A guide for members on SMPI

This leaflet sets out some background information about the Statutory Money Purchase Illustration (SMPI), which is included within your annual money purchase statement.

Within the railway pension schemes, there are three elements of benefits that are money purchase arrangements (these are also referred to as defined contribution benefits). These are BRASS, AVC Extra funds and benefits provided by the Industry Wide Defined Contribution (IWDC) Section of the Railways Pension Scheme.

This leaflet gives you more information about:

- What your SMPI is
- Why you will receive an SMPI
- Investment returns
- Accumulation rate: Summary
- The expenses allowed for within SMPI projections
- Annuity conversion within SMPI projections

What your SMPI is

Your Statutory Money Purchase Illustration, or SMPI, is an annual illustration of your future pension – in current monetary terms – that may be payable on retirement from your fund, as well as your projected fund value at that point.

For details on the different ways you can use your pension fund please refer to ‘A guide to your benefit options from a defined contribution arrangement’.

Why you will receive an SMPI

The Trustees and administrators of money purchase arrangements have been required to provide people with an SMPI since April 2003. As BRASS, AVC Extra funds and the IWDC Section are treated as money purchase arrangements, the annual statements for these must include an SMPI. The Trustee makes every effort to ensure that this is prepared in line with the relevant legislation. However, as this is an illustration and is based on assumptions, it is **not guaranteed**.

It is a legal requirement that an SMPI is produced in accordance with relevant guidance prepared by a prescribed body. The Financial Reporting Council (FRC) has been appointed as the prescribed body for that purpose.

The FRC publishes the relevant guidance in a Technical Memorandum *TM1: Statutory Money Purchase Illustrations*, which is updated from time to time. The latest version of TM1 (version 5.0) came into effect on 1 October 2023.

The latest version of TM1 has been introduced to standardise the accumulation rate assumptions, and the illustration of pensions payable on retirement, to improve consistency between SMPIs provided by different money purchase arrangements. For example, under version 5.0 of TM1, the way that accumulation rates are set is prescribed, with the rate for each fund being based on that fund’s volatility, whereas accumulation rates had previously been set by the Trustee.

Investment returns

Your funds at retirement will be based on the investment returns you have already received on your current money purchase funds and also any future returns. Any future contributions and returns on these will also be added in. As these future returns cannot be accurately predicted, assumptions are made for these future investment returns. These assumptions are used to estimate your money purchase funds in your SMPI and are referred to as the accumulation rates.

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The FRC guidance states that the accumulation rates should be set using a prescribed method based on each fund's level of volatility, the calculation of which is also prescribed.

Within the accumulation calculations, allowance is also made for the deduction of expenses or charges and inflation. The inflation rate used for the production of SMPIs is currently prescribed as being 2.5% per annum.

Accumulation rate: Summary

A summary of the rates under version 5.0 of TM1 is presented below, showing the nominal 'gross' return and the 'real' rate of return (i.e. allowing for inflation of 2.5% per annum), along with a summary of the rates that had been used before 1 October 2023 under the previous version of guidance:

	Accumulation Rate (% p.a.)				Deduction for expenses (% p.a.)
	From 1 October 2023		Before 1 October 2023		2023
	Gross	Real	Gross	Real	
Long Term Growth Fund	3.00	0.50	7.50	5.00	0.55
Global Equity Fund	7.00	4.50	7.50	5.00	0.55
Deposit Fund	1.00	-1.50	3.25	0.75	0.55
Index-Linked Gilts Fund	7.00	4.50	3.00	0.50	0.55
Fixed Interest Gilts Fund	5.00	2.50	4.25	1.75	0.55
Socially Responsible Equity Fund	5.00	2.50	7.50	5.00	0.55
Corporate Bond Fund	3.00	0.50	4.00	1.50	0.55

For some funds there are significant changes to the accumulation rates adopted, so this may help to explain any increase or decrease in your level of projected funds compared to previous SMPI statements. Depending on your investment choices, this year's illustration of your projected fund value and the future pension that may be payable at retirement could be higher or lower than the figures that were provided last year.

The Index-Linked and Global Bonds Fund and the Aggregate Bond Fund were replaced with the Index-Linked Gilts Fund and the Fixed Interest Gilts Fund in May 2022. Gilts are common names for UK government bonds so you may also see these two funds referred to as the UK Government Index-Linked Bond Fund and the UK Government Fixed-Interest Bond Fund.

For people who have investments in more than one fund, each fund is projected to a person's expected retirement date and the projected funds are then totalled to produce the SMPI figures. Lifestyle options are dealt with by taking account of a phased transition between the relevant asset classes over a five or ten-year period up to retirement, depending on the term of the lifestyle option within your arrangement.

The accumulation rates are not guaranteed and actual returns may be higher or lower and should not be considered as investment advice.

The accumulation rates under version 5.0 of TM1 will be reviewed annually. In addition, the appropriate deduction for expenses will be reviewed annually by the Trustee, with the current rates being set by the Trustee in June 2023.

The expenses allowed for within SMPI projections

It is a requirement that SMPI projections make allowance for future charges or expenses to be deducted from either future contributions or the current fund. For this purpose, the Trustee currently assumes that each of the annual accumulation rates outlined in this guide will be reduced by 0.55% to reflect the impact of expenses. Therefore, for example, the accumulation rate of the Long Term Growth Fund is 2.45% after allowance for expenses.

Annuity conversion within SMPI projections

Even if there is an obligation within your money purchase arrangement to take funds in cash form, it is a requirement of SMPI projections that illustrations include the amount of pension that could be provided at retirement by the projected fund, as well as showing the projected fund itself. TM1 sets out how the conversion, or annuity rate, should be calculated in order to illustrate pension values.

When converting a projected fund into estimated retirement income, version 5.0 of TM1 requires a single life non-escalating annuity to be assumed whereas the Trustee had previously allowed for inflationary pension increases and a 50% spouse's pension within the illustrations. This change, together with changes in underlying financial conditions, will mean that the amount of pension that can be provided by an accumulated fund at retirement may be higher than it has been in previous illustrations.