Consultation response

B&CE's response to the Financial Reporting Council consultation on proposed amendments to AS TM1: Statutory Money Purchase Illustrations (SMPIs)

B&CE believes that annual benefit statements are an important communication tool for pension scheme members. Statutory Money Purchase Illustrations (SMPIs) form a key part of these statements, providing a valuable planning tool for retirement.

We are pleased to see that over the recent years TM1 and Financial Conduct Authority (FCA) projection bases have become more aligned. This helps customers to see equivalent figures from all providers on a consistent calculation basis.

There is an inevitable trade-off between prescribing how SMPIs should be calculated and introducing a more flexible approach to allow a greater degree of personalisation. This point was acknowledged in the DWP's response to its consultation on the disclosure regulations. Allowing greater flexibility will inevitably lead to inconsistencies of approaches between different providers and makes comparison across schemes more difficult. That said, the flexibility introduced through the new regulations means that trustees can better tailor the projections to suit their scheme membership. Our overarching concern is to do what is best for the scheme member so we think a health warning is needed to guard against the situation of people making erroneous comparisons.

B&CE welcomes the opportunity to respond to the Financial Reporting Council's consultation on SMPIs.

Our comments on the questions set out within the consultation are below.

1. **Do respondents agree with the proposed approach to the allowance for cash in the calculation of the statutory illustration?**
   Yes. We believe it would be helpful for customers to see the effect of taking a tax-free lump sum on their pension, as the majority of them will take a tax-free cash sum at retirement.

   We intend to show the projected effects of taking a lump sum and residual pension, in addition to assuming that all of the projected fund will be used to purchase an annuity. This will give members the option to compare between two projections.

2. **What are respondents' views on the proposed approach to the cash assumption?**
   We agree with the proposed approach.

3. **Do respondents agree with the proposed approach to the spouse's or civil partner's pension?**
   We agree with the added flexibility of the proposed approach. However, this added flexibility is very likely to lead to inconsistencies between providers, thereby going against one of the aims of AS TM1 to provide consistent illustrations between different providers.

   We support the ABI's view to encourage members to consider a joint-life annuity if they are married, have a partner and/or dependant/s. We intend to continue to provide projections on that basis.

4. **Do respondents agree with the proposed approach for the interest rate used for annuity rates when providers illustrate a non-increasing pension?**
   As our SMPI assumptions are based on an increasing pension, we do not have any comments on this question. We intend to continue on that basis.

5. **Do respondents agree with the proposed approach for the interest rates used for annuity rates when providers illustrate a pension that increases at other rates?**
   Our SMPI assumptions are based on a pension that increases yearly in line with inflation (the change in the Retail Prices Index). We intend to continue on that basis. Therefore, we do not have any comments on this question.

6. **Should AS TM1 suggest that providers should disclose the accumulation rate used net of inflation?**
   Yes, which is consistent with the FCA's illustrations and the current SMPI basis. We believe that disclosing the accumulation rate used net of inflation provides a realistic view of returns to the member.

7. **Do respondents agree with our proposal not to amend the price inflation assumption?**
   Yes.

8. **Do respondents agree with our proposal not to amend the earnings inflation assumption?**
   Yes.

9. **What other aspects of AS TM1 do respondents suggest should be considered in our review of AS TM1 next year?**
   Providers only recently implemented the last set of changes to SMPIs and yet there is another set of changes proposed for April 2014.

   We need time to assess the impact of the changes that are happening this year, gauging reaction from members and other providers alike, before we suggest any points to be considered for next year.

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 do not have any objections for the changes to TM1 to be effective from 6 April 2014 as we currently do not plan to make any system changes, other than showing the allowance for cash in the calculation.