

Board of Actuarial Standards: Consultation on Exposure Draft of TM1 (Statutory Money Purchase Illustrations)

Hymans Robertson's Response to BAS' Consultation on TM1

In November 2013 the Financial Reporting Council (FRC) published an Exposure Draft of TM1: Statutory Money Purchase Illustrations. This is Hymans Robertson LLP's response to that consultation.

Hymans Robertson's views

Our previous responses have outlined our views on why TM1 should be withdrawn and replaced by a directive to schemes and providers to ensure members have the correct information in order to make educated decisions about their pensions.

We believe that there are significant uncertainties in illustrations and would also say that SMPs fail to assist individuals understand the extent to which they need to make further provisions. The question here is actually about how to educate members so that they have the knowledge and understanding to make choices and decisions about their pension. Our research shows that effective communication is the key to this. The annual benefit statement is the document which members are most likely to read and take action on.

However, we appreciate that at present providers and trustees are required to issue SMPs. Therefore, we welcome the publication of this consultation paper and support the aims it sets out to achieve. The changes proposed are a positive step in achieving the aim to providing more bespoke statements and providing greater flexibility to produce illustrations that more closely reflect scheme benefits or member choices.

Enquiries

If you have any comments on this response, please address them to Stuart Vincent, whose contact details are below.

Email: stuart.vincent@hymans.co.uk

Tel: 0207 082 6194

For and on behalf of Hymans Robertson LLP

Appendix

This appendix outlines Hymans Robertson LLP's direct responses to FRC's questions highlighted in their consultation paper on the exposure draft of TM1.

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 proposal to allow a cash sum to be shown within the illustration, in particular the definition of the lump sum and the amended fund value to take account of the lump sum taken. In order to be consistent with the pension shown, we suggest that the lump sum should be expressed in real terms. It would be beneficial to state the disclosure requirements here and if this is shown on an illustration, to state that taking a lump sum is not a requirement for members.

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

We support the proposals to normally limit the lump sum to that stated in the scheme rules, and to require the rationale for any figure other than 25% of the accumulated fund to be documented. With regards to what is stated in legislation, however, we assume that you mean the tax free lump sum and this should be stated, as a member can take greater than this but will incur a tax charge.

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

We agree with the proposed approach for the spouse or civil partner's pension stated in paragraphs 3.10 to 3.12. This provides greater flexibility and supports our view for bespoke statements.

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)?

We have no objection to the proposed approach.

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.

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 do support the idea of showing net rates, but we think there is an educational piece here for users, particularly if they are comparing statements from previous years. If this approach is adopted, we recommend that last years' accumulation rates are re-stated for comparative purposes on the net rate basis (we would only expect this to be required for the first year in order to avoid any confusion and assist with the transition to net rates). We feel that it would be beneficial to express the net rates in the form inflation + x%.

We also feel that consideration needs to be given as to whether to state rates net of investment charges; either way this should be clearly stated.

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

We are satisfied that there is no reason to suggest that the price assumption should be amended.

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

We have no objection to the proposed approach.

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

Some of the areas we suggest might form part of upcoming reviews are:

- Ensuring that the mortality assumption is aligned to that used by insurers. We support the recent move to using CMI projections and allowing for the evolution of improvements. However, we also think more consideration should be given to base tables, potentially S1 tables, and also monitoring the changing market as a result of auto-enrolment;
- Reviewing the annuity expenses assumption to ensure this is in line with market practice; and
- Considering consistency of projections from one year to the next and greater emphasis on explaining any differences between projections. We would expect this to be considered annually to reflect any major changes in market conditions as well as changes to the assumption methodology.

As stated previously, we believe further steps can be taken to educate users and provide consistency in illustrations that may be provided by providers.

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

We encourage the adoption as soon as possible and therefore support this.

Other comments

We think that the Supplementary Information document issued with TM1 v2.0 is useful and should be updated. Also, there is a danger that reliance can be placed on an out-of-date document should it not be updated.