



**BOARD FOR ACTUARIAL STANDARDS**

**AMENDING TM1 FOR REVISED CONTRACTING OUT PROVISIONS:  
ANALYSIS OF RESPONSES TO CONSULTATION PAPER**

**JANUARY 2009**

# 1 INTRODUCTION

## CONSULTATION PAPER

- 1.1 On 1 December 2008 the Board for Actuarial Standards (BAS) issued a fast track consultation paper *Amending TM1 for revised contracting out provisions*. Responses were required by 22 December 2008. This paper considers the responses and explains the reasons for the BAS's course of action.
- 1.2 Since 6 April 2003 certain money purchase pension arrangements have been required to provide members with Statutory Money Purchase Illustrations (SMPIs). Legislation requires that SMPIs are produced in accordance with guidance prepared by a prescribed body approved by the Secretary of State for Work and Pensions and by the Department for Social Development in Northern Ireland. The BAS was appointed as the prescribed body with effect from 6 April 2007. It fulfils its requirements through the publication of *Technical Memorandum 1: Statutory Money Purchase Illustrations (TM1)*.
- 1.3 The consultation paper set out the BAS's proposals for amending TM1 to take account of two changes affecting pension arrangements which are contracted out on a money purchase basis. These were the proposed abolition of money purchase contracting out (from an "abolition date" expected but yet to be confirmed to be in 2012) and changes to the earnings used to calculate contracting out rebates of National Insurance Contributions..
- 1.4 In the consultation paper we proposed:
- to amend TM1 so that SMPI projections would be based on rebates payable up to the abolition date, or up to 2012 if the abolition date has not yet been set by the Secretary of State;
  - to amend TM1 so that in projecting future rebates it should be assumed that the Upper Accrual Point (UAP) would remain fixed at £770 per week;
  - that 2009/10 SMPIs should include an explanation of the changes in projections and the reason for them; and
  - to remove the examples of the calculation of rebates in Appendix B of TM1.
- 1.5 The paper noted that an alternative approach had been suggested to the BAS whereby SMPI calculations would assume that no further rebates would be accrued after the date of the SMPI projection.

## RESPONDENTS

- 1.6 Respondents were asked whether they agreed that the proposals would serve the interests of the recipients of SMPIs by ensuring that the illustrations reflect the best available information about the likely payment of rebates. Respondents who did not agree were asked to present an alternative approach, explaining (with supporting evidence) why it would better serve the interests of recipients of SMPIs.

- 1.7 A total of 18 public responses were received: six from professional and trade bodies, and 12 from insurers, consultants and actuaries (see Appendix A). In addition, we discussed the paper with several stakeholders. We found the responses to be well considered and helpful, and we would like to thank all those who contributed.

## 2 RESPONSES

### **Projection of contracting out rebates**

- 2.1 There was general support for changing TM1 to reflect the abolition of money purchase contracting out. Only two respondents argued for no change; they did so on the basis of the administration difficulties that would be caused by a change.
- 2.2 There was some opposition to the detail of the proposed approach because of the amount of programming and testing required. Four respondents supported the proposal while five suggested the alternative approach (ie, assuming that no rebates are accrued after the date of the SMPI). The alternative approach was preferred because as well as being simpler to implement and communicate it is also prudent, because it leads to the understatement rather than overstatement of benefits. Some respondents also pointed out that the difference in pensions projected on the proposed and alternative approaches would be relatively small.
- 2.3 There was also a suggestion that providers should be able to choose either the proposed approach or the alternative approach.

### **Timescale for implementation**

- 2.4 Some respondents stated that they could implement the proposed changes for statements issued after April 2009 as suggested in the consultation paper. However there was a strong message from several respondents that they would be unable to make the changes by April. The majority of respondents suggested a transitional period for the changes; the most common suggestion was 6 months. Of the insurance companies responding only one indicated that they would be able to meet the proposed timescale.

### **Removal of examples**

- 2.5 We asked for comments on our proposed removal of the examples in Appendix B of TM1. Four respondents agreed with the proposal. Three respondents indicated a preference for the examples to be retained, on the grounds that they are useful and help to ensure consistency between providers.

### **Liaison with DWP and FSA**

- 2.6 A number of respondents commented that it was important that the BAS liaise with the DWP and the FSA. BAS staff are in regular contact with both organisations.

### **Merging of earnings bands for Appropriate Personal Pensions in 2010**

- 2.7 Some respondents commented on the merging of earnings bands for the State Second Pension in 2010 brought in by the Pensions Act 2007. They suggested that TM1 should refer to this change as it affects the calculation of rebates for Appropriate Personal Pensions (APPs). Amendments would only be required to TM1 if the example of the calculation of the rebate for APPs were to be retained.

## **3 AMENDMENTS TO TM1**

- 3.1 We have considered the responses to the consultation carefully. We recognise the difficulties providers may have in implementing changes and the need for providers to have sufficient time to make changes. However, we also believe that it is in the best interest of the recipients of illustrations that statements do not provide misleading information.
- 3.2 Having taken account of the views of respondents, the BAS has decided to amend TM1 so that rebates should be assumed to cease *no later than* the abolition date (ie 6 April 2012 or such other date as notified by the Secretary of State). This is a change from the proposal made in the fast track consultation, which would have required SMPs to assume rebates continued up to the abolition date. Providers will thus have the option of preparing SMPs on the assumption that no further rebates accrue after the date of the SMP. This option may allow easier implementation of the changes by some providers.
- 3.3 TM1 will also be amended to refer to the UAP (replacing the Upper Earnings Level) in rebate calculations from 6 April 2009 to ensure consistency with legislation.
- 3.4 Providers should provide recipients with a clear explanation of the treatment of rebates, including the date at which they are assumed to cease, and of the change in approach from the previous statement.
- 3.5 The changes will be effective for all SMPs issued on or after 1 September 2009, in order to give providers sufficient time to implement changes to their systems and procedures. However we believe that most providers should be able to implement changes before then, and encourage early adoption of the new version of TM1 for SMPs with effective dates on or after 6 April 2009.
- 3.6 In the consultation paper we proposed that the examples in Appendix B be removed as they were out of date and providers should be familiar with the calculations required for SMPs. As respondents did not make a strong case for retaining the examples they will be removed from TM1.
- 3.7 The BAS intends to carry out a wider ranging review of TM1 over the coming year.

## A LIST OF RESPONDENTS

### **PROFESSIONAL AND TRADE BODIES**

Association of British Insurers

Association of Consulting Actuaries

Investment & Life Assurance Group

Pensions Management Institute

Society of Pension Consultants

The Actuarial Profession

### **INSURERS, CONSULTANTS AND ACTUARIES**

Buck Consultants

Coop Financial Services

Equitable Life

Hewitt

HBOS

Hymans Robertson

JLT

Mercer

Norwich Union

Scottish Widows

Watson Wyatt

Zurich Life

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