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The Director  
Board for Actuarial Standards  
Aldwych House  
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Our Ref: JM/JB/4.1

December 22<sup>nd</sup> 2008

Dear Sir,

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

We welcome the opportunity to comment on the above consultation paper.

### **INTRODUCTION TO SPC**

SPC is the representative body for a wide range of providers of advice and services to work-based pension schemes and to their sponsors. SPC's Members' profile is a key strength and includes accounting firms, solicitors, insurance companies, investment houses, investment performance measurers, consultants and actuaries, independent trustees and external pension administrators. SPC is the only body to focus on the whole range of pension related services across the private pensions sector, and through such a wide spread of providers of advice and services. We do not represent any particular type of provision or any one interest - body or group.

Many thousands of individuals and pension funds use the services of one or more of SPC's Members, including the overwhelming majority of the 500 largest UK pension funds. SPC's growing membership collectively employs some 15,000 people providing pension-related advice and services.

This consultation document has been considered by SPC's Actuarial, Administration, and Money Purchase Committees, which comprise representatives of actuaries and consultants, insurance companies, pension lawyers and third party administrators.

### **COMMENTS ON THE CONSULTATION PAPER**

#### **Abolition of Money Purchase Contracting Out**

We readily accept that the aim of Statutory Money Purchase Illustrations must be to serve the interests of the recipients.

In an important sense, whatever approach emerges from the current consultation, this aim will only be able to be properly met when the government removes continuing uncertainty over when money purchase contracting out will actually be abolished. There is, for example, no good reason, of which we are aware, why uncertainty should be continued, by linking the abolition to the date of the change of the up rating of the basic state pension.

None of the options set out in the consultation paper can offer complete clarity to recipients, due to this uncertainty.

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The proposal to amend TM1 with effect from April 6<sup>th</sup> 2009, leaves too little time for some major providers of SMPI to adjust their systems to implement the proposal set out in paragraph 2.4. The closing date for this consultation is December 22<sup>nd</sup>, so we assume that there will be no formal announcement of changes to TM1, until early in 2009, which will allow even less time to change and test processes for providing SMPs, particularly where the provider relies on a third party in the preparation of the illustration.

There is, of course, the argument that the interests of the recipient of the illustration must override administration costs to the provider, but, in this instance, the balance is less straightforward. It would not be unusual for the recipient of the illustration to bear at least part of the cost of administering their money purchase pot, so part or all of the costs arising from changing TM1 could ultimately be drawn from the pot and reduce the amount available to provide benefits. The "cost" is not just the financial cost. There is also the opportunity cost to consider. If resources are taken up making these changes, they will not be available for other things, which might have been of benefit to the recipients.

The potential cost is all the greater, given that paragraph 2.2 suggests that rebates should be assumed to continue until 2012, but that, if the government announces that the abolition of money purchase contracting out is to be effective from a different date, SMPs prepared after that announcement should be based on rebates being paid to that different date. There is therefore the potential requirement for two system changes in very short succession. A second change would need time to implement. It could not be implemented instantly.

We suggest that a possible balance, between the cost and practicality considerations in implementing the changes to TM1 and the value to end users of SMPs, might be struck by introducing some flexibility for providers, by introducing the approach in paragraph 2.3 as an interim measure, to be reviewed when the cessation date has been firmly decided (with any change coming into effect six months after the decision to allow time for system changes). However, as the approach in paragraph 2.3 could still represent a substantial change, requiring significant system testing, a transitional six month timeframe from 6<sup>th</sup> April 2009 should be allowed for implementation.

### **Contracted Out Earnings**

We agree with the changes proposed in paragraphs 3.2 and 3.3.

We note that there are no specific proposals on whether providers of SMPs are intended to reflect the merging of the accrual rates within the second and third earnings bands in rebates from 2010. We assume that this is because BAS considers that the relevant legislation permits a common sense approach by providers.

### **Communications**

If the approach in paragraph 2.4 is implemented from April 2009, we agree that the 2009/2010 statement should include an explanation of the change and the reason for it.

### **Further Comment**

We consider that, whatever changes on assumed future rebates are introduced under TM1, should be reflected in projections required by FSA at the same time, in order to avoid complexity and confusion for all parties concerned and we hope that the Board for Actuarial Standards will be in touch with FSA on this matter.

Yours sincerely

John Mortimer  
Secretary

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