

Proposed revision to AS TM1: Statutory Money Purchase Illustrations

Dear Sir or Madam,

Thank you for the opportunity to comment. Where we have comments on the consultation, I have added these in blue after the original questions below:

1. How supportive are you of the approach to prescribe the accumulation rate and form of annuitisation more precisely, in order to improve consistency across projections from different providers? In particular, do you have any concerns arising from the loss of independence and judgement allowed to providers to set these terms? We agree that it makes sense to harmonise the approach across providers.

2. What are your views on the proposed effective date of 1 October 2023?

Our preference would be for an effective date of 6th April 2024 – this would mean that the accumulation rates could be set annually after that.

Otherwise providers will have to change accumulation rates twice in the first year i.e. for 1st October 2023 and then again for 6th April 2024 which would be much more onerous. Another reason for allowing an extra six months to implement the changes is because there will be additional work to implement the new requirement that the illustration **must** take account of guaranteed annuity terms which produce a higher amount of initial pension (the current AS TM1 says that providers “may” take account of guaranteed annuity terms).

3. What are your views on the proposed volatility-based approach for determining the accumulation rate? The change will require some

up-front effort to set up the fund volatility calculations, but once the process is set up then it probably makes the annual review of accumulation growth rates slightly easier as it will become mechanical rather than judgemental. However, for the first SMPI after introduction, for some funds the growth rate assumption could be quite different to the previous year. We think that the FRC should also consider what extra messaging may be needed to explain this. In addition we think it would be helpful if the FRC need to consider how to communicate risk and uncertainty – otherwise it could be interpreted that switching to more volatile funds would improve retirement incomes. There will need to be suitable warnings about the uncertainty around assumptions underlying the projections

4. Based on an assumed CPI of 2.5% do you find the accumulation rates proposed for the various volatility indicators to be reasonable and suitably prudent?

It looks like the proposed rates are generally at the higher end of what was in the latest (December 2020) version of the FRC’s survey. It will be important to explain to scheme members why the figures in the SMPI differ from one year to the next, particularly in the first year when the new basis is introduced.

6. What are your views on the proposals that the recalculation of volatility indicator should be annually as at 31 December with a 0.5% corridor? We think this is reasonable based on the rationale set out in the consultation. Your analysis looking into using 1% instead seemed to dampen movements between groups too much.

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? We have no concerns with this approach. Most customers currently take a small lump sum, an uncrystallised funds pension lump sum or transfer in order to access drawdown.

13. Do you have any other comments on our proposals?

In C.3.14 it says *“Account must be taken of guaranteed annuity terms which produce a higher amount of initial pension as at the retirement date than would be produced using the assumptions in AS TM1. Where account is taken of guaranteed annuity terms, this should be disclosed alongside the statutory illustration.”* Does this mean that two income figures should be disclosed and which figure should be provided to the pensions dashboard?

Best regards

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