Emily Brown

From: Ronnie Sloan FFA [ronnie@sloan42.fsnet.co.uk]

Sent: 21 March 2010 18:52

To: BAS TM1

Subject: Statutory Money Purchase Illustrations

Dear BAS Director

Although I am now largely retired from corporate consulting, I still have recent experience of the annuitisation process, as well as having designed comprehensive Money Purchase illustrations for many corporate clients over the 25-year period from 1975 to 2000.

However, due to time constraints, my comments are necessarily rather brief and selective, viz:-

Q.7 Fully index-linked pensions are much too expensive for most people with small to medium funds to contemplate. So, some degree of flexibility should be considered, showing the variation between level and index-linked pensions.

Q.8 Following on from my comments on Q.7, I find that many people caught in the above dilemma opt for a With-Profits Annuity in which some degree of future growth can be anticipated, thereby giving a starting pension similar in amount to a level pension, but with some prospect of future increases if investment growth can support this. After all, pension savers are dependent on investment returns throughout the build-up of their pension pots, so that it seems inconsistent suddenly to give up all prospects of further growth during a retirement period of potentially 25 years or more.

Q.9 To ignore tax-free cash at retirement seems a wholly unnatural stance to adopt, given the likelihood that people will generally take around 25% in cash. Also, where Public Sector Schemes have a Money Purchase alternative to DB provision, as in the Civil Service, and where the DB is expressed as 1/80th pension plus a lump sum of 3 x pension, this renders comparison between MP and DB invalid. If the full pension must be shown, then this should also be accompanied by equivalent figures allowing for a 25% cash lump sum. After all, it isn't difficult to provide, and in my experience we always aimed to provide both sets of figures.

Q.26 Yes, provision should indeed be made to show separately the prospective benefits arising from past contributions and future contributions, just as DB benefits should be split into those arising from past and future service. Furthermore, it would be helpful also to include estimates of State pensions, both Basic and, where applicable, SERPS/S2P etc. At my previous firms, we implemented a lot of contracted-in arrangements, where we considered it essential to included estimated State benefits in order to avoid unfair comparisons with contracted-out schemes. Also, we developed the practice of expressing the total after-tax net pension as a % of take-home pay, net of tax, NIC and members' scheme contributions, which very informative measure we called Net Pay Replacement (NPR).

Despite its brevity and limited scope, I hope you may still find this contribution of some value.

Yours sincerely. ***Ronnie Sloan***