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The Director of Actuarial Policy
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Our Ref: JM/JB/4.22

December 13th 2013

Dear Sir or Madam,

EXPOSURE DRAFT: AS TM1 – STATUTORY MONEY PURCHASE ILLUSTRATIONS

We welcome the opportunity to comment on the above exposure draft.

INTRODUCTION TO SPC

SPC is the representative body for a wide range of providers of advice and services to work-based pension schemes and to their sponsors. SPC's Members' profile is a key strength and includes accounting firms, solicitors, insurance companies, investment houses, investment performance measurers, consultants and actuaries, independent trustees and external pension administrators. SPC is the only body to focus on the whole range of pension related services across the private pensions sector, and through such a wide spread of providers of advice and services. We do not represent any particular type of provision or any one interest - body or group.

Many thousands of individuals and pension funds use the services of one or more of SPC's Members, including the overwhelming majority of the 500 largest UK pension funds. SPC's growing membership collectively employs some 15,000 people providing pension-related advice and services.

This exposure draft has been considered by SPC's Actuarial, Administration, and Defined Contribution Committees, which comprise representatives of actuaries and consultants, pension administrators, pension lawyers and product providers.

GENERAL COMMENTS

We support the concept of trying to make the SMPI better reflect the actual benefits a member is likely to receive. There are twin dangers with under- or over-stating a member's benefits; overstating could lead to disappointment at retirement whilst understating could lead to a "why bother?" attitude to saving. Some consistency between illustrations could be lost in applying these proposals, but the crucial point-of-sale illustrations will not be affected and the fact members should see a more realistic illustration of their retirement income is welcome.

1) We suggest that when the revised AS TM1 is published, the opportunity is taken to emphasise very clearly that the changes introduced represent a series of permissive measures.

2) We note that the proposed changes to the Disclosure legislation contain reference to cash balance schemes in the context of statutory money purchase illustrations. However, this is not reflected in the current revision of AS TM1.

3) This is not covered by a numbered consultation question, but we are aware that there has been some perception that paragraph 3.37 is intended to be obligatory.

   We would have no objection to any suggestion, in the context of question 6, that providers consider disclosing the accumulation rate used, net of inflation, provided, as seems clear to us, that this is, indeed, just a suggestion.

RESPONSES TO CONSULTATION QUESTIONS

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

We have no objection to the proposed approach in principle, but effective communication with members will be important, to explain the connection between an apparent reduction in pension and the allowance for cash.

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

Our only comment is that there is an apparent inconsistency between the use of a nominal accumulated fund in the context of the lump sum and the use of a real accumulated fund in the context of pension. It is essential that the guidance is clear regarding both the calculation of the lump sum and how it should form part of the illustration.

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

It will be important to communicate to members the connection between an apparent increase in pension and a possible reduction in the illustrated amount of spouse's or civil partner's pension arising from the change in the Disclosure regulations.

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

We have no objection to the proposed approach although it is not consistent with the FCA Conduct of Business rules.

Question 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)?

We have no objection to the proposed approach.

Question 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)?

Yes.

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

Yes.

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

Yes.

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

We have no suggestions.

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

Since the changes are permissive, the proposed effective date is reasonable, although not all issuers of SMPLs will be in a position to implement the changes from them.

Yours sincerely

John Mortimer
Secretary