Response to:
Financial Reporting Council (FRC)
Consultation
on
AS TM1: Statutory Money Purchase Illustrations

Introduction

Scottish Life and Royal London Group are pleased to respond to this consultation on AS TM1: Statutory Money Purchase Illustrations.

About Scottish Life

Scottish Life was founded in 1881 in Edinburgh as a proprietary company, becoming a mutual company in 1968.

On 1 July 2001, Scottish Life demutualised and transferred its business to The Royal London Mutual Insurance Society Limited. Scottish Life is a division of Royal London and is the specialist pensions business within the Group, providing individual and group pensions to the market via intermediaries.

About Royal London

Royal London was founded in 1861, initially as a friendly society, and became a mutual life insurance company in 1908. Royal London is the largest mutual life and pensions company in the UK with Group funds under management of £73.5 billion. Group businesses serve around 5.5 million customers and employ 3,160 people. (Figures quoted are as at 30 September 2013.)

Our response

Our response is made up of 2 parts:

1. Our general view

2. Answers to the questions posed in the consultation.

1. Our general view

We welcome your review of AS TM1. We believe that it's important that illustrations issued to customers reflect their own circumstances wherever possible so as to be meaningful. It's also important that those who prepare and issue illustrations to customers have some flexibility as to what is included in these illustrations and when, to ensure consistency with other communications/developments being introduced for customers. It also allows businesses like ours to plan changes more cost effectively.

Accordingly, we are in favour of the proposals as outlined. They offer the flexibility to introduce more meaningful illustrations to our customers, but to do this in a constructive way.

Looking forward it is our view that there should be greater consistency between the illustrations required under both AS TM1 and FCA rules.

2. Responses to the questions

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 to including an allowance for cash in the illustration. It is important that there is flexibility to include this or not. We would not be in favour of this being compulsory, it should be optional.

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

   We agree with the proposed approach to the cash assumption.

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 spouse's or civil partner pensions. Again it is important that this is optional not compulsory.

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 agree with the proposed approach on the basis that it is optional, not compulsory.

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 agree with the proposed approach on the basis that it is optional, not compulsory.

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)?**

   In principle we agree with this as it allows an easier comparison to be made with illustrations governed by FCA rules. We do have concerns though as to how we will describe this where the growth rate net of inflation turns out to be negative.

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

   We have no concerns if this stays the same – but please see response to question 9.

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

   We have no concerns if this stays the same – but please see response to question 9.

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

   Looking forward, and as mentioned earlier, we think it's important that there is consistency between AS TM1 and FCA rules. Customers would benefit from this as the illustrations they receive when they take out their pension plan and each year at their renewal would be done on the same basis. This would allow customers to better track how their pension is performing as they would be comparing like with like. The current position is unsatisfactory as we have to explain the differences; the main ones being the different assumptions used for earnings related contribution increases, and the 5% cap on intermediate growth under FCA rules.

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

    We agree that the effective date for these changes to AS TM1 should be 6 April 2014 on the basis that the only compulsory change is the requirement to disclose the accumulation rate used net of inflation.