



Institute of Actuaries of Australia

# 2004 Financial Services Forum ...The New Environment

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Financial Services Forum

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# Benefit Projections

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# Agenda

- Background
- Draft Guidance Note 466
- FSR and projections
- ASIC's superannuation calculator
- UK developments
- General discussion

# Background

- 2001 IAAust convention – Darren Wickham’s paper
- 2002 Financial Services Forum
- 2002/2003 Benefit Projections taskforce established reporting to SEBPC
- Taskforce members are John Burnett (convenor), Darren Wickham, Colin Grenfell and Ray Stevens

# Draft Guidance Note 466

- Discussion draft circulated February 2004
- Some parallels with UK GN34
- Feedback incorporated into latest draft
  - focus is on superannuation benefit illustrations, including pensions during drawdown
  - further references to relevant legislation
  - possible inclusion of a checklist

# Draft Guidance Note 466

“...where projected benefit illustrations are made, **sufficient and appropriate** information is given to enable the recipient to **understand the benefits** illustrated and to **appreciate the risks** involved in the arrangement.”

# GN 466 – Legislation references

- FSR licensing and disclosure requirements
- Corporations Act – prohibits conduct which is or is likely to be '*misleading and deceptive*'
- ASIC Policy Statement 170 relating to prospective financial information

# ASIC's Information Release 04-17

- A website calculator can be provided without an AFS licence if some conditions are met:
  - consumers can alter default assumptions
  - default assumptions based on industry-wide, rather than fund-specific information
  - clear explanation of calculator's purpose, limitations and assumptions
  - clear statement that calculator illustrates broad impact of consumer choices – not a prediction
  - clear statement that not intended for decision making – consider getting licensed financial advice
  - calculator is part of educational not marketing materials



# Labor Policy – March 2004

- A combined pension/super forecast, in standard format, will be issued to all members at regular intervals
- Assumptions will be set by the proposed Independent Government Actuary
- It will forecast both super lump-sum and pension value at age 60 or 65, combined with the age pension
- Results expressed in current \$ amounts
- It will “lock in” the existing pension and super access ages, assets/income tests and pension indexation – *“making it very difficult for any future government to adversely change the rules part way through working life”*

# Benefit/Fee Projections – Govt. view

- Important issue, especially re adequacy
- Best provided and explained by financial advisers or interactive websites rather than making it mandatory via Product Disclosure Statement (PDS)
- Reasons given:
  - increases PDS complexity
  - clear descriptions of current fees and charges is more useful
  - projection maybe viewed as promised outcome or prediction

# Current State of Play

- The legislative focus has been on projections from a fee impact perspective
- Adequacy has largely been ignored to date

# ASIC's Superannuation Calculator

- Launched in June 2004
- New boxed consumer warning in PDS will refer to calculator “*to help you check out different fee options*”
- Version 2 adjusts for surcharge and co-contribution changes at 1 July 2004

# ASIC's Superannuation Calculator

The calculator is intended to demonstrate the long-term effects of:

- the most common fees charged by various funds
- making extra contributions
- receiving co-contributions
- breaking or reducing contributions due to work patterns
- switching investment strategy
- changing fund

It is accompanied by a 9 page user guide

# Some Issues with ASIC's Calculator

- One purpose or many?
- More integration with ASIC's fee disclosure requirements?
- Are assumptions reasonable?
- Mathematically correct?
- Conceptually correct?
- Limitations
- How user friendly?

# UK Developments

- SMPI annual projections – single interest rate prescribed
- FSA regulated projections
  - point of sale emphasis
  - usually 3 interest rates such as 5%, 7%, 9%
- UK Institute's GN34
  - covers both deterministic and stochastic projections
  - specific reference to DB to DC comparisons
  - recommended practice

# UK Developments

- Recognition that greater consistency and improvements are possible
- Emphasis has been on the effect of charges
- Increasing recognition of the need for better communication of investment issues, including possible stochastic projections
- Consumer understanding is a real issue



# UK Developments

*“In most cases, customer detriment would be significantly greater from selecting an inappropriate asset mix than from selecting a suitable investment within a product with above-average charges. Many of the mis-selling issues relate to the investment risks of the product being inadequately communicated.”*

Source: Actuarial profession’s input to the FSA review of regulated business projections (April 2004)

# UK Developments

*“Percentage returns, gross or net, probabilities, even percentages, all seem to be quite misunderstood by more of the population than might have been thought.*

*The only figures left where it might reasonably be expected that a large percentage of the population would understand, are those values, in actual or today’s £. Values are easily compared, gains and losses easily computed.*

*The difficulty...is that of ensuring the consumer realises that such a value is only one from a spread likely to be achieved.”*

Source: Actuarial profession’s input to the FSA review of regulated business projections (April 2004)

# UK Developments

		For Comparison
	If invested in a basket of UK equities	If invested in a UK Deposit Account
Gross Average (median) Annual Rate of Return	8.75% pa	4.55% pa
Total Invested	£5,000	£5,000
Predicted Average (median) Value, after Expenses	£5,901	£5,650
Predicted Net Gain (median value)	£901	£650
Effective net % median Return	5.6% pa	4.55% pa
The actual value can lie within a very wide range. For example:		
• There is a chance of one in ten that your final value would be more than	£8,400	£6,160
• There is a one in two chance that your final value would be between	£7,040	£5,880
	& £4,940	& £5,480
• There is a chance of one in ten that your final value would be less than	£4,170	£5,380
The chance that your final value would be less than £5,000	1 in 4	Only in the event of bank insolvency

# Next Steps

- GN 466 to be finalised
- Further discussions with ASIC
- Possible impact of ALP policy