Aegon Response to

Financial Reporting Council

Exposure Draft AS TM1: Statutory Money Purchase Illustrations

December 2013

1. Introduction

Aegon welcomes the opportunity to respond to the FRC's proposals and Exposure Draft for AS TM1: Statutory Money Purchase Illustrations.

We appreciate the timing issues in terms of the publication of disclosure regulations and the need to subsequently produce a revised TM1. Given the other changes to disclosure that are required for the FCA by 6 April 2014, the main point we would like to make in our response is for FRC to adopt the current FCA basis for non-increasing pensions under TM1, or allow firms the option between the two until considered further as part of the FRC's 2014 review.

The gap between the two yields for a non-increasing pension would currently produce a difference in monthly income of less than £10 for a fund value of £50,000; the FRC proposed basis producing the higher annuity, so retaining the FCA basis, albeit currently, errs on the cautious side for the member. While we appreciate the rationale for the FRC's proposal for non-increasing pensions, we would like to see harmonisation of both FCA and FRC bases. We do not consider it appropriate to incur costs now to introduce a change for this order of difference. Ultimately this is an estimate – what scheme members get in practice will depend on the annuity rate they can secure, so precision is not required here.

If you have any queries on any aspect of our response, please contact

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2. Responses to Specific Questions

1. Do respondents agree with the proposed approach to the allowance for cash in the calculation of the statutory illustration (paragraph 3.3)?

Yes. In our experience most people take a cash sum when they retire, so reflecting this in the illustration is helpful.

We also agree the methodology proposed.

2. What are respondents' views on the proposed approach to the cash assumption (paragraphs 3.6 to 3.8)?

We agree with the FRC's approach that the cash sum should not exceed the amount proposed by legislation. Doing otherwise may generate unrealistic expectations.

We agree that where the proportion is assumed to be greater than 25%, the rationale should be set out.

3. Do respondents agree with the proposed approach for to the spouse's or civil partner's pension (paragraphs 3.10 to 3.12)?

Yes. We support the flexibility this proposal gives.

4. Do respondents agree with the proposed approach for the interest rate used for annuity rates when providers illustrate a non-increasing pension (paragraph 3.19 to 3.23)?

Of the two options FRC considered as set out in paragraph 3.19, the second is inconsistent with FCA rules and would place new requirements, alongside the FCA basis, for the calculation methodology. We would urge FRC to reconsider implementing this for 6 April 2014 for the following reasons.

On a cost-benefit level, the gap between the two yields for a non-increasing pension would currently produce a difference in monthly income of less than £10 for a fund value of £50,000; the FRC proposed basis producing the higher annuity, so retaining the FCA basis, albeit currently, errs on the cautious side for the member. While we appreciate the rationale for the FRC's proposal for non-increasing pensions, we would like to see harmonisation of both FCA and FRC bases. We do not consider it appropriate to incur costs now to introduce a change for this order of difference.

On a practical level, any changes require a certain lead-in time to allow for specification, testing and changes to procedure. Bringing in changes to that process for a single date introduces new requirements to that process and we believe creates unnecessary risk in delivery. In addition, this introduces an unnecessary inconsistency between FCA projections and annual statements that may require additional explanation to our customers.

Since the first option in 3.19 is consistent with FCA rules for projections and would require the least change, we suggest that the FRC either retains the current FCA basis for non-increasing pensions or allows firms the option between the two until considered further as part of the FRC's 2014 review.

Whichever approach is taken, in the longer term we would like FCA and FRC bases to be the same and to be changed consistently, with appropriate lead-in times.

5. Do respondents agree with the proposed approach for the interest rate used for annuity rates when providers illustrate a pension that increases at other rates (paragraph 3.25)?

Yes.

6. Should AS TM1 suggest that providers should disclose the accumulation rate used net of inflation (paragraphs 3.28 to 3.29 and 3.36)?

We agree with this as a suggestion, although this should not preclude providers from also being able to disclose the nominal rate should they wish to do so.

7. Do respondents agree with our proposal not to amend the price inflation assumption (paragraph 3.32)?

Yes. This could form part of the FRC’s wider review in 2014.

8. Do respondents agree with our proposal not to amend the earnings inflation assumption (paragraphs 3.33 to 3.34)?

Yes. This could form part of the FRC’s wider review in 2014.

9. What other aspects of AS TM1 do respondents suggest should be considered in our review of AS TM1 next year?

2014 will be a significant year in terms of the government’s automatic enrolment agenda. We would ask that consideration is given to that, in terms of any further changes, and that we have a realistic and flexible timetable, giving where appropriate some transitional provisions so that changes can be scheduled to coincide with other systems and communications developments.

10. Do respondents agree that the changes to AS TM1 should be effective for statutory illustrations issued on or after 6 April 2014?

We do not agree with the FRC’s view that there is no need for a transitional period if the proposal for non-increasing pensions is implemented. We have had to take into account revised regulations alongside other changes specifically to avoid making any changes in 2014, which is a significant year for automatic enrolment.

If the FRC accepts the arguments in our answer to question 4, we recommend it allows firms to adopt these changes earlier than 6 April 2014. If our arguments are rejected we would like a transitional period of six months, allowing implementation from 6 April 2014 to 6 October 2014 – to enable us to make the required changes.