

11.3 Money Purchase – Illustration of Benefits

11.3.1 Statutory Money Purchase Illustration

Annual benefit statements issued to members with money purchase benefits (including AVCs and any money purchase underpin promises), are required to include an illustration (known as the statutory money purchase illustration) of pension purchasing power at retirement in today's terms.

(Note) The method of calculating statutory money purchase illustrations and the assumptions to be used are set out by the Board of Actuarial Standards. The calculation basis uses a single set of assumptions (rather than a range of projections that gives a range of pensions arising).

11.3.2 Some of the detail is as follows.

(i) Illustrations are not compulsory for:

- (a) scheme years ending within two years of member's retirement date, nor
- (b) past members (or non-contributing members) where (i) their last illustration showed their future benefit would be less than £260 p.a. at retirement or (ii) their fund value is less than £5,000.

(Note) That is, where no further contributions to the scheme or arrangement have been, or are likely to be, received by the trustees. If, however, trustees voluntarily choose to issue statements, the information given out will have to conform to the regulations.

(ii) Assumptions made:

- (a) tax relief on contributions will continue
- (b) pension in payment will be provided by an index-linked annuity policy
- (c) a survivor's pension of 50% will be paid (unless the trustees and member agree otherwise)
- (d) future normal contributions to the scheme (employer/employee) will be continuing to normal retirement date in accordance with the rules of the scheme.

(Note) Primarily a statement specifying any assumptions made in relation to future contributions to the scheme.

11.3.3 Benefit statements are expected to contain a number of statutory statements explaining that the illustration fulfils the statutory basis and:

- (a) does not provide a promise or guarantee; pension payable will depend on actual investment performance and the costs of buying an annuity at retirement

(Note) Primarily a statement that assumptions have been made about the nature of the investments and their likely performance, which may not correspond with the investments actually made for those purposes, or their actual performance.

- (b) should not be used by the member as a basis for forming a decision about future pension provision

(Note) Primarily a statement that the actual amount of any pension payable to or in respect of the member will depend on considerations, including the actual performance of investments and the cost of buying an annuity at the time the pension becomes payable, which may be different from the assumptions made for the purpose of providing the illustration.

- (c) is not based on the member's individual circumstances nor is it based on a particular scheme, and
- (d) must inform members about the abolition of money-purchase contracting out effective 6 April 2012 and advise them of the ending of age-related rebates [see 1.8.10 and its (Note)] and changes to the accrual of the State Second Pension [see 1.1.7 and 1.2.5 (Note)].

(Note) Though, since October 2010, schemes have been able to produce shorter, simpler, statements.

11.3.4 Statutory money purchase illustrations have to be provided to members within 12 months of the pension scheme year-end. The starting point is the member's current fund value. There is no requirement to show a final, projected fund value.

(Note) The trustees (or provider) may choose the date for the annual illustration.

The DWP/HMRC is prepared to release data to schemes and employers giving member's individual state pension entitlements (except where the employee elects otherwise) to improve knowledge about future pension. Such projections may prove helpful to members.