AgeWage response to FRC's consultation on the proposed revision to AS TM1: Statutory Money Purchase Illustrations

AgeWage is a consumer facing fintech which aspires to be a dashboard provider or a supplier of services to dashboard providers looking to give savers a better understanding through guidance of how to convert savings pots to pensions. We are keenly interested in the signalling to savers with multiple pots and pensions.

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?

AgeWage supports the approach in as much as it provides consistency allowing people to see what they are likely to get at retirement (relative to now) and in terms of income (and sometimes cash). We think the 1000 flowers blooming approach that prevails today is not fit for the purpose of the dashboard and is also very wasteful in actuarial time and resource.

In particular, do you have any concerns arising from the loss of independence and judgement allowed to providers to set these terms? No – we see the need for a consistent approach outweighing the need for independent judgement applied on a scheme by scheme basis

2. What are your views on the proposed effective date of 1 October 2023? The effective date should be aligned to the dashboard available point (DAP) . As this may be sooner than October 2023 , we think the effective date should be from "April 2023 or the Dashboard Available point if later".

3. What are your views on the proposed volatility-based approach for determining the accumulation rate? Contentious but right. There has been too much emphasis in the past on how funds should behave and not on how they have behaved. Consumers are more interested in evidence than in theory. We know there will be anomalies but we think the proposals are the right one and the anomalies will be ironed out over time – as a result of the annual reviews.

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? We are looking at this from the point of view of members, we don't feel properly qualified to comment on matters of prudence. The rate looks reasonable relative to general expectations of inflation.

5. What are your views on the proposed approach to reflect derisking when calculating the accumulation rate assumptions? We do not think that de-risking serves a purpose for those who are going to be turning their pots to a drawdown income – we don't see why a drawdown funding strategy should be markedly different from an accumulation strategy. The de-risking that goes on – assumes the swapping of pot for cash or annuity, neither of which is a majority activity. We don't share the view that accumulation **should derisk** but recognise that this is general practice at present , we would like the proposed approach to be reviewed regularly as we expect market practice will

move away from the current de-risking approach which we consider is counter productive to best outcomes.

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? This makes sense

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

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. We can't see why any fiduciary or provider would swap real growth for no growth so we can't understand why projections should reflect no growth! If people are choosing to swap quoted for unquoted assets, they are doing so to improve the returns and the zero rate real growth is

please provide suggested alternatives with evidence to support your views? For the moment the unquoted return should be assumed to be in line with the quoted return. This should be kept under review till we are clearer about actual – realised – returns net of costs and charges and the impact of non-invested "dry powder".

9. What are your views on the proposed approach to determine the accumulation rate assumption across multiple pooled funds? It's the correct approach, it will be onerous for those reporting but not overly onerous. Complex fund of fund structures are aware that they run the risk of onerous reporting.

10. What are your views on the proposed prescribed form of annuitisation and treatment of lump sum at retirement? Bearing in mind the pragmatic approach to volatility where the real world is the arbiter of growth rates, we find it strange to see income conversion governed not by what people do , but what historically people had to do. The average drawdown is 8% pa (FCA retirement income study) This is not sustainable but annuities paying 3-3.5% aren't purchasable. The real rate of return should be between the annuity and drawdown rate (the current income from an investment linked level annuity (no spouse) is around 6.5%, we would prefer to see income conversion rates assuming a rate around this figure (but depressed for some level of escalation and for some spouses residual)

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?

This sends out two bad messages – one is that you are planning on dying alone and the second is that you aren't building inflation into your thinking. Recent research from the IFS suggests that people tend to increase spending in retirement by CPI, most men die first leaving women who are already under pensioned with even more by way of a financial headache. We would like to see a higher pension conversion rate (say 6.5% level) but depressed to say 4.5% to pay limited increases (CPI capped at 2.5%) and spouses

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? We're not properly placed to comment

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? Not properly qualified to comment

13. Do you have any other comments on our proposals? We support considering pots as retirement income and see the pension dashboard as an important means of helping people to compare the potential of their DC pots with their likely or actual pension from state and private DB schemes. We consider the long term future of pot conversion will be to non-guaranteed CDC style pensions where the conversion rate will be between the unsustainable drawdown rate (8%) and the unviable guaranteed rate. We like the approach to projections but dislike the approach to annuitisation where we suggest a higher fundamental conversion rate but the building in of modest indexation and residual pensions for partners – as the standard.

Henry Tapper

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