

# LCP note on New ASP Assumptions

## August 2024

### Introduction

Below are the proposed new ASP PRSA-2 assumptions provided by the Society of Actuaries, as at August 2024.

These assumptions have been released for “consultation” with Society of Actuaries members. The intention is that consultation ends on 16th of August, with implementation by providers no later than 1 December. This date could be pushed out if there are any delays in the consultation, but I would not see the date being pushed out by more than a month.

Early adoption is encouraged and I would think providers could apply the new assumptions from 1 Sept, subject to when the rates are formally adopted by the Society.

See below for proposed new assumptions to be used in the preparation of SORPs and PDCs for all Providers.

<i>ASP Financial and Economic Assumptions</i>	<i>ASP PRSA-2</i>	<i>Current Rate</i>	<i>Proposed Rate</i>	<i>Change</i>	<i>Rationale</i>
Maximum Investment growth - overall	5.1	5.75%	6.00%	0.25%	Maximum investment growth rate capped in Disclosure regs at 6%
Maximum Investment growth - equity & property	5.2(i)	5.75%	6.65%	0.90%	The equity and property rate is the Risk Free Rate (RFR) plus 4% to allow for equity and property risk premium. This premium has not changed since last update – the movement is solely down to the increase in the RFR.
Maximum Investment growth - fixed interest	5.2(ii)	2.50%	3.40%	0.90%	The Fixed interest rate is the RFR plus a 0.75% spread to allow for additional credit spread of investing in bond portfolio. The credit spread assumption has not changed since last update – the movement is solely down to the increase in the RFR.
Maximum Investment growth - cash	5.2(iii)	0.25%	2.65%	2.40%	The cash rate is set in accordance with the RFR of 2.65% at 30/6/2024.
Maximum Investment growth – other assets with insufficient information	5.3	0.25%	2.65%	2.40%	The RFR is 2.65% at 30/6/2024. The rate is in line with the rate of return on cash per the above.
Price inflation rate	8.2	2.00%	2.00%	0.00%	No change proposed
Salary inflation rate or benefit deflation rate	7.1	3.00%	3.00%	0.00%	No change proposed
Premium increases linked to general earnings	8.1	3.00%	3.00%	0.00%	No change proposed
Premium increases linked to consumer prices	8.2	2.00%	2.00%	0.00%	No change proposed
Maximum interest rate for annuities	9.1	2.00%	2.90%	0.90%	Changed in line with fixed interest assumption less 0.50% allowance for expense/profit margin. This is consistent

					with how the assumption was derived at the last update.
Rate of escalation for annuities	9.3	2.00%	2.00%	0.00%	No change proposed

## Main Points

Some points to note in relation to the revised assumptions:

1. The investment assumption and annuity rates have both increased
2. The maximum assumed growth rate is still 6.0%, as this is set down in legislation
3. The maximum assumed growth rate for equities is 6.65%
  - a. Where 100% equities, this will be capped at 6.0%
  - b. Where (for example) someone is invested in 50% bonds and 50% equities, we will illustrate using the 6.65% rate for equities, as the overall growth rate will be less than 6% when we take the bonds into account
4. As I understand it, assumptions will be reviewed again in 12 months.

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