ILAG

Investment & Life Assurance Group
The Practitioner Voice

The Director
Board for Actuarial Standards
5th Floor, Aldwych House
71-91 Aldwych
London

19 December 2008

Dear Sirs,

Amending TM1 for revised contracting out provisions

I have pleasure in submitting the following comments on the above paper.

The objectives of the Investment and Life Assurance Group are to act as a forum for producers and distributors of life and health protection insurance and of pension and investment products and those providing associated services with the aims of:

- Promoting understanding of the regulatory, legislative and market environment
- Providing a means for members to exchange views and information.
- Engaging and building relationships with regulatory, government and industry bodies.
- Providing a positive influencing force within such industry, regulators and government, giving trusted advice and guidance from the practitioner point of view.

Abolition of money purchase contracting out

Whilst we understand the BAS view that its preferred course of action as outlined in section 2.2 of the consultation is what might be considered a technically more complete answer, we would strongly suggest that the alternative approach set out in 2.3, with the assumption that no further rebates would be received, would meet customer needs just as well. Our view is that if a methodology is to be mandated then it should be that in paragraph 2.3.

Our ideal solution would however be for the scheme to be allowed to decide which of the alternatives it implements. Whilst the SMPI might be the only illustration that most members will see it is after all a very crude indication. As long as the SMPI clearly states what assumptions have been used the member can arrive at an equally valid conclusion.

SMPI figures rely on a number of assumptions and small movements in any of these are likely to have a much bigger impact then if it is assumed that contributions will be received for another few years. For the majority of people the continuing rebates to 2012 are likely to be at most a few thousand pounds.

SMPIs are based on broad assumptions and the planned amendments could give an erroneous appearance of accuracy.

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As we feel there is no benefit to customers we can see no justification for the cost of the system developments required to meet the change they propose to be implemented with effect from April 2009. There is too little time available in any case to undertake implementation and given that for the for the vast majority of people there would be no material difference if the proposals were adopted on this basis as most approaching retirement will be contracted in already and pension amounts over the next three years will be insignificant.

In addition we would also question whether Scheme Members will get any real value from the more complex route. All of those involved will receive either a scheme benefit (whilst they are contracted out) or a state pension (if they contract back in, voluntarily or otherwise). The difference to their overall "pension package" of choosing one route over the other for a maximum 5 year term is unlikely to be significant.

Contracted out earnings

We agree that the implementation of the Upper Accrual Point should reflect the reality of the situation and ideally be implemented with effect from 6 April 2009. However given the relatively small impact that removal of indexation is likely to have over a 5 year period we feel that this, again, should be left as a decision at scheme level.

We agree that the examples can be deleted.

Communications

We agree strongly that the 2009/10 statement should include an explanation of the change and the reason for it. Indeed our view is that clearly communicating what has been done, why it was done and how this will impact on this and future illustrations is, probably more important than if contracting out is assumed to cease in 2009/10 or 2015/16.

We would be happy to discuss our comments further if required.

Yours faithfully

Mark Searle
Administration Team