ASSOCIATION OF CONSULTING ACTUARIES

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1 December 2025

APT@frc.org.uk

The Director of Actuarial Regulation
Financial Reporting Council
13th Floor,
1 Harbour Exchange Square
London
E14 9GE

Dear all

AS TM1 : Statutory Money Purchase Illustrations

I am writing on behalf of the Association of Consulting Actuaries in response to the consultation on AS TM1 : Statutory Money Purchase Illustrations.

Our comments on your questions are set out in the Appendix. We hope that you find the contents of this letter of assistance. We would be happy to discuss them further if that is helpful. In this event, please contact either me at Spencer.Bowman@wtwco.com, David Everett at David.Everett@lcp.uk.com or Tessa Page, Chair of the DC Committee at Tessa.Page@mercer.com.

Yours sincerely

Spencer Bowman
On behalf of the Association of Consulting Actuaries Limited

APPENDIX

Specific consultation questions

1. **Do you agree with the FRC's proposal not to amend the volatility boundaries and accumulation rates in AS TM1 v5.1 at this annual review? If not, what alternative volatility boundaries and accumulation rates do you consider to be more appropriate? Please provide supporting evidence for any alternative view including whether you consider adopting alternative assumptions will incur substantial administrative costs.**

In our responses to the two previous consultations, we have said that the volatility model that was introduced by version 5.0 of AS TM1 with effect from 1 October 2023 is producing some counterintuitive results for providers. This continues to be the case.

We have previously suggested that your volatility approach should enable providers to be able to distinguish between some monthly returns that are representative of the asset class and others that are not. Or, AS TM1 could allow the provider the opportunity to override the generated volatility band if it appears extreme or misleading, with say a disclose and explain type requirement. We remain happy to develop some thoughts in this area if this is something you would like to give consideration to.

We think stability from year to year in the accumulation rates used in SMPIs is important in giving members confidence in the information being provided to them. The FRC's proposals to retain the volatility ranges and accumulation rates for the volatility ranges would appear to provide such consistency. However, as stated in the consultation documents (eg 2.3) there will be a significant number of equity funds moving from Group 4 to Group 3 with a corresponding materially lower accumulation rate. This development exacerbates the issues comparing equity funds with bond funds many of which will stay in Group 4.

We are not convinced by the argument that since bonds do not form a significant proportion of DC funds, anomalies in relation to bond fund accumulation rates in their own right and in relation to the accumulation rates for other asset classes (eg equities) do not matter much. This argument is unhelpful and, worse still, the results result in potentially misleading members when communicating investment risks of different funds. We believe it is entirely possible that members who engage with their SMPI statements will also consider the fund return assumptions when making decisions on how to invest.

In summary, we believe the implied risk relationships between different asset classes in the model is wrong for the purpose of SMPIs, with bond funds in practice often categorised incorrectly relative to their risk. However, to reduce the impact of equity funds falling from Group 4 to Group 3 exacerbating the issue of the relationship between equity and bond funds, we suggest amending C2.12 to replace 0.5% with, say, [1.0% or 1.5%], so that fewer funds' accumulation rates are changed under this review. The FRC's next fundamental review of AS TM1, which we expect would be in 2026, should reconsider the whole framework.

2. **Do you agree with the FRC's proposal not to amend any of the non-accumulation rate assumptions? If you think they should change, what changes do you consider appropriate? Please provide supporting evidence for any alternative view**

Yes, we agree.

3. **If you prepare SMPIs, would the proposed changes outlined above require changes to your calculation systems?**

ACA members have little involvement in administering SMPIs.

4. **Do you agree with the FRC's proposal to amend the wording in paragraphs C.2.8 and C.2.12 as described above? Do you agree the proposed effective date for AS TM1 v5.2 would provide sufficient time to make the necessary calculation process changes? If not, please explain your reasons.**

   Yes. We are pleased the FRC has taken our previous concerns on this matter into account.

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

   Yes. The proposed change in relation to paragraphs C.2.8 and C.2.12 will have no impact in most cases in our experience. Where this will involve change for providers, we expect this will lead to a small cost as you have outlined when changes are made by these providers.

Disclaimer

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