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Paul Needham
Department for Work and Pensions
Room 3W60
Quarry House
Leeds
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14 April 2013

Dear Mr Needham,

Consultation on the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013

I am pleased to respond to the above consultation on behalf of the FRC, which is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment.

As we have said previously, we would support a more fundamental review of statutory money purchase illustration (SMPs). This would include their value to and impact on scheme members, and the effectiveness of the current fragmented regulatory framework, particularly given the absence of concerted monitoring.

We nevertheless support the thrust of the Government's proposals on SMPs and we welcome the Government's commitment to liaise with us over consequential changes to our actuarial standard, AS TM1, which sets out the methods and assumptions to be used to determine the projected pensions shown on members' annual SMPs.

Our main priorities in order to consult on and make changes to AS TM1 are that:

- The effective date of the changes to allow SMPs to be personalised should be deferred to April 2014: this will enable us to make any necessary changes to AS TM1 having consulted on the basis of the Government's final regulations and give providers, scheme members and their representatives, and other interested parties including the Financial Conduct Authority (FCA) sufficient time to comment on our proposed changes, consider their implications and prepare for their implementation. This timetable will enable us to co-ordinate with other changes to pension illustrations, including changes arising from revisions to the FCA's rules which are due to take effect from 6 April 2014; and
- There should be policy certainty: we would welcome a restatement of the purpose of SMPs given the changing emphasis from consistency to personalisation of statements introduced by the Government's proposals.

Should you wish us to expand on any aspect of this response, please do not hesitate to contact me or one of my colleagues in the FRC's Actuarial Policy Team.

Yours sincerely



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Appendix A – Points of detail in response to consultation

Timing of the proposed changes

The FRC would need to publish a revised version of AS TM1 by the end of September to be effective from 1 October 2013.

Although permissive, the changes introduced by the revised regulations will require changes to AS TM1 on which we will need to consult. In order to give respondents to our consultation sufficient time to consider the proposals, we would need to publish a consultation paper on an exposure draft. We would want to consult on amendments to AS TM1 that result from final rather than draft regulations and we understand that it is planned that the regulations will be made in late June/early July. Consequently, the proposed timetable of 1 October would give insufficient time for providers, scheme members and their representatives, and other interested parties to comment on our proposals and for us to give proper consideration to feedback.

The FCA is introducing changes to its projection rules with effect from April 2014. Providers who are subject to both the FCA rules on projections and AS TM1 are likely to wish to make changes at one time and might prefer all changes to be effective at the same time.

Therefore we would strongly urge the DWP to defer the effective date for those elements of the revised regulations that relate to SMPs to statements with illustration dates on or after 6 April 2014.

Increased personalisation of statements

In response to consultation question 9, we consider that the changes to the disclosure regulations will allow schemes to provide more personalised statements. While there are benefits of personalisation there are any possible disadvantages which should be noted. For example, if illustrations can assume that the pension does not increase during payment the member might not appreciate that the income from the pension shown will be eroded by inflation over time.

Policy intent behind SMPs

Increased personalisation of statements is consistent with the changes made in AS TM1 (version 3.0) which requires the use of an accumulation rate appropriate to members' investment strategies. However, the proposed changes mean that SMPs might be less consistent across different arrangements and this move away from consistency may be viewed as a shift in the policy intent behind SMPs. It would be useful if the DWP could explicitly articulate its policy intent, or changes to it, so as to support an appropriate purposive interpretation of the regulations.

Fundamental review of SMPIs

Some respondents to our previous consultations on AS TM1 have suggested that a more fundamental review of SMPIs is needed. Respondents suggested that the review should cover the nature of the information provided to members, when and in what format statements should be provided, and whether additional material should be provided to enable members to better understand risk. Consumer testing of the effectiveness of SMPIs was also suggested.

Fragmented regulatory framework and the absence of monitoring of SMPIs

The regulation of DC is fragmented because of the number of regulators with an interest in the area – the FRC, the FCA, the DWP and the Pensions Regulator – none of which has primary responsibility for all aspects.

We consider that the regulatory framework could be improved by adopting a more coherent approach, with a single regulator having responsibility for the regulation of all defined contribution pension scheme communications or one regulator taking the lead with a working group responsible for coordination.

The fragmented regulatory framework is also an issue for the monitoring of SMPIs. We are concerned that compliance with AS TM1 should be adequately monitored across the spectrum of SMPI providers. The FCA must maintain arrangements which enable it to monitor the compliance of its regulated firms' communications including SMPIs with its "clear, fair and not misleading" rules. We consider it desirable for compliance with AS TM1 to be monitored for trust-based pension schemes not within the FCA's remit. We have raised this with the Pensions Regulator.

Cash

Paragraph 40 of the consultation paper refers to allowing SMPIs to be prepared assuming that members take part of their fund as a cash sum. It states "We have not amended the regulations to specifically include a cash lump sum as we think the legislation already allows for this." While this might be true, we consider that the Regulations need to be amended. Paragraph 6 Part 2 Schedule 2 of the draft Regulations requires statutory illustrations to show a pension but there is no reference to a cash sum. We consider that Part 3 of Schedule 2 of the draft Regulations should include a requirement for the amount of cash assumed in the calculation to be provided to the member.