

Response to BAS Consultation Paper: TM1: Statutory Illustrations of Money Purchase Benefits

Q1. On the question of adequacy of pension arrangements – not met. The requirement to issue SMPI is confined to a sub-set of various means of saving for retirement provision. Besides the defined benefits which the customer may also have, it is now possible (and more appropriate, given the reduced relative tax advantage) to plan for retirement by building a fund outside of money-purchase pension arrangements, such as ISAs.

SMPIs ensure that customers get a measure of their pension provision on consistent basis where they have such arrangements with different providers.

DB schemes ought to be included to provide an equivalent measure of a DB pension to that required for SMPI (although this may be different from the actual benefit from the scheme).

Presenting the figures as the real annual pension income is particularly challenging as most customers have a poor perception of both the effect of inflation and their life expectancy. This could lead customers to draw the wrong conclusion that the low pension figures shown represents poor value for money and may dissuade them from investing in pensions.

The SMPI does not highlight the uncertainties in any quantifiable terms. The only real way this gets illustrated is by comparison of consecutive annual SMPI (although there will be other factors at play as well). The uncertainties are explained or described in text but these are not necessarily fully appreciated.

We would ask BAS whether they have considered undertaking some customer research directly on the SMPI statements.

Q2. There should be some means to illustrate the degree of uncertainty, however this is difficult to achieve in a printed document. One possibility is in the form of signposted utility online for customers to visit and use.

Q3. Should cover DB.

Q4. Quite helpful. No more than presently covered. Detailed guidance ensures consistency of approach.

Q5. No comment

Q6. It is acceptable for certain obvious points of detail to be removed but, as the consultation paper does not detail what BAS considers to be unnecessary detail, it is difficult to comment further. It would be safer to leave the detail at its present level.

Q7. Yes – consistency – and achieves the social objective for future pensioners to make proper arrangement for provision in retirement and continue to maintain a living

standard enjoyed immediately prior to retirement, regardless of how they ultimately decide to take these benefits.

- Q8. Level - 95%, fixed escalation - 3%, index-linked - 2%.
- Q9. Since TM1 does not dis-allow illustration of cash+pension, no change is necessary in this respect.
- Q10. Mortality should be updated to give as realistic an assessment of expected pension. However, from implementation point of view, it should be recognised that to date the mortality basis under TM1 and that for FSA rules has been a common one. If different tables/bases are to apply then it has to be appreciated that there will be additional systems implications and the time and resource required to implement such changes.
- Q11. Preference is for a common mortality basis – ensures consistency and comparability.
- Q12. Yes. The original justification of the 0.5% deduction was to allow for certain aspect of female mortality.
- Q13. No. There is merit in having a common basis in line with that applying to FSA-compliant projections.
- Q14. Present basis is preferable on the grounds that it is common with that applying under FSA rules. Averaging over a period would avoid the possibility of an unusual rate being fixed arising from abnormal trading activity on the day.
- Q15. The expense allowance assumption is consistent with FSA basis.
- Q16. The pre-retirement growth rate basis is consistent with the FSA 'mid' basis and this consistency ought to be maintained.
- Q17. Sub-funds projected at their respective assumed growth rates.
- Q18. Inflation assumption is consistent with corresponding FSA 'mid' basis.
- Q19. Earnings inflation of 2.5% (to equate to be the same as inflation assumption) originally adopted to avoid making the projection calculations unduly complicated.
- Q20. Generally, no. Any guaranteed annuity rate will apply at the point of retirement. It is not appropriate to allow for the guarantee based on a comparison with rates applying at the illustration date. A case could be made for such guarantees to be taken into account, say during the final five years to retirement, and even then at the discretion of the provider. TM1 should not set compulsion to follow such an approach.
- Q21. Yes.
- Q22. Yes. There has to be good justification to make a case for the bases to deviate. The customer would benefit if there was a requirement for a TM1-compliant projection to

be included in any illustration issued at point of sale. This would give the customer the opportunity to understand the different projections early on rather than after having committed to the contract.

- Q23. There is no alternative!
- Q24. Signposting is fine for static information. It is also suitable for date-specific information, provided historical information can be accessed as well. The take up rate of this option by providers is likely to be slow and selective as they already have systems which generate compliant wordings in documents.
- Q25. Realistically, need to allow for a period of at least six months' notice of any confirmed change. It is not true that statements are issued some time after the effective date all the time. Due allowance also needs to be made where the changes would mean divergence between TM1 and FSA bases. Deferring the change for a further year would put additional workload on top of expected activity around that time such as RDR, Solvency II and possibly FSA changes.
- Q26. Yes. This way, the customer will be able see how much of the pension is already funded. It will also enable the customer to assess quickly how much extra needs to be saved to cover any shortfall in projected pension.
- Q27. Yes. The main uncertainties include the investment returns, both pre-retirement and post-retirement. One way may be to give an indication (in percentage terms) the variability in projected pension of, say, +/-2% p.a. pre-retirement growth rate variation and +/-1% p.a. in post-retirement interest rate variation. However the risk here is that these get perceived as representing limits of possible variation.
- Q28. 'Best practice' would provide a guide to new system implementations, but it is unlikely that this would get reflected in systems already implemented. Such a suite of specimen SMPIs would form an appendix to TM1 and hence be maintained by BAS.

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