Dear Meg

EQUITABLE LIFE PAYMENT SCHEME

Thank you for your letter of 21st December.

You asked for an update on the Treasury’s work since March 2015 on Equitable Life compensation calculations; on how we are engaging with policyholders, including the Equitable Members’ Action Group (EMAG); and on how this has been perceived by policyholders.

I attach a note which covers these questions in detail.

In our work on this issue we have had to balance the legitimate interests of policyholders with those of taxpayers. We feel that we have provided full and transparent information on the calculation methodology. And we have engaged intensively with EMAG and its representatives. As a consequence, the level of complaints has been low.

I hope that the note will be useful in answering the questions raised by the Committee.

Yours,

Tom Scholar
Equitable Life Payment Scheme

The Chair of the Public Accounts Committee has written to request an update on work carried out by HM Treasury since March 2015 to help policyholders understand the calculation methodology used to determine their payments from the Equitable Life Payment Scheme (“the Scheme”), as well as how HM Treasury has engaged with policyholders and in particular the Equitable Members’ Action Group (EMAG), and how this work has been perceived by policyholders.

Calculation methodology

To answer the question on HM Treasury’s work to ensure intelligibility of the calculation methodology, it may be helpful to set out some background.

The set-up of the Scheme

In 2010, the recently elected Government committed to start payments to eligible policyholders within 12 months. This was supported by stakeholder groups such as EMAG. To facilitate the speed of these payments the Government decided to make use of the work of Sir John Chadwick. Sir John had been appointed by the previous Government to examine how the Ombudsman’s report could be implemented. Although in 2010 the new Government rejected the final conclusions of Sir John’s report, it did recognise that his actuarial advisors had done a great deal of work in establishing the calculation methodology. To facilitate the swift commencement of payments after years of delay, it was decided – again following consultation with groups such as EMAG – to reuse that work. This meant that not only was there a saving to the public purse but payments could start more quickly.

As it was designed for the purposes of Sir John’s review, the model built by the Scheme’s actuaries to calculate payments to policyholders was not designed to show the complex intermediate steps in this calculation. Instead, and in the same way as returns on investments with Equitable Life itself were presented, the model produced a series of outputs that showed the results of those calculations. The Government decided that to rebuild the calculation model to show every step of the calculation for each individual policyholder would have conflicted with the wish of all parties that the Scheme should start payments as soon as possible, and would have been disproportionately expensive.

However, the inputs used for this calculation were available to policyholders on request in the form of a core data report, which set out the data received from Equitable Life. To assist the transparency of the calculation, in May 2011 the government published an explanation of the model both at a high level and in some detail. These can be found at https://www.gov.uk/government/publications/equitable-life-payment-scheme-design.

Work on the clarity of the calculations reported to the Committee in March 2015

To fulfil the recommendations of the Committee of Public Accounts, HM Treasury worked closely with the Scheme’s actuaries and stakeholders (including EMAG) to
produce an overview of the calculation process and “worked examples”, going through the calculation process step by step.

These can be found at https://www.gov.uk/government/publications/equitable-life-payment-scheme-further-information-on-the-payment-calculation.

Furthermore, a volume of clarifications to the technical aspects of the calculation was published following feedback from policyholders. These can be found under “Clarifications to the Equitable Life Scheme Design” at https://www.gov.uk/government/publications/equitable-life-payment-scheme-design.

Further work not reported in March 2015

In 2014 EMAG engaged its own actuary, Mr David Forfar, to replicate the Scheme’s calculations for one group of policies, the With-Profits Annuity (WPA) policies. HM Treasury assisted Mr Forfar in his work, incurring actuarial fees in the region of £60,000. At the end, Mr Forfar replicated the Scheme’s model and acknowledged that the model was correct.

Following an announcement by the then Chancellor in the 2015 Summer Budget, the Scheme closed to new claims on 31 December 2015 and to complaints on 29 February 2016. In February 2016, less than a month before this deadline, EMAG encouraged its members to make enquiries about their calculation and, in particular, its explanation. To fulfil the resulting requests HM Treasury produced further explanations, running to several pages, of the calculation methodology. A copy of such an explanation is enclosed.

In 2016, once the Scheme was already decommissioning, EMAG again approached HM Treasury requesting it check a spreadsheet compiled by Mr Forfar for a selection of different investment policies that he had attempted to replicate using the publicly available information. Whilst Mr Forfar had already replicated several of these policies, he wanted the Scheme’s actuaries to help him correct his work. Despite the Scheme being closed, HM Treasury again assisted Mr Forfar answering his questions and explaining to him how to correct his spreadsheet. HM Treasury’s actuaries corrected Mr Forfar’s spreadsheet so that in 18 out of 19 cases the calculations matched to within a tolerance of 4% (and in 13 of these to within 1%), which is reasonable for actuarial calculations of this complexity. The 19th was put to one side at Mr Forfar’s suggestion.

Engagement with policyholders and their representatives

During and after the lifetime of the Scheme, HM Treasury maintained regular contact with stakeholder groups including EMAG and others. EMAG's representatives have met Treasury Ministers and officials on numerous occasions, as well as having phone, email and letter correspondence on a very regular basis both before and after March 2015. For instance, HM Treasury worked very closely with EMAG during both actuarial exercises in 2014 and 2016, and, following the Summer Budget 2015 policy
announcements, kept EMAG informed of upcoming policy changes, and took its views on Scheme closure delivery.

The establishment of the Equitable Life Payment Scheme necessitated a number of difficult decisions, which required the Treasury to balance the needs of taxpayers with those of policyholders. While we appreciate that some policyholders may be dissatisfied, the low complaint rates the NAO found in their 2013 report (which declined further over the duration of the Scheme), suggested that this balance was achieved. It is worth noting that Equitable Life’s own research into this matter suggested that following the action taken by the government to establish the Scheme, their policyholders had drawn a line under this issue.

HM Treasury

22 January 2018