We wish to comment on the proposals for annuity rates for non-increasing pensions set out in paragraphs 3.18 – 3.23. Whilst we understand the rationale for using what may be a potentially better fit provided by the 15 year fixed interest index, we are concerned that the assumption set for TM1 is drifting away from the FCA basis.

One of the purposes of SMPI statements is to allow members to assess whether or not they need to pay more money into their pension arrangement. So a member may, for example, have seen that his current projected pot at retirement is, say, £30,000 and on the proposed basis this would generate a level annuity of £1,500 per annum. If he then asks for an illustration on the FCA basis of the effect of contributing an extra amount a different annuity conversion rate will effectively be shown to him. When providing "top up" quotes most providers like to show what the person would have received before the increase and after the increase, so in the example the member would have seen on the FCA basis that perhaps the current projected pot of £30,000 would be generating £1,400 per annum at retirement. This leaves scope for confusion.

We would suggest that, for the present, TM1 uses the FCA basis and, then at the next review, the FCA and FRC jointly agree a standard approach.

As a separate point, we are slightly confused as to which index is intended by FTSE Actuaries government 15 year fixed interest index. Is it the 5-15 year figure or the 15 years and over figure?

Best Regards

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