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## FRC Consultation: AS TM1: Statutory Money Purchase Illustration

The Investment & Life Assurance Group (ILAG) is a representative body, with membership from across the Life Assurance and Wealth Management Industries.

We openly share and develop practical experiences and expertise, applying this practitioner knowledge to the development of businesses, both individually and collectively, for the benefit of the membership and its customers.

ILAG is run by practitioners for practitioners, whether by engagement with industry associated bodies or through active consultation.

The ILAG membership list is at the end of this submission.

We welcome the opportunity to respond to this consultation and have provided responses to the consultation questions below.

### Consultation Questions

**1. Do you agree with the proposed change to accumulation rate for volatility group 1 (from 1% p.a. to 2% p.a.)? If not, what alternative accumulation rate do you think would be appropriate for this group? Please provide supporting evidence for any alternative view.**

There is merit in the argument to move the return for group 1 higher as it mainly consists of cash and money market funds, which have seen significant increases to returns over the past 18 months. Nevertheless, the accumulation phase of a pension, and, as a result, the duration of SMPI projection can last for several years. There is currently insufficient data available to confirm that this represents a long-term shift in group 1 assets which would warrant such a change over the short-term.

**2. Do you agree with not amending the accumulation rate for volatility group 4? If not, what alternative accumulation rate do you think would be appropriate for this group? Please provide supporting evidence for any alternative view.**

7% is the highest accumulation rate expressed in the consultation paper. Yet, the FCA's Conduct of Business Sourcebook (COBS 13 Annex 2) states that a mid-growth rate of no greater than 5% must be used in projections. These two elements are in direct conflict and will lead to customer confusion and inconsistency in transferring the values from key features illustrations and SMPIs, which are, in some cases, required to be provided as part of an annual statement. This may cause challenges for providers and impact the ability to meet aspects of the Customer Understanding outcome under Consumer Duty in these communications.

**3. Do you have any other comments on the proposed accumulation rates as set out above?**

Our primary concern lies with volatility group 3. Some of our membership firms operate SIPP products and do not manufacture or operate any investments. Lengthy discussions with industry bodies and FRC in 2022 and 2023 considered the use of default volatility groups, following these interactions the majority of investments held within SIPPs defaulted into group 3 because of the challenges in obtaining and maintaining this data.

This presented our customers with clear consistency between SMPI and non-SMPI illustrations, as far as is currently possible under the different FRC and FCA regimes. Under the current rules, each illustration type shows customers that their assets are assumed to grow at 5%, as noted in our response to question 2.

If the change proposed in this consultation goes ahead, the difference in final fund values for SMPIs will always be higher than the equivalent non-SMPI value. We cannot see how this promotes clarity of information to the customer.

As a further point, the inflation rates between SMPI and non-SMPI illustrations differ (2% and 2.5% respectively). This further increases the risk of consumer confusion and reduces consistency across pension projections. We urge FRC to work closely with FCA to consider an aligned approach to inflation assumptions.

**4. Do you agree with the proposed effective date of 6 April 2024?**

Having only introduced the new AS TM1 rules on 30 September 2023 changing them again 6 months later would mean providers will need to re-communicate with customers and advisers about the impact of these additional changes. The rules would benefit from a period of stability, and we suggest that only minimal changes are made at this juncture.

**5. Do you agree with our impact assessment? Please give reasons for your response and estimates of costs where possible.**

Building on the points we raised in answer to question 4, FRC's intention is to publish revisions to TM1 by 15 February and aim for an implementation date of 6 April. This timeframe does not allow a sufficient period for providers to update systems with any required changes.

We appreciate that FRC needs to include consideration of the 30 September data, and this is why changes to rates can only be consulted on late in the year. Nonetheless, following this timeline gives the FRC over two months to provide final clarity on any potential revisions, but only allows seven weeks for providers to implement the resulting amendments.

We agree that a periodic review of rates is the right course of action but urge FRC to publish the final rates earlier than 15 February 2024, and, if plausible, in future years bring this forward to 15 January.

Yours faithfully,

**Steve Leese**
**Group and Event Manager**
**Investment & Life Assurance Group**

## ILAG Membership 2023

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