Financial Reporting Council

Exposure Draft
AS TM1: Statutory Money Purchase Illustrations, Version 4.0

Response from The Pensions Management Institute

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Introduction

The Pensions Management Institute (PMI) is the professional body which supports and develops the experts who run UK pension schemes.

PMI is at the very heart of the pensions industry with a membership of some 6,000 pensions professionals and trustees which includes many of the thought leaders who drive retirement provision in this country.

The PMI's Response

We have not responded to questions 4 and 5 as others are in a better position to comment on the pricing of annuities than the PMI. Our responses to the other questions are set out below:

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

We agree with the proposed approach.

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

We agree that an explanation should be provided if a higher cash sum than 25% or that permitted by the rules/legislation is assumed.

However, we query whether it would be appropriate to allow projections assuming cash payments that would be subject to tax, and suggest that restrictions should be based on the tax-free limits that apply to a member's benefits rather than on the amounts permitted by legislation.

We also note that in some cases it may be possible to justify an assumption that the whole of the accumulated fund is taken as cash (for example on a tax-free basis where a scheme's policy is to allow a member of a DB scheme to take 100% of an AVC fund in cash leaving the DB pension intact or, in some circumstances, as a taxed lump sum). We suggest that the FRC considers in its more fundamental review whether an explanation should be provided whenever the projection includes an assumption that more than 25% of the accumulated fund is taken as cash, and whether it should encourage statement providers to ensure there is sufficient information provided for a member to understand the effect on their pension of the amount of cash taken.

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

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)?

It may be of educational value to members to show the accumulation rate net of the assumed inflation rate, but we suggest that, if this change is implemented, both the nominal and real rates are shown; members may be confused if, as is possible, the net accumulation rate is negative.
Any return indicated should be shown net of expenses.

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

We consider this is reasonable, but suggest that it is made clear whether this is intended to be a RPI or a CPI target (this may be a point better considered as a part of the more fundamental review in 2014 - see additional comments below under question 9).

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

In previous consultations we have suggested that an allowance for a modest rate of future salary increases, say 1% pa above price inflation, is included in TM1 projections. We continue to believe this would be appropriate.

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

We have suggested above that further information should be provided whenever the cash assumption is more than 25% of the accumulated fund.

We suggest that the basis of the inflation assumption, ie whether it is intended to reflect RPI or CPI is reviewed and clarified, particularly as most commentators would suggest current expectations are that the gap between these two assumptions could be in the order of 1% pa.

In its Consultation Response leading to the introduction to V3.0, the FRC intended to follow up with major statement providers, both for trust and contract based schemes, with regard to accumulation rates. We suggest the more fundamental review of AS TM1 next year should cover the experience to date in this area, in particular the FRC should be ensuring that an appropriate range of returns is being applied to different fund options, and that member's future investment intentions are being reflected (eg where they are in a lifestyle-type fund), for example by requesting samples of published rationales.

We encourage the FRC to achieve as much consistency as it is able between the basis of SMPIs and of information provided under the FCA rules.

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