

Financial planning tool

Assumptions document

Pensions



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 when assessing your client's financial plan.

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Royal London charges

All the charges in the models you create will stay the same for the term of the model. They don't include the Royal London management charge discount.

If a client's still saving into their pension and they move into a lower charge band, our model won't account for this. So the actual charge they'll pay in the future could be lower than what's shown in the model.

If a client's taking an income and using up their pension savings, the actual charge they'll pay could be higher than what's shown in the model.

You should consider this when entering the annual management charge in the model.

You're unable to include any ProfitShare awards in the model as we can't guarantee that we'll be able to award ProfitShare every year.

[Tools](#) → [Planning](#) → [Model dashboard](#) → [Charges](#)

Charges

Adviser
Initial charge
 %

Giving a charge of
£4,000.00

Ongoing charge
 %

Product
Annual management charge ?
 %

The charge for setting up and managing your plan is known as annual management charge. This is taken from the pension savings you've built up.

[Update](#)

Investment options

Fund ranges available

Only the Governed Range is available. If your client’s invested in another fund and wants to replicate this, they should choose a Governed Portfolio (GP) or Governed Retirement Income Portfolio (GRIP) with a similar asset allocation.

Our investment glide path solutions aren’t available in the model as investments can’t be changed part way through the model.

Tactical vs strategic asset allocation

The financial planning tool is intended to be used for medium to long term financial planning. Short term tactical allocation isn’t appropriate for modelling as in the long term, it’s expected that the asset allocation will average out around the strategic allocation.

Tools → Planning → Model dashboard → Investments

Investments

Help

Investment options

Governed Portfolios (GPs)

Governed Retirement Income Portfolios (GRIPs)

Governed Retirement Income Portfolios explained

Select your investment

GRIP1

GRIP2

GRIP3

GRIP4

GRIP5

← Cautious

Adventurous →

GRIP 3 asset allocation

Assets	Distribution
Equity	30%
Gilts	10%
Corporate Bonds	10%
Index Linked Gilts	10%
Property	7.5%
Absolute Return Strategies (inc. cash)	15%
Global High Yield Bonds	6.25%
Commodities	5%
UK High Yield Bonds	6.25%

GRIP 3 fund factsheets

Save

Contributions

Timing, tax relief and inflation

We've made the following assumptions:

- Contributions are made at the start of the year before any charges and income are taken.
- Contributions will increase each year in line with inflation.
- The contribution amount entered includes any employer contributions and tax relief.

The impact of inflation is automatically included in the model, so you should always enter an amount in today's money.

Salary escalation

When you enter a '% of earnings', e.g. 5%, the equivalent monetary amount displayed in the chart will be 5% of the expected salary in that year. If the salary is set to increase by 3% each year, the contributions will increase at the same rate. The escalation rate of 3% accounts for expected increases in salary through promotion, job performance etc. It doesn't replace inflation which is controlled by the financial planning tool and applies to all contributions.

[Tools](#) → [Planning](#) → [Model dashboard](#) → [Contribution schedule](#)

Contribution schedule

[? Help](#)

Regular

Cancel

Include regular contribution?

Yes

No

Contribution amount

% of earnings

Fixed

8

%

Escalation

Yes

No

Contribution start age

59

Contribution end age

67

Save

Single

Edit

£6,000

30% of total

Transfer

Edit

£6,000

30% of total

Amount invested	Total income released	Total income	Target remaining fund	Calculated growth rate
£0	£0	£0	£100,000	8.89%

£1 250

£1 000

£750

£500

£250

£0

59

60

61

62

63

Age

Contributions (including tax relief)

5

Income

How drawdown income is calculated

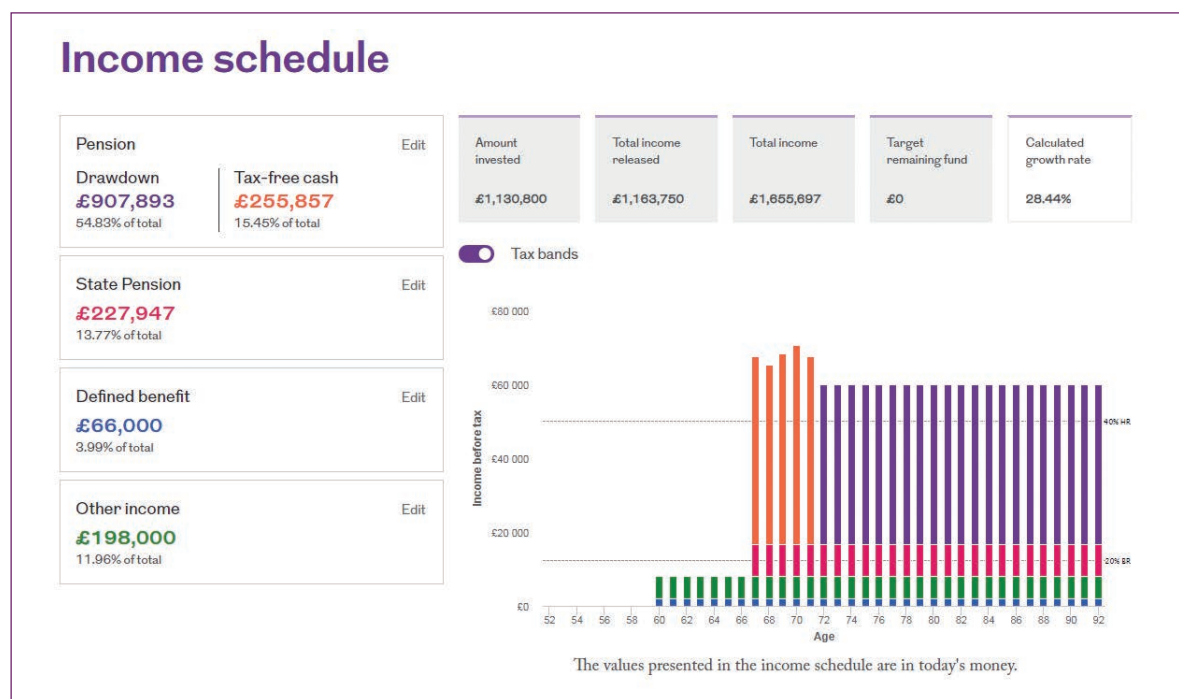
The amount of drawdown income that a client needs each year depends on their different sources of income. When you enter a target income, all your client's additional sources of income (State Pension, defined benefit pension, other income) are subtracted from this and any shortfall identified will be filled using drawdown.

For example, if your client wants a total yearly income of £50,000 and they'll receive a total of £15,500 from other sources (£8,000 from their State Pension, £5,000 from a defined benefit pension and £2,500 from other income), the drawdown income required to make this up to £50,000 would be £34,500.

Inflation

All the income amounts you enter should be in today's money. The model will work out inflation rates for each scenario using a sophisticated economic forecast and assumes your client's income will increase each year in line with this.

The 'Yearly escalation' option should only be used when you want a real increase or decrease in your client's income.



Tax-free cash

Tax-free cash lump sum

If your client would like to take their tax-free cash as one lump sum, you should enter how much they'd like to take tax free.

Custom tax-free cash

There are guidelines in the custom income schedule that indicate the amount of tax-free cash that should be taken each year. This is based on an estimate of the split between crystallised and uncrystallised money your client has available.

The total amount of tax-free cash in the guidelines is based on the total contributions made and charges, it doesn't include any potential growth.

However, this is just an estimate. You should consider your client's individual needs and circumstances when assessing how much tax-free cash they should take.

Pension

Cancel

Schedule ?

Standard

Custom

Reset

Clear

Age	Drawdown	Tax-free cash
55	£ 30,000	£ 10,000
56	£ 30,000	£ 10,000
57	£ 30,000	£ 10,000
58	£ 30,000	£
i Take £10000 more.		
59	£ 30,000	£ 10,000
60	£ 30,000	£ 10,000
61	£ 30,000	£ 10,000
62	£ 30,000	£ 250,000
i You've taken £22022 too much.		
63	£ 30,000	£

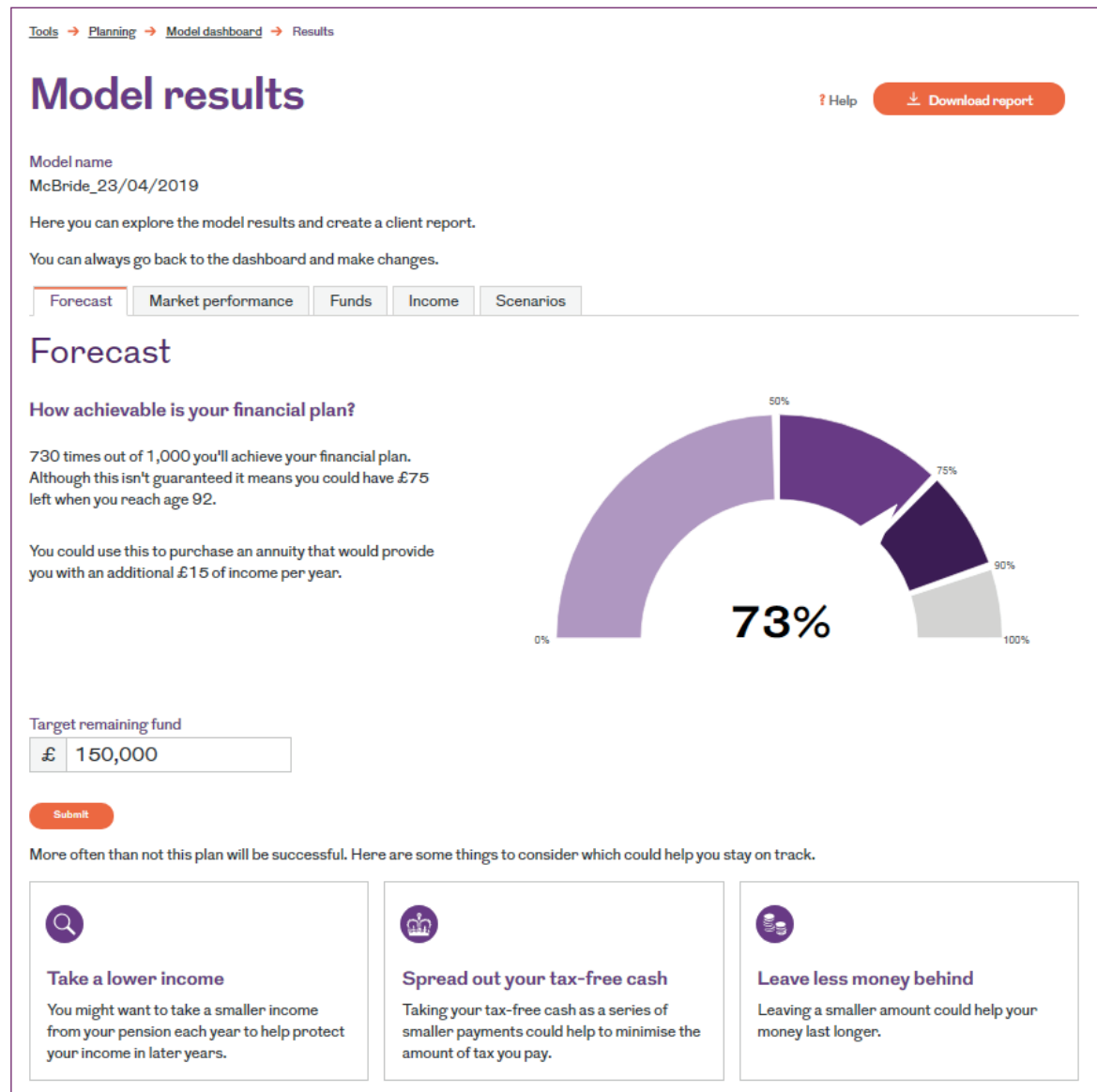
Save

Results – forecast tab

What does the percentage mean?

The model stress tests your client's plan by looking at 1,000 different ways the economy could perform, then displays a percentage. This percentage is how likely your client is to achieve their target income and target remaining fund at the end of the model.

The financial planning tool will quote the average remaining fund value. This is the minimum amount of money the model predicts will be left 500 times out of 1,000. The remaining fund value accounts for inflation so will be shown in today's money.



Results – income after inflation tab

Income

The actual amount of income needed to keep up with the effect of inflation is shown for the 25th, 50th and 75th percentiles. Everything in this tab is shown in nominal terms.

Tax

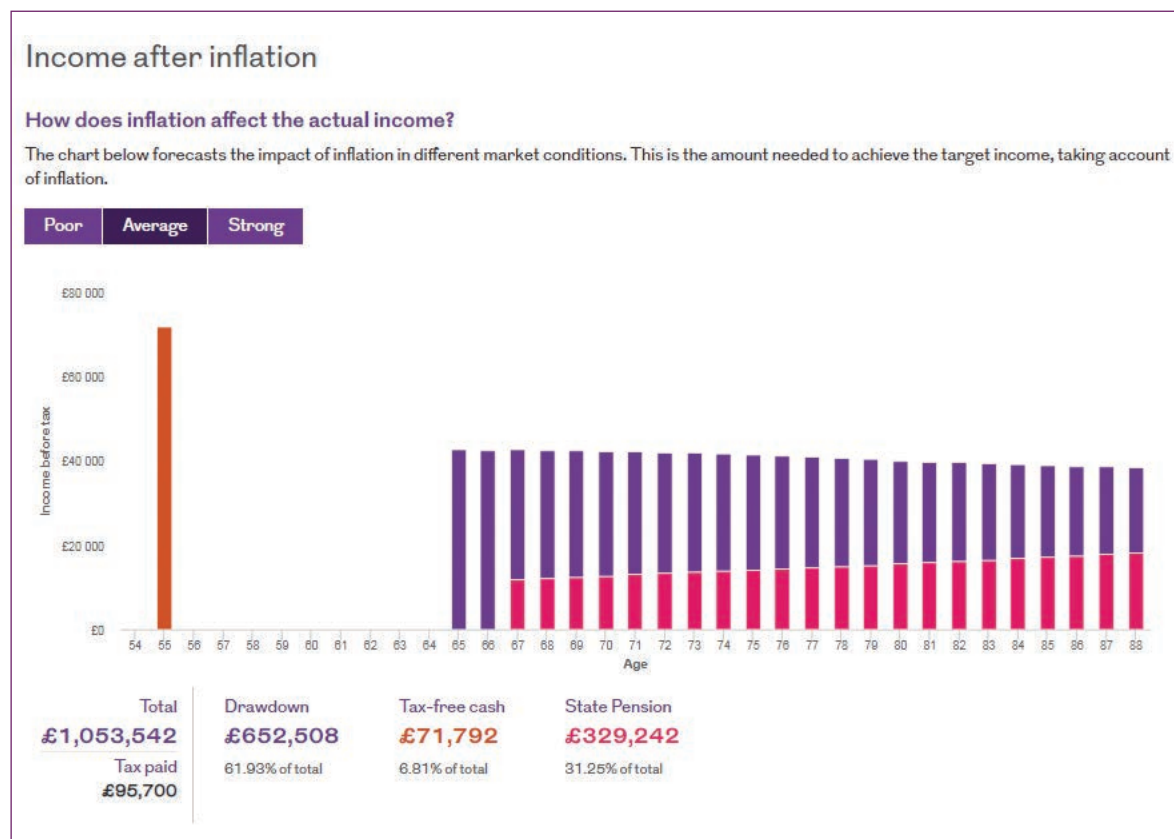
The amount of tax that could be paid each year is shown when you hover over the chart. The current year's tax bands are increased each year by the stochastically determined inflation rate for that scenario. This ensures that they increase in line with the inflation adjusted income requirement.

Tax is then calculated for that year using both the inflation adjusted income and inflation adjusted tax bands. The total amount of tax payable for each quartile is summarised on the left.

Once set, the Personal Allowance doesn't change throughout the model, apart from allowing for inflation. This means that the Personal Allowance won't decrease if in future years the income requirement activates the Personal Allowance taper.

Average inflation rate

The average rate of inflation across all the years in that quartile is also displayed in the summary box at the bottom of the page.



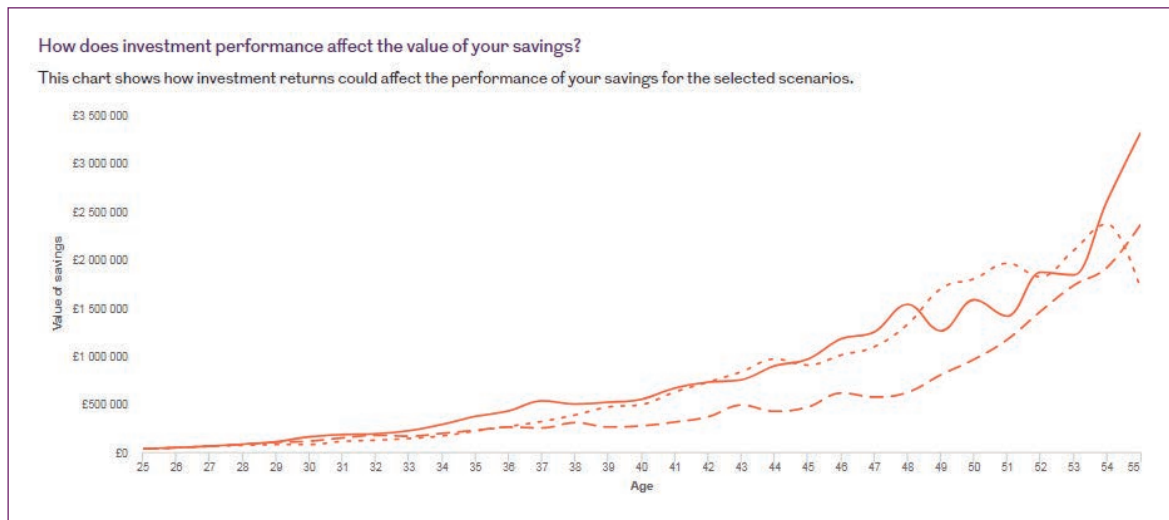
Results – scenarios tab

Value of savings

Every economic scenario generated by the stochastic model can be explored in more detail on this tab.

Each individual scenario is provided to help demonstrate what stochastic modelling is and how it works. This is the core data that's used to derive all of the other statistics and distributions of data that are displayed on other results tabs.

All analysis of how the portfolio could perform and the levels of income it can provide should be carried out on the other tabs.

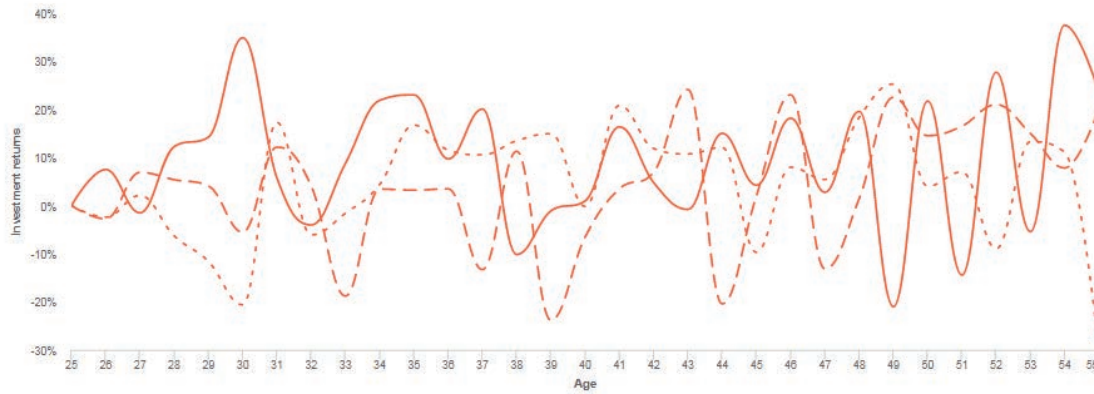


Investment returns

The time intervals in the model are measured in years. It's assumed that at the start of the year, contributions are made, charges are deducted and then income's taken. Investment returns for the year are applied after these events.

What returns could you get on your investments?

This chart shows the sequence of investment returns for the selected scenarios.



250th scenario

- The average annualised investment return was 3.79%
- The average rate of inflation was 1.19%

500th scenario

- The average annualised investment return was 3.33%
- The average rate of inflation was 2.4%

750th scenario

- The average annualised investment return was 8.55%
- The average rate of inflation was 3.99%



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