Statutory money purchase illustration (SMPI) assumptions

Your annual statement from Nest tells you the size of your pot. It also includes information about what you could get when you take your money out.

When we talk about what your retirement pot may be worth in the future, we use what is called a statutory money purchase illustration (SMPI). It's an annual estimate of what your pension pot could be worth and the income this could provide when you retire. It's something we're required to provide by law, but it's also a useful way of telling you how we expect your retirement pot to grow in the years ahead.

In previous years, when we did these calculations we made some assumptions. These were based on your current and likely future circumstances as well as our judgement about how we expected to grow your money.

Since October 2023 pension schemes have been required to use standardised criteria to calculate future pot growth projections.

In this document we'll show you our investment objectives for each fund and the SMPI investment growth rates we use to calculate what your pot might be worth in the future.

Nest Retirement Date Funds

Our Nest Retirement Date Funds invest your money in different ways depending on your age and how markets are performing. If you join Nest in your early twenties, you'll go through four dynamically managed investment phases. You'll spend most of your time invested in the growth phase. This phase aims to grow your money well above inflation, after scheme charges, over 30 years. In the consolidation phase, we gradually move your money into lower risk investments as you approach retirement. Our **Nest Retirement Date Fund webpage** contains more information about the four phases and how this fund works.

Nest Ethical Fund

This fund is for people who want to invest in line with specific ethical or moral concerns. The Nest Ethical Fund has a set of investment objectives like those set out for the Nest Retirement Date Funds. The fund aims to deliver similar returns to the Nest Retirement Date Funds. However, there's likely to be a little more uncertainty about the growth your invested money might actually achieve because the Nest Ethical Fund holds a less diversified range of investments. Our **Ethical Fund webpage** contains more information about how this fund works.

Nest Sharia Fund

The Nest Sharia Fund invests in the shares of some of the largest companies around the world selected on criteria based on Islamic law. Shares have generally delivered high returns over certain periods. However, there's a lot of uncertainty about which periods do well and which periods don't do so well. To help deal with this uncertainty, the Sharia fund invests in Sukuk, a sharia compliant version of bonds. This aligns with our investment belief in offering a well-diversified portfolio for all our members. Our investment objective for the Sharia Fund is to grow your money in real terms, after inflation and scheme charges. Our **Sharia Fund webpage** contains more information on how this fund works.

Nest Lower Growth Fund

This fund is for members who are very cautious about investing and are prepared to accept their pot will not grow very much. The Lower Growth Fund invests primarily in low-risk investments such as bonds, which are loans made to governments and companies. Our investment objective for this fund is to maintain the nominal value of your fund after scheme charges. This means that how we grow your money may not keep up with the rising cost of living. Our **Lower Growth Fund webpage** contains more information about how this fund works.

Nest Higher Risk Fund

Our investment objective for the Higher Risk Fund is to take more investment risk than the Nest Retirement Date Funds in the growth phase in pursuit of higher potential returns. If you choose the lifestyled version of this fund, we also take into account that you'll be switched into a Nest Retirement Date Fund 10 years before you take your money out. We anticipate that returns in those years will be lower but more certain than the returns in the non-lifestyled version of the Higher Risk Fund. Our **Higher Risk Fund webpage** contains more information about how our fund works.

Nest Guided Retirement Fund

Members who are aged between 60 and 70 and whose pot sizes are £10,000 or more, are automatically moved to the Nest Guided Retirement Fund when they reach their Nest retirement date. This is an investment strategy designed to provide a retirement income. As members get older and progress through the strategy, they will be gradually de-risked from the main part of this fund which has an objective of outperforming inflation + 0.5% after all charges. We manage the Nest Guided Retirement Fund with the aim of providing you with regular, sustainable, and predictable withdrawals until you reach the age of 85. The remaining pot can then be used to purchase a lifetime income if you wish. **Our Nest Guided Retirement Fund webpage** contains more information on how this fund works.

Nest Ready to Retire Fund (formerly Post Retirement Date Fund Series 2)

Members whose pot sizes are below £10,000 when they reach their Nest retirement date are automatically moved into the Nest Ready to Retire Fund. This fund is invested in asset classes with high liquidity and lower volatility in order to reduce the risk associated with converting your savings into one, or several, cash lump sums relatively quickly.

Our investment objectives and SMPI investment growth rates

Fund name	Phase	Nest investment objective	SMPI investment growth rate*
Default investment strategy			
Nest Retirement Date Funds	Foundation	To deliver investment growth after inflation and charges are taken into account	4% throughout
	Growth	CPI plus 3% per year, after all charges	6%
	Consolidation	Linear decrease over 10 years from CPI plus 1.5% to CPI plus 0%, after all charges	Linear decrease over 10 years from 6% to 4%
Nest Guided Retirement Fund — Vault	Retirement income	CPI plus 0.5% per year, after all charges	4%
Nest Ready to Retire Fund	Retirement income	CPI plus 0% per year, after all charges	4%
Additional investment fund choices			
Nest Ethical Fund	Foundation	CPI plus 0% per year, after all charges	4% throughout
	Growth	CPI plus 3% per year, after all charges	6%
	Consolidation	CPI plus 0% per year, after all charges	Linear decrease over 10 years from 6% to 4%
Nest Higher Risk Fund Note: For non-lifestyled version of the Nest Higher Risk Fund, the consolidation phase is not applicable	Growth	To target higher returns (0.5% higher than the growth phase of the Nest Retirement Date Funds) through taking more risk	6%
	Consolidation	Linear decrease over 10 years from CPI plus 1.5% to CPI plus 0%, after all charges	Linear decrease over 10 years from 6% to 4%
Nest Sharia Fund	N/A	To deliver investment growth after inflation and charges are taken into account by investing in shares selected on criteria based on Islamic law	6%
Nest Lower Growth Fund	N/A	To maintain the nominal value of your savings after all charges.	2%

* The FRC sets out proposed accumulation rates based on volatility ranges. As seen in the table below.
To determine which group our strategies are placed in, the FRC requires us to calculate the volatility over the last 5 years and apply the prescribed accumulation rate set by the FRC. This is a standardised set of criteria used to set these rates across the entire industry.

FRC accumulation rates by volatility group, as set out in AS TM1 v5.2:

Volatility Group	Volatility Range	Accumulation Rate
1	0% - 5%	**2%**
2	5% - 10%	**4%**
3	10% - 15%	**6%**
4	Above 15%	**7%**

How we calculate your SMPI

On your annual statement we provide an estimate of what your pension pot could be worth and the income this could generate when you retire. We calculate how we expect your pot to grow using an SMPI investment growth rate. This calculation has to comply with the guidelines set out by the Financial Reporting Council (FRC) in their Actuarial Standards Technical Memorandum 1 (AS TM1).

You can read more about the Actuarial Standard Technical Memorandum (AS TM1) on the FRC website: **frc.org.uk/actuaries/technical- actuarial-standards/actuarial- standard-technical-memorandum- as-tm1**

Your annual statement is likely to become an important financial planning tool for you in the years ahead. It will:

- help you see what saving could do for you
- show how contributing more or working for longer can affect your retirement pot
- keep you informed about the progress of your savings.

When we calculate your SMPI we look at the contributions currently going into your retirement pot. We use this as a guide to what contributions you're likely to make in the future.

In calculating your SMPI we deduct Nest's contribution charge, which helps to cover the costs of the scheme, from future contributions.

Your annual statement will tell you if we assumed your contributions will continue when calculating your SMPI.

Your current contributions	What we'll assume
If you're not currently contributing to your pot	We'll assume that you won't make any more contributions.
If we're getting contributions directly from your employer	We'll assume that these employer contributions – including any contributions from your pay – will continue at the same rate as the average of the three months before the illustration date. We adjust the rate of contributions in line with inflation, as set out in AS TM1.
If you're making regular contributions using Direct Debit	We'll assume that you'll keep making these Direct Debit contributions at the same fixed rate.
If you get tax relief on your contributions	We'll assume that you'll get tax relief on your future contributions.

How it relates to your retirement income

The relationship between the estimates of what your pension pot could be worth and the retirement income product you could expect to buy are based on a particular type of retirement income.

This example retirement income uses the same mortality rate for men and women and assumes that:

- you'll buy a single life annuity
- you'll choose a retirement income product with 5 years of guaranteed income
- the retirement income will not increase over time in line with inflation
- no tax-free lump sum is taken.

We follow the guidelines set out in TM1 to determine the inputs for the calculation of your retirement income. The Government Actuary's Department uses these inputs to perform the calculation on our behalf.

Getting it right and dealing with uncertainty

It's important for pension providers to give realistic information about how their members' retirement pots could grow because it'll play a key role in the choices they make about saving for retirement. At Nest we work hard to ensure that communications about your retirement pot are well researched and as accurate as possible to help you make good financial decisions about your future.

We've thought carefully about what information you need about the value of your retirement pot and followed the guidance set out by the Financial Reporting Council (FRC).

There's always an element of uncertainty in estimating what the outcome of your retirement pot will be. As you get closer to your Nest retirement date, we'll be able to give you a more accurate idea of what you might get.

If you'd like to read about our investment objectives in more detail you can download our 'Statement of investment principles' from **nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/investment-principles.html**



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