LV= welcomes FSA reminder on realistic growth rates

LV= data highlights that using standard growth rates vs realistic growth rates can result in a significant overstatement of customer outcomes.

Leading retirement solutions provider LV= has welcomed the latest move by the FSA to urge providers to use realistic growth projections for retirement products. The FSA has in the last few days issued a letter to all compliance officers outlining that using a caveat to suggest that growth rates may overstate the potential is simply not enough.

LV='s pensions illustrations already include measures that ensure customers are not misled by exaggerated projections. For example:

- Transparent charges
  - Clearly breaking out product, investment and advice costs
- Total expense ratios on fund charges
- Realistic growth rates
  - Projections reflect the asset mix chosen by clients, rather than simply using 5% / 7% / 9% regardless

Ray Chinn, head of pensions for LV=, commented: "LV='s approach to assessing growth rate projections is designed to provide a more realistic view to customers, and not overstate future benefits, in order to put the customer first. Many of our competitors are lagging behind in providing this transparency, so the latest efforts of the FSA to bring them in line are wholeheartedly welcomed by us.

"Setting realistic expectations of future benefits is a key part of putting customers first when it comes to retirement products, and is crucial for the industry to start to rebuild trust."

As an example of the stark difference between realistic and standard growth rates, LV= has calculated the projected retirement fund for a 45 year old male, retiring at age 65, investing £200,000 in the LV= Flexible Transitions Account. All monies invested in the UK Money Market Fund.

Projected retirement fund at age 65:

- Using standard mid growth rate of 7%
  - = £708,000
- Using realistic mid growth rate of 4.75%
  - = £457,000

Using a standard growth rate results in an unrealistic increase of **£251,000***.

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