

Press Release

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Schemes face actuarial headache with TM1 volatility calculations plus more member queries around annuity projections

Latest pension dashboard SMP1 regulations introduced on 1st October 2023 create significant extra actuarial calculations and expected increase in member enquires due to changes in annuity projections warn CTC Pensions Technology.

Currently, accumulation rate assumptions for SMP1 calculations based on expectations of future fund performance.

From 01 October 2023, the FRC will base accumulation rates assumptions on investment Volatility. The new rates are: Volatility Group 1 has a 1%, group 2 is 3%, group 3 is 5% and group 4 is 7%. The Accumulation Rate is also before adjustment for inflation.

The Volatility is detailed in TMI sections C2.7-C2.15 with calculations based on monthly fund returns over a 5-year period.

Critically, the calculations do not form part of the schemes dashboard calculations and schemes will likely need support to make the necessary calculations.

Schemes will also need to expect an increase in member enquiries as from 01 October 2023, schemes must use a standard annuity projection and not the current system that allows them the choice to quote increasing/non-increasing annuities with/without reversionary pension. They also permit projected PCLS to be included in the statement.

The new projections require a non-increasing annuity payable monthly in advance with 0% reversionary pension.

Prepared by CTC Pensions Tech in February 2022

The option of using the calculated rate for inflation indexed annuities with a 3.5% adjustment has been removed. All annuities must now use the FTSE Actuaries' Government 15-year Fixed Interest Yield Index.

Nigel Chambers, actuary and chairman, CTC Pensions Technology, comments: "The new regulations require significant changes for many schemes, and they need to brace themselves for an increase in member enquiries when their scheme is available on the dashboard. The introduction of volatility groups, standardising annuity calculations, and additional changes to mortality tables are ultimately a good thing, but will necessitate many schemes developing fairly rapid solutions to accommodate the changes."

Note to editors

About CTC

CTC combines pension specific actuarial skills with bespoke digital development for schemes, SIPP providers and financial advisers.

With ISO 27001 and ISO 9001 certification and 30 years of supplying software and consultancy to the financial services sector with both multi-national and specialist boutique customers, CTC has a pedigree to give confidence in any project.

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