

Warnford Court, 29 Throgmorton Street, London EC2N 2AT  
Tel: +44 (0)20 7382 4594 Fax: +44 (0)20 7374 6220 EMail: [acahelp@aca.org.uk](mailto:acahelp@aca.org.uk)  
Web: [www.aca.org.uk](http://www.aca.org.uk)

Robert Inglis  
Project Director  
Board for Actuarial Standards  
5th Floor, Aldwych House  
71-91 Aldwych  
London  
WC2B 4HN

22nd December 2008

Dear Robert

## **AMENDING TM1 FOR REVISED CONTRACTING OUT PROVISIONS: CONSULTATION PAPER**

I am writing on behalf of the Association of Consulting Actuaries in response to the consultation document issued by the Board for Actuarial Standards on 1st December 2008 that is making some limited proposals that will have an immediate impact on projections that are subject to Technical Memorandum 1.

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and are subject to the code of professional conduct of the Faculty and the Institute of Actuaries. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of defined benefit pension schemes.

The ACA is effectively the 'trade association' for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies.

First, we would like to put on record our thanks for your addressing the immediate need to update this Technical Memorandum. We believe that this is the first material change being proposed by the BAS to a pensions document inherited from the actuarial profession. Although the timing is a little late given that the relevant content of the Pensions Act 2008 and the National Insurance Contributions Act 2008 has been known for a year, it is gratifying to see that the BAS is taking action in this area.

The consultation asks two questions:

**Question 1** Do respondents agree that the proposals set out in paragraphs 2.4, 3.2, 3.3 and 4.1 serve the interests of the recipients of SMPs by ensuring that the illustrations reflect the best available information about the likely payment of rebates?

### **Response:**

2.4 We agree that it would be appropriate to reflect in SMPs the intention to abolish contracting out on the money purchase basis. However, we have some concern about the timing:

## Consultation on Amendments to TM1 for revised contracting out provisions

---

- The implementation date of 6th April 2009 looks tight, especially as the details will not be finalised until early in 2009. Although most providers have a year to provide statements, some take significantly less time and may find that they will need to defer sending out statements in 2009 because of this late change. Nevertheless we support a 6th April 2009 implementation.
- If the Government makes a change to the Abolition Date, providers might have very little time to respond to the change. This is an argument for your alternative of assuming no further rebates are accrued after the date of the SMPI, but on balance we prefer your starting proposal of assuming that rebates continue until the earlier of retirement, state pension age and 6th April 2012.

3.2 We agree that it would be appropriate (and indeed necessary) to reflect the new level of contracted-out earnings from April 2009 – viz the imposition of the frozen Upper Accrual Point.

3.3 We do *not* necessarily agree that examples should be dispensed with entirely, given the changes involved. A couple of updated examples may help some practitioners.

4.1 The abolition of money purchase contracting out will make a significant difference to the level of pension shown in a number of cases. It will certainly be worth bringing this to the attention of scheme members, whether or not one is dealing with calculations before or after this version of TM1 becomes effective, (for example for statements as at 31 December 2008). The BAS could encourage the DWP to produce standard wording on the change, given the interaction with State benefits.

**Question 2** Do respondents have any comments on the proposed changes to TM1 set out in the Appendix?

**Response:** These changes appear reasonable although we have not checked them in detail. We have set out our thoughts below:

- Para 19.1 – The Note concerning how a member may consider whether or not to contract out that was previously included has been removed. Has the BAS established whether or not the State pension projections provided by the DWP will make consistent assumptions regarding ceasing to contract out to those proposed by the BAS? (See also next comment on A.5.)
- A.5 – should the illustrations mentioned on the second last line be the defined *Illustrations*?

Also, it is difficult for providers to say much as any financial analysis will depend on State pension benefits provided instead, and a statement could be added to say that members can obtain further information from the DWP on the State benefits they will build up instead.

- Appendix B – this is now much simplified, which is appropriate. We have two questions:
  - B1.1 – surely the last sentence “For years beyond those covered by the most recent Order...” is irrelevant given that the working assumption is that such contracting out ceases?

## Consultation on Amendments to TM1 for revised contracting out provisions

- B1.6 – the reference to the rates from the GAD website is surely no longer relevant given that you are proposing not to allow for any contracting out beyond this quinquennium.

Yours sincerely

A handwritten signature in black ink that reads "David Everett". The signature is written in a cursive style with a large initial 'D'.

David Everett  
Deputy Chairman, Pension Schemes Committee