

TM1 CONSULTATION

HYMANS ROBERTSON'S RESPONSE TO THE BOARD FOR ACTUARIAL STANDARDS' CONSULTATION ON REVISIONS TO TM1.

On 1 December 2008 the Board for Actuarial Standards (BAS) published a consultation paper¹ on '*amending TM1 for revised contracting out provisions*', setting out its proposals for revisions to the Technical Memorandum TM1 which specifies the basis for statutory money purchase illustrations (SMPs). This is Hymans Robertson LLP's response to the consultation.

BACKGROUND

The Government has introduced legislation which will abolish contracting out for money purchase schemes (from a date yet to be confirmed but expected to be 6 April 2012, and by 2015 at the latest). Legislation to change the State Second Pension (S2P) has also been enacted, to take effect from 6 April 2009. These changes have an effect on expected levels of pension that will be obtained in the future from money purchase arrangements which are contracted out of S2P.

The BAS has therefore published proposed technical changes to TM1 to reflect the legislative changes.

HYMANS ROBERTSON'S VIEWS

We are broadly supportive of the BAS's proposals which, in our view, represent a sensible way of dealing with the changes in legislation. In particular, we agree that:

- 6 April 2012 would seem to be the most appropriate assumption for the 'abolition date' for money purchase contracting out.
- Rebates should be assumed to be based on earnings up to the UAP from 6 April 2009.
- The examples in Appendix B of TM1 are no longer relevant and should therefore be removed.
- The effect of the changes on individuals' SMPs should be explained in their benefit statements, in particular where the changes result in the 2009/10 statement showing a lower projected pension than the 2008/09 statement.

We do have one comment, though, on the proposed timing of the changes. We understand from paragraph 2.5 of the consultation that the BAS plans to make the amendments to TM1 with effect from 6 April 2009, applicable to SMPs *issued* after that date.

The proposed changes will require changes to procedures and systems that have been established to calculate SMPs in accordance with TM1. In some cases, those systems are sophisticated and the changes will require time to implement. By making the changes effective for SMPs issued from 6 April 2009, providers of SMPs will not have a great deal of time between the publication of the revised TM1 (expected in January 2009) and the date on which the first SMPs calculated under the new rules will need to be issued—particularly where the illustration date for the SMPI is before 6 April 2009 but the SMPI has not yet been issued.

¹ <<http://www.frc.org.uk/bas/publications/pub1794.html>>.

There may be cases where the proposals will result in calculations having to be revised, leading to extra cost and delays for clients. Consider, for example, an occupational money purchase scheme where SMPIs are calculated with an illustration date of 30 November 2008, say. It is possible that SMPIs are prepared for the majority of scheme members by 31 December 2008, say, but due to data queries for a small number of members, none of the SMPIs are issued to members until after 6 April 2009. In such cases, the proposals would require all the SMPIs to be revised.

We would urge the BAS to consider making TM1 effective for SMPIs *with an illustration date* on or after 6 April 2009, with early adoption encouraged. The BAS may then also wish to consider introducing a requirement for any SMPIs issued on or after 6 April 2009 under the current version (2.1) of TM1 to include an explanation of the legislative changes and their likely impact on future SMPIs.

If you have any comments on this response, please address your queries to Brian Nimmo, whose contact details are below.

Email: brian.nimmo@hymans.co.uk

Tel: 020 7082 6262

For and on behalf of Hymans Robertson LLP