

news

Statutory Money Purchase Illustrations ("SMPIs") – impact on occupational pension schemes

From 6 April 2003, all schemes which provide "money purchase benefits" must supply members with an annual illustration of them. We consider below the new requirements set out in the Occupational and Personal Pension Schemes (Disclosure of Information) Amendment Regulations 2002, which alter the 1996 Disclosure Regulations.

SMPIs

The aim of the new requirements

- The aim is to give individuals with money purchase benefits an annual illustration in "current money" terms of their possible pension at retirement.
- For simplicity, the illustration will set out a single pension figure, rather than a range of figures.

Application

Which schemes need to comply?

- All pension schemes which provide money purchase benefits (including those derived from additional voluntary contributions) will need to comply, whether they are stakeholder, personal or occupational.
- Money purchase benefits payable under final salary schemes will be caught, unless such benefits amount to an "underpin" which is unlikely to affect the pension.

Examples of exemptions

Pensioners or those close to retirement

Small benefits

Illustrations do not need to be furnished to members:

- who have started to draw pension;
- who are within two years of retirement;
- whose fund is worth less than £5,000 either at the first or a subsequent illustration date and certain other conditions are met (e.g. no "contributions" are being made or expected).

"Contributions" include those paid by or in respect of the member and transfer payments.

Technical Memoranda (TM1)

Assumptions about the member's pension

SMPIs will need to be prepared in accordance with TM1 which was produced by the Faculty & Institute of Actuaries at the request of the Department for Work and Pensions (DWP). In line with the Regulations, the member's projected pension will assume that:

- his current status will continue until retirement (i.e. a deferred pensioner will make no further contributions and an active will continue contributions);
- a 50% spouse's pension will be payable, unless scheme records show that the member is unmarried or the trustees and the member agree to adopt a different assumption; and
- the pension will be index-linked.

TM1

Other actuarial assumptions

Other assumptions to be applied for the purposes of the illustration, include:

- a "double-entry mortality table", which will allow future improvements in life expectancy to be taken into account; and
- projection assumptions which are broadly market-based.

NB: Long-term investments are assumed to grow at a nominal rate of 7% per annum. Where this overstates "the investment potential" of a member's fund (e.g. if a member is invested in cash), an appropriate alternative rate must be used.

Deadline for providing illustrations

Some practical points

- SMPIs must be given to members of occupational pension schemes within twelve months of the end of the first "scheme year" ending after 5 April 2003. (A shorter period of three months applies to stakeholder providers).
- Therefore, if an arrangement's scheme year ends on 30 April, the long-stop date for providing illustrations will be 30 April 2004 (in contrast, for a scheme year ending on 31 March it will be 31 March 2005).

Practical issues

Managing expectations

Whilst the new provisions will hopefully provide members with a more realistic idea of their likely future pension, members' expectations will need to be effectively managed. Although the Regulations set out some basic caveats to be included with the illustration, the explanatory notes accompanying the illustrations will need to be drafted carefully.