

## Proposed revision to AS TM1: Statutory Money Purchase Illustrations Response to consultation on behalf of M&G Plc

### About M&G

M&G plc is a savings and investment company with a long-term outlook. Our aim is to grow our clients' wealth and improve their environment by investing with care.

Serving clients in 28 markets across the world our broad set of asset management capabilities allows us to offer clients a series of savings and investments solutions. Where appropriate, we combine this with our capital management expertise to align these solutions with our clients' risk appetite. We welcome the opportunity to provide input on this important topic.

### Our Response

We welcome the opportunity to provide comments on this important consultation. By and large we agree with the response made by the Association of British Insurers and have therefore limited our response to Question 7 – ***what are your views on the proposed approach for with-profit fund projections?*** With-profits is a subject on which M&G under the 'Prudential' brand is heavily versed.

We are concerned that using a volatility measure such as that proposed for With-Profits pricing will lead to growth rates used in projections that are lower than our expectation of the long-term growth of the fund (as used within bonus-setting).

The impact of this will vary on a case by case basis. In the example below, using the proposed 3% accumulation rate assumption based on the volatility measure, rather than the current long-term return assumption of 5.9% leads to an illustration of benefits in today's prices that are reduced by a third.

We are concerned that this will present a confusing picture to members as the figures being used to apply bonus etc could be quite different from those use in the illustration. This has the potential to result in members making inappropriate/uninformed decisions, with detrimental outcomes.

We would be very happy to meet to discuss this in more detail and to talk through the supporting evidence showing how the monthly returns were used to generate the accumulation rate.

With all projections, the impact will depend on the contributions being paid and the term of the projection etc. The example given is slightly simplified with no current contributions included.

### With-Profits SMPI Example

Illustration Date	10/04/2022
Date of Birth	10/04/1972 (Currently Age 50)
Retirement Date	10/04/2037 (Age 65)
Projection Term	15 years
Sex	Male
Annuity Basis	50% Spouses, 5 Year Guarantee, 0% Escalation
Current Value	£40,000
Transfer Value	£60,000 (i.e. allows for Final Bonus)
Current Contributions	£0

### Current Illustration

The current growth rate assumption for With-Profits is **5.9%**, which reduces to 4.5% allowing for costs and charges:

Projected Amount	£116,683.09	
	<b>Today*</b>	<b>Output</b>
Projected Amount in today's prices	£80,565.66	<b>£80,500</b>
Full Pension	£3,178.51	<b>£3,170</b>
Tax Free Lump Sum	£20,141.41	<b>£20,100</b>
Reduced Pension	£2,383.88	<b>£2,380</b>

\* Allows for 2.5% inflation

### Proposed Illustration

The annualised standard deviation of the last 5 years monthly prices of the unsmoothed fund prices is 6.45%.

This leads to an accumulation rate of 3% based on the proposed volatility table. Using **3%** growth, this reduces to 1.7% allowing for costs and charges:

Projected Amount	£76,935.52	
	<b>Today*</b>	<b>Output</b>
Projected Amount in today's prices	£53,121.33	<b>£53,100</b>
Full Pension	£2,095.76	<b>£2,090</b>
Tax Free Lump Sum	£13,280.33	<b>£13,200</b>
Reduced Pension	£1,571.82	<b>£1,570</b>

\* Allows for 2.5% inflation