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1. **How supportive are you of the approach to prescribe the accumulation rate and form of annuitisation more precisely, in order to improve consistency across projections from different providers? In particular, do you have any concerns arising from the loss of independence and judgement allowed to providers to set these terms?**

   We are supportive of the approach which does provide clarity and consistency across providers which we feel is essential for pensions dashboard disclosure.
   However, there are two potentially negative outcomes for providers:

   - New business and ad-hoc illustrations on the current FCA basis – including the calculation of fund-specific growth rates using the provider's methodology – will still have to be produced alongside the additional work for the new TM1 so an increased workload for providers.
   - A risk of confusing customers who receive illustrations on different bases eg a new business illustration (based on FCA rules) and an annual benefit statement (based on the new TM1) 12 months later. This could result in an increased volume of queries to providers to explain the differences.

   We don't have any concerns with the form of annuitisation being prescribed. Our concern with the prescribed accumulation rates is, as mentioned above, the inconsistency with FCA projections although we note that the FCA have stated that they will review their projection assumptions in COBS 13 (CP22/3 5.23).

2. **What are your views on the proposed effective date of 1 October 2023?**

   We are supportive of an effective date of 1 October 2023.

   There will be a need for systems and tables to be updated to accommodate the new TM1 accumulation rates and mortality figures. We have some concerns on the amount of work that may be required to satisfy the lifestyling/derisking requirements (Sections 3.21 – 3.24 in the consultation paper) but an effective date of 1 October 2023 should be achievable.

3. **What are your views on the proposed volatility-based approach for determining the accumulation rate?**

   We see the advantages of the approach being:

   – A clear and fairly straightforward methodology for calculating the volatility of each fund
   – Consistency of calculation across providers

   However, calculating volatilities for all funds will be time-consuming for us and other providers that have large fund universes although this becomes less of an issue after the first implementation.

   Other points:

- We currently use an eight "Groups" approach when setting FCA accumulation rates (although we don't use volatilities). Using only four Volatility Groups might result in some distinctions between fund accumulation rates being lost.
- Currently, accumulation rates are uncapped for SMPIs so, again, distinctions between funds might be lost by adopting the proposed Volatility Group approach – for example, all funds with a volatility greater than 15% will now be assigned an accumulation rate of 7% whereas some funds may have a rate greater than 7% using our current methodology.

  Note that we currently publish a volatility number for all funds based on monthly returns over the past 3 years.

4. Based on an assumed CPI of 2.5% do you find the accumulation rates proposed for the various volatility indicators to be reasonable and suitably prudent?

We believe the accumulation rates are relatively high (apart from cash). This is based on the fund-specific growth rates that we calculated for use in FCA illustrations from 6th April 2022. The rates that we used for various fund categories are below:

Fund category	Fund-specific growth rate
Cash	1.00%
Fixed interest	1.50%
Mid Mixed	3.50%
Property	4.50%
Equities	5.00%

It's important not to overestimate the fund value at retirement (and therefore the annuity income) albeit all providers will be using the same accumulation rates for funds in the same volatility group.

5. What are your views on the proposed approach to reflect derisking when calculating the accumulation rate assumptions?

We think this is a sensible approach although providers may need to adapt their current approach and systems to produce appropriate accumulation rate assumptions. We have a number of lifestyling/derisking packages which are on different systems; we need to perform a gap analysis to ascertain the amount of work involved to comply with the proposed approach.

6. **What are you views on the proposals that the recalculation of volatility indicator should be annually as at 31 December with a 0.5% corridor?**

   We agree with the proposal to review annually at 31 December with a 0.5% corridor.

   However, we would value clarification of what the volatility calculation arrangements will be for the effective date of 1st October 2023 and the first recalculation of volatility after that date.

   For example, for the effective date of 1st October 2023, do we calculate volatility by using:
   - monthly returns for five years to 31st December 2022
   - monthly returns for five years to some other date?

   Additionally we would like to understand will the first recalculation of volatility use monthly returns for five years to 31st December 2023?

7. **What are your views on the proposed approach for with-profits fund projections?**

   We are strongly supportive of using **unsmoothed** investment returns to calculate the volatility of with-profits funds. Using smoothed returns would require extra analysis and additional assumption setting as smoothed prices are not available.

8. **Do you have experience of unquoted assets held in pension portfolios and what are you views of the proposed approach for unquoted assets? In particular do you regard a zero real rate of growth to be acceptable and if not please provide suggested alternatives with evidence to support your views?**

   We feel that the proposed approach is insufficient for at least some types of unquoted assets.

   For example, some of our pension products offer Discretionary Fund Manager (DFM) investments where the DFM constructs an investment portfolio specific to a client's needs. These DFM portfolios are unquoted although we receive a daily valuation from the DFM for each of their clients' portfolios.
   We set accumulation rates on DFM investments which are substantially higher than the zero net real rate of growth being proposed. We do this by looking at the assets held in an average-sized DFM portfolio in the "Balanced" category. This usually results in an accumulation rate similar to that for equities.

9. **What are your views on the proposed approach to determine the accumulation rate assumption across multiple pooled funds?**

   We agree with the approach for a pooled fund which invests in a number of sub-funds i.e. use the unit price of the composite fund of funds to calculate the volatility.

   We also think that the approach proposed for a policy invested in more than one pooled fund is sensible except where the policy is invested in unquoted assets (please see our answer to Question 8).

10. **What are your views on the proposed prescribed form of annuitisation and treatment of lump sum at retirement? In particular, does the recommendation to illustrate a level**

pension without attaching spouse annuity cause you any concerns in relation to gender equality or anticipated behavioural impacts?

We are comfortable with the proposal not to illustrate a lump sum benefit at retirement and to illustrate a level pension with no attaching spouse's annuity.

We would value confirmation that the annuity to be illustrated should be payable monthly in advance and can allow for other benefits - eg a guarantee period – as per the current TM1.

11. **What are your views on the proposed approach to determine the discount rate assumption when used to determine the annuity rates for illustration dates which are a) more than two years from retirement date and b) less than two years from retirement date?**

We are comfortable with the approach to determine the discount rate assumption for annuity rates where the illustration date is more than two years from the retirement date.
We have several questions on the proposal for determining annuity rates where there is less than two years to retirement:

1. The proposal states that the annuity rate "should include any applicable guarantees". Does this mean Guaranteed Annuity Rates (GARs)? If so, should the illustration only be on a GAR rate or a GAR rate and a rate that is no more generous than the provider's own annuity rates?
2. Many providers (including us) base their own annuity rates on age plus additional factors eg pot size and postcode. In this case, can these annuity rates be used for less than two years to retirement illustrations despite the proposed rules stating that annuity rates should be "based only on age"?

12. **What are your views on the proposed new mortality basis for determining the annuity rates where the illustration date is more than 2 years from the retirement date?**

The proposed new mortality basis is sensible; however, because the mortality basis will be different to that for FCA illustrations, we will need to update our systems to hold two different mortality bases although this work shouldn't be onerous.

13. **Do you have any other comments on our proposals?**

For money purchase schemes, pension dashboards will require us to provide:
- Accrued pot value
- Accrued annualised value (new)
- Projected pot value if held (new)
- Projected annualised value

The TM1 Consultation needs to be clear that for the accrued annualised value should assume the individual is at SRA and not their current age. If for example we were providing this for a 25 year old with a SRA of 60, it would be based on the current accrued fund value but assume they have reached age 60. This was confirmed in the DWP consultation but has not been included in the DWP draft legislation, the FCA draft rules or this TM1 consultation.

14. Do you agree with our impact assessment? Please give reasons for your response.

The majority of the impact assessment is reasonable although we disagree with certain statements made in Section 6.7, namely:

1. *"While the first two changes represent an additional burden on providers, we do not think that the burden is heavy as long as the provider has access to monthly unit prices for the past five years (or since fund inception if shorter). The calculation process is simple and a similar approach is well-established for UCITS."*

   We don't think this fully represents the work that might be required to satisfy the requirements of the second bullet point in Section 6.5. It will depend on how providers currently illustrate for policies invested in multiple funds.

2. *"Thus there is an offsetting saving in that providers will not have to perform further ongoing analysis to decide on the rates themselves or justify the accumulation rate used to the regulator."*

   There isn't an offsetting saving here as providers will still have to calculate fund-specific accumulation rates for FCA illustrations and justify these to the regulator.