

- 1) **How effective have SMPIs 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 SMPIs, with examples if possible, or provide suggestions for enabling SMPIs to better meet the stated aim.**

This first question is by far the most important question in this consultation and, unfortunately, we believe it has been answered by the comments you give in paragraph 2.14. SMPIs need to be clear, unambiguous and concise.

To this end we would propose a simple structure to SMPIs as follows:

- A headline estimate of the expected pension
- A “What-if” section
- Explanatory notes

The headline estimate should appear as early and as prominently as possible in the letter. It would state, very simply, "Your estimated pension from age 65 is £500 per month". There are several reasons for this:

- Simplicity is key.
- Surely the most important feature of a SMPI is the estimated pension. If the recipients read nothing else, we should make every effort to ensure they do see this.
- Most workers are paid monthly or weekly. They may find it easier to put pensions into context if they too are given as monthly (or weekly) amounts.
- Statements, notes and so on all cloud the picture. In our view these should be given in a separate section.

A "What-if" section could be used to cover various scenarios and needs, including the need for further provision, and the demonstration of uncertainties. Grouping these together under the heading of "What-if" will allow great flexibility to cover different scenarios without clouding the headline estimate. However these should again be expressed as simply as possible – e.g.:

Q) What if my fund only grows at 6% per year and not 7%?

A) The estimated pension falls to £400 per month.

Q) What if I increase my contributions by £10 each month?

A) The estimated pension increases to £520 per month.

Q) What if I stop paying contributions?

A) The estimated pension falls to £350 per month.

Specifically we feel that a "What-if" section could be used to good effect to address questions 2, 7, 9, 23 (the FSA high/low return part), 26 and 27 below.

- 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 believe that the structure outlined above gives a good framework to address such concerns without creating confusion. Uncertainty is particularly difficult to address but we believe that two key scenarios would be appropriate, e.g. low investment return or increased longevity.

- 3) **Should the stated aim in paragraph 2.4 be modified and if so how?**

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

See our response to Q1 above.

- 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)**
- 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)**

The risk with changing this requirement is that readers might misinterpret it when comparing against a previous SMPI. Instead this could be covered in our proposed "What-if" section.

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

Again we believe this could easily be covered in a "What-if" section.

- 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)**

Yes - we believe the mortality tables used should be as up-to-date as possible. However it is of greater importance that the SMPI basis should continue to give reasonable results at and close to retirement in comparison to the immediate annuity market.

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

No. While we sympathise with the rationale, we feel the potential for inconsistency between providers outweighs the potential benefits. In turn this contravenes the underlying aim of SMPIs to produce comparable figures.

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

Yes, primarily because it provides a better indication of current practice but also because it should be consistent across all providers.

- 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)**

- 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)

If the BAS were to publish the net rate to use then the choice of method is academic. We would support such a move.

- 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)**
- 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)**
- 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)**
- 18) Do respondents have any comments on the long term inflation assumption of 2.5% pa? (paragraphs 6.34 to 6.36)**
- 19) Do respondents have any comments on the long term earnings inflation assumption of 2.5% pa? (paragraphs 6.34 to 6.36)**
- 20) Should TM1 require SMPI projections to allow for guarantees? (paragraphs 6.37 to 6.38)**
- 21) Is the approach for with-profits funds set out in section 6.7 of TM1 appropriate? (paragraph 6.39 to 6.40)**
- 22) Would pension scheme members benefit from the FSA and TM1 bases being harmonised? (paragraphs 7.4 to 7.7)**

Yes.

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

We believe that this would give too many different sets of numbers for the average reader. The problem is that these will probably be shown with equal importance which, while theoretically sound, risks confusing the reader. In our view it is important to have a single headline estimate, which all other scenarios then relate to.

Furthermore we believe the TM1 practice of expressing pensions in current money terms is useful for the average reader. It reduces the risk of readers mentally overvaluing their benefits. We believe the high/low FSA return items could be covered in our proposed "What-if" section.

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

We support the proposal as it will lead to shorter and simpler SMPIs.

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?

This depends on the extent of mandatory changes. Simply changing some of the assumptions would be possible by April 2011. However more extensive changes may well take longer.

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)

This could easily be covered in a "What-if" section.

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)

This could easily be covered in a "What-if" section.

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)

Yes, they would be useful. The BAS should at least coordinate this.