AJBell Investcentre

Illustration changes

Why is the output of your illustration tools changing from 6 April 2014?

In March 2013 the then FSA confirmed a number of changes to the requirements for illustrations in its Policy Statement 13/2. Our illustration tools are being updated to reflect those requirements.

Is it true that changes are being made to the default growth rates?

Yes. Probably the most obvious change relates to the default growth rates as set by the FCA. Until now the standard mid growth rate has been set at 7% with the lower rate at 5% and the higher at 9%. From 6 April 2014 the maximum mid growth rate drops to 5% with the low rate falling to 2% and the higher rate to 8%.

The FCA has also emphasised that the starting position when deciding on the appropriate rates of return for differing investment types should not be the default rates, but the investment potential of the product. As indicated above, these rates must not exceed the new maximum rates.

One anomaly arising from the requirement to use investment-specific growth rates is that, for cash, there will be some unusual illustration outputs. The FCA has confirmed that the difference between the mid-growth rate and the 'flanking' lower and higher growth rates must be maintained at 3%. This might make sense when the mid-rate is 5%, but when the mid rate is, for example, 1% as it might be for cash the outputs will need some explaining. This is because, if the mid rate is 1% the FCA rules require a higher growth rate of 4%, which seems unlikely given the interest rates that have been on offer recently, but it also requires a lower growth rate of -2%. So the FCA requires the illustration to anticipate that the bank will take 2% of your money from you.

Other than changes to the rates of return, what other changes do I need to know about?

A key change is the requirement to use real, inflation-adjusted, terms for non-drawdown illustrations. Previously your clients will have been presented with four sets of figures in illustrations. The low, mid and high growth rates plus a separate 'real terms' column. Clients will now just be presented with three sets of figures, with the low, mid and high figures each being adjusted for inflation at 2.5% (this amount is the Bank of England base rate plus 2% so is subject to variation).

Illustrations for SIPPs that are fully in drawdown will continue to be offered in nominal, rather than inflation-adjusted, terms. Providers can choose to offer drawdown illustrations in either nominal or real terms. We have chosen to use nominal terms because we believe showing inflation-adjusted figures for historic pension withdrawals will be confusing to clients.

For partial drawdown illustrations we must use inflation-adjusted illustrations. The pre-drawdown element must be shown in real terms so, because the FCA rules require us to use consistent assumptions within the same illustration, the whole illustration must be shown in real terms, including the drawdown element. We cannot mix and match real and nominal rates for the pre-drawdown and drawdown elements, even if we thought this was appropriate.