

The Director of Actuarial Policy
Financial Reporting Council
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Response to FRC Consultation AS TM1: Statutory Money Purchase Illustrations

AXA Wealth is a part of the AXA Group. The AXA Group is a worldwide leader in insurance and asset management serving 101 million clients. It is ranked the largest insurer in the world by net written premium and the top insurance brand globally.

AXA Wealth provides a range of specialist pensions and investment products, including SIPPs (both individual and group), onshore and offshore bonds and variable annuities. The business also includes AXA's Elevate platform which manages customer assets of £4.3 billion.

Summary of AXA Wealth's Views

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

- Agreed. It would be useful to clarify whether or not is permitted to show more than one possible style of benefit on an illustration (eg the amount of pension shown with and without a tax free lump sum or a pension shown both not increasing and increasing with inflation). The terminology in AS TM1 uses the singular which, without clarification, would indicate only one pension can be illustrated.

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

- Happy with this approach. It would be useful to clarify whether the cash lump sum should be shown in real or nominal terms (or both).

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

- Agreed

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)?

- Use of the yield on fixed interest gilts for annuities not linked to inflation has its merits, but creates issues that it will not be consistent with any FCA illustration which uses the index linked calculation plus 3.5% for the mid projection annuities. Although there may be other differences, such as the growth rate used, this may be an unnecessary difference from an FCA illustration the member has received. In addition it introduces a new parameter (and hence further development and cost) into the calculations of projections rather than use an existing parameter.

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)?

- Agreed

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)?

- The implication in is that the description on the illustration of the rates assumed in the calculation should only be the real rate (paragraph 3.36). It would be useful to clarify, so for example for a 5% accumulation rate and a 2.5% inflation assumption should it state:
 - o only a return after inflation of 2.5% (and nothing else),
 - o only a return after inflation of 2.4% (and nothing else). 2.4% being $\{(1+5\%)/(1+2.5\%) - 1\}$ rounded, or

- o state the 2.5%/2.4% as above as well as stating the 5% accumulation rate and 2.5% inflation assumptions?

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

- No comment

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

- No comment on the assumption. It would though be useful to clarify the earnings assumption to use for charges that inflate in line with earnings. C2.9 states "charges ...must be assumed to be an amount not less than those required by the FCA Rules". Those FCA rules require such charges to be inflated by 4%, so C2.9 implies we must use 4% inflation also for SMPs. Is this correct?

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

- No comment

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

- No comment

Please don't hesitate to contact me should you require any further information.

Response on behalf of AXA Wealth.

Regards

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