# AS TM1: Statutory Money Purchase Illustrations

## Aon's response to the FRC's consultation

### Q1 Do you agree with the proposed change to accumulation rate for volatility group 1 (from 1% p.a. to 2% p.a.)? If not, what alternative accumulation rate do you think would be appropriate for this group? Please provide supporting evidence for any alternative view.

We agree with the proposed 2% accumulation rate assumption for volatility group 1 (i.e. an increase of 1%), with the change driven in particular by increases in real gilt yields over the last two years.

### Q2 Do you agree with not amending the accumulation rate for volatility group 4? If not, what alternative accumulation rate do you think would be appropriate for this group? Please provide supporting evidence for any alternative view.

We agree with leaving the accumulation rate assumption for volatility group 4 unchanged at 7%, as anything higher than that could be overly optimistic.

### Q3 Do you have any other comments on the proposed accumulation rates as set out above?

For volatility groups 2 and 3, we are happy with the proposal to increase the accumulation rate assumption for each by 1%, preserving the 2% gaps between groups 1 and 2 and between groups 2 and 3.

### Q4 Do you agree with the proposed effective date of 6 April 2024?

We agree with the effective date, and this accords with the original stated plan of the FRC for future reviews. However, we believe that the intention is that version 5.1 applies to statutory illustrations with an **illustration date** on or after 6 April 2024. The 'Effective date' text in the exposure draft of v5.1 ("based on calculations performed on or after 6 April 2024") can be read as

### About Aon

Aon is a leading global professional services firm providing a broad range of risk, retirement and health solutions, with more than 50,000 colleagues in 120 countries. We work with the trustees and sponsors of around 1,000 UK pension schemes. Globally, we work with more than 2,300 clients with assets totalling $3.8 trillion.


Prepared for: Financial Reporting Council
Prepared by: Aon
Date: 4 December 2023

implying that v5.1 applies to any illustration where the calculation is actually **performed** on or after 6 April 2024, even if the illustration date is earlier. (This would encompass say an illustration date of 31 December 2023, which we do not believe is the intention.) Therefore the text needs to be amended to make clear that version 5.1 applies to statutory illustrations with an **illustration date** on or after 6 April 2024. This would be consistent with the choice of mortality and yield for the annuity rate (see C.3.10), which relates to **illustration dates** from 6 April (i.e. the beginning of the financial year).

The same change should be made to the wording of C.2.8 (this is unchanged from version 5.0), which explains what 5-year period the volatility calculations should be based on. This refers to “the financial year (6 April to 5 April) in which the calculation is performed”, but you confirmed in discussions with us last year that the intention was to refer here to the illustration date rather than the calculation date. We would suggest the same change be made to C.2.12.

## Q5 Do you agree with our impact assessment? Please give reasons for your response, and estimates of costs where possible.

We agree that the cost of system changes, resulting from the change to the accumulation rate assumptions, would be relatively low. The work needed to update calculation systems and template member communications, following an expected annual FRC review, is quite straightforward. However, this is probably misleading – system changes would be required for any change to the accumulation rate assumption regardless of size. (The only situation where no system changes would be required would be if no changes are proposed.) The cost of making such changes should not be used to drive decisions on how much (or whether) to amend the rates.