



Financial Reporting Council

AS TM1:Statutory Money Purchase Illustrations

Consultation Paper

October 2025

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1. Introduction

Background

- 1.1. The Financial Reporting Council ('FRC') is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. The FRC is responsible for setting technical actuarial standards in the UK.
- 1.2. Since 6 April 2003 money purchase pension arrangements have been required to provide members with Statutory Money Purchase Illustrations ("SMPIs"). These illustrations are governed by the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013¹ as amended. Legislation requires that statutory illustrations are produced in accordance with guidance prepared by a prescribed body approved by the Secretary of State for Work and Pensions and by the Department for Social Development in Northern Ireland.
- 1.3. The FRC has been the prescribed body since 6 April 2007 and fulfils its obligations through the publication of Actuarial Standard Technical Memorandum 1: Statutory Money Purchase Illustrations ("AS TM1"). AS TM1 specifies the assumptions and methods to be used in the calculation of statutory illustrations of money purchase pensions, also known as defined contribution ("DC") pensions. The FRC reviews AS TM1 regularly.
- 1.4. AS TM1 v5.0 was published in October 2022. As set out in the accompanying feedback statement², the FRC reviews the appropriateness of accumulation rate assumptions and volatility group boundaries annually based on 30 September data and conducts a one-month consultation in November on proposed changes if necessary. This timing allows the FRC to aim to publish any changes to AS TM1 by 15 February for application in the following financial year.
- 1.5. Following a review of market conditions at 30 September 2023, the FRC consulted on changes to the accumulation rate assumptions in AS TM1. Following that consultation, a revised AS TM1 v5.1 was issued on 9 February 2024 effective for SMPIs based on calculations performed on or after 6 April 2024.

Aims and audience of this paper

- 1.6. The aim of this paper is to consult on making no changes to the accumulation rates and volatility groups in AS TM1 v5.1 following our review of market conditions as at 30 September 2025 as set out in the FRC's [technical analysis paper](#), and to propose a minor

¹ Consolidated Regulations may be accessed [here](#)

² in paragraphs 1.16 and 1.17: <https://www.frc.org.uk/document-library/actuarial-policy/2022/as-tm1-statutory-money-purchases-illustrations-fee>

amendment in the wording of paragraphs C.2.8 and C.2.12 to clarify policy intention in relation to calculation of volatility.

- 1.7. This paper has been written for anyone with an interest in SMPs including those responsible for providing SMPs (trustees, insurers, wealth managers and administrators) and the pension scheme members and policyholders who receive SMPs or access the pensions dashboards, as well as organisations which represent and advise these groups.

How to Respond

- 1.8. Comments on the questions set out in this consultation document are requested by 1 December 2025. Responses should be sent by email to ASTM1@frc.org.uk.

Or in writing to:

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

- 1.9. It is advisable to send your response electronically.
- 1.10. All responses will be regarded as being on the public record unless confidentiality is expressly requested by the respondent. A standard confidentiality statement in an email message will not be regarded as a request for non-disclosure. We do not edit personal information (such as telephone numbers or email addresses) from submissions; therefore, only information that you wish to publish should be submitted. If you are sending a confidential response by email, please include the word "confidential" in the subject line of your email.

2. Volatility groups and accumulation rates

Volatility groups

- 2.1. AS TM1 v5.1 paragraphs C2.7 to C2.15 specify how the volatility group is determined for each investment. In particular, C.2.11 specifies that the volatility must be used to assign the investment to a volatility group calculated in the following table (subject to requirements set out in paragraph C.2.12):

Volatility Group	Volatility
1	0% - 5%
2	5% – 10%
3	10% - 15%
4	Above 15%

- 2.2. Our technical analysis based on data up to 30 September 2025 shows a fall in market volatility since 30 September 2024, the date on which the previous review was based. This fall in volatility is due to the March 2020 market crash (resulting from the Covid pandemic) falling out of the 5-year volatility calculation. As noted in the technical analysis, if we consider the longer term such as the past 25 years, the impact on 5-year volatilities of the March 2020 market crash was smaller than other significant market events such as the dot-com crash in early 2000s and the global financial crisis in 2008.
- 2.3. This fall in volatility means some equity funds that were previously in volatility group 4 will likely move down to volatility group 3, leaving a smaller proportion of equity funds in volatility group 4. A smaller number of multi-asset funds are also likely to move down from volatility group 3 to volatility group 2.
- 2.4. Given the reduction in overall market volatility, the technical analysis suggests there are arguments to reduce the 10% boundary between volatility groups 2 and 3, and the 15% boundary between volatility groups 3 and 4. Reducing these boundaries would be expected to reduce the number of funds changing volatility group compared to 30 September 2024. On the other hand, we consider that if some equity funds and multi-asset funds change to a lower volatility group, with a lower accumulation rate, then this is directionally consistent with the slight decrease we have seen on average in the long-term expected global equities return by third party capital asset pricing models/forecasts (see paragraph 2.8 below).
- 2.5. Further, the FRC notes the importance of practical considerations, including:

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- a. The administrative complexity and cost for providers associated with updating calculation systems and communications to reflect a change in the volatility group boundaries.
 - b. The risk of spurious accuracy in setting the assumptions, potentially leading to members having unreasonable expectation of the accuracy of their illustrations.
 - c. Moving the boundaries would create an inconsistency with the volatility group boundaries used for AS TM1 purposes and the equivalent SRRI³ boundaries.

2.6. On balance the FRC considers that there is not sufficient need to amend the volatility boundaries at this time, with the downsides of doing so outweighing any potential benefits.

Accumulation rates

2.7. AS TM1 v5.1 paragraphs C.2.3 to C.2.6 specify the method and assumptions to be used to determine the accumulation rate that is used in SMPs as specified in AS TM1. In the previous annual review, the analysis based on data to 30 September 2024 showed only limited change to indicators of future long term expected return compared to prior review (at 30 September 2023). The FRC proposed no amendment to the accumulation rates and this was mostly supported by consultation responses.

2.8. The FRC has now conducted a review as at 30 September 2025. Our analysis on data to 30 September 2025 again shows limited change based on our analysis of historical returns. There has been an increase in forward looking interest rates since 30 September 2024, but it is not clear whether this will be sustained over time. As a result, it is not clear whether this may be seen as representing a change in long-term return expectations. Our observations of the long-term return assumptions from a number of third-party capital asset pricing models and forecasts suggest a mixed picture, with some forecasting higher expected returns compared to last year and some forecasting lower expected returns compared to last year. Overall, on average we see a slight decrease in expected returns for global equities, with the range of long-term expected returns from c5% to c9.5% and roughly half of the forecasts forecasting less than 7% (which is the accumulation rate for volatility group 4 under AS TM1). Details of our analysis can be found in this [technical analysis paper](#).

Conclusion

2.9. Considering the analysis of accumulation rates alongside the analysis on volatility boundaries, leaving the volatility boundaries unchanged is expected to result in some equity funds and multi-asset funds changing to a lower volatility group and therefore a lower accumulation rate. This is directionally consistent with what we have seen from third party capital asset pricing models and forecasts, which, as noted above, on average show a slight

³ The SRRI methodology was developed as a way of giving investors a broad indication of the level of risk within an investment. It was developed in 2009 by a technical subgroup of the EU Committee of European Securities Regulators (CESR5) for use by UCITS in the Key Investor Information Document (KIID) and was consulted on and adopted by the EC6 in 2010. Fund volatility based on the latest 5 years' weekly price movements is used to assign UCITS portfolios into one of seven volatility (or risk) classifications.

decrease in long-term expected returns for global equities. Furthermore, taking into account the overall uncertainty in market conditions and to minimise administrative costs/burden, the FRC proposes no amendments to the accumulation rates and the boundaries for each volatility group, which are set out below:

Volatility Group	Volatility group (set out in C.2.11 of AS TM 1 v5.1)	Accumulation rate assumptions in AS TM1 v5.1
1	0% - 5%	2%
2	5% - 10%	4%
3	10% - 15%	6%
4	Above 15%	7%

QUESTION 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.

3. Other assumptions

Inflation assumption

- 3.1. The inflation assumption is used to discount the accumulated fund from retirement age to today's purchasing power, and therefore needs to be suitable for long-term periods. This is currently specified to be 2.5% per annum. As at 30 September 2025, the market implied long-dated breakeven inflation was around 3.2% p.a.⁴, a small reduction from the rate of 3.4% p.a. from the time of our last review at 30 September 2024. This is expected to contain a margin for the differences between RPI and CPI (which will exist until 2030) and an allowance for an inflation risk premium. The HM Treasury [comparison of independent forecasts for the UK economy](#) published in September 2025 shows the median forecast of CPI inflation for 2025 to be 3.6%, falling to 2.3% in 2026.
- 3.2. The FRC notes that the inflation assumption is of second order to the accumulation rate assumption (net of inflation) which is one of the key drivers of the size of the accumulated fund. Given the indicators described above, we consider that the current long-term inflation assumption of 2.5% continues to be reasonable and should remain unchanged.

Other assumptions

- 3.3. The FRC has conducted a review of the other assumptions in AS TM1 v5.1 and has determined that they continue to remain appropriate. Therefore, the FRC proposes no amendments to any of the other assumptions in AS TM1 ('other' meaning other than the accumulation rates and volatility group boundaries, which are covered in section 2 above).

QUESTION 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.

⁴ 20 year spot rate from the [Bank of England implied inflation spot curve](#)

4. Calculation date for fund volatility

4.1. The FRC is proposing a change to the wording of AS TM1 paragraphs C.2.8 and C.2.12 (regarding volatility group calculations), where it refers to the date 'the calculation is performed'. Where a provider already interprets this date as being the 'illustration date', the proposed change to AS TM1 would have no impact on them.

4.2. 'Illustration date' is defined in AS TM1 as follows:

illustration date The date specified by the **provider** as the date by reference to which amounts are calculated for the purpose of the **statutory illustration**.

The **illustration date** will normally be the **specified date**.

specified date The date the fund is valued for the purpose of the **legislation**. For an occupational pension **scheme**, this is normally the last day of the **scheme's** administrative year.

4.3. The member's current fund value is measured at the illustration date, with any projections being applied from the illustration date onwards.

4.4. When calculating the annuity, AS TM1 requires the use of the interest rate at 15 February for all statutory illustrations with illustration dates occurring in the following financial year (as per C.3.4). Similarly, the illustration date informs the CMI improvements model to be used (as per C.3.10).

4.5. For the calculation of volatility group for an investment, AS TM1 refers to the date 'the calculation is performed' as set in C.2.8, although that term is not explicitly defined:

C.2.8 The volatility of the investment must be calculated from monthly returns of the fund over a 5-year period ending on 30 September (or immediate previous date on which prices are published if prices are not available on 30 September) preceding the financial year (6 April to 5 April) in which the calculation is performed.

4.6. As noted in FRC's [February 2025 feedback statement](#), we are comfortable where providers have interpreted the 'date the calculation is performed' to be the same as the 'illustration date'. However, we noted that it is possible to take a different interpretation whereby the 'date the calculation is performed' is different to the 'illustration date'.

4.7. This alternative interpretation can be highlighted by an example. An SMPI may be produced with an 'illustration date' of 31 March, i.e. the value of the investments held in the DC pot are taken as at 31 March and any roll up with investment returns is from that date. But in practice the administration system then performs the calculations say 2 weeks later on 14 April, to allow suitable time to update asset information and members' status (where needed). So it could be that the 'date calculation is performed' is then taken as 14 April. This

would then mean the volatility calculation is moved to 30 September of the following tax year compared to if 'illustration date' were used.

- 4.8. This creates a potential inconsistency where multiple parties are involved in the production of the SMPs and they use different interpretations, resulting in an illustration which is calculated based on inconsistent data/assumptions. For example, an investment manager might provide the fund volatility values while a pensions administrator calculates the SMPs.
- 4.9. The FRC has since conducted outreach with preparers of SMPs to understand how members are interpreting the 'date calculation is performed'. From this outreach we understand that while a large proportion of providers interpret 'date calculation is performed' as being the same as illustration date, this is not universal and so changing the wording of C.2.8 to refer to the illustration date would increase consistency in SMP illustrations. We also understand that such a change would lead to a need for some providers to amend their systems and so a suitable implementation period would be needed to allow for this.
- 4.10. We therefore propose to amend C.2.8 to refer to the 'illustration date', as set out in the exposure draft AS TM1 v5.2. AS TM1 C.2.12 refers to whether an investment breaches the limit of a volatility group by more than 0.5% 'at the calculate date'. As this should be the same date as the calculation in C.2.8, we also propose to update this to refer to the 'illustration date'. We propose that both changes be effective for statutory illustrations with an illustration date on or after 6 April 2026.
- 4.11. As noted in 4.1 above, where the date 'the calculation is performed' is already being interpreted by a provider as being the 'illustration date', then the provider would not have to make any changes to their systems.
- 4.12. Where the 'date calculation is performed' is currently interpreted as a later date than 'illustration date', the proposed effective date of AS TM1 v5.2 will allow at least one year to make the necessary system changes. This is because any SMPs with an illustration date in the 2026/27 financial year will either have a 'date calculation is performed' that is also in the 2026/27 financial year (meaning no impact from the proposed change) or is in the 2027/28 financial year (with more than a year to makes the necessary calculation process changes).

QUESTION 3

If you prepare SMPs, would the proposed changes outlined above require changes to your calculation systems?

QUESTION 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.

5. Impact Assessment

Benefits

- 5.1. The proposed change pertains to wording of C.2.8, C.2.12 and the reference in the effective date to help clarify the policy intent. The proposed change would provide users of the statutory illustrations with greater consistency of approach between providers in relation to the accumulation rate assumptions. This in turn will provide better consistency of Estimated Retirement Income illustrations on future pensions dashboards.
- 5.2. The proposed change would reduce some of the burden on providers in cases where multiple parties are involved in the calculations and different interpretations of 'the date the calculation is performed' are currently applied.

Costs

- 5.3. The FRC understands from stakeholder outreach that a large proportion of providers already interpret the 'date the calculation is performed' to be the same as the 'illustration date' and so will not be impacted by the proposed change.
- 5.4. For providers that need to make system changes, these will only be to their calculations of fund volatility values. They are not expected to impact any other elements of SMPI calculations or communications to members. The changes would only impact illustrations produced after April 2027, so giving sufficient period to help providers manage these changes.
- 5.5. As a result, the FRC anticipate the cost of any system changes to be relatively low and outweighed by the above benefits to users of the statutory illustrations and providers.

QUESTION 5

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

Annex 1: Exposure Draft AS TM1 v5.2



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