

# Fund-specific growth rates used for Skandia Investment Solutions illustrations

The Financial Services Authority (FSA) tells platform providers how they must calculate the potential future value of life assurance, pension and investment accounts for use in illustrations.

Because future investment returns are uncertain, we generally use three standard scenarios to project growth – high, mid and low. The FSA sets the standard rates\* to be used for these, but asks us to use lower rates if we think that standard rates could overstate the potential growth of any of the funds held in a particular plan. These rates are known as ‘fund-specific’ growth rates. We use ‘fund-specific’ growth rates for each investment on the platform to ensure the projections are realistic. This note shows how we determine the fund-specific growth rates we use on the platform.

As the following table shows, each fund is allocated a fund type from A to G based on the type of assets held by the fund at a fixed point in time. The type determines the mid growth rate used for funds linked to each type.

**Table of fund-specific growth rates**

Fund type	Typical holding	Mid rate for CIA, CIB	Mid rate for CRA, ISA, OCIB	
<b>Type A</b>	Cash deposit	Cash deposit (only available for the CIA and ISA)	1.00%	2.00%
<b>Type B</b>	Money markets	Mainly cash/money markets or combined cash/money markets and fixed interest	1.50%	2.50%
<b>Type C</b>	Fixed interest	Mainly fixed interest	1.75%	2.75%
<b>Type D</b>	Low mixed	Mixed holdings, with at least half in cash/money markets and/or fixed interest	3.25%	4.25%
<b>Type E</b>	High mixed	Mixed holdings, with less than half in cash/money markets and/or fixed interest	4.50%	5.50%
<b>Type F</b>	Equity	Mainly equities	6.25%	7.25%
<b>Type G</b>	Property	Mainly direct holdings in property	5.75%	6.75%

The growth rates used in the above table are worked out using research data provided by an independent company. They are not guaranteed and they are not minimum or maximum rates. We review growth rates each quarter and fund classifications each year. The last rates review was in November 2011 and the last classification review at the end of 2011.

An up-to-date list of funds and fund types can be found in our **Informer** document. Please refer to the ‘Fund Type’ column.

The mid rate we use in the projection for an account is a ‘weighted average’ growth rate applied to all funds held in the account. To calculate the weighted average growth rate we multiply the percentage allocation for each fund in an account or investment by the mid rate for the respective fund type/product, and then add these together. This figure is rounded to the nearest 0.25%. If the rate is higher than the standard rate, we then use the mid standard rate\* instead.

The high and low rates are calculated as follows:

	Low rate	High rate
If the mid rate is 3.50% or more	Mid rate - 2.00%	Mid rate + 2.00%
If the mid rate is 2.25% or more, but less than 3.50%	Mid rate - 1.50%	Mid rate + 1.50%
If the mid rate is less than 2.25%	Mid rate - 1.00%	Mid rate + 1.00%

## Example:

To illustrate the potential future growth of a £10,000 investment in the Collective Retirement Account, with £2,000 into an equity fund (mid rate 7.25%), £5,000 into a high mixed fund (mid rate 5.50%) and £3,000 into a fixed interest fund (mid rate 2.75%), the weighted average mid rate would be calculated as follows:

$$(\pounds2,000/\pounds10,000 \times 7.25\%) + (\pounds5,000/\pounds10,000 \times 5.50\%) + (\pounds3,000/\pounds10,000 \times 2.75\%) = 5.03\%$$

The mid rate is rounded to 5.00%. The high rate is calculated as 5.00% + 2.00% = 7.00% and the low rate is calculated as 5.00% - 2.00% = 3.00%

\* Standard growth rates for the CIA and CIB are 4%, 6%, 8%. Standard growth rates for the CRA, ISA, OCIB are 5%, 7%, 9%.

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Skandia provides you with access to its investment platform, known as Skandia Investment Solutions. Within this platform you can open an ISA and Collective Investment Account provided by Skandia MultiFUNDS Limited and a Collective Retirement Account and Collective Investment Bond provided by Skandia MultiFUNDS Assurance Limited.

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