Financial Reporting Council

Post Implementation Review – AS TM1

Call for Feedback

November 2026

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1. Introduction

1.1. This call for feedback seeks feedback on the current Actuarial Standard Technical Memorandum 1 (AS TM1).

Background

1.2. The purpose of the Financial Reporting Council (FRC) is to serve the public interest and support UK economic growth by upholding high standards of corporate governance, corporate reporting, audit and actuarial work. The FRC is the UK's independent regulator responsible for issuing and maintaining technical actuarial standards.

1.3. Legislation[1] provides that Statutory Money Purchase Illustrations (SMPIs) including Estimated Retirement Income (ERI)[2] illustrated on pensions dashboards must be produced in accordance with relevant guidance prepared by a prescribed body. The FRC has been appointed as the prescribed body for that purpose 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.

1.4. AS TM1 version 5.0 was published in October 2022 and was effective for illustrations issued on or after 1 October 2023. Alongside this, guidance was issued to assist practitioners in applying AS TM1. Since AS TM1 v5.0 has been in force, the FRC reviews the appropriateness of assumptions on an annual basis and conducts a one-month consultation on proposed changes if necessary. As a result, minor amendments to the standard have been made, either to update certain assumptions for changes in market conditions or to provide clarity to the wording. The current version of AS TM1 v5.2 (and supporting guidance) was published in February 2026. A consultation on proposed changes to the accumulation rate assumptions was published on 26 October 2026 (closing on 27 November 2026).

1.5. It is the FRC's duty to keep our standards under regular review, beyond the annual review on the appropriateness of the assumptions. In that context, the FRC is now carrying out a post implementation review of AS TM1.

Changing environment for DC pensions

1.6. The DC pensions market has undergone significant development since the publication of AS TM1 v5.0. The DC pensions market has grown substantially in recent years. Total DC pension assets increased from c. £500 billion in 2020[3] to c. £1.2 trillion by 2024[4].

[1] The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013
[2] The amount of pension at retirement date calculated in accordance with AS TM1.
[3] PPI DC future book 2021
[4] PPI DC Future Book 2025

1.7. The shift from defined benefit pensions to DC pension provision has continued, such that now the majority of pension savers in the private sector are in DC schemes (especially as a result of automatic enrolment) and DC pensions are providing an increasing proportion of savers' pensions in retirement. Pension freedoms were introduced in 2015 and market practice on how pension savings are accessed continues to evolve.

1.8. Looking ahead, we are expecting the DC pensions landscape to continue to evolve, driven by a number of Government initiatives.

- The 2026 Pension Schemes Act introduces duties on trustees to provide well designed default pensions through a range of measures, including their Guided Retirement requirements.
- In recent years, the Government has also introduced a legislative framework for different forms of Collective Pension Schemes (CPS, previously referred to as Collective Defined Contribution), and in 2025, the Government consulted on policy proposals for introducing legislation framework for a CPS which is to be used only by pensioner members – a Retirement CPS (RCPS) - with the intention to have the legislative framework for RCPS in force by October 2028. DC schemes are already considering a range of default pensions, including 'flex and fix' and RCPS.
- The 2026 Pension Act introduced requirements around scale and value for money; these are expected to continue the current trend towards consolidation of the DC pension market, leading to a smaller number of very large arrangements providing DC pensions for the majority of savers.

Aim and audience of this paper

1.9. As part of our effort to seek comprehensive feedback on our standards, we are publishing this call for feedback to invite feedback to help inform our thinking as we consider what, if anything, needs to be changed in AS TM1. This will be followed by an outreach programme where we will invite views from more in-depth and focused discussions.

1.10. We welcome feedback on all areas of AS TM1. In particular, we are seeking feedback on two key areas of the methodology under AS TM1:

- The method for determining the accumulation rates to be used for investment funds pre-retirement; and
- The assumption on how the accumulated fund is converted into an income at retirement.

1.11. In support of the Guided Retirement initiatives, we are also developing standards for illustrations based on alternative options for taking a retirement income. These illustrations are subject of a separate discussion paper published alongside this one.

1.12. We welcome feedback from anyone with an interest in SMPIs including those responsible for providing SMPIs (trustees, insurers, wealth managers and administrators), pension scheme

members and policyholders who receive SMPIs, as well as organisations which represent and advise these groups.

How to Respond

1.13. Feedback should be submitted by email to ASTM1@frc.org.uk. Feedback should be received by 26 January 2027. If you represent a group of interested parties who may benefit from further direct outreach from the FRC on this call for feedback, please contact us on the same email address above.

1.14. Information that is provided in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

1.15. The FRC's policy[5] is to make responses received to its consultations publicly available. If you want the information you provide to be treated as confidential, please tell us, but be aware that the FRC cannot guarantee confidentiality in all circumstances (e.g. as part of a request under Freedom of Information Act 2000). An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request. The FRC will process your personal data in accordance with all applicable data protection laws. Please see the FRC's privacy policy[6].

[5] https://www.frc.org.uk/about-us/policies-and-procedures/consultation-responses-policy/
[6] https://www.frc.org.uk/about-us/policies-and-procedures/privacy/

2. Accumulation rate assumptions

2.1. Prior to AS TM1 v5.0, the standard allowed a large degree of judgement by providers of SMPIs to determine the accumulation rate assumption. The introduction of Pensions Dashboards, where users would see illustrations of various different DC pensions alongside each other, necessitated a greater degree of consistency of ERI projections across different providers.

2.2. To improve consistency, AS TM1 v5.0 introduced the 'volatility-based approach' for determining the accumulation rate for different funds:

- Funds are assigned to one of four 'volatility groups' depending on the volatility of returns on that fund over the previous five years. Where volatility cannot reliably be determined, the fund is assigned to 'volatility group 3'
- An accumulation rate assumption is assigned for each of these four volatility groups.

2.3. This gave a clear and consistent methodology to be followed, such that any two providers would set the same return assumptions for the same fund, underpinned by supporting analysis showing evidence of a relationship between volatility and future returns.

2.4. Stakeholders have highlighted that for some fund types (such as index linked gilt funds, and certain illiquid asset funds) the resulting accumulation rates are not in line with the provider's expectations of reasonable long-term returns.

2.5. The FRC recognises that the price volatility of index linked gilt funds may overstate their level of risk and their potential for future returns. This was considered and commented on in the consultation on AS TM1 v5.0 published in February 2022, and we considered it was acceptable due to the relatively low prevalence of index linked gilt investment in DC funds (as confirmed through discussions with market participants), particularly for savers further from retirement where the accumulation rate has the most significant impact on the pension illustrations.

2.6. Providers have also highlighted the additional complexity for providers and for pension scheme members resulting from differences between the AS TM1 calculations and those used for firms producing illustrations under the Financial Conduct Authority (FCA)'s COBS13 methodology. These differences existed prior to the introduction of AS TM1 v5.0, and also relate to areas of calculation beyond the accumulation rates.

Question 1

Are there any aspects of the current methodology for setting accumulation rates which have caused difficulties? Please explain your response with examples of what the issue is, how this impacts pension scheme members and your preferred way to overcome it.

Possible revisions to volatility-based approach

2.7. Stakeholders have highlighted the specific issue where certain, longer-dated index linked gilt funds (and longer-dated fixed interest gilt funds to a lesser extent) have experienced significant volatility in the past years which placed them in volatility group 4, giving accumulation rates that they believe are not consistent with long-term return expectations for that asset type.

2.8. One possible way to address this is to amend the existing approach such that funds which are primarily invested in gilts are assigned to a pre-determined volatility group, which has an associated accumulation rate that is more reflective of the long-term return potential of gilts. Under this approach, multi asset funds, which may have a proportion of their fund held in gilts, would continue to be assigned a volatility group based on the overall volatility of the fund.

2.9. While we do not anticipate an increase in use of gilt funds pre-retirement, adopting this approach would support use of a consistent approach to accumulation rate assumptions across all forms of pension illustrations beyond those under AS TM1, as covered in our separate Discussion Paper. These alternative illustrations will need to make assumptions on expected investment returns on assets held post-first access (for example in an RCPS or 'flex and fix' type arrangement), where there may be increasing use of bond type investments to manage the level of risk later in retirement.

Alternative approach to determine the accumulation rates assumptions

2.10. In the last revision to AS TM1, the most common proposal as an alternative to the volatility-based approach was an 'asset-class approach' whereby AS TM1 specifies a rate of return to be used for a number of broad asset classes.

2.11. Such an approach could be an alternative to the volatility-based approach to determine the accumulation rates assumption. For example:

- Each fund would be assigned to one of a number of asset type groups by a methodology specified by the FRC. Such methodology would be informed by existing approaches for classifying funds in the market (such as classifications produced by the Association of British Insurers (ABI) and Investment Association).
- FRC would prescribe the accumulation rates to be used for each of the groups, and would review these rates periodically to maintain their appropriateness as market conditions change.
- Many providers offer multi asset investment funds that hold a mix of different investment types. There are different potential approaches to setting accumulation rates for these, for example:

i. providers calculate an accumulation rate for the fund based on the proportions (under the fund's benchmark or current asset allocation) of each of the asset type groups; or

ii. assign all multi asset funds to one specific group; or

iii. assign to a specific asset type group depending on specific criteria specified by the FRC relating to the relative proportion of different asset types in the multi asset fund.

2.12. An asset class approach as described above could address some of the challenges outlined in paragraphs 2.4 to 2.6 above. It could also provide greater stability of the accumulation rate assumption for a given fund than under the current volatility-based approach (with 4 volatility groups), where moving between the volatility groups creates a step change in the accumulation rate assumption for the fund.

2.13. Where projections are produced, determining the expected return assumptions based on the asset type is a common approach in the industry and one which providers typically use for producing COBS13 projections. This reflects the view that asset classes represent the underlying economic exposure of an investment.

2.14. Adopting such an approach for AS TM1 would, however, have limitations, as identified during the consultation in 2022 when the volatility-based approach was proposed.

2.15. Although it is common for providers to use some form of asset-class approach in determining expected return assumptions for COBS13 purposes, responses to our last consultation indicated a large variety in the detail of the asset-class approaches that are used. Different providers develop different ranges of asset classes which they classify their funds into. There was also no consistently applied definition of the asset classes to be used or how funds are placed in a specific class, which we understand is often based on judgement of the provider. Detailed and clear definitions of the boundary between certain asset classes would therefore be needed, to ensure consistency between providers such that different providers would reach the same classification for the same fund. This may differ from how each provider currently allocates funds.

2.16. While in many cases the classification of a fund may be clear, the variety of funds in existence, and being developed, may lead to a number of more complex boundary cases. The classifications may also need to be reconsidered or developed further as new fund types are developed or become more prevalent.

2.17. If a relatively small number of asset groupings were used, to maintain a simple structure to apply and explain to individuals, then this may not be sufficient to differentiate between the different structures and return potential of different funds within the same asset type, e.g. between the wide variety of equity funds available.

Other considerations

2.18. Any changes from the existing methodology would incur implementation costs for providers to transition to the new approach, and the level of implementation costs will be dependent on the scale of change. For example, a revision to the volatility-based approach could be a smaller scale change compared to adopting a different structure such as the asset-class approach.

2.19. Although we have only highlighted two possible alternatives to the existing methodology to determine the accumulation rates assumptions in this section, there are other possible approaches/structures which could be considered. On the other hand, whilst there may be limitations to the current approach, it might be the case that they do not warrant revisions in the methodology to address them given other considerations such as stability for individuals and costs incurred in implementation changes to the systems.

Question 2:

What are your views on the possible methodologies outlined above? Please indicate your preference between

- the current volatility-based approach
- a revised version of the volatility-based approach (e.g. as described in 2.7 to 2.9)
- an asset class approach (e.g. as described in 2.10 to 2.17)
- an alternative approach (please specify what approach).

Question 3:

Do you see any potential practical challenges in implementing the methodologies outlined above? Please give an indication of the burden to move from the existing approach to the methodologies set out above.

Question 4:

In relation to the asset-class approach, what are your views on the classification of the asset class which should be adopted? For example, broadly how many groups should be used, and do you have preferred groups and mapping methodology? Are there any asset types or fund types that you believe may be hard to classify or where this approach may result in inappropriate accumulation rates?

3. Conversion to pension income at retirement date

3.1. AS TM1 requires the use of a level, single life annuity on prescribed assumptions to illustrate retirement income.

3.2. Published information[7] suggests that, since 'Pension Freedoms' in 2015, a much smaller proportion of retirees have taken an annuity at retirement and currently a minority of retirees take an annuity at retirement. The use of an annuity in AS TM1 allows an illustration of the total amount of retirement income each year an individual may achieve from a DC pension but is unlikely to reflect the way individuals actually take their retirement income. Other forms of decumulation (other than annuitisation) which are currently observed or are developing in the market include income drawdown, combined strategies such as 'flex then fix' or use of deferred annuities. In the future, as legislation allows it, RCPS will also be a potential retirement option.

3.3. With default pensions being introduced in the Pensions Schemes Act, we are likely to see further changes in how retirement incomes are taken, including more use of combined strategies (rather than just annuity or just drawdown) such as 'flex then fix' or use of deferred annuities. The form in which pension savers may take their income in retirement may also be more predictable given many savers are expected to follow their default pension.

3.4. There may also be a greater drive towards individuals taking retirement solutions that will give an income for life with some level of inflation protection, given the potential under Guided Retirement regulations for pension providers to be required to consider how their default pensions will manage the impact of inflation over the course of retirement.

Implications of default pension benefit solutions for AS TM1

3.5. SMPIs are intended to assist individuals in the accumulation phase to assess in broad terms the adequacy of their pension arrangements, and through AS TM1, SMPIs are designed to be produced on a consistent basis across various types of DC pension provision.

3.6. In future, alongside SMPIs, alternative illustrations could play an important role in helping individuals in understanding their default pension, or other pension options that may be available to them within their scheme. For example, whilst commercial dashboards will be mandated to show statutory ERIs, providers may also show potential income illustrations on other approaches. In support of the Guided Retirement initiatives, the FRC is working closely with the Department for Work and Pensions to develop standardised approaches for schemes to follow in producing alternative illustrations for common forms of decumulation.

[7] For example Financial Lives 2024 survey - Pensions

Please see our separate discussion paper which has been published at the same time as this paper.

3.7. There are reasons why such alternative illustrations can be useful to individuals (such as to provide a more realistic illustration of the retirement income under the default pension) and schemes/providers may want to make these available to individuals, but it may not be appropriate to mandate that SMPIs are based on an individual's default pension as:

- it might not be possible to know what default pension the individual will fall into until close to the retirement date, and the timing of when it might be known will be specific to each scheme;
- it will lead to lack of comparability between DC projections from different providers where they have different default pensions; and
- the default pensions of a particular scheme may become less relevant if individuals expect to consolidate their pensions into one arrangement before retirement.

3.8. On the other hand, a simple, easy to understand illustration based on single standardised form of decumulation can be more effective to assist individuals to assess the adequacy of their pension arrangements in broad terms across their multiple pots in a consistent way.

Question 5:

What are your views on whether SMPIs should be based on a single standardised form of decumulation or based on the default pension benefit solution in their DC scheme?

Question 6:

In what circumstances may it be difficult for SMPIs to be based on a default pension, e.g. where no default pension exists, or where there are multiple default pensions in a pension scheme? Do you have any views on how an approach could be adapted to allow for this?

3.9. There are further considerations on what the single standardised form of decumulation should be. For example,

a) a level annuity is purchased at retirement (as per existing AS TM1)

b) an inflation-protected annuity

c) other forms of decumulation such as a standardised proxy for a sustainable income under a drawdown policy, a 'flex then fix' type arrangement, or RCPS.

3.10. There could be reasons to use to an inflation protected annuity to make it more comparable to other forms of pension, including state pension and most defined benefit pensions as shown on pensions dashboards. This would also be consistent with intention of default pensions having been designed considering how they manage the impact of inflation.

3.11. Other forms of decumulation than annuity could also be suitable as the standardised basis, for example, on the basis that DC funds are more typically taken as drawdown, or if most schemes use the same form of default pension.

Question 7:

What are your views on SMPIs using a form of decumulation other than a level annuity at retirement age? Is there a particular form you think would be more appropriate e.g. drawdown only, drawdown for a fixed period before annuitisation, a different form of annuity, some other form of decumulation.

4. Inflation assumption

4.1. AS TM1 v5.2 (paragraph B.3.1) requires an individual's fund value to be projected up to retirement, based on assumptions for nominal accumulation rates, and convert that into a 'real' terms number based on an inflation factor (paragraph B.3.6). In this way the pension illustration shows the amount of purchasing power a pension may provide in today's terms. The inflation assumption required under AS TM1 is 2.5%.

4.2. As the inflation assumption is not used elsewhere, the overall calculation of SMPIs can be simplified if the accumulation rates are set in real terms and there will be no need for the second part of this calculation as set out in paragraph B.3.6. This approach is broadly equivalent to projecting at rates including inflation and then removing inflation at the end[8], or in other words makes the result independent of what is assumed for inflation.

4.3. This potentially allows a simplification of calculation systems for providers who also produce calculations under COBS13. For example, if a provider chooses to calculate the SMPI on a nominal basis, they can input an inflation assumption they judge to be appropriate (which may be the FCA prescribed inflation assumption) in this calculation by grossing up the real accumulation rates by the same amount. We recognise, however, that in some circumstances the benefit of such a change may be limited unless there were also alignment in the real accumulation rates between ASTM1 and COBS13.

Question 8:

Do you anticipate expressing accumulation rates in real terms would reduce the complexity and burden in the calculation of SMPIs? Does such an approach give rise to additional challenges? Would this outweigh the cost of implementing the change to the system?

[8] In practice there would be expected to be a small difference in the outcome where a net rate is calculated as the nominal rate minus the inflation rate, due to compounding, but this could be considered acceptable within the approximate nature of any illustration.

5. Other areas

5.1. Other than the areas outlined above, ASTM1 requires providers to make a number of other assumptions including:

- the level of future contributions, including future salary escalation, for individuals who are currently contributing to the DC pension arrangement being illustrated;
- the terms on which the annuity underlying the illustration is calculated, including the interest rate, mortality assumptions and expenses;
- the allowance for fund expenses before retirement; and
- the assumption no pension commencement lump sum (PCLS) is taken from the accumulated DC fund at retirement.

5.2. In particular, we recognise that many individuals choose to access some of their pension savings through a PCLS. As set out in our feedback statement to our previous consultation, our approach was strongly influenced by the pensions dashboards data standards, where a PCLS will not be shown separately. As a result, if a PCLS were allowed for, dashboard users would have no visibility of c. 25% of the value they would gain from their pension saving, which could cause confusion. We welcome comments on the treatment of the PCLS in the context of the wider DC landscape.

Question 9:

Please provide comments on other areas of the AS TM1 v5.2 methodology or assumptions which are not already covered in the above sections. Where setting out proposed changes, please provide reasons.



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