Proposed amendments to AS TM1.

1. This is the response of Legal & General Assurance Society Limited to the Financial Reporting Council's consultation on proposed amendments to AS TM1

2. Legal & General is a leading provider of both trust and contract-based defined contribution and defined benefit individual and workplace pension schemes. We have been in this market for over 50 years and have significant experience in the operation, governance and administration of such schemes.

3. Our comments are offered in the spirit of co-operation based on our long experience in running workplace pension schemes and our understanding of the regulatory regimes and actuarial practice applicable to both trust and contract-based schemes.

4. We would be very pleased to engage in further discussion of any of the points raised in this response. In the first instance, please contact:

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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 we agree with this. However, the wording may imply that allowance for the cash lump sum is mandatory. The final version of TM1 needs to make it clear that this is an optional requirement.

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

   We agree with this approach. However, the guidance needs to make it clear that the lump sum illustrated need not reflect the specific basis of calculation applicable to individual members. For example, a scheme could decide to illustrate for a 25% cash sum in all cases (irrespective of whether a higher sum might be payable), but caveated with a note that this is just for illustration purposes and that the actual amount would be specific to the member's entitlement at the time benefits are 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 we agree with this.

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 agree that in real life the basis proposed is justified. In real life, the interest rates would be monitored more frequently resulting in more frequent pricing changes. In contrast, for projection purposes the interest used is essentially historical – determined in February – and this rate is in use for 2 to 14 months after this date. Given this, we question whether there is anything to be gained by having a basis that is different from the FCA. It would, in fact, make it difficult to explain the difference to a customer if the benefit statement were to include both SMPI and FCA projections.

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 we agree with this. However, given the different interest bases being proposed for index linked and level pensions, it would be open to subjective interpretation as to which basis to apply in certain situations such as Limited Price Indexation and capped increases.

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 the absence of any guidance or regulatory requirement, it would be up to the scheme to determine and given that FCA require net rates in FCA-compliant illustrations, it would be unlikely that rates disclosed in a SMPI would be gross. It may be better to state that rates ought to be consistent with those disclosed elsewhere. If a scheme does not provide FCA projections alongside SMPI, it should still be up to the scheme to determine whether the growth rate is gross or net of inflation – with an appropriate explanation to inform members exactly what assumptions have been used.

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

Yes we agree with this.

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

We do not agree with maintaining the earnings assumption at 2.5%. The main reason for this was to reduce the complexity of calculations. Other points made in paragraph 3.33 are not justifications for the proposal. This original reason is no longer valid given that FCA projections will also be expressed in real terms and the calculations will have to support an earnings inflation rate that is different from price inflation.

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

We do not have any suggestions.

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

Yes we agree with this. It is important the TM1 guidance is updated to coincide with the effective date of the DWP disclosure regulation changes.