



Institute  
and Faculty  
of Actuaries

# CP13/9 – Quarterly Consultation Paper No. 2

Chapter 9 Inflation-adjusted pension  
projections

Financial Conduct Authority

6 November 2013

## **About the Institute and Faculty of Actuaries**

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.



Sandra Graham  
Financial Conduct Authority  
Policy, Risk and Research  
25 The North Colonnade  
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London  
E14 5HS

6 November 2013

Dear Sandra,

### **IFoA response to Consultation Paper CP13/9 Quarterly Consultation No. 2, Chapter 9**

The IFoA welcomes the opportunity to respond to this Consultation Paper. The IFoA is the chartered professional body for actuaries in the United Kingdom. This response has been prepared by members of the IFoA's Defined Contributions Advisory Group.

In general, the IFoA welcomes and is very comfortable with the policy proposals.

#### **Q9.1: Do you have any comments on the need for all deterministic projections for in-force personal pensions business to be in real (inflation-adjusted) terms unless a client specifically requests otherwise?**

The IFoA agrees that all deterministic projections for in-force personal pension business should be in real terms unless a client specifically requests otherwise.

The IFoA agrees that the proposed alteration to the wording of COBS 13 Annex 2, 1.2R helps to clarify this policy aim.

The IFoA has some comments with the draft wording of the new rule 1.11 in Annex 2 to permit a standard deterministic projection in nominal terms where a retail client requests one:

- The reference to 'COBS 13 Annex 2 2.1R' should refer to 'COBS 13 Annex 2 1.2R'
- Paragraph 1.11 intends to dis-apply the requirements of paragraph 1.2R 'with the exception of 1.2(2)(c)'. As worded, this will allow the freedom to project the fund to retirement at nominal rates of interest, but retains the requirement in 1.2(2)(c) to show a real terms (inflation-adjusted) annuity from retirement date. This requirement to use an inflation-adjusted annuity seems to be in contradiction to the policy statement in paragraph 9.7. It says that the circumstances where the client may need a nominal terms projection are where they are considering transferring to another arrangement and may request 'a projection of their fund value or annuity in nominal terms'. As these are client specific requests, it would seem consistent to allow the freedom to produce an illustration based on a level annuity if this is requested. The IFoA would therefore suggest removing from the wording of 1.11 the words '*with the exception of 1.2(2)(c)*'.

- The wording in 1.11 rightly requires a warning about the effect of inflation.

**Q9.2: Do you have any comments on the proposed correction to reinstate the exemption allowing the intermediate growth rate to be omitted for life business?**

The IFoA agrees with the proposal and with the suggested changes to the wording in 1.10R.

**Q9.3: Do you have any comments on the removal of the rule relating to projections intended to determine maximum permissible personal pension contributions?**

The IFoA agrees with the proposal and with the suggested changes to the wording in 1.7R.

**Q9.4: Do you have any comments on the CBA for the proposals relating to inflation-adjusted projections for personal pensions?**

The IFoA has no comments.

If you wish to contact the IFoA about this response, please contact Philip Daggart, Policy Manager, in the first instance. You can reach him on 0131 240 1319, or at [Philip.Daggart@actuaries.org.uk](mailto:Philip.Daggart@actuaries.org.uk).

Yours sincerely,

Cathy Robertson  
**Chair, Defined Contributions Advisory Group**