Response to FRC on CP12/10 Chapter 5

This is Standard Life Assurance Limited's response to the FRC on CP 12/10.

Q1 Do you agree that the assumptions in AS TM1 should be consistent as far as possible with those specified in COBS 13 Annex 2 of the FSA Handbook?

In general, yes we agree the assumptions should be consistent, since inconsistent assumptions could be confusing for customers. However, it is preferable to have inconsistency where consistency would lead to misleading information for customers. For example, if the FSA Handbook were changed to have a maximum intermediate growth for pension products invested wholly in equities of 5% then given our view that equities can achieve considerably more than 5% p.a., it would be misleading for customers for AS TM1 to do the same.

We also consider it important to provide a consistent view to customers over time, changing only when there is a real change affecting the outcome rather than an artificial change imposed by changing regulation. Current personal pension customers who invest heavily in equities will have received a point of sale illustration based on a 7% intermediate growth rate. To show them a Statutory Money Purchase Illustration (SMPI) the following year based on 5% introduces a significant and artificial discontinuity, more than halving the projected benefits for younger customers.

The SMPI should inform decisions and drive actions. To do this they need to be clear, fair and not misleading.

Q2 (a) Should AS TM1 continue to specify a maximum accumulation rate?

It would be preferable to specify maximum accumulations rates for each of the main asset classes rather than a single maximum accumulation rate for the pension product. This would ensure that unrealistically high accumulation rates are not used, whilst giving flexibility to reflect the realistic accumulation rate for a range of different underlying asset mixes.

(b) If AS TM1 continues to specify a maximum accumulation rate, should it be the same as the FSA's intermediate projection rate?

If a single pension product level maximum accumulation rate is specified then it should be the same as the FSA's current intermediate projection rate, and so should not be the same as the FSA's proposed intermediate projection rate.

If asset specific maximum accumulation rates are specified then they should be consistent with the recommendations made by PWC for reasonable central estimates in their report "Rates of return for FSA prescribed projections" produced for the FSA in April 2012. An argument could be made that as maxima, figures at the upper end of the PWC ranges would be appropriate. However, since accuracy and realism is the objective we feel the mid point would be more appropriate namely:

Equities	7.25%
Corporate Bonds	4.75%
Gilts	3.25%

Property	6.00%

A maxima for cash should also be provided, although PWC have not given a range for this. We favour an independent expert such as PWC providing a range whose mid point is used, and product providers then judging whether they consider that the maxima can be achieved.

The rule could the be phrased so that the actual asset mix must be used with these asset specific maxima, so that for example a product invested 50% in equities and 50% in gilts would have a maxima of 5.25%. Suitable rounding conventions could be applied (e.g. round to lower 0.25%) to avoid spurious accuracy for small differences in asset mix.

(c) If your answer to (b) is 'No', what rate should be specified in AS TM1?

If a single rate is specified then it should continue unchanged at 7%. If asset specific rates are specified then:

Equities	7.25%
Corporate Bonds	4.75%
Gilts	3.25%
Property	6.00%

Q3 Should the wording for the mortality assumption in AS TM1 be changed along the lines of the wording proposed in Chapter 2?

Yes.

Q4 Given the proposed nature of the changes to AS TM1, do respondents envisage any difficulties with a four-week consultation period for an exposure draft of a revised version of AS TM1?

No.

Q5 Do you agree with our proposals for the timing of changes?

Yes.

Q6 Do you have any comments on the impact assessment for our proposals?

No.