

Fund-specific growth rates used for Skandia Life illustrations

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

Because future investment returns are uncertain, we generally use three scenarios of projected growth – high, mid and low. The FSA sets the standard percentages* 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 to ensure that they remain realistic for the specific investment. We currently use fund-specific growth rates in illustrations for Skandia investment products, protection products and new investments into the Personal Pension Income Plan. We have a programme to update these growth rates across all our illustrations. This note shows how we determine the fund-specific growth rates we use.

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 growth rates used in the calculations for that fund.

Table of fund-specific growth rates

Fund type		Typical holding	Life products			Pension products		
			Low	Mid	High	Low	Mid	High
Type A	Cash deposit	Not applicable to Skandia Life and Pension products	–	–	–	–	–	–
Type B	Money markets	Mainly cash/money markets or combined cash/money markets and fixed interest	0.50%	1.50%	2.50%	1.50%	2.50%	3.50%
Type C	Fixed interest	Mainly fixed interest	0.25%	1.75%	3.25%	1.25%	2.75%	4.25%
Type D	Low mixed	Mixed holdings, with at least half in cash/money markets and/or fixed interest	1.25%	3.25%	5.25%	2.25%	4.25%	6.25%
Type E	High mixed	Mixed holdings, with less than half in cash/money markets and/or fixed interest	2.50%	4.50%	6.50%	3.50%	5.50%	7.50%
Type F	Equity	Mainly equities	4.00%	6.00%	8.00%	5.00%	7.00%	9.00%
Type G	Property	Mainly direct holdings in property	3.75%	5.75%	7.75%	4.75%	6.75%	8.75%

The projections for each fund in a plan are calculated using the relevant fund-specific rates. These are then totalled to provide the combined projection for each of the low, mid and high growth scenarios. We also show an equivalent growth rate for each of the three scenarios on the illustration for information.

The low, mid and high 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** fund statistics document. Please refer to the ‘Fund Type’ column.

Example:

To illustrate the potential future growth of a £10,000 investment in The Skandia Plan, with 60% into an equity fund (type F) and 40% into a fixed interest fund (type C), we would calculate as follows:

Low growth rate: Equity Fund £6,000 growing at 4% a year
Fixed Interest Fund £4,000 growing at 0.25% a year

Mid growth rate: Equity Fund £6,000 growing at 6% a year
Fixed Interest Fund £4,000 growing at 1.75% a year

High growth rate: Equity Fund £6,000 growing at 8% a year
Fixed Interest Fund £4,000 growing at 3.25% a year

The rates used in the above example are before charges have been deducted.

*Standard growth rates for life products are 4%, 6%, 8%. Standard growth rates for pension products are 5%, 7%, 9%.

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