AMPS

ASSOCIATION OF MEMBER-DIRECTED PENSION SCHEMES

AMPS Response to FRC consultation paper 'Proposed revision to AS TM1: Statutory Money Purchase Illustrations'

Introduction

AMPS is the trade body representing the Self Invested Pensions sector and further information about us is provided at the end of this response.

We are entirely supportive of a review of the TM1 assumptions in light of development on the Pension Dashboard Programme and welcome the opportunity to respond.

We have prepared our response considering the likely impact to our membership given the wide customer base and investments they administer. Whilst welcoming the consultation itself, we do have concerns that the consultation is very focused on the master trust and workplace pension sectors and gives insufficient consideration to the self-invested sector.

We hope that you will genuinely give due consideration to our concerns and we offer to work closely with the FRC in the future on further TM1 changes that impact our membership.

Questions in this paper

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?**

AMPS is very supportive of consistency being applied to illustrations and welcomes the proposal of setting a prescribed accumulation rate and a prescribed form of annuitisation.

Whilst we note you have asked that consultation responses only answer questions relating to TM1 assumptions, we would strongly encourage you to continue conversations with the Financial Conduct Authority (FCA) to ensure consistency across all illustration types. The current contrary approach leads to confusion amongst consumers and to illustrations not being reviewed.

The dashboard requirement is a perfect time for consistency to be applied across the board.

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

Whilst some smaller firms may struggle with the proposed effective date, we consider that on balance the lead in time is reasonable.

However, we have responded to the FCA consultation CP22/3 Pension dashboards: proposed rules for pension providers and note their intended implementation date of June 2023. We have expressed concerns that this is likely to be unachievable given data standards for the dashboard have yet to be published.

With this in mind we do wonder if it is sensible to review the implementation timescale for this change to TM1 once data standards are available and firms can implement all changes together.

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

You have stated in paragraph 3.14 that you intend reviewing volatility grouping 'regularly'. We strongly suggest these reviews to be conducted annually as a minimum period. If it is likely to be more frequent than annually, this will impact firms that issue illustrations on the plan anniversary rather than as part of a bulk exercise. Your impact assessment does not address the cost to firms of having to address volatility more than once in any 12-month period.

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In paragraph 3.4 you describe your observations which led to your methodology assumptions. One of your observations states 'The resulting accumulation rate assumption and the resulting statutory illustration should be easy to describe to savers and to be understood by them.' We contend that moving to a volatility group based on asset type will add confusion and lead to further enquiries from consumers who may not understand how the rates are determined.

We are aware of initiatives within the industry to simplify annual benefit statements, but part of this surely must be to simplify content and not just layout. We are not certain your proposal achieves simplicity.

Generally determining the volatility of a fund in a consistent manner across the industry is best achieved by making the fund managers responsible. Mandating providers to do this will lead to mis-categorisations. Additionally, fund managers have access to historical performance data and are clearly better placed to carry out the calculations than third parties.

This demonstrates that your paper is weighted towards the workplace sector where access to investment advisers and mangers is commonplace as opposed to the self-invested market where customers will choose from a fund range and where the pension provider will not have direct access to volatility data.

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?

Our first observation is that the accumulation rate of 7% for volatility group 4 and allowing for 2.5% inflation (e.g a nominal rate of 9.5%) is very high and out of line with the maximum growth rate allowed for under FCA projections (8%). Over the long term such differential will be significant. This may cause additional confusion with consumers and seems illogical to have differing maximum thresholds.

We would make additional comments based on the structure of the proposal as follows:

- The self-invested market is very broad and some firms will not hold historic volatility information for the assets held within their wrappers. We would look to you to provide direction to the FCA that this information is mandated to be supplied to pension providers by investment manager firms. We note that you have commented on this in other areas of the consultation but that this doesn't address the broad range on investments that apply to self-invested wrappers. What should be used in the absence of any volatility data?
- Where assets are held in an investment managed portfolio, what volatility group would these fall into, or would you expect firms to split out the portfolio according to asset type? If so, this will be time consuming and costly. It is highly unlikely we would get the necessary support from the investment industry to supply information in this manner.
- As stated above, we do not believe investment firms will willingly supply volatility information unless mandated to do so. Have those representations been made by FRC and the regulators to make clear any expectation on those firms?
- Self -invested portfolios have a range of different assets and whilst we consider the volatility grouping to be complicated in terms of determining the overall accumulation rate of a client's holdings, it also does not cover all asset types. For example, it is not uncommon for portfolios to have a mixture of cash deposits, commercial property, structured deposits and gold bullion to name a few. It is critical that these other asset classes are also considered otherwise the ERIs/SMPIs will vastly misrepresent SIPP clients' portfolios.
- Additionally, regulated commercial property funds are not uncommon investments for SIPP clients; however in recent times many of these have been deregulated due to liquidity difficulties. How will these be addressed both in terms of volatility and growth rates?
- Assuming a blended rate is used once all assets and volatility is determined, this will add yet more complication (as referenced under question 3) and lead to continuing consumer confusion.

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

We believe the proposal is sensible and if we have understood correctly you are only proposing this change where the lifestyling is programmatic – presumably in both the lifestyling arrangement itself and in any SMPI functionality? We would appreciate your clarification here.

As an aside we note from point 3.22 you refer to annual surveys having been carried out. We have previously mentioned the diversity of the self-invested industry and AMPS would appreciate working closer with you to both highlight your surveys but also to encourage our membership to respond to them, particularly where a broad selection of investments is held, so you may get a better understanding of this part of the market.

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?

Paragraph 3.25 is very much directed to funds-based investments but makes no reference to other assets classes. We believe you need to be explicit about these asset groups too.

This proposal appears to be about the corridor of 0.5% as opposed to any volatility review referenced under paragraph 3.14 of the consultation. Whilst we believe the proposal of a 0.5% corridor seems reasonable, we would point out that smaller firms do not have individuals making volatility assessments as part of their day job, nor do they have access to individuals that would do this either. Many of our members provide administration services to pension scheme members and do not provide actuarial services or have actuarial support on the scale that your paper infers are required for these assessments. Your paper does little to reflect this group.

We would ask that consideration is given to the wider population of providers that are required to issue SMPI.

Again, we would stress our point that the fund manager community must be mandated to provide this information to pension providers.

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

We are happy with your proposal in regard to with-profit funds.

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?

Several of our member firms will hold unquoted assets. Assets may be unquoted for a number of reasons, such as being genuinely unquoted in that they are private companies or they are listed companies going through some form of corporate action event. We have assumed that you are referring to the former i.e.genuine private companies.

Growth of these assets will be specific to the underlying holding but to suggest no growth within a SMPI does not seem appropriate. In effect you would be saying that allowing for inflation these assets are loss making in real terms which would not necessarily be the case. We would instead suggest that a better measure of growth in these circumstances would be a real return equivalent to the prevailing inflation assumption.

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

Paragraphs 3.48 to 3.51 address some of the concerns we have raised under question 4 above. We welcome explicit acknowledgement here but the inference is that a pooled fund arrangement exists as opposed to a portfolio of assets being managed instead by an investment manager. We think this is likely to be more common within the self invested sector.

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We wonder if you have considered an approach such as looking at historic index returns that might measure portfolio construction such as income, growth, balanced etc. An example might be the FTSE Private Investor Index Series https://research.ftserussell.com/products/downloads/PrivateInvestorIndexSeriesQAfinaltemplate.pdf

This may be a better way approach rather than the complication introduced by volatility per se.

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?

The concept of annuitisation is outdated now and has been for some time however we see no alternative but to provide a comparable annuity figure and agree that this should be on a consistent set of assumptions.

We do not however agree that tax free cash (tfc) should be excluded in all circumstances. Under most non-workplace pension schemes we believe most individuals select tax free cash as part of their retirement options and therefore the annuity option should reflect what happens in practice. We note the objection to this because of varying protections and tfc levels however we would suggest that individuals with protection is a reducing group and the information provided both in SMPI and on the dashboard should reflect what consumers are typically selecting at retirement. You have made a similar argument in the exclusion of spouse's benefits which we would support. We believe showing tfc of 25% in all cases is appropriate.

We would suggest that aligning DC annuity output to DB pension figures is not an appropriate starting point and instead the dashboard should caveat/provide warnings as to what the figures represent based on the source of the income.

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?

As mentioned before our membership does not include actuarial firms per se and therefore we are unable to reasonably answer this question. However, as mentioned earlier, any changes should be discussed with the FCA to ensure some consistency across all projections customers will receive.

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?

We support the proposed new mortality basis and believe it entirely appropriate to reflect updated conditions. Whilst the longer-term impact of COVID is unknown we agree that this should not be factored into any mortality update until appropriate data is available.

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

We have no further comments on your proposals other than referenced in our response.

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

We believe you have under-estimated the effect of these changes to SIPP operator firms that are not platform or fund-based SIPPs. The proposals do little to reflect the diversity of what we might call full or bespoke SIPPs and the various investments that may be administered by those firms.

Similarly, it is understood that Small Self-Administered Schemes will eventually come into scope of the pension dashboard and firms will need to ensure that those schemes can provide similar SMPI figures which up until now they have not had to do. Those firms will incur development and resource costs implementing infrastructure to support such a change.

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About AMPS:

History:
- Founded in 2005 to provide a collective voice and lobbying forum for representatives of the self-invested pensions industry (Self-Invested Personal Pensions (SIPPs) and Small Self-Administered Schemes (SSAS))
- Formed by merging the Association of Pensioneer Trustees and SIPP Provider Group in anticipation of the simplified pensions regime introduced on 6 April 2006 ("A Day").

Structure:
- Managed by a Committee of elected members
- Monthly Committee meetings with a formal agenda
- Sub-Committees dealing with various key areas: Compliance, HMRC Technical, Legal and Platforms

Membership*:
- Approximately 125 SIPP Operators including James Hay, Curtis Banks, Embark and AJ Bell
- Membership operates/administers the vast majority of both SIPPs and SSAS
- Number of SIPPs under administration: 1m+
- SIPP assets under administration: £125bn+
- Number of SSAS under administration: 16,000
- SSAS assets under administration: £26.5bn+
- Law firms which specialise in pensions and compliance issues
- Information technology firms which provide ancillary services to SIPP/SSAS operators
- Independent compliance firms

Objectives:
- To provide an industry forum for the exchange of views and knowledge for our members
- To interact with government departments and regulators on industry issues
- To liaise with other Industry bodies in areas of mutual interest
- To provide a source of informed comment to the media

Activities:
- Engagement with HM Revenue & Customs, Department for Work and Pensions, The Pensions Regulator, HM Treasury and Financial Conduct Authority
- Providing training to our membership through regular targeted conferences and workshops
- Issuing newsletters to our membership
- Reporting items of interest on the membership website and facilitating open discussion and forums
- Responding to government-led and regulator-led consultations
- Maintaining close links with other industry bodies including the Association of British Insurers (ABI), Tax Incentivised Savings Association (TISA), Investment and Life Assurance Group (ILAG) and Personal Investment Management and Financial Advice Association (PIMFA).

* Membership data based on latest estimates

Distribution
This is a public document available on the AMPS website: www.ampsonline.co.uk

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