

## ADVISER UPDATE

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# Statutory money purchase illustrations (SMPI)

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### Overview

A Statutory Money Purchase Illustration (SMPI) is a projection of the benefits a client receives from their money purchase (or defined contribution) pension scheme at retirement. These projections are required by regulations to help pension scheme members understand the potential future value of their pension savings.

SMPIs were first introduced in April 2003 following the requirements set by The Occupational and Personal Pension Schemes (Disclosure of Information) Amendment Regulations 2002 (SI 2002/1383).

SMPIs are mandated by the Financial Conduct Authority (FCA) and The Pensions Regulator to ensure transparency and consistency in how pension benefits are projected.

Members of defined contribution pension schemes typically receive an SMPI as part of their annual pension statement.

The illustration uses standardised assumptions about future investment growth, inflation, and annuity rates to provide an estimate of the pension income clients might receive at retirement.

Legislation mandates that SMPIs be created in accordance with the guidelines set by the Financial Reporting Council (FRC).

The SMPI usually projects the pension income based on a standard retirement age, often set at 65, unless the member has specified a different intended retirement age.

The primary aim of an SMPI is to give pension scheme members a clear and realistic picture of their potential retirement income, helping them make informed decisions about their retirement planning, such as whether to increase their contributions.

The SMPI shows the estimated pension pot value and the amount of annual income it could provide. This is shown in today's money terms to account for inflation.

### Changes to SMPIs

The Actuarial Standard Technical Memorandum 1 (AS TM1) sets the guidelines for creating SMPIs.

In October 2023 AS TM1 was changed with the aim to standardise projections to improve consistency and reliability across different pension providers.

There have been modifications to the assumptions regarding how scheme members access their pension benefits and the methodology used for determining accumulation growth rates.

At the point of the client accessing their pension fund, it is assumed that:

- the member will not take any tax-free cash; and
- they will purchase a lifetime annuity with the SIPP fund on the following basis:
  - single life with no surviving spouse's benefits;
  - no annual income increases; and
  - a five-year guaranteed payment period.

Before the changes to AS TM1, providers had some flexibility in the annuity assumptions they used for projecting retirement benefits in SMPIs.

Changes to the approach for determining 'accumulation growth rates' are:

- the accumulation growth rate applied to each investment must be determined according to the 'volatility group' assigned to that investment; and
- these volatility groups are derived from the volatility of each investment over the last five years.

Fund volatility measures how frequently and significantly an investment's price fluctuates over time.

If the price of an investment remains relatively stable with minimal changes each month, it exhibits lower volatility. Conversely, if the price changes frequently or by large amounts each month, the investment demonstrates higher volatility.

Investment volatility ratings can be obtained from various sources, including financial market data providers. Investments with lower volatility are assumed to have a lower growth rate, while those with higher volatility are assumed to have a higher growth rate.

## How volatility groups are determined

For SMPIs in previous tax years, the fund within the pension was assumed to grow at a specified rate which applied to all scheme members.

As a result of the changes to AS TM1, the assumed growth rate for each scheme member has now changed to a 'blended rate' which is calculated based on the range of investments held within their portfolio.

The assumed growth rate (accumulation rate) of each investment is calculated based on its volatility. The volatility of an investment is the degree of variation of its trading price over time. The calculation looks at the monthly return of each investment over the previous five years.

Each investment is assigned to a volatility group which then determines the accumulation rate for that investment. There are four volatility groups:

Volatility		Volatility group	Accumulation growth rate
Equal to or above	Less than		
0%	5%	1	2%
5%	10%	2	4%
10%	15%	3	6%
15%	Unlimited	4	7%

The investment return is the weighted average of all the accumulation rates within the portfolio. This is then used to calculate the fund value of the pension scheme at the retirement date.

## Summary of changes to Investcentre SMPIs

We already calculate illustrated pension amounts using the annuity assumptions required by the FRC, so the only changes you see will result from the projected growth rates.

The projected growth rates used in the SMPI calculation will vary based on the investment's volatility grouping.

For assets held within the Funds & Shares Service we use Morningstar's synthetic risk reward indicator (SRRRI) to determine each investment's volatility grouping. This information can be found on the overview page for each investment in the [research centre](#).

A volatility rating of three has been assigned to all off-panel investments, including property, and the total value of assets (excluding cash) within a SIPP panel investment partner account. All cash within a RIA, as well as the value of cash held

within the SIPP cash account, the Funds & Shares Service and a SIPP panel investment partner is assigned a volatility rating of one.

If the new blended growth rate is lower, the projected fund value at retirement could decrease; if higher, it could increase.

The below table provides further information about volatility groups and their respective growth rates, and confirms the growth rates we use if we can't determine an SRRI.

Synthetic Risk Reward Indicator	Volatility		Volatility group	Growth rate (% p.a.)	Also applied to
	Equal to or above	Less than			
1 - 4	0%	5%	1	2%	The value of your SIPP or RIA cash account, and the cash element of any Funds & Shares Service and / or panel investment partner.
5	5%	10%	2	4%	
6	10%	15%	3	6%	All SIPP off-panel investments, and the value of assets (excluding cash) held in a panel investment partner.
7	15%	Unlimited	4	7%	

The below is worked example of how investment returns are calculated:

Asset	Value	Allocation	Synthetic Risk Reward Indicator	Volatility group	Growth rate (% p.a.)	Weighting of growth (growth rate x allocation)	% weighted growth rate p.a.
Cash	£5,000	5%	1	1	2%	2% x 5%	0.10%
Fund 1	£30,000	30%	3	1	2%	2% x 30%	0.60%
Fund 2	£20,000	20%	5	2	4%	4% x 20%	0.80%
Fund 3	£20,000	20%	6	3	6%	6% x 20%	1.20%
Fund 4	£25,000	25%	7	4	7%	7% x 25%	1.75%
<b>Total</b>	<b>£100,000</b>	<b>100%</b>					<b>4.45%</b>

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