Financial Reporting Council

DC Pensions Illustrations Standards

Discussion paper

November 2026

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1. Introduction

Background

1.1. 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 and guidance.

1.2. Legislation provides that Statutory Money Purchase Illustrations (SMPIs), including associated Estimated Retirement Income (ERI) projections, are produced in accordance with guidance prepared by a prescribed body. The FRC has been appointed for this purpose and fulfils its obligations through the publication of 'Actuarial Standard Technical Memorandum 1: Statutory Money Purchase Illustrations' (AS TM1), which specifies the assumptions and methods to be used in SMPIs provided to individuals in their annual benefit statements (and the ERI on the pensions dashboards).

1.3. SMPIs are intended to assist individuals in the accumulation phase (i.e. pre-retirement) to assess in broad terms the adequacy of their pension income at retirement. The aim of AS TM1 is to ensure that SMPIs are produced on a consistent basis across all types of Defined Contribution (DC) pension provision, both trust-based and contract-based.

1.4. As a result of Pensions Freedoms 2015, DC members now have greater flexibility about how their DC pot can be converted to a regular income. Furthermore, the introduction of the 'Guided Retirement' framework under the Pension Schemes Act 2026 will require schemes to design and make available to each eligible member default pension benefit solutions, which could include a number of solutions such as Retirement Collective Pension Schemes (RCPS). A scheme may have different default pension solutions for different groups of members rather than have a single default for everyone. Illustrations of a range of common forms of decumulation could therefore play an increasingly important role in helping individuals plan for their retirement when in the accumulation phase and to understand their retirement income after first point of access.

1.5. It is the FRC's duty to keep our standards under regular review. In that context, we are carrying out a post implementation review of AS TM1, including whether changes are necessary following the introduction of Guided Retirement for workplace DC pensions. The related Call for Feedback is published alongside this Discussion Paper and should be read in conjunction with it. In particular, section 3 of the CFF seeks input on the form of decumulation to be illustrated in SMPIs.

1.6. The Government has issued a Policy Consultation on Guided Retirement. As part of the member's journey and communications, the Government is considering the use of illustrations and the requirement for these illustrations to be calculated using actuarial assumptions and methods set by the FRC. We set out these instances below:

- For the accumulation phase, the FRC is developing standards to support consistency in the assumptions and methods used for illustrations across different retirement options. The Government proposed that these alternative illustrations of other decumulation options should accompany the annual benefit statement so that consumers receive consistent communications. Providers would not be prevented from providing projections outside of the annual benefit cycle, including for decumulation options, on request. Contract-based schemes would remain free to issue these using COBS 13 standards which prescribe how future pension benefits must be calculated and presented using a standardised deterministic projection methodology. Trust-based schemes should continue to use the actuarial assumptions and methods as set by the FRC.

- Further along the member's journey up to the point at which they may access their pension savings, many individuals choose to access some of their pension savings through a pension commencement lump sum (PCLS). The Government proposes a new requirement that pension providers should explain the potential impact of taking a PCLS with the aim to make the trade-off clear that money taken as a lump sum may reduce the income available later in retirement. This could be achieved through illustrations or examples. The Government proposes to require these illustrations for trust-based schemes to be calculated using actuarial assumptions and methods set by the FRC. The assumptions and methods for these illustrations are covered in section 4 of this paper.

- During the pensions phase (i.e. post-retirement), the Government wants schemes to do more to help members inside and outside default pensions understand their likely future income levels, and there could be value to all pensioner members receiving illustrations of future income. The Government proposes to require trust-based schemes to provide statements to all members in drawdown (whether they are in a default pension or not), including individuals that have only taken a PCLS and not making regular withdrawals. They propose illustrations of sustainability, or of how income in decumulation may vary, to be calculated using actuarial assumptions and methods set by the FRC for trust-based schemes. The assumptions and methods for these illustrations are covered in section 4 of this paper.

Aim and audience of this paper

1.7. The purpose of this discussion paper is to gather a comprehensive range of views to help inform the development of standardised approaches for the illustrations outlined in paragraph 1.6 above. We invite views from a wide range of stakeholders, including those responsible for providing or intending to provide DC pensions illustrations and those who receive the illustrations or expect to access pensions dashboards, as well as organisations which represent and advise these groups. These views will provide input into the FRC's policy development ahead of formal consultation on our proposed standards.

1.8. We are also concurrently carrying out a post implementation review of AS TM1 (i.e. SMPIs) and have issued a CFF alongside this Discussion Paper. The focus of this Discussion Paper is the proposed development of new standards for illustrations for trust-based schemes to support the Government's Guided Retirement proposals. If you wish to provide feedback on AS TM1, please do so by responding to the CFF.

How to reply to this Discussion Paper

1.9. Responses should be submitted by email to ActuarialRegulation@frc.org.uk by 26 January 2027.

1.10. All responses will be acknowledged. Responses will not be made publicly available and are solely for the use of the FRC to inform future work on this topic. We will process any personal data in accordance with UK data protection legislation.

2. Objectives and principles

Objectives

2.1. The FRC is developing standards to set the methods and assumptions to be used for trust-based schemes in the calculation of illustrations:

- of a range of common forms of decumulation in the accumulation phase;
- to support the explanation of the potential impact of taking a PCLS;
- of income levels and their sustainability in the decumulation phase (after first point of access).

2.2. Our objective is to standardise the methods and assumptions for these illustrations in a way which is consistent with the overall aim of DC pensions illustrations, and which results in illustrations which are consistent, realistic and simple to understand and to produce.

2.3. Following standardised methods and assumptions for these illustrations would avoid providers applying their own (and likely different) judgements, which would create inconsistency for members and, in some cases, the risk of using overly optimistic assumptions which could lead to individuals making poor decisions (for example, unsustainable withdrawals).

Principles

2.4. In developing our approach to the areas for discussion, we have been guided by the following principles:

Consistent

1. The methods and assumptions for accumulation-phase alternative illustrations should, where appropriate, be consistent with the methods and assumptions set out in AS TM1 for SMPIs and, where possible, with projections for contract-based schemes.

2. The methods and assumptions during the accumulation and decumulation phases should be consistent.

3. The investment return assumptions should be determined consistently for funds with the same asset mix.

Realistic

4. The projection assumptions should be considered reasonable given observed data in the market.

5. The investment return assumptions should take account of additional returns that can be expected from higher-risk funds, in respect of a fundamental assumption of capital market theory that increased risk should be correlated with increased long term average return.

6. Illustrations in the decumulation phase should be based on the individual's decumulation choice (either their default or outside default).

Simple

7. The projection assumptions and the resulting illustrations should be easy to describe to savers to facilitate appropriate understanding and comparability between different solutions and different providers.

8. The determination of the projection assumptions should not place an undue burden on providers.

End user impact

9. The methodology should not, as far as is practicable, cause or encourage unintended behaviours which are detrimental to individuals' interests.

10. Illustrations in the decumulation phase should provide information on sustainability of income levels so that individuals are aware if withdrawals are unsustainable, or are able to understand any expected future changes in the level of pension income.

2.5. There are inevitably trade-offs between these principles, and these are further discussed in the rest of the paper.

Question 1

Do you agree with these principles? Do you think that the relative importance of the principles may change at different stages in an individual's savings journey (e.g. may they differ pre and post-retirement)?

3. Alternative illustrations in the accumulation phase

3.1. The scope of this section is illustrations for individuals in DC schemes during the accumulation phase (including approaching access) for decumulation solutions beyond SMPIs (which follow AS TM1).

Alignment with AS TM1

3.2. In order to estimate the expected retirement income for an individual who is in the accumulation phase or approaching the point at which they may access their pension savings, the pension provider must first calculate the individual's accumulated DC pot at the expected retirement age and then convert the accumulated pot to a retirement income. AS TM1 specifies the methods and assumptions for this conversion on the assumption that the retirement income is level (i.e. non-increasing) with a guaranteed payment period of 5 years and no reversionary spouse income. The methods and assumptions for AS TM1, including the projection basis and the assumption of how a fund is converted to income, are the subject of the Call for Feedback issued alongside this Discussion Paper.

3.3. Currently under AS TM1 v.5.2, the annuity conversion basis at retirement is fully prescribed as follows:

Assumption	Value
Discount rate	FTSE Actuaries' Government 15 year Fixed Interest Yield Index determined at 15 February for illustrations for the following financial year.
Expenses	4% of the value of the annuity at retirement.
Mortality	50% of PMA16 including specified CMI improvements and 50% of PFA16 including specified CMI improvements.

3.4. By contrast, some elements of the accumulation basis to retirement are prescribed whilst other elements require providers to tailor illustrations to reflect their asset mix, any lifestyling program and their expenses:

Assumption	Value
Accumulation rate	The nominal rate is currently (under AS TM1 v5.2) 2% p.a./4% p.a./6% p.a./7% p.a. depending on the volatility group assigned to the investment. Illustrated fund returns therefore reflect the asset allocation. These accumulation rates are subject to annual review.
Inflation	2.5% p.a. compound.

Expenses	The actual charges or expenses of the individual's arrangement, or 1% p.a. of the projected fund if future charges or expenses cannot be reasonably obtained or estimated.
Lifestyling	Fund switches are assumed to occur in the future at the ages anticipated by any lifestyling program in place.

3.5. We intend the basis on which the pot is accumulated to retirement to be in line with the methods and assumptions for accumulation under AS TM1. This promotes consistency and comparability with SMPIs which is one of our key principles in setting these standards.

3.6. Under AS TM1, the accumulation rates prescribed include a degree of prudence given the inherent uncertainty in any projection basis and considering that an individual can reduce contributions as they approach retirement but a shortfall in pension saving may be unbridgeable. Following the same approach to accumulation rates in alternative illustrations would therefore result in these having a degree of prudence in the accumulated DC pot.

3.7. In developing our approach to the other areas for discussion in this paper, we have been guided by AS TM1's approach which, in the main, prescribes the projection basis but does allow differentiation to reflect the nature of the individual's investments and the provider's charges as these are key drivers of value.

Question 2

Should the DC pot for alternative illustrations be accumulated in line with the AS TM1 approach to accumulation for SMPIs? Do you think that the need for prudence in the projection basis varies depending on where the individual is in their savings journey?

Question 3

Do you agree with the broader aim of consistency with AS TM1 for alternative illustrations?

Form of decumulation illustration within the accumulation phase

3.8. The output from an accumulation-phase alternative illustration will be the expected retirement income to be received by the individual from their retirement date i.e. the income which could be provided from the accumulated fund if the money is invested in retirement in line with the default pension and experience is in line with the assumptions as prescribed in the alternative illustration basis.

3.9. Under the Guided Retirement legislation, a default pension must be designed to provide a regular income. The Government's policy consultation on Guided Retirement sets out an

intention that pension providers will design default pensions which can provide protection against longevity risk, allowing trustees and managers flexibility about how to deliver this.

3.10. There are a number of potential ways in which a DC pot can be decumulated to provide a regular income with longevity protection. Currently, discussions in the market appear to be centred around one (or a combination) of the following forms of default pensions:

1) Immediate annuity

2) Flex and Fix 1 - income drawdown and an immediate annuity at retirement

3) Flex and Fix 2 - income drawdown and a deferred annuity, to commence at a future age

4) Flex then Fix - income drawdown up until a future age at which point the remaining pot is used to purchase an immediate annuity

5) Retirement Collective Pension Schemes (RCPS, previously referred to as Retirement Collective Defined Contribution (R-CDC)) – a new decumulation option, for which the legislation is currently being developed.

3.11. Our intention is that the pension benefit solutions which can be illustrated will be set out in the new standard and will comprise the above list of forms/components (drawdown, annuity, RCPS) of decumulation. We recognise that there may be circumstances where a scheme's default is not an exact match for the pension benefit solutions listed in the standard, for example, the components may be packaged together differently.

3.12. We understand from our initial engagement with providers that the list set out in paragraph 3.10 above covers the forms/components actively being considered by providers. The FRC will keep this list up to date as further alternative approaches to decumulation are developed.

Question 4

Which of the above pension benefit solutions do you consider are likely to be used as defaults? Are there pension benefit solutions or components other than those referred to above which you consider are likely to be used?

Question 5

If you are intending a pension benefit solution that includes setting some pension savings aside in a discretionary spending pot, how would that impact illustrations based on one of the solutions listed in 3.10 above?

Assumptions to use for alternative illustrations

Investment returns in decumulation

3.13. One of the ways providers may seek to differentiate their decumulation solution is through their investment proposition, and it is therefore important to be able to capture this in an illustration. Clearly, there is a risk that providers may then use overly optimistic methods or assumptions in producing these illustrations and decumulation investment return assumptions are one of the main areas which providers could use to achieve optimistic outcomes.

3.14. AS TM1 standardises the annual accumulation rates but does so in a way that reflects the additional returns that can be expected from higher-risk funds and different asset mixes. It also standardises the discount rate for converting the accumulated pot to an annuity.

3.15. For alternative illustrations, assumptions will need to be set for the investment returns under drawdown and RCPS in decumulation, and for (immediate or deferred) annuitisation under Flex and/then Fix. The FRC could choose to either align these with the approach for determining investment returns under AS TM1, or to adopt a different approach if there is a good reason. Alignment with AS TM1 in this context means alignment with AS TM1 after any change following the current post implementation review (any comments on the current AS TM1 approach should be provided by responding to the Call For Feedback).

3.16. For drawdown and RCPS, key differences from accumulation potentially relate to the investment time horizon and the asset allocation:

- The illustrated period in decumulation may be different from the illustrated period in accumulation. Current AS TM1 accumulation rates (which apply pre-retirement) are not term-dependent, and the same assumptions are used irrespective of the illustrated period of investment which could be anything from 1 year up to 40 years or more. The longer time horizons considered for illustrations that depend on investment returns through the decumulation phase may require alternative illustrations to have more term-dependant investment returns. However, it may be that such complexity is inappropriate for uncertain illustrations of future events.
- If the asset allocation is the same, whether the investment is in the accumulation phase or decumulation phase makes no difference to the expected investment returns (for the same time period). Asset allocations in accumulation and decumulation may be different (for example, due to different lifestyling programs or investment strategies) but under AS TM1 returns can be determined differently for different asset allocations and therefore the AS TM1 accumulation basis can be readily adopted for alternative illustrations.

3.17. Overall, there does not appear to be a reason to deviate from the AS TM1 approach which itself aligns with principles 3 to 5 of paragraph 2.4. Conversely, adopting a different approach from AS TM1 would be contrary to principle 1 of paragraph 2.4.

3.18. For annuitisation, key differences from AS TM1 potentially relate to the timing of annuitisation and the shape of the cashflows (for example, deferred annuity versus immediate). AS TM1 currently specifies the use of a yield index on a particular date each year irrespective of the timing of annuitisation and this approach readily lends itself to annuitisation as part of the decumulation solutions. A more complex approach, for example using a yield term structure and forward-looking rates is an alternative, but it would be inconsistent with AS TM1 (and therefore principle 1) and the additional complexity is arguably not justified in light of the inherent approximations in illustrations.

Question 6

Should the alternative illustration decumulation investment return assumptions be aligned with AS TM1's accumulation investment returns? Should the discount rate for the annuity elements of alternative illustrations mirror the approach for AS TM1?

Deferment period

3.19. Deferment period here refers to the period between the purchase of the annuity and payments starting under the annuity for a deferred annuity under Flex and Fix 2, and the period until an annuity is purchased under Flex then Fix. It is therefore the post-retirement duration in which there is no longevity protection.

3.20. Selecting the duration of the deferment period is essentially an investment choice. The choices drive when to lock in guarantees which are typically backed by fixed interest assets, the alternative being longer investment in potentially higher growth, but more volatile, assets.

3.21. Alternative illustrations, like SMPIs, aim to reflect the investment choices made (principles 3 and 5 in paragraph 2.4). As such, one approach to alternative illustrations would be to allow providers to reflect their specific default pension deferment period in the illustration they issue, as this would be consistent with SMPIs and would also provide a more realistic estimate of retirement income. An alternative approach would be to standardise the deferment period across all illustrations which would aid comparability between different default designs but would be less realistic.

Question 7

For decumulation form Flex and Flex 2 and Flex then Fix, what deferment period do you think a default pension is likely to have? Do you think the deferment period for alternative illustrations should be standardised or should the deferment period in the illustration reflect the specific default design, and how would this affect the effectiveness of the illustration for the individual?

Income escalation rate

3.22. The legislative framework for RCPS requires schemes to be designed to target inflation (or higher) so that RCPS benefits should aim to maintain purchasing power over time. For other forms of decumulation, while there is no equivalent requirement to target inflation, the government consultation paper sets out an expectation that providers consider how their default pensions will manage the impact of inflation over retirement.

3.23. As a result, it may be appropriate for RCPS illustrations to assume a CPI-linked income. For alternative illustrations for other forms of decumulation, the FRC could mandate the use of either:

1) CPI increases for consistency with RCPS and comparability between alternative illustrations, though this would be inconsistent with the current AS TM1 SMPI escalation basis (the approach to inflation is addressed further in Call for Feedback); or

2) no increases for consistency with the current AS TM1 which specifies that the annuity income should be level, but this would be inconsistent with RCPS; or

3) a basis which reflects the escalation basis under the default pension. This could provide the individual with a more realistic estimate of their income under that default pension but would lack comparability with SMPIs and illustrations for similar decumulation solutions from other providers.

Question 8

Which of options 1) to 3) above do you prefer for setting the income escalation rate assumption and why? Are you anticipating designing a default pension without, or with only partial inflation protection?

Mortality

3.24. The mortality basis for converting a DC pot to an income may vary by rating factor, for example, age or postcode or lifestyle-related factors. AS TM1 currently specifies the mortality basis for SMPIs as age-specific unisex rates with no allowance for other rating factors such as postcode or health and lifestyle factors. For alternative illustrations, the FRC could mandate the use of either:

1) the actual conversion basis in the illustration i.e. the rating factors and assumptions expected to be used to convert the DC pot to an income for the individual (fully bespoke); or

2) a single standardised set of assumptions for all illustrations as per the AS TM1 basis (fully standardised); or

3) an approach which is in between options 1) and 2), for example, aggregate assumptions for a subset of individuals or standardising some aspects of the mortality assumptions but not others.

3.25. Option 1) would potentially provide the individual with the most realistic view of their expected income but has a number of disadvantages:

- the conversion basis will be subject to change as rating factors and assumptions are regularly reviewed, which could make the illustrations less stable and the movement in estimated income difficult to explain to individuals;
- it would not necessarily be practical to anticipate an individual's rating factors, including for example, their eligibility for an enhanced annuity for medical/lifestyle reasons;
- differentiating assumptions in this way makes it more difficult for savers to compare and understand (contrary to principle 7 of paragraph 2.4) as different assumptions would be used across different schemes, and increases the complexity of producing illustrations for providers (contrary to principle 8 of paragraph 2.4); and
- the approach would be inconsistent with AS TM1 and therefore principle 1 of paragraph 2.4.

3.26. Option 2) may provide the individual with a less realistic view of their income than option 1) but is consistent with AS TM1 and has the benefit of simplicity for providers and comparability for users of the illustrations, both with SMPIs and with illustrations of the same decumulation solution from other providers.

3.27. Under option 3), a provider could use, for example, the aggregate basis for each default pension or each subset of individuals within a default pension. This is a more pragmatic option than option 1) and the assumptions will still relate to the scheme rather than the wider population, though they may lack stability over time and the approach is inconsistent with the approach under AS TM1 and lacks the comparability of a fully standardised basis.

3.28. For options 1) and 3), even if the mortality assumptions of a default pension are fully captured in illustrations at individual, subset or scheme level, the ultimate outcome at retirement may be very different because the actual assumptions at retirement will likely differ from those assumed in the illustration, potentially to a large degree. Arguably, therefore, it is spurious accuracy to seek to replicate precisely the default pension assumptions in alternative illustrations and a simplified approach may be more appropriate.

Question 9

Which of options 1) to 3) for setting the mortality assumption would you prefer and why?

Lifestyling

3.29. Lifestyling is defined by AS TM1 as a program whereby the investor is switched into less volatile investments as the retirement date approaches. AS TM1 requires that, where the investment strategy includes lifestyling, it must be assumed that the fund switches occur in the future at the ages anticipated in the program.

3.30. If it is assumed that an individual will cash in their pension, then it would be appropriate for the related assets to move to cash funds as retirement approaches and, if it is assumed that an individual will annuitise their DC pot at retirement, then it would be appropriate for the related assets to move to fixed interest assets as retirement approaches. Conversely, if it is assumed that an individual will move to drawdown or RCPS at retirement, there is less need to switch assets into less volatile investments as the retirement date approaches.

3.31. Under Flex then Fix there may also be a need for there to be post-retirement lifestyling as the annuity purchase date approaches, but less need pre-retirement (other than for the tax free cash sum element). Equally in a RCPS where investments are held collectively, that collective investment strategy may be based on an implicit assumption that investments derisk as the population ages.

3.32. If an individual's default is Flex and Fix and their lifestyling program assumes a partial switch to fixed interest assets pre-retirement but the illustration assumes that all of the funds remain invested in growth assets to retirement, then this would result in an overly optimistic illustration. For alternative illustrations, the FRC could require providers to reflect any lifestyling program, or other programs mechanically changing the underlying investment strategy, which would mitigate this risk and would be consistent with AS TM1's approach.

Question 10

Are lifestyle programs in the accumulation phase likely to be tailored to the default pension? Do you expect there to be lifestyling in decumulation and, if so, what would that look like (e.g. start and end asset allocations and over what time period)?

Other views

Question 11

Do you have any additional comments on other areas of the methods or assumptions for alternative illustrations during the accumulation phase?

4. Illustrations in the decumulation phase

4.1. The scope of this section is illustrations for individuals in trust-based DC schemes during the decumulation phase. It includes both those who are in a default pension and those outside the default.

4.2. Individuals will generally fall into one (or a combination) of the following four categories after they first access their pension:

- they have taken a pension commencement lump sum (PCLS), and may have taken one or more further lump sums but are not taking a regular income from their remaining DC pot;
- they are taking regular flexible income and are in a default pension;
- they are taking regular flexible income and have opted out of a default pension;
- they have fully converted their DC pot and are receiving a regular non-flexible income such as an annuity or retirement collective pension (RCP).

4.3. Illustrations for those who have fully converted their DC pot and are receiving non-flexible income such as an annuity or RCP are not further considered as their future income no longer depends on the projected value of a DC pot.

What to illustrate

At point of taking PCLS

4.4. The Government has proposed a new requirement that pension providers should explain the potential impact of taking a PCLS with the aim to make the trade-off clear that money taken as a lump sum may reduce the income available later in retirement. This could be achieved through illustrations or examples. The Government has proposed to require these illustrations for trust-based schemes to be calculated using actuarial assumptions and methods set by the FRC.

4.5. To maintain consistency with other illustrations which are made available to individuals in relation to their default pensions, we intend these illustrations to follow the same assumptions and methods as set out in section 3 of this paper or AS TM1, as relevant (except these would be after allowance for the PCLS being taken).

Question 12

Do you agree that the illustrations for explaining the potential impact of taking a PCLS should follow the same assumptions and methods as alternative illustrations in section 3 above, or AS TM1, as relevant?

Post PCLS/pre-regular income phase

4.6. The Government proposes to require trust-based schemes to provide statements to individuals who have only taken a PCLS and are not making regular withdrawals, and that these illustrations for trust-based schemes should be calculated using the actuarial methods and assumptions set by the FRC.

4.7. For ongoing illustrations there are a number of possibilities for what should be illustrated, for example:

1) the annual income that could be supported by entering a default pension;

2) the annual annuity that could be provided from the fund immediately and/or at selected retirement age (if later);

3) a projection of the fund to an assumed annuity conversion age (e.g. age 75, or 5 years after the illustration date, whichever is later) and illustrating the annual annuity that the fund could provide.

Question 13

What illustrations do you currently provide to individuals during this stage of their journey? Which of the above options (or other alternatives) do you prefer for illustrations for individuals who have taken a PCLS and not yet commenced taking a regular income and why?

Pension phase

Individuals in a flexible income phase of a default pension

4.8. The Government wants schemes to do more to help individuals inside and outside default pensions understand their likely future income levels and thinks there could be value to all individuals receiving illustrations of future income. They consider that many of the requirements within the annual statements for contract-based schemes (COBS 16.6) are equally relevant to individuals within a default pension. The Government has proposed to require trust-based schemes to provide statements to all members in drawdown and proposed illustrations of income sustainability, or of how income in decumulation may vary, to be calculated using the actuarial methods and assumptions set by the FRC for trust-based schemes.

4.9. AS TM1 currently requires all SMPIs and ERI illustrations for the pensions dashboards to assume full annuitisation at retirement with the purchase of a level single life annuity with a 5-year guarantee period. The choice and structure of the decumulation option (the annuity) have been prescribed to enable individuals to compare illustrations from different providers. The methodology for AS TM1, including the assumption of how a fund is converted to income, is the subject of the Call for Feedback issued alongside this Discussion Paper.

4.10. In section 3 above, we have considered how closely individuals' alternative illustrations in the accumulation phase should be based on the specific design of the default pension. We have examined how to achieve a balance between illustrations being more reflective of the features of the default pension/individual circumstances and promoting consistency and comparability.

4.11. Principle 2 (consistency between accumulation and decumulation phases) and Principle 7 (ease of understanding and comparison by savers) may lead us towards using a consistent approach with accumulation-phase alternative illustrations i.e. using parameters prescribed by the FRC. However, as set out in Principle 6, once individuals enter the decumulation phase, there is perhaps a greater need for realism than in the accumulation phase, as each illustration may be associated with a review of the individual's retirement income.

4.12. For individuals within a default pension, it seems natural that illustrations should allow for the features of the default solution as closely as possible (for example, the nature of the lifetime income, age of conversion, guarantee period etc.).

Question 14

If an individual is following a default pension in decumulation, should illustrations allow for the features of the default pension as closely as possible (for example, the nature of the lifetime income, age of conversion, guarantee period etc.)?

Individuals outside a default pension

4.13. Consistent with our objective of presenting realistic projections, we would want to balance the potential burden on providers of developing illustrations that can incorporate all possible decumulation variations, particularly where the individual is outside a default pension. We have considered individuals to be 'outside default' if they are taking a regular income and:

- their future intentions are unknown to the provider; or
- they are following a known pension solution (such as 'Flex only', Flex and Fix 1', 'Flex and Fix 2' or 'Flex then Fix') but the nature and/or parameters of the solution are outside the default.

4.14. Possible approaches to illustrations for individuals outside the default pension include:

- select the standard features from the most relevant of FRC's list of forms of decumulation as set out in paragraph 3.10;
- reflect individual choices where known and where existing capabilities permit (but allow simplification otherwise).

4.15. For individuals outside the default pension there may be a need to illustrate the future amount of annuity that could be purchased from the pot. The characteristics of the annuity (e.g. single or joint life, level or increasing, guarantee period) could be required to follow FRC standards consistent with those used for annuity purchase taking place post-retirement as discussed above for alternative illustrations. This would ease comparability of illustrations for the individual, in line with principle 7.

Question 15

What features should be assumed in the illustration where the individual is not following a default pension, such as in circumstances where the individual is 1) following a known decumulation solution that is not the default, or 2) taking regular drawdown and their future intentions are unknown?

Income sustainability

4.16. The sustainability of individual pension arrangements will be influenced by the level of withdrawals taken and the investment performance of the fund. These could cause the fund to be exhausted more quickly than anticipated (in 'Flex and Fix' solutions) or may result in the fund being insufficient to secure the target level of lifetime income (in 'Flex then Fix solutions). Some default pensions may accommodate additional withdrawals through discretionary spending pots or may use flexi-access drawdown for part of the retirement income.

4.17. There are many possible ways of illustrating sustainability, and the following paragraphs consider a few of these options having also considered the existing requirements for contract-based schemes as set out in COBS 16.6.

Projected fund value and income

4.18. Where an individual's pension solution anticipates that the DC pot will be exhausted over a target duration (such as in a 'Flex only', 'Flex and Fix 1 or 'Flex and Fix 2') the individual's primary concern is likely to be that the fund remains on track to provide the anticipated level of drawdown income for the planned duration. An effective illustration of sustainability may be to project fund value and annual drawdown income at regular intervals (e.g. 5-yearly) up to a maximum age (e.g. age 99) or until earlier exhaustion of the fund. In addition, for 'Flex only', showing the annual annuity that could be purchased from the pot at each age may help inform decisions as to if/when to convert to a lifetime income. Where the pension solution involves income from both annuity and drawdown elements, the combined income could be presented to give a more holistic picture to the individual.

4.19. The main concern of an individual in the drawdown phase of a 'Flex then Fix' solution is likely to be that the fund is sufficient to provide the target level of annuity (or retirement collective pension) in the lifetime income phase. This could be illustrated by showing the projected fund value at regular intervals up to the maximum conversion age, together with the drawdown income and the amount of annuity that the remaining fund could purchase.

Proportion of the fund remaining since outset

4.20. This option is simple to calculate, easy for the individual to understand and avoids the need for subjective assumptions. However, it is less clear how the retrospective nature would assist the individual in understanding when their pension savings could be exhausted. It could be provided as a supplementary sustainability indicator to complement a forward-looking view.

Indication of when the fund may run out

4.21. This option directly addresses the main concern of individuals in 'Flex only' or 'Flex and Fix', i.e. how long the pot can sustain the current level of withdrawals. It is less helpful for those in 'Flex Then Fix' (who will be more concerned with whether the fund will be sufficient to fund the lifetime income phase) or who are not taking regular drawdown income.

Question 16

What are your views on the various ways for illustrating sustainability where:

1) the individual's pension solution anticipates that the DC pot will be exhausted over a target duration?

2) the individual's pension solution anticipates that the DC pot will fund conversion to lifetime income at a later date?

Do you have any particular views on what should be illustrated where:

3) income is being taken as Uncrystallised Funds Pension Lump Sums (UFPLS)?

4) the pension solution includes a separate discretionary spending pot?

Assumptions to use for illustrations in the decumulation phase

Decumulation investment returns

4.22. Our natural starting point for the investment return assumptions for the drawdown phase (including any allowance for lifestyling) would be the same assumptions as those adopted for accumulation-phase alternative illustrations unless there are good reasons to deviate from these. This would also aid comparability between providers.

4.23. The arguments in favour of adopting the AS TM1 approach for accumulation-phase alternative illustrations (set out earlier in paragraphs 3.13 to 3.18 above) also hold true for decumulation-phase illustrations:

- the investment return assumptions take account of the additional returns that can be expected from higher-risk funds;
- the investment return assumptions in AS TM1 are not term-dependent, and so remain appropriate in both accumulation and decumulation phases despite potential differences in the illustration periods;
- the investment return assumptions can be determined differently for different asset allocations and therefore the AS TM1 accumulation basis can be readily adopted for decumulation.

4.24. Investment returns do, however, in practice depend on the period of investment i.e. shorter term versus longer term investment horizon. In general, the projected time horizon for the accumulation-phase illustrations will be longer than that of decumulation-phase illustrations and there may therefore be good reason for the investment return assumptions to vary between the accumulation-phase illustrations and the decumulation-phase illustrations.

4.25. AS TM1 investment return assumptions currently include a degree of prudence. In paragraph 3.6, we considered whether an equivalent allowance for prudence should be made in accumulation-phase alternative illustrations. There could be reasons for adopting a similar degree of prudence in decumulation-phase illustrations, for example, it may encourage individuals to take a lower level of withdrawals thus guarding against adverse experience.

4.26. However, it may result in individuals receiving inconsistent communications if the provider determines a sustainable income on a basis that does not include a margin for prudence. There is a risk that incorporating prudence will make drawdown appear a less attractive option relative to other forms of decumulation where a similar level of prudence is not allowed for (e.g. open market annuity) and could lead the individual to make less informed decisions. Further, we understand research has suggested that individuals have a preference for higher income earlier in their retirement, and incorporating excessive prudence could lead to too much of the pot being held back for a later period in retirement.

Question 17

Should the approach to investment return assumptions for accumulation-phase alternative illustrations be adopted in principle for decumulation-phase illustrations? Should the approach have the same allowance for prudence or does the need for prudence vary depending on where the individual is in their savings journey?

Annuity conversion assumptions

4.27. Where an illustration includes future conversion of the pot to an annuity, assumptions will be required for the annuity discount rate, mortality and conversion expenses. AS TM1 sets out assumptions for those items for SMPIs and we have considered their appropriateness for accumulation-phase alternative illustrations in section 3 above.

Question 18

Should annuity conversion assumptions for decumulation-phase illustrations align with the approach for accumulation-phase alternative illustrations, or is there a different approach that is more appropriate?

Other views

Question 19

Do you have any additional comments on other areas of the methods or assumptions for illustrations for trust-based schemes in the decumulation phase?



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