



## **Amending TM1 For Revised Contracting Out Provisions**

**18/12/08**

### **The ABI's Response to the BAS consultation**

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#### **Introduction**

1. The ABI welcomes the opportunity to respond to the BAS consultation on forthcoming changes to the Statutory Money Purchase Illustration (SMPI).
2. The consultation paper, in seeking to implement new statutory changes made to the State Second Pension proposes two changes:
  - That SMPI should model the impacts of the Government's proposed abolition of contracting-out on a money purchase basis.
  - That SMPI should account for the replacement of the Upper Earnings Limit (UEL) with the fixed Upper Accrual Point (UAP).
3. The Consultation paper also sets out a clear preference concerning how providers should introduce changes to SMPI communications to reflect the impact of the abolition of contracting-out. The paper recommends that providers should assume (in the absence on any legislative certainty) an abolition date of 2012, and seek to base future SMPI calculations on this date. It is also proposed that statements should reflect the changes made by 6 April 2009.
4. The insurance industry's considered response to the above proposals is set out below.

#### **Implementing the Changes**

5. Making changes to SMPI assumptions requires a wholesale review of provider systems, and appropriate testing to secure robustness. There is understandable concern therefore that extensive systems changes may be made which, in light of a lack of certainty around a finalised abolition date, would prove misleading for policy holders.
6. Insurers have clear obligations under the FSA's Treating Customer Fairly (TCF) regime to ensure customer communications are clear, and not misleading. Inaccurate SMPI projections are likely therefore to present a conflict for insurers seeking to meet their TCF obligations.
7. Paragraph 2.3 of the consultation paper acknowledges that one solution would be for providers to assume no further rebates are made now when issuing future SMPI statements. This could be accompanied by a clear explanation within the statement, informing customers of the changes made. The ABI believes this would represent a sensible way forward – it is preferable for customers to receive conservative projections of pension fund

growth (were contracted out rebates to be excluded), rather than inflated projections which later prove to be misleading.

8. It is a current statutory requirement (as part of the National Insurance Contributions Act 2008) for providers to replace the UEL with the UAP by 6 April 2009, and insurers have already progressed work to ensure systems will accommodate this change for statements issuing next year. Furthermore, insurers will also be expected to adjust systems to account for the reduction of S2P accrual on the top band of earnings from 20% to 10% from April 2010. Requiring additional changes to be made to the contracted-out rebate would disrupt work that is already well advanced to bring in the UEL – UAP transition, as well as raising the concerns detailed in paragraphs 5, 6 and 7 of this response. We believe it would be sensible to synchronise changes, and there should be scope to make any changes to rebate assumptions when providers revisit SMPI again for changes to accrual rates in 2010.
9. Finally, providers must be given sufficient time to allow changes to be implemented to SMPI assumptions. In light of all the other changes currently being made to SMPI, it is not feasible to expect providers to be able to make further changes by April 2009.

#### **Other Issues**

10. We believe the BAS should work closely with the FSA on issues affecting projections. Other illustration documents produced by providers, and regulated by the FSA are likely to require amendment following any decisions taken as a result of this consultation. The Department for Work and Pensions, as the owner of the legislation which has introduced the changes to the state second pension, should also have the opportunity to input on key decisions such as those set out in this consultation.
11. Insurers must also be given early notification of any decisions taken which effect the assumptions made within SMPI projections. We hope that the BAS will be able to notify the industry of any decisions taken in good time, to allow a workable period for implementation changes.

**ABI**  
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