Via APT@frc.org.uk

Nick Harding
Existing Business Actuary
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12 May 2022

Dear Sir or Madam,

Proposed revision to AS TM1: Statutory Money Purchase Illustrations

I am writing to provide you with feedback from St. James's Place plc on the above discussion paper.

By way of background, St. James's Place plc is a FTSE 100 company managing and advising on circa £154bn of assets for more than 850,000 clients, with 4,556 authorised advisers. We manufacture life and pension products and are the Authorised Fund Manager for seven NURS, including both a property fund and a FAIF, and forty UCITS unit trusts.

We agree with aligning the assumptions for SMPI projections to be suitable for the pension dashboard. We support the aims for the pension dashboard to make the need for pension provision clear and simple to understand. As investors are generally unsophisticated, this requires the output to be as simple as possible and hence we advocate using a single accumulation rate.

The Appendix contains our response to the specific questions posed in the paper. We trust you will find our response useful and would be happy to discuss it further with you if required.

Yours faithfully

Nick Harding

Existing Business Actuary
St. James's Place plc

as at 31 December 2021

Appendix : Response to Questions

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 support the use of the same approach for the methodology and assumptions for AS TM1 to be used to project both the ERI and the ERI pot data for the pension dashboard to align projected values.

We are comfortable with prescribing accumulation rates and annuitisation provided this can be done simply and appropriately. We have no particular concerns about the loss of independence and judgement.

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

SMPI changes are currently aligned with tax years and for several years have only been parameter changes to the annuity interest, mortality and accumulation rates based on the asset mix for each fund.

The Exposure Draft AS TM1 5.0 appears to show changes to the annuity interest, mortality and accumulation rates, albeit reflecting a level rather than indexing annuity rates and the accumulation rates proposed to be set by fund volatility.

However, there is a significant lead in time needed for further proposed changes, namely calculating single rather than joint annuity rates, showing a projected fund value as well as a projected pension and adapting the process for setting of the accumulation rate parameters. Provided the final regulations are finalised 12 months before implementation, then the timetable appears reasonable. Any delay in finalising the details would make the timetable challenging.

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

We believe that that a single accumulation rate is the most appropriate for use in the Pensions Dashboard, the primary purpose of which is to provide disengaged people with a single high level indication of the extent of their pension provision. A clear note can be added that the actual return achieved will differ from this rate and be dependent on the type of assets their pension is invested in, alongside a prompt to check with product providers about the investment profile.

A more refined approach would require the same note about the actual return being different, but additionally require further notes explaining what the assumed growth rate is for each fund or pension pot and potentially how this has been determined so people could understand why different pots are being projected at different rates. All of this will add complexity to the dashboard and reduce levels of engagement with it for no tangible benefit any projection is purely an estimate, whichever assumption basis is used.

Even if it is decided to complicate the output by using different assumptions for different funds, the volatility based approach is unnecessarily complicated to categorise the expected future growth.

In particular, this would be extremely difficult and unhelpful to explain to unsophisticated investors. Moreover, there are issues with the categorisation based on volatility for funds such as property funds where prices are published daily, but revaluation of the underlying assets typically only takes place monthly. The broad categorisation into 4 different growth rates, is less accurate than the current SMPI approach, without delivering simplicity.

If a more refined approach is deemed necessary then relative to the volatility based approach, we believe that the merits of a prescriptive approach to setting accumulation rates by asset type outweigh the complexities and difficulties. This approach would be much simpler to explain to clients and would provide a greater consistency of results across different providers. It would also avoid significant differences in projected rate used for similar funds with volatilities at the cusp of the bands.

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 that the CPI assumption should be aligned with the FCA assumption for inflation in Key Features Illustrations, which is currently 2%. This provides greater consistency to investors across all projections from point of sale through to retirement.

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

We agree that it is appropriate to reflect changes resulting from the life styling and target date funds and the proposed approach appears reasonable where there are clear parameters for how the investment profile will change. However, it is unclear how this would work for e.g. SIPP providers. Our proposal to use a single projection rate would remove this complexity for both providers and consumers trying to understand what the projection shows.

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?

As set out in 3, we believe the volatility based approach is inappropriate and this is only a further consequent complication.

Resetting prescribed growth rates annually is reasonable, which can be set by FRS if there is a single rate used or by asset type to be weighed by holding similar to the current SMPI process.

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

As SJP does not have any with profits funds, our only question is whether the proposed approach will provide a suitable degree of consistency. Using a single rate avoids this complexity.

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 have limited experience. This approach appears unreasonably prudent and once again this issue can be avoided by using a single rate for all projections.

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

If a single rate is not used, we agree with the proposed methodology to aggregate across pooled funds which is consistent with our existing SMPI projections.

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 projected annuity not reflecting any lump sum at retirement being taken. However, this would need to be clearly communicated in the output.

We believe that assuming an indexing pension is preferable, as the level one is inconsistent with presenting everything in "real" terms so that consumers do not have to factor in the impact of inflation on the figures presented to use them in their planning. A level annuity would effectively be a decreasing annuity in real terms which seems illogical.

We agree that the form of annuity shown should be consistent across SMPI and the pension dashboard. Moving to a single life pension irrespective of gender provides simplicity.

We would appreciate the response to this consultation clarifying whether, if it is a requirement to show the ERI and ERI pot for the pension dashboard, will it also be a requirement to show for SMPI, as this aspect is not covered in the exposure draft?

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 would prefer to retain the current approach using index linked gilts to set an index linked annuity rate.

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?

We are comfortable with the proposed new mortality basis for determining the annuity rates.

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

We have no comments on the Other Considerations section.

Broader comments

We agree with aligning the assumptions for SMPI projections to be suitable for the pension dashboard. We support the aims for the pension dashboard to make the need for pension provision clear and simple to understand. As the target investors for the dashboard are generally less engaged, this requires the output to be as simple as possible and require minimal effort to understand and so we advocate using a single accumulation rate.

We would like to see draft output for the pension dashboard and the wordings that will be used to explain the figures as this will help focus on the simplicity required. We would also suggest that it would be helpful for FRC to conduct market research testing for the draft output.

The main message should be for investors to think about their pension provision and whether they need further advice to understand more rather than being distracted by the mechanics of the projections they are seeing.

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

There will be additional cost to changing the accumulation rate to use a volatility based approach, which we believe is inappropriate whereas these would be routine compared to current SMPI if a single rate or asset categorisation were used, which we believe to be more suitable

There will be additional costs of changing the form of annuitisation to single life, but we believe this is reasonable, as it will deliver simplicity