The Director of Actuarial Policy
The Financial Reporting Council
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

20 August 2012

Dear Sir

CP12/10 Statutory Money Purchase Illustrations - Consultation response

We are responding to the invitation to provide views on the above consultation paper on Statutory Money Purchase Illustrations ('SMPI'). PwC welcomes the opportunity to comment on the proposals.

We note that the review of the FSA's projection assumptions underlying CP12/10 was performed by PwC in our March 2012 paper 'Review of FSA Projection Rates', and therefore we feel it is appropriate to limit our comments in this response to issues of policy, rather than the technical areas discussed in our March paper and in Chapters 2-4 of CP12/10.

Our comments are set out below. Our comments are applicable mainly to questions 1, 2, 3 and 6. We do not have significant comments on the remainder of the questions.

Consistency (Q1-3)

Our view is that maintaining consistency over the various sets of projections is important in:

- setting clear and meaningful member expectations
- helping members feel confident in their understanding of their pension products
- promoting an appropriate degree of member confidence in benefit projections

It is difficult to argue that if buyers receive point-of-sale illustrations on one basis and annual statements on another, this assists their understanding of pensions and the adequacy of their retirement savings.

Pensions are not well understood by the general public and given the ongoing shift away from provision through occupational defined benefit schemes, it is important to make money purchase arrangements as engaging and well-understood as possible for members.

Therefore, we agree that the FSA and FRC should aim for consistency between AS TM1 and COBS 13 Annex 2.

PricewaterhouseCoopers LLP, 101 Barbirolli Square, Lower Mosley Street, Manchester M2 3PW
T: +44 (0) 161 245 2000, F: +44 (0) 161 245 2904, www.pwc.co.uk

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Transition (Q1-2)

We note that changing the basis for SMPI projections will potentially lead to a significant fall in projected fund values between one annual illustration and another.

While the revised projection rates may provide a more realistic estimate of benefits on retirement, the psychological impact of seeing benefits fall between benefit statements could cause some members to turn their back on pension savings, rather than simply contributing more to make up the shortfall.

Again bearing in mind the need to foster confidence in pension savings, it is important that communication of this change in basis is managed in a clear and appropriate way.

Maximum projection rates (Q2, Q6)

The current maximum accumulation rate specified by AS TM1 is in line with the current FSA intermediate projection rate of 7% p.a. Many responses to previous consultations have been in favour of maintaining consistency between SMPI and FSA projections, and I see no reason why this policy should change simply because the rates themselves have been revised.

Given the subjectivity involved in estimating future investment returns, removal of a maximum accumulation rate leaves SMPI projections open to potentially aggressive assumptions that are likely to overstate future investment returns. To the extent that providers currently opt to show projections based on the maximum rate, it also reduces the degree of consistency between SMPI and FSA projections.

We recognise that where a maximum projection rate exists, there may be a trend towards projecting at the maximum rate by default, rather than any lower rate, and that removing the rate may therefore lead to a more considered approach to setting rates based on members' actual investment strategies. This could potentially lead to more appropriate estimates of future retirement income.

However, allowing illustrations to be set using a rate above the proposed new maximum of 5% p.a. where this can be justified by a member's investment strategy does not necessarily reflect the greater volatility of returns that such a strategy is likely to entail. Therefore, removal of the maximum projection rate without also requiring some measure of volatility to be communicated bears a risk of making the riskiest investment strategies appear the most attractive. If introduced, allowing a greater level of discretion around projection rates should go hand in hand with a need to better illustrate the degree of investment risk.

We would be pleased to discuss these issues further with you. If you would like to do so, please contact me on 0161 247 4567.

Yours faithfully

Peter McDonald
Chief Actuary