



## Report on Annuity Basis in TM1

Prepared by the Technical Support & Research Committee of the Pensions Board for consideration by the Pensions Board

### Reason for report

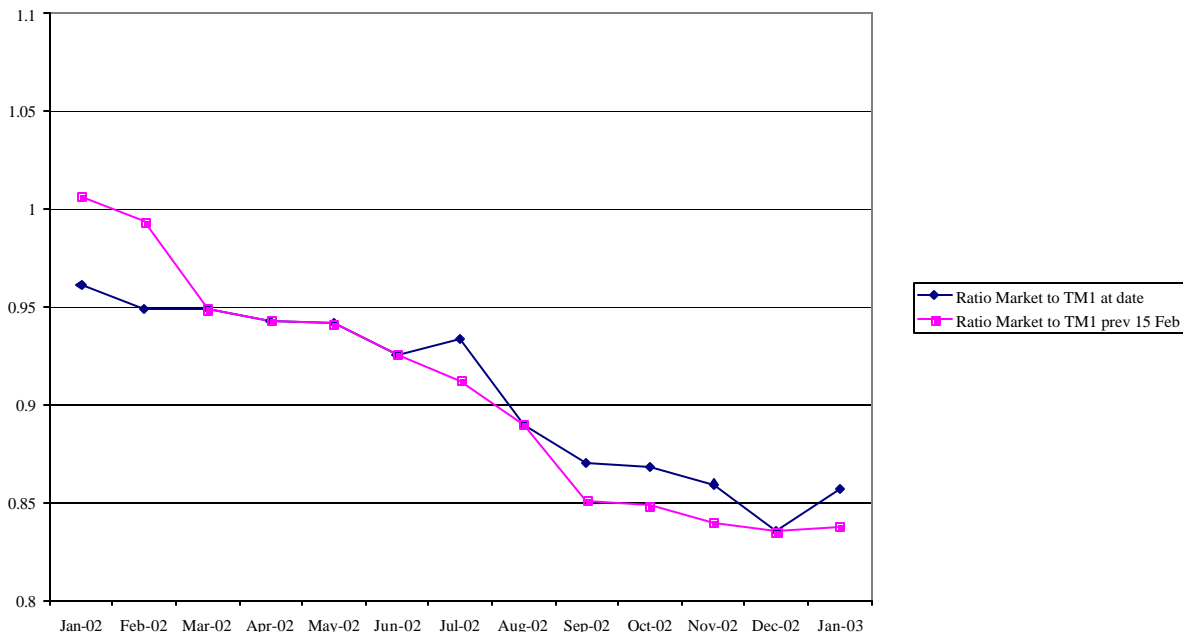
Under the SMPI review process, the Actuarial profession monitors the TM1 basis on an ongoing basis with a view to reviewing the basis once a year, or in exceptional circumstances recommending an immediate review.

Our review of the TM1 mortality basis has shown that it is significantly out of line with the market and this has acted as a trigger for this report.

### Our findings

The following graph compares the TM1 basis with the average of the top five market rates available on the first working day of every month from January 2002 to January 2003, for a male aged 65. The market rates have been compiled by Hewitt Bacon & Woodrow. The TM1 rates have been calculated by rounding to the average gilt redemption return to the nearer 0.2%.

TM1 Annuity Comparisons



### Conclusions

It can be seen that the TM1 formula produced annuity rates close to market rates at the start of 2002. However, since then, the TM1 formula has understated the market price and by the end of 2002 it was

around 15% below market. If the market rates remain as at present (and there is an expectation that they are more likely to worsen rather than improve) TM1 projections will overstate expected pensions by around 15%. Whilst TM1 illustrations are not required for members within two years of retirement, they may be given with misleading consequences.

Whilst it is now probably too late to amend TM1 with effect from 6 April 2003, serious consideration should be given to lightening the mortality basis as soon as possible.

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20 February 2003