



Institute of Actuaries of Australia

5th Financial Services Forum

Renovating the Financial System

2010

13 and 14 May 2010 – SYDNEY

Current Issues: Super Benefit Projections, Web-calculators and Fee Disclosure

Benefit Projections Working Group



Agenda

- (printed) Benefit projections
- Web calculators
- Fees and costs

Benefit Projections - Timeline

Olden days	ISC circulars
2003ish	FSR advice / Calculators withdrawn
2004	IAAust Guidance
2005	Web calculator class order 05/1122
July 2008	ASIC consultation paper 101
April 2009	IAAust GN revised 2009
July 2009	Intra fund advice class order (09/210)
Oct 2009	ASIC consultation paper 122 / Draft Regulatory Guide
Jan 2010	Australian Govt Actuary consultation
April 2010	Cooper – suggested compulsory projections as part of MySuper

Benefit Projections - proposed ASIC rules (CP122)

- Printed Statements (not calculators)
- Voluntary not mandatory
- Relief from advice requirements Corp Law
- Once a year with Benefit statements
- Doesn't apply to DB(?), SMSFs, ERFs
- Prescribed assumptions
- Some standard disclosure eg:
 - today's dollars deflated by wage based measures
 - Conversion to income stream



Benefit Projections - proposed ASIC rules (CP122)

- Must NOT include age pension
- Standardised fees
- Only one calculation – cannot show impact of additional costs / different retirement age



Benefit Projections - proposed ASIC rules (CP122)

- Prescribed assumptions set by ASIC based on advice by Australia Government Actuary:
 - Investment Return,
 - Inflation,
 - Fees,
 - Longevity
- Proposed approach – commutation factors

Benefit Projections - proposed ASIC rules (CP122)

IAAust view:

- Conflicting interaction with intra fund advice
- Should be less prescription for voluntary projections (eg fee basis, more than one contribution basis etc)
- Allow more than once a year
- Allow age pension



“*SuperFunds*” Feb 2010 – John Burnett

“ ... it should be possible for the Australian Government Actuary to establish [on specified assumptions] a table which shows for each level of superannuation income [in today’s dollars], the corresponding combined income including the age pension.”



Benefit Projections - Intra fund advice rules

- Printed Benefit Projections are financial product advice and need to be issued as Statement of Advice
- Impractical to do this for large funds as need to have “reasonable basis for advice”
- Intra fund advice class order removes this obstacle
- No restrictions on assumptions etc



Benefit Projections – Cooper (MySuper)

3.12 Forecasts of retirement benefits

The Panel believes that possibly the biggest engagement hurdle is getting members to understand whether their current contribution strategy is likely to provide them with an adequate income in retirement. This involves the multi-tiered challenges of focussing them on future events, current savings habits and the conversion of their lump-sum thinking into 'replacement rate' thinking; what proportion of their current income will they need to live on in retirement? The closest thing to addressing these challenges are the current policy ideas embodied in ASIC's Consultation Paper 122: *Superannuation Forecasts*. The Panel believes these should become mandatory for MySuper products, subject to further refinement of the policy ideas in ASIC's consultation process.⁹

Web calculators

- Exempt from advice provisions – Class Order 05/1122
- IAAust argued for same rules for both printed and calculators
- Class Order requires Reasonable Basis for assumptions / no prescription
- CP122 says Reasonable Basis best satisfied by being “as close as possible” to printed projections basis



Fees and cost disclosure

- Short form PDS draft regulations
- Ripoll
- Cooper / IAAust submission



Fees and costs - PDS

- Requires a projection of fees and costs over 10 years.
- Expressed as a % of assets
- No split admin / investment
- IAAust and ASFA expressed concerns re potential to be misleading
- Consultation concluded:

Standard example for our Balanced Option

Based on the fees and costs outlined above, if you transfer an existing super balance of \$100,000 into the Balanced option and a further \$5,000 goes in each year for the next 10 years, you could have paid up to \$20,500 if you withdraw at the end of 10 years. This is an overall cost of 1.3% of your account balance per year.

The example is based on standard assumptions that all super funds must use. This means you can use this example to compare XYZ Super's fees and costs with other funds. However, the actual fees and costs you will pay will depend on what investment options you choose and how well these investments perform.



Fees and costs – Ripoll + “The future of financial advice” (govt response)

- Big items: remuneration and duties
- Disclosure recommendations accepted by Govt:
 - Improved disclosure of remuneration / conflicts through FSGs
 - Adviser Charging regime – “Dollar based” disclosure of remuneration



Fees and costs - Cooper

IAAust submission:

- Split admin / investment fees
- Naming convention “fees and costs”
- Projection of administration fees and costs

Fees and costs - Cooper

“My Super”:

- No cross-subsidisation / formal policy on cost allocation
- Separate accounting for MySuper division
- No entry fees / Exit fees cost recovery only
- Fee schedules / discounts to be explicit
- Performance based fees to meet standards
- Benchmarking of “administration costs per member”