Financial planning tool

Assumptions and explanations

Pensions

ROYAL LONDON

Our financial planning tool will help you create a financial plan for your clients, so you can give them a full picture of their different sources of income and how their spending needs could change over time.

It uses a sophisticated economic forecast, provided by Moody's Analytics, to assess the likelihood of your client achieving their financial plan. This stress tests your client's plan by looking at 1,000 different ways the economy could perform.

This guide gives you more information about the assumptions our financial planning tool uses to create your client's financial plan.

Contents

Duration of model

The duration of the model includes the age to plan to. So in this example, any planned contributions, income and charges are included up to age 90. However, the last year of investment growth occurs between ages 89 and 90.

Current age

60

Age to plan to

90

The financial plan covers the next 31 years.

How much do you plan to save?

£15,000 p.a

You plan to save 0% of your earnings each year and invest a total of £150,000 when you reach your 67th birthday.

Planned amount to save

Regular contributions

The value of £15,000 is the amount the client plans to save into their pension over the next year.

The monetary value of **percentage of earnings** depends on the salary your client is expected to have in the future. The financial planning tool will increase the contribution amount in line with any salary increases you include in the model.

All contributions

The final amount of £150,000 includes all current savings and anything else the client plans to contribute in the future (regular contributions, single contributions and transfer payments).

How much do you want to have left?

£56,000

Although it could be different in the future, you could use this to buy a secure income of £9,700 a year from age 90 or pass it on to your loved ones when you die.

Lump sum

The value of £56,000 is the amount of money the client would like to have at their target age and is shown in real terms.

In an accumulation model, where there's no income being taken, this is the amount they'd like to have at retirement.

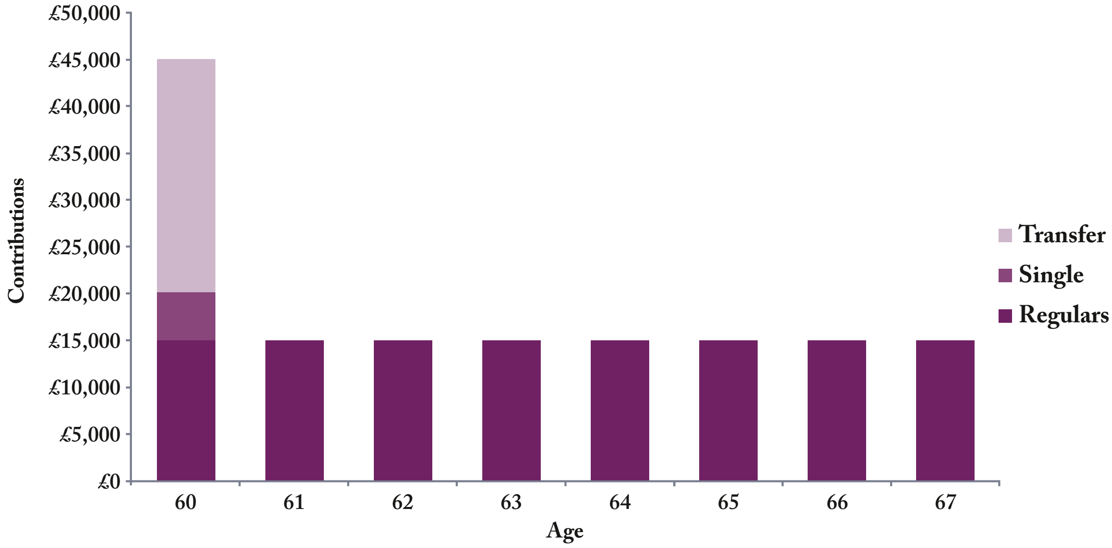
In any other model where income is being taken, this is the amount they'd like to have left to buy a secure income (annuity) or leave behind for loved ones.

Annuity rate

The annuity rates are calculated by Moody's Analytics. In this example, £9,700 is the secure income that could, on average, be bought with the savings the client has left at the end of the model.

Contributions

All contributions are in today's terms and the model takes into account the impact of inflation. This means that when your client's planning how much to save in the future, they can do this based on the value of money today.



Regular contributions

Your contributions will start at £15,000 a year (0% of your earnings) and will continue until your 67th birthday.

Single contributions

You plan to make the following single contributions:

- £5,000 at age 60

Transfer payment

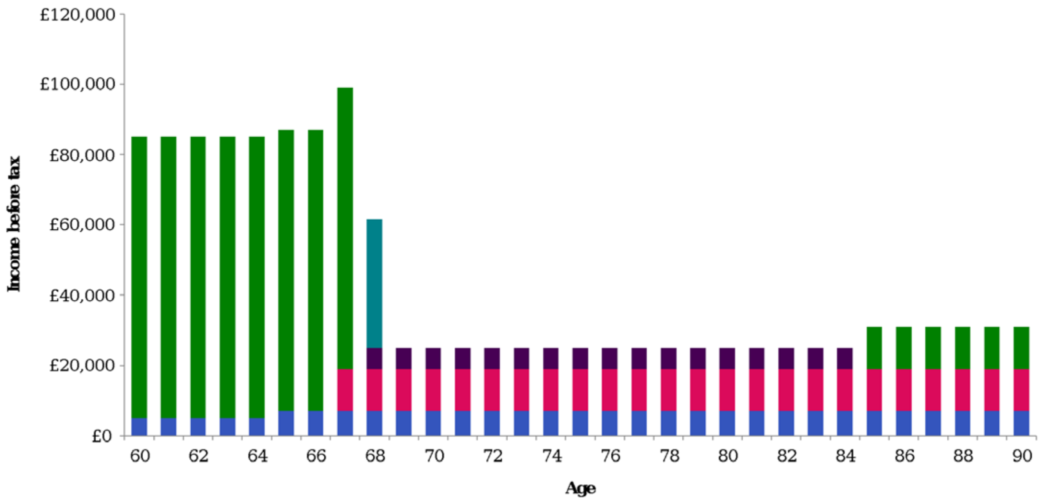
You plan to transfer £25,000 from the following pensions:

- transfer £25,000

Income

All income is shown in today's terms and the model takes into account the impact of inflation. This means that when your client's planning how much to take from their plan, they can do this based on the value of money today.

The chart below shows your sources of income and how the money you take out could change over time.



Tax-free cash

You'd like to take your tax-free cash as one lump sum at age 68.

Flexible access

This is the yearly income you'll start taking from age 68.

Other income

You expect to have £712,000 available from the following sources:

- Job £80,000 Age 60 to 67
- Equity release £12,000 Age 85 to 90

This is expected to grow each year in line with inflation.

State Pension

You'll receive a State Pension of £230.25 a week from age 67. This is expected to increase each year.

Defined benefit

You'll receive your defined benefit income from the following plans:

- Royal London £5,000 Age 60 to 90
- Standard Life £2,000 Age 65 to 90

This is expected to grow each year in line with inflation.

Fund performance

The performance chart shows how much your client's savings could be worth at different ages and the likelihood of them achieving this. For example in the 'average market', this should be interpreted as '2 times out of 4' your client could have **more** than £123,400 at age 90.

These figures are shown in nominal terms.

Poor market

Your plan met your targets. You could have savings of £99,700 at 90, which would be worth £53,000 in today's money.

3 times out of 4, the model expects markets to perform better than this.

Average market

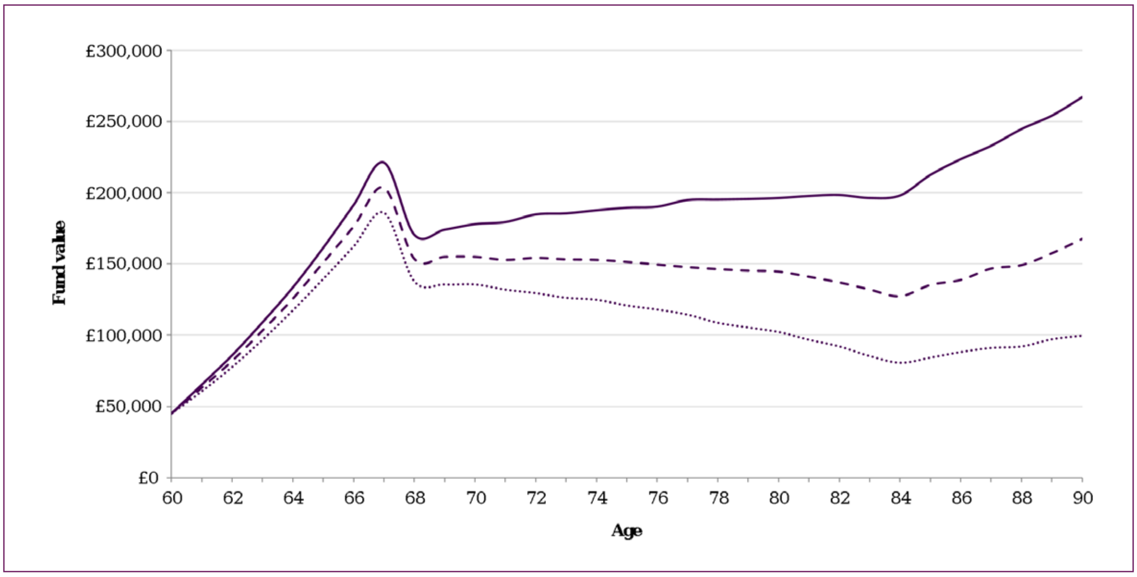
Your plan met your targets. You could have savings of £167,600 at 90, which would be worth £96,600 in today's money.

2 times out of 4, the model expects markets to perform better than this.

Strong market

Your plan met your targets. You could have savings of £267,200 at 90, which would be worth £159,200 in today's money.

1 time out of 4, the model expects markets to perform better than this.



Result

What does the percentage mean?

The model analyses 1,000 possible scenarios and assesses how many of them meet your client's needs. This is then displayed as a percentage. This represents the likelihood of the financial plan being successful.

When you invest in the stock market, there are never any guarantees.

To assess the likelihood of you achieving your financial plan, I used a sophisticated economic forecast, provided by Moody's Analytics.

This stress tests your plan by looking at 1,000 different ways the economy could perform over the next 31 years. For example, it considers:

- What if the cost of living increases quicker than expected?
- What happens if interest rates start to rise?

74.4%

Your forecast result

While this isn't guaranteed, it means that 744 times out of 1000, the model expects you to achieve your financial plan - so your savings could provide the income you need and you could have £167,600 left at age 90, which would be worth £96,600 in today's money.

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