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Introduction:

This document contains responses to the questions posed by the Financial Reporting Council ("FRC") within their February 2022 Consultation Paper 'Proposed revision to AS TM1: Statutory Money Purchase Illustrations'. These responses are provided by Enhance Support Solutions Limited, a specialist consultancy providing regulatory and technical support to administrators of personal pension and small self-administered schemes. Our clients range from 'traditional' SIPP and SSAS providers through to Fintech based 'direct-to-consumer' propositions.

Any questions arising from this response document can be addressed to

Enhance Support Solutions Limited
May 2022

Responses:

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?

Enhance response:
We are supportive of a consistent approach to the presentation of growth/accumulation rates to scheme members. Particularly in relation to personal pension schemes, the current system results in differing providers, in good faith, projecting at different rates based on their assessment of what is a realistic projection rate based on the underlying assets. Given that illustrations such as SMPIs and the wider suite of new business illustrations per COBS are designed to provide indicative projections of benefits and, in some cases, a comparison between providers, our view is the current projection landscape is counter-productive in providing simple yet meaningful illustrations to scheme members. Based on some of the egregious SMPIs/illustrations we have seen through our audit work, based on some of the clearly incorrect numbers quoted, it is clear that members have not engaged with their projections. Simplicity and conciseness of message should be a driver for SMPI development and consistency of the projection assumptions across the board is a key element.

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

Enhance response:
Based on the rest of the proposals, many elements on which we have concerns, with all else that is impacting on FCA regulated pension providers, for example incorporating the 'Stronger Nudge' process, dashboard staging dates (although we see these are aligned) Consumer Duty and potentially building systems to accommodate the volatility indicators, we are concerned that 18-months may be a push. That said, the main issue is the latter system-build which is not out area of expertise.

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

Enhance response:
While we can absolutely see the logic of the volatility-based approach, we also see the introduction of a volatility-based approach to determining projection rates to be a retrograde step which vastly over-complicates matters for both providers and consumers.

1. As alluded to previously, our view is that much of the consumer communications around pensions is complicated, verbose and therefore off-putting for many. As matters stand, SMPIs are in our view one of the clearer communication pieces when compared with, for example, FCA driven new business and drawdown illustrations for personal pensions. As referenced within the consultation paper, as with any projection of this sort, the SMPI is a 'best-guess' based on multiple assumptions. To add yet another layer seems merely to complicate matters. Furthermore, in explaining to a consumer the basis of the projection, based on volatility, will simply add unnecessary words and concepts to an already potentially complicated set of assumptions. We must never forget the end user of these illustrations who need to be encouraged to engage with their pension arrangements, and keeping things simple potentially encourages this.
2. Arguably, the annual valuation is a better way to capture the volatility and actual growth (at a moment in time each year). Consequently, if one follows the logic that a higher-risk volatile fund will perform better over time (as reflected in the proposed variable projection rates), then surely over time this will be reflected in the annual valuation (i.e., possibly higher each year for a Group 4 than a Group 1 fund) upon which a standard projection rate could be applied. This would mean that year on year, the Group 4 projection would end up at a higher fund value than a comparable Group 1. Furthermore, this places more emphasis on a statement of annual fact (i.e., the valuation) rather than placing further emphasis on a volatility driven projection rate.
3. The SRRI is cited as methodology on which the volatility-based projection is based. The SRRI rankings are useful within a KIID and as a principle, we have no issue with this. However, what the 1-4 Groupings do is to take a good concept and then modify this, adding potentially more layering. If, for example, a consumer is engaged with their underlying investments and has studied the KIIDs, thereby having knowledge of the SRRI (1-7 scale) then to introduce a 1-4 scale again seems to over-complicate matters.
4. Accepting this is also covered by Q4, the proposed approach results in a vast range of projection rates and we would argue that 7% is too high and will potentially mislead clients. It is surely better to assume a cautious, realistic rate (whatever that may be currently!) than to overstate the situation.
5. We do agree the statement at 3.17 that to illustrate cash and equities could be misleading, however surely this is simply solved by having a lower rate for cash funds compared to a uniform projection rate for other equity based funds. We are unclear why this approach is deemed as being unviable, particularly when many personal pension providers project on this basis.
6. There is a move towards value for money in pensions. To add additional complexity to the construction of SMPIs is simply a further regulatory cost where the costs are already high; this flies in the face of providing very low-cost pensions.

Consequently, we disagree with the proposal and instead would advocate a simple approach of uniform projection rates for cash; equities/funds (FCA standard assets); and, maybe a simple CPI-related projection rate (as proposed) for other non-standard/unquoted assets.

4. 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?

Enhance response:
For the reasons outlined at Q3 our view is that the projection rate range is too much. While 1% may relevant for cash (currently) our view is that 7% is too high and of itself could give rise to unrealistic assumptions. While we have nothing to base this on, our instinct is that a range of 4-5% for fund-based investments is reasonable.

5. What are your views on the proposed approach to reflect derisking when calculating the accumulation rate assumptions?

Enhance response:
We agree that rates could/should adjust downwards as the member approached SRD. However, uniform approach could achieve the same ends - for example, if we assumed a uniform 5% rate for fund-based investments, this could be reduced over the final five years prior to SRD by 1% per annum.

6. What are you views on the proposals that the recalculation of volatility indicator should be annually as at 31 December with a 0.5% corridor?

Enhance response:
It adds complications and costs to providers. As this is not an area in which we have experience, it may be that systems already cater for this, however we have not seen this within the pension administration systems we have experience in. This maybe works well for platforms and insurance companies, however not for smaller to medium-sized providers, especially where the member actively directs their investment strategy.

7. What are your views on the proposed approach for with-profits fund projections?

Enhance response:
As this is outside our area of expertise, we have no comments on this matter.

8. Do you have experience of unquoted assets held in pension portfolios and what are you views of the proposed approach for unquoted assets? In particular do you regard a zero real rate of growth to be acceptable and if not please provide suggested alternatives with evidence to support your views?

Enhance response:
A clearer definition of what constitutes an 'unquoted asset' would be helpful. Some of our clients to hold unquoted assets and it is acknowledged that in many cases, there is high-risk attaching to these, with am attendant high failure rate. Consequently, in principle we agree with the zero real rate of growth to be acceptable. The one exception is that of directly held commercial property where, unless there were compelling reasons to the contrary, a standard growth rate could be applied.

9. What are your views on the proposed approach to determine the accumulation rate assumption across multiple pooled funds?

Enhance response:
As with the general approach, this feels like a rather complicated and burdensome process which, potentially would have to be repeated across many different instances of multiple pooled funds, particularly within a SIPP scheme where investment strategies will be many.

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?

Enhance response:
We were surprised by the proposed treatment of the lump sum. On the one hand, these proposals are designed to add a degree of perceived realism into projections, yet on the other hand chooses to ignore the taking of PCLS despite the acknowledgement this is common. We disagree that fundamentally the limits to this benefit are complex. Our experience is that complex PCLS calculations are as common as members not taking PCLS - in other words, extremely rare and certainly not worthy of excluding PCLS from the calculations. Again, the proposals seem to be losing sight of the 'keep in simple' principle. Our plea is to communicate effectively and simply to the end-user without trying to over-engineer the production of the information.

In relation to the spouse annuity, while we have no firm views, what is proposed seems sensible.

11. What are your views on the proposed approach to determine the discount rate assumption when used to determine the annuity rates for illustration dates which are a) more than two years from retirement date and b) less than two years from retirement date?

Enhance response:
We have no firm views on the discount rate assumption, what is proposed seems sensible.

12. What are your views on the proposed new mortality basis for determining the annuity rates where the illustration date is more than 2 years from the retirement date?

Enhance response:
No comments on this.

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

Enhance response:
As should be clear from our response, our views are that most pension-linked communications should be crystal clear to understand. The industry, particularly driven by the FCA have produced scheme member disclosures that, while well meaning, are simply woeful in their presentation and are in our opinion largely outdated. Younger members require fast, to the point communications. This is not say that such communications should not be informative and clear, fair and not misleading, however while there is innovation taking place within product providers to deliver easy to access low-cost products, client communications simply have not innovated with the end-user in mind.

While the FRC's logic is sound, as mentioned already, we simply think it misses the point and produces a burdensome SMPI that for many will simply go unread. Surely the aim must be to innovate communications so that members engage, in a digital world, rather than get bogged down in whether a projection falls within one volatility group or another.

14. 14. Do you agree with our impact assessment? Please give reasons for your response.

Enhance response:
We agree with the principles enunciated within the impact assessment however what is unclear is the cost-benefit and it is suggested that more work is undertaken on this across a range of pension providers and system providers.