



Financial Reporting Council

# AS TM1

- An update to ILAG

September 2023

**Confidential**



# Agenda

1. The function of AS TM1
2. Timescales and changes at April 2024
3. Template for members
4. Industry challenges on changes
5. Fund step changes
6. Investment guarantees

# The function of AS TM1

- Methods and assumptions to calculate the Estimated Retirement Income in today's value – NOTHING MORE
- It does not predict the future
- It does not ensure that individuals will understand the ERI
- It does not seek to encourage or deter saving for retirement (although it consciously contains margins)
- It is not a communication tool
- It does not seek to advantage any investment type or product over another

**Consistency between products and recognising how the fund is invested**

# Timescales and changes at April 2024

## Implementation

- *Effective from October 2023*
- *Currently reviewing if need to change the volatility rates and group boundaries*
- *If proposing a change will consult in November*
- *For April 2024 the only candidates for change are the volatility growth rates and the boundaries*
- *We continue to monitor all assumptions*

## Interest rate and inflation rises

- *Considering what is the new normal*

# Templates (not AS TM1 – not within FRC remit)

## Consider the purpose?

- *Is it to protect the provider?*
- *Is it to encourage more saving?*
- *Is it to educate the individual? If so for what purpose?*

## Why educate the individual?

- *To mitigate their questions?*
- *Is (revised) so demonstrate thought leadership and become a provider of choice?*
- *To empower the individual to make the right choices for them?*

# Templates (2) - communication

To make the right choices they need to understand ...

- *Illustrations are not guarantees*
- *Higher projected values (higher volatility) also carry increased risk of lower outcomes*
- *The growth rate groups is a blunt instrument that associates growth across a wide group of funds ON AVERAGE over the long period*
- *The illustration is a tool designed for the plan holder to take control and make decisions for the LONG TERM*
- *Investors can make choices to steer their retirement savings funds throughout and particularly at retirement*
  - *eg pay more, switch funds*
- *How the pension is taken*
- *The SMPI is an annual “stock take” that has most meaning when viewed as an ongoing temporal sequence to be managed*

# Templates (3) - standardisation

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Does the standard template tell my story?

- *Does my product have unique features?*
- *Do these features have a material impact on future values?*
- *Will the recipient understand what is being told to them?*
- *Does the template show the recipient where they have choices?*
- *Are there things missing that I need to supplement?*

# Industry struggles and getting data

- *The biggest challenge is data on volatility*
  - *AS TM1 recognises this*
  - *Opt out where genuinely cant get volatility data*
  - *Don't yet have statistics but expect providers to notify us when used*
  - *Major concern area is SIPPs*
  - *Large insurers seem to be coping*



# Fund step changes

- Why would a step change occur – how frequent is this?
- Why is there not a new fund instead?
- AS TM1 does not allow for using reference funds in this circumstance but we need to understand more

# Investment guarantees

- See this in with profits
- See this with Guaranteed Annuity Rates
- To the extent that there is a genuine guarantee Disclosure Regulations and AS TM1 envisage they are allowed for