# B&CE response: Proposed revision to ASTM1: Statutory Money Purchase Illustrations

**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?**

We support the objectives of the FRC in trying to prescribe and hence standardise projections that will appear on dashboards and on SMPI statements. A standardised approach will make it harder for providers to game projections in order to make it appear that similar funds might offer very different future performance. It will also help avoid confusion if savers do not see very different projections for very different funds.

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

We appreciate that every date will have disadvantages to it. 1 October 2023 gives schemes sufficient lead time to adjust to the new approach. 1 October 2023 will, though, come after schemes with an early staging date have staged onto pensions dashboards but before the available point, where dashboards go live to the public. This means that schemes will need a means to supply an estimated retirement income (ERI) to the dashboard that will be superseded before dashboards actually go live.

It would be helpful to allow schemes to use the new methodology on dashboards from the staging date. This would avoid schemes with an early staging date needing to comply twice, with one system being redundant as it will be turned off prior to the dashboards available point. Early compliance on dashboards would avoid the wasted effort of complying twice and any public confusion would be limited as the new methodology would only be visible to users of dashboards before the DAP.

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

We see the approach as reasonable, although we note that the FRC has chosen not to publish the technical paper supporting the change. In future, it would be helpful if technical material were published at the same time as that would enable more detailed evaluation.

Our commitment, though, is to standardisation. We think that, as well as the outlined approach, there are other ways to standardise projections. We could also potentially support an approach based on projecting future fund values based on specifying growth rate assumptions for individual asset classes, as now. In order to achieve the desired degree of standardisation, though, it would be necessary to specify a single growth rate assumption for each asset class rather than a range.

**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?**
No response.

**5. What are your views on the proposed approach to reflect derisking when calculating the accumulation rate assumptions?**
No response

**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?**
No response

**7. What are your views on the proposed approach for with-profits fund projections?**
No response

**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?**

We are concerned that the proposed approach may inappropriately consign funds with a higher proportion of unquoted assets to a lower growth category. This is because out of date or infrequent valuations for those assets may give the impression of lower volatility. We strongly suspect that, as the proportion of unquoted assets in a fund of funds increases, the likelihood of the fund as a whole being assigned a lower growth rate increases. We do not see this as being consistent with the current drive to encourage pension schemes to invest in less liquid assets.

We are less concerned about the use of a 0% growth rate where a single less liquid fund is held in a SIPP or similar product. In this context we think it is less likely that an individual who has directed investments in unquoted assets or who is taking financial advice is likely to rely on their SMPI forecast.

**9. What are your views on the proposed approach to determine the accumulation rate assumption across multiple pooled funds?**
No response

**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?**

We do not agree with the proposed approach. This is for several reasons. First, we do not agree with the use of "market practice" to justify the choice of a level annuity as the decumulation assumption. Not only has the purchase of annuities become less common since 2015 but the market is noted for poor customer decision making. Many, including the FCA, currently believe that people buy the wrong annuity and would be better served by buying an alternative product.

A level annuity will offer a superficially better rate than an inflation linked product or, potentially, a sustainable drawdown rate from a DC fund. It will make safer and potentially more suitable products seem more expensive by comparison. We are concerned that this might create an anchoring effect whereby the decumulation figure in the SMPI statement effectively becomes the benchmark for value. This would make distributing products with some sort of inflation protection – whether annuities or drawdown, much more difficult, to the potential detriment of customers.

We suggest that a decumulation assumption based on a sustainable drawdown rate would be a better starting point than a level annuity. We would estimate this as being between 3.5-4% of the fund. There should be further discussion of the exact rate.

**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?**

Annuities should not be the basis for the decumulation assumption, as per our response to q. 10.

**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?**

Annuities should not be the basis for the decumulation assumption, as per our response to q. 10.

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

No.

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

We do not see the implementation of the proposals as having a major cost or operational impact. Policymakers should note, though, that the change load on pension schemes is heavy and the load cumulative. As a result of this, even smaller changes may have a severe adverse impact on schemes if the cumulative load exceeds schemes' capacity for change.