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. It also explains how the accumulation rate applied in the projection of your benefits has been set.

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
- Accumulation rate: Fund analysis
- The expenses allowed for 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 4.2) came into effect on 6 April 2017.

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 we are not able to predict what these future returns will be, we have to make assumptions for these. These assumptions are used to estimate your money purchase funds in your SMPI and are referred to as the accumulation rate.

The FRC guidance recommends that the method of determining the accumulation rate should be consistent from year to year, taking account of the expected returns from the current and anticipated future investment strategy of the people's funds. It should also be based on expected returns before the deduction of expenses or charges and consistent with the inflation rate assumption used. The inflation rate used for the production of SMPIs is currently prescribed as being 2.5% per annum.

Accumulation rate: Summary

The Trustee is responsible for setting the accumulation rate for your SMPI and an explanation of the reasoning behind it must be made available.

The Trustee recognises the different investment options available to members when setting the accumulation rate, and also considers advice about suitable accumulation rates.

A summary of the rates currently considered appropriate for this purpose 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 were adopted last year for comparison:

	Accumulation Rate (% p.a.)				Deduction for expenses (% p.a.)	
	2022		2021		2022	2021
	Gross	Real	Gross	Real		
Long Term Growth Fund	6.25	3.75	6.00	3.50	0.40	0.45
Global Equity Fund	5.50	3.00	5.50	3.00	0.40	0.45
Deposit Fund	1.00	-1.50	0.75	-1.75	0.40	0.45
Index-Linked Gilts Fund	0.50	-2.00	0.00	-2.50	0.40	0.45
Fixed Interest Gilts Fund	1.75	-0.75	1.50	-1.00	0.40	0.45
Socially Responsible Equity Fund	5.50	3.00	5.50	3.00	0.40	0.45
Corporate Bond Fund	3.00	0.50	2.75	0.25	0.40	0.45

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.

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.

These rates are not guaranteed and actual returns may be higher or lower and should not be considered as investment advice. The Trustee considers that the rates are on the prudent end of the best estimate range of possible assumptions.

The rates are reviewed annually and the current rates were set by the Trustee in June 2022. The Trustee retained the same accumulation rates for the Global Equity Fund and Socially Responsible Equity Fund. The rates for all other funds have been increased. The deduction for expenses has also been reduced slightly to reflect a general reduction in fund charges, in particular within the Long Term Growth Fund.

Therefore, 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 than the figures that were provided last year.

Accumulation rate: Fund analysis

This summary shows how the rates are obtained for each fund, together with an explanation of how the rates are set.

Long Term Growth Fund - when setting the accumulation rate of **6.25%**, the Trustee took account of the following:

- The expected average term to retirement for members who are likely to be invested in the fund;
- The return expectations of Railpen for the underlying asset classes that form part of the fund; and
- Publicly available 'best estimate' assumptions for the underlying asset classes that form part of the fund.

After taking the above items into account, the Trustee considered that, on balance, expected annual returns of 6.25% (or 3.75% in excess of inflation) would be appropriate for the Long Term Growth Fund.

Global Equity Fund - when setting the accumulation rate of **5.50%**, the Trustee took account of the following:

- The expected average term to retirement for members who are likely to be invested in the fund;
- The return expectations of Railpen for global equities; and
- Publicly available 'best estimate' assumptions for global equity returns.

After taking the above items into account, the Trustee considered that, on balance, expected annual returns of 5.50% (or 3.00% in excess of inflation) would be appropriate for the Global Equity Fund.

Deposit Fund - when setting the accumulation rate of **1.00%**, the Trustee took account of the following:

- The expected average term to retirement for members who are likely to be invested in the fund;
- The return expectations of Railpen for cash funds;
- Current interest rates on cash funds; and
- Publicly available 'best estimate' assumptions for cash funds.

After taking the above items into account, the Trustee considered that, on balance, expected annual returns of 1.00% (or 1.50% below inflation) would be appropriate for the Deposit Fund.

Index-Linked Gilts Fund - when setting the accumulation rate of **0.50%,** the Trustee took account of the following:

- The expected average term to retirement for members who are likely to be invested in the fund;
- The return expectations of Railpen for the underlying index-linked gilts that form part of the fund;
- Current index-linked gilt yields applicable at the expected average term to retirement; and
- Publicly available 'best estimate' assumptions for the underlying index-linked gilts.

After taking the above items into account, the Trustee considered that, on balance, expected annual returns of 0.50% (or 2.00% below inflation) would be appropriate for the Index-Linked Gilts Fund.

Fixed Interest Gilts Fund - when setting the accumulation rate of **1.75%**, the Trustee took account of the following:

- The expected average term to retirement for members who are likely to be invested in the fund;
- The return expectations of Railpen for the underlying fixed interest gilts that form part of the fund;
- Current gilt yields applicable at the expected average term to retirement; and
- Publicly available 'best estimate' assumptions for the underlying fixed interest gilt yields.

After taking the above items into account, the Trustee considered that, on balance, expected annual returns of 1.75% (or 0.75% below inflation) would be appropriate for the Fixed Interest Gilts Fund.

Socially Responsible Equity Fund - when setting the accumulation rate of **5.50%**, the Trustee took account of the following:

- The expected average term to retirement for members who are likely to be invested in the fund;
- The return expectations of Railpen for equities that form part of the fund; and
- Publicly available 'best estimate' assumptions for equity returns.

After taking the above items into account, the Trustee considered that, on balance, expected annual returns of 5.50% (or 3.00% in excess of inflation) would be appropriate for the Socially Responsible Equity Fund.

Corporate Bond Fund – when setting the accumulation rate of 3.00%, the Trustee took account of the following:

- The expected average term to retirement for members who are likely to be invested in the fund;
- The return expectations of Railpen for the underlying bonds that form part of the fund;
- Current bond yields applicable at the expected average term to retirement; and
- Publicly available "best estimate" assumptions for the underlying bonds.

After taking the above items into account, the Trustee considered that, on balance, expected annual returns of 3.00% (or 0.50% in excess of inflation) would be appropriate for the Corporate 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 aggregated to produce the SMPI figures.

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 0.40% to reflect the impact of expenses. Therefore, for example, the accumulation rate of the Long Term Growth Fund is 5.85% after allowance for expenses.