

**AMPS RESPONSE TO:  
CONSULTATION PAPER TM1  
(MARCH 2010)**

**QUESTIONS**

11.1 The BAS invites the views of those stakeholders and other parties interested in TM1. In particular the BAS would welcome views on the following issues:

1. How effective have SMPs and TM1 been in meeting the stated aim set out in paragraph 2.4? If the aim has not been met, please provide information concerning the effectiveness of SMPs, with examples if possible, or provide suggestions for enabling SMPs to better meet the stated aim.

Reasonably effective. Although aim 2 is met by showing how much the shortfall might be there is no indication as to what needs to be done to rectify the shortfall.

2. Should more be done to highlight the significant uncertainties involved in using illustrations of benefits? Respondents are asked to supplement their responses with examples of how this could be done. (paragraph 2.7)

We feel that this is adequately covered.

3. Should the stated aim in paragraph 2.4 be modified and if so how?

No.

4. How helpful do respondents find the explanations and assistance in TM1? Should one of the purposes of TM1 be to assist providers who produce SMPs? (paragraphs 4.2 and 4.3)

We find the existing guidance very helpful. We agree that it is particularly useful to new entrants.

5. Could any changes be made to the structure of TM1 to improve its clarity? (paragraphs 4.2 and 4.3)

We are happy with the existing structure.

6. What views do respondents have on our proposal to reduce the level of detail in which TM1 sets out the calculation methodology? (paragraph 4.4)

We agree that the existing level of detail is unnecessary.

7. Do respondents agree with our proposal that TM1 should continue to require that the pension a member takes at retirement is assumed to increase in line with inflation? (paragraphs 5.2 and 5.4)

We do.

8. In respondents' experience what proportion of members on retirement opt to take annuities with index-linking, fixed pension increases and no increases? (paragraph 5.4)

The vast majority take pensions with no increases.

9. Do respondents have any comments on paragraphs 5.5 to 5.6 concerning the option to take a cash sum at retirement?

We think that showing the position with the cash sum should also be shown as this reflects what actually happens.

10. Do respondents agree that the mortality basis should be updated? If so, what tables and allowance for improvements do they consider should be adopted in TM1? (paragraphs 6.7 to 6.16)

We think that all projections should be made using the same mortality basis and that this basis should be as up to date as possible ie the latest set of pensioner mortality tables available from Life Offices with an appropriate projection basis as used by the PPF from time-to-time.

11. Should TM1 allow providers to choose specific mortality tables which are appropriate for the members of the arrangement in question? (paragraph 6.16)

In our view using different mortality tables would cause more confusion and, after taking into account all the other factors which affect the quote, be no guarantee of a more accurate projection.

12. Do respondents agree with the proposal to change the yield used for annuity calculations? (paragraphs 6.18 to 6.22)

Yes, the "net rate" proposed is more in line with current market rates. The proposal if non-increasing pensions are allowed would also seem satisfactory.

13. Should a non-market related annuity rate be used for younger members? If so, what rate should be used and how should it transition into a market related rate for individuals close to retirement age? (paragraph 6.24)

We suggest considering a stable rate to within 10 years of retirement and then blend this in to market rates for those within 5 years of retirement. If the market rated values and the 5 – 10 year "blend" are calculated only on 15 Feb, then the calculations become slightly simpler to apply.

14. Do respondents have any views on the use of a fixed reference date for setting the interest rate for calculating annuity rates and whether an alternative approach would be preferable? If a fixed reference date is preferred should it be 15 February? (paragraph 6.26)

We feel that it would be better to use a more stable rate such as an average rate calculated as the average over a given six month period and fixed annually would be best.

15. Are the expense assumptions currently specified in TM1 reasonable, in particular the assumption of 4% of the value of the annuity at retirement? (paragraphs 6.27 to 6.29)

We should keep the existing system and remain consistent with the FSA approach.

16. Do respondents have any comments on the appropriateness of the long term maximum rate of accumulation of 7% pa? (paragraphs 6.30 to 6.33)

Although other accumulation rates may be used we have not come across any examples of them being used. The rate of return that matters is the real rate having taken account of anticipated inflation. We consider that the current rate is unlikely to be attainable over the long run and that it should be no more than 5%.

Furthermore a lower rate is more likely to reflect that there may be periods where investments are moved out of equities into lower yielding asset classes for strategic reasons.

17. What approach do providers take when members' investments are in funds which are expected to accumulate at less than the maximum rate of 7%pa? (paragraph 6.33)

See answer to question 16.

18. Do respondents have any comments on the long term inflation assumption of 2.5% pa? (paragraphs 6.34 to 6.36)

The answer to this depends on the accumulation rate used.

19. Do respondents have any comments on the long term earnings inflation assumption of 2.5% pa? (paragraphs 6.34 to 6.36)

We agree with your proposal.

20. Should TM1 require SMPI projections to allow for guarantees? (paragraphs 6.37 to 6.38)

We consider that this would add complexity with no particular gain. The existing ability to give a description of any guarantees should be adequate.

21. Is the approach for with-profits funds set out in section 6.7 of TM1 appropriate? (paragraph 6.39 to 6.40)

We don't have the knowledge to comment on this.

22. Would pension scheme members benefit from the FSA and TM1 bases being harmonised? (paragraphs 7.4 to 7.7)

We consider this to be **essential** and that the FSA basis be changed to match the SMPI. The existing FSA basis substantially overestimates the likely benefits from a pension fund and plays its part in the under saving for pensions. Having two bases makes it much less likely that any clear and comprehensible message will reach the pension scheme member.

23. Do respondents have any views on the approach set out in paragraph 7.8?

We believe that the provision of two different quotes would just cause even more confusion than exists now.

24. Do respondents have any comments on our proposal in 8.4 to allow signposting?

We are neutral on this point.

25. Would the timetable outlined in section 9 allow providers sufficient time to make changes from statements with effective dates on or after 6 April 2011? What benefits, if any, would there be if changes were to be effective a year later?

The date should tie in with that which is achievable when harmonising with the FSA.

26. Would an illustration of the pension attributable to contributions already made help recipients of SMPs and if so, should there be a requirement for this to be shown on SMPs? (paragraph 10.2)

We believe that this would be very helpful to the member in their planning (see also comments on 1 above).

27. Do respondents believe that recipients of SMPs would benefit from additional information illustrating the uncertainty in the amount of the illustrated pension? If so, how would this best be achieved? (paragraph 10.3)

We don't think that there should be a requirement to provide additional information unless requested by the member. The illustration could indicate that further information is available on request.

28. Would the production of a suite of "best practice" SMPs be of benefit to members and providers? If a suite of "best practice" SMPs is developed who should maintain it? (paragraph 10.7)

We agree that there should be a 'best practice' document on the lines of the one agreed between AMPS and the ABI for disclosing SIPP charges.

- 11.2 In addition to the specific questions listed above, the BAS invites respondents' views on any other aspects of TM1.

We don't have further comments.