and the value of the actual Equitable Life policy. The calculation of Relative Loss is set out in more detail in Chapter 6.

5.6 This concept is based on the understanding that those who relied on regulatory returns that were subject to Government maladministration when choosing to invest in Equitable Life had lost the opportunity to make a fully informed decision. It follows that, had they had this opportunity, they might have invested elsewhere.

5.7 Having accepted all the Parliamentary Ombudsman's findings of maladministration, the Government has concluded that those who invested from September 1992 to the end of 2000 may have relied on regulatory returns affected by maladministration. Therefore anyone investing in an Equitable Life with-profits policy during this period may have suffered a Relative Loss. However, data limitations mean that certain investments made between September 1992 and December 1992 cannot be included in the Relative Loss calculation (approximations are required to estimate losses on certain policies where there are data issues. See Annex A for further details). In light of this, the following eligibility criteria apply to policies:

- Conventional With-Profits policies or With-Profits Annuity policies purchased between 1 September 1992 and 31 December 2000 inclusive[2] are eligible under the Scheme and may receive a payment provided they were subject to a Relative Loss; and

[1] Towers Watson, 14 July 2010.

[2] And that did not become a claim prior to 1 January 1993.

- Accumulating With-Profits policies (including Group policies) that either had a premium paid in between 1 January 1993 and 31 December 2000 inclusive, or started between 1 September 1992 and 31 December 2000 inclusive,[3] are eligible under the Scheme and may receive a payment provided they were subject to a Relative Loss.

5.8 Eligibility is not affected if policyholders who have suffered Relative Losses subsequently exited from Equitable Life. In practice this means that policyholders who owned a policy that incurred a Relative Loss will have the same eligibility regardless of whether they subsequently remained with, or left Equitable Life.

5.9 Table 5.A below sets out the products that are included in the Scheme.

Table 5.A: Equitable Life Products

Policy Class	Business Group
AWP	Bond
	Deferred Hancock Annuity
	Flexible Protection Plan (also includes the Maximum Investment Plan)
	Free-Standing AVC (also known as FSAVC)
	Group (also known as Group Money Purchase, Group AVC, Group Trustee Investment, Group Transfer Plan or Group Final Salary)
	Health (Critical Illness Plan and Major Medical Cash Plan)
	Individual Pension Plan
	Managed Pension (income drawdown) (also includes the Managed Annuity, which was the precursor to the Managed Pension issued by Equitable Life)
	Personal Investment Plan
	Personal Pension Plan (also includes Grouped Personal Pension plans)
	Retirement Annuity
	Regular Savings Plan
	School Fee Trust Plan
	Transfer Plan
	Wind Up (also known as Money Purchase Plan/Transfer Plan)
CWP	Accumulating Class Policy
	Deferred Annuity
	Endowment
	Flexible Savings Plan
	Whole of Life
WPA	WP Annuities

Source: Equitable Life

[3] And that did not become a claim prior to 1 January 1993.

Identifying the Payee

5.10 As set out above, the term 'policyholder' is widely used throughout this document to ensure that it is understandable and easy to read.

5.11 However, the policyholder will not always be the recipient of Scheme payments as, in a number of cases, the person who took out the policy or paid premiums in connection with it is not the person who has suffered Relative Loss.

5.12 The remainder of this chapter explains the rules that the Scheme will follow to identify the recipients of payments in these cases.

5.13 It should be noted that, where the payee on a policy has died, the default position is for his or her estate to become the payee[4] unless otherwise specified below.

Payments to AWP and CWP policyholders

5.14 For AWP and CWP policies, the payee is set according to the criteria first satisfied in the following list:

- where policies have been permanently assigned, the permanent assignee is the payee;
- where policies are held under trust, the trustee is the payee. If this payee has died, an alternative trustee becomes the payee;
- for FSAVC policies, the payee is the life assured on the policy;
- for School Fee Trust Plan policies, the payee is the contributor to the policy;
- for joint life policies where there are two lives assured, the payee is:
  1. while both lives assured are alive, the first named life on the policy;
  2. where one life assured has died, the surviving life assured; or
  3. where both lives assured have died, the estate of the most recently deceased.
- for all other AWP or CWP policies that have not become claims, the payee is the policyholder; and
- for all other AWP or CWP policies that have become claims, the payee is the person who was the policyholder at the date of the claim.

Payments to Group policyholders

5.15 For Group policies, the payee is:

- for Defined Benefit schemes, the trustees of the Group scheme;
- for Defined Contribution schemes where Equitable Life only has only one set of data and no records of the individual members in respect of the scheme, the trustees of the Group scheme;[5] and
- for other Defined Contribution schemes, the individual members of those Group schemes.

[4] In practice this means making payment to the executor or administrator of the estate.

[5] In these circumstances, the trustee will be acting as a paying agent and the authorised payment must be held separately from the actual pension fund.

Payments to WPA policyholders

5.16 For WPA policies, the payee is:

- for policies that have been assigned, the assignee;
- for single life WPA policies, the annuitant; and
- for joint life policies there may be more than one payee:

1. for loss incurred on annuity payments made whilst the first annuitant is alive, the first annuitant is the payee. If the first annuitant has died, his or her estate becomes the payee;
2. for loss incurred on annuity payments payable to the second annuitant made whilst the second annuitant is alive, and after the first annuitant had died but before the policy terminated, the second annuitant is the payee. If this payee has died, his or her estate becomes the payee; or
3. for loss incurred on annuity payments made after both annuitants have died (i.e. if there was an outstanding guarantee or fixed term), the estate of the most recently deceased becomes the payee.

Court orders and other obligations on individuals

5.17 Payees may be under an obligation from a court order (for example as a result of bankruptcy or a pension sharing order following divorce) to share funds received from a policy in a particular manner, in which case the onus is on the payee to abide by the court order in relation to Scheme payments.

Policyholders the Scheme is unable to trace

5.18 The Scheme has set up a rigorous process to trace those policyholders who should receive a payment. However it is highly likely that some policyholders will remain untraceable. Where this occurs, the Scheme may use alternative methods such as its website or media campaigns to locate these policyholders.

6 Summary of Relative Loss Calculation Method

6.1 In order to be eligible for Relative Loss, a policy must have started or have had a premium paid into it according to the eligibility criteria set out in Chapter 5.

6.2 Relative Loss is the difference between the value of a notional policy which the policyholder might have held had they made an investment in a similar product in a comparator company's with-profits fund and the value of the actual Equitable Life policy.[1] Where this difference is positive, a Relative Loss has been made. Where this difference is negative a Relative Gain has been made.

6.3 This chapter provides an overview of the method and assumptions used in the calculation of Relative Loss. Full details are given in Annex A.

Loss Calculation Period

6.4 The Loss Calculation Period referred to in this chapter is defined as the period between 1 September 1992 and 31 December 2000, inclusive.

Relative Loss Calculation for AWP Policies

6.5 For an AWP policy, a Relative Loss is only calculated in respect of premiums which were paid into the policy within the Loss Calculation Period.

6.6 Premium data are unavailable prior to 31 December 1992[2] and so, for policies which commenced before 1 September 1992, premiums paid before 31 December 1992 are not included in the Relative Loss calculation.

6.7 For policies that commenced between 1 September 1992 and 31 December 1992 inclusive, the policy value at 31 December 1992 is assumed to be a premium upon which Relative Loss is calculated. This approach has been taken within the methodology as it can be reasonably concluded that all premiums which contributed to the policy value were paid after 1 September 1992 for these policies.

Calculation

6.8 The definition of AWP Relative Loss can be expressed as:

Relative Loss = Comparator payout – Equitable Life (actual) payout

6.9 The payouts in the expression above are the part of the policy proceeds in respect of those premiums which were paid within the Loss Calculation Period.

[1] The value of the Equitable Life policy and the value of the notional policy in the comparator company are calculated in respect of only those premiums to which the Scheme applies.

[2] For some individual and Group policies the premium data is only available at a later date. For these policies approximations have been made in order to calculate the Relative Loss. See Advice to the Government in relation to the proposed Equitable Life payment scheme, The Office of Sir John Chadwick, July 2010, pp.122-124.

Comparator payouts

6.10 The comparator consists of a basket of alternative with-profits companies which offered the appropriate mix of with-profits business over the period in question, in which investors may have instead invested, had they not invested in Equitable Life.

6.11 The individual comparator company payouts, which make up the comparator calculation, are not available at an individual policy level. An approximation to the comparator payout is derived from the unsmoothed investment returns of the comparator company's with-profits fund, with various adjustments applied. The adjustments include allowances for expenses, demutualisation enhancements, shareholder transfers and smoothing. Following these adjustments, the comparator payouts are then calibrated to the average of the payouts of the comparator companies shown in surveys in the Money Management magazine. This ensures that the smoothed comparator payout reflects the published payouts of the comparator companies.

Smoothing

6.12 The comparator companies' returns require an adjustment to reflect the smoothing which they would have applied to their investment returns before declaring bonuses.

The calibration to Money Management payouts

6.13 Calibration factors, which differ for pensions and life policies, and also by year of premium payment and termination, are applied to the comparator payouts (or the average of the comparator companies' payouts). The calibration ensures that the comparator payout is consistent with the published payout data for pensions and life policies respectively.

Relative Loss for maturities, deaths, surrenders and in-force policies

6.14 The payouts received from the comparator and Equitable Life will have differed depending on the way that policies were terminated. The approach to the calculation of the Relative Loss is therefore considered separately for:

- policies which have matured or policyholders who have died;
- policies which have been surrendered contractually;
- policies which have been surrendered non-contractually; and
- policies which were still in-force at 31 December 2009.

Policies which have matured or policyholders who have died

6.15 Equitable Life policies which matured or where policyholders have died will have received the maximum of their overall policy value and their underlying guarantee. The comparator companies would similarly have paid out the maximum of their overall policy value and their underlying guarantee, the amount of which is approximated by the comparator payout as described earlier. The Relative Loss will therefore be calculated as the difference between the comparator payout and the Equitable Life payout in respect of those premiums which were paid within the Loss Calculation Period.

Relative Loss = Comparator payout - Equitable Life (actual) payout

Policies which have been surrendered contractually

6.16 Some policy contracts allow the policy to be surrendered contractually, on specific dates, with no penalties applied. For these polices the Relative Loss will be calculated in the same way as for policies which have matured.

Policies which have been surrendered non-contractually

6.17 Equitable Life policies which have been surrendered non-contractually may have been subject to a Market Value Adjustment ('MVA'). This was intended to bring the payout into line with the policyholder's fair share of Equitable Life's assets at the time of exit (i.e. their unsmoothed asset share). In order to compare like with like, in these cases Relative Loss is calculated by reference to the policyholder's notional unsmoothed asset share in the comparator, by using the comparator's with-profits investment returns prior to any adjustment for smoothing or calibration. The Relative Loss, in respect of those premiums which were paid within the Loss Calculation Period, is then calculated as equivalent to:

Relative Loss = Comparator payout less any approximate deduction - Equitable Life (actual) payout

Policies still in-force at 31 December 2009

6.18 Relative Loss for policies which were still in-force at 31 December 2009 is calculated in the same way as for policies which have surrendered non-contractually. This assumes that the value of the underlying assets is paid out on this date. This approach removes any distortions which may arise due to discrepancies between Equitable Life and comparator smoothing techniques.

Interest

6.19 Losses and gains on policies which are terminated prior to 31 December 2009 are calculated at the date of termination, and are then accumulated at a fixed rate of interest of 4 per cent per annum compound, to derive the Relative Loss or Relative Gain at 31 December 2009.

Policies purchased in currencies other than sterling

6.20 For policies purchased in a foreign currency, Relative Losses and Relative Gains are calculated in the currency of purchase and then converted into sterling using the exchange rates applicable at 31 December 2009. Where a payment is due, the amount(s) so calculated will then be paid to the policyholder in either euros or US dollars, as appropriate, using the exchange rate at the date of payment.

The GAR Compromise Scheme

6.21 As part of the GAR Compromise Scheme, which policyholders voted in favour of, Equitable Life made uplifts to GAR and non-GAR policy values on 8 February 2002 of, on average, 17.5 per cent and 2.5 per cent respectively.[3] The Equitable Life policy values incorporate the effect of the GAR and non-GAR uplifts, whereas the comparator payouts do not have any such uplifts applied. The GAR Compromise Scheme is described in more detail in Towers Watson's Actuarial Advice to Sir John Chadwick,[4] and its treatment within the Relative Loss Methodology is described further in Towers Watson's advice to the Independent Commission.[5]

[3] See The Office of Sir John Chadwick, July 2010, Section 4.75.
[4] Towers Watson, 14 July 2010, Section 8.6.1.
[5] ICELP, 21 January 2011, Annex E.

Compensation schemes

6.22 Some Equitable Life policyholders received payments from compensation schemes that were unrelated to Government maladministration. Depending upon the compensation scheme, the compensation[6] may form part of the actual Equitable Life policy value. The broad approach taken within the Scheme is set out below.

6.23 Where the compensation payments are in respect of mis-selling and form an uplift to fund value, paid within the Loss Calculation Period, they are treated as a premium payment into the Equitable Life policy. They will, therefore, contribute towards any Relative Loss calculation. However, any payments with respect to mis-selling which were paid in cash are excluded from the loss calculation as they were not subject to maladministration.

6.24 Compensation payments made in respect of the GAR Compromise Scheme are categorised as deferred proceeds from the policy itself. These payments were made to policyholders who were disadvantaged relative to other policyholders who were either not subject to a differential terminal bonus policy or benefited from the GAR Compromise Scheme. These payments were made separately to the GAR Compromise Scheme and were not in respect of Government maladministration, so will serve to reduce Relative Losses commensurately (as they are not applied to the comparator).

6.25 For most other compensation schemes, where Equitable Life has made a payment to a policyholder to compensate for shortfalls in administration or errors in the calculation of the benefit, the compensation is included in the Equitable Life proceeds and will generally reduce the Relative Loss incurred on that policy (as they are not applied to the comparator).

6.26 Further details of the approaches taken within the Scheme for compensation schemes appear in Annex A.

Future losses

6.27 There is no allowance for future losses for AWP policies within the Relative Loss Methodology. This is because, for AWP policies, there is no contractual obligation on policyholders to continue paying premiums. This is in contrast to CWP policies, where future losses relate to certain premium payments policyholders are contracted to make after 31 December 2009; and to WPA policies, where future losses relate to annuity payments made after 31 December 2009.

Relative Loss Calculation for Group scheme Policies

6.28 Group scheme policies are AWP policies in structure. The Relative Loss calculation is therefore as already described for AWP policies. However there are some issues that are unique to Group scheme policies:

- in some Group schemes, there is only one record which covers the benefits for all members of the scheme, so Relative Loss is calculated at Group scheme level. In other Group schemes, Relative Loss is calculated at the individual member level within a single policy; and
- there are missing data prior to 1994; it has therefore been necessary to estimate the value of the premiums paid between 1992 and 1994, as described in paragraphs 6.46 to 6.49 below.

[6] In certain circumstances, where the compensation relates to a period greater than that covered by the Relative Loss calculations, a *pro rata* amount of the compensation may be reflected in the Relative Loss calculations.

Relative Loss Calculation for CWP Policies

6.29 Relative Loss for CWP policies is calculated using similar principles to AWP policies, but differences in product structure require modifications to the approach described above.

6.30 In order to be eligible for Relative Loss, a CWP policy must have both commenced and paid premiums within the Loss Calculation Period.

Calculation

6.31 The definition of CWP Relative Loss can be expressed as:

Relative Loss = Comparator payout – Equitable Life (actual) payout

6.32 For CWP policies, the Relative Loss may comprise past Loss and future Loss.

6.33 The past loss on a CWP policy is calculated in respect of all premiums paid into the policy in the Loss Calculation Period, together with, those paid after 31 December 2000 up to and including 31 December 2009. Due to data issues on policies which commenced prior to mid-1993, approximations are required to estimate losses on these policies. Any expected future premiums from 31 December 2009 to the earlier of the expected maturity date and 31 December 2019[7] are reflected within the future loss calculation.

6.34 For CWP policies which terminate prior to 31 December 2009, the Equitable Life (actual) payout is available from the Equitable Life database. For CWP policies which were still in-force at 31 December 2009 a surrender payout is estimated in order to calculate loss in respect of past premiums paid.

Comparator payouts

6.35 For CWP policies, a modified approach to that used for AWP policies is required to estimate the comparator payout due to the different structures between these policy classes. The payout is estimated by considering the difference in the Internal Rate of Return (IRR)[8] earned by the comparator and the actual Equitable Life policy by assuming the same premiums were invested into an AWP policy rather than a CWP policy. This difference represents the additional return that is assumed to be earned on the comparator's CWP policy.

Future losses

6.36 As CWP policyholders are contractually obliged to continue paying premiums, a future loss is calculated for any CWP policy in-force at 31 December 2009. The total Relative Loss for CWP policies which are still in-force at 31 December 2009 is the sum of their past loss and their future loss.

6.37 The Equitable Life estimated surrender value at 31 December 2009 and any expected future premiums are projected forward to the earlier of the expected maturity date and 31 December 2019, under assumed future investment returns for both Equitable Life and the comparator. The assumed future investment returns are based on assumptions for equity backing ratios[9] and asset returns. The future loss is calculated as:

Future Loss = Projected comparator payout – Projected Equitable Life payout

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[7] As per the Relative Loss Methodology set out in ICELP, 21 January 2011, Appendix E (paragraph 37).

[8] The IRR of a series of cashflows is the discount rate that makes the net present value of that series of cashflows equal to zero. It represents the rate of return on the series of cashflows.

[9] The equity backing ratio is the proportion of the assets backing with-profits liabilities assumed to be invested in equities, property and similar assets.

6.38 The Equitable Life and comparator payouts are simply the projected Equitable Life and comparator fund values at the assumed future exit date. These are then discounted back to 31 December 2009.

Relative Loss Calculation for WPA Policies

6.39 The calculation of Relative Loss for WPAs is more complicated than for AWP products due to the structure of the policy, comprising the payment of a single premium to Equitable Life in return for a series of annuity payments from Equitable Life to the policyholder from commencement until their death or a fixed date, and depending upon the choices made by the policyholder when purchasing the policy. However, the same broad approach is followed. The WPA Relative Loss is calculated by comparing the annuity payments that would have been received, or are expected to be received, from a comparator policy for the same investment of premiums with the payments that were received, or would be expected to be received, from the Equitable Life policy.[10]

6.40 In order to be eligible for Relative Loss, a WPA policy must have commenced within the Loss Calculation Period. Relative Loss is only calculated in respect of payments made on or after 1 January 1993.[11]

Calculation and comparator payout

6.41 The definition of WPA Relative Loss can be expressed as:

Relative Loss = Comparator payout – Equitable Life (actual) payout

6.42 For WPA policies, the Relative Loss may comprise past loss and future loss.

Past losses

6.43 In respect of past loss, the Equitable Life (actual) payout in the expression above is in respect of those annuity payments which were paid (or estimated to be paid) between 1 January 1993 and 31 December 2009. The comparator in the expression above is calculated from the annuity payments that a small basket of similar with-profits companies would have paid on similar products. The comparator products were chosen from alternative companies offering WPA policies over the period in question, in which investors might have invested, had they not invested in Equitable Life.

Future losses

6.44 For WPA policies, the loss which might occur in the future also needs to be considered as policyholders are not able to surrender their policy.

6.45 In order to calculate future loss, assumptions about future bonus rates beyond 31 December 2009 are therefore required. For the future loss element of Relative Loss, the Equitable Life (actual) payouts and comparator payouts in the expression above are in respect of those estimated annuity payments which are assumed to be paid after 31 December 2009.

Relative Loss Calculation Where Data are Unreliable

6.46 For certain types of policies and for certain periods over which Relative Loss is calculated, the data provided by Equitable Life for the purposes of the Scheme are not reliable or not

[10] Equitable Life WPA policies were transferred to Prudential on 31 December 2007. Annuity payments under the original Equitable Life policy are made by Prudential after 31 December 2007.
[11] The Office of Sir John Chadwick, July 2010, Section 4.52.

available. For some of the policies that are affected by such issues, modifications have been made to the data, or certain alternative approaches have been developed to accommodate limitations within the data where possible, in order to perform the Relative Loss calculation.[12]

6.47 In particular, for CWP, AWP and Group schemes, there are a number of cases where there are incomplete or unreliable data, such as for the years prior to 1994 for Group scheme policies and for most overseas business. For such cases the available data shows a policy value at the end of the calendar year within which complete records of policy accounting movements begin. A revised policy value is then determined as at the earliest date in that year from which there are complete data, based on the actual bonus rates declared by Equitable Life. Where the policy commenced before 1 September 1992, the proportion of the policy value applicable to the period on or after 1 September 1992 is calculated. The loss calculations for that policy then start from the earliest date for which there are complete data, with that calculated policy value treated as a single premium paid on that date.

6.48 For WPA business, data are taken to be unreliable prior to 1993 for UK business and prior to 1998 for overseas business. For policies that commence before these dates, the annuity payments are derived using the actual bonus rates declared by Equitable Life.

6.49 There are a number of policies which require further investigation because of inconsistencies or omissions in the available data or because of unusual features. The Relative Loss or Gain for these policies will be determined as far as possible using methods consistent with the Scheme.

[12] The modifications and approaches made in these circumstances are detailed in Annex A.

7 Payment Value Calculation

AWP, Group and CWP Policies

7.1 At the 2010 Spending Review, the Government announced that £775 million would be made available for payments to AWP, Group and CWP policyholders, to be allocated between policyholders in accordance with the recommendations of the Independent Commission:

- a *pro rata* allocation (22.4 per cent) of the available quantum, in proportion to the size of Relative Losses;
- taking a single policyholder view, wherever practicable; and
- a *de minimis* amount, in the region of £10, beneath which payments should not be made.

WPA Policies

7.2 The Government announced at the Spending Review that it would cover the full Relative Losses on WPA policies.

Offsetting

7.3 The Government noted the Independent Commission's endorsement of the principle of offsetting, where practicable, Relative Gains against Relative Losses where policyholders hold multiple policies.[1] The Scheme will therefore include offsetting in payment calculations as set out below.

Offsetting within AWP and CWP policy classes

7.4 If a policyholder has multiple policies within the AWP and CWP classes, then gains and losses on these policies will be offset in their final Relative Loss calculation.

Offsetting within the WPA policy class

7.5 Where a policyholder has both past gains and estimated future losses on their WPA policies, then the past gains will be offset against these future losses. In practice this will mean that payments will not commence until the cumulative future losses exceed the value of the past gain (see Chapter 9 for further information on payments to WPA policyholders).

7.6 Gains made by one annuitant will not be offset against any losses accrued by a separate annuitant within a single policy.

[1] ICELP, 21 January 2011, pp.30-31.

Offsetting between WPA, and AWP and CWP policy classes

7.7 In accordance with the Government's decision to cover the full Relative Losses on WPA policies, and the Independent Commission's recommendation, offsetting will be applied in the following way between these classes:

- where a WPA policyholder has gains on their annuity or annuities, but no future losses, these gains will offset any losses suffered on any AWP or CWP policies held by the same policyholder; however
- any gains made by a policyholder on an AWP or CWP policy will not be offset against any WPA losses they have suffered (as losses on WPA policies are to be paid out in full).

Exceptions

7.8 There are, however, some cases where offsetting will not be possible or where its application would be unfair:

- in some cases the recipient of Scheme payment for one or more of the policies held by an individual is not the policyholder. In these cases it would be unfair to offset one individual's gains against another's losses; instead the payments to each payee will be calculated individually, with no offsetting between those payees; and
- due to the nature of the data on individual members of Group policies, it is not practicable to match members of Group schemes with any other individual policies they hold, or any benefits they are entitled to within a different Group scheme.

Small Losses

7.9 The Government accepts the Independent Commission's argument that a *de minimis* level should be applied to individual payments in line with the administrative cost of making them. Consequently, the Scheme will apply a £10 *de minimis* level to all payments in relation to AWP, Group and CWP policies. Where a Group scheme policy has separately identifiable members who are due a payment, the *de minimis* will apply at individual member level rather than at policy level.

7.10 However, as announced at the 2010 Spending Review, the Government will cover the full losses on WPA policies.

8 Prioritisation in the Order of Payments

8.1 The Independent Commission recommended, wherever it is possible and practicable to do so, the prioritisation of payments to:

- "the oldest policyholders, as they are least able to wait for payment and are least likely to be in a position to mitigate the effects of a delay; and
- the estates of deceased policyholders and, the estates of those who die, before receiving a payment, in the next three years."[1]

8.2 The Government has accepted the principles recommended by the Independent Commission in full, and will prioritise payments to the elderly where possible. It will endeavour to pay the oldest CWP and AWP individual policyholders in the first year of the Scheme.

Estates

8.3 The Scheme does not have comprehensive, up to date, information on which policyholders are deceased, nor does it have contact details for all estates. An in-depth tracing and data cleansing exercise will be required to obtain more accurate information. This exercise may take some time, particularly for estates that have already closed. However the Government accepts the Independent Commission's arguments that the process for making payments to estates should be expedited, and will begin this tracing exercise at the start of the Scheme. Payments to the estates of those policyholders who die during the lifetime of the Scheme, but before receipt of payment, will be prioritised where the Scheme is informed of the policyholder's death.

Group Policyholders

8.4 Due to the nature of contact data held on Group scheme policies, it will not be possible to prioritise payments in this way to older members of Group schemes, or to the estates of those members who have died.

WPA Policyholders

8.5 The Scheme will aim to make first payments for WPA losses within 12 months of the Scheme launch, with the exception of payments in relation to deceased policyholders (which may take longer to trace) or those who have accrued gains (see Chapter 9 for further information).

[1] ICELP, 21 January 2011, pp.8-9.

9 Scheme Approach and Delivery

9.1 The Scheme is designed to make payments to those who have suffered Relative Losses with minimal input required from them. In most cases payments will be made via a crossed warrant[1] in the first instance. For WPA policyholders who will receive multiple payments, subsequent payments will be made through electronic transfer.

9.2 This chapter sets out the Scheme approach and delivery mechanisms that will apply to holders of policies in different classes. In summary:

- it is expected that all payments to traceable AWP, Group and CWP policyholders will be made over the first three years of the Scheme; and
- payments to WPA policyholders for past losses will be spread over the first five years of the Scheme, while annual payments for future losses will commence in year one and continue until the death of the policyholder or the end of the fixed or guaranteed term if so defined in the policy. The Scheme will mirror policy structure in terms of payments to surviving annuitants on the death of the first annuitant for joint policies, or where there is already an annuity paid to the second life.

Contacting Policyholders

First contact – letters, statements and payments

9.3 The communications around the Scheme have been designed to be simple, fair and transparent to ensure policyholders can understand and have confidence in the application of the Scheme rules to their personal circumstances.

Individual policyholders

9.4 All individual policyholders who are eligible for the Scheme can expect to hear from it within 12 months (i.e. before June 2012). Policyholders will receive a letter and a statement which explains the value of any payment they are due and, if applicable, an indication of when they can expect to receive that payment. The letter will also contain information about contacting the scheme if they have any questions. This means that:

- **for those policyholders receiving a payment in year one** (i.e. before June 2012), a letter and statement will be sent, followed by a payment in year one;
- **for those policyholders receiving a payment in year two or three (i.e. June 2012 onwards)**, a letter and a statement will be sent in year one (i.e. before June 2012). The payment, and a statement if they have not previously received one, will follow in year two or three of the scheme;

[1] From the policyholder perspective a crossed warrant can, in effect, be treated like a cheque. The main difference between a warrant and a cheque is that a warrant is not signed by the issuer. Unlike a cheque, the recipient of the warrant has to sign it before they pay it into their bank account.

- **policyholders who are not receiving a payment,** either because they did not make a Relative Loss or because they made one that falls below the minimum payment level, will receive a letter and statement in year one; and
- **other policyholders who may have had a policy with Equitable Life, but are not eligible for the Scheme**, will not receive any form of communication.

9.5 For operational reasons the payments will be sent separately from the letter and statement.

Group policyholders

9.6 For policyholders who are members of a Group scheme, there are additional complexities in retrieving contact details, which will take time to resolve. Therefore, members of Group schemes may not be contacted until after June 2012. Group scheme members who are to receive a payment will be treated the same as holders of individual policies. For members who are not receiving a payment, the Scheme will inform the trustee and leave it to the trustee's discretion as to how it will inform these members.

Additional sources of information

9.7 The complexities of the Scheme mean that policyholders may have general queries about the information they have received in the post. Therefore, a website and call centre will be set up to address policyholders' questions.

9.8 The website contains information on eligibility, the application of the Scheme rules, and the queries and complaints process.

9.9 The call centre should be able to resolve the majority of policyholders' questions.

9.10 The website and call centre will be made operational before payments commence, so as to provide a central resource for policyholders containing the most up to date information. However, before payments commence, both the call centre and website will only be able to provide limited information.

9.11 The Scheme may also be supported by a small amount of targeted media activity. This may be used during the lifetime of the Scheme to efficiently communicate further messages to policyholders.

WPA Policies

Payment mechanism

9.12 Payments will be made annually for policies that have at least one surviving annuitant. First payments will be made within 12 months of the Scheme launch (i.e. by June 2012), subject to the policyholder being identified and traced. Thereafter payments will be made annually.

9.13 First payments will be made by crossed warrant. Any subsequent payments will be made by Bacs or equivalent electronic method.

Treatment of past and future losses

- Payments for each policyholder's past losses (i.e. those accrued up until 31 December 2009) will be evenly spread over a five year period.
- Future losses (i.e. those accrued from 1 January 2010) will be paid in regular instalments one year in arrears over the lifetime of the policyholder, with payments commencing in year one, i.e. the first future loss payment will accompany the first past loss payment. The exception to this is where there have been past or future gains which are to be offset against future losses.
- Where applicable, past and future losses will be paid as a combined sum, but the split will be shown to the policyholder in communications.
- Future losses accrued between 1 January 2010 and 31 December 2010 will form the basis of the first future loss payment. Subsequent years' future loss payments will be paid on calendar year in arrears.

Estates

- Estates of deceased policyholders (deceased prior to 31 December 2009, or after this date but before the Scheme launch if known by the Scheme) will receive a lump sum payment representing past losses accrued to date of death and any future loss accrued to date of death. This loss will be paid in year one of the Scheme, or at the earliest opportunity once it has successfully traced the estate.
- For single life policies, if the policyholder dies during the five year period in which payments for past loss are being made, the estate of the policyholder will then receive the remainder of any unpaid past loss and any remaining unpaid future loss, to date of death (or fixed guarantee term), as a lump sum.
- For joint life policies, when the first annuitant on the policy dies, the estate of the first annuitant will receive the remainder of any unpaid past loss and any remaining unpaid accrued future loss as a lump sum. If there is a surviving second annuitant for whom future losses then start to accrue, the payments for such losses will commence and be paid to this second annuitant one year in arrears. On the death of this second annuitant, any remaining unpaid future losses will be paid to the estate of that annuitant.

Exceptions

- For administrative reasons, the Scheme may deal with payments in relation to certain WPA policies with very small losses differently from the approach set out in this section.
- Late traced cases: if there are difficulties tracing a policyholder and this is not

rectified until after the end of the first year of the Scheme, then any payments that have been "missed" will be rolled up into the first payment when it is made.

- There are certain cases where a WPA policy is written with a guaranteed payment period or a fixed term payment period. In these cases, the payment of losses follows the structure of the policy. For a fixed term policy, this means that payment of future losses would be made annually until the end of the fixed term (or on death of the policyholder, the outstanding fixed term future losses would be paid as a lump sum to the estate, assuming there is no surviving second annuitant on the policy). Similarly, if a policyholder dies before the end of the guarantee period, outstanding future losses would be rolled up and paid to the estate, assuming there is no surviving second annuitant on the policy.

Letters to WPA Policyholders

9.14 In the first 12 months of the Scheme, WPA policyholders should receive one of the following letters:

- those who are to receive a payment will be sent a letter and statement, followed by a crossed warrant, for the amount payable in year one. They will then be sent a letter in each subsequent year confirming the amount and timing of payment due for that year; or
- those who are not receiving a payment will be sent a letter explaining why this is the case, and a statement.

9.15 There may be some instances where WPA policyholders had past or future gains which have been offset against future losses, meaning that they may be set to receive payment at some future date.

AWP and CWP Policies

9.16 Payments in respect of AWP and CWP policies will be pro rated to 22.4 per cent of Relative Loss, and subject to a £10 *de minimis* level beneath which payments will not be made.[2]

Payment mechanism

9.17 In all but exceptional cases, the Scheme would expect to make a single payment by crossed warrant within the first three years after its launch to holders of policies in these classes. Where possible, an individual who is due payments on multiple AWP or CWP policies will receive all of their payments in a single lump sum.

Letters to holders of individual AWP and CWP policies

9.18 In the first 12 months of the Scheme holders of AWP and CWP policies should receive one of the following:

- those who are to receive a payment within the first year of the Scheme (i.e. by June 2012) will be sent a letter and statement followed shortly by a payment;
- those who are to receive a payment in year two or three (i.e. after June 2012) will be sent a letter and statement within the first year. They will then be sent a second letter, their payment, and a statement if they have not previously received one in year two or three of the Scheme; or

[2] ICELP, 21 January 2011, p.8.

- those who are not receiving a payment will be sent a letter explaining why this is the case along with a statement.

Group Policies

9.19 Group policies have the same structure and properties as their individual AWP policy counterparts. The calculation of losses and payments are therefore consistent with AWP policies.

Contacting Group policyholders

9.20 The Equitable Life database of Group scheme members is insufficient to enable the Scheme to contact members directly in many cases. Therefore, the Scheme will liaise with trustees in order to obtain the most up to date data. As the process for paying Group policyholders is expected to require this additional administrative step (identifying and tracing the trustee in order to obtain members' contact data), they are unlikely to be contacted or receive their payment within the first 12 months of the Scheme.

9.21 The Scheme will take the following approach with regard to contacting and making payments to Group policyholders:

- those Group scheme members who are receiving a payment will in principle be treated the same as holders of individual policies. They will receive a letter from the Scheme, which will include a statement; and
- for those members who are not receiving a payment, the Group scheme trustee will be informed, but there will be no individual communication by the Scheme with the Group scheme members.

Payment mechanism

9.22 Broadly speaking, the approach for making payments to the Group policyholders will be the same as that used for other AWP and CWP policyholders, i.e. one payment (or one payment per member where there are separately identifiable members within a Group scheme) made as a single crossed warrant within three years. The Scheme will make payments to Group scheme members directly where possible, or where appropriate, to the Group scheme trustee.[3]

Overseas Policyholders and Policies Bought in a Foreign Currency

Communicating with overseas policyholders

9.23 While the majority of Equitable Life's business was written in English, the company also had a significant operation in Germany. Therefore, there are a number of policies that have been written in German. Where this is the case, the Scheme will write to policyholders in German. A translation service will also exist within the call centre.

9.24 Communications received in other languages will be translated into English and a response will be issued in English.

Payment mechanism for policies bought in foreign currencies

9.25 If a policyholder purchased their policy in a foreign currency, i.e. pre-euro currencies, euros or US dollars, payments will be made by electronic bank transfer as the recipient may not have access to banking facilities that can cash crossed warrants in sterling.

[3] Payment will be made to the trustee rather than to members in the case of (i) Defined Benefit schemes, as it is the trustee rather than members who have suffered the loss; and (ii) single member schemes, where the trustee holds a single policy that represents the investment of multiple members.

9.26 For policyholders who purchased policies in a foreign currency, their Relative Loss has been calculated in the currency in which it was purchased and then converted into sterling using the exchange rates applicable at 31 December 2009. Where payment is due, the amount(s) so calculated will then be paid to the policyholder in either euros or US dollars as appropriate, using the exchange rate at the date of payment. It is intended that payments will be made using the delivery body's banking agreement and that any banking fee imposed by the overseas bank for receipt of such monies in this way will be borne by the policyholder.

9.27 There are a small number of policyholders with policies which are denominated in more than one currency, one of which is sterling. For these policyholders, the total payment amount due across all of their policies will be **calculated and paid in sterling** by crossed warrant.

Payments to Estates

Contacting estates

9.28 The estates of deceased policyholders will be paid in accordance with the Independent Commission's advice.[4] Executors and administrators of estates that are to receive a payment will therefore be traced and contacted as a matter of priority. In the majority of cases it is expected that this contact will enable the Scheme to make payment to the executor or administrator.

9.29 However, there may be some cases where it is not possible to follow this process. These will be resolved on a case-by-case basis. Where there are difficulties tracing estates initially, it may take longer to contact executors and administrators.

9.30 The Scheme will not seek to trace and contact estates of policyholders who are not due to receive a payment.

Payment mechanism

9.31 Payments for estate cases will be made by a single crossed warrant.

Exceptions

9.32 For policyholders who are to receive large payments, additional identity verification checks may be applied by the Scheme. These checks may include requiring the policyholder to provide additional confirmation of their identity and address prior to release of the crossed warrant.

9.33 In a small minority of other cases it will not be possible to adhere to the process and timetable set out above. This may happen, for example, if there is missing or incorrect information in data that need to be rectified. In these cases, policyholders may have to wait longer to receive letters and, possibly, payments. Additional processes may include seeking further information from the policyholder to enable the calculation of payment.

[4] See Chapter 8 for further details.

Taxation Treatment of Payments and Impact on Tax Credits, Social Security and Social Care

Tax

9.34 Authorised payments[5] made through the Scheme will be free of UK Income Tax, Capital Gains Tax, or (in the case of companies) Corporation Tax. More detail on how this will apply across the tax system, including inheritance tax and tax credits, is set out below.

Direct payments

9.35 All direct payments from the Scheme to identified payees as described in Chapter 5 are authorised payments under the Scheme, and will therefore be free of tax.

Payments to members of Group schemes via trustees

9.36 Scheme payments by Group scheme trustees to their members as described in paragraph 5.15 are also authorised payments under the Scheme, and so will be free of tax.

Payments from trusts (excepting Group schemes) to beneficiaries

9.37 Payments from trusts to beneficiaries of the trust will retain their tax-free status where the beneficiary is entitled as of right to receive the payment under the terms of the trust.

9.38 Payments made by the trustees in exercise of a power or discretion given to them by the trust deed are not authorised payments, as they do not directly flow from the receipt of the payment. They will therefore be subject to the usual tax treatment for such payments.

Further transfer of the authorised payments

9.39 Any other passing on of a Scheme payment will not be an authorised payment, and as such, will be subject to the usual tax treatment.

Inheritance Tax

9.40 The following rules will be applied to payments in respect of Inheritance Tax treatment:

- payments to estates of those who die before receipt of payment will not be subject to Inheritance Tax;
- payments to living policyholders will form part of their estate and will be subject to Inheritance Tax in the normal way;
- the value of trustees' rights to an anticipated payment will not be subject to Inheritance Tax with regard to the 10 year anniversary charge; and
- payments made to a trust will be subject to Inheritance Tax in the normal way.

Tax Credits

9.41 Receipt of authorised payments will not affect the recipient's eligibility for child or working tax credits.

[5] 'Authorised Payment' in this instance means a payment as authorised by the Equitable Life Payment Scheme. See the Equitable Life (Payments) Act 2010 (www.legislation.gov.uk).

9.42 Payments from trusts to their beneficiaries will not affect the beneficiary's eligibility for child or working tax credits where the beneficiary is entitled as of right to receive the payment under the terms of the trust.

Social Security and Social Care

9.43 For the purposes of social security – including Pension Credit – and social care, the payments will be classed as income (for WPA payments) or as capital (for payments in relation to the other policy classes), and will affect eligibility in the same way as any other change to their income or capital.

Incorrect Payments

9.44 The Scheme will follow the principles set out in Managing Public Money[6] in the event that incorrect payments are made, and will consider the retrieval of overpayments on a case-by-case basis.

[6] *Managing Public Money*, HM Treasury, October 2007, p.7 and pp.113-117.

10 Queries and Complaints

10.1 General queries should be made to the Scheme. A postal and email address will be made public once the Scheme is operational. Notification of a change in circumstances, such as a change of address, can be made to those addresses. All policyholders wishing to notify the Scheme of a change in circumstances will be asked to provide evidence in writing. For security purposes, notification cannot be made by email or over the telephone to the call centre.

10.2 The Scheme will be able to address some queries and complaints at the call centre, but it may request that the more complex ones be submitted in writing. If the customer is not content with the response received after making first contact, they will be guided through the Scheme's complaints escalation procedures to ensure that all avenues for resolution can be explored.

Data and Evidence Requirements

10.3 Provided the Scheme rules have been correctly applied to the individual's Relative Loss and payment calculations, there will not be opportunity to recalculate the payment amount. However, if the customer believes that incorrect personal data have been used for the calculation, they may be able to request a recalculation on provision of any required additional supporting evidence or data.

10.4 Copies of original documents may be required by the Scheme in a number of circumstances, for example in the event of:

- a request for eligibility or recalculation;
- a change of name or address;
- the death of one or more named individual on a policy; and
- implementation of a Power of Attorney.

10.5 Details on what supporting material is required will be clearly publicised and clearly communicated to policyholders at the appropriate time.

Unresolved Complaints and Escalation

10.6 It is envisaged that the escalation procedure within the Scheme should be able to resolve the majority of queries or complaints. If, however, no resolution is obtained between the policyholder and the Scheme, Chapter 11 explains the procedure for escalating complaints to the Independent Review Panel.

11 Independent Review

Grounds for Review

11.1 Policyholders will not be able to challenge the rules of the Scheme (as set out in this document) through its queries and complaints procedure, including those relating to:

- criteria for establishing the eligibility of policies for inclusion in the Relative Loss calculation;
- assumptions used in calculating each policyholder's Relative Loss;
- payment value calculation, including the quantum of funding allocated to the Scheme or any groups of policyholders within it;
- the Scheme approach, including payment mechanisms; and
- the timing or prioritisation of payments.

11.2 Policyholders will, however, be able to challenge how the Scheme rules have been applied to their particular circumstances. If these rules have been wrongly applied to a policyholder's circumstances, then, assuming they have been unable to resolve the matter within the Scheme queries and complaints procedure, their case may be eligible for referral to the Independent Review Panel. Legitimate grounds for Review include:

- if there is a dispute, within the parameters of the Scheme rules, as to the identification of the 'correct' recipient of payment;
- if the policyholder or payee believes they have successfully demonstrated that the base data used in the calculation are incorrect, but this is disputed by the Scheme;
- if the policyholder believes they can demonstrate that not all of their eligible policies (i.e. those which may affect their payment calculation) have been identified, but this is disputed by the Scheme;
- if a policyholder believes they can demonstrate that they meet the Scheme's requirements for receiving a payment, but have not received a communication; and
- if the policyholder believes that offsetting has been applied incorrectly in their case, but this is disputed by the Scheme.

The Independent Review Panel

11.3 The Independent Review Panel ('the Panel') will consist of a pool of suitably qualified individuals who will not have been previously involved in any decisions related to the Scheme.

11.4 It is expected that the size of the Panel will allow sufficient flexibility to handle varying volumes of casework. It will not be necessary for all members of the Panel to consider every case, and for many it will be appropriate for one member to consider a case alone. However, the Panel will keep a record of all decisions made by its members so as to ensure individuals are treated even-handedly.

11.5 The Panel is expected to be operational for a period of approximately three and a half years, by which time all traceable non-WPA policyholders should have received their payment where applicable. By this time WPA policyholders should also have received statements explaining the calculation of their losses, as well as their first three annual payments (if applicable). This timeframe will give full opportunity for cases to be put forward and, where grounds exist, to be reviewed by the Panel.

The Process

11.6 In order for policyholders to have their case reviewed by the Panel, they must have exhausted the Scheme's complaints escalation procedure. This will be set out on the Scheme's website. Most cases that go through the Scheme's resolution processes will be on matters of fact. As such, they should be resolvable within the Scheme. However, there may be exceptional cases that will require the Panel's consideration. Any case that is forwarded to the Panel without having gone through the Scheme's complaints escalation procedure will not be considered by the Panel.

11.7 Policyholders who have exhausted the Scheme's complaints escalation procedure will receive a letter informing them that this is the case. Included with this letter will be a form that should be completed in order to apply for a Review. A policyholder wishing to apply for Review should send a completed form to the Panel within three months of the date of the letter from the Scheme.

11.8 Once the Panel has received the form, all communications relating to the case will be made through its secretariat, which will aim to confirm receipt of the form within two weeks of the date it was sent. This confirmation will also include information on the next steps of the Review process, along with the envisaged timeline. The secretariat will be in contact with the Scheme and policyholder as appropriate.

11.9 The Panel will carry out any necessary investigation and come to a decision on cases it has been asked to Review as quickly as possible. As a guideline, it will aim to make its decisions within three months of receiving completed forms, although this may take longer for cases that are complex or where further evidence is required. In such cases, the secretariat will contact the policyholder in writing to inform them of the delay and the reason for it, and to request any further evidence that they may be required to provide.

11.10 Terms of Reference for the Panel will be published prior to the commencement of their work.

12 Scheme Management

Scheme Governance

12.1 The Scheme's delivery body will ultimately be accountable to the Treasury for delivering against its objectives and requirements. A formal management structure will be in place to provide overall direction to the Scheme, to address any risks or issues that may arise, and to oversee successful delivery.

12.2 The work of the Scheme will be overseen by a management board, which will include senior representation from the Treasury and the delivery body, functional experts and independent advisors.

12.3 The Scheme will also be subject to annual review. This will enable the Treasury and delivery body management to carry out a rigorous review of Scheme performance and trends, and to identify and implement any changes or improvements that may be necessary.

Tracking, Evaluation and Quality Assurance Procedures

12.4 Progress will be tracked and evaluated throughout the lifetime of the Scheme to ensure expectations set out in the Scheme design are met, and to ensure that contingency planning is incorporated. Accordingly, it is envisaged that a number of progress reports will be produced, including in relation to management of contracts, operations and risk.

Audit

12.5 As it is accountable to the Treasury, the Scheme will be subject to internal audit and National Audit Office (NAO) scrutiny along with other areas of Treasury business. The Scheme will act in accordance with the principles set out in Managing Public Money[1] as far as possible in meeting its objectives.

Scheme Closure Procedure

12.6 It will be necessary for arrangements to be made for closure of the Scheme. The Treasury will make details available at the appropriate time, establishing a closure process that accords with the law and best practice at the time. The process will include, as necessary, provision for making any final payments, finalising outstanding Review Panel decisions, and ensuring that all Scheme data and information are held securely for a period of time after its closure.

[1] *Managing Public Money*, HM Treasury, October 2007, p.7.

Equitable Life Payment Scheme design

Annex A: Loss Calculation Method and Payment Value Assumptions Used

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Section 1: Introduction

1. This Annex sets out:

- the methodology and assumptions used to determine the Relative Loss or Relative Gain for Equitable Life policies that satisfy the eligibility criteria for inclusion within the Equitable Life Payment Scheme (“the Scheme”);
- how those losses and gains are offset for each policyholder; and
- after allowing for the proportion of losses to be paid (as set out in Chapter 2 of the Scheme), the application of the *de minimis* amount.

2. There is a section describing the methodology for each of the three main product groups:

- Accumulating With-Profits;
- Conventional With-Profits;
- With-Profits Annuities.

3. Further sections cover Group schemes, the approach to Offsetting and *de minimis*; Equitable Life Compensation Schemes, Assumptions and the Glossary.

4. References are made to a number of source documents as follows:

- Equitable Life Payments Scheme: achieving a fair allocation and order of payments, dated 21 January 2011 (the report of the Independent Commission on Equitable Life Payments); references are of the form IC E3.7 denoting appendix E3, paragraph 7 of that report;
- Actuarial Advice to the Independent Commission on Equitable Life payments dated 20 January 2011 (the report of Towers Watson to the Independent Commission); references are of the form AAIC 3.2 denoting paragraph 3.2 of that report;
- Advice to Government in relation to the proposed Equitable Life payment scheme dated July 2010 (the report of Sir John Chadwick); references are of the form SJC 10.8 denoting paragraph 10.8 of that report;
- Equitable Life Payment Scheme Advice to Government Actuarial Advice to Sir John Chadwick dated 14 July 2010 (the report of Towers Watson to Sir John Chadwick); references are of the form AASJC 123 denoting paragraph 123 of that advice.

5. There are a number of features that are common to some or all of the types of business covered in the following sections:

- Except where the context otherwise requires, references to loss or Relative Loss should be taken to include references to gain or Relative Gain: losses and gains arise from the same calculation, the loss being a positive amount and the gain a negative amount.

- A claim on a policy is any event giving rise to a payment under the policy. This can be payment of the full policy value, at which point the policy is terminated, or a partial claim such as an income payment on a Bond or Managed Annuity, and the policy remains in-force. A claim also includes any switch from with-profits investments into unit-linked investments, where this is allowed by the policy's terms and conditions.

- The Equitable Life policy records use the concept of a 'coverage' to represent the premiums paid and benefits receivable for distinct parts of a policy. Throughout this Annex, the terms 'policy' and 'coverage' are generally used interchangeably except where the context otherwise requires.

- For certain Pensions Business policies where premiums are paid net of tax by the policyholder, the benefits under the policy are based on the gross premium (i.e. including tax relief). In such cases, the calculations of Relative Loss are based on gross premiums, consistent with the calculation of benefits under the original policy.

6. There are a number of policies which require further investigation because of inconsistencies or omissions in the available data or because of unusual features. The Relative Loss or Gain for these policies will be determined as far as possible using methods consistent with the Scheme.

Section 2: Accumulating With Profits Policies

2.1 Introduction to AWP Calculations

7. This section provides details of the calculation of losses and gains which have been incurred on Accumulating With-Profits ("AWP") policies.

8. Group scheme policies are covered by this section as they are AWP in structure. They are, however, subject to certain specific variations which are noted in the section specific to Group scheme policies.

9. The policy values used to determine Relative Loss or Relative Gain are based on the payments into and out of the policy between the 1 September 1992 (the Start Date) and 31 December 2000 (the Close Date) inclusive, and exclude any premiums paid after the Close Date, except as detailed in paragraph 64. Where those later premiums are included in the policy value calculations, they are included for the purposes of determining if the minimum guaranteed amount applies, or not.

10. For AWP policies which became claims between 1 January 1993 and 31 December 2009 (the End Date) inclusive, the Relative Loss or Relative Gain is determined as the difference between two claim payments; one for the Comparator, a notional competitor of Equitable Life, whose performance is based on that of a sample of other companies, and one equal to the amount actually paid by Equitable Life on the terminated policy. This difference is then accumulated to the End Date at a fixed rate of interest (the Accumulation Rate).

11. For policies that were still in-force at the End Date, the Relative Loss or Relative Gain consists of the difference between two policy values as at the End Date: one for the Comparator and one based on their existing policy. The Comparator policy value is determined using the assumed performance of the Comparator and the existing policy value is based on Equitable Life's performance.

Eligibility

12. In order to be eligible under the Scheme, an AWP policy must have either commenced in the period 1 September 1992 to 31 December 2000 inclusive[1] or,

[1] And not become a claim prior to 1 January 1993

having commenced prior to 1 September 1992, had premiums paid in to the with-profits fund in the period 1 January 1993 to 31 December 2000 inclusive.[2]

13. Policies which were terminated as cooled off or voided are excluded as detailed in paragraph 89.

2.2 Products included

14. The AWP Life Business and Pensions Business groups comprise:

Life Business:

- Bond (BND)
- Personal Investment Plan (PIP)
- School Fee Trust Plan (SF)
- Regular Savings Plan (RSP)
- Flexible Protection Plan (FPP)
- Health Product (HTH)

Pensions Business:

- Personal Pension Plan (PPP)
- Retirement Annuity (RA)
- Individual Pension Plan (IPP)
- Group (GR)
- Managed Pension (MAN)
- Transfer Plan (TP)
- Deferred Hancock Annuity(DHA)
- Free Standing AVC (FSA)
- Wind Up (WU)
- School Fee Trust Plan (SF)

[2] SJC 4.52

Note that School Fee Trust Plan policies can be both Life Business and Pensions Business.

2.3 Claim types

Contractual and Non-contractual Claims

15. The calculation of the Relative Loss or Relative Gain differs between contractual and non-contractual claims. The following rules governing which claims are contractual and which are non-contractual are those that apply to most policies, the exceptions being those where Equitable Life has paid claims on an alternative basis. The treatment of the exceptions is covered in sub-sections 2.9 and 2.10 below.

- All deaths, maturities and critical illness claims are treated as contractual claims;
- For other claims, the following rules are used;
    - School Fee Trust Plan policy claims are all contractual;
    - Personal Pension Plan claims are all non-contractual;
    - Bonds and Regular Savings Plans that terminate on the 5th policy anniversary or any subsequent policy anniversary are contractual claims. Claims at all other times are non-contractual claims;
    - Flexible Protection Plan surrenders on the expected maturity date are considered contractual claims;
    - All other claims are treated as non-contractual claims.

2.4 Calculation Process

16. There are some policies where there is incomplete or inconsistent data.[3] The treatment of such cases is given in sub-sections 2.9 and 2.10 below.

Loss Calculation Period

17. The Loss Calculation Period for AWP business is from 1 September 1992 (the Start Date) to 31 December 2000 (the Close Date), inclusive. A Relative Loss is only calculated in respect of premiums which were paid into the policy within the Loss

[3] IC E3.8

Calculation Period. Premium data are unavailable prior to 31 December 1992 and so, for policies which commenced before 1 September 1992, premiums paid before 31 December 1992 are not included in the Relative Loss calculation.

Contractual Claims

18. The Equitable Life Policy Value on a contractual claim is the greater of

- the Equitable Life policy value $G_e + R_e + F_e$ and
- the Equitable Life guaranteed value $G_e + R_e$,

where

G_e is the guaranteed fund value before any annual bonus additions for the Equitable Life policy;
R_e is the annual bonus additions to G_e for the Equitable Life policy; and
F_e is the final bonus (if any) added at claim for the Equitable Life policy (F_e can be negative).

19. The Comparator Policy Value on a contractual claim is similarly the greater of

- The Comparator policy value $G_c + R_c + F_c$ and
- The Comparator guaranteed value $G_c + R_c$,

where

G_c is the guaranteed fund value before any annual bonus additions for the Comparator policy;
R_c is the annual bonus additions to G_c for the Comparator policy; and
F_c is the final bonus (if any) added at claim for the Comparator policy (F_c can be negative).

Non-Contractual Claims

20. There may be a Market Value Adjustment ("MVA") when a policy is terminated in circumstances where the policy terms and conditions do not provide that the minimum claim value is the guaranteed policy value.

21. The Equitable Life Policy Value is the actual payout allowing for any deduction that was applied.

22. To determine the Comparator Policy Value on a non-contractual claim the policy value is calculated twice, once using the Comparator Smoothed Returns and secondly using the Comparator Unsmoothed Returns, and the lower value is taken.

This is intended to result in a value that approximates to the amount the Comparator might have paid net of any deductions such as an MVA.

Policies In-force at 31 December 2009

23. The Equitable Life Policy Value for policies that are in-force at 31 December 2009 is calculated in a similar way to non-contractual claims.[4] It is equal to the Last Declared Total Value ("LDTV") for the policy at the End Date, less the MVA then applicable. As Equitable Life used different values for policies which remained in-force and those which had become claims between the end of the year and the date on which the LDTV was calculated, the LDTV for any policy which became a claim subsequent to the End Date was re-calculated on the basis used for in-force policies.

24. The Comparator Policy Value is determined as if the policy had become a non-contractual claim on the End Date. This reflects the underlying value of the policy and avoids any distortions that may be introduced because of smoothing methodology differences between Equitable Life and the Comparator.[5]

Relative Loss and Relative Gain

25. The Relative Loss is the difference between the Comparator Policy Value and the Equitable Life Policy Value,[6] if positive. If this difference is negative then it is a Relative Gain.

26. For policies that are not in-force at 31 December 2009, the Relative Loss or Relative Gain is calculated at the date of claim and then this amount is accumulated to 31 December 2009 at the Accumulation Rate.[7]

Policies purchased in currencies other than Sterling

27. For policies purchased in a foreign currency, Relative Losses and Relative Gains are calculated in the currency of purchase and then converted into Sterling using the exchange rates applicable at 31 December 2009. The amount(s) so calculated will then be paid to the policyholder in either Euros or US Dollars, as appropriate, using the exchange rate at the date of payment. There are a small number of policyholders with policies which are denominated in more than one currency, one of which is Sterling. For these policyholders, the total payment amount due across all of their policies is paid in Sterling.

28. The calculations use the same methodology and the same rates of Comparator return

[4] IC E3.20
[5] IC E3.20
[6] IC E3.17
[7] IC E3.21

and Comparator expense as UK policies.[8]

2.5 Payments In and Out of the Comparator Policy

29. It is assumed that all payments into and out of the Comparator Policy exactly match in timing and amount the payments into and out of the Equitable Life policy.

30. 'Relevant Payments' means those payments into and out of the policy as shown in paragraphs 32 and 34.

31. The Comparator Policy Value is determined by accumulating the Relevant Payments (and, as required, other payments as detailed in paragraph 64) to the Claim Date, or End Date as appropriate.

Payments In included in the Comparator Policy Value calculations

32. The payments in that are included in the Comparator Policy Value calculations are:

- Premiums paid within the Loss Calculation Period (including the amounts treated as premiums as set out in sub-section 2.9);
- Compensation payments to the extent described in Section 7;
- All other amounts paid within the Loss Calculation Period which contribute to the policy value excluding the amounts shown in paragraph 33.

Payments In not included in the Comparator Policy Value calculations

33. The payments in that are not included in the Comparator Policy Value calculations are:

- GAR and Non GAR Uplifts. These are not included for the Comparator as these were payments made to Equitable Life policyholders to compensate them for foregoing their Guaranteed Annuity Rates ("GARs");[9]
- Compensation payments excluded in accordance with Section 7;[10]
- End of year enhancements were effectively a rebate of the initial premium charges. It is assumed that the Comparator would not have reduced the initial premium charge below the contractual level in the product terms and the enhancements are therefore not included in the Comparator Policy Value

[8] IC E3.22
[9] IC E3.26
[10] IC E3.27

Payments Out included in the Comparator Policy Value calculations

34. Payments out included in the Comparator Policy Value calculations are all payments made out of the policy between the Start Date and End Date inclusive which were in respect of the amounts paid into the policy in accordance with paragraph 32.

2.6 Equitable Life Policy Values

35. For policies that are in-force at the End Date, the Equitable Life Policy Value is all or part of the LDTV of the policy as at 31 December 2009. For policies which commenced prior to the Start Date it is the part of the LDTV in respect of the Relevant Payments only. For policies which commenced on or after the Start Date, it is the whole of the LDTV.

36. For policies which commenced prior to the Start Date and became claims on or before the End Date it is the part of the amount paid by Equitable Life in respect of the Relevant Payments only, determined by reconstructing the Equitable Life policy value using only the Relevant Payments and excluding any other payments under the policy.

37. For policies which commenced on or after the Start Date and became claims on or before the End Date it is all of the amount paid by Equitable Life.

38. Where the LDTV or the amount paid is not known or is thought unreliable, the Equitable Life Policy Value is reconstructed using the information that is known, and considered reliable, about the policy.[11]

39. For some policy types, death and critical illness claims are subject to separate policy conditions from other claims, so the amount payable by Equitable Life may have been determined differently from other claims. For example the policy may have specified a minimum sum (the “Sum Assured”) payable in the event of death or critical illness. For such claims, if the amount actually paid was greater than the Sum Assured, then the Equitable Life Policy Value is taken as part or all of the amount actually paid, in accordance with paragraphs 36 and 37. If the amount actually paid was the Sum Assured then the Equitable Life Policy Value is taken to be that Sum Assured.

Equitable Life Fund Values

40. Where it is available, the LDTV of an Equitable Life policy at 31 December each year is taken from the Equitable Life database. When annual bonus rates are declared (usually 1 April), each component of the LDTV is updated (the guaranteed fund value (“G_e”), annual bonus additions (“R_e”) and final bonus (“F_e”) elements). The sum of all

[11] For example where the available data shows two different values for a claim then which, if either, is correct is determined by reconstructing the claim value from other information such as the premium records and past bonus rates. The aim is to use information that looks consistent as a whole.

these components represents the overall policy value and the sum of G_e and R_e represents the guaranteed value at the year end.

41. The guaranteed fund value is the sum of the movements into and out of the policy rolled up at any guaranteed investment return that applied to the policy excluding the annual bonus.

Equitable Life bonus rates

42. The annual bonus rates used are the rates Equitable Life declared in the past for each product type. They comprise many different series of bonus rates which depend upon the date, the product type in which the investment was made and the country in which the policy was written. The rates also vary according to whether the policy is classified as Pensions Business or Life Business.

2.7 Comparator Returns

Comparator base returns

43. The investment returns used for the Comparator depend on whether the policy was a Pensions Business policy or a Life Business policy (see paragraph 14).

44. For Pensions Business policies, the base returns for the Comparator are the unsmoothed investment returns before tax, from the Towers Watson Asset Share Survey of each of the Comparator Companies (Friends Provident, Standard Life, Prudential, Scottish Widows and Norwich Union)[12] over the period 1988 to 2009.

45. For Life Business policies, the base returns for the Comparator are the unsmoothed investment returns, after tax, from the Towers Watson Asset Share Survey of each of the Comparator Companies (Prudential, Scottish Widows, Norwich Union, Legal & General and Scottish Mutual)[13] over the period 1988 to 2009.

Shareholder transfers

46. Proprietary life companies are owned by shareholders. The profits attributable to their shareholders are in most cases one-tenth of the overall profits, and this is normally allowed for by crediting to Asset Shares the overall investment returns reduced by one-tenth. The investment returns from the Towers Watson Asset Share Survey[14] are before any payment a proprietary company within the Comparator Companies may make to its shareholder.

47. It is therefore necessary to adjust the overall returns to allow for this transfer of profits to the shareholder. For each policy, an adjustment is applied which varies depending on the number of the Comparator Companies who were proprietary at the Nominal Commencement Date. Each proprietary company is assumed to have made

[12] AASJC 261; AASJC 380
[13] AASJC 262; AASJC 380
[14] The Towers Watson Asset Share survey is an annual survey of with-profits life companies, collating information about their with-profits funds.

shareholder transfers of 10% of the returns each year and to have reduced the amount credited to Asset Shares by that amount. Therefore, if two companies out of the five Comparator Companies are proprietary at the Nominal Commencement Date, then a deduction of 4% of the averaged return is applied to the base Comparator return in each year. For example, if the overall return for the year was 10.0%, then the shareholder transfer adjustment would be 0.4%, leaving 9.6% to be credited to Asset Shares. The deduction does not change as and when other Comparator Companies become proprietary - it is assumed that policies existing at the date of a company's demutualisation would continue to get returns without any shareholder transfer after the demutualisation.[15] This deduction is abbreviated to STA (Shareholder Transfer Adjustment).

Demutualisation Enhancements

48. Any enhancement made to investment returns as a consequence of the demutualisation of any of the companies underlying the Comparator returns is included in the returns used, or in the case of an increased final bonus, reflected in the Market Calibration Factors.[16]

Unsmoothed returns

49. The unsmoothed returns for the Comparator have been taken as the average return of the Comparator Companies for each calendar year. In 2001 the markets were very volatile and it is likely that companies changed payouts for non-contractual claims during the year. Consequently, the unsmoothed return for 2001 has been calculated separately for the first six months and the second six months of the year. Policies which became non-contractual claims in 2001 will thus have the Comparator Policy Value determined using where appropriate the unsmoothed rate of return appropriate to the half of the year in which the claim occurred.[17]

50. Policies becoming claims in the second half of 2001 would get all the return for the first half of 2001 and then a partial return for the appropriate part of the second half of the year.

Smoothing adjustments

51. In order to calculate the smoothed returns for the Comparator there is an assumption on how the comparators payouts would have related to their investment returns. Two sets of smoothed returns are used, a 4 year smoothed return (with double weight on the current year) which is used for all policies which became contractual claims on or

[15] AASJC 419 et seq; IC E3.11
[16] IC E3.11
[17] AASJC 501

before 31 December 2003[18] and a 2 year smoothed return (with equal weight on each year) which is used for policies becoming claims after this date.[19]

52. The two approaches reflect that, 2001 excepted, returns had been relatively stable within each year and companies had generally not changed with-profit payouts more than once a year up until 2003. By 2003 investment markets had become more volatile, and companies had reduced the amount by which they smoothed payouts, and were changing payouts more frequently.

53. The formulae used for determining the smoothed returns are:

If I(t) is the base return in year t, and S(t) is the smoothed return for that year, then

For the 4 year smoothed return,[20]

$$S(t) = ((1 + I(t-3)) * (1 + I(t-2)) * (1 + I(t-1)) * (1 + I(t))^{2})^{(1/5)} - 1$$

For the 2 year smoothed return,[21]

$$S(t) = ((1 + I(t-1)) * (1 + I(t)))^{(1/2)} - 1$$

Calibration to actual payouts

54. In order to calibrate the smoothed returns to actual comparator payouts, Market Calibration Factors are applied to each premium depending on entry and exit dates. There are separate factors for Life Business and Pensions Business.[22] The factors also vary depending on whether a 2-year or 4-year smoothing formula was used.

55. These factors were determined by comparing the premiums for notional policies accumulated at the Comparator Companies' smoothed investment returns with the values provided by the Comparator Companies and published in Money Management magazine surveys of with-profits payouts for those same notional policies. The factors were set so that the accumulated policy values were close to the actual payouts of the companies underlying the comparator returns. Where necessary, factors have been interpolated for cases where actual payout information was not available.

Tables of returns

56. The base returns**,** smoothed returns and Market Calibration Factors are shown in Appendix A.

[18] AASJC 406
[19] AASJC406
[20] AASJC 407
[21] AASJC 409
[22] IC E3.11, SJC 4.95, AASJC 422 - 434

Comparator Expenses

57. For the Comparator the expense assumptions reflect the expenses of the Comparator Companies.[23]

- The premiums accumulated in the Comparator Policy Value calculation are reduced by the Comparator Initial Expenses.
- The Comparator investment returns are reduced to allow for the Comparator Renewal Expenses.

2.8 Comparator Policy Values

Policies with risk benefits: Sum Assured

58. Certain policies, as noted in paragraph 39, provide for the Sum Assured to be payable in some circumstances. The Comparator Policy Value is determined using the same Sum Assured as the Equitable Life policy Sum Assured.

59. In some instances, policies with a Sum Assured payable on death or critical illness have had special conditions imposed at outset, effectively reducing the amount of the Sum Assured in the event of a death or critical illness claim. Where such policies have become claims as a result of death or critical illness, the Sum Assured payable under the Comparator policy is reduced by an equal amount to the Equitable Life reduction.

60. Although, in some cases, the Sum Assured, reduced where necessary in accordance with paragraph 59, is partially in respect of premiums paid outside the Loss Calculation Period, the whole of the Sum Assured, reduced where necessary, is included in both the Equitable Life and Comparator Policy Values.

Comparator Mortality Charges

61. It is assumed that the amount of the monthly mortality charges for Flexible Protection Plans and Health Products are the same for the Comparator as they were for Equitable Life.

62. The mortality charges are related to Equitable Life's mortality assumptions and the sum assured at risk (sum assured at risk at any point in time is broadly the Sum Assured less the policy value at that time). The Comparator's mortality assumptions are likely to be different to Equitable Life's and the Comparator's sum assured at risk at any time is also likely to be different to that for Equitable Life. However, for the

[23] AASJC 396 - 399

purposes of simplicity in determining Relative Loss, the Comparator's mortality charges have been assumed to be the same as the Equitable Life mortality charges.

Comparator Policy Value - Contractual Claims

63. For policies commencing before the Start Date or which had become claims prior to the Close Date, the Comparator Policy Value is determined by

i. accumulating, from the date on which those payments were made to the Claim Date,

- the Relevant Payments less the Comparator Initial Expenses;[24] and
- deducting any mortality charges

at the rates of return determined as the Comparator Smoothed Returns less both of the Comparator Renewal Expenses and any STA (see paragraph 47); and adjusting the result by the relevant Market Calibration Factor;

ii. calculating the amount that would be guaranteed under the Comparator policy at the Claim Date in respect of those Relevant Payments, using the same bonus rates, and, if applicable, the same Guaranteed Investment Return as were applied by Equitable Life and deducting, where appropriate, any mortality charges;

and then taking the greater of the amounts in i) and ii).

64. For policies commencing on or after the Start Date which had become claims after the Close Date but on or before the End Date the Comparator Policy Value is determined by calculating the amounts in sub-paragraphs 63 i) and ii) and

a adding to the sums in 63 i) the amount that would have been payable by Equitable Life in respect of any payments into or out of the policy after the Close Date and before the End Date, ignoring any minimum amount guaranteed; and

b adding to the sums in 63 ii) the minimum amount guaranteed that would have been payable by Equitable Life in respect of any payments into or out of the policy after the Close Date and before the End Date;

and then taking the greater of the amounts in a) and b).

65. Where a policy provides a Sum Assured payable in the event of a death or critical illness claim, then where such a claim has occurred, if the amount determined in

[24] Comparator Initial Expenses only apply to actual premiums. They do not apply to LDTV amounts deemed to be premiums in accordance with subsection 2.9

accordance with paragraph 63 or 64 (as appropriate) is less than the Sum Assured provided by that policy, then it is increased to equal the Sum Assured.

Comparator Policy Value - Non-Contractual Claims

66. The Comparator Policy Value is determined as the lower of two calculations. The first is accumulating, from the date on which those payments were made to the Claim Date,

- the Relevant Payments less the Comparator Initial Expenses; and
- deducting any mortality charges

at the rates of return determined as the Comparator Smoothed Returns less both of the Comparator Renewal Expenses and any STA.

The second calculation repeats the first but uses rates of return determined as the Comparator Unsmoothed Returns less both of the Comparator Renewal Expenses and any STA.

2.9 AWP Data Issues

67. This sub-section covers the areas where data are unreliable.

Data that cannot be relied upon

68. Equitable Life does not have full information available in their records for all business. In particular there is data missing before 31 December 1992 for UK individual AWP Business[25] and before 31 December 1994[26] for Group schemes and non-UK individual AWP business.

69. Where there is missing data, then as detailed below, the Comparator Policy Value calculation starts from the earliest year-end date within the Loss Calculation Period at which there is a policy value.

Policies starting from 1 September 1992 to 31 December 1992

70. Because of limitations imposed by the data, the earliest date that a loss calculation can begin is 31 December 1992. Therefore for UK individual AWP business policies that commenced between 1 September 1992 and 31 December 1992, inclusive, the

[25] IC E3.8, SJC 4.52
[26] IC E3.8

policy value at 31 December 1992 is assumed to be the first premium in the calculation of the Comparator Policy Value.[27]

Policies becoming claims before 31 December 1992

71. Because of limitations imposed by the data, the earliest date that a loss calculation can begin is 31 December 1992. Therefore policies which become claims before this date do not have a Relative Loss or Relative Gain.

Start LDTV adjustments

72. Where the date of the earliest available LDTV for any policy is later than both of the Start Date and the Nominal Commencement Date and there are no records for the period prior to the date of the earliest LDTV, an adjusted policy value is determined in accordance with paragraphs 73 and 74.

73. The adjustment is calculated by decreasing the earliest available LDTV by the bonus rates that would have been applied by Equitable Life, back to the policy start date, assuming the policy commenced with a single premium. This value at the policy start date is then rolled forward at the Comparator Unsmoothed Investment Returns, less the Comparator Renewal Expense and less the STA for that policy to the date at which the earliest LDTV is available. This value is then used as the starting value to determine the Comparator Policy Value.

74. Where the policy commenced prior to the Start Date, the LDTV amount is proportioned by the following factor to approximately exclude the premiums that were paid prior to the Start Date:

$$\frac{\text{Earliest LDTV Date} - \text{Start Date}}{\text{Earliest LDTV Date} - \text{Nominal Commencement Date}}$$

Internal Transfers

75. Where a policy has been created by an internal transfer of funds from another Equitable Life policy, the premium figure in the receiving policy at the date the transfer became effective is ignored for the purposes of policy value calculation, as that premium figure can be misleading.

76. Instead, the loss calculation starts from the LDTV that applied at the year-end prior to the commencement date of the receiving policy. This is because the receiving policy was actually set up by transferring that LDTV from the source policy, along with all the premiums received between that LDTV date and the effective date of the receiving policy.

77. On the policy which funds were transferred out of, the loss is calculated up to the point where the loss begins to be calculated on the receiving policy. This prevents double counting loss in an overlapping period.

[27] ICE3.8

CPAS1 Archive

78. Many Group policies have no data available prior to 1994. The policy records show a value identified as a “CPAS1 Archive” movement as the initial policy value. A CPAS1 Archive movement is a particular movement code used by Equitable Life identifying the policy value at a time when there are no earlier records of the policy value on the current administration system.

79. These cases are treated the same as cases where the available data for a policy commences later than the Start Date and the Nominal Commencement Date but before the date of the earliest available LDTV, as set out in paragraphs 72 to 74.

Policies with both With-Profit and Unit-Linked funds with Death or Critical Illness claims

80. Some BND and PIP policies have a combination of with-profits and unit-linked funds. In some instances the underlying Equitable Life policy value at the time of a death claim was less than the Sum Assured, and therefore the Sum Assured was paid out.

81. However using Comparator returns, the policy value including the unit-linked funds may exceed the Sum Assured, and therefore a higher policy value would have been paid out had the Comparator returns applied. In such cases the loss is the Comparator Policy Value plus the value of the unit-linked funds, less the Sum Assured.

Unexpected claim basis

82. There are a limited number of cases where the basis of claim is not as expected – for example what is shown as a non-contractual claim was in fact treated as a contractual claim, or vice versa. In these instances the Comparator claim value has been determined on the same basis as the actual claim payment.

Nominal Commencement Date

83. The Nominal Commencement Date is taken to be the “With-Profits Effective Date” except where that date is missing from the available data, in which case the “Commencement Date” is used instead. The With-Profits Effective Date is the date on which a policy became with-profits as shown in Equitable Life’s records. The Commencement Date is the date on which a policy commenced as shown in Equitable Life’s records.

Policy Status

84. The policy status denotes basic policy information such as whether the policy is in-force or not. For the purposes of the Scheme, the policy status used is that as at the

End Date. Any subsequent changes to the policy, for example if there has been a claim on the policy after the End Date, are ignored.

Individual Policy Adjustments

85. There are cases where Equitable Life has used the wrong basis to issue payments, resulting in a higher value than if the correct basis had been used. For instance, a deduction applied to a policy value may be that applicable to the day before and not the one that was supposed to be used. These policies have been individually identified and the calculations adjusted so that the Comparator treats the policy in a similar manner.

April 2002 and July 2002 Maturity Values

86. For certain policies which became claims on 15 April 2002, the maturity adjustment which applied up to 14 April 2002 was applied despite the claim date being 15 April 2002. In calculating the Comparator policy value, any affected policies are treated as though they became claims on 14 April 2002, which is consistent with their treatment by Equitable Life.

87. Similarly, the maturity adjustment which applied up to 30 June 2002 was applied to certain policies that became claims on 1 July 2002. In calculating the Comparator Policy Value, any affected policies are treated as though they became claims on 30 June 2002, which is consistent with their treatment by Equitable Life.

1994 Interim Bonus

88. The 13% interim bonus rate which applied from 1 February 1994 was applied to certain policies which became claims during January 1994. In calculating the Comparator Policy Value for any affected policies, the 13% interim bonus rate is used, which is consistent with their treatment by Equitable Life.

Excluded Policies

89. Policies which were terminated as cooled off or voided which appear to have been ‘reversed off’ have been excluded. A reversed off policy will have negative bonus transactions which reduce the policy value to zero (or close to zero). Policies with no transaction history are also excluded along with policies that have no Policy Value and are not in-force.

2.10 Claims Variations - specific claim types or policies

“No return on death” pension policies

90. These policies are given a survivorship enhancement when calculating LDTV values at a year-end. All policies with this feature are in one of the following Pension Business groups: RA, IPP, TP, WU and GR. The enhancement is applied as a percentage uplift in fund value from one LDTV date to the next.

91. The enhancement percentage is related to a mortality rate dependent on the age and sex of the policyholder.

92. The "No Return on Death" status can be changed from "No Return" to "With Return" during a policy's lifetime for a variety of reasons, including reaching a certain age. It will depend on the terms that were agreed in each individual case.

93. The same enhancements as were applied to the Equitable Life policy are applied to the Comparator Policy Values for any policy which has or is likely to have had in the past a “No Return on Death” status.

94. When the date of birth field is missing for a policy that is “No Return on Death” it has been assumed that the policyholder was aged 50 at the date of commencement. This assumption is based on an examination of the data for similar policies where the date of birth is known.

Bonds with Death Claims of 105% or 110% of Policy Value

95. Although the death benefit of a BND policy has generally been 100% of the contractual fund value, during the mid 1990s some were issued with death benefits of 105% or 110%.

96. There is no indicator in the data to show which policies have death benefits of 105% or 110%. Where it appears that the death benefit paid was very close to 105% or 110% then the calculated payout for the Comparator is adjusted to also be 105% or 110% of the policy value respectively. There are no cases where the death benefit is significantly different to 100%, 105% or 110% of the contractual fund value.

School Fee Trust Plan Payouts

97. A category of School Fee Trust Plan policies that were issued before 1992 required that some of the proceeds of the policies were paid into a trust upon surrender. All Relevant Payments into and out of the policy are allowed for in determining the Comparator Policy Value.

Section 3: Group scheme policies

3.1 Characteristics of Group Business

98. In addition to policies sold to individuals, Equitable Life sold policies in respect of group pension schemes.

99. Group scheme policies are AWP policies in structure. The calculation of losses is therefore consistent with AWP policies, as set out in Section 2. However the level of data in Group scheme policies may differ from that in individual policies.

100. While, for some Group scheme policies the data relates to the individual members of the scheme, for a few policies there is only one set of data for example where the investments for all the members have been pooled by the scheme trustees, so Equitable Life has no records of the individuals.

101. The Relative Loss or Relative Gain is calculated for each available record. Where there is no member level detail, then the loss or gain is for the Group scheme as a whole and not directly attributable to any individual member. Where there are individual member details, then the loss or gain can be attributed at member level. Typically (but not exclusively) there is individual member data for defined contribution schemes, but not for defined benefit schemes.

102. Apart from this possible restriction on the identification of members, there are no differences between the calculations for Group scheme policies and individual AWP policies.

Section 4: Conventional With-Profits Policies

4.1 Introduction

103. This section provides details of the calculation of losses which have been incurred on Conventional With-Profits ("CWP") policies.

104. For policies that terminated on or before the End Date (31 December 2009[28]), the Relative Loss or Relative Gain is determined as the difference between two termination payments;

- one for the Comparator - a notional competitor of Equitable Life, whose performance is based on that of a sample of other companies; and
- one equal to the amount actually paid on the terminated policy.

This difference is then accumulated to 31 December 2009 at a fixed rate of interest (the Accumulation Rate).[29]

105. For policies that were still in-force at the End Date, the Relative Loss or Relative Gain consists of two elements:

- A Past Loss or Past Gain in respect of the period up to the End Date; and
- A Future Loss or Future Gain in respect of the period from 1 January 2010 to 31 December 2019, or the Policy Maturity Date if earlier.[30]

Each element is determined as the difference between two policy values; one using the assumed performance of the Comparator and one based on Equitable Life's performance (actual for Past Losses or Gains on policies which became claims before the End Date and policies in-force at the End Date, and assumed performance for Future Losses or Gains).

4.2 Products included

106. The CWP Life Business and Pensions Business groups comprise:

[28] IC H: definition of End Date, SJC10.13 (ii)
[29] AASJC 441
[30] IC E3.37

- Endowment Assurance (END)
- Whole of Life Assurance (WHL)
- Deferred Annuity (DA)
- Flexible Savings Plan (FSP)
- Accumulating Class Policies (ACC)

ACC business covers a number of policy types which have matured in the past and have been converted at maturity to non-profit policies.

4.3 Calculation Process

107. There are some policies where there is incomplete or inconsistent data. The treatment of such cases is given in sub-section 4.8.

Eligibility

108. In order to be eligible under the Scheme, a CWP policy must have:

- commenced and had paid premiums in the Loss Calculation Period;[31] and
- not become a claim on or before 31 December 1992.

109. Policies which were terminated as cooled off or voided are excluded.

Loss Calculation Period

110. The Loss Calculation Period for CWP business is from 1 September 1992 (the Start Date) and 31 December 2000 (the Close Date), inclusive. The calculation of loss covers

- all premiums actually paid prior to the Policy End Date, and
- for those policies in-force and still paying premiums at the End Date, the premiums due to be paid under the policy after the End Date and prior to the 31 December 2019 or, if earlier, the Policy Maturity Date (the "Nominal Maturity Date").[32]

Outline of Calculation

111. CWP business is characterised by having a guaranteed amount payable on death or survival of the life or lives assured to a specified date, the amount of which assumes all premiums due under the policy are paid on their due dates. The guaranteed

[31] IC E3.31-32
[32] IC E3.37

amount is increased by declarations of annual bonus, and may be further increased by the addition of a final bonus at the date of claim by reason of death or maturity.

112. For any given policy type, each company in the market offered different terms and conditions, reflecting different underlying assumptions about mortality, expenses and investment returns.

113. Consequently it is not practicable to compare the Equitable Life payouts directly with those of the Comparator Companies. Instead the approach adopted determines the rate of return that each of Equitable Life and the Comparator would have offered on a notional AWP policy based on the same premiums.

114. For policies which have become claims before the End Date, the calculation takes the difference between those returns added to the actual Equitable Life rate of return in order to determine a Comparator Past Policy Value, and for contractual claims only, is then subject to a minimum of the contractual amount guaranteed by Equitable Life under the terms of the policy. The Relative Loss is the difference between the Comparator Past Policy Value and the Equitable Life Past Policy Value.[33] Where this difference is negative there is a Relative Gain.

115. For policies which are in-force at the End Date, a similar approach is used, looking at the actual rate of return on the Equitable Life policy to the End Date. There is a separate calculation based on assumed future rates of return in respect of any possible future gain or loss for the period between the End Date and the Notional Maturity Date.

Past Loss and Past Gain

116. Past Loss is the loss attributable to premiums paid from when the policy commenced up to and including the End Date. This is calculated as the difference between the Comparator Past Policy Value and the Equitable Life Past Policy Value. Where this difference is negative there is a Past Gain.

Future Loss and Future Gain

117. For policies which remain in-force at the End Date, Future Loss is the loss attributable to the period after the End Date but before the Nominal Maturity Date.[34] This is calculated as the difference between the Comparator Future Policy Value and the Equitable Life Future Policy Value. Where this difference is negative there is a Future Gain.

[33] IC E3.35
[34] IC E3.37

Policy Status

118. The policy status denotes basic policy information such as whether the policy is in-force or not. For the purposes of the Scheme, the policy status used is that as at the End Date. Any subsequent changes to the policy, for example if premiums are discontinued or if there has been a claim on the policy after the End Date, are not reflected in the calculation of loss.

Contractual Claims

119. The payment made by Equitable Life when a policy terminates is classified as a contractual or non-contractual claim. This depends upon policy type, duration in-force and method of termination, but is also subject to concessions made by Equitable Life. All death and maturity claims are classed as contractual claims. The Equitable Life Past Policy Value on a contractual claim is the amount actually paid or deemed paid in accordance with paragraph 172.

120. The Comparator Past Policy Value on a contractual claim is calculated as in paragraph 161 but is subject to a minimum of the amount guaranteed by Equitable Life under the terms of the policy.

Non-Contractual Claims

121. All surrender claims are classed as non-contractual claims. The Equitable Life Past Policy Value on a non-contractual claim is the amount actually paid, or deemed paid in accordance with paragraph 172. The Comparator Past Policy Value on a non-contractual claim is the amount determined in accordance with paragraph 161.

Policies In-force at 31 December 2009

122. For the purposes of determining Past Loss or Past Gain, CWP policies that are in-force at 31 December 2009 are effectively treated in the same way as non-contractual claims.[35] This uses the Equitable Life Past Policy Value determined as at the End Date in accordance with paragraph 134 and a Comparator Past Policy Value determined at the End Date in accordance with paragraph 161.

123. A Future Loss is calculated for any CWP policy in-force at 31 December 2009.[36]

124. The calculated Equitable Life Past Policy Value as at 31 December 2009 and any expected future premiums are projected forward to the Nominal Maturity Date using assumed future investment returns for both Equitable Life and the Comparator. The details of these calculations are given in paragraphs 141 and 163 below**.**

Accumulation of loss or gain for policies which have become claims

125. Policies that are not in-force at the End Date have their Past Loss or Past Gain calculated at the Claim Date. This amount is then accumulated to the End Date at the

[35] IC E3.34
[36] IC E3.36

Accumulation Rate.[37]

Discount of future loss or gain for policies in-force at the End Date

126. Policies that are in-force at the End Date have their Future Loss or Future Gain calculated at the Nominal Maturity Date. This amount is then discounted to the End Date at a fixed rate of interest (the Discount Rate).[38]

Nominal Commencement Date

127. A Nominal Commencement Date is used when calculating Relative Loss or Relative Gain for the purpose of setting the date on which the first premium was paid on the policy.

128. If all three of Commencement Date, With-Profit Effective Date and first premium paid date are in 1993 or later and there is a complete premium history, then the Nominal Commencement Date is set to the earliest of those three dates. In other cases the first premium paid date is calculated by working backwards from the date of the most recent premium, using the total premiums paid and the premium frequency. The Nominal Commencement Date is then set as whichever of the Commencement Date and With-Profit Effective Date is closer to that estimated date.

Claim Date

129. There is no termination date in the CWP data, so, for policies which have become claims, the Claim Date is assumed to be the date of the policy payment. For ACC policies, this is taken as the expected maturity date of the policy when it was with-profits.

4.4 Payments In and Out of the Policy

Relevant Payments

130. Relevant Payments are defined to be the premiums paid into the policy between the Nominal Commencement Date up to and including the Policy End Date, including as appropriate the payments set out in sub-section 4.8 deemed as valid premiums. The Relevant Payments shall be taken as having occurred on the dates on which they actually occurred or the dates on which they are deemed to have occurred in accordance with sub-section 4.8, as appropriate.

131. GAR and Non-GAR Uplifts were payments made to Equitable Life policyholders to compensate them for foregoing their Guaranteed Annuity Rates (GARs). These

[37] AASJC 441
[38] IC E3.38

increased the guaranteed benefits payable under the policies.[39] They are not included in the Relevant Payments.

132. No Equitable Life compensation schemes directly affected CWP business. Section 7 is therefore not relevant to CWP business.

4.5 Equitable Life Policy Values

Equitable Life Past Policy Value

133. The Equitable Life Past Policy Value for all claims is the amount paid by Equitable Life on the termination of the policy where this amount is known. Where it is not known or is thought unreliable, the amount paid is reconstructed using the information that is known, and considered reliable, about the policy. [40]

134. For policies which were in-force at the End Date, the Equitable Life Past Policy Value at that date is the Notional Equitable Life AWP Past Policy Value as specified in paragraphs 137 and 138.

Actual Equitable Life Internal Rate of Return

135. If the amount paid on a contractual claim was only the guaranteed amount, then a nominal rate of negative final bonus is estimated from the available tables of final bonus to determine the amount that would have been payable had the guaranteed benefits not applied.

136. The single annual rate of return is then calculated for all policies. This is the return that when the Relevant Payments are accumulated from the dates on which they were made to the Policy End Date at that rate, the accumulated total equals the Equitable Life Past Policy Value, or where relevant the amount determined in accordance with paragraph 135. This single annual rate of return is the Actual Equitable Life Internal Rate of Return.[41]

Notional Equitable Life AWP Past Policy Value and Notional Equitable Life Internal Rate of Return

137. The Relevant Payments into the Equitable Life policy, net of the Comparator Initial Expenses, are accumulated from the dates on which those payments were made (or were deemed to be made in accordance with sub-section 4.8) to the Policy End Date, using the actual rates of bonus declared by Equitable Life for AWP policies. The rate of bonus used reflects whether the policy is Life Business or Pensions Business and is the rate applicable to the type of AWP policy which most closely resembles the CWP policy.

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[39] IC 4.16

[40] For example, where the available data shows two different values for a claim on the same date then the value deemed to be correct is determined by reconstructing the claim value from other information such as the premium records and past bonus rates etc. The aim is to use information that looks consistent as a whole.

[41] IC E3.35

138. This accumulated value is then increased by any GAR and non-GAR uplift that applied to the policy and any cut in the policy value that was applied by Equitable Life in 2001 or later. For non-contractual claims, there is a further reduction applied, described by Equitable Life as a financial adjustment. This gives the Notional Equitable Life AWP Past Policy Value.

139. The single annual rate of return is then calculated so that when the Relevant Payments are accumulated from the date on which they were paid to the Policy End Date at that rate, the accumulated total equals the Notional Equitable Life AWP Past Policy Value. This is the Notional Equitable Life Internal Rate of Return.[42]

Equitable Life Future Policy Value

140. The Equitable Life Future Investment Return is calculated as

Equitable Life Future Investment Return = FI + E-EBR * EqP

where

FI is the Fixed Interest Return;
E-EBR is the Equitable Life EBR; and
EqP is the Equity Premium.

This is a rate of 4.925 percent per annum.

141. For those CWP policies in-force at the End Date, the Equitable Life Future Policy Value is then calculated[43] as the accumulation to the Nominal Maturity Date of

- the Notional Equitable Life AWP Past Policy Value, plus
- for those still paying premiums, the premiums due in accordance with the policy terms and conditions after the End Date but before the Nominal Maturity Date, assuming they are all paid on their due dates, less the Comparator Initial Expenses,

at the Equitable Life Future Investment Return less the Comparator Renewal Expenses.

4.6 Comparator Returns

[42] AASJC 469
[43] AASJC 565 - 567

Comparator base returns

142. The investment returns used for the Comparator depend on whether the policy was a Pensions Business policy or a Life Business policy.

143. For Pensions Business policies, the base returns for the Comparator are the unsmoothed investment returns before tax, from the Towers Watson Asset Share Survey of each of the Comparator Companies, Friends Provident, Standard Life, Prudential, Scottish Widows and Norwich Union,[44] over the period 1988 to 2009.

144. For Life Business policies, the base returns for the Comparator are the unsmoothed investment returns, after tax, from the Towers Watson Asset Share Survey of each of the Comparator Companies, Prudential, Scottish Widows, Norwich Union, Legal & General and Scottish Mutual,[45] over the period 1988 to 2009.

Shareholder transfers

145. Proprietary life companies are owned by shareholders. The profits attributable to their shareholders are in most cases one-tenth of the overall profits, and this is normally allowed for by crediting to Asset Shares the overall investment returns reduced by one-tenth. The investment returns from the Towers Watson Asset Share Survey are before any payment a proprietary company within the Comparator Companies may make to its shareholder.

146. It is therefore necessary to adjust the overall returns to allow for this transfer of profits to the shareholder. For each policy, an adjustment is applied which varies depending on the number of comparators who were proprietary at the Nominal Commencement Date. Each proprietary company is assumed to have made shareholder transfers of 10% of the returns each year and to have reduced the amount credited to Asset Shares by that amount. Therefore, if two companies out of the five comparators are proprietary at the Nominal Commencement Date, then a deduction of 4% of the averaged return is applied to the base comparator return in each year. For example, if the overall return for the year was 10.0%, then the shareholder transfer adjustment would be 0.4%, leaving 9.6% to be credited to Asset Shares. The deduction does not change as and when other Comparator Companies become proprietary - it is assumed that policies existing at the date of a company's demutualisation would continue to get returns without any shareholder transfer after the demutualisation.[46] This deduction is abbreviated to STA ("Shareholder Transfer Adjustment").

Demutualisation Enhancements

147. Any enhancement made to investment returns as a consequence of the demutualisation of any of the companies underlying the Comparator returns is included in the returns used, or in the case of an increased final bonus, reflected in the Market Calibration Factors.[47]

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[44] AASJC 261; AASJC 380
[45] AASJC 262; AASJC 380
[46] AASJC 419 et seq; IC E3.11
[47] IC E3.11

Unsmoothed returns

148. The unsmoothed returns for the Comparator have been taken as the average return of the Comparator Companies for each calendar year. In 2001 the markets were very volatile and it is likely that companies changed payouts for non-contractual claims during the year. Consequently, the unsmoothed return for 2001 has been calculated separately for the first six months and the second six months of the year. Policies which became non-contractual claims in 2001 will thus have the Comparator Policy Value determined using where appropriate the unsmoothed rate of return appropriate to the half of the year in which the claim occurred.[48]

149. Policies becoming claims in the second half of 2001 would get all the return for the first half of 2001 and then a partial return for the appropriate part of the second half of the year.

Smoothing adjustments

150. In order to calculate the smoothed returns for the Comparator there is an assumption on how the comparators payouts would have related to their investment returns. Two sets of smoothed returns are used, a 4 year smoothed return (with double weight on the current year) which is used for all policies which became contractual claims on or before 31 December 2003[49] and a 2 year smoothed return (with equal weight on each year) is used for policies becoming claims after this date.[50]

151. The two approaches reflect that, 2001 excepted, returns had been relatively stable within each year and companies had generally not changed with-profit payouts more than once a year up until 2003. By 2003 investment markets had become more volatile, and companies had reduced the amount by which they smoothed payouts, and were changing payouts more frequently.

152. The formulae used for determining the smoothed returns are:

If I(t) is the base return in year t, and S(t) is the smoothed return for that year, then

For the 4 year smoothed return,[51]

$$S(t) = ((1+ I(t-3)) * (1+ I(t-2)) * (1+ I(t-1)) * (1+ I(t))^2)^{(1/5)} -1$$

For the 2 year smoothed return,[52]

[48] AASJC 501
[49] AASJC 406
[50] AASJC 406
[51] AASJC 407

$$S(t) = ((1+ I(t-1)) * (1+I(t)))^{(1/2)} - 1$$

Calibration to actual payouts

153. In order to calibrate the smoothed returns to actual comparator payouts, Market Calibration Factors are applied to each premium depending on entry and exit dates. There are separate factors for Life Business and Pensions Business.[53] The factors also vary depending on whether a 2 year or 4 year smoothing formula was used.

154. These factors were determined by comparing the premiums for notional policies accumulated at the Comparator Companies' smoothed investment returns with the values provided by the Comparator Companies and published in Money Management magazine surveys of with-profits payouts for those same notional policies. The factors were set so that the accumulated policy values were close to the actual payouts of the companies underlying the comparator returns. Where necessary, factors have been interpolated for cases where actual payout information was not available.

Tables of returns

155. The base returns**,** smoothed returns and Market Calibration Factors are shown in Appendix A.

Comparator Expenses

156. For the Comparator the expense assumptions reflect the expenses of the Comparator Companies.[54]

- The premiums accumulated in the Comparator Policy Value calculation are reduced by the Comparator Initial Expenses.

- The Comparator investment returns are reduced to allow for the Comparator Renewal Expenses.

4.7 Comparator Policy Values

Notional Comparator AWP Past Policy Value and Notional Comparator Internal Rate of Return

157. The Relevant Payments net of the Comparator Initial Expenses are accumulated from the dates on which those payments were made (or were deemed to be made in accordance with sub-section 4.8) using the Comparator rates of return as set out in sub-section 4.6 less both of the Comparator Renewal Expenses and the STA, to the Policy End Date. This gives the Notional Comparator AWP Past Policy Value.

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[52] AASJC 409
[53] IC E3.11, SJC 4.95, AASJC 422 - 434
[54] AASJC 396 - 399

158. If the policy has become a contractual claim, then the Comparator Smoothed Returns are used. If the policy was a non-contractual claim or was still in-force at the End Date, then the policy value is calculated twice, once using the Comparator Smoothed Returns and secondly using the Comparator Unsmoothed Returns and the lower value is taken.[55]

159. The single annual rate of return is then calculated so that when the Relevant Payments are accumulated from the date on which they were paid to the Policy End Date at that rate, the accumulated total equals the Notional Comparator AWP Past Policy Value. This is the Notional Comparator Internal Rate of Return.[56]

Comparator Past Policy Value

160. The Final Comparator Rate of Return is determined as

Final Comparator Rate of Return = AE + NC - NE

where

AE is the Actual Equitable Life Internal Rate of Return;
NC is the Notional Comparator Internal Rate of Return, and
NE is the Notional Equitable Life Internal Rate of Return.[57]

161. The Relevant Payments are accumulated from the dates on which those payments were made (or were deemed to be made in accordance with section 4.8) using the Final Comparator Rate of Return, with no further expense adjustments. For non-contractual claims, the Comparator Past Policy Value is this amount. For contractual claims, the Comparator Past Policy Value is this amount or, if greater, the amount guaranteed by Equitable Life under the terms of the policy as in paragraph 120.[58]

Comparator Future Policy Value

162. The Comparator Future Investment Return is calculated as

Comparator Future Investment Return = FI + C-EBR * EqP

where

FI is the Fixed Interest Return;
C-EBR is the Comparator EBR; and
EqP is the Equity Premium.

[55] Setting non-contractual claims generally follows the same process as for contractual claims using smoothed returns, but restricted to paying no more than the underlying asset shares which are based on the unsmoothed returns.
[56] IC E3.35
[57] IC E3.35
[58] IC E3.35

This is a rate of 6.15 percent per annum.

163. The Comparator Future Policy Value is then calculated for those CWP policies in-force at the End Date as the accumulation to the Nominal Maturity Date of

- the Notional Equitable Life AWP Past Policy Value, plus
- for those still paying premiums, the premiums due in accordance with the policy terms and conditions after the End Date but before the Nominal Maturity Date, assuming they are all paid on their due dates, less the Comparator Initial Expenses,

at the Comparator Future Investment Return less the Comparator Renewal Expenses.

4.8 CWP Data issues

164. This sub-section covers the areas where data is unreliable.

Multiple Premiums

165. Where the data records show multiple premiums were paid in on the same day, they are combined into a single premium paid on that date.

166. Where multiple premiums occur in the same month, these are combined and the total premium for that month is assumed to be paid on the earliest date within the month on which a premium was paid.

Policies commencing prior to 1994 with the policy data showing no premium record but with a positive total premiums paid

167. Policies commencing prior to 1994 with the policy data showing no premium record but with a positive total premiums paid[59] are treated as having been made paid up in the period between 1 September 1992 and the date when the policy details were added to Equitable Life's new administration system. It is assumed that the only premium paid was a single premium equal to the total premiums paid, and that premium was paid on the Nominal Commencement Date.

Policies with the policy data showing only one premium paid record and a total premiums paid greater than that one premium

168. For policies commencing prior to 1994 with the policy data showing only one premium paid record and a total premiums paid greater than that one premium, the premium frequency has to be estimated from the total premiums paid. This is done by projecting the premiums back from the date the one premium was paid to the With-Profits Effective Date, working out which of the expected premium frequencies of monthly, quarterly, half-yearly or yearly was in fact used. Expected premium dates

[59] IC E3.32

are then constructed backward at the intervals dictated by the assumed premium frequency assuming the same premium is paid on each such date until the Nominal Commencement Date determined in accordance with paragraph 128. If the total of the premiums in these constructed records and the actual records do not equal the total premiums paid, then the amount of each premium in the constructed records is adjusted by the single amount that makes the total of the premium records match the total premiums paid.

Policies commencing prior to 1994 with the policy data showing more than one premium paid record and with a total premiums paid exceeding the sum of those premium records

169. For policies commencing prior to 1994 with the policy data showing more than one premium paid record and with a total premiums paid exceeding the sum of those premium records,[60] the premium frequency is estimated from the gap between the first and second premium records. Expected premium dates are then constructed backward at the intervals dictated by the assumed premium frequency assuming the same premium is paid on each such date until the Nominal Commencement Date determined in accordance with paragraph 128. If the total of the premiums in these constructed records and the actual records do not equal the total premiums paid, then the amount of each premium in the constructed records is adjusted by the single amount that makes the total of the premium records match the total premiums paid.

ACC Premiums

170. The ACC business group contains policies that were previously with-profits policies but were subsequently converted into non-profit policies upon maturity. These policies only have any Past Loss or Past Gain calculated for the period between the Nominal Commencement Date and the date on which they ceased to be with-profits. This date is taken to be the expected maturity date as shown on the policy records for their maturity as with-profits policies. Any premiums paid on or after this expected maturity date are excluded from the Past Loss or Past Gain calculation.

Policies which have a payment out but remain in-force

171. Where the policy records show

- the policy is in-force;
- there has been a payment out; and
- there are premium records after the payment out,

[60] IC E3.32

it is assumed that the payment out was reversed and the policies remain in-force. In other cases where there are no premiums subsequent to the payment out, it is still assumed that the payment out was reversed, but no further premiums have been paid under the policy.

Terminated Policies with multiple payments out

172. For policies with more than one payment out terminating a policy, all payments other than the most recent are ignored. Earlier terminating payments are taken as having been made in error and the policy re-instated to in-force. Where there are two or more payments out on the most recent claim date, an individual assessment is made of whether these are considered to be genuine separate payments which form part of the total claim value or if they are duplicate entries. The assessment is made based on the expected amount of claim given the remaining policy details.

Policies with the policy data showing no premiums paid and nil total premiums paid.

173. Policies which commenced after the Start Date but with the policy data showing no premiums paid and nil total premiums paid are assumed to be policies which became paid up before transfer to Equitable Life's new administration systems. It is assumed that the only premium paid was a notional premium of £100 mid-way through the first policy year.[61] Notional policy values are reconstructed from this information for both Equitable Life and the Comparator. The loss or gain as a percentage of the notional Equitable Life value is then determined. That percentage loss or gain is applied to the actual Equitable Life Past Policy Value at the claim date to determine the loss or gain applicable to that policy. There are no in-force policies for which this approach applies.

[61] The size of premium assumed is immaterial, the percentage loss or gain is unaffected by the size of premium.

Section 5: With-Profits Annuities

5.1 Introduction

174. This section of the Annex provides details of the calculation of Relative Losses which have occurred in the past or will occur in the future on With-Profit Annuities ("WPAs").

175. For a With-Profit Annuity the benefits are paid as a series of annuity payments. The Relative Losses or Relative Gains consist of the difference between two sets of annuity payments; one based on the Equitable Life policy and one for a Comparator.

176. The Relative Loss or Relative Gain consists of two elements:

- Past Loss or Past Gain; and
- Future Losses or Future Gains.

177. The WPA business of Equitable Life was transferred to Prudential Assurance ("Prudential") as at 31 December 2007. Since then Prudential has administered that business and made annuity payments to policyholders. In this section where reference is made to Equitable Life payments those references include payments made by Prudential on the ex-Equitable Life WPA policies.

5.2 Products included

178. WPA policies can have a number of different policy features. This sub-section describes how the Equitable Life WPA policies work and the range of policy features that were available.

How Equitable Life WPA policies work

179. The Equitable Life WPA policies provide a series of regular annuity payments to the policyholder, usually until death, in exchange for a single premium.

180. When purchased, the initial annuity (defined as the annuity payments received in the first policy year) was determined by a number of factors including:

- The characteristics of the policyholder (e.g. age, sex);
- The type of WPA policy purchased (e.g. single or joint life), and

- The characteristics of the policy that were chosen by the policyholder at commencement (e.g. Anticipated Bonus Rate ("ABR")).

181. Each policy year, the amount of annuity payment received differed from that received in the previous policy year and was based on the greater of the Guaranteed Annuity and Total Annuity amounts. A detailed explanation of how these were calculated is given in sub-section 5.4. These in turn depend on the Guaranteed Investment Return and the Anticipated Bonus Rate as explained in the following paragraphs.

Guaranteed Investment Return and Anticipated Bonus Rate

182. The Guaranteed Investment Return ("GIR") was set at 3.5% and applied to most policies that commenced before July 1996.

183. The Anticipated Bonus Rate ("ABR") was chosen by the policyholder at commencement.

184. Both the GIR and ABR determined the pattern of annuity payments.

185. A high ABR would provide a high initial annuity however high bonuses would be required to sustain this level of income, i.e. the annuity payments would be more likely to decrease over time compared to a similar policy with a lower ABR. A low ABR would result in a lower initial annuity but the annuity payments would be more likely to increase over time compared to a similar policy with a higher ABR.

186. The Total Annuity was increased by the Overall Rate of Return ("ORR") and decreased by the ABR and the GIR, in other words multiplied by a factor of (1+ORR) and divided by a factor of (1+ABR) * (1+GIR). Policies without a GIR would have to earn an ORR equal to the ABR for the Total Annuity to remain level. Policies with a GIR would have to earn a higher ORR than the ABR, equal to (1+ABR) * (1+GIR)-1, for the Total Annuity to remain level (see sub-section 5.4).

187. The Guaranteed Annuity limited the level to which the annuity could drop in each year. The Guaranteed Annuity was increased by the reversionary bonus rate ("RB") and reduced by the ABR, in other words multiplied by a factor of (1+RB) and divided by a factor of (1+ABR) (see sub-section 5.4).

Policy features

Payment Term

188. There are 3 types of payment term:

- Payable until death;
- Payable until death with a guarantee term, or
- Fixed term.

189. Policies that are payable until death with no guarantee term can have a capital protection option. This option means that on death, the policyholder may receive a lump sum payment which is the excess, if any, of the premium paid over the sum of the annuity payments.

190. The majority of policies with a guarantee term have a term of 5 or 10 years although the maximum term is 20 years. Annuity payments are made at least until the end of the term, even if the annuitant dies within the term, unless there is a commutation option. If the annuitant is still alive at the end of the term, the annuity continues until death.

191. Policies with a guarantee can have a commutation option. This means instead of annuity payments continuing until the end of the guarantee, the value of those future payments is paid in a lump sum on death within the guarantee term.

192. Policies that are payable until death with or without a guarantee term can have a proportional payment on death option. This means that if the policyholder dies (after the guarantee period if there is one) their estate will receive an extra payment at the next payment date after death. This payment is equal to the payment they would have received if they had been alive, pro-rated for the part of the payment period that they had been alive.

193. The majority of policies with a fixed term have a term of 5 or 10 years with the maximum term being 20 years. For the majority of those policies with a fixed term the annuity payments are made until the end of the term, whether or not the annuitant dies, however there are some policies where the payments are made until the earlier of the death of the annuitant and the end of the term.

Annuitants

194. Annuities can be:

- Single life, or
- Joint life (with first and second annuitants).

195. For a joint life policy the annuity payments are paid to the second annuitant if the first annuitant dies (as long as the second annuitant is still alive).

196. Annuity payments may reduce after death. There are two types of reduction (“Spouse Reduction”) that may be applied and the type is chosen at commencement of the policy:

- Reduction on first death: the annuity reduces by a set percentage on the death of either annuitant;

- Reduction on death of the first annuitant: the annuity reduces by a set percentage on the death of the first named annuitant on the policy.

197. The Spouse Reduction percentage is chosen at the commencement of the policy and can be set to any value. The most common reductions are 0% (i.e. no reduction), 33.33% and 50%. There are a very small number of joint life annuities that are set to increase on the death of an annuitant.

5.3 Loss Calculation Process

198. There are some policies where there is incomplete or inconsistent data. The treatment of such cases is given in sub-section 5.7.

199. The following paragraphs set out how Relative Losses and Relative Gains have been calculated for WPA policies. Details of the offsetting process are set out in Section 6.

Eligibility

200. In order to be eligible under the Scheme, a WPA policy must have commenced in the Loss Calculation Period. Only policies commencing in this period will be included in the calculation of Relative Loss.

Loss Calculation Period

201. The Loss Calculation Period for WPA business is between 1 September 1992 (the Start Date) and 31 December 2000 (the Close Date), inclusive.

Policies purchased in currencies other than Sterling

202. For policies purchased in a foreign currency, Relative Losses and Relative Gains are calculated in the currency of purchase and then converted into Sterling using the exchange rates applicable at 31 December 2009. The amount(s) so calculated will then be paid to the policyholder in either Euros or US Dollars, as appropriate, using the exchange rate at the date of payment.

Losses incurred by annuitants

203. For single life policies, Relative Losses or Relative Gains incurred on all annuity payments made, either before or after the annuitant has died, are assumed to belong to the annuitant or, if the policy has been assigned, the assignee (or the estate of the annuitant or assignee).

204. For joint life policies:

- Where the policy has been assigned then the Relative Losses or Relative Gains belong to the assignee (or the estate of the assignee);

- Relative Losses or Relative Gains incurred on annuity payments that are made when the first annuitant is alive are assumed to belong to the first annuitant;

- Relative Losses or Relative Gains incurred on annuity payments that are made after the first annuitant has died are assumed to belong to the second annuitant (if the second annuitant is still alive); and

- Relative Losses or Relative Gains incurred on annuity payments that are made after both annuitants have died are assumed to belong to the estate of the last annuitant who died. This may occur if both annuitants have died before the end of a guarantee or fixed term.

Past Loss and Past Gain

205. For WPA policies, Relative Loss (or Relative Gain) incurred on annuity payments made from 1 January 1993 to the End Date (31 December 2009) inclusive, allowing for interest up to the End Date is referred to as “Past Loss” (or “Past Gain”).

206. Annuity payments made prior to 1 January 1993 are excluded from the loss calculation.[62]

207. Relative Loss or Relative Gain is calculated at each payment date as the difference between the calculated Comparator annuity payment and the Equitable Life annuity payment (using actual payment data where available (see sub-section 5.4).

208. These Relative Losses and Relative Gains are accumulated to the End Date using a fixed rate of interest (the “Accumulation Rate”) to give the Past Loss or Past Gain. The accumulation assumes that the loss for each year is evenly spread across payment dates.

Future Losses

209. For policies which have not terminated by the End Date there may be Relative Loss incurred on annuity payments after the End Date. These losses are referred to as “Future Losses”.

210. Annuity payments for Equitable Life and the Comparator are projected into the future from the End Date. The projected annuity payments are calculated using assumptions about future conditions as detailed in sub-section 5.6. No assumptions are made about the future mortality of annuitants.

211. For each future calendar year from the End Date, Future Losses are calculated as the difference between the projected Comparator payments and the projected Equitable Life payments.

212. There are a very small number of cases where a Future Gain is incurred in 2010, i.e., the projected Equitable Life annuity payment in 2010 is larger than the projected Comparator annuity payment. There is always a Past Gain for these cases. Paragraph 355 describes the offsetting of Future Gains against Future Losses.

213. There may be Future Losses for an annuitant who has died if:

- They died after the End Date, or
- They have a policy which had not terminated by the End Date and they were the only or last surviving annuitant (e.g. there was an unexpired guarantee period).

[62] SJC 4.52

214. Future Losses will be contingent on the same events as the future annuity payments on the policy, for example:

- For policies where annuity payments cease on death, future losses incurred on that policy will also cease on death;

- For joint life policies where the annuity payments reduce on the death of the first annuitant, future losses will reflect the effect of this reduction and will be attributed to the second annuitant if they are alive;

- For joint life policies where the annuity payments reduce on first death (irrespective of whether they are the first or the second annuitant), future losses will reflect the effect of this reduction and will be attributed to the last surviving annuitant;

- For a joint life policy, if there is an unexpired guarantee or fixed term when the last annuitant died, the loss incurred on any remaining annuity payments will be attributed to the estate of the last surviving annuitant.

Contingent Future Losses

215. As there is no assumption made about the future mortality of annuitants who are still alive, Future Losses for these annuitants need to be calculated for each scenario that might occur in the future.

216. For a single life policy, Future Losses are calculated for each future year for each of two scenarios:

- The annuitant is alive (the base scenario), or

- The annuitant has died (the contingent scenario).

217. For a joint life policy, Future Losses are calculated for each annuitant,(first and second), for each future year and for each of four scenarios:

- Both annuitants are alive (the base scenario);

- The annuitant is alive and the other annuitant on the policy has died;

- The annuitant has died and the other annuitant on the policy is alive, or

- Both annuitants have died.

218. The last three scenarios are referred to as contingent scenarios or ‘Contingent Future Losses’. Paragraphs 357 to 360 describe the offsetting of gains against Contingent Future Losses.

Total Past Loss and Total Future Losses

219. The Total Past Loss or Total Past Gain, and the Total Future Losses or Total Future Gains are calculated for each annuitant over all of their WPA policies.

220. Loss arising from each policy that an annuitant is named on as either the first or second annuitant is aggregated for that annuitant in the following way:

- All Past Losses and Past Gains are added together ("Total Past Loss" or "Total Past Gain");
- All Future Losses are added so that there is a Total Future Loss for each year and for each future scenario (collectively known as "Total Future Losses");
- Any gains are used to offset losses (see Section 6).

Payment of losses

221. Relative Losses incurred by WPA annuitants will be paid in full.

222. If an annuitant has died, the Total Past Loss or Total Past Gain, and the Total Future Loss or Total Future Gain will be summed. If there is a resultant loss, this will be paid to the annuitant's estate in a lump sum; otherwise there will be no loss payment to that annuitant's estate.

223. If an annuitant is alive and the Total Past Gain (or Total Future Gains) has been offset against Total Future Losses, the resulting loss payments will be paid in the same way as described in paragraphs 226 to 230.

Payment of Total Past Loss

224. If an annuitant has a Total Past Loss, the Total Past Loss will be divided into 5 equal payments which will be paid in the first five years of the Scheme.

225. If the annuitant dies within this period, any remaining unpaid Total Past Loss will be paid to their estate in a lump sum.

Payment of Total Future Losses

226. The Total Future Loss for each future year will be paid annually in arrear, so that Total Future Loss incurred in 2010 (i.e. between 1 January 2010 and 31 December 2010 inclusive) will be paid in 2011, Total Future Loss incurred in 2011 will be paid in 2012 etc. This is irrespective of the frequency of the actual annuity payments which may, for example, be paid monthly.

227. The Total Future Losses will be paid out according to the mortality scenario that applies (see paragraphs 216 and 217), so that Total Future Loss payments will be contingent on the same events as the annuity payments for each underlying policy.

228. When an annuitant dies, the Total Future Loss will be pro-rated for that year. The pro-rating will be done on the basis of the number of months and part months (rounded up) for which they were alive. For example, if the Total Future Loss incurred in 2012 is £200 and the annuitant dies on 16 October 2012, the future loss payment in respect of 2012, to be made on death will be £166.67 i.e. £200 * 10 / 12.

229. If the policy has a second annuitant to whom loss payments commence following the death of the first annuitant then their accrual of loss will start from the month following the death of the first annuitant. For example, if the Total Future Loss incurred in 2012 for the second annuitant is £100, the first annuitant dies on 16 October 2012 and the second annuitant is alive at the end of 2012, then the future loss payment to the second annuitant in respect of 2012, will be £16.67 i.e. £100 * 2 / 12. There will be further loss payments to the second annuitant in subsequent years while the second annuitant remains alive.

230. Any Total Future Loss that is outstanding and unpaid on death (e.g. for an unexpired guaranteed or fixed term) will be paid to the estate of the annuitant in a lump sum.

Payment of Small Losses

231. For administrative reasons, the Scheme may deal with payments in relation to certain WPA policies with very small losses differently from the approach set out in this section.

5.4 Equitable Life Annuity Payments

232. The annuity payments made in the past or projected to be made in the future by Equitable Life or Prudential are calculated differently in four distinct time periods:

- Annuity payments made in policy years commencing before 1 January 1993 (or 1 January 1998 for non-UK policies);
- Annuity payments made in policy years commencing between 1 January 1993 (or 1 January 1998 for non-UK policies) and the end of the policy year starting in 2006;
- Annuity payments made in the policy year commencing in 2007; and
- Annuity payments made or projected to be made in policy years commencing after 2007.

233. These four time periods are necessary because the actual annuity payments made by Equitable Life are only available:

- After a database migration which occurred at the end of 1992 (or 1997 for non-UK policies), and

- Before the transfer of all WPA policies to Prudential (on 31 December 2007).

234. The Equitable Life annuity payable is recalculated on each policy anniversary, although changes (e.g. corrections) can occur during a policy year. For this reason annuity payment data is only used when the full policy year falls within the period for which actual annuity payment data is available.

235. The following paragraphs describe the calculations for the four distinct time periods. The methodology has been derived from details supplied by Equitable Life on the actual calculations used in practice.

Annuity payments made before annuity payment data commences

236. For UK policies, if there was an annuity payment made before 1 January 1993, then the policy must have commenced between the Start Date (1 September 1992) and 31 December 1992, to be eligible under the Scheme.

237. For these policies, the initial annuity is provided in the Equitable Life data and this is used as the first year of annuity payment.

238. For non-UK policies, annuity payments in a policy year which commenced before 1 January 1998 are calculated by rolling back the annuity paid during the policy year which commenced in calendar year 1998. This involves the following steps:

- Sum the annuity payments relating to the policy year which commenced in 1998.

- If a Spouse Reduction had been applied before or during this year as a result of a death, the annuity payment is grossed up to calculate the full annuity (before reduction) for that year (Total Annuity).

- The full annuity for each previous policy year up to the first year is calculated by applying a "Total Annuity Factor" ("F_t") as follows:

- $$TA_{t-1} = \frac{TA_t * (1 + ABR) * (1 + GIR)}{(1 + F_t)}$$ where;

- TA_t is the Total Annuity at time t;

- t is the policy year;

- t-1 is the previous policy year.

239. It is assumed that the full annuity paid in the policy year which commenced in 1998 was the Total Annuity in this year, i.e. the Guaranteed Annuity was less than the Total Annuity. This is a reasonable assumption to make because prior to 1998, the total

bonus rates applied to the Total Annuity were nearly always higher than a GIR of 3.5% plus the guaranteed bonus rates applied to the Guaranteed Annuity.

240. Where the policy anniversary is on or after 1 April, the Total Annuity Factor F_t is calculated as:

- $F_t = \frac{(1+ORR_t)*(1+IRR_t * p)}{(1+IRR_{t-1} * p)} - 1$ (1) where;
- ORR_t is the latest declared Overall Rate of Return bonus which is applied at t;
- IRR_t is the latest declared Interim Rate of Return bonus which is applied at t;
- IRR_{t-1} is the Interim Rate of Return bonus applied at t-1;
- p is the proportion of the calendar year before the policy anniversary.

Where the policy anniversary is earlier than 1 April, the Total Annuity Factor F_t is calculated as:

- $F_t = \frac{(1+ORR_t)*(1+IRR_t *(1+p))}{(1+IRR_{t-1} *(1+p))} - 1$ (2)

241. During the first policy year, a policy has existed for only part of the previous calendar year and therefore receives only part of that year's Overall Rate of Return bonus. In the first policy year the calculations are adjusted to be:

- Formula (1) becomes $F_{t1} = (1+ORR_{t1} *(1-p))*(1+IRR_{t1} * p) - 1$
- Formula (2) becomes $F_{t1} = IRR_{t1}$
- In the second policy year formula (2) becomes $F_{t2} = \frac{(1+ORR_{t2} *(1-p))*(1+IRR_{t2} *(1+p))}{(1+IRR_{t1})} - 1$
- t1 is the first policy year;
- t2 is the second policy year

242. For these non-UK policies, because data is only available from 1998, the effect of the enhancement that was applied to the Total Annuity in 1996 is taken into account in the calculations.

243. The Guaranteed Annuity is calculated by rolling forward the initial annuity as follows:

- Start with the "Initial Annuity" that is calculated above i.e. the annuity in the first policy year.
- Calculate the Guaranteed Annuity GA_{t2} for the second policy year:
- $$GA_{t2} = \frac{InitialAnnuity * (1 + RB_{t2} * (1 - p))}{(1 + ABR)}$$ (3) where;
- RB_{t2} is the latest declared Reversionary Bonus at the start of the second policy year
- Calculate the Guaranteed Annuity GA_t for each following year:
- $$GA_t = \frac{GA_{t-1} * (1 + RB_t)}{(1 + ABR)}$$ (4)
- Formula (3) is an adjusted version of formula (4) to allow for only part of the first year's Reversionary Bonus.

244. The effects of the enhancements applied to the Guaranteed Annuity in 2002 are taken into account in the calculations.

Annuity payments made whilst annuity payment data is available

245. The annuity payment data from Equitable Life includes the payment due date, payment code and the payment amount.

246. The following payment codes are included in the Relative Loss calculation:

- REGLR – Regular Payment
- REVSL – Reversal of Regular Payment
- REGAD – Advance Model Payment
- MANPO – Manual Positive Adjustment Payment
- MANNG – Manual Negative Adjustment Payment
- TERMC - Payment on Termination Complete (see paragraph 191)

247. The following are excluded as they are non standard transactions (e.g. cancellations, surrenders etc):

- TERMS – Payment on Termination Surrendered
- TERMO - Payment on Termination Claim Cessation
- TERME - Payment on Termination Expiry

248. The REGLR, REVSL, REGAD, MANPO, MANNG payment codes are taken to relate to the regular annual annuity. The TERMC payment code is taken to denote a commutation on death payment. The payment amounts for these codes are summed across each policy year to calculate the overall annuity paid in that policy year.

249. It is assumed annuity payments were made on their due dates.

250. If the first policy year is after 1992 (or after 1997 for non-UK policies), the initial annuity as provided in the Equitable Life data is used for the first year of annuity payment.

251. Actual annuity payment data will automatically include the effects of any enhancements and cuts that Equitable Life made to annuity payments over the period 1993 to 2007 (or 1998 to 2007 for non-UK policies). These include:

- Cuts in 2003 and 2004 to the Total Annuity;
- Enhancements in 1996 and 2002 to the Total Annuity;
- Enhancements in 2002 to the Guaranteed Annuity.

Annuity payments made in the policy year commencing in 2007

252. Because annuity payment data is not available after 31 December 2007, the final policy year of annuity payment data may be incomplete. Annuity payments made in the policy year starting in 2007 are recalculated from the Last Declared Total Value (LDTV) data.

253. LDTV data is the notional Total Annuity (TLDTVt) and the notional Guaranteed Annuity (GLDTVt) at the end of the calendar year. Note the GLDTVt includes some GIR for the part of the policy year up to the end of the calendar year and it is unwound in the following calculations.

254. If the policy anniversary is on or after 1 April, the LDTV data from 31 December 2006 is used to calculate the annuity paid in the policy year which begins during 2007:

- $$TA_{2007} = \frac{TLDTV_{2006} * (1 + IRR_{2007} * p)}{(1 + ABR) * (1 + GIR)}$$

- $GA_{2007} = \dfrac{GLDTV_{2006}}{(1+ABR)*(1+GIR*(1-p))}$ where;
- TA_{2007} and GA_{2007} are the Total Annuity and Guaranteed Annuity amounts in the policy year commencing in 2007;
- $TLTDV_{2006}$ is the Total Annuity LDTV as of 31 December 2006;
- $GLTDV_{2006}$ is the Guaranteed Annuity LDTV as of 31 December 2006.

255. If the policy anniversary is before 1 April, the LDTV data from 31 December 2005 is used to calculate the annuity paid in the policy year which begins during 2007:

- $TA_{2007} = \dfrac{TLDTV_{2005}*(1+IRR_{2007}*(1+p))}{(1+ABR)^2*(1+GIR)^2}$
- $GA_{2007} = \dfrac{GLDTV_{2005}}{(1+ABR)^2*(1+GIR*(1-p))}$

Annuity payments made in policy years commencing after 2007

256. Annuity payments made in each policy year starting from 2008 are calculated by rolling up both the Guaranteed Annuity and the Total Annuity.

257. The Total Annuity calculation uses the Total Annuity Factor F_t as defined in paragraphs 240 and 241,with a future assumption about the ORR (as set out in sub-section 5.6) and a future assumption about the IRR that is equal to the ORR:

- $TA_t = \dfrac{TA_{t-1}*(1+F_t)}{(1+GIR)*(1+ABR)}$

258. The Guaranteed Annuity is calculated is the same way as defined in formula (4), paragraph 243 with a future assumption about the RB of 0%.

5.5 Comparator annuity payments

259. The Comparators used to assess the Relative Loss for WPA business are Prudential and Scottish Widows. For policies commencing between 1 September 1992 and 30 September 1995 the Comparator payments are equal to the Prudential payments. For policies commencing from 1 October 1995 the Comparator payments are the average of the Prudential and Scottish Widows payments. This is because the Scottish Widows product was not sold before 1 October 1995[63].

[63] SJC 4.91

260. It is assumed that the Comparator WPA policy has the same policy features as the Equitable Life policy. For example, if the policyholder took out a joint life policy with a 5 year guarantee period from Equitable Life it is assumed they would have chosen the same policy from Prudential or Scottish Widows.

261. Annuity payments are calculated for the Comparators both historically and into the future.

Calculating the Comparator ABR

262. Neither the Prudential nor Scottish Widows annuities had GIRs, so an equivalent ABR that incorporates the GIR is used as the Comparator ABR.

- $ABR_{Comparator} = (1 + ABR) * (1 + GIR) - 1$

263. There are some policies where the Comparator ABR is higher than the maximum ABR that was offered as standard from Prudential or Scottish Widows in the year that the policy commenced. In these cases, the maximum ABR offered by the Comparator is used. Therefore $ABR_{Prudential}$ and/or ABR_{SW} may not be equal to $ABR_{Comparator}$ as defined above.

Setting the Comparator initial annuity

264. The initial annuity (the first policy year annuity payments) assumed for the Comparators is set to reflect the fact that Prudential and Scottish Widows offered different initial annuity rates than those offered by Equitable Life for the same single premium paid. Therefore the initial annuity paid by Prudential or Scottish Widows would have been different from the initial annuity paid by Equitable Life. The Equitable Life actual initial annuity for the policy is multiplied by the ratio of the average initial annuity rate for the Comparator to the average initial annuity rate for Equitable Life.

265. Average initial annuity rates for various different commencement dates, ABRs and other policy features have been obtained from Equitable Life, Prudential and Scottish Widows. UK rates have been used for both UK and non-UK policies.

266. Linear interpolation is used on the average initial annuity rates where necessary, in order to calculate the average initial annuity rate for the policy ABR (or equivalent Comparator ABR).

Comparator bonus rates

267. The amounts of the annuity payments are calculated using historical bonus rates until the April 2010 declaration for Equitable Life and Prudential and unit prices until 1

January 2010 for Scottish Widows. After these dates, assumed future bonus rates are used to calculate projected annuity payments.

Prudential as a Comparator

268. Prudential announce bonuses annually each year. These apply on the policy anniversary following the announcement and are applied for a full year from a policy anniversary to the next policy anniversary. The bonuses are in the form of Regular Bonuses (RGB) and Top-up Bonuses (TB). The Top-up Bonuses depend on the commencement date of the policy and apply to the payments in one year only.

269. The annuity payments are calculated as follows:

- The initial annuity is calculated as described in paragraph 264;
- The Annuity A_t for each following policy year is calculated as:
- $A_t = \dfrac{A_{t-1} * (1 + RGB_t)}{(1 + ABR_{\text{Prudential}})}$ where;
  - RGB$_t$ is the last declared Regular Bonus which is applied at t;
  - t is the policy year;
  - t-1 is the previous policy year.
- The Annuity is increased by the Top-up Bonus to give the Annuity Payable AP$_t$:
- $AP_t = A_t * (1 + TB_{t,C})$ where;
  - TB$_{t,C}$ is the top-up bonus applied at time t for policies with commencement date C;
  - C is the commencement date of the policy.

Future Prudential Annuity Payments

270. The Prudential annuity payments (A_t and AP_t) are projected into the future in the same way as above with assumptions about the future Regular Bonus rate (of 4.87%) and Top-up Bonus rates (of 0%) (see sub-section 5.6).

Scottish Widows as a Comparator

271. Scottish Widows offered a unitised with-profits annuity product. At commencement the premium purchases a number of notional units, which are allocated to the policy (the initial number of units).

272. Scottish Widows applied Regular Bonuses via daily increases in the unit price and could also add a Top-up Bonus to the payment. Both bonuses are usually reviewed every six months. The Top-up Bonuses depend on the commencement year and apply to the payments in one period only (usually six months).

273. The Scottish Widows annuity payments may change at each payment due date (e.g. every month) rather than annually as for Equitable Life and Prudential.

274. The Annuity payment A_t is calculated for each payment due date t (e. g. calculated monthly for an annuity which is paid monthly) as:

- $A_t = N_t * U_t * (1 + TOB_{t,C})$ where:
- N_t is the Number of units at time t;
- U_t is the Unit price at time t;
- $TOB_{t,C}$ is the Top-up Bonus applied at time t for policies with commencement date C;
- t is the payment due date, ;
- C is the commencement date of the policy.

275. The Number of units, N_t decreases over time at a rate depending on the ABR and is calculated as:

- $N_t = \dfrac{N_{t-1}}{(1 + ABR_{SW})^{1/d}}$ where;
- d is the number of payment periods per year (e.g. if payment periods are months then d = 12).

276. The calculated annuity payments are then summed over each policy year.

277. The initial number of units, i.e. N_C is calculated from the initial annuity (as calculated in paragraphs 264 to 266), divided by the payment frequency and the unit price.

Future Scottish Widows Annuity Payments

278. It is assumed that in the long run Scottish Widows will make annuity payments that are equal to the notional asset share.

279. Projected annuity payments are calculated using the notional unsmoothed asset share per £1 of initial annuity at 31 December 2009 as provided by Scottish Widows.

This projection uses an assumed Future Growth rate (FG) of 5.6% (see table following paragraph 306). The notional unsmoothed asset share per £1 of initial annuity depends on the commencement date of the policy.

280. The annual annuity payment in the future is taken to be the maximum of two projected annuities:

- The first is the notional unsmoothed asset share projection
- The second is based on the Annuity A_t which is also projected forward into the future assuming a constant Unit price U_t from 1 January 2010 and a Top-up Bonus $TOB_{t,C}$ of 0% for all commencement dates C.

281. The notional unsmoothed asset share projection is calculated each policy year as follows:

282. The notional Unsmoothed Asset Share Annuity $UASA_t$ is calculated in the policy year starting in 2010 as:

- $UASA_{2010} = IA * \dfrac{UAS_{31/12/2009} * (1+FG)^e}{(1+ABR_{SW})^f}$ where:
- IA is the initial annuity as calculated in paragraphs 264 to 266;
- $UAS_{31/12/2009}$ is the notional unsmoothed asset share per £1 of initial annuity as at 31 December 2009 as provided by Scottish Widows;
- e is the length of time in years between 31 December 2009 and the policy anniversary in 2010;
- f is the length of time in years between the policy commencement and the policy anniversary in 2010.

283. The Unsmoothed Asset Share Annuity $UASA_t$ is calculated in future policy years as:

- $UASA_t = UASA_{t-1} * \dfrac{(1+FG)}{(1+ABR_{SW})}$ where:
- t is the policy year
- t-1 is the previous policy year.

Spouse Reductions

284. Any Spouse Reduction on the policy (e.g. on death of the first annuitant on a joint life policy) is applied to the Comparator annuity payments in the same way as were applied or would apply to the actual Equitable Life annuity payments.

Commutation on death

285. If the policy has a commutation option on a guarantee period (see paragraph 191) and the Equitable Life data includes a commutation payment on the past death of an annuitant, a commutation payment for the Comparator is calculated. The Comparator commutation payment is equal to the Equitable Life commutation amount, multiplied by the ratio of the Comparator annuity to the Equitable Life annuity at the time of death.

Proportional payment on death

286. If the policy has a proportional payment on death option (see paragraph 192) and the annuitant has died, this is modelled in both the Equitable Life and Comparator calculations. It is not included in the calculation of future payments as it depends on exactly when someone dies in the future.

5.6 Assumptions

287. This sub-section sets out the assumptions used to calculate the Relative Loss on WPA policies.

Average Initial Annuity rates

288. Average initial annuity rates per £10,000 single premium are used to adjust the Equitable Life actual initial annuity to obtain the initial annuity for the Comparators (see sub-section 5.5).

289. Average initial annuity rates have been provided by Equitable Life, Prudential and Scottish Widows.

290. The average initial annuity rates used in the loss calculation are for the following combinations of policy features:

291. Policy types:

- Single life, male assumed aged 65
- Single life, female assumed aged 60
- Joint life, first life is assumed to be male and aged 65 and second life is assumed to be female and aged 62.

292. ABRs[64] (interpolated between these values if necessary):

- 0%
- 3.5%
- 6.0%
- 8.0%
- 10.0%

293. Commencement years:

- 1992 to 2000 for Equitable Life and Prudential
- 1995 to 1999, first half year 2000 and second half year 2000 for Scottish Widows.

Bonus Rates

294. The amounts of the annuity payments are calculated using historical bonus rates until the April 2010 declaration for Equitable Life and Prudential and unit prices until 1 January 2010 for Scottish Widows. After this date assumed future bonus rates are used to calculate projected annuity payments.

295. The historical bonus rates are applied until the End Date (31 December 2009).

Historical Bonus Rates for Equitable Life

296. The historical bonus rates required for Equitable Life are the

- Overall Rate of Return (ORR) bonuses (non-guaranteed),
- Interim Rate of Return (IRR) bonuses (non-guaranteed) and
- Reversionary Bonus (RB) rates (guaranteed).

297. Prior to the transfer to Prudential, different historical bonus rates apply for policies issued in foreign currencies.

Historical Bonus Rates for Comparators

298. Actual bonus series and unit prices are applied for the Comparators using data for UK WPA business obtained from Prudential and Scottish Widows.

299. Pensions Business bonus series are applied for Life Business and for Pension Business annuities for the Equitable Life and the Comparators.

[64] For Equitable Life the rates shown are a combination of ABR and GIR i.e. (1+ABR)*(1+GIR)-1.

300. The bonus rates applied in the calculation of annuity payments for the Comparators are the same for policies issued overseas as those used for UK.[65]

Future Bonus Rates for Equitable Life and Comparators

301. Future bonus rate assumptions have been determined for both Equitable Life and the Comparators allowing for expected future investment returns and expenses. Details of the derivation of the assumptions are set out in the Actuarial Advice to Sir John Chadwick.[66]

302. The bonus rates assumed to apply from 2011 onwards are set out in the table below. The bonus declared in any year (on 1 April) reflects the previous year's investment return.

303. The bonus rates shown in the following table for Equitable Life apply to those policies commencing after the House of Lords ruling. There is a 0.5% reduction to the bonus rates shown up to and including the 2011 declaration for policies commencing before the ruling (20 July 2000).

304. For Scottish Widows the Future Growth rate assumptions are applied to the calculated unsmoothed asset share projection as at 31 December 2009 (see sub-section 5.5).

305. For Equitable Life the Reversionary (guaranteed) Bonus rate (RB) has been 0% since 2001 and is assumed to remain at 0% in the future. The future assumption for the IRR is that it is the same as the future assumption for the ORR.

306. For Prudential and Scottish Widows, the future assumption for the Top-Up Bonus is 0%.

BONUS RATES USED FROM 2011 ONWARDS[67]

Declared in Year	Equitable Life Overall Rate of Return (ORR)	Prudential Regular Bonus (RGB)	Scottish Widows Future Growth (FG)
2011 to 2013	3.83%	4.87%	5.60%
2014 and onwards	4.83%	4.87%	5.60%

[65] SJC 4.89
[66] AASJC 523 to 556
[67] AASJC 528

Interest Rates

Accumulation of Past Losses and Past Gains

307. Past Losses and Past Gains are accumulated to 31 December 2009 at a fixed rate of interest of 4% (the Accumulation Rate).

Tax

308. Relative Loss is calculated using annuity payments that are gross of any tax that is payable by the policyholder.

5.7 WPA Data issues

309. This sub-section details the modifications required to resolve issues identified by data validation checks. There are two types of data validation performed:

- Equitable Life policy data validation: checks that data is within acceptable limits, is of the expected format and is consistent with itself (e.g. where overlapping data is provided).
- Equitable Life annuity payment data validation: using the actual Equitable Life bonus rates, the annuity payments are calculated and compared to the actual annuity payment data. This is referred to as the “reconciliation” check.

Zero Relative Loss policies

310. For some policies a zero Relative Loss is calculated. The reasons are set out below.

311. Cancelled policies: these are policies that were cancelled e.g. during a ‘cooling-off’ period. There is no Relative Loss on these policies because they were cancelled.

312. Capital protection: these are policies with a capital protection option (see paragraph 189) and have terminated in the Equitable Life data with a return of premium minus the sum of any annuity payments made. All of the policies in this category have no Relative Loss. Checks have been carried out to make sure that under the Comparator, the annuitant would not have received more in annuity payments than the premium.

313. Policies that terminate within a year: these policies did not receive any bonuses and therefore they cannot have been subject to a Relative Loss or Relative Gain.

314. Surrendered without a surrender value: Equitable Life has stated that these policies were surrendered as part of implementing redress under the GAR Rectification Scheme where the WPA was surrendered (with no surrender value) and replaced with another GAR non-profit annuity. There is no loss because the policyholders were effectively put into the position they would have been in if they had not originally taken out a WPA policy and instead had taken out a non-profit annuity.

Data modifications

315. For some policies a modification to the data is necessary as explained in each case below.

316. Data corrections: these are policies where either Equitable Life or Prudential have confirmed that there is a mistake in the data and have provided the correct data.

317. Adjustment for Equitable Life 2007 underpayment correction: There are some policies which were underpaid in the past and Equitable Life made a correction before transferring the policies to Prudential. Some of these corrections are not included in the actual annuity payment data because they were made after the policy anniversary in 2007. If the correction payment is included in the 2007 Equitable Life annuity payment data, the actual annuity payments can be reconciled.

318. Equitable Life 2007 overpayment ignored: In the correction exercise undertaken in 2007, Equitable Life identified a number of policies where the policyholder had been overpaid. However they did not try to recover these overpayments. The overpayment in the reconciliation test has been ignored for these particular policies. The effect of the overpayment is to reduce the loss (or increase the absolute size of the gain).

319. Adjustment for GAR rectification scheme: Where part of a WPA policy is cancelled as a result of the GAR rectification scheme, the annual annuity payments are reduced. Loss is only calculated on the part of the WPA policy that was not cancelled. Before the reduction, loss is calculated on the percentage of the annuity payments that were not cancelled later on. After the reduction, loss is calculated on the reduced annuity payments.

320. Manual adjustments ignored: There are some policies for which there is a “manual positive adjustment” payment in the data (a MANPO: see paragraph 246), which cannot be explained by Equitable Life. These policies pass the reconciliation check (see paragraph 309) without allowing for the manual adjustment. The approach used is to ignore this payment in the calculation of loss.

321. Commencement after Scottish Widows demutualisation: After Scottish Widows demutualised on 3 March 2000, they no longer offered the with-profits annuity product that is used as a Comparator in the model. A different annuity product was offered instead. The pre-demutualisation annuity product has been used for calculating the loss for Scottish Widows as a Comparator.

322. Inland Revenue payment applied: Some policies were affected by limits that the Inland Revenue applied on annuity payment amounts i.e. they received smaller annuity payments than they were otherwise due. The annuity amounts that were not paid out because of the limits, were held back and accumulated interest. When the limits were removed in 2006 Equitable Life paid these accumulated amounts out as a lump sum on each policy. These lump sum amounts have been provided by Equitable

Life and they are added to the annuity payment data in the policy year following the 2006 policy anniversary. They are included in the calculation of Relative Loss. The Inland Revenue limits are not modelled for the Comparator, instead it is assumed that the annuity payments were not reduced.

323. One overpayment on death: This is where the data indicates that Equitable Life made a payment after death where there should not have been one. Ignoring this payment means the policy can be reconciled and so this payment has been ignored in the loss calculation.

324. ABR 11% or over: If the policy has an ABR of 11% or over, instead of choosing the highest equivalent ABR available for the Comparators, the Comparator ABR is set equal to the Equitable Life ABR. This is because some Equitable Life policies were deliberately set up with high ABRs in order to produce very high initial annuity payments that reduced quickly over time, i.e. they were not standard annuities. 11% is the threshold because this was the highest standard ABR that Equitable Life ever offered.

325. Manual payment date adjustment: This is where there has been a “manual positive adjustment” payment or a “manual negative adjustment” payment (a MANPO or a MANNG, see paragraph 246) to correct a mistake on a policy that occurred before or after the period where the model uses the payment data. If the date of this payment is changed to match the date of the mistake, the policy reconciles.

326. Personal pensions mis-selling: For some policies there is an increase in the annuity payments around 1997/1998 as a result of the personal pensions mis-selling compensation scheme (see sub-section 7.3). The monetary amount of the increase in annuity payments for the policy year in which compensation was added is also applied to the Comparators. If the increase in annuity was applied part way through the policy year, the increased annuity is grossed up for the year in order to calculate the next year’s annuity payment.

Dates

327. Commencement date: Policies starting on 29 February are treated as starting on 28 February.

328. Termination date: if the policy had terminated before 31 December 2007, the date of the transfer to Prudential, and no termination date is given, the model takes the last payment “paid date” as the termination date.

329. Death date: the death date field is updated to account for deaths notified since transferring to Prudential up to September 2010.

330. Death date inconsistencies: for a few annuitants, there is a death date provided by Equitable Life and a death date provided by Prudential which are not the same. In these cases, if the death date is after the transfer to Prudential, the death date provided by Prudential is used, otherwise the death date provided by Equitable Life is used.

331. First payment due date inconsistencies: in some cases, the first payment due date in the policy data does not match the due date of the first payment in the payment data (the database of policy information includes information from policy records and from payment records). The “first payment due date” has been adjusted to match the payment data and cause the coverage to reconcile. The same approach has been adopted where necessary to match the due date of first payment with the policy data.

Other policy data

332. Initial annuity paid: the gross initial annuity is provided in the policy data (i.e. the first year annuity payment amount). In some cases this is inconsistent with the payment data. Normally the initial annuity given in the policy data is used, however, there are a small number of policies where the first year of annuity payment data has been used instead so that the payments reconcile.

333. Negative ABR: if the ABR is negative it is altered in the modelling to match how it has been applied in practice by Equitable Life. In deriving annuity amounts Equitable Life divided by (1+ABR) for positive ABRs and multiplied by (1-ABR) for negative ABRs, whereas the calculations set out above always divide by (1+ABR). So, for example, where the ABR is given as -3.5%, these calculations divide by (1-3.38%) which gives the same result as multiplying by (1+3.5%).

334. Annuitant status: where the annuitant status in the data is alive but there is also a date of death, it is assumed that the annuitant is in fact dead. The annuitant status is also updated to include the death data provided by Prudential where applicable.

335. Payments in advance or arrears: for some policies the payments are marked as in arrears in the policy data but in the payment data the payments are actually made in advance and vice versa. The modelling is changed to match the payment data. Payments made in arrears means that the annuity payments are made at the end of every payment period e.g. at the end of each month. Payments made in advance means that the annuity payments are made at the start of every payment period e.g. at the start of each month.

336. Commutation on death: (see paragraph 191) if a commutation payment has been made and there is not a commutation indicator on the policy, it is assumed that there was a commutation option on the policy. If there is a commutation indicator on the policy and there has been a death and no commutation payment was made then it is assumed there was not a commutation option on the policy, otherwise the indicator given in the data is used.

5.8 Unresolved data issues

337. Various reconciliation and validation checks have been performed on the data. Some of these have identified where policies need to be modified as set out in sub-section

5.7 above. There are a number of policies which require further investigation because of inconsistencies or omissions in the available data or because of unusual features. The Relative Loss or Relative Gain for these policies will be determined as far as possible using methods consistent with the Scheme.

Section 6: Offsetting and *De minimis*

6.1 Aggregation of gains and losses

338. In general, where a policyholder is identified as the payee for more than one policy within the Scheme population then

- Any Relative Gains made on AWP or CWP policies in the period under review will be used where possible to offset the Relative Losses payable by the Scheme on other AWP or CWP policies for that payee;
- Any Relative Gains made on WPA policies will be used where possible to offset the Relative Losses on WPA policies for the same payee or may be used (in limited circumstances- see sub-section 6.6) to offset Relative Losses on any AWP or CWP policies owned by that payee;
- Any gains on AWP or CWP policies will not be used to offset any WPA Relative Losses because WPA Relative Losses net of WPA Relative Gains are to be met in full.

More detail is given in the subsequent paragraphs.

6.2 Definition of payee

339. The term 'policyholder' is widely used throughout this document which in most cases refers to the owner of the policy.

340. However, the policyholder is not always the recipient of Scheme payments because the policyholder is not always the person who has suffered Relative Loss.

341. The following paragraphs explain the rules that the Scheme will follow to identify the recipient of Scheme payments, the 'payee'.

342. For AWP and CWP policies, the payee is set according to the criteria first satisfied in the following list:

- Where policies have been assigned, the assignee is the payee. If this payee has died, his or her estate becomes the payee;
- where policies are held under trust, the trustee is the payee. If this payee has died, an alternative trustee becomes the payee;

- for FSAVC policies, the payee is the life assured on the policy. If this payee has died, his or her estate becomes the payee;

- for School Fee Trust Plan policies, the payee is the contributor to the policy. If this payee has died, his or her estate becomes the payee;

- for joint life policies where there are two lives assured, then the payee is:

  - while both lives assured are alive, the first named life on the policy;

  - after the death of one life assured while the other life remains alive, the surviving life;

  - where both lives have died, then the estate of the most recently deceased;

- For all other AWP or CWP policies that have not become claims, the payee is the policyholder. If this payee has died, his or her estate becomes the payee;

- For all other AWP or CWP policies that have become claims, the payee is the person who was the policyholder at the date of the claim. If this payee has died, his or her estate becomes the payee.

343. For Group scheme policies, the payee is:

- For defined benefit pension schemes, the trustees of those Group schemes;

- For defined contribution pension schemes where Equitable Life only has one set of data and no records of the individual members in respect of the scheme, the trustees of those Group schemes.

- For other defined contribution pension schemes, the individual members of those Group schemes, except where any of those individual members has died, then the payment due to the deceased member will be made to his or her estate.

344. For WPA policies, the payee is:

- For policies that have been assigned, the assignee. If this payee has died, his or her estate becomes the payee;

- For single life WPA policies, the annuitant. If this payee has died, his or her estate becomes the payee;

- For joint life policies there may be more than one payee:

  - For loss incurred on annuity payments made whilst the first annuitant is alive, the first annuitant is the payee. If this payee has died, his or her estate becomes the payee;

- For loss incurred on annuity payments payable to the second annuitant made whilst the second annuitant is alive, and after the first annuitant had died but before the policy terminated, the second annuitant is the payee. If this payee has died, his or her estate becomes the payee;

- For loss incurred on annuity payments made after both annuitants have died (i.e. there was an outstanding guarantee or fixed term), the estate of the most recently deceased becomes the payee.

6.3 Offsetting for the AWP and CWP policy classes

345. In general, offsetting is applied at payee level. The Relative Losses and Relative Gains for AWP and CWP policies for the same payee are offset against each other.

346. However, for any AWP or CWP policy, where the payee is an assignee, a trustee or the second life under a joint life policy, then any Relative Losses and Gains accruing under that policy are not offset against any Relative Losses or Gains accruing to that payee under any other policies.[68]

347. The offsetting of WPA gains against AWP and CWP Relative Losses is described in paragraphs 361 to 363.

6.4 Offsetting for Group scheme policies

348. Offsetting of Relative Losses and Gains is only taken into account at an individual member level if more than one record is identifiable in respect of an individual member within a Group scheme policy.

349. Due to data limitations, Relative Losses or Relative Gains on Group scheme policies are not offset against Relative Losses or Relative Gains from policies in other classes, or against Relative Losses or Relative Gains from policies held by the same policyholders across different Group scheme policies.[69]

6.5 Offsetting within the WPA policy class

350. In general, offsetting is applied at payee level. Where a payee has more than one WPA policy, the Past Losses and Past Gains are summed over all WPA policies (the total Past Loss or total Past Gain) and Future Losses and Future Gains for each year are summed across all WPA policies (the total Future Loss or total Future Gain for each year and for each contingent future scenario, see paragraphs 357 to 360).

[68] AASJC 631
[69] IC 4.10

351. So for example, any Future Losses that a second annuitant may incur in the future on a joint life policy (where both annuitants are alive now), are not used for offsetting of any Past Gain that they may have on a single life policy of their own.

352. However where the payee is an assignee, any Relative Losses or Relative Gains accruing under that policy are not offset against any Relative Losses or Relative Gains accruing to that payee under any other policies.

353. If a payee has a total Past Gain further offsetting will be applied as described in paragraphs 354 to 355 and 361 to 363

Where the payee has both total past gains and total future losses on WPA policies

354. Where the payee is alive and has both a total past gain and total future losses on all of their WPA policies, the total past gain will be offset against these total future losses. In practice this will mean that payments will not commence until the cumulative future losses exceed the value of the total past gain. If the payee dies before this point, then the remaining past gain will not be used to offset the second annuitant's future losses. There are a small number of cases where there are more past gains than future losses, and therefore there will be no overall Relative Loss and no payment; any excess Relative Gain is not offset against any other policy types for that payee.

355. If there are any total future gains (see paragraph 212) in the above cases, these are added to the total past gains and offset against total future losses; loss payments will not commence until the cumulative future losses exceed the value of the total past gain plus the total future gain.

356. See paragraph 362 for how offsetting is applied if the payee has died.

Offsetting of Contingent Future Losses

357. Limited offsetting of total past gains and total future gains against total future losses is performed in 'contingent' cases where the total future loss payments may change because of annuitant deaths (see paragraphs 215 to 217).

358. For example, the loss payments made to an annuitant might change in the future upon the death of their spouse if the policy has a spouse reduction.

359. Losses and gains are offset as described in paragraphs 350 to 353 for the base scenario. The amount by which the future loss is reduced in each year is referred to below as the base scenario reduction.

360. For contingent scenarios the total future loss in each year is reduced by the minimum of

- the base scenario reduction for that year, and
- the total future loss for that year.

This means the future loss payment in each year is never reduced by more than the base scenario reduction and can never be reduced to become less than zero. Therefore the total reduction over all future years is never more than the total past gain.

6.6 Offsetting of gains on WPA policies against losses on AWP or CWP policies

361. Where a payee is alive, if there is a total past gain but no total future losses on all of their WPA policies, the total past gain is used to offset any Relative Losses that payee may have on AWP or CWP policies (as long as they are not a trustee, assignee or second life on these policies).

362. Where the payee has died and they have a total past gain and, possibly, total future losses or gains, over all of their WPA policies, then if the sum of these results in an overall gain, this gain is used to offset any Relative Losses on AWP or CWP policies for the same payee.

363. In all other cases, WPA gains are not used to offset any Relative Losses on AWP or CWP policies.

6.7 *Pro rata* payments

AWP, Group scheme and CWP Policies

364. At the 2010 Spending Review, the Government announced that £775 million would be made available for payments to AWP, Group scheme and CWP policyholders. The Independent Commission was asked to provide advice on how this amount should be fairly allocated. The Independent Commission recommended that there should be a *pro rata* allocation of the available quantum, in proportion to the size of Relative Losses. The Relative Loss on AWP, Group scheme and CWP policies is therefore subject to a *pro rata* adjustment of 22.4 per cent.

WPA Policies

365. The Government announced at the Spending Review that it would cover the full Relative Losses on WPA policies. The *pro rata* factor therefore does not apply to WPA policies.

6.8 *De minimis*

366. After offsetting and the *pro rata* factor have been applied, a *de minimis* amount of £10 is set for AWP and CWP policies beneath which payments will not be made.

367. For Group scheme policies where the Relative Losses and Relative Gains have been calculated for the individual members of the scheme, the minimum payment applies for those individual members (or their estates if they have died). For Group schemes where the Relative Losses and Relative Gains are calculated at Group scheme level, the £10 minimum payment applies to the Group scheme.

368. The *de minimis* amount does not apply to any payments of Relative Loss in respect of WPA policies for which net losses are paid in full.

Section 7: Equitable Life Compensation Schemes

7.1 Overview

369. Some Equitable Life policyholders received payments from compensation schemes that were unrelated to government maladministration. The number of policyholders who have benefited from these compensation schemes is a small proportion of the total number of policyholders who suffered a Relative Loss.

370. Equitable Life undertook a number of compensation schemes for reasons such as mis-selling of the original policy, or failure to correctly calculate the benefits payable under the policy. Equitable Life has provided additional data to the Scheme that describes certain aspects of some of these compensation schemes. There are also compensation schemes for which details have not been provided by Equitable Life for example because they are not available or are subject to confidentiality agreements.

371. The data provided for each compensation scheme does not follow a common structure. The data for some of the schemes is less detailed than most of the rest of the available data. Adjustments to the calculation of Relative Loss are therefore, for practical reasons, simple in form.

372. The following bullet points describe the broad approach taken to allowing for compensation schemes, where data has been provided, in the calculation of Relative Loss.

- For AWP policies, where these payments are in respect of mis-selling compensation schemes and form an uplift to fund value they are treated as a premium payment into the Equitable Life policy. They will, therefore, contribute towards any Relative Loss calculated. However, any payments with respect to mis-selling which were paid in cash are excluded from the Relative Loss calculation as they were not subject to maladministration.[70]

- Some policyholders were disadvantaged relative to other policyholders as a consequence of the Guaranteed Annuity Rate (“GAR”) Compromise Scheme. These policyholders terminated their policies before the GAR Compromise Scheme came into force. Compensation payments were therefore made to those disadvantaged policyholders. For policies other than WPAs, these payments are categorised as deferred proceeds from the policy itself. The payments were made separately from the GAR Compromise Scheme and

[70] IC 4.35

were not in respect of government maladministration, so will serve to reduce Relative Losses commensurately.[71]

- For most other compensation schemes, where Equitable Life has made a payment to an AWP policyholder to compensate for shortfalls in administration or errors in the calculation of the benefit, the compensation payments are included in the Equitable Life proceeds and will generally reduce the Relative Loss incurred on that policy.[72]

7.2 Pro-rata adjustment to redress amounts

373. As the compensation amounts paid may relate partly to premiums paid inside and partly to payments made outside of the Loss Calculation Period, adjustments are made to the amounts of redress payments to be allowed for within the Relative Loss calculations.

374. It is not possible to accurately identify the amount of redress that relates to the Loss Calculation Period, so the redress amounts have been adjusted using an approximate method. Where it is both possible and appropriate, a pro-rata adjustment is made for the purpose of adjusting Relative Loss by multiplying the redress by the ratio:

$$\frac{\text{the number of days the policy is in-force during the Loss Calculation Period}}{\text{the number of days the policy is in-force.}}$$

375. Further details of the approaches taken to allow for each compensation scheme in the Relative Loss calculations appear in the following paragraphs.

7.3 Compensation Scheme details

Personal Pensions Review - Phases I and II and FSAVC Review

Description

376. These compensation schemes related to an industry-wide issue of mis-selling of personal pensions. Policyholders were paid compensation to put them in the same position that they would have been had they not opted out or transferred out of their occupational pensions scheme. Such policies were sold between 29 April 1988 and 15 August 1999.

377. The Phase I and Phase II reviews related to personal pensions and the FSAVC review was in respect of free-standing additional voluntary contributions.

378. For Phases I and II, where the AWP or CWP policy remained in-force, compensation was generally paid as a top-up to the fund value, although some cash sum payments were made. Where practicable, policyholders were reinstated in their occupational

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[71] IC E3.25

[72] IC E3.26

pension scheme. For those policyholders who had retired and bought a WPA policy from the proceeds of the affected AWP or CWP policy or policies, compensation was in the form of increased annuity payments.

379. For the FSAVC review, redress was made either in the form of a cash sum, a top-up to the fund value or an additional annuity.

Effect on Relative Loss Calculations

380. Fund top-up payments are included in the calculation of both the Equitable Life Policy Values and Comparator Policy Values.

381. For policyholders who had bought a WPA, the increase in WPA annuity payments is included in both the Equitable Life and Comparator annuity payments. The affected policies and the compensation amounts have been identified from the payment data.

382. It has been assumed that the amount of compensation paid by the Comparator would have been identical to that paid by Equitable Life.

383. Redress in the form of cash sums, additional annuities or re-instatements to occupational schemes are not included in the Relative Loss calculation as the amounts of the redress have not been impacted by the government maladministration.

384. There are some policies where the main data from Equitable Life implies a different redress amount than that contained in the compensation scheme data. In such cases, the main data is assumed to be more reliable and has been used rather than the compensation scheme data.

Retirement Annuity Policy Review

Description

385. Some With-Profits Retirement Annuity policies issued from 1st October 1975 had a contractual interim bonus guarantee for the last part policy year before the retirement date.

386. Policies with that guarantee that terminated for contractual reasons between 16 July 2001 and September 2005 were underpaid because the amount paid to them did not correctly allow for that contractual interim bonus guarantee.

387. Equitable Life subsequently re-calculated the policy values for such cases, and where necessary paid cash sums to increase the total payout so that it was not less than the amount calculated in accordance with the terms of the policy.

Effect on Relative Loss Calculations

388. It has been assumed that the guarantee was not a major factor in the policyholder selecting the Equitable Life policy.

389. The guaranteed interim bonus is not included in the Comparator Policy Value or the Equitable Life Policy Value when calculating the Relative Loss.

390. The redress payments are not included in the Relative Loss calculation as these were paid in cash and have not been impacted by the Government maladministration.

Non-GAR leaver Review

Description

391. Some holders of policies without GARs who left Equitable Life in 2001 between the date of the House of Lords ruling on the Equitable vs. Hyman case and the introduction of the GAR compromise scheme did not benefit from either the differential terminal bonus policy or the GAR compromise scheme.

392. Compensation was therefore paid to these policyholders in the form of a cash sum, which was intended to be the equivalent of the compromise payment made to those who left later.

Effect on Relative Loss Calculations

393. The value of the cash sum redress (without any timing or interest adjustment but pro-rated as appropriate) is used to reduce Relative Loss or increase the absolute size of the Relative Gain, as the case may be, as at 31 December 2009.

Managed Pension Review

Description

394. This review related to the investigation of mis-sold income drawdown contracts issued by Equitable Life.

395. It is assumed that any mis-selling would also have occurred with the Comparator and that an equal amount of redress would have been paid. Redress was in the form of a cash sum or an additional annuity contribution into an external pension policy.

Effect on Relative Loss Calculations

396. The redress payments are not included in the Relative Loss calculations.

GMP Review

Description

397. Certain pensions have a guaranteed minimum pension (GMP) underpin. The payments made by Equitable Life on some policy terminations did not properly allow for these guaranteed benefits.

398. As all of the policies due redress had transferred out of Equitable Life, the redress was made as a cash sum placed with the new provider.

Effect on Relative Loss Calculations

399. The value of the cash sum redress (without any timing or interest adjustment but pro-rated as appropriate) is used to reduce Relative Loss as at 31 December 2009, subject to it not resulting in a Relative Gain. This is because the redress would have brought the payout into line with the guaranteed level of payout, which would have been at least matched by the Comparator. Any existing Relative Gains are not increased further.

Personal Investment Plan Review

Description

400. The Personal Investment Plan ("PIP") review was a review of complaints received on the mis-selling of PIP bonds.

401. It is assumed that any mis-selling would have also occurred with the Comparator, and an equal amount of redress paid. Redress was made in the form of a cash sum to the affected policyholders.

Effect on Relative Loss Calculations

402. The redress payments are not included in the Relative Loss calculation.

Review of Guarantees in Group schemes which were being wound up

Description

403. When some Group schemes were wound up, the benefits for scheme members were transferred to individual policies, and as a result those individual policies contained guaranteed annuity rates. In some instances these guaranteed rates were not upheld by Equitable Life at the time.

404. The redress, where required, took the form of an additional amount of annuity which Equitable Life paid for. The majority of those requiring redress receive their annuities through a third party provider.

405. It is assumed that the Comparator would not have offered similar guaranteed annuity rates, and therefore would not have allowed for them in policy payouts.

Effect on Relative Loss Calculations

406. Where known, the amount of the redress is taken as the cost to Equitable Life of purchasing the additional annuity. Where it is not known, the amount of the redress is taken as the estimated cost of the additional annuity based on the median annuity rates of those whose top-up annuities are provided by the third party.

407. The value of the cash sum redress (without any timing or interest adjustment but pro-rated as appropriate) is used to reduce the Relative Loss or increase the absolute size of the Relative Gain, as the case may be, as at 31 December 2009.

Legacy, Defined Contribution, Defined Benefit and Individual Rectification schemes

Description

408. Under these schemes redress was paid as a result of the differential terminal bonuses paid to policies.

409. The Legacy Rectification scheme was the first stage of the Rectification redress scheme and, where redress was required, a cash sum and/or top-up annuity payment was made.

410. The Defined Contribution Rectification scheme was the stage of the Rectification redress scheme relating to Defined Contribution schemes only and, where redress was required, a cash sum and/or top-up annuity payment was made.

411. The Defined Benefit Rectification Scheme was the stage of the Rectification redress scheme relating to Defined Benefit schemes only and, where redress was required, a cash sum (if the scheme was no longer in-force) or an uplift in fund value was made. The uplift in fund value was of the form of a new coverage under the same policy number commencing with a transaction backdated to 31st December 2003.

412. The Individual Rectification scheme was the stage of the Rectification redress scheme relating to the remaining Individual policies only and, where redress was required, a cash sum and/or top-up annuity payment was made.

Effect on Relative Loss Calculations

413. The amount of the redress assumed in the Relative Loss calculations is the amount paid by way of cash sum, and the total additional annuity payments, without any timing or interest adjustments, received on or before the End Date, where known.

414. Where the redress was made using an uplift to the fund value (using a new coverage) it has been treated in the same way as a cash sum payment.

415. However there are a number of cases where the top-up annuities are administered by a third party provider, rather than by Equitable Life, and details of these annuity payments are not available. As a result, for those top-up annuities, no allowance has been made, in the calculation of Relative Loss or Relative Gain, for the redress.

416. The value of the redress (without any timing or interest adjustment but pro-rated as appropriate) is used to reduce the Relative Loss or increase the absolute size of the Relative Gain, as the case may be, as at 31 December 2009.

Annuity 2000 Compensation Scheme

Description

417. The Annuity 2000 compensation scheme was intended to compensate holders of policies which had a flexible GAR option but were paid a fixed GAR by Equitable Life.

418. Redress was paid in the form of a cash sum and/or top-up annuity payment.

Effect on Relative Loss Calculations

419. The use of the wrong GAR affected the form and amount of the pension that could be bought by the policy value, not the policy value itself. Consequently the redress payments were not impacted by the Government maladministration and are not included in the Relative Loss calculation.

GAR WPA Rectification Scheme

Description

420. The GAR WPA Rectification Scheme was intended to compensate policyholders who had suffered relative to other policyholders who were either not subject to a differential terminal bonus policy or benefited from the GAR compromise scheme. Affected policyholders would have been part of the non-GAR leaver Review or the Rectification Schemes set out in paragraphs 391 to 392 and 408 to 412. For policyholders who bought a WPA with the proceeds of their affected policies, the compensation took the form of surrendering all or part of the WPA, and replacing it with a non-profit annuity with effect from the date the WPA had started. The terms of this replacement effectively put the policyholder in the position they would have been in had they selected a non-profit annuity instead of a WPA in respect of the affected policies.

Effect on Relative Loss Calculations

421. The resultant impact on policyholders is that Relative Loss on the WPA does not need to be adjusted for any element of WPA which relates to the redress scheme. Consequently it is only any portion of WPA that relates to unaffected policies which is included in the Relative Loss calculations, where it satisfies the appropriate eligibility conditions.

Section 8: Assumptions

Assumption	Value	Description	Source and/or Details
Accumulation Rate	4% per annum	Rate of interest used to accumulate Relative Loss or Relative Gain from the Claim Date to the End Date or for WPAs from the annuity payment date to the End Date.	This rate is approximately equal to the geometric average of Barclays Bank plc base rate over the period 1 January 2001 to 31 December 2009.
Close Date	31 December 2000	Policies commencing after the Close Date are not eligible for loss.	SJC10.13
Comparator Companies for AWP and CWP Life Business	Prudential, Scottish Widows, Norwich Union, Legal and General and Scottish Mutual	The companies which are intended to represent the alternative providers of AWP and CWP Life Business in which investors are likely to have invested over the period if they had not invested in Equitable Life.	SJC 4.87
Comparator Companies for AWP and CWP Pensions Business	Friends Provident, Standard Life, Prudential, Scottish Widows and Norwich Union	The companies which are intended to represent the alternative providers of AWP and CWP Pensions Business in which investors are likely to have invested over the period if they had not invested in Equitable Life.	SJC 4.86

Assumption	Value	Description	Source and/or Details
Comparator Companies for WPA business	Prudential, Scottish Widows	The companies which are intended to represent the alternative WPA providers in which investors are likely to have invested over the period if they had not invested in Equitable Life.	SJC 4.90
Comparator EBR	50% for CWP 55% for WPA	The proportion of the Comparator's fund assumed to be invested in equities, property and similar assets. For CWP business it is used in determining the Comparator Future Investment Return; for WPA business it is used for determining the Comparator future bonus rates.	Based on historic data of the Comparators
Comparator Initial Expenses	For AWP business and the notional AWP policies used in calculations for CWP business, 4% of the premium for Life Business; and 5% of the premium for Pensions Business	Expense assumption used to project the Comparator value. For Life Business the rate shown is the rate net of tax relief at the assumed Tax Rate for the Comparator.	AASJC 393 - 400
Comparator Renewal Expenses	For AWP business and the notional AWP policies used in calculations for CWP business, 0.6% per annum of the accumulated fund for Life Business; and 0.75% per annum of the accumulated fund for Pensions Business	Expense assumption used to project the Comparator value. For Life Business the rate shown is the rate net of tax relief at the assumed Tax Rate for the Comparator.	AASJC 393 - 400

Assumption	Value	Description	Source and/or Details
Discount rate	4.4% per annum	The rate of return assumed for discounting Future Losses or Future Gains on CWP business from the Nominal Maturity Date to the End Date.	Based on the 15-year gross redemption yield for gilts as at the End Date.
End Date	31 December 2009	For AWP and CWP business, the date at which the amount of Relative Loss and Relative Gain are calculated. For policies which have terminated prior to this date, interest is paid from the date of termination to this date. For WPA business, the date to which Past Loss or Past Gain is accumulated.	SJC10.13
Equitable Life EBR	15% for CWP business; 55 % for WPA business	The proportion of Equitable Life's fund assumed to be invested in equities, property and similar assets For CWP business it is used in determining the Equitable Life Future Investment Return; for WPA business it is used for determining the Equitable Life future bonus rate.	Based on historic data of Equitable Life. Based on historic data of Prudential Assurance plc
Equity Premium	3.5% per annum	The extra return expected from equity-type assets in excess of the fixed interest return and used in future loss calculations	The FSA projection rates (2007) recommend that the rate of return on equities should be between 3% and 4% higher than the return on government bonds for use in FSA prescribed projections.

Assumption	Value	Description	Source and/or Details
Exchange rates	EUR to GBP 0.8885 USD to GBP 0.6192	The currency conversion rates used as at 31 December 2009	Market data
External Comparator Expenses and other deductions for WPA	A mix of one off and per annum charges which in aggregate create an average deduction per annum of 0.73%-1.46% depending on the Comparator.	Expense and deduction assumptions used to project Comparator value. These are used in determining the future bonus rates for WPA business.	AASJC 8.5.6
Fixed interest return	4.4% per annum	The rate of return assumed on fixed interest assets for the purpose of calculating Future Losses or Future Gains on CWP business.	Based on a 15-year gross redemption yield for gilts as at the End Date.
Start Date	1 September 1992	For CWP and WPA policies, the earliest date of commencement for eligibility of Relative Loss calculations; For AWP policies the earliest date of premium payment for eligibility of Relative Loss calculations.	SJC 10.13
Tax Rate for Comparator	20%	For life business it is assumed that the expenses incurred by the Comparator on AWP and CWP life business get tax relief at this rate.	Tax rate applicable to life companies generally

Section 9: Glossary

Glossary of Selected Terms

Actual Equitable Life Internal Rate of Return	The rate of return determined in accordance with paragraphs 135 and 136.
Accumulating with-profits policy (AWP)	A class of policy in which the policy value grows as premiums are contributed and reversionary bonuses are credited.
Accumulation Rate	The annual rate of interest at which all Relative Losses and Relative Gains in respect of Eligible AWP and CWP Policies which have become claims are accumulated from the date of claim to 31 December 2009. For WPA business the rate at which the gain or loss on each annuity payment prior to the End Date is accumulated to the End Date.
Annuitant	A person receiving an income from an annuity.
Annuity	A policy into which a policyholder pays a single premium, (often the proceeds of a Pensions Business policy) in return for an annual income until the death of the policyholder (or sometimes for a fixed term) usually for the purpose of providing an income in retirement, and in some cases providing an income to another named individual (frequently their spouse) after the policyholder's death.
Anticipated Bonus Rate	For WPA business the bonus rate chosen at commencement as the rate at which the amount of annuity would decrease each year, in addition to any decrease resulting from the Guaranteed Investment Return. The bonus rate was normally selected so that the amount of annuity would be expected to stay level after allowing for a given rate of annual bonus.
Asset Share	The value of a life insurance policy, calculated as the accumulation of premiums paid with actual investment returns, net of expenses, charges for the cost of guarantees, tax and other deductions. The unsmoothed Asset Share reflects the actual value of the underlying assets; the smoothed asset share reflects the smoothing of volatile returns that an insurance company applies to its with-profits policies.

Glossary of Selected Terms

Bacs	Originally Bankers Automated Clearing System: Bacs is the automated clearing house, processing in particular Direct debits and Direct Credits. This is the means by which electronic payments will be made to UK policyholders.
Claim Date	For those AWP or CWP policies not in-force at the End Date, the date on which a policy terminated, or where that date is not known, the date on which it is deemed to have terminated. Where there has been more than one payment out of the policy, the Claim Date is the date of the most recent payment out.
Close Date	The last date on which new investment in Equitable Life is included in an assessment of Relative Loss.
Commencement Date	The date on which a policy commenced as shown in Equitable Life's records. This is generally the date on which Equitable Life formally accepted the policy and the first (or only) premium was paid. For WPA policies the first annuity payment may have occurred at a later date.
Comparator	The notional company whose with-profits past performance is derived from the Comparator Companies.
Comparator Companies	The companies whose past performance is used to calculate the returns for the Comparator.
Comparator EBR	The proportion of the Comparator's fund assumed to be invested in equities, property and similar assets. For CWP business it is used in determining the Comparator Future Investment Return; for WPA business it is used for determining the Comparator future bonus rates.
Comparator Future Investment Return	The rate of return determined in accordance with paragraph 162.
Comparator Future Policy Value	For CWP business in-force at the End Date, the amount notionally payable by the Comparator in accordance with the provisions of this Annex, in respect of the period between the End Date and the Nominal Maturity Date, and determined in accordance with paragraph 163.
Comparator Initial Expenses	The expense assumed to be incurred by the Comparator each time a premium is paid into an AWP policy. This expense also applies to the Equitable Life Future Policy Value and the Comparator Future Policy Value used in the CWP calculations.

Glossary of Selected Terms	
Comparator Past Policy Value	For CWP business, the amount derived from the calculations set out in this Annex as the amount that would have been payable by the Comparator in respect of the premiums paid between the Start Date and the Policy End Date.
Comparator Policy Value	For AWP and CWP business, the amount derived from the calculations set out in this Annex as the amount that would have been payable by the Comparator.
Comparator Renewal Expenses	The rate which the Comparator is assumed to have charged for maintaining an AWP policy and determined as necessary for part-years on a geometric proportion. This expense also applies to the Equitable Life Future Policy Value and the Comparator Future Policy Value used in the CWP calculations.
Comparator Smoothed Returns	The returns attributed to the Comparator as set out in paragraph 51 for AWP business and 150 for CWP business.
Comparator Unsmoothed Returns	The returns attributed to the Comparator as set out in paragraph 49 for AWP business and 148 for CWP business.
Compensation schemes	Schemes that provided redress to policyholders (in the form of cash payments, uplifts to policy values or additional annuities) who had seen their benefits compromised due to errors or misinformation (including mis-selling by company representatives). No previous scheme has been identified that compensated policyholders for Government maladministration.
Contractual claim	For AWP and CWP policies, policy termination in accordance with the contractual terms of the insurance contract, usually on occurrence of a specified event (for example maturity), after which the policy is no longer 'in-force'. On contractual claim, the policyholder is entitled to receive a minimum of the guaranteed value of the policy or the Sum Assured if applicable. See also 'Non-contractual claim'.

Glossary of Selected Terms

Conventional with-profits policy (CWP)	A class of policy which has a clearly defined initial guaranteed amount usually payable at maturity or on death of the policyholder. This guaranteed amount is usually much higher than the initial investment in the policy and is increased from the premium paid through the duration of the policy by the addition of regular or reversionary bonuses which, once added, cannot be taken away. A terminal or final bonus is often paid in addition on termination.
Crossed warrant	From the policyholder perspective a crossed warrant can effectively be treated like a cheque. The main difference between a warrant and a cheque is that a warrant is not signed by the issuer. Unlike a cheque, the recipient of the warrant has to sign it before they can pay it into their bank account.
De minimis	A specified amount beneath which loss payments would not be made.
Discount Rate	The rate of return assumed for discounting Future Losses or Future Gains on CWP business from the Nominal Maturity Date to the End Date.
End Date	For AWP and CWP business, the date at which the amount of Relative Loss and Relative Gain are calculated. For policies which have terminated prior to this date, interest is paid from the date of termination to this date. For WPA business, the date to which Past Loss or Past Gain is accumulated.
Eligibility	A policyholder is broadly eligible for the Scheme if they hold one or more AWP, Group, CWP or WPA policies in which they invested between 1 September 1992 and 31 December 2000. A policyholder must hold an eligible policy to be considered for a Scheme payment. Further details of the eligibility conditions are given in each of the relevant sections of Annex A.
Equitable Life	Equitable Life Assurance Society.
Equitable Life EBR	The proportion of Equitable Life's fund assumed to be invested in equities, property and similar assets. For CWP business it is used in determining the Equitable Life Future Investment Return; for WPA business it is used for determining the Equitable Life future bonus rates.

Glossary of Selected Terms

Equitable Life Past Policy Value	For a CWP policy that has become a claim, the amount actually paid by Equitable Life as the claim value of the policy, or where this is not available the amount notionally paid by Equitable Life in accordance with the provisions of this Annex, in respect of the premiums paid between the Start Date and the Policy End Date. For a CWP policy in-force at the End Date, the amount determined in accordance with paragraph 134
Equitable Life Future Investment Return	The rate of return determined in accordance with paragraph 140.
Equitable Life Future Policy Value	The amount determined in accordance with paragraph 141.
Equitable Life Policy Value	For AWP business, the amount actually paid by Equitable Life as the claim value of a policy, or where this is not available, the amount notionally paid by Equitable Life in accordance with the provisions of this Annex, in respect of the premiums paid within the Loss Calculation Period.
Equity Premium	The rate of return assumed on equity investments in excess of the Fixed Interest Return for the purpose of calculating Future Losses or Future Gains on CWP business.
Final Comparator Rate of Return	The rate of return determined in accordance with paragraph 160.
Fixed Interest Return	The rate of return assumed on fixed interest assets for the purpose of calculating Future Losses or Future Gains on CWP business.
Future Gain	The amount of the Relative Gain that relates to the period after the End Date.
Future Loss	The amount of the Relative Loss that relates to the period after the End Date.
GAR Compromise Scheme	The scheme, effective on 8 February 2002, which removed GAR benefits from policies in return for an average increase in policy values of 17.5 percent for holders of GAR policies. Non-GAR policyholders received on average a 2.5 percent uplift to their policy values in exchange for giving up the right to make GAR-related claims against Equitable Life.

Glossary of Selected Terms

Group scheme member	A member of a Group scheme policy.
Group scheme policies	Policies written for group pension schemes under which each policy usually represents the interests of more than one individual. They are usually administered by a trustee or trustees.
Guaranteed Annuity Rate (GAR)	The rate governing the minimum amount that an insurance company would pay on an immediate retirement, expressed as a percentage of the fund converted to a non-profit pension. Unlike the current annuity rate, this was based on an interest rate and a mortality basis specified within the policy and expressed as a guarantee.
Joint Life policy	A policy under which the payment or payments of benefits depend on the death or survival of more than one life.
LDTV	Last Declared Total Value or LDTV is the amount calculated by Equitable Life for each policy as at each year-end as the then current value of the policy.
Life Business	Policies which are subject to taxation on investment income but given tax relief on expenses under life office taxation legislation.
Loss Calculation Period	The period from the Start Date to the Close Date.
Market Calibration Factors	The factors determined in accordance with paragraph 54 for AWP business and paragraph 153 for CWP business.
Market Value Adjustment (MVA)	An adjustment applied to non-contractual terminations to ensure the payout targets approximately 100% of the unsmoothed asset share.
Money Management magazine	A magazine published monthly by the FT Group which includes a number of surveys, articles and statistics mostly relating to the performance of investment products.
Nominal Commencement Date	The date on which a policy is deemed to have commenced. For AWP business it is the With-Profits Effective Date where available or the Commencement Date otherwise. For CWP business it is the Commencement Date or other date determined in accordance with paragraphs 127 and 128.
Nominal Maturity Date	The earlier of the Policy Maturity Date and 31 December 2019, except for Whole of Life Assurance policies where it is 31 December 2019.

Glossary of Selected Terms

Non-contractual claim	Where the policyholder terminates a policy before it has matured or reached its end date, which usually incurs a financial penalty.
Notional Equitable Life AWP Past Policy Value	The amount determined in accordance with paragraphs 137 and 138.
Notional Equitable Life Internal Rate of Return	The rate of return determined in accordance with paragraph 139.
Notional Comparator AWP Past Policy Value	The amount determined in accordance with paragraph 157.
Notional Comparator Internal Rate of Return	The rate of return determined in accordance with paragraph 159.
Offsetting	A method of summing the losses and gains made on policies held by a single payee as detailed in Section 6.
Past Loss	The amount of the Relative Loss that relates to the period up to and including the End Date.
Past Gain	The amount of the Relative Gain that relates to the period up to and including the End Date.
Payee	The person who is entitled to receive a payment under the Scheme as set out in sub-section 6.2.
Pensions Business	Policies which are not subject to taxation on investment income nor given tax relief on expenses under life office taxation legislation.
Policy Class, Policy type	A grouping of the policies offered by insurance companies by the main characteristics of those policies. Policies in AWP (including Group), CWP and WPA classes may be eligible for the Scheme.
Policy End Date	The earlier of the Claim Date and the End Date.
Policy Maturity Date	The date on which the policy is due to mature.

Glossary of Selected Terms

Policy value cuts	Equitable Life made a series of cuts to AWP policy values in the early 2000s. The first cuts were made in 2001 and reduced policy values by 16% for Pensions Business policies, and by 14% for Life Business policies. In 2002, further cuts of 10% were made to the policy values of Pensions Business policies (9% for Life Business policies). The value of CWP policies was also cut, but for these policies the cuts were made by reducing the rate of final bonus. International policies also suffered policy value cuts, but these were generally applied later, depending on where the policy was domiciled. Other policy value cuts have also been made since.
Pro rata allocation	As recommended by the Independent Commission, the Scheme will allocate available funding to AWP (including Group) and CWP policyholders on a pro rata basis in proportion to the size of their Relative Losses.
Relative Gain	A negative amount of Relative Loss.
Relative Loss	For AWP and CWP policies, Relative Loss is the difference in the value of a notional policy which the policyholder might have held had they made an investment in a similar product in a comparator company's with-profit fund and the value of the actual Equitable Life policy.[73] For WPA policies, it is the annuity payment received or projected to be received from the Comparator less the annuity payment received or projected to be received from Equitable Life.
Relevant Payments	The payments into or out of the policy as specified in paragraph 30 for AWP business and paragraph 130 for CWP business.
Scheme Delivery body	National Savings and Investments (NS&I) are delivering the Scheme on behalf of the Treasury.
STA	The Shareholder Transfer Adjustment as set out in paragraph 47 for AWP business and 146 above for CWP business
Start Date	The first date on which new investment in Equitable Life is included in an assessment of Relative Loss.
Sum Assured	An amount specified as a minimum payment in the event of a death claim or a critical illness claim on some AWP policies.
Trustee	A person responsible (most commonly in conjunction with others) for administering a trust.

[73] IC 1.1 footnote,IC E2.3.

Glossary of Selected Terms	
With-profits annuitant (WPA)	The holder of a class of policy where a single premium is paid by the policyholder in return for a series of annuity payments. The level of annuity payment received each year will depend on bonuses credited to the policy as well as choices made by the policyholder at commencement.
With-Profits Effective Date	The date on which a policy became with-profits as shown in Equitable Life's records.
WPA Enhancements and Cuts	Equitable Life made enhancements and cuts to annuity payments over the period 1993 to 2007 (or 1998 to 2007 for non-UK policies). These include: • Cuts in 2003 and 2004 to the Total Annuity; • Enhancements in 1996 and 2002 to the Total Annuity; • Enhancements in 2002 to the Guaranteed Annuity.

Appendix A: Comparator returns and market calibration factors for AWP and CWP business

Table 1: Comparator Investment Return

For year ending	Pensions Business: Comparator Unsmoothed Return	Pensions Business: Comparator Smoothed Return – 2 Year Smoothing	Pensions Business: Comparator Smoothed Return – 4 Year Smoothing	Life Business: Comparator Unsmoothed Return	Life Business: Comparator Smoothed Return – 2 Year Smoothing	Life Business: Comparator Smoothed Return – 4 Year Smoothing
31-Dec-89	28.8%			23.3%		
31-Dec-90	-9.5%			-5.1%		
31-Dec-91	14.4%			11.8%		
31-Dec-92	14.03%	14.23%	11.64%	13.74%	12.74%	11.09%
31-Dec-93	25.79%	19.77%	13.31%	23.15%	18.35%	12.85%
31-Dec-94	-2.31%	10.86%	9.39%	-3.18%	9.20%	7.97%
31-Dec-95	17.99%	7.36%	14.30%	16.11%	6.03%	12.83%
31-Dec-96	11.61%	14.76%	12.55%	9.21%	12.61%	10.55%
31-Dec-97	18.51%	15.01%	12.56%	15.88%	12.49%	10.52%
31-Dec-98	14.85%	16.67%	15.53%	12.09%	13.97%	13.05%
31-Dec-99	16.22%	15.53%	15.46%	14.16%	13.12%	13.08%
31-Dec-00	2.52%	9.16%	10.70%	0.28%	7.00%	8.32%
31-Dec-01	-7.35%	-2.54%	3.27%	-4.50%	-2.14%	3.19%
31-Dec-02	-8.81%	-8.08%	-1.70%	-6.47%	-5.49%	-0.89%
31-Dec-03	11.14%	0.67%	1.36%	9.83%	1.35%	1.56%
31-Dec-04	11.14%	11.14%	3.01%	9.42%	9.62%	3.27%
31-Dec-05	16.79%	13.93%	8.97%	13.94%	11.66%	7.85%
31-Dec-06	10.46%	13.58%	11.97%	9.44%	11.67%	10.40%
31-Dec-07	5.14%	7.77%	9.65%	4.87%	7.13%	8.46%
31-Dec-08	-15.68%	-5.85%	-0.73%	-15.02%	-5.60%	-1.14%
31-Dec-09	8.69%	-4.27%	2.96%	7.12%	-4.59%	2.28%

Table 2: Pensions Business, Smoothed Returns using a 2-year smoothing formula

Maturity Year	Original Policy Term 1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1992																	
1993	-1.6%																
1994	-7.6%	-7.6%															
1995	-5.2%	-5.2%	-5.2%														
1996	7.0%	7.0%	7.0%	7.0%													
1997	8.1%	8.1%	8.1%	8.1%	8.1%												
1998	2.0%	2.0%	2.0%	2.0%	2.0%	1.4%											
1999	4.4%	4.4%	4.4%	4.4%	4.4%	1.8%	-0.8%										
2000	6.8%	6.8%	6.8%	6.8%	6.8%	3.8%	0.7%	-2.3%									
2001	-4.8%	-4.8%	-4.8%	-4.8%	-4.8%	-5.7%	-6.6%	-7.5%	-8.4%								
2002	-9.2%	-9.2%	-9.2%	-9.2%	-9.2%	-9.9%	-10.7%	-11.5%	-12.2%	-13.0%							
2003		-17.1%	-17.1%	-17.1%	-17.1%	-16.5%	-15.8%	-15.1%	-14.5%	-13.8%	-14.0%						
2004			-18.4%	-18.4%	-18.4%	-14.9%	-11.3%	-7.8%	-4.2%	-0.7%	-3.0%	-5.3%					
2005				-13.1%	-13.1%	-9.0%	-4.9%	-0.8%	3.3%	7.4%	4.8%	2.2%	-0.4%				
2006					-22.9%	-16.1%	-9.3%	-2.5%	4.3%	11.2%	10.9%	10.6%	10.4%	10.1%			
2007						-10.3%	-5.8%	-1.4%	3.1%	7.5%	7.5%	7.4%	7.4%	7.4%	7.3%		
2008							-1.8%	-1.6%	-1.3%	-1.0%	0.0%	1.0%	2.0%	3.0%	4.0%	4.1%	
2009								-12.5%	-14.7%	-16.9%	-14.7%	-12.5%	-10.2%	-8.0%	-5.8%	-6.9%	-7.9%

Table 3: Pensions Business, Smoothed Returns using a 4-year smoothing formula

Maturity Year	Original Policy Term 1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1992																	
1993	5.4%																
1994	-8.5%	-8.5%															
1995	1.8%	1.8%	1.8%														
1996	2.4%	2.4%	2.4%	2.4%													
1997	3.7%	3.7%	3.7%	3.7%	3.7%												
1998	1.9%	1.9%	1.9%	1.9%	1.9%	1.2%											
1999	5.4%	5.4%	5.4%	5.4%	5.4%	2.7%	0.0%										
2000	3.3%	3.3%	3.3%	3.3%	3.3%	1.7%	0.0%	-1.6%									
2001	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-2.7%	-4.6%	-6.5%	-8.4%								
2002	3.6%	3.6%	3.6%	3.6%	3.6%	2.0%	0.5%	-1.1%	-2.7%	-4.2%							
2003		-1.8%	-1.8%	-1.8%	-1.8%	-1.2%	-0.6%	0.0%	0.6%	1.2%	1.0%						
2004			-10.7%	-10.7%	-10.7%	-7.2%	-3.6%	-0.1%	3.5%	7.1%	4.8%	2.5%					
2005				-12.0%	-12.0%	-8.6%	-5.2%	-1.8%	1.6%	5.0%	3.8%	2.5%	1.3%				
2006					-30.3%	-22.3%	-14.4%	-6.5%	1.4%	9.3%	8.1%	7.0%	5.8%	4.6%			
2007						-20.1%	-12.8%	-5.6%	1.7%	9.0%	8.1%	7.3%	6.4%	5.5%	4.6%		
2008							-2.7%	0.3%	3.4%	6.5%	7.4%	8.4%	9.3%	10.2%	11.2%	11.3%	
2009								0.3%	-0.3%	-0.8%	1.4%	3.6%	5.8%	7.9%	10.1%	9.1%	8.1%

Market Calibration Factors continued

Table 4: Life Business, Smoothed Returns using a 2-year smoothing formula

	Original Policy Term																
Maturity Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**
1992																	
1993	-3.1%																
1994	-3.1%	-0.6%															
1995	-3.1%	-0.6%	-0.8%														
1996	-3.1%	-0.6%	-0.8%	2.1%													
1997	-3.1%	-0.6%	-0.8%	2.1%	-1.8%												
1998	-3.1%	-0.6%	-0.8%	2.1%	-1.8%	-4.2%											
1999	-3.1%	-0.6%	-0.8%	2.1%	-1.8%	-4.2%	-7.1%										
2000	-3.1%	-0.6%	-0.8%	2.1%	-1.8%	-4.2%	-7.1%	-7.1%									
2001	-10.7%	-9.1%	-4.7%	-3.4%	-4.3%	-4.5%	-7.4%	-7.4%	-7.4%								
2002	-13.6%	-20.7%	-19.0%	-14.0%	-8.7%	-7.6%	-9.7%	-9.7%	-9.7%	-9.7%							
2003		-21.1%	-24.5%	-21.7%	-15.6%	-10.5%	-3.9%	-4.8%	-9.2%	-9.7%	-9.7%						
2004			-17.9%	-22.6%	-17.1%	-11.7%	-6.7%	-0.8%	-3.4%	-8.0%	-8.0%	-8.0%					
2005				-11.3%	-15.0%	-13.7%	-8.8%	-2.7%	-3.1%	-3.9%	-3.9%	-3.9%	-3.9%				
2006					2.3%	-4.3%	-3.5%	0.2%	3.1%	2.1%	2.1%	2.1%	2.1%	2.1%			
2007						-9.1%	-8.3%	-5.0%	-1.2%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%		
2008							-11.6%	-10.9%	-6.2%	-3.7%	-3.7%	-3.7%	-3.7%	-3.7%	-3.7%	-3.7%	
2009								-21.1%	-18.7%	-8.5%	-8.5%	-8.5%	-8.5%	-8.5%	-8.5%	-8.5%	0.0%

Table 5: Life Business, Smoothed Returns using a 4-year smoothing formula

	Original Policy Term																
Maturity Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**
1992																	
1993	-2.3%																
1994	-2.3%	0.1%															
1995	-2.3%	0.1%	-1.2%														
1996	-2.3%	0.1%	-1.2%	0.0%													
1997	-2.3%	0.1%	-1.2%	0.0%	-3.8%												
1998	-2.3%	0.1%	-1.2%	0.0%	-3.8%	-1.8%											
1999	-2.3%	0.1%	-1.2%	0.0%	-3.8%	-1.8%	-6.7%										
2000	-2.3%	0.1%	-1.2%	0.0%	-3.8%	-1.8%	-6.7%	-6.7%									
2001	-6.5%	-4.0%	0.0%	0.2%	-2.2%	-2.3%	-0.8%	-0.8%	-0.8%								
2002	-8.7%	-11.0%	-8.4%	-4.1%	-0.2%	-0.7%	-2.5%	-2.5%	-2.5%	-2.5%							
2003		-14.5%	-13.1%	-9.5%	-4.2%	-0.6%	3.9%	3.3%	3.3%	1.0%	1.0%						
2004			-16.1%	-16.1%	-9.8%	-5.0%	-1.3%	2.8%	0.5%	0.3%	0.3%	0.3%					
2005				-13.7%	-13.1%	-10.8%	-6.3%	-1.3%	-3.4%	-4.0%	-4.0%	-4.0%	-4.0%				
2006					-1.4%	-4.2%	-2.4%	1.0%	2.9%	0.2%	0.2%	0.2%	0.2%	0.2%			
2007						-12.7%	-7.5%	-3.3%	0.2%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%		
2008							-11.4%	-6.4%	-1.0%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	
2009								-14.1%	-7.5%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	0.0%

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