JOHN RALFE CONSULTING

The Director of Actuarial Policy
Financial Reporting Council
London EC2Y 5AS 6th May 2022

Proposed revision to ASTM1: Statutory Money Purchase Illustrations Consultation

Thank you for the opportunity to comment on proposed revisions to ASTM1.

I am an independent pension consultant advising companies and trustees. I also comment on issues of pension public policy, and I have advised the Work and Pensions Select Committee on BHS pensions, the ASB on FRS17, the IASB on share options and I was an expert witness for the Competition and Market Authority on BT pensions.

I welcome the FRC’s plan to standardise annuity illustrations (4.5 to 4.7).

4.5 There is an argument to state that the annuities should be shown to include attaching spouse or partner benefits and should increase with inflation. Adopting such a form will provide a truer representation of the sustainable income that keeps pace with inflation as well as being more consistent with the form of most Defined Benefit pensions.

4.6 On the other hand, it is known that the vast majority of annuities actually purchased are level in monetary amounts (i.e. not including any increases in payment) and do not include attaching spouse or partner benefits.

4.7 Given the importance of communication we propose, on balance, that AS TM1 should prescribe the form of annuisation to be a level annuity without attaching spouse or partner benefits so to align with current market practice.

Although the difference between alternative presentations appear highly technical, they have significantly different behavioural consequences, which it is not clear the FRC has properly considered.

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I believe the FRC's proposal requiring the annuity illustration to be in nominal terms, rather than inflation linked, and to exclude a survivor pension, will move UK pension policy in the wrong direction, and, in particular, will work against women.

An annuity illustration with no inflation increases will encourage "money illusion", rather than encouraging people to think in real spending power terms, and make their decisions about saving, and how long they should work, based on this.

An annuity illustration with no survivor pension clearly works against women, since in practice most survivor pensions are paid to women, who have with a longer life expectancy than men. The impact on them of not having a survivor pension, and of having no inflation linked increases, can be devastating.

The FRS's argument for annuity illustrations to exclude inflation, and with no survivor pension - *"most annuities bought are like this*" - is extremely weak.

The FRC does say that this proposal is "on balance"

If the FRC does want to press ahead with this it should undertake a major piece of research on the impact on pension saving, and on women in particular. Only if this shows the impact is neutral should the FRC make the change exclude inflation, and to exclude survivor pension.

Please feel free to ask any questions.

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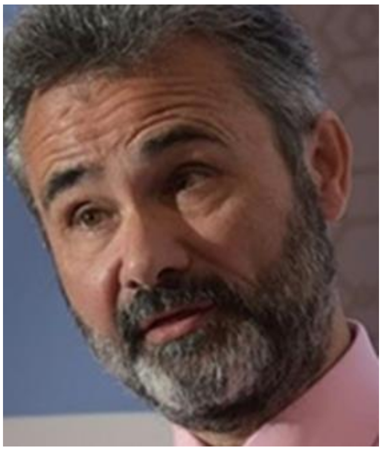

John Ralfe has been an independent consultant since 2003 advising UK companies and trustees on managing their pensions.

His clients have included several FTSE100 and FTSE350 companies, with pension liabilities from £200m to £2.5bn, as well as non-quoted companies, including the partners of a "magic circle" law firm, and the trustees of one of the UK's largest university schemes. He is also Chair of trustees of a small pension scheme.

Following a report written for Ofcom, in 2012 he was an Expert Witness for the Competition Commission's investigation into BT's pensions.

In 2016 he was an Expert Advisor to the Parliamentary Work and Pensions Select Committee on its inquiry into BHS pensions.

He has written over 100 research notes and articles on all aspects of pensions, and is a regular contributor to the Financial Times and the BBC Today Programme.

He was also a consultant to the Accounting Standards Board on FRS17 and the International Accounting Standards Board on share options and worked with Harvard Business School to develop Boots Pensions as a Case Study.

Until 2002 he was Head of Corporate Finance at Boots and instrumental in moving the £2.3bn Boots Pension Fund to 100% AAA long dated sterling bonds, followed by a Company share buyback, described by The Economist in 2006 as a *"landmark".*

Prior to joining Boots he spent 11 years in banking and consulting with Chase Manhattan, Warburgs, Swiss Bank Corporation and Ernst & Young Corporate Finance. He obtained a First in PPE in 1978, from Balliol College, Oxford and also studied economics at King's College, Cambridge.

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