How we work out pension illustration growth rates in annual benefit statements

The Financial Reporting Council (FRC) has been appointed by the Government to set the basis for illustrations in annual benefit statements. The basis they have set means we have to take expected returns from both the current and anticipated future investment strategy of the member's funds into account when we set fund growth rates.

In deciding the appropriate rates we analyse the asset mix of funds involved in the projection and project each fund separately. We group all assets of these funds into the following 'asset classes':

- **Equities**
- **Property**
- **Corporate Bonds**
- **Gilts**
- **Cash**
- **Other**

We have made assumptions about the potential performance of each 'asset class' over the next 10-15 years. These assumptions are mostly based on analysis taken from a paper produced by the FCA. This paper looked at future Gross Domestic Product (GDP) growth, inflation, interest rates, government bond yields, and their impact on the future performance of the asset classes above.

These assumptions are used to set the growth rates for each of the asset classes, apart from Cash and Other. We set the rates for Cash and Other by taking into account the Bank of England base rate and current long term interest rates available on cash and cash type investments.

We then calculate the growth rate for each fund, allowing for the proportion the fund has invested in each asset class.

As at 27 February 2018, the assumptions we use are:

Equities:	6.50%
Property:	5.50%
Corporate Bonds:	3.00%
Gilts:	2.00%
Cash & Other:	1.50%

These assumptions are also used for projections produced under the rules set for new business Key Features Illustrations and for existing business illustrations not being issued in annual benefit statements. Under these rules the growth rate is capped at 5%