Assumptions and Calculations

The model within Isio Pilot ® uses various assumptions in calculating the estimates of retirement income shown. This document summarises the key assumptions used.

1. Investment returns – before retirement

For the period before your chosen retirement date, any DC savings (including DB to DC transfer values) are projected to your retirement date with investment returns. Isio Pilot ® assumes a return of 5% per year.

2. Investment returns – after retirement (drawdown)

In retirement, where you select the drawdown option, an investment return assumption is used to estimate how long your retirement income will last.

Isio Pilot ® shows three estimates of the age until your pot might last. The middle estimate, shown as "Most Likely" in the tool, assumes the following returns:

- If "Low risk" is chosen: 1% per year
- If "Medium risk" is chosen: 3% per year
- If "High risk" is chosen: 5% per year

In addition to this, we show the "1 in 5 worst case" and "1 in 5 best case" by projecting how long the pot might last under a range of annual returns (also known as a stochastic projection). We then select the outcomes with a 1 in 5 (or 20%) chance of happening – both good and bad. The range of ages is designed to illustrate the uncertainty of how long your pot might last under drawdown.

3. Inflation

Isio Pilot ® assumes future inflation will be 2.5% per year.

Inflation can be toggled on and off using the inflation effect feature in the Chart Options.

4. Pension conversion to income (annuity options)

Isio Pilot ® uses open market annuity rates, updated on a quarterly basis.

The annuity rates vary by age and the type of annuity selected. Sample rates for illustration are shown in the table below:

	No spouse's pension, non-increasing	No spouse's pension, increasing	50% spouse's pension, non-increasing	50% spouse's pension, increasing	66% spouse's pension, non-increasing	66% spouse's pension, increasing
60 year old	20.7	32.9	21.7	34.3	22.2	35.6
65 year old	17.8	25.3	19.4	28.6	20.4	30.6

By way of example, an annuity rate of 20 means it would cost £20 to purchase £1 of annual pension income. So if you had £100,000 of pension savings, an annuity rate of 20 would mean you could expect £5,000 of annual pension (calculated as 100,000/20).

Ill-health annuity rates are assumed to receive a 10% enhancement to standard annuity pricing, i.e. annual income will be 10% higher.

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5. Life expectancy (drawdown)

The drawdown calculator gives you an indicative life expectancy to compare against when your income might be expected to run out.

This life expectancy has been calculated using the latest life expectancy tables in the UK.

6. Tax rates (encashment)

In the cash calculations, Isio Pilot ® provides an estimate of the tax you might pay using the tax bands in the UK tax year 2018/19. In this calculation, Isio Pilot ® makes no allowance for any other income you might have earned or received in the tax year.

For retirements in later tax years, we assume that UK tax bands are uplifted in line with inflation each year.

7. How often are the assumptions in the model updated?

Isio reviews and updates the model assumptions on a quarterly basis. The date of this document (see footer) states the month the assumptions were last reviewed and updated.