

EQUITABLE LIFE THE PRE-1992 WITH-PROFITS ANNUITANTS (WPAs)

Speaking Notes

The full evidence is in the accompanying Paper by Independent Actuary,
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(1) What is the scale of losses, relative to the Pru, on the pre-1992 WPAs?

An Equitable Life pre-1992 with-profits annuity is currently paying an annuity less than half as much as a comparable WPA from the Pru.

The evidence is in graph below which shows that, regardless of whether the with-profits annuity (WPA) was taken before or shortly after September 1992, the regular annuity payment on an average Equitable pre-1992-WPA is currently £2,300 per annum, compared with the equivalent WPA from the Pru of nearly £4,800 per annum (and the Forfar-Model shows almost the same as the Pru).

The resulting average cumulative relative loss (i.e. the cumulative loss relative to the Pru) is nearly £24,700 i.e. over 10 times the Equitable's current annuity level.

(2) Was there 'over-bonusing' by Equitable Life on its with-profits annuities?

No, any over-bonusing was insignificant.

The evidence from the Graph, from the Pru and from the Forfar-Model shows that the over-bonusing was only 1% of the total losses sustained to date and was insignificant.

(3) Were Equitable's WPA payments artificially high owing the structure of Equitable's WPA?

No, Equitable's payments were not artificially high.

The Pru's WPA had the flexibility to match the same purchase price and the same start annuity level as Equitable. Thus this evidence shows that the statement that "*.....Equitable's annuity payments were artificially high..*" is misconceived.

The subsequent (i.e. after the start) regular annuity payments of the Equitable, the Pru (and the Forfar-Model) were very close, until the Equitable's payments fell well below the Pru's payments (and well below the Forfar-Model's payments).

(4) Was the reduction in the level of Equitable's WPA payments due to poor investment market performance?

No, this is not borne out by the evidence.

For example, the Barclays Gilt/Equity Study, shows, that between the start of 1987 and the end of 1999, the equity market increased at an average yearly growth rate of 15.3% per annum. The comparable gilt yield in 1997 averaged less than 10%.

(5) Towers Watson have made the claim ('TW-Claim') that “..had there been no maladministration, the regular annuity payments on pre-1992 WPAs would have performed no better than they actually did”. Do you agree with the ‘TW-claim’?

No, I find the ‘TW-claim’ very surprising, for the undernoted reasons:-

(i) None of the P.O.’s ‘10 Findings of Maladministration’ affected the pre-1992 WPAs differently from the post-1992 WPAs. Furthermore, the P.O. did not make any distinction (as far as ongoing annuity payments after maladministration are concerned) between pre-1992 WPAs and post-1992 WPAs.

It has already been determined that the post-1992 WPAs are to receive full compensation, thus the pre-1992 WPAs, who also suffered from the same maladministration as the post-1992 WPAs, deserve to be compensated,

(ii) The P.O. found injustice in respect of regular annuity payments made after maladministration,

(a) if ‘relative loss’ was suffered by the annuitant, and

(b) if misleading regulatory returns were relied on by the annuitants in the widely drawn P.O.’s sense.

Both pre- and post-1992 WPAs meet (a) and (b), being the P.O.’s criteria for injustice,

(iii) The Proven Findings of the ‘Independent Disciplinary Tribunal of the Actuarial Profession’,

(a) concluded that Equitable Life “..was not operated on a sound financial basis”, and “...was not run with regard to policyholders’ reasonable expectations (PRE)..”

(b) expelled the CEO/Appointed Actuary from the actuarial profession because, among other things,

he had not carried out his compulsory duty, as Appointed Actuary, to advise his Board of his interpretation of policyholders' reasonable expectations (PRE) and he had not told the Board that the terminal bonus was not covered by assets.

The P.O. Report says that the lack of questioning and lack of regulatory action constituted maladministration. Regulatory action would have addressed the above matters.

Thus the 'TW Claim' is not supported by the Proven Findings of the 'Independent Disciplinary Commission of the Actuarial Profession'.

(iv) Sir John Chadwick likewise found that all WPA payments made, after the date of maladministration commenced, should be compensated,

(v) The accompanying paper states what, in my view, the Regulator would have discovered, if the Regulator had undertaken the questioning which the P.O. said should have been undertaken. It sets out the actions that, in my view, as a former Appointed Actuary of a major with-profits office, should have been taken - actions which would have had a very beneficial effect on the whole future of Equitable Life's with-profits fund,

(vi) Indeed, in my view, if these actions had been taken, all of Equitable's with-profits annuities would have performed substantially better. Indeed, in my view, they would have performed on a par with the Prudential's comparable annuities. Equitable Life would therefore have been able to meet the regulatory requirement of *"....fulfilling the reasonable expectations (PRE) of all its with-profits policyholders"*.

Thus, for the above reasons, I cannot agree with the 'TW Claim'.

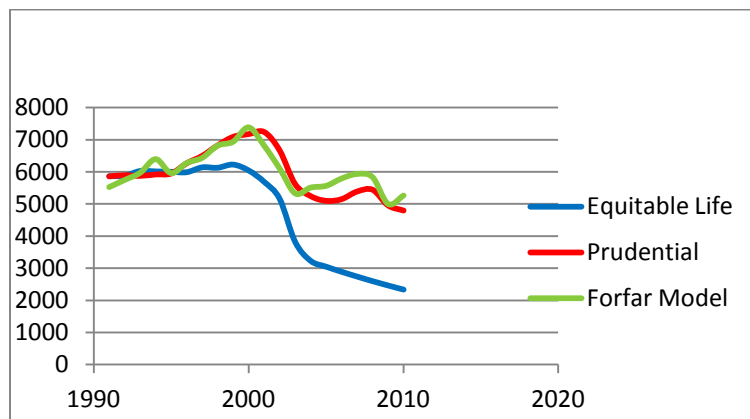
(6) What is your overall conclusion as an independent actuary?

The regular annuity payments which were paid after maladministration, of all with-profits annuitants, have been very poor. All annuitants have suffered relative loss (no matter what the date of their 'purchase decision') and almost all annuitants can claim that they 'relied on the regulatory returns' in the P.O.'s wide sense. Therefore all annuitants have suffered injustice as they meet the P.O.s criteria of injustice.

Furthermore, all annuitants were 'trapped'. An annuitant could not transfer elsewhere, even if they had wanted to. To my mind that makes the case of the annuitants even more deserving.

It would thus be unfair to compensate one group of annuitants and not the other, when the post-maladministration payments of both groups of annuitants have suffered in the same adverse way from the same maladministration and the same entrapment.

Thus the pre-1992 annuitants should be compensated in the same way for the poor (post-maladministration) payments that they have received and will receive in the future, if nothing is done for them.



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