# 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 British Transport Police Superannuation Fund, there are two elements of benefits that are money purchase arrangements (these are also referred to as defined contribution benefits). These are BRASS and AVC Extra funds.

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 and AVC Extra funds 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 5.1) came into effect on 6 April 2024.

The previous version of TM1, version 5.0 applicable from 1 October 2023 to 5 April 2024, had 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 and 5.1 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 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 rate.

The FRC guidance states that the accumulation rate 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 5.1 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 between 1 October 2023 and 5 April 2024 under the previous version of guidance, as well as those that had been used before 1 October 2023:

| | Accumulation Rate (% p.a.) | | | | | | Deduction for expenses (% p.a.) |
|---|---|---|---|---|---|---|---|
| | From 6 April 2024 | | 1 October 2023 to 5 April 2024 | | Before 1 October 2023 | | Since June 2023 |
| | Gross | Real | Gross | Real | Gross | Real | |
| **Long Term Growth Fund** | 4.00 | 1.50 | 3.00 | 0.50 | 7.50 | 5.00 | 0.55 |
| **Global Equity Fund** | 7.00 | 4.50 | 7.00 | 4.50 | 7.50 | 5.00 | 0.55 |
| **Deposit Fund** | 2.00 | -0.50 | 1.00 | -1.50 | 3.25 | 0.75 | 0.55 |
| **Index-Linked Gilts Fund** | 7.00 | 4.50 | 7.00 | 4.50 | 3.00 | 0.50 | 0.55 |
| **Fixed Interest Gilts Fund** | 7.00 | 4.50 | 5.00 | 2.50 | 4.25 | 1.75 | 0.55 |
| **Socially Responsible Equity Fund** | 6.00 | 3.50 | 5.00 | 2.50 | 7.50 | 5.00 | 0.55 |
| **Corporate Bond Fund** | 4.00 | 1.50 | 3.00 | 0.50 | 4.00 | 1.50 | 0.55 |

For some funds there have been significant changes to the accumulation rates adopted, especially since 1 October 2023, so this may help explain any increase or decrease in your level of projected funds compared to previous SMPI statements. 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 or 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 aggregated 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 5.1 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 rate of expense was agreed to be retained at the Defined Contribution Committee meeting on 25 July 2024. It will be reviewed again at the next meeting in December 2024 and at subsequent Q4 meetings.

## 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 3.45% (or 0.95% in real terms) after allowance for expenses.

## Annuity conversion within SMPI projections

Even if there is a requirement 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 the projected fund itself. TM1 sets out how the conversion, or annuity rates, should be calculated in order to illustrate pension values.

When converting a projected pot into estimated retirement income, version 5.1 of TM1 assumes that no lump sum is to be paid at retirement date, the pension illustrated must be assume to be payable monthly in advance and paid throughout the lifetime of the individual without pension increases, 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 pot at retirement may be higher than it has been in previous illustrations.