Institute
and Faculty
of Actuaries

Exposure Draft – AS TM1: Statutory Money Purchase Illustrations

Financial Reporting Council

16 December 2013

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

The Director of Actuarial Policy
Financial Reporting Council
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

13 December 2013

AS TM1: Statutory Money Purchase Illustrations

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the Financial Reporting Council's invitation to comment on the amendments to AS TM1. Members of the IFoA who work in the pensions industry, both for life insurance companies and pension consultancies, have prepared this response.

Our answers to the specific questions asked by the FRC are as follows.

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

The IFoA welcomes with the proposed approach as it reflects what many members opt to do at retirement.

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

The IFoA agrees with the change to the approach for cash sums. The proposed approach provides flexibility, if required, for providers to illustrate what may happen at retirement. This will enable providers to disclose information that is most relevant to scheme members.

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

The IFoA agrees with the proposed change. Similarly to our response to question two, the proposed approach will allow providers to tailor illustrations to members' needs.

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)?

In respect of the purpose of AS TM1, we agree with the proposed approach for the interest rate assumption.

As the impact of automatic-enrolment will bring more individuals into pension scheme membership, it is important to minimise any potential confusion for those new members. It appears that having point-of-sale illustrations that are different to SMPIs creates opportunity for misunderstanding. As we suggested in our response to last year's consultation, customers benefit from having consistent information. In light of recent consultations from the Department for Work and Pensions concerning better standards for pension provision, we believe there would be benefit in having the point-of-sale illustrations and SMPIs aligned to provide consistent disclosure for members. We would welcome the opportunity to contribute to this debate.

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 (paragraphs 3.25)?

The IFoA agrees with the proposed approach. We welcome the flexibility offered to providers in setting the pension increase rate, but we agree that the methodology should be consistent with the other approaches used.

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 IFoA does not view the disclosure of the net accumulation rate as an essential requirement for scheme members. However, where the provider makes the disclosure, showing the net accumulation rate is appropriate.

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

The IFoA agrees with this proposal.

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

We agree with this proposal. We would also agree with the underlying recognition that the relationship between earnings and prices has not always been constant; therefore, we would welcome a regular specific review of this assumption.

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

In addition to the assumptions mentioned in 3.41, we would encourage a review of the earnings assumption and allowance for price inflation if economic activity were to continue growing. As mentioned in our response to question four, we would also welcome any discussion with the FCA that would enable the disclosure of consistent illustrations.

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

The IFoA has no objections to the changes taking effect from 6 April 2014.

If you wish to discuss any of the points raised, please contact Philip Doggart, Policy Manager (philip.doggart@actuaries.org.uk/ 01312407319) in the first instance.

Yours sincerely,

David

David Hare
Institute and Faculty of Actuaries, President