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JLT Benefit Solutions Limited

St James's House
7 Charlotte Street
Manchester
M1 4DZ

Tel+44 (0) 161 931 4400
Direct+44 (0) 161 242 5321
Fax+44 (0) 161 242 5306

www.jltgroup.com

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

Dear Sirs

Response to the FRC Consultation on SMPI contained in the FAS consultation CP12/10

Jardine Lloyd Thompson provides consulting, actuarial and administration services to trustees and employers in relation to 1,500 or so work-based pension arrangements with assets ranging from a few thousand pounds to over £1,400m, and to individuals with regard to individual pensions. In this work we provide SMPI illustrations to a large number of members within trust based DC arrangements. We currently employ close to 100 qualified actuaries and are one of the leading providers of advice to trustees and sponsors. This letter sets out JLT's response to the consultation.

Before turning to the specific questions we would confirm our support for a consistency of approach between the illustration of benefits prior to point of sale and thereafter as an illustration of the projected benefits following transfer. However this has to be based on sound principles underlying both approaches, and in particular assumes that neither basis includes elements of prudence which would be inappropriate to the other basis. For example it may be appropriate to include additional prudence in the setting of hurdle rates to reflect the guarantees being given up on transfer from a DB scheme. That element of prudence would not be appropriate in projecting the benefits under the DC arrangement once in situ. Indeed since many DC funds will not have arisen solely in respect of previously transferred monies from DB such elements would in our opinion be entirely inappropriate.

Second we are concerned at the impact such a large reduction in the maximum projection rate would have. The result of much reduced projections could have a number of effects. At one end of possible reactions would be to increase pension saving. At the other it could turn even more people off pension vehicles as a medium for saving as they view their efforts to provide a decent level of income at retirement as futile. We must therefore continue to seek to provide clear and appropriate advices which are consistent over time and not over react to changes by projecting even lower returns than one is expecting when markets are falling (or even higher returns when markets are rising).

We now treat each of the aspects on which you have sought our views.

***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?*

Yes, we confirm we are happy with this proposal.

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

Whilst we are content with a maximum rate of 7% applying, we feel that the proposed rate of 5% is not however acceptable for each class of asset. First, as is set out in the FSA consultation the rate has been set on the basis of a specific blended investment strategy of 50% equities, 30% gilts and 10% in each of property and cash. This structure is very unlikely to match precisely the actual investment strategy selected by the member. Therefore the Trustees need to adopt individual projection rates appropriate to each class of asset. A 7% maximum for equities is currently not unacceptable for these assets. However 5% could not be justified as a maximum for equities and consequentially as a maximum for the totality of a member's assets, the composition of which can be very varied according to his / her appetite for and ability to withstand the consequences of risk in the portfolio. Some members have selected a high equity content and need to be advised appropriately, without an inappropriate cap.

Second the rate of 5% was deliberately set at the lower end of all the ranges in the supporting PwC paper. We do not believe actuaries advising trustees should equally have to illustrate the lower end of expectations. Indeed we would argue that the member needs to know the likely return so that he can himself judge to what extent he needs to over provide. The range of returns on equities was 6.5% to 8.0% for example. We are quite happy therefore for there to be a cap of 7%, which is slightly under the mean, but not to adopt lowest values in this and other classes and more particularly 5% for equity investments.

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

Given that the FSA intermediate rate is likely to be either 5% as proposed, or a not dissimilar rate less than 7%, we would be uncomfortable for the reasons set out in a) above. We would however be happy for continuation of the current 7% maximum.

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

We would suggest continuation of the current maximum of 7%. We would be equally happy for there to be additional maxima for each class and in that event for the inclusion of a 5% maxima for "off the shelf" balanced funds, albeit as suggested above this rate is actually at the lower end of projections.

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

We are happy for consistency between the TM1 wording and that underlying the FSA projections.

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 are content with a 4 week consultation period.

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

We are content with the proposed timescale for implementation.

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

As said in the introduction we do have concerns at the impact of a change in the maximum rate to align to the proposed FSA intermediate hurdle rate, i.e. 5%. In this event we can envisage further disenchantment with pension products and as a result much reduced levels of savings. We can consequently only support full alignment where the underlying bases are without undue prudence and allow in particular under SMPI for the differing investments held by individuals.

We have no other comments and would like to thank the BAS for the opportunity to comment on the proposals. We would be happy to discuss any of the aspects above.

Yours sincerely

Phil Wadsworth MA FFA
Chief Actuary, Trustee Solutions