

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 return assumptions
- 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

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, the benefits shown are **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 5.2) came into effect on 6 April 2026.

Investment return assumptions

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.

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.

The accumulation rates under version 5.2 of TM1 are reviewed annually.

Accumulation rate: Summary

The following table provides a summary of the accumulation rates used in SMPIs from 6 April 2025, 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 in the previous year for comparison:

| | Accumulation Rate (% p.a.) | | | | Deduction for expenses (% p.a.) | |
|----------------------------------|-----------------------------------|-------|-----------------------------------|-------|---|---------------------------------------|
| | From 6 April 2026 to 5 April 2027 | | From 6 April 2025 to 5 April 2026 | | From 1 January 2026 to 31 December 2026 | From 6 April 2024 to 31 December 2025 |
| | Gross | Real | Gross | Real | | |
| Long Term Growth Fund | 4.00 | 1.50 | 4.00 | 1.50 | 0.52 | 0.55 |
| Global Equity Fund | 6.00 | 3.50 | 7.00 | 4.50 | 0.52 | 0.55 |
| Deposit Fund | 2.00 | -0.50 | 2.00 | -0.50 | 0.52 | 0.55 |
| Index-Linked Gilts Fund | 7.00 | 4.50 | 7.00 | 4.50 | 0.52 | 0.55 |
| Fixed Interest Gilts Fund | 2.00 | -0.50 | 2.00 | -0.50 | 0.52 | 0.55 |
| Socially Responsible Equity Fund | 6.00 | 3.50 | 6.00 | 3.50 | 0.52 | 0.55 |
| Corporate Bond Fund | 4.00 | 1.50 | 4.00 | 1.50 | 0.52 | 0.55 |

The only change to the accumulation rates since the previous year is to the Fixed Interest Gilts Fund. Part of the calculation to set the accumulation rates, as prescribed in the FRC guidance, is to consider the historic investment returns of both the actual fund, and any appropriate benchmark funds. A benchmark fund has similar characteristics to the actual fund, but it is generally a larger, well established fund.

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 lower than the figures that were provided last year.

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 ten-year period up to retirement.

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

Note - In addition to the above rates used for SMPIs, accumulation rate assumptions are also used within Appendix 2 of the Chair's statement 2024 (titled "Illustration of cumulative effect of costs and charges on the value of members' fund values over time"). However, the rates used within Appendix 2 of the Chair's statement 2024 differ to those set out above as they are based on a prior version 4.2 of TM1. Therefore, it may be difficult to reconcile projections within Appendix 2 of the Chair's statement with projections provided within your SMPI.

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 0.52% to reflect the impact of expenses. Therefore, for example, the accumulation rate of the Long Term Growth Fund is 3.48% (or 0.98% in real terms) after allowance for expenses.

The appropriate deductions for expenses are reviewed annually by the Trustee. The last review of the allowance for expenses was carried out in December 2025 and the next review is scheduled for December 2026.

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 5.2 of TM1 assumes that no lump sum is to be paid at retirement date, the pension illustrated must be assumed to be payable monthly in advance and paid throughout the lifetime of the individual without pension increases. Changes in underlying financial conditions mean that the amount of pension that can be provided by an accumulated fund at retirement may be higher than it has been in the figures that were provided last year.

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