To: The Director of Actuarial Policy, Financial Reporting Council

From: Association of Member-Directed Pension Schemes

Proposed amendments to AS TM1: Statutory Money Purchase Illustrations

About AMPS

AMPS is the main trade body that looks solely after self-invested pensions, or member-directed pension schemes, such as Self Invested Personal Pensions (SIPPS) and Small Self Administered Schemes (SSASs).

AMPS has in excess of 200 member firms representing all parts of the industry: SIPP providers, SSAS practitioners, pension lawyers, software developers, banks and investment houses. Amongst our members are some of the largest pension providers but also some boutique firms.

Our response

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

The allowance of a cash lump sum is a welcome addition to the calculation as the reality is that nearly all individuals take their lump sum entitlement and therefore the illustration would be more closely aligned to the large majority of cases.

Such a change would make the SMPI aligned more closely to new business illustrations which explicitly assume cash is taken prior to the calculation of the available annuity.

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

The cash assumption makes sense. Tax free cash can be greater or less than 25% of the fund due to various lump sum protections that are in existence following the changes made in April 2006.

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 that the proposed approach makes sense as it again allows pension providers the ability to align the SMPI to the assumptions used in other projections.

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 that the proposed approach seems reasonable to determine the interest rate to be used.

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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)?

There are many permutations for pensions that increase therefore the most appropriate approach would be to require the basis to be consistent with the standard assumptions already set out in the Technical Memorandum.

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 wholeheartedly agree that there should be consistency with the FCA assumptions and this should be disclosed in the illustration.

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

There seems to be no compelling reason to make any changes to price inflation at this time.

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

Earnings inflation is too difficult to predict with any accuracy and therefore we do not see the need to amend it at this time.

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

There should be consideration given to the assumption of 4% for expenses. With the introduction of RDR and other factors, 4% does seem on the high side. However any review of expenses does need to be looked at in relation to expense allowances used across other pension related projections.

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

The timescale would make sense based on the FCA changes coming into effect at the same time.

Stephan Wood

For and on behalf AMPS Committee