

Consultation Response to CP12/10 – Part 5.

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?

We 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. Ideally, the relevant text should be formulated jointly even though it will need to be formatted appropriately for each of TM1 and COBS 13. However, it does seem that there are still some issues to consider which mean it would not be appropriate at present to use the same text for TM1 as already published for COBS 13. See also our response to question 3 below.

Q2: No view offered

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

We agree that the wording for the mortality assumption in TM1 should be changed to be consistent with the method described in paragraph 2.11 of the consultation document. However, we would make the following points:

- a) Revised wording has now been published to COBS 13 in PS14/12. We understand that the intention is to specify the method described in paragraph 2.11. However, there does still seem to be room for interpretation in the wording published. We suggest that the wording in TM1 is made more explicit in order to convey that the male improvement factors from the CMI projection model are to be applied to PCMA00 and female factors to PCFA00 and then the final mortality rate derived from the arithmetic mean of the two projected rates.
- b) A drafting error in the long term improvement rate for males in the proposed wording for COBS 13 was corrected in PS12/14. However, it seems that there was a typographical omission remaining in paragraph E 3.1A in that 'For any year commencing 6 April,' should read "For any year commencing 6 April 20YY,"
- c) Both TM1 2.0 and the revised wording for COBS 13 are silent on the calculation date to be used in the CMI projection. This parameter is needed to define the projection fully and we believe that some guidance should be given in TM1. Although not of major financial significance, the choice of the calculation date can result in variations in the annuity rate of similar magnitude to the use of different methods of blending. The CMI chose a calculation date of 6 April for their published illustrative rates. Other options are possible such as the mid-point of the financial year or the expected date of retirement. We suggest that either a fixed date is specified or a statement made recognising that providers can choose a different date.

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?

We do not envisage any difficulty with a four-week consultation period for an exposure draft of a revised TM1.

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

It may be that some providers might have difficulty in implementing a revised TM1 in full from 6 April 2013. In particular, those who have already developed systems which use a different method of blending the mortality rates might find a three month period to amend and test their systems somewhat short. It may be more practical to allow for this aspect of TM1 to be implemented from 6 April 2014 as it does not have a major financial effect. However, a change in the maximum accumulation rate could still be implemented by 6 April 2013 as being simpler to achieve and of greater significant financial importance.

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

No comments.

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