



**BOARD FOR ACTUARIAL STANDARDS**

**EXPOSURE DRAFT**

**TM1: STATUTORY MONEY PURCHASE ILLUSTRATIONS**

**MARCH 2011**

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PROPOSALS  
AND  
INVITATION TO COMMENT

# 1 INTRODUCTION

## BACKGROUND

- 1.1 The Board for Actuarial Standards (the BAS) is responsible for setting technical actuarial standards in the UK. It is an operating body of the Financial Reporting Council (the FRC).<sup>1</sup>
- 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 statutory illustrations 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.
- 1.3 The BAS was appointed as the prescribed body with effect from 6 April 2007. It fulfils its obligations through the publication of *Technical Memorandum TM1: Statutory Money Purchase Illustrations* (TM1). It reviews TM1 regularly.

## CONSULTATION

- 1.4 In March 2010, we published a consultation paper<sup>2</sup> which covered a wide range of matters concerning TM1, including its purpose, effectiveness, content and structure, the information provided with statutory illustrations and the methods and assumptions used in the calculations of the statutory illustrations.
- 1.5 In October 2010, we published an analysis of the responses<sup>3</sup> to the consultation in which we noted that:
  - respondents were generally satisfied with the style and content of TM1;
  - there was general support from providers for the financial assumptions including the accumulation rate, inflation, earnings inflation and expenses;
  - respondents agreed that the mortality basis in TM1 should be updated; and
  - most respondents believed that the FSA's point of sale projection basis and the basis used for SMPIs should be harmonised.
- 1.6 Most of the responses to the consultation were from providers of SMPIs, including insurance companies, pension consultancies and software providers.

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<sup>1</sup> The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment.

<sup>2</sup> *Consultation paper: Statutory Illustrations of Money Purchase Benefits*  
<http://www.frc.org.uk/bas/publications/pub2244.html>.

<sup>3</sup> *TM1: Statutory Illustrations of Money Purchase Benefits: Analysis of responses to consultation paper*  
<http://www.frc.org.uk/bas/publications/pub2413.html>.

## CHANGES TO LEGISLATION

- 1.7 There have been two recent changes to legislation which affect the content of TM1:
- Contracting-out on a money purchase basis has been abolished with effect from April 2012.
  - The DWP has amended the information that is required to accompany illustrations. The amendments include removing the requirement to provide certain statements and permitting providers to make some other statements available on a website rather than alongside the illustration. The amendments were effective from 1 December 2010.

## PROPOSALS

- 1.8 We propose to make two types of changes to TM1. The first set of proposed changes relate to the content, purpose, and style and structure of TM1; they include:
- limiting the content of TM1 to that required in order to fulfil its statutory function;
  - restricting the purpose of TM1 to reflect its statutory function;
  - updating TM1 to reflect recent changes to legislation;
  - changing some of the terminology used in TM1; and
  - amending the style and structure of TM1 to increase clarity.
- 1.9 We are also proposing to update the mortality assumptions set out in TM1 and are seeking views on the assumed rate of accumulation of investments used in producing the projected pension amount.
- 1.10 We are proposing to issue a document accompanying TM1 which will include some of the information currently in TM1 which does not contribute to its statutory function.
- 1.11 Respondents to our consultation wanted us to work with the FSA to harmonise the requirements for SMPs and FSA point of sale illustrations. The FSA has recently published a consultation paper entitled *Product Disclosure: Retail investment – changes to RDR Advisor charging and to improve pension scheme disclosure* which discusses possible changes to FSA pension illustrations to allow for inflation. If adopted, the proposals would result in more consistency between the FSA's point of sale projections and SMPs. The consultation period ends on 3 May 2011. We will continue to discuss approaches for harmonisation with the FSA and other regulators.

## CONTENTS AND STRUCTURE OF THIS PAPER

- 1.12 Section 2 of this paper sets out our proposals for the content, purpose, and style and structure of version 2.0 of TM1. Section 3 considers possible changes to the assumptions set out in TM1. Section 4 describes the proposed content of the accompanying document.

- 1.13 Parts II and III contain the proposed text of version 2.0 of TM1 and the proposed text of the accompanying document respectively.
- 1.14 Appendix 0 includes an analysis of version 1.4 of TM1 indicating where corresponding text appears in version 2.0 of TM1 and the accompanying document.

**RESPONSES TO THIS EXPOSURE DRAFT**

- 1.15 Details of how to respond to this paper are set out in section 5. Comments should reach the FRC by **10 June 2011**.

## 2 CONTENT, PURPOSE AND STRUCTURE

### INTRODUCTION

- 2.1 This section describes the changes to the content, purpose, and style and structure that we are proposing to make in version 2.0 of TM1.

### CONTENT

- 2.2 We consider that TM1 should focus on that content which enables it to fulfil its statutory role: the assumptions and methods to be used in calculating the projected pension amount shown on SMPs.
- 2.3 TM1 currently contains other information which does not directly contribute to its statutory role. We are proposing to include some of that other information in an accompanying document which may be of assistance to providers (see section 4). Separating the types of content in this way will, we consider, add clarity for providers and others by clearly distinguishing mandatory requirements from guidance.

### PURPOSE

- 2.4 Paragraph 1.1.1 of version 1.4 of TM1 states:

“The overall aim is to provide illustrations of pension benefits on a broadly consistent basis across various types of money purchase pension provision. This is intended to assist individuals to assess in broad terms:

- the adequacy of their pension arrangements
- the extent to which they need to make further provision
- the significant uncertainties involved in using *Illustrations* of benefits.”

- 2.5 We are proposing that the purpose of TM1 should be:

“The purpose of TM1 is to specify the assumptions and methods to be used in the calculation of statutory illustrations of money purchase pensions.”

- 2.6 We would welcome respondents’ views on whether this purpose adequately reflects the statutory role of TM1.

### REVISED STYLE AND STRUCTURE

- 2.7 The current version of TM1 is a long document. It includes numerous references to, and paraphrases of, legislative requirements, recommendations for extra information that should be included on statements, and detailed explanations of exactly how calculations should be performed. Some information is repeated.

- 2.8 We consider that TM1 will be made easier to understand by restructuring it to remove repetitions and putting related concepts together, and by removing some of the detail. We are not proposing any changes to the substance of the requirements in TM1 other than the changes to the assumptions discussed in section 3. We are, however, proposing to revise the style to make it more like that of our Technical Actuarial Standards (TASs).
- 2.9 We recognise that few respondents to our consultation suggested changes to the style and structure of TM1. However, we consider that the improved clarity and ease of maintenance outweigh the benefits of familiarity.
- 2.10 The exposure draft of TM1 in Part II of this document has three parts. Part A discusses how it should be interpreted and contains a glossary. Part B sets out the method of calculating the amount of pension illustrated, and part C contains the assumptions that should be used in the calculation.
- 2.11 We have split the assumptions between those used to accumulate assets and contributions in order to determine a fund at retirement (section C.2), and those used to calculate the annuity rate used to convert that accumulated fund into a pension (section C.3).
- 2.12 We would be interested in whether respondents consider that the proposed changes to the style and structure of TM1 improve clarity and support the revised purpose of TM1.

#### LEGISLATIVE CHANGES

- 2.13 Section 15 of the Pensions Act 2007 abolished contracting-out on a money purchase basis with effect from 6 April 2012. We propose to delete that content of TM1 which covers money purchase contracting-out.
- 2.14 The DWP has amended the information that is required to accompany illustrations. As we are proposing not to include a list of this information in TM1 (see paragraph 2.3) this legislative change has no direct effect on the proposed text of TM1.

#### TERMINOLOGY

- 2.15 TM1 currently uses the term *Illustration* to refer to the projected pension amount required by legislation. It also uses the term *illustration* (not capitalised and not in italics) to refer to pension amounts which are quoted and which are not the amounts provided in accordance with the relevant legislation. To reduce confusion we are proposing to use the term **statutory illustration** instead of *Illustration* to refer to the projected pension amount required by legislation.
- 2.16 We are also proposing to introduce the term **illustration statement** to refer to the **statutory illustration** and the accompanying information.
- 2.17 We would be interested in whether respondents consider that the new terminology is clear.

**We would welcome responses to the following questions:**

- 1. Do respondents agree with the proposed approach set out in paragraphs 2.2 and 2.3 to limit the content of TM1 to material required by legislation with additional material being contained in an accompanying document?**
- 2. Do respondents agree that the proposed purpose of TM1 in paragraph 2.5 reflects its statutory role?**
- 3. Do respondents agree that the proposed changes to the style and structure of TM1 improve clarity and support the purpose of TM1 (paragraphs 2.7 to 2.11)?**
- 4. Do respondents agree that the terminology proposed in paragraphs 2.15 and 2.16 is clear?**

## 3 ASSUMPTIONS

### INTRODUCTION

- 3.1 In this section we consider the assumptions set out in part C of the proposed text of TM1 with particular focus on the accumulation rate and the mortality assumptions.

### RATIONALE

- 3.2 TM1 currently explains the rationale for the existing set of assumptions. It states that the intention is to provide individuals with a broad indication of the level of benefits they might receive from the pension provision they have already built up and from future contributions.
- 3.3 It notes that for younger members a set of stable long term assumptions is more appropriate than a set of assumptions linked to market conditions. For a member close to retirement the illustration is intended to bear some relation to what the member will actually receive on retirement: for these members a set of assumptions that reflects current market conditions is more appropriate.
- 3.4 The basis currently adopted in TM1 reflects a combination of these two approaches: a long-term approach for pre-retirement assumptions with a market related approach for the post-retirement assumptions.
- 3.5 TM1 notes that for members close to retirement the use of a long-term accumulation rate may have less effect than variations in the cost of purchasing an annuity at retirement and that for younger members the effects should generally be reversed with the accumulation rate likely to have a bigger effect than variations in the cost of purchasing an annuity.
- 3.6 We do not intend to make any changes to the nature of the basis set out in TM1. We will continue to adopt a long-term approach for pre-retirement assumptions with a market related approach for the post-retirement assumptions. A description of the rationale for the basis is included in section 3 of the draft of the accompanying document.

### CHANGES TO ASSUMPTIONS

- 3.7 We are considering changes only to the assumptions used to determine the member's accumulated fund and the assumptions for the annuity rate used in the calculation of the member's projected pension amount.

### ACCUMULATION

#### Inflation

- 3.8 TM1 currently specifies an inflation assumption of 2.5% pa. This assumption is used to convert the accumulated fund at retirement into a fund in today's money terms. It is also used in the projection of future contributions and risk benefits.

- 3.9 We have removed references to the Retail Prices Index as the measure of inflation in TM1. We consider that the inflation assumption used to calculate the statutory illustration should be a reasonable long term measure of inflation. Specifying a particular inflation index would give a spurious impression of accuracy.
- 3.10 We are not proposing to change the inflation assumption. We consider that the rate is reasonable given current financial conditions and the Bank of England inflation target of 2%pa.
- 3.11 However, because the gap between the inflation assumption and the assumed accumulation rate affects the amount of the illustration we have considered whether the existing assumption for the accumulation rate is still appropriate in the context of a 2.5% inflation rate.

### **Accumulation rate**

- 3.12 TM1 specifies the maximum rate that can be used to accumulate funds before retirement as 7% pa, but requires the use of a lower accumulation rate if the provider expects that the use of the maximum rate will overstate a member's expected fund at retirement. It notes that the maximum rate is based on an assumption that assets are predominantly invested in equities.
- 3.13 Many respondents to the consultation noted the importance of the requirement to use a lower rate if doing so is more appropriate for the investments being held. However, version 1.4 of TM1 lacks clarity: there are several widely separate paragraphs dealing with the accumulation rate, and the impression might be given that the maximum rate should be used in most cases. We are concerned that, in practice, the maximum rate might sometimes be used even when it is inappropriate.
- 3.14 We are therefore proposing to change the emphasis, making it clear that the investment rate should be based on the investment potential of the member's funds over the period to the retirement date.
- 3.15 We consider that providers should be scrutinising the accumulation rate that they are using for SMPs very carefully. For example, the current maximum rate of 7%pa may not be appropriate if a member's funds are currently invested substantially in cash or bonds. Providers should also consider the effect of any anticipated changes in asset allocation, for example if members have opted for an automatic transfer into bonds close to retirement.
- 3.16 We are proposing that TM1 should explicitly require consideration of the expected return from the different asset classes that members invest in, and that the accumulation rate assumption should be justifiable and should be consistent with the inflation rate assumption.
- 3.17 We are also proposing that TM1 should require the accumulation rate not to be significantly higher than the expected return available on the member's current and anticipated future investments. We consider that this will allow providers to adopt a reasonably general approach without providing misleading information to members.
- 3.18 We would be interested in respondents' views on the change of emphasis and the requirements for determining the accumulation rate to be used (see paragraphs C.2.3 to C.2.8 of the proposed text).

**FSA reviews**

- 3.19 The maximum accumulation rate of 7%pa is currently the same as the FSA's intermediate rate for point of sale projections. The FSA's assumptions were last changed in 1999 and are reviewed regularly. The last review was carried out in 2007 by PwC<sup>4</sup>. This review supported the recommendation in PwC's previous report in 2003 that the intermediate rate should be 6.5%. The FSA considered the costs and benefits of requiring firms to adjust rates by what was deemed to be a small amount, and noted that introducing fractions to the prescribed rates might be suggest spurious accuracy. The rate was therefore not changed. The FSA's assumptions, including accumulation rates, are being reviewed again this year.
- 3.20 In their report PwC assumed that funds are invested in an average of two thirds equities and one third gilts. They made the following key assumptions:
- Inflation 2.75%
  - Nominal gilt returns 4.5%
  - Equity outperformance over gilts 3.0%
  - Equity returns 7.5%
- 3.21 The assumptions and the asset allocation were chosen to be reasonable central estimates. The equity risk premium and the equity returns were at the bottom end of a range recommended by PwC.

**Maximum accumulation rate**

- 3.22 We have considered three possible options for the maximum accumulation rate required by TM1:
- maintain the maximum rate at 7%;
  - reduce the maximum rate to a lower rate such as 6%; and
  - not to specify a maximum rate.

*Maintain the maximum rate at 7%*

- 3.23 The arguments for maintaining the maximum accumulation rate at 7% pa include:
- Respondents to our earlier consultation felt that 7% pa was a reasonable long term assumption for a predominantly equity based investment strategy.
  - The rate is a maximum rate and providers must use a lower rate if the maximum rate is not appropriate for the actual investment profile of the member.

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<sup>4</sup> [http://www.fsa.gov.uk/pubs/other/projection\\_rates07.pdf](http://www.fsa.gov.uk/pubs/other/projection_rates07.pdf)

- The maximum rate for TM1 is currently the same as the intermediate rate for FSA projections. This has ensured some consistency between the FSA's point of sale projections and SMPs. Respondents to our consultation felt that consistency between the two sets of illustrations was important and would assist members' understanding.
  - It might be preferable to wait for the outcome of the forthcoming FSA review of assumptions before making any changes to the maximum accumulation rate in TM1.
- 3.24 The main argument for changing the rate is that 7% might be perceived as too high for many members of pension schemes. This is particularly relevant if a high proportion of the member's fund is invested in assets with an expected return lower than that expected from equities.

*Reduce the maximum rate*

- 3.25 The arguments for reducing the maximum accumulation rate include:
- The accumulation rate should be considered in conjunction with the inflation assumption of 2.5%. The 2007 PWC review recommended an accumulation rate of 6.5% in conjunction with an inflation assumption of 2.75%. This would suggest that an accumulation rate of 6.25% would be appropriate with the 2.5% inflation assumption used for pension projections shown on SMPs. If the rate was rounded down to avoid the impression of spurious accuracy it would be 6%.
  - There is likely to be a large increase in the number of members in defined contribution pension schemes as a result of the introduction of auto-enrolment in 2012. It is possible that many of the new members will invest their contributions in lower risk funds which would not be expected to generate as high a return as predominately equity based investments.
  - FSA projections demonstrate risk by showing three projections. If only one projection is shown there is an argument that it should be based on a more prudent accumulation rate than the FSA central rate, in order to allow for risk.
- 3.26 A disadvantage of reducing the maximum accumulation rate is that there would be further inconsistency with the FSA rules.

*No maximum rate*

- 3.27 The arguments for not specifying a maximum rate include:
- It would give providers a free hand to determine an appropriate rate for a member's investment strategy.
  - It would remove any tendency amongst providers to use the maximum rate as a default rate.
- 3.28 However, the specification of a maximum rate prevents providers using accumulation rates that are too optimistic.

- 3.29 We would be interested in respondents' views on the approaches outlined above. If respondents support a move to a lower maximum accumulation rate they should state what the rate should be and the rationale for their choice.

### **ANNUITY RATES**

- 3.30 When insurers price annuities they use sophisticated models of both mortality and interest rates. It is not practical for TM1 to replicate the assumptions used by insurers. Instead our aim is that the assumptions specified in TM1 should produce results which are broadly in line with the market for the majority of recipients of SMPs.

### **Mortality**

- 3.31 TM1 currently specifies that the annuity rate used in determining the projected pension amount should be based on PMA92 and PFA92 mortality tables with medium cohort improvements.
- 3.32 It is widely acknowledged that the mortality assumptions currently specified in TM1 are out of date. In our consultation paper we consulted on possible changes to them and respondents agreed that the assumptions should be updated.
- 3.33 We acknowledge views expressed by respondents that changes to the mortality assumptions should be made at the same time as similar changes to the FSA rules for point of sale projections. However, we consider that the existing mortality assumptions can no longer be justified and should be updated even though there may be a short period of inconsistency with the FSA basis.

### *Unisex annuities*

- 3.34 On 1 March 2011 the European Court of Justice (the ECJ) issued a ruling which prevents the use of gender in the pricing of insurance policies from 21 December 2012. The ruling means that pension annuities must be priced on a basis which does not take account of gender.
- 3.35 Paragraph 11.2.2 of version 1.4 of TM1 requires that if there is a legal requirement for unisex annuity rates to be applied at retirement, female mortality must be used for the member and male mortality must be used for the member's spouse or civil partner.

### *Base tables*

- 3.36 In our consultation paper we proposed that TM1 should specify the PCMA00 (males) and PCFA00 (females) tables. These tables were published by the CMI in 2006 and are based on experience collected from UK insurance companies between 1999 and 2002.
- 3.37 No respondents to the consultation objected to the suggested base tables and we therefore propose to amend TM1 so that these tables must be used for statutory illustrations issued after 5 April 2012.
- 3.38 Following the ECJ judgement (see paragraph 3.34) we intend to require that the same mortality tables are used for men and women. We would welcome respondents' views on whether this is best achieved by using the female table

for members and the male table for the member's spouse or civil partner, or by using a blend of the two tables (such as 50% of the male rates and 50% of the female rates or 75% of the male rates and 25% of the female rates).

#### *Mortality improvements*

- 3.39 In our consultation paper we considered two possible approaches for future changes in mortality.
- 3.40 The first approach was to specify medium cohort mortality improvement rates (published by the CMI) subject to a minimum annual improvement of 1.25% for males and 1% for females, all applying from the year 2000. This is the basis which the Pension Protection Fund (PPF) currently requires for calculations under sections 143 and 179 of the Pensions Act 2004.
- 3.41 The PPF has recently published a consultation<sup>5</sup> which outlines proposals to update the basis used in its calculations. The proposals include the continued use of the medium cohort mortality improvement rates but with the minimum annual improvement increased to 1.5% for males. The consultation period ended on 21 March 2011.
- 3.42 The second approach was to require the use of the CMI's mortality projection model<sup>6</sup>, which allows recent experience to be blended with projected improvements. The CMI intends to update the model annually to take account of changes in mortality rates.
- 3.43 We propose that the medium cohort improvement rates should be used with a minimum annual improvement of 1% for both men and women. This is the assumption that is proposed for women by the PPF in its consultation. It is consistent with our proposed approach to base mortality in the light of the ECJ judgement. We consider that it better reflects current annuity pricing than do the existing assumptions.

#### *Future reviews*

- 3.44 We will keep the mortality assumptions under review and may change them again if we consider that they are no longer appropriate. When designing and updating systems, providers should note that mortality assumptions are likely to be changed from time to time.
- 3.45 There is likely to be a large increase in the number of members of defined contribution pension schemes as a result of the auto-enrolment legislation coming into force in 2012. This might result in a change in the balance of socio-economic groups in defined contribution pension schemes and it is possible that the average life expectancy underlying annuity pricing calculations will change. We intend to monitor the impact of auto-enrolment on the annuity market.

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<sup>5</sup> 2011 Consultation on assumptions to be used for valuations under sections 143 and 179 of the Pensions Act 2004

<sup>6</sup> <http://www.actuaries.org.uk/knowledge/cmi>.

### Interest rates

- 3.46 TM1 sets out a formula for determining the rate of interest to be used in calculating the annuity rate. The rate to be used is 50% of the sum of the FTSE Actuaries' Government Securities Index-Linked annualised Real Yields over five years assuming:
- a) 5% inflation; and
  - b) 0% inflation
- minus 0.5%.
- 3.47 In our consultation we proposed that TM1 should continue to use this formula but without the 0.5% deduction. We have reviewed this proposal in the light of current annuity rates and as a result we have decided to keep the 0.5% deduction.

### OTHER ASSUMPTIONS

- 3.48 We are not proposing to change any of the other assumptions specified in TM1 at this time. However other assumptions may well change as a result of future reviews. Providers should ensure that their systems and procedures can be easily updated when assumptions in TM1 are changed.

**We would welcome responses to the following questions:**

5. Do respondents agree with the proposal to remove the specific reference to the Retail Prices Index (paragraph 3.9)?
6. What are respondents' views on the change of emphasis described in paragraphs 3.12 to 3.14 and the requirements for determining the accumulation rate to be used (see paragraphs C.2.3 to C.2.8 of the proposed text)?
7. What are respondents' views on the possible approaches to the accumulation rate described in paragraphs 3.22 to 3.28 (maintain the rate at 7%, replace with a lower rate such as 6% or not to specify a maximum rate)? If respondents believe that the maximum accumulation rate should be lower than 7% they should state their preferred rate and the justification for it.
8. Do respondents agree that the mortality assumptions should be based on PCMA00 (males) and PCFA00 (females) tables (paragraphs 3.36 to 3.37)?
9. How should TM1 allow for the ECJ judgement which prevents the use of gender based rates for pricing insurance business (paragraph 3.38)? In particular, should female tables be used for members and male rates for the member's spouse or civil partner or should a blend of male and female mortality tables be used?
10. Do respondents agree that mortality improvements should be based on the medium cohort improvement rates with a minimum annual improvement of 1% (paragraphs 3.39 to 3.43)?

- 11. Do respondents have any views on the proposal not to alter the method of determining the interest rate used for the annuity rate (paragraphs 3.46 and 3.47)?**
- 12. Do respondents have any views on the other assumptions which are set out in part C of the proposed text of version 2.0 of TM1 (paragraph 3.48)?**

## 4 ACCOMPANYING DOCUMENT

### INTRODUCTION

4.1 We noted in Section 1 of this paper that we propose to move some of the existing content of version 1.4 of TM1 into an accompanying document which would be entitled *Technical Memorandum TM1: Statutory Money Purchase Illustrations, Supplementary Information*. This section describes the purpose, content and structure of that document. The proposed text is in Part III of this document.

### PURPOSE AND CONTENT

4.2 The purpose of the accompanying document is to provide supplementary information for those who are involved in the preparation of illustration statements in accordance with TM1.

4.3 Most of the existing content of version 1.4 of TM1 can be categorised as either:

- material which ensures that TM1 fulfils its statutory role;
- recommendations of information which might accompany SMPs over and above that required by legislation; or
- summaries of legislation and regulation.

4.4 We are proposing that TM1 should focus on that content which enables it to fulfil its statutory role, and that the accompanying document should cover elements of the other material currently in TM1.

4.5 We are not proposing to include summaries of legislation and regulation in the accompanying document. We consider that providers of SMPs should be familiar with the relevant legislation and should not rely on summaries.

4.6 Appendix A of version 1.4 of TM1 sets out information which legislation requires to be presented alongside statutory illustrations. It also sets out information which is not required by legislation but which the provider might wish to present. It distinguishes between these two categories of information by using the words *must* and *should* respectively. However, this usage is not explained in version 1.4 of TM1 and the distinction is not always recognised by providers.

4.7 We recognise that providers find the suggestions for additional information useful, but consider that including the suggestions in TM1 might be confusing. By presenting the suggestions in a separate document their status as suggestions rather than mandatory requirements is clear. In addition, the split will make maintaining TM1 easier and will allow the guidance in the accompanying document to be issued by a body other than the BAS, if this is thought more appropriate in the future.

### STRUCTURE

4.8 The draft in Part III has three sections.

- 4.9 The first section sets out the background to the provision of SMPs, states the purpose of the document and describes the limitations of statutory illustrations. It also discusses the differences between statutory illustrations and certain projections produced in accordance with FSA rules.
- 4.10 The second section lists some considerations on the provision of additional information to members who receive SMPs. It also suggests additional information and estimates which providers might wish to consider providing alongside statutory illustrations.
- 4.11 The third section describes the approach taken to setting the assumptions to be used to calculate the pension shown on SMPs.
- 4.12 Appendix A contains the glossary of terms used in the document and in TM1.

**MAINTENANCE**

- 4.13 We review TM1 on a regular basis. The guidance in TM1 which we are proposing to include in the accompanying document was of particular help to providers when the requirement for statutory illustrations was first introduced 2003. We consider that there is less need for guidance now that statutory illustrations have been issued for several years.
- 4.14 Although we are required to issue and maintain TM1, we are not required to provide guidance and it is our policy, like that of other operating bodies of the FRC, to do so only under limited circumstances. We therefore do not intend to maintain the accompanying document. It is possible that some other body may choose to provide guidance on the practical aspects of preparing statutory illustrations in the future.

**We would welcome responses to the following questions:**

- 13. Do respondents have views on the proposed purpose and content of the accompanying document (paragraphs 4.2 to 4.7)?**
- 14. Do respondents have views on the proposed structure of the supplementary information document or comments on the detailed text of the accompanying document (paragraphs 4.8 to 4.12)?**
- 15. Do respondents have any views on the proposal that the BAS does not maintain the accompanying document (paragraphs 4.13 to 4.14)?**

## 5 INVITATION TO COMMENT

### QUESTIONS

- 5.1 The BAS invites the views of those stakeholders and other parties who wish to comment on the content of this document. In particular the BAS would welcome views on the following issues:
- 1 Do respondents agree with the proposed approach set out in paragraphs 2.2 and 2.3 to limit the content of TM1 to material required by legislation with additional material being contained in an accompanying document?
  - 2 Do respondents agree that the proposed purpose of TM1 in paragraph 2.5 reflects its statutory role?
  - 3 Do respondents agree that the proposed changes to the style and structure of TM1 improve clarity and support the purpose of TM1 (paragraphs 2.7 to 2.11)?
  - 4 Do respondents agree that the terminology proposed in paragraphs 2.15 and 2.16 is clear?
  - 5 Do respondents agree with the proposal to remove the specific reference to the Retail Prices Index (paragraph 3.9)?
  - 6 What are respondents' views on the change of emphasis described in paragraphs 3.12 to 3.14 and the requirements for determining the accumulation rate to be used (see paragraphs C.2.3 to C.2.8 of the proposed text)?
  - 7 What are respondents' views on the possible approaches to the accumulation rate described in paragraphs 3.22 to 3.28 (maintain the rate at 7%, replace with a lower rate such as 6% or not to specify a maximum rate)? If respondents believe that the maximum accumulation rate should be lower than 7% they should state their preferred rate and the justification for it.
  - 8 Do respondents agree that the mortality assumptions should be based on PCMA00 (males) and PCFA00 (females) tables (paragraphs 3.36 to 3.37)?
  - 9 How should TM1 allow for the ECJ judgement which prevents the use of gender based rates for pricing insurance business (paragraph 3.38)? In particular, should female tables be used for members and male rates for the member's spouse or civil partner or should a blend of male and female mortality tables be used?
  - 10 Do respondents agree that mortality improvements should be based on the medium cohort improvement rates with a minimum annual improvement of 1% (paragraphs 3.39 to 3.43)?
  - 11 Do respondents have any views on the proposal not to alter the method of determining the interest rate used for the annuity rate (paragraphs 3.46 and 3.47)?

- 12 Do respondents have any views on the other assumptions which are set out in part C of the proposed text of version 2.0 of TM1 (paragraph 3.48)?
  - 13 Do respondents have views on the proposed purpose and content of the accompanying document (paragraphs 4.2 to 4.7)?
  - 14 Do respondents have views on the proposed structure of the supplementary information document or comments on the detailed text of the accompanying document (paragraphs 4.8 to 4.12)?
  - 15 Do respondents have any views on the proposal that the BAS does not maintain the accompanying document (paragraphs 4.13 to 4.14)?
  - 16 The text of the exposure draft as a means of implementing the proposals presented in this document.
- 5.2 In addition to the specific questions listed above, the BAS invites respondents' views on any other aspects of its proposals.

## RESPONSES

- 5.3 For ease of handling, we prefer comments to be sent electronically to [basTM1@frc.org.uk](mailto:basTM1@frc.org.uk). Comments may also be sent in hard copy form to:
- The Director  
Board for Actuarial Standards  
5<sup>th</sup> Floor, Aldwych House  
71-91 Aldwych  
London  
WC2B 4HN
- 5.4 Comments should reach the FRC by **10 June 2011**.
- 5.5 All responses will be regarded as being on the public record unless confidentiality is expressly requested by the respondent. A standard confidentiality statement in an e-mail message will not be regarded as a request for non disclosure. We do not edit personal information (such as telephone numbers or email addresses) from submissions; therefore only information that you wish to publish should be submitted. If you are sending a confidential response by e-mail, please include the word "confidential" in the subject line of your e-mail.
- 5.6 We aim to publish non confidential responses on our web site within ten working days of receipt. We will publish a summary of the consultation responses, either as a separate document or as part of, or alongside, any decision.
- 5.7 We intend to publish an amended version of TM1 in the summer of 2011 which would be effective for statutory illustrations issued after 5 April 2012.

EXPOSURE DRAFT OF  
TECHNICAL MEMORANDUM TM1:  
STATUTORY MONEY PURCHASE ILLUSTRATIONS  
VERSION 2.0

# TM1: STATUTORY ILLUSTRATIONS OF MONEY PURCHASE BENEFITS

## **Status**

**Legislation** provides that **statutory illustrations** must be produced in accordance with relevant guidance prepared by a prescribed body. The Board for Actuarial Standards has been appointed as the prescribed body for that purpose. Technical Memorandum *TM1: Statutory Money Purchase Illustrations* is that relevant guidance.

TM1 does not replace or amend the **legislation**. If it appears that any matter in TM1 conflicts with any provision of the **legislation** then the latter will prevail.

## **Purpose**

The purpose of TM1 is to specify the assumptions and methods to be used in the calculation of **statutory illustrations** of money purchase pensions.

## **Application**

TM1 applies to the production of any **statutory illustration**.

## **Effective date**

TM1 version 2.0 is effective for all **statutory illustrations** issued on or after 6 April 2012.

## **Future changes to TM1**

The Board for Actuarial Standards reviews TM1 regularly. It is possible that the methods and assumptions used will be amended as a result. It is likely that some of the assumptions in Part C will be changed from time to time, and **providers** are strongly advised to take account of the possibility of such changes when devising systems to produce **statutory illustrations**.

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## A INTERPRETATION

### A.1 INTERPRETATION OF THE TEXT

- A.1.1 This technical memorandum (TM1) should be interpreted in the light of the purpose set out in the rubric on page 1.
- A.1.2 **Providers** may adopt a different approach from that specified in TM1 if it does not affect the result of the calculation of the **statutory illustration**.
- A.1.3 Any assumptions that are used which are not specified in TM1 should be appropriate to the purpose of TM1 set out in the rubric on page 1. Such assumptions might include the valuation of property assets or the treatment of contributions if payment records are incomplete.
- A.1.4 If a **member's current fund** is invested in a with-profits fund (including with-profits deferred annuity contracts) the **statutory illustration** should be provided in a manner consistent with TM1 and with the insurer's bonus policy.

### A.2 GLOSSARY

- A.2.1 Terms appearing in **bold** in the text are used with these meanings:

<b>accumulation rate</b>	The annual rate of return assumed to be earned up to <b>retirement date</b> from the <b>current fund</b> and <b>future contributions</b> .
<b>annuity rate</b>	The value of an annual pension of £1 at <b>retirement date</b> calculated using the assumptions specified in TM1.
<b>current fund</b>	The relevant assets of the <b>scheme</b> in relation to the <b>member's</b> money purchase benefits at the <b>illustration date</b> .
<b>future contributions</b>	All money purchase contributions due after the <b>illustration date</b> which the <b>provider</b> determines to be part of a regular pre-determined series of contributions expected to continue until the <b>member's retirement date</b> .
<b>illustration date</b>	The date specified by the <b>provider</b> as the date by reference to which amounts are calculated for the purpose of the <b>statutory illustration</b> .  The <b>illustration date</b> will normally be the <b>specified date</b> .
<b>illustration statement</b>	The <b>statutory illustration</b> and accompanying information.
<b>inflation factor</b>	The accumulated assumed inflation from the <b>illustration date</b> to the <b>retirement date</b> .
<b>inflation rate</b>	The assumed annual rate of inflation.

<b>legislation</b>	<p>Legislation governing the provision of <b>statutory illustrations</b> including but not limited to:</p> <ul style="list-style-type: none"> <li>a) <i>the Pension Schemes Act 1993 (c.48) Section 113;</i></li> <li>b) <i>the Personal Pension Schemes (Disclosure of Information) Regulations 1987 (SI 1987/1110);</i></li> <li>c) <i>the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (SI 1996/1655);</i></li> <li>d) <i>the Stakeholder Pension Schemes Regulations 2000 (SI 2000/1403);</i></li> <li>e) <i>the Occupational and Personal Pension Schemes (Disclosure of Information) Amendment Regulations 2002 (SI 2002/1383); and</i></li> <li>f) <i>the Occupational, Personal and Stakeholder Pension Schemes (Disclosure of Information) Amendment Regulations 2010 (SI 2010/2659).</i></li> </ul> <p>Northern Ireland has its own body of law relating to pensions with corresponding legislation.</p>
<b>member</b>	Any person eligible to receive a <b>statutory illustration</b> from a <b>scheme</b> .
<b>nominal accumulated fund</b>	The <b>current fund</b> and <b>future contributions</b> accumulated to the <b>retirement date</b> adjusted where relevant for tax relief, charges and expenses.
<b>provider</b>	The trustees or managers of a <b>scheme</b> , or any other party preparing a <b>statutory illustration</b> on their behalf. Other parties might include advisers, insurance companies or software houses.
<b>real accumulated fund</b>	The <b>nominal accumulated fund</b> expressed in today's (inflation adjusted) terms.
<b>retirement date</b>	<p>A date which the <b>member</b> has specified to the <b>provider</b> and which is acceptable to the <b>provider</b>; or where no acceptable date has been specified by the <b>member</b>, a date specified by the <b>provider</b>.</p> <p>A <b>member</b> may have more than one <b>retirement date</b> for different funds or contracts within a <b>scheme</b>.</p>
<b>risk benefits</b>	Benefits payable on death, sickness or critical illness.
<b>scheme</b>	A pension arrangement that is required to provide a <b>statutory illustration</b> under the <b>legislation</b> .
<b>scheme year</b>	The period specified for the provision of a <b>statutory illustration</b> .
<b>specified date</b>	The date the fund is valued for the purpose of the <b>legislation</b> . For an occupational pension <b>scheme</b> , this is normally the last day of the <b>scheme's</b> administrative year.

**statutory illustration** The amount of pension calculated in accordance with TM1.

## B DETERMINING THE AMOUNT OF PENSION TO BE ILLUSTRATED

### B.1 INTRODUCTION

B.1.1 This Part sets out the method which must be followed for calculating **statutory illustrations**.

### B.2 THE AMOUNT OF PENSION TO BE ILLUSTRATED

B.2.1 The **statutory illustration** is the annual amount of pension calculated by dividing the **real accumulated fund** (see section B.3) by the **annuity rate** (see section B.7).

B.2.2 The **statutory illustration** must be shown in whole pounds, rounded down to 3 significant figures. If the result is under £1,000 and is not an exact multiple of £10, it may be rounded down to the next lower multiple of £10.

B.2.3 Any resulting monthly pension of less than £10 may be shown as “less than £10 each month” or “less than £120 each year”.

### B.3 ACCUMULATED FUND

B.3.1 The **real accumulated fund** must be calculated by dividing the **nominal accumulated fund** by the **inflation factor** (see paragraph B.3.5).

B.3.2 The **nominal accumulated fund** must be calculated as the sum of:

- the accumulated **current fund**, if any;
- the accumulated **future contributions**, if any; and
- the accumulated amount of any tax relief expected to be reclaimed and credited to the **scheme** for the benefit of the **member** in respect of **future contributions**;

reduced by:

- the accumulated amount of the costs of any **risk benefits**; and
- the accumulated amount of charges or expenses, if the terms of the **scheme** require such charges or expenses to be deducted from **future contributions**.

B.3.3 Each element of the **nominal accumulated fund** must be accumulated from the relevant date to the **retirement date** at the rate of accumulation determined in accordance with paragraphs C.2.3 to C.2.8. The relevant date is:

- for the **current fund**, the **illustration date**;
- for each individual payment of **future contributions** or tax relief, the date on which the payment is due to be received by the **scheme**; and
- for each individual payment of charges or expenses or cost of **risk benefits**, the date on which the payment is due to be paid.

B.3.4 If the **nominal accumulated fund** is less than zero, zero must be used instead.

#### **Inflation factor**

B.3.5 The **inflation factor** must be calculated by compounding the **inflation rate** specified in paragraph C.2.9 from the **illustration date** to the **retirement date**.

### **B.4 CURRENT FUND**

B.4.1 The **current fund** is the value of the relevant assets of the **scheme** in relation to the **member's** money purchase benefits at the **illustration date**. The **current fund** must be based on a realistic asset value such as:

- a) the market value of the assets;
- b) the bid value of relevant units;
- c) a transfer value;
- d) for an insured **scheme**, the policy value on an ongoing basis;
- e) for a **scheme** where a **member's** rights are determined as a share of the **scheme's** assets, the value of the **member's** share; or
- f) for a with-profits fund or if assets are not readily marketable, a value consistent with the principles of TM1 .

B.4.2 The **current fund** includes allowances for any contributions due at the **illustration date** and for the recovery of any tax due to the **illustration date**. It is not necessary to discount these allowances from their expected payment dates. Allowances which are unlikely to change the **statutory illustration** may be omitted.

B.4.3 A **provider** may omit the allowances referred to in paragraph B.4.2 from the **current fund**, provided that if there are **future contributions**, any items due but unpaid which have been omitted from the **current fund** are treated as **future contributions**.

B.4.4 If the **member** is in receipt of income drawdown in respect of part of the assets of the **scheme**, those assets must be omitted from the **current fund**.

B.4.5 Outgoing transfer values which have been agreed but not paid on or before the **illustration date** must not be deducted from the **current fund**.

## B.5 FUTURE CONTRIBUTIONS

- B.5.1 **Future contributions** are all money purchase contributions due after the **illustration date** which the **provider** determines to be part of a regular pre-determined series of contributions, irrespective of the formal basis on which contributions are determined. They do not include contributions made after the **illustration date** which are not part of a series of pre-determined payments which are expected to continue.
- B.5.2 When determining whether a **member** should be treated as paying **future contributions**, **providers** should take into account factors including the **member's** expectations and the certainty of payment. In the following examples the **member** should normally be treated as paying **future contributions**:
- a **member** of an occupational **scheme** paying a percentage of earnings from time to time (irrespective of whether or not the **member** has an option to change the percentage rate); an exception might be if the **member** is employed on a short-term contract and there is no continuity of employment or of contributions;
  - a **member** paying regular contributions into a personal pension or stakeholder pension **scheme** under a direct debit or standing order;
  - it is clear from the **provider's** records that regular payments (such as a particular cash amount or a percentage of earnings) are intended; and
  - a **scheme's** terms describe future money purchase contributions as being single payments, and they form a series of pre-determined payments which are expected to continue until the **member** reaches **retirement date** or State pension age.

### Initial level of future contributions

- B.5.3 The initial level of **future contributions** must be the actual amount of **future contributions** payable for the **scheme year** following the **illustration date** if it is known.
- B.5.4 If paragraph B.5.3 does not apply and if the amount of **future contributions** is determined as an amount which increases in line with inflation or as a proportion of the **member's** earnings, the initial level of **future contributions** must be the latest known amount of contributions increased for the appropriate period at the rate specified in paragraph C.2.9 or C.2.10 respectively.
- B.5.5 If neither paragraph B.5.3 nor paragraph B.5.4 applies the initial level of **future contributions** must be the last known annual amount.
- B.5.6 If the amount of **future contributions** is related to the **member's** earnings and if the **provider** does not have detailed information about **members'** earnings or if earnings are expected to fluctuate significantly from year to year, the initial level of **future contributions** must be estimated.

- B.5.7 For many occupational **schemes** the definition of earnings for pension contributions is updated annually, on the first day of the **scheme year**. In such cases the initial level of **future contributions** may be based on the **member's** earnings on the day after the **illustration date**. **Providers** may ignore any information they have about changes in the **member's** earnings which occur after the day after the **illustration date**.

#### **Subsequent levels of future contributions**

- B.5.8 **Future contributions** must be assumed to increase in accordance with **scheme** provisions or with recognised practice. If there are no **scheme** provisions regarding the increase of contributions, or if there is no recognised practice of increasing contributions, **future contributions** must be assumed to remain unchanged until **retirement date**.
- B.5.9 **Future contributions** which are determined as a proportion of the **member's** earnings must be assumed to increase at the rate specified in paragraph C.2.10.
- B.5.10 **Future contributions** which increase in line with inflation must be assumed to increase at the rate specified in paragraph C.2.9.
- B.5.11 It may be assumed that **future contributions** which relate to the payment of the maximum non-earnings-related amount into a personal or stakeholder pension **scheme** remain fixed or increase at the rate specified in paragraph C.2.9.
- B.5.12 If the amounts of contributions payable are subject to a maximum of a fixed monetary amount or a deduction of a fixed monetary amount the **provider** must deal with the situation in an appropriate manner.
- B.5.13 A deduction which is specified in such a way that it will, or is expected to, increase broadly in line with State benefits or contribution limits or with earnings must be assumed to increase at the rate specified in C.2.9 or C.2.10 as appropriate.
- B.5.14 Contributions which are age-related or term-related must be dealt with in an appropriate manner.
- B.5.15 If the last known amount of contributions does not relate to a period of 12 months the **provider** must deal with the situation in an appropriate manner.

#### **Transferred benefits**

- B.5.16 Incoming transfer values which have been agreed but are outstanding at the **illustration date** must not be included in **future contributions**.

### **B.6 RISK BENEFITS**

#### **Initial level of the cost of risk benefits**

- B.6.1 If the cost of **risk benefits** payable for the **scheme year** following the **illustration date** is known, it should normally be used for the initial level of the cost of **risk benefits**.

- B.6.2 If paragraph B.6.1 does not apply and if the cost of **risk benefits** is determined as an amount which increases in line with inflation or as a proportion of the **member's** earnings, the initial cost of **risk benefits** should be the latest known cost increased for the appropriate period at the rate specified in C.2.9 or C.2.10 respectively.
- B.6.3 If neither paragraph B.6.1 nor paragraph B.6.2 applies, the initial cost of **risk benefits** should be the last known annual amount.
- B.6.4 If the last known cost of **risk benefits** does not relate to a period of 12 months the **provider** must deal with the situation in an appropriate manner.

#### **Subsequent levels of the cost of risk benefits**

- B.6.5 If **risk benefits** are determined as a proportion of a **member's** earnings their cost must be assumed to increase at the rate specified in paragraph C.2.10.
- B.6.6 If the cost of **risk benefits** increases in line with inflation it must be assumed to increase at the rate specified in paragraph C.2.9.
- B.6.7 If the cost of **risk benefits** increases as the **member** ages then **providers** must deal with the situation in an appropriate manner.
- B.6.8 If none of paragraphs B.6.5 to B.6.7 applies, the cost of **risk benefits** must be assumed to increase at the rate specified in paragraph C.2.9.

### **B.7 ANNUITY RATE**

- B.7.1 The **annuity rate** is the value of an annual pension of £1 at **retirement date** calculated using the assumptions in Part C.

### **B.8 GENERAL CONSIDERATIONS**

- B.8.1 Appropriate adjustments to the calculations must be made if a **scheme year** is not a period of 12 months. Where annual rates are specified in Part C, the equivalent rates for part of a year should be calculated as the appropriate root of the annual rate, not as an arithmetic proportion. For example, the monthly rate equivalent to 2.5% per annum is approximately 0.00206 ( $1.025^{(1/12)-1}$ ) and not 0.00208 ( $0.025/12$ ).
- B.8.2 If it is necessary to calculate the period between two dates, the period must be calculated to an exact number of months or more accurately (for example, to the exact number of days). Similarly, if contributions will continue for part of a year, **statutory illustrations** must include an allowance for such contributions for an exact number of months or more accurately.
- B.8.3 The **pension** illustrated may be shown as a weekly, monthly or annual amount.

## C ASSUMPTIONS

### C.1 INTRODUCTION

C.1.1 This Part sets out the actuarial assumptions which must be used in providing **statutory illustrations**.

### C.2 ACCUMULATION

C.2.1 This section specifies the assumptions to be used in determining the **real accumulated fund**.

#### **Mortality**

C.2.2 No allowance is to be made for mortality before retirement (other than in the calculation of the cost of any **risk benefits**).

#### **Accumulation rate**

C.2.3 In determining the **accumulation rate** the **provider** must consider the investment potential of the **member's** funds over the period to the **retirement date**.

C.2.4 The **accumulation rate** must take account of the expected returns from the different asset classes that might form the investments of the **member's** fund.

C.2.5 The **accumulation rate** must be justifiable and consistent with the **inflation rate** assumption specified in C.2.9.

C.2.6 The **accumulation rate** must not be significantly greater than the expected return from the current and anticipated future investment strategy of the **member's** fund.

C.2.7 The method used to determine the **accumulation rate** should be consistent from year to year.

C.2.8 The maximum annual **accumulation rate** is 7.0% per annum compound.

#### **Rates of increase in inflation and earnings**

C.2.9 The **inflation rate** must be 2.5% per annum compound.

C.2.10 Earnings and any earnings-related indices such as National Average Earnings must be assumed to increase at 2.5% per annum compound.

## Expenses

- C.2.11 If the terms of a **scheme** require future charges or expenses to be deducted from **future contributions** or the **current fund**, then:
- for **schemes** subject to the FSA Rules on projections, **expenses** must be assumed to be an amount not less than those required by the FSA Rules;
  - for other **schemes**, amounts no less than the actual charges or expenses of the **member's** arrangement must be assumed. The assumed charges or expenses should include the costs of investment management, but exclude any dealing costs for the underlying portfolio and any routine management and servicing costs of existing property investments.
- C.2.12 Future charges or expenses which are related to **future contributions** (such as those which are calculated as a percentage of contributions) must be calculated by reference to the **future contributions**.
- C.2.13 Future expenses up to **retirement date** which are related to the **scheme's** assets must be calculated using a projected fund as at each annual anniversary of the **illustration date** or more frequently, from the **illustration date** to the **retirement date**. The projected funds must be based on the **current fund** and allow for any **future contributions**, tax relief, the cost of **risk benefits** and relevant charges or expenses.
- C.2.14 If future charges or expenses are not known and cannot reasonably be obtained or estimated, the approach set out in paragraph C.2.13 must be used with expenses of 1% per annum of the projected fund at the start of each year.
- C.2.15 Future charges or expenses which relate to the **member's** arrangement and which are not deducted from **future contributions** or from the underlying assets must be ignored for the production of the **statutory illustration**.

## Tax relief on contributions

- C.2.16 Tax relief must be assumed to be at the rate at which it is expected to be reclaimed. The expected rate should allow for any known future changes.

## C.3 ANNUITY

### Lump sum at retirement

- C.3.1 No allowance may be made for the payment of a lump sum at retirement.

### Interest rates to be used in calculating annuity rates

- C.3.2 The rate of interest must be determined at each 15 February. This rate must be used for all **statutory illustrations** with **illustration dates** occurring in the following financial year (6 April to 5 April). If the information on which the rate of interest is to be based is not published on 15 February, **providers** must use the relevant information for the next day on which such information is published.

C.3.3 The **annuity rate** must be calculated using annual interest equal to 50% of the sum of the FTSE Actuaries Government Securities Index-Linked Real Yields over 5 years assuming:

- 5% inflation; and
- 0% inflation

minus 0.5%.

C.3.4 The interest rate must be rounded to the nearest multiple of 0.2%. Intermediate exact multiples of 0.1% should be rounded down.

C.3.5 Published interest rates must be used without any adjustments (such as to convert the published rate from a convertible half-yearly rate to an annual rate).

### Expenses

C.3.6 An allowance of 4% of the value of the annuity at retirement must be made for expenses.

### Mortality

C.3.7 The mortality of the **member** must be assumed to be in accordance with table PCFA00 (as published by the Actuarial Profession) with the medium cohort improvement rates subject to a minimum annual improvement of 1%. The mortality of the **member's** spouse or civil partner must be assumed to be in accordance with table PCMA00 with the medium cohort improvement rates subject to a minimum annual improvement of 1%. For each person, the mortality rates used must be those applicable to that person's year of birth.

### Spouse's or civil partner's pension

C.3.8 **Legislation** specifies the assumption to be used for the amount of pension to be provided to the spouse or civil partner on the death of the **member**.

### Age difference between member and spouse or civil partner

C.3.9 It must be assumed that a husband is three years older than his wife and that those in a civil partnership are the same age as each other, except that:

- at the **provider's** discretion the **member** may specify the spouse's or civil partner's age to be used;
- the spouse's or civil partner's age shown in the **provider's** records may be used.

### Guaranteed annuity terms

C.3.10 No account should be taken of a guarantee of annuity terms which produces a higher amount of initial pension as at the **retirement date**, or a higher amount of pension in a subsequent year, than would be produced using the assumptions in TM1.

**Payment frequency and format**

- C.3.11 When calculating the **annuity rate providers** may allow for benefits, other than a spouse's or civil partner's pension, payable on the death of the **member** after the pension commences (such as the payment of the balance of five years' payments on death within five years after retirement).
- C.3.12 The pension illustrated must be assumed to be payable monthly in advance and increase annually in payment in line with inflation. Pension increases in payment in line with inflation are implicitly allowed for in the rate of interest specified in paragraph C.3.3.

Version	Effective from
1.0	06.04.03
1.1	05.04.05
1.2	01.11.06
Adopted by the BAS on 06.04.07	
1.3	06.04.09
1.4	08.02.11
2.0	06.04.12

EXPOSURE DRAFT OF

TECHNICAL MEMORANDUM TM1:  
STATUTORY MONEY PURCHASE ILLUSTRATIONS

SUPPLEMENTARY INFORMATION

**MMMM 2011**

# CONTENTS [OF SUPPLEMENTARY INFORMATION DOCUMENT]

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# 1 INTRODUCTION

## 1.1 BACKGROUND

- 1.1.1 The Board for Actuarial Standards (the BAS) is responsible for setting technical actuarial standards in the UK. It is an operating body of the Financial Reporting Council (the FRC).
- 1.1.2 **Legislation** provides that **statutory illustrations**<sup>1</sup> must be produced in accordance with relevant guidance prepared by a prescribed body. The Board for Actuarial Standards is the prescribed body for that purpose. The relevant guidance is *Technical Memorandum TM1: Statutory Money Purchase Illustrations* (TM1).
- 1.1.3 A **statutory illustration** shows the amount of pension that might be payable when a **member** retires in terms of today's prices, assuming that:
- any regular money purchase contributions currently being paid will continue to be paid until the **retirement date**; and
  - the pension at retirement will subsequently increase in line with inflation so that its purchasing power is broadly maintained.
- 1.1.4 **Illustration statements** consist of the **statutory illustration** and accompanying information required by the **legislation** or provided voluntarily.
- 1.1.5 **Providers** issuing **statutory illustrations** and accompanying information will need to be familiar with the relevant provisions of the **legislation**. The provisions include requirements for **statutory illustrations** to be provided and information that must accompany **statutory illustrations**.

## 1.2 PURPOSE

- 1.2.1 The purpose of TM1 is to specify the assumptions and methods to be used in the calculation of **statutory illustrations** of money purchase pensions. The use of the specified methods and assumptions is intended to result in consistent statements being issued by different **providers** and for different **schemes**.
- 1.2.2 The purpose of this document is to provide supplementary information for those who are involved in the preparation of **illustration statements** in accordance with TM1. The content of this document is based on material which was in version 1.4 of TM1 but which did not contribute directly to the calculation of **statutory illustrations**.

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<sup>1</sup> Terms appearing in **bold** in the text are explained in the Glossary in Appendix A.

### 1.3 LIMITATIONS OF STATUTORY ILLUSTRATIONS

- 1.3.1 **Statutory illustrations** are not tailored to individual circumstances. A **member's** actual pension may differ significantly from the amount illustrated because future experience may differ from the assumptions made and the **member's** individual circumstances may not be reflected in the calculations.
- 1.3.2 **Illustration statements** are not intended to be individual financial advice or to be used in comparing the merits of particular forms of pension provision (such as comparing benefits from defined benefit and defined contribution arrangements or comparing different investment choices).

### 1.4 FSA ILLUSTRATIONS

- 1.4.1 **Members** of personal pension schemes (other than stakeholder pension schemes) will have received point of sale illustrations prepared according to rules issued by the Financial Services Authority (FSA).
- 1.4.2 When version 2.0 of TM1 was issued, the FSA required such illustrations to be expressed in projected money terms. Point of sale illustrations are therefore not directly comparable with **statutory illustrations** produced on the basis set out in TM1, which are shown in today's prices.
- 1.4.3 There are additional differences between point of sale projections and **statutory illustrations** which mean that the two illustrations are not directly comparable :
- The FSA requires three separate projections using maximum rates of return of 5%, 7% and 9%p.a, unless these rates overstate the investment potential of the product. TM1 requires one projection using a maximum return of 7% pa.
  - The FSA allows the projections to be personalised and so assume various percentages of pension for spouses, that the pension will not increase or increase at various rates in retirement and that a cash sum will be taken at retirement.

## 2 INFORMATION ACCOMPANYING STATUTORY ILLUSTRATIONS

### 2.1 INTRODUCTION

- 2.1.1 The **legislation** specifies information which must be provided either alongside the **statutory illustrations** or on a website.
- 2.1.2 This section lists some considerations on the provision of additional information and sets out examples of additional information and additional estimates that **providers** might wish to provide to **members** who receive **illustration statements**.

### 2.2 CONSIDERATIONS FOR PROVISION OF ADDITIONAL INFORMATION

- 2.2.1 When determining which additional information or estimates are provided, **providers** should note the following:
- **Illustration statements** should be provided in plain English. A long explanation may not be read and the impact of the **illustration statement** might then be lost.
  - **Members** who require more information or technical details can ask the **provider** to provide it. **Providers** might therefore wish to limit the amount of additional information given to **members**.
  - The basis set out in TM1 for the calculation of **statutory illustrations** is not intended to constrain the assumptions or methods that are used to provide other information. Further estimates of pension or other amounts could be provided but it should be made clear to the **member** which is the **statutory illustration**. An explanation of why the further estimate has been produced might need to be given.
  - Additional information could be provided as part of the **illustration statement**, in a separate explanatory document, or on a website.

### 2.3 INFORMATION WHICH MIGHT BE PROVIDED

- 2.3.1 **Providers** might wish to consider whether to provide **members** receiving **statutory illustrations** with the information or estimates described in the remainder of this section.

## Identifying the member and scheme

2.3.2 **Providers** should consider what information is needed to identify the **member** and the **scheme** concerned. Possible items include:

- the **member's** name, National Insurance Number and date of birth
- the name of the **scheme**; and
- if the **statutory illustration** is shown as a single total amount for more than one fund or contract with the same **retirement date**, sufficient information for the **member** to be able to identify which funds or contracts have been included in the **statutory illustration**.

## Warnings

2.3.3 **Providers** should consider providing a statement encouraging the **member** to obtain further information or advice before taking any action on the basis of the **illustration statement**.

2.3.4 **Providers** should consider stating that the **member's** eventual pension may differ significantly from the **statutory illustration**, because it will depend on what actually happens in practice, which may differ significantly from the assumptions that have been used.

## Risk and Uncertainty

2.3.5 **Providers** should consider providing additional information about risk and uncertainty (for example, stochastic illustrations).

2.3.6 **Providers** should consider whether a measure of the sensitivity of results to changes in one or more of the assumptions (for example, the effect of a 1% per annum variation on investment return or the interest rate used in calculating the **annuity rate**) would be useful in demonstrating the risk and uncertainty in the **statutory illustration**.

## Assumptions

2.3.7 **Providers** should consider stating the assumptions that have been used including:

- how the **member's** pension fund is invested and the investment returns that it will produce;
- the interest rate used in calculating the **annuity rate** used to convert the projected fund into a pension;
- the age of the **member's** spouse or civil partner at the **illustration date**; and
- the allowances made for charges or expenses and **risk benefits**.

## Year on year changes

2.3.8 **Providers** should consider giving **members** an explanation of any material changes to their **statutory illustration** from the previous **statutory illustration**. For example, **providers** might wish to explain any changes to the **statutory illustration** arising from the abolition of money purchase contracting-out.

## Assets

- 2.3.9 **Providers** should consider stating the value of the **member's current fund** and whether the value is the actual value or has been estimated. If the **current fund** is invested in a with-profits fund or a deferred annuity contract, the **provider** may disclose an amount for the **current fund** which is consistent with information to which the **member** is accustomed to receiving, even if it differs from the asset value used as the basis of the **statutory illustration**. In this case, **providers** should consider giving an explanation or definition of the amount which has been disclosed.
- 2.3.10 If a **member** has a range of investment choices within the arrangement, **providers** should consider explaining the different characteristics (such as risk and return) of alternative future investment strategies.

## Contributions

- 2.3.11 **Providers** should consider stating the amounts paid in the **scheme year** by the Government as tax relief, with any explanation needed, such as explaining that the amount of tax relief shown might omit any higher rate relief received direct by the **member**.
- 2.3.12 If contributions are fixed in nominal terms, **providers** should consider explaining that this represents a reducing real rate of contribution in relation to the assumption made about future inflation.
- 2.3.13 If appropriate, **providers** should consider explaining that the **statutory illustration** includes tax relief in respect of **future contributions** which is expected to be reclaimed and credited to the **scheme** for the benefit of the **member**.
- 2.3.14 If appropriate, **providers** should consider stating that they do not intend to provide subsequent **statutory illustrations** unless further payments are received.
- 2.3.15 **Providers** should consider providing an additional estimate to show the effect of making additional contributions.

## Data

- 2.3.16 **Providers** should consider stating whether the details of the spouse or civil partner have been assumed by the **provider**, have been taken from the **provider's** records or have been specified by the **member**.

## Terms of the arrangements

- 2.3.17 **Providers** should consider providing a description of any guarantees which may apply, such as guaranteed annuity rates.
- 2.3.18 If benefits are underpinned by an amount under the Guaranteed Minimum Pension (GMP) provisions of the State pension arrangements, **providers** should consider including an explanation of the GMP underpin or an accompanying estimate of the amount of pension in respect of the GMP.
- 2.3.19 **Providers** should consider providing details of death benefits before retirement and any death benefits after retirement not taken into account in the calculation of the **statutory illustration**.

- 2.3.20 **Providers** should consider including an explanation of any allowance for a benefit on death of the **member** after retirement, other than a spouse's or civil partner's pension, included in the **statutory illustration**.
- 2.3.21 If a **scheme** does not provide for a pension which increases in line with inflation, **providers** should consider stating this, or providing an indication of how the **member** could use the fund to purchase an inflation-linked pension.
- 2.3.22 **Providers** might wish to consider providing additional information or additional estimates to:
- reflect more closely the **member's** actual circumstances (for example, the **member's** intended date of retirement if it differs from the **retirement date**);
  - show a lump sum on retirement together with a reduced pension amount;
  - show a non-increasing pension; or
  - show a pension for the **member** with no pension payable to a spouse or civil partner on the death of a **member**.

#### **Transfers and divorce**

- 2.3.23 If a transfer of part or all of a **member's** benefits was in hand at the **illustration date** or a transfer value has been received in the year preceding the **illustration date**, **providers** should consider warning the **member** about possible double-counting or omissions if **statutory illustrations** from different arrangements produced on different dates are added together.
- 2.3.24 Where relevant, **providers** should consider stating that the benefits are subject to a pensions debit or earmarking order.

## 3 APPROACH TO SELECTING ASSUMPTIONS

### 3.1 INTRODUCTION

- 3.1.1 This section sets out the approach taken to selecting the assumptions to be used to calculate the **statutory illustration**.

### 3.2 RATIONALE

- 3.2.1 **Statutory illustrations** are intended to provide **members** with a broad indication of the pension to be expected from their **current funds** and **future contributions**. Whatever standard assumptions are chosen for **statutory illustrations**, they are unlikely to be borne out in practice, either in general or for particular individuals.
- 3.2.2 Stable long-term assumptions are more appropriate for younger **members** than assumptions linked to current market conditions, which would be likely to produce more volatile results from year to year.
- 3.2.3 A **statutory illustration** for a **member** close to retirement should be expected to bear some relationship to what the **member** will actually receive on retirement. Although there may still be significant variations between the standard assumptions and what actually occurs, a set of assumptions related to current market conditions would be appropriate for such **members**.
- 3.2.4 The basis for TM1 combines these two approaches. The assumptions for the period before retirement are long-term assumptions. The assumptions for the cost of purchasing annuities at retirement are based on conditions on a particular date, and can vary significantly from one **illustration date** to the next. For a **member** close to retirement, variations in the rate at which the fund accumulates up to retirement may have less effect than variations in the cost of purchasing an annuity at retirement. This does not mean that a **statutory illustration** for a **member** close to retirement will be more accurate than any earlier **statutory illustrations** provided to the **member**, as there are still likely to be differences between the assumptions made and the actual experience (particularly the cost of purchasing an annuity).

## A GLOSSARY [APPENDIX OF SUPPLEMENTARY INFORMATION DOCUMENT]

A.1 Terms used in TM1 are set out below with their meanings. Not all of these terms appear in this document.

<b>accumulation rate</b>	The annual rate of return assumed to be earned up to <b>retirement date</b> from the <b>current fund</b> and <b>future contributions</b> .
<b>annuity rate</b>	The value of an annual pension of £1 at <b>retirement date</b> calculated using the assumptions specified in TM1.
<b>current fund</b>	The relevant assets of the <b>scheme</b> in relation to the <b>member's</b> money purchase benefits at the <b>illustration date</b> .
<b>future contributions</b>	All money purchase contributions due after the <b>illustration date</b> which the <b>provider</b> determines to be part of a regular pre-determined series of contributions expected to continue until the <b>member's retirement date</b> .
<b>illustration date</b>	The date specified by the <b>provider</b> as the date by reference to which amounts are calculated for the purpose of the <b>statutory illustration</b> .  The <b>illustration date</b> will normally be the <b>specified date</b> .
<b>illustration statement</b>	The <b>statutory illustration</b> and accompanying information.
<b>inflation factor</b>	The accumulated assumed inflation from the <b>illustration date</b> to the <b>retirement date</b> .
<b>inflation rate</b>	The assumed annual rate of inflation.
<b>legislation</b>	Legislation governing the provision of <b>statutory illustrations</b> including but not limited to: <ul style="list-style-type: none"> <li>a) <i>the Pension Schemes Act 1993 (c.48) Section 113;</i></li> <li>b) <i>the Personal Pension Schemes (Disclosure of Information) Regulations 1987 (SI 1987/1110);</i></li> <li>c) <i>the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (SI 1996/1655);</i></li> <li>d) <i>the Stakeholder Pension Schemes Regulations 2000 (SI 2000/1403);</i></li> <li>e) <i>the Occupational and Personal Pension Schemes (Disclosure of Information) Amendment Regulations 2002 (SI 2002/1383);</i> and</li> <li>f) <i>the Occupational, Personal and Stakeholder Pension Schemes (Disclosure of Information) Amendment Regulations 2010 (SI 2010/2659).</i></li> </ul>

	Northern Ireland has its own body of law relating to pensions with corresponding legislation.
<b>member</b>	Any person eligible to receive a <b>statutory illustration</b> from a <b>scheme</b> .
<b>nominal accumulated fund</b>	The <b>current fund</b> and <b>future contributions</b> accumulated to the <b>retirement date</b> adjusted where relevant for tax relief, charges and expenses.
<b>provider</b>	The trustees or managers of a <b>scheme</b> , or any other party preparing a <b>statutory illustration</b> on their behalf. Other parties might include advisers, insurance companies or software houses.
<b>real accumulated fund</b>	The <b>nominal accumulated fund</b> expressed in today's (inflation adjusted) terms.
<b>retirement date</b>	A date which the <b>member</b> has specified to the <b>provider</b> and which is acceptable to the <b>provider</b> ; or where no acceptable date has been specified by the <b>member</b> , a date specified by the <b>provider</b> .  A <b>member</b> may have more than one <b>retirement date</b> for different funds or contracts within a <b>scheme</b> .
<b>risk benefits</b>	Benefits payable on death, sickness or critical illness.
<b>scheme</b>	A pension arrangement that is required to provide a <b>statutory illustration</b> under the <b>legislation</b> .
<b>scheme year</b>	The period specified for the provision of a <b>statutory illustration</b> .
<b>specified date</b>	The date the fund is valued for the purpose of the <b>legislation</b> . For an occupational pension scheme, this is normally the last day of the <b>scheme's</b> administrative year.
<b>statutory illustration</b>	The amount of pension calculated in accordance with TM1.

## APPENDICES

# A COMPARISON OF VERSION 2.0 OF TM1 WITH VERSION 1.4 OF TM1

A.1 The table below analysis each paragraph of version 1.4 of TM1 and indicates where corresponding text appears in version 2.0 of TM1 or the supplementary information document (SID).

Version 1.4 of TM1: reference and content	Reference in version 2.0 of TM1
<b>PART 1 INTRODUCTION &amp; OVERVIEW</b>	
<b>1 Introduction</b>	
1.1 Overall aim	1.1.1 - new text under heading Purpose in rubric 1.1.2 - not replaced 1.1.3 - new text in SID 1.3.1
1.2 Coverage, and definitions of <i>Member</i> and <i>Scheme</i>	Text on coverage of SMPs not replaced Definitions of scheme and member in glossary in A.2
1.3 Definitions of <i>Illustration</i> and <i>Provider</i>	Definitions of illustration statement and provider in glossary in A.2
1.4 Effective date and transitional arrangements	1.4.1 - effective date set out in rubric 1.4.2 - not relevant for TM1 v2.0
<b>2 About the Legislation and the Technical Memorandum</b>	
2.1 Relevant Legislation or Authority	Legislation is set out in definition of legislation in glossary in A.2
2.2 Definition of <i>Legislation</i>	Definition of legislation in glossary in A.2
2.3 The <i>Technical Memorandum</i>	Corresponding text under heading Status in rubric
2.4 The relationship between this <i>Technical Memorandum</i> and the relevant legislation	Corresponding text under heading Status in rubric
2.5 Obtaining this <i>Technical Memorandum</i>	No corresponding text
2.6 Future changes to the <i>Technical Memorandum</i>	Replacement text in under heading Future changes to TM1 in rubric
2.7 Definitions of <i>Annual benefit statement</i> and <i>Scheme (statement) year</i>	Definition of annual benefit statement not needed as term not used Definition of scheme year in glossary in A.2
<b>3 Other illustrations</b>	
3.1 FSA Illustrations	Replacement text in SID 1.4
3.2 Illustrations for Stakeholder pensions	Text not replaced as historic references

<b>Version 1.4 of TM1: reference and content</b>		<b>Reference in version 2.0 of TM1</b>
<b>4</b>	<b>General</b>	
4.1	Hybrid benefits	Text not replaced as summarising and interpreting legislation
4.2	Cases where <i>Illustrations</i> are not required	Text not replaced as summarising and interpreting legislation
4.3	Timing	Text not replaced as summarising legislation
4.4	Reasons for the basis chosen	Replacement text in SID section 3
4.5	Variability of <i>Illustrations</i> and actual outcomes	Replacement text in SID 1.3.1 1.3.2
4.6	<i>Current fund</i> and <i>Future contributions</i>	Definition of current fund and future contributions in glossary in A.2 4.6.3 - relevant text in B.5.9 4.6.4 - removed as defined contribution contracting out abolished from 2012
4.7	Spouse's or civil partner's pension	See C.3.8
4.8	The information to be provided to <i>Members</i>	4.8.1 - mostly not replaced but see SID 2.2.1 4.8.2 - no replacement text
<b>PART 2 METHOD</b>		
<b>5</b>	<b>Definitions of Specified date, Illustration date and Retirement date</b>	Definition of specified date, illustration date, retirement date in glossary in A.2
<b>6</b>	<b>Method - general</b>	
6.1	The way in which calculations are carried out	Replacement text in A.1.2
6.2	Precision required in calculations	Replacement text in A.1.2
6.3	Rounding of results	Replacement text in B.2.2, B.2.3
6.4	<i>Scheme (statement) years</i> which are not a period of 12 months	Replacement text in B.8.1
6.5	Equivalent rates for part-years	Replacement text in B.8.1
6.6	Calculating the period between two dates	Replacement text in B.8.2
6.7	"With-profits" funds (including with-profits deferred annuity contracts)	Covered by A.1.4
<b>7</b>	<b>Determining the amount of pension to be illustrated</b>	
7.1	The <i>Nominal accumulated fund</i>	Definition of nominal accumulated fund in glossary in A.2 Calculation method in B.3.2
7.2	Accumulating the elements of the <i>Nominal accumulated fund</i> to the <i>Retirement date</i>	Calculation method in B.3.3 - B.3.5
7.3	Other assumptions	Covered by A.1.3

<b>Version 1.4 of TM1: reference and content</b>	<b>Reference in version 2.0 of TM1</b>	
7.4	Converting the <i>Nominal accumulated fund</i> to a <i>Real accumulated fund</i>	Replacement text in B.3.1, B.3.6
7.5	The amount of pension to be illustrated	Replacement text in B.2.1
<b>8</b>	<b>Current fund</b>	
8.1	Definition of <i>Current fund</i>	Definition of current fund in glossary in A.2 Replacement text in B.4.1 - B.4.4
8.2	Cases involving transferred benefits	Replacement text in B.4.5
<b>9</b>	<b>Future contributions</b>	
9.1	Definition of <i>Future contributions</i>	Definition of Future contributions in glossary in A.2 Replacement text in B.5.1 and B.5.2
9.2	Cases involving transferred benefits	Replacement text in B.5.16
<b>10</b>	<b>Determining Future contributions and the cost of Risk benefits</b>	
10.1	Determining the initial amounts of <i>Future contributions</i> and the cost of <i>Risk benefits</i>	Replacement text in B.5.3 - B.5.7 and in B.6.1 - B.6.4
10.2	Determining <i>Future contributions</i> and the cost of <i>Risk benefits</i> for each subsequent year	Replacement text in B.5.8 - B.5.11 and in B.6.5 - B.6.8
10.3	Other aspects	Replacement text in B.5.12 - B.5.15
<b>PART 3 ASSUMPTIONS</b>		
<b>11</b>	<b>Mortality</b>	
11.1	Before retirement	Replacement text in C.2.2
11.2	After retirement	Replacement text in C.3.7
<b>12</b>	<b>Spouse's or civil partner's benefit</b>	
12.1	Marital or civil partnership status and contingent spouse's or civil partner's benefit	See C.3.8
12.2	Age difference between <i>Member</i> and spouse or civil partner	See C.3.9
<b>13</b>	<b>Other retirement assumptions</b>	
13.1	Payment frequency	Replacement text in C.3.12
13.2	Payment format	Replacement text in C.3.11 and C.3.12
13.3	Lump sums at retirement	Replacement text in C.3.1
<b>14</b>	<b>Rates of increase in the Retail Prices Index and in earnings</b>	See C.2.9 and C.2.10
<b>15</b>	<b>Accumulation rates and Annuity rates</b>	

<b>Version 1.4 of TM1: reference and content</b>	<b>Reference in version 2.0 of TM1</b>
15.1 Accumulation rate before retirement	Replacement text in C.2.3 - C.2.8
15.2 Interest rates to be used in calculating <i>Annuity rates</i>	Replacement text in C.3.2 - C.3.4
<b>16 Expenses</b>	
16.1 Before retirement	Replacement text in C.2.11 - C.2.15
16.2 After retirement	Replacement text in C.3.6
<b>17 Asset value</b>	Replacement text in B.4.1
<b>18 Tax relief on contributions</b>	Replacement text in C.2.16
<b>19 Contracted-out rebates</b>	
19.1 Contracting-out assumption	Removed as defined contribution contracting out abolished from 2012
19.2 Determining contracting-out rebates	Removed as defined contribution contracting out abolished from 2012
<b>APPENDIX A: INFORMATION TO ACCOMPANY THE ILLUSTRATION</b>	
<b>A1 General</b>	Covered by SID 2.1 and 2.2
<b>A2 Information to accompany the <i>Illustration</i></b>	
A2.1 The nature of the <i>Illustration</i>	A.2.1.1- legislative requirements not repeated but part of notes covered by SID 2.2.3 A.2.1.2 - legislative requirement not repeated
A2.2 Obtaining further information	Legislative requirement not repeated

<b>Version 1.4 of TM1: reference and content</b>	<b>Reference in version 2.0 of TM1</b>	
A2.3	Statements about assumptions	<p>A.2.3.1 - legislative requirements not repeated but part of notes covered by SID 2.3.7</p> <p>A.2.3.2 - legislative requirement not repeated</p> <p>A.2.3.3 - legislative requirements not repeated but part of notes covered by SID 2.3.21</p> <p>A.2.3.4 - legislative requirements not repeated but part of notes covered by SID 2.3.4</p> <p>A.2.3.5 - legislative requirements not repeated but part of notes covered by SID 2.3.12 and 2.3.13</p> <p>A.2.3.6 - removed as defined contribution contracting out abolished from 2012</p> <p>A.2.3.7 - legislative requirements not repeated but part of notes covered by SID 2.3.7</p> <p>A.2.3.8 - covered by SID 2.3.7</p>
A2.4	Relevant dates	Legislative requirement not repeated
A2.5	Provision of subsequent <i>Illustrations</i>	Legislative requirement not repeated
A2.6	Identifying the <i>Member</i> and the <i>Scheme</i>	Covered by SID 2.3.2
A2.7	Frequency of payment of pensions	Not covered
A2.8	<i>Current fund</i>	Covered by SID 2.3.9
A2.9	Contracted-out benefits	<p>Mostly removed as defined contribution contracting out abolished from 2012</p> <p>A.2.9.3 covered by SID 2.3.18</p>
A2.10	Death benefits (other than spouses' or civil partners' pensions)	Covered by SID 2.3.19 and 2.3.20
A2.11	Tax relief	Covered by SID 2.3.11
A2.12	Investments	Covered by SID 2.3.10
A2.13	Guarantees	Covered by SID 2.3.17
A2.14	Transfers	Covered by SID 2.3.23
A2.15	Pensions debit or earmarking orders	Covered by SID 2.3.24
<b>A3</b>	<b>The provision of further illustrations</b>	Covered by SID 2.3.22
<b>APPENDIX C: NORTHERN IRELAND LEGISLATION</b>		Referred to in definition of legislation in glossary in A.2
<b>APPENDIX D: ASSUMPTIONS</b>		
<b>D1</b>	<b>Mortality after retirement</b>	See C.3.7

<b>Version 1.4 of TM1: reference and content</b>		<b>Reference in version 2.0 of TM1</b>
<b>D2</b>	<b>Rates of increase in the Retail Prices Index and earnings</b>	See C.2.9 and C.2.10
<b>D3</b>	<b>Accumulation rate before retirement</b>	See C.2.3 to C.2.8
<b>D4</b>	<b>Annuity rate</b>	See C.3.2 to C.3.5
<b>D5</b>	<b>Expenses at retirement</b>	See C.3.6

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