PASA Consultation Response

Financial Reporting Council (FRC) Consultation – Proposed revision to AS TM1: Statutory Money Purchase Illustrations

May 2022

Acknowledgments

PASA is grateful to the authors of the response and members of the PASA Dashboards Working Group (DCWG) and their employers.

Kim Gubler (Board Sponsor)	**PASA Board Director**
Rob Dodson (Chair)	**ITM Limited**
Maurice Titley	**ITM Limited**
Emma Barry	**ITM Limited**
Chris Connelly	**Equiniti**
Richard Smith	**Independent**
Chris Batts	**MyCSP**
Geraldine Brassett	**Capita**
Phillip Cork	**AON**
Ian Dack	**Mercer**
Nick Green	**Criterion**
Karl Lidgley	**Hymans Robertson LLP**
Ian McQuade	**Muse Advisory**
Francesca Parnell	**Allen & Overy LLP**
David Rich	**Hub Consultants**
Andrew Short	**Capita**
Angela Bell	**TPR Observer**
Amy Regler	**West Midlands Pension Fund**
Climate Mupfiga	**Intellica**
Simon Rawson	**Evolve**

With thanks to the PASA DC Working Group for reviewing the response.

1. Introduction – About PASA

The Pensions Administration Standards Association (PASA) was created to provide an independent infrastructure to set, develop, guide and assess administration standards.

PASA acts as a focal point and engages with industry and government to create protocols for understanding good administration - but also appreciates there's no one size fits all. PASA develops evidential Accreditation practices allowing benchmarking across and between the industry regardless of how the administration is being delivered.

As well as raising the profile of pension administration generally, PASA focuses on three core activities.

1. Defining good standards of pensions administration relevant to all providers, whether in-house, third party or insurers
2. Publishing Guidance to support those standards
3. Being an independent Accreditation body, assessing the achievement of good standards by schemes

There's no organisation providing such services across schemes, yet there's a demand for evidence of service quality from scheme trustees, sponsors, administrators, insurers, savers and regulators.

About PASA Accreditation

PASA Accreditation is open to all corporate members of PASA (DB, DC, trust-based and contract-based schemes).

PASA Accreditation is granted following an independent evaluation and assessment process, which includes on-site visits and the review of documentation to evidence controls, procedures, process, staff development and contractual positions with clients.

Full details on PASA can be found by visiting www.pasa-uk.com

General comments

PASA has responded only to question 14, concerning the impact of the implementation of the proposed changes to TM1, as we view this as most relevant for our members. We haven't responded on whether the proposals achieve their intended purpose from a policy or consumer perspective. However, we expect some of our members will respond directly with their views on this.

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

Although the proposed changes to TM1 are driven by pensions dashboards, their impact is going to be wider than dashboards implementation, with the proposals impacting all relevant schemes from October 2023 regardless of scheme size. These schemes are also required to address other changes, such as simpler annual benefit statements, so any amendments to TM1 will be an additional challenge for pension scheme administrators which shouldn't be under-estimated.

One area for concern is the volume of enquiries which will be generated by members off the back of changes to the SMPI methodology, particularly where it causes a significant change in benefit projections, which aren't in line with fund value movements. In addition, this challenge will only be exacerbated by placing SMPIs front and centre on pensions dashboards as part of the ERI provision. This information will need to be communicated correctly, to avoid panicking members.

Impact on systems and processes

There are a number of key changes required to pension administration platforms which can impact both 'core' functionality and 'implementation' functionality depending on the specific administration platform.

Key areas which need to be addressed are:

- instead of setting accumulation rates by Asset Class, there will be a requirement to set them by Volatility Groups
- instead of scheme specific options, statements will be required to show an annuity which is non-escalating and without spouse attachments
- where lifestyling operates, a reduction in investment returns will be anticipated as the member approaches Normal Retirement Date (NRD)
- instead of providing statements only for members more than 2 years from NRD, statements will be required for all members; but with different annuity factors for those within 2 years of NRD (see below for more comments on this)
- potential impacts of increasing member coverage, such as members with DC underpins (see below) for whom calculations would need to be amended or configured for the first time

Increasing scope of members requiring projections

Section 4.9 of the consultation states:

"It is anticipated that ERIs on pensions dashboards will be available within the two years preceding retirement. As such, although AS TM1 does not need to specify the methodology and assumptions for ERIs where the individual is within 2 years of retirement date for the purpose of SMPIs, such specification is expected to be required in respect of the pensions dashboards ERI."

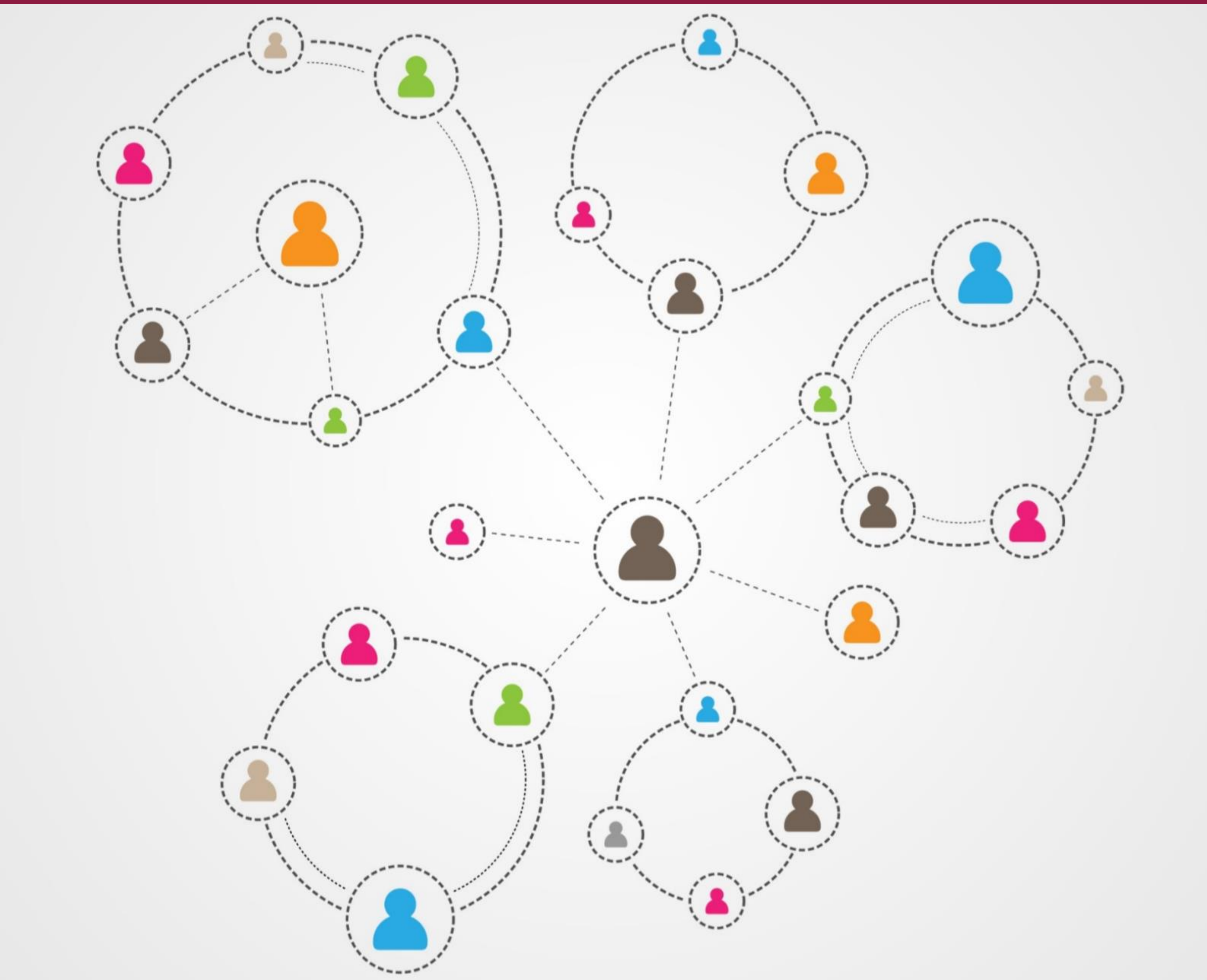
As noted in **PASA's response to the DWP consultation on Pensions Dashboards**, there are vast differences amongst the administrators of the money purchase schemes we have spoken to in the ways they make use of the Disclosure exemptions. Some schemes choose to issue projections to members within two years of NRD, while others don't.

Schemes will need further guidance on appropriate methods of carrying out such projections in future. They will need to identify and consider the impact of the proposals in TM1 regarding the special annuity rate assumptions to use for members within 2 years of their NRD.

In addition, as stated in section 5.8, we know more members in hybrid schemes are coming into scope of requiring SMPI projections due to the proposed pensions dashboards regulations. We have commented on aspects of this in our response to the DWP consultation. The additional impact of bringing new members into scope, particularly in complex areas such as DC underpins, will be significant. If the requirements for pensions dashboards can be relaxed in this area, then it would help reduce the overall implementation impact.

PASA

assess | aspire | achieve



Get in touch:

info@pasa-uk.com

www.pasa-uk.com

PASA is a Community Interest Company and our full name is Pensions Administration Standards Association CIC.
Company number: 6597097