

Proposed revision to AS TM1: Statutory Money Purchase Illustrations

My responses to some of the questions in the consultation paper are set out below.

QUESTION 3: What are your views on the proposed volatility-based approach for determining the accumulation rate?

I understand the rationale for the proposed approach but have the following comments:

- There may be occasions where the investments held are unlikely to achieve the specified return (eg cash holdings). Providers could be allowed to assume a lower return when they consider that the specified returns are unlikely to be achieved with the specified rates becoming maxima. Alternatively, the specified rates could be reduced so they are less likely to overstate the potential returns.
- With the volatility-based approach it would be helpful if there was some communication of uncertainty so members have some understanding of the risk that the illustrations will not be realised in practice. Paragraph 5.7 of the consultation document states that inclusion of the communication of uncertainty whether quantitatively or qualitatively is not permitted by the current legislative requirements. However in the past the FRC suggested that “Providers should consider providing additional information about risk and uncertainty” (paragraphs 3.35 and 3.36 of TM1: Statutory Money Purchase Illustrations: Version 2.0 - Supplementary Information). Similar guidance might be helpful to members.
- It does not appear to be clear how the revised approach caters for SIPs where investments are not in pooled funds.

QUESTION 10: What are your views on the proposed prescribed form of annuitisation and treatment of lump sum at retirement? In particular, does the recommendation to illustrate a level pension without attaching spouse annuity cause you any concerns in relation to gender equality or anticipated behavioural impacts?

I agree with the proposed treatment of the lump sum at retirement. I also agree that it is reasonable for the pension shown to be a member only pension as that is the form of pension most likely to be provided. However, it should be clear to the member that no spouse's or dependent's pension has been assumed.

I do not agree that a level pension should be shown. As noted in the consultation paper this would result in DC illustrations being inconsistent with DB pensions and State pensions shown on the dashboard. Furthermore, the proposed approach will lead to significantly higher illustrations than if calculated assuming pensions in increase payment. The proposed approach could lead to some people overestimating the amount of income they will receive throughout their retirement and most importantly might lead to them choosing not to make additional contributions to ensure they receive an adequate income. This issue has become particularly important with rising inflation.

QUESTION 13: Do you have any other comments on our proposals?

The stated purpose of AS TM1 in the exposure draft is “to specify the assumptions and methods to be used in the calculation of **statutory illustrations** of money purchase pensions”. The introduction of the pensions dashboard extends the use of AS TM1 and it would appear appropriate for the stated purpose in AS TM1 to be amended to reflect this. In addition, it may be appropriate to include references to Estimated Retirement Income statements in various places within AS TM1.

The FRC might wish to consider reviewing the name of the document as a result of the proposed extension of its the use – eg to include Estimated Retirement Income in the title. The FRC might also wish to consider whether “Actuarial Standard Technical Memorandum” remains appropriate – does the FRC still consider the document to be an actuarial standard? Also does the “1” in the title add any meaning – it would seem to imply that a document AS TM2 will be produced.

The maintenance of the revised AS TM1 does not appear to sit well with the FRC’s other activities as the UK’s independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. AS TM1 was inherited with the Actuarial Profession’s Guidance Notes following the Morris Review. It would appear more appropriate for the DWP or other entity to take ownership of AS TM1 with technical input from other entities as required.