For plans that are as individual as your clients

eValue Pension Freedom Planner tool
Question and answer document
This document is for use by financial advisers only and is based on our understanding and evaluation of the eValue Pension Freedom Planner tool as at 31st December 2015. As with any software, updates and enhancements occur on a regular basis and the information detailed below may be subject to change at any time. If in any doubt, please speak to your Zurich Business Account Manager.

Introduction and overview

Q Who could use it?
A It can be used by anybody within an adviser firm (that has signed Terms of Business for the Zurich Intermediary Platform) as part of the advice process and to assist in making suitable client recommendations.

Q How can it be used?
A It is an internet based solution, which is intended to be used to help to create a retirement plan. Data is input by the user and the tool uses this data to analyse the likelihood of the client achieving their goal(s). A number of different scenarios can be created to align with the client’s circumstances.

Reports can be produced at any time to provide a summary of the information that has been input along with the results.

Q How are the forecasts calculated?
A The basis of all assumptions within the Pension Freedom Planner tool and, indeed, all eValue’s solutions is stochastic forecasting. eValue calculate 1,000 different scenarios for each year of forecast and show the range of possible returns, highlighting not only the likely middle result but also the full range between the higher and lower results.

The forecasts take into account all types of possible scenarios such as large and sudden rises or drops in the equity markets.

The forecasts cover 90% of the possible outcomes – the best 5% and the worst 5% are excluded from the forecasts as they are ‘outliers’. Of course the actual outcome may still be better or worse than this.

Each point on the market conditions slider represents a possible outcome from the range of results. 5 outcomes are shown from ‘weak’ to ‘strong’ return results. As a starting point default, the most likely outcome is shown as this is where half the scenarios were better and half the scenarios were worse.

If a more detailed explanation is required, please refer to the document titled ‘Stochastic Modelling: The power behind effective financial planning’ which can be accessed through your usual Zurich contact.
Facts tab

Q What target income is shown?
A On first entry of client data, the gross income entered for life 1 only (even if setting up a joint plan) is used to create a ‘net of tax’ target retirement income goal. This goal is calculated as 50% of the gross annual income that has been entered for life 1. This can be changed quickly and easily by either moving the target income slider on the results graph or by over-typing this field under the ‘Retirement Options’ tab.

If life 1 has retired, and therefore no income has been entered, then no target retirement goal will be shown initially although this can be added quickly and easily at any time.

Q Under ‘Incomes’ the ‘Main income’ shows as tax basis ‘Gross’ – what does this mean?
A This simply means that the income figure input is the gross amount (before Income Tax and National Insurance contributions are deducted). Alternatively the user could choose ‘net’ which shows the amount of ‘take home pay’ (after Income Tax and National Insurance have been deducted).

The income is initially assumed to increase at a rate of ‘with inflation’ which means the Retail Price Index (RPI), although this can be edited if required. The increase rate of ‘with wage inflation’ gives an increase rate in line with National Average Earnings (NAE) in the UK. NAE is generally accepted to be higher than RPI inflation since it also includes an allowance for promotion within a role as well as cost of living increases. This option may be particularly useful where a contribution is being made which is a percentage of salary and is therefore expected to increase in line with the client’s salary.

The tool assumes that the income tax bands in force now are increased in line with RPI each year and that the same marginal rates of income tax that are in force now are payable in the future. If there is a change in income tax rates, then eValue will change the system accordingly.

Q Where income from a Pension asset is already in payment, what is the correct way to enter this information?
A This depends on whether the income is being paid from a Defined Benefit or a Defined Contribution (Money Purchase) arrangement.

Where the asset is Defined Contribution, the plan can be input within the ‘Pensions’ part of the ‘Facts’ tab by selecting the product type ‘Income Drawdown’. If a withdrawal amount is entered, this will be shown within the results graph. If there is a shortfall between the amount of income being received by the client and their target income goal(s), then the tool will withdraw more assets from the product(s) to fill this income shortfall.

Where the asset is Defined Benefit, the income in payment should be entered within the ‘Incomes’ part of the ‘Facts’ tab.

Q When entering a Personal Pension/SIPP or Onshore/Offshore Bond, if I tick the ‘projection available’ check box, what does this do?
A If the user, for whatever reason, doesn’t know the annual charges on any of these type of plans then by ticking this box and entering the data, the tool will work out the charges.

The charge will be calculated based on the current value, projected future value, and assumed mid return rate of the fund(s) entered. Once calculated, this annual charge will then be factored in to the future forecasts.

Importantly, the projected future value and assumed mid return are only used to calculate the charges on the plan(s) and not for any other purpose.

Q How are income tax allowances reflected within the calculations?
A Income tax is payable on the total income within the forecast each year. The standard marginal rates of Income Tax are used to calculate the tax payable (as it is probable that the client will have a full tax code available in future years, even if they have a reduced tax code for the years prior to retirement).
If the client has a reduced/zero personal allowance due to the fact that they earn over £100,000/£121,200, this is taken into account within the tool by taking a slice of income and taxing it at a higher notional rate of tax (which has the same effect as reducing the personal tax allowance).

Q Why is no Income Tax deducted from the State Benefit income?
A The amount of State Benefit income generally falls below the full Personal Allowance and therefore although tax is applied against this figure, no tax is actually deducted from it.

Q If the client is either at, or soon to be at, state pension age why doesn’t any State Pension income amount automatically pull through to the results graph?
A If the client has already reached state pension age, or will reach it at their next birthday, then it is assumed the client will know how much state pension they are/will be receiving. Rather than using an estimate, the correct amount can then be entered by the user. This can be done by clicking on ‘Incomes’ under the ‘Facts’ tab and entering the ‘State Benefit income’. This makes the calculation more accurate and meaningful.

Q When adding a pension asset what difference, if any, does selecting a Personal Pension, SIPP or Income Drawdown make?
A Personal Pensions and SIPPs are assumed to be fully uncrystallised and Income Drawdown plans are assumed to be fully crystallised. This means that the tool will assume for an income drawdown plan that all of the 25% PCLS has already been paid out and for PP/SIPPs they will still have the full 25% PCLS available to be taken.

Where a client is a member of an employer’s defined contribution pension scheme, the details should be entered under Personal Pension.

Q Can a different annuity rate be used e.g. an impaired life annuity?
A The rate of annuity already in payment, or likely to be paid, can be entered under the ‘Incomes’ section of the ‘Facts’ tab if this is different to the default annuity rate. The default rate is standard and if a partner’s annuity is entered, the partner is assumed to be three years older than their spouse.

Q If the adviser uses a risk profiling tool other than eValue’s, what should they do?
A This tool can be used by any adviser firm, irrespective of the risk profiler that they use.

There are 3 options to input an asset allocation and this asset allocation is then used to generate projections for the product(s) entered:

1. Individually enter all of the funds that the client is invested in (the tool automatically knows the asset allocation for each fund via an automated feed from Financial Express) or;

2. Choose a risk based profile (the asset allocation used will be the Medium term benchmark that is used within all of the other eValue tools that Zurich make available) or;

3. Manually enter the asset allocation (this may be useful where a different risk profiler other than eValue is used)

Q How does the tool use insurance plans in its forecasting? I noticed in the data entry section you could add Critical Illness and/or Life Insurance plans?
A Life/Critical illness cover is only relevant to eValue’s Lifetime Planner Tool and not the Pension Freedom Planner tool. The two are very similar – we have only made the Pension Freedom Planner tool available for advisers.

When adding data for the Pension Freedom Planner tool, it is best to complete this under the ‘Facts’ tab only, as this will only gather information relevant to the PFP tool.
**Retirement options tab**

**Q** What is the starting point default option when I first click on the Retirement options tab?

**A**
The starting point default is set to 25% PCLS with the remainder going into Income Drawdown (and therefore remaining invested) – this means that the total of the client’s pension plans are crystallised into a flexi-access drawdown arrangement at the client’s selected retirement age (the starting point default retirement age matches the state pension age, unless the client has already passed their state pension age). The funds are then withdrawn annually as an income. These options can easily be changed by using the various drop-down options.

**Q** If I choose a retirement option of either ‘Income Drawdown’ or ‘Blend Annuity & Drawdown’, what does ‘Age your savings run out’ mean on the right-hand side of the screen?

**A**
This is the age when the target income first ceases to be met i.e. the first year that there is a shortfall due to insufficient assets to sell down to achieve the required income level.

**Q** What is the impact of choosing ‘no lump sum’?

**A**
If no lump sum is chosen when selecting Income Drawdown as the ‘Retirement Option’, then phased drawdown is assumed to be used in respect of the 25% PCLS payment that would be available (from uncrystallised funds). This will generate a period of tax free income for as long as the PCLS payment will last and then taxed income from the remaining flexi drawdown fund.

If this option is selected for an annuity, then the tool will not take into consideration the available 25% PCLS and 100% of the fund value will be used to purchase an annuity.

**Q**
How would I use the tool to cater for a client who is still working full time now and expects to begin part time work at some time in the future, but has already started to draw income from some assets?

**A**
The tool can easily cater for this scenario. If the client carries on working past their retirement age, the user can edit the ‘Incomes’ section and untick the ‘stop at retirement box’ and enter an age range for the income. Then add another income (in respect of the part time income) which starts as the other one stops and then ends at a specified age.

Alternatively the retirement age can be amended to a later date.

**Q** Can the tool help with a client who has a split target income e.g. the client needs a certain level of income for life and an additional amount of income for only a specified number of years in retirement?

**A**
Yes it can. In this scenario set the retirement income goal as the income that the client needs throughout the whole remainder of their lifetime. Then add an additional goal for annual income naming this for ease of reference (maybe ‘top up income’) and set this for a period of years e.g. from age 70 to age 75.

The target income line will not alter during the years the extra income is required (if ‘today’s value’ is selected then the line will always remain flat), but the tool will still take into consideration the additional income required.

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If this option is selected for an annuity, then the tool will not take into consideration the available 25% PCLS and 100% of the fund value will be used to purchase an annuity.
Q When the chosen Retirement Option is ‘Income Drawdown’ what is the investment term used to decide the asset allocation breakdown?

A When a Personal Pension or SIPP is input, the client is considered to be in the accumulation phase. There are 3 options to generate an asset allocation for these type of plans:

1. Individually enter all of the funds that the client is invested in (the tool automatically knows the asset allocation for each fund via an automated feed from Financial Express) or;

2. Choose a risk based profile (the asset allocation used will be the Medium term benchmark that is used within all of the other eValue tools that Zurich make available) or;

3. Manually enter the asset allocation (this may be useful if a different risk profiler other than eValue is used)

Q When choosing the retirement option of ‘Annuity’, what is the starting point default?

A It is a joint life, level annuity providing a spouse’s income of 50% on the death of the main life with a guaranteed period of 5 years. Apart from the guaranteed period of 5 years that is fixed, the remaining options can be changed quickly and easily.
Q
When could a specific amount of income, for example from a Defined Benefit scheme, appear to reduce in value?

A
One circumstance where this could happen is when the client has 2 sources of income that start to be paid at different ages e.g. an income from the State and an income from an Occupational scheme. When the income becomes payable from the later age, there could well be more tax payable as the total income that the client is now receiving is a higher amount. As such it could appear that the first income is reducing, when in fact it is simply a case of more tax being deducted from this income.

Although State Benefit income is taxable it is other income that bears the tax liability within this tool.

This would have the effect of appearing that the DB pension income was reducing, when in fact it is simply a case of this income having some tax taken off it.

Q
What does the Savings Forecast show?

A
This shows the amount of savings the client has at any point in time during retirement. The tool will show the split between pensions, investments and property.
General

Q How is the annuity rate(s) worked out?
A Annuities are calculated using unisex mortality assumptions in line with current legislation. Projected Government bond yields will be used to work out the rates.

Q Can the tool cater for the scenario of where the client has a retirement age of less than 55? e.g. for a Professional sportsperson
A The earliest age for retirement income to be taken on the tool is age 55.

Q Why do the colours keep changing within the results graph?
A The results chart uses a colour wheel that is made up of 16 different colours. Every time the results chart is generated, it picks colours from this colour wheel and this is why the colours may change.

Q If a joint life plan is created, does the average mortality age change?
A At present the tool calculates the mortality age for life 1, who is classed as the ‘main’ life.
Q Are all defaults set to inflation linked?
A The majority are, but not all. The annuity payment defaults to a level payment i.e. no increase. To make the results easier to understand, it may be advisable to ensure that all information uses the same metric, i.e. either all ‘with’ or all ‘without’ inflation.

Inflation is measured by RPI, and the rate is stochastically forecast and is therefore not a fixed rate. Care needs to be taken if the 3% fixed inflation option is selected as this will not be in line with other inflation metrics.

Q Is there a specified order in which assets will be drawn on to fill any income gap?
A The order, which cannot be altered, is as follows:

- Property (only if a property has been input and the sale date of the property is prior to the goal becoming due)
- Pension Commencement Lump Sum (assuming the client is at the minimum age to take benefits from their pension)
- Residual Pension
- Cash
- Onshore Investment Bond
- Offshore Investment Bond
- Unit Trust/OEIC
- Shares
- ISA

If any of the above investments are entered, it is assumed that they will be used for income generation in retirement. You can choose to exclude an asset (even if recorded on the tool) by clicking on the ‘Facts’ tab, finding the product and unticking this product.

Q What are the tax assumptions for selling down each asset?
A The tool calculates Capital Gains Tax (CGT) and chargeable gains on assets using the relevant rates. The first investment that is encashed that would be subject to CGT will have a full CGT allowance assumed available and then will be taxed accordingly. Please note that if the client has already used some or all of their CGT allowance then the tool, as you would expect, will not be able to take that into consideration.

In order that chargeable gains can be accurately calculated, the user needs to have selected the specific funds that the client was invested in (as opposed to selecting the client’s risk based profile), tick the ‘tax analysis’ box and then input the relevant details; otherwise the fund value input on the day the planning is completed will be used as the original investment amount.

Clearly if the client has any assets that have not been entered in the tool, then the amount of tax that the tool assumes the client will pay may be incorrect.

Q When selling down an Investment bond would the tool ever exceed 5% withdrawals per annum?
A Yes. It is important to remember that the tool will use (sell down) any asset(s) that have been entered in order to achieve a particular goal.

If an existing withdrawal amount is entered for any plan, then the tool will always draw this amount from the product and add this sum to the client’s income. The tool will review the product type in order to see whether the income is taxable or not. The tool will then apply its general order of encashment, and will withdraw as necessary, in order to meet the income target.
Q Do the rates of tax change?
A The rates of Income Tax and CGT are set to current rates and it is assumed that the current marginal rates of tax are also payable in the future. It is also assumed that the income tax bands (thresholds) and CGT allowance are increased in line with RPI each year.

Q The PCLS figure is different to what I expected – why could that be?
A This could happen depending on the following factors:
• The asset allocation of the underlying assets (this affects the assumed growth)
• The ongoing charges of the assets (fund, product and adviser charge)
• Whether the projections take account of inflation (if they are shown in “Today’s value”) If the combined effect of the ongoing charges and inflation exceed the assumed growth, then the value of the asset could actually reduce in value in real terms at a projected age/date in the future.

So for example, if a client has a pension worth £100k today where the ongoing charges are 2% p.a. and the inflation rate is 3% p.a. but the growth rate (based on the asset allocation for the asset) is only 4% then the value of this £100k will actually have reduced over time to a lower figure. The maximum PCLS figure would then be calculated on this lower future fund value.

Q In what circumstances would any numbers be ‘rounded’ up or down within the tool?
A The Pension Commencement Lump Sum (PCLS) is shown to 3 significant figures and rounded down. 3 significant figures only shows the first 3 digits of the number and any other digits are replaced with a zero e.g. a PCLS payment of £45,690 would be shown as £45,600.

Q Can the tool cater for a client who has a Protected PCLS amount in excess of 25%?
A When a pension asset is entered that is uncrystallised (Personal Pension or SIPP), the tool will always assume that the maximum PCLS will be 25% of the fund value.

Q Will the report show the Income forecast graph?
A The report includes both the Income and Savings forecast graphs.

Q Can everyone in the firm see the client records?
A No. All eValue tools (not just Pension Freedom Planner) work on a user specific basis. So for example if a paraplanner has produced a plan for a client then the adviser won’t necessarily be able to access that record.
If you have any queries or would like any further information about the Pension Freedom Planner Tool, please do not hesitate to contact your Zurich Business Account Manager.