



13/12/12
From Superannuation Practice Committee
To Actuaries Institute Members

Class Order 11/1227 – Relief for Providers of Retirement Estimates

On 20 June 2012 representatives of the Institute's Superannuation Practice Committee and Superannuation Projections and Disclosure Sub-committee met with representatives of the Australian Securities and Investments Commission (ASIC) to discuss the Institute's submission of 20 April 2012 regarding [Class Order 11/1227 – Relief for Providers of Retirement Incomes](#).

In its submission the Institute outlined that it wished to clarify a number of practical aspects from the Class Order and that it was our intention, after clarifying how ASIC intends these aspects to be handled, to pass this information on to our membership.

This member communication records the matters discussed at the meeting. This communication has been discussed with ASIC and a copy has been sent to them.



Matters Discussed at the Meeting

“Misleading” Projections

Regulatory Guide 229.14 states that a trustee must not provide a [superannuation plan] member with a retirement estimate if doing so would be misleading, or be likely to mislead. It is up to a trustee to determine whether a retirement estimate is misleading, or is likely to mislead.

The ASIC representatives confirmed that if a retirement estimate complied with all the requirements in the Class Order then it was reasonable for a trustee to conclude that the estimate also complied with the requirements set out in RG 229.14. It was not ASIC’s intention for RG 229.14 to add a further requirement to the Class Order.

Appendix 2 of the Submission

Appendix 2 of the submission provides a summary of the areas where clarification was being sought. The issues listed in the appendix are numbered from A1 to C4 and are indicated below in bold print. After each issue we have recorded our understanding of the discussions with the ASIC representatives.

A. Projection Issues

1. **One-off contribution paid by member is assumed to continue.**
2. **Conservative investment option chosen by member is assumed to earn balanced fund returns.**
3. **Where the administration basis changes during last year future administration charges do not reflect new basis fully. Also one-off administration charges are assumed to continue.**
4. **Contributions for Casual employees and members who leave during the previous year are assumed to continue in the future.**

The ASIC representatives confirmed that in these and any similar situations, where a trustee deviates from the Class Order to deliver a more accurate projection, then compliance action would not be pursued, provided the deviation is disclosed.

B. Issues with Wording Accompanying the Projection (paragraph 10(b))

1. **“Inflation” could be interpreted as price inflation instead of wage inflation.**
ASIC confirmed that compliance with the Class Order will not be compromised if the word “wage” or “salary” is added before the word “inflation”. It is the Institute’s preference that inflation be qualified in this way. Alternatively, compliance with the Class Order will not be compromised if notes or explanations accompanying the projections, explain that the word “inflation” is intended to refer to wage or salary inflation.
2. **Quoted figure of “3%” slightly incorrect.**
ASIC confirmed that compliance with the Class Order will not be compromised if the words “investment earnings of 3% per year after” are changed to “investment earnings of 3% per year higher than”.



3. Fees and insurance premiums could be interpreted as remaining fixed instead of increasing with wage inflation.

ASIC confirmed that compliance with the Class Order will not be compromised if after the words “fees and costs of \$...” or “annual fees and costs of \$...” and/or “annual insurance premiums of \$...”, further words such as “increasing at the rate of salary (or wage) inflation” are added. The Institute’s preference is that words such as this should be added.

4. “Current super contributions will continue until retirement” may be interpreted to mean the current level of contributions at year end rather than the amount for the full year.

ASIC confirmed that compliance with the Class Order will not be compromised if the words “current super contributions will continue until retirement” are changed to:

- (a) “your current rate of super contributions will continue until retirement”, or
- (b) “your super contributions during the last year, increasing at the rate of salary (or wage) inflation, will continue until retirement”.

C. Other Issues Requiring Clarification

1. Administration fees and costs may not be deducted directly from members’ accounts.

The ASIC representatives advised that the words “representing the administration fees that have been deducted directly from the member’s account” in paragraph 10 (b) (and similar words in paragraphs 8 and 11) of the Class Order should be interpreted as meaning “representing the administration fees and costs impacting on member’s benefits”. This means that:

- (a) administration fees and costs have to be allowed for,
- (b) administration fees do not necessarily have to be deducted directly from the member’s account, and
- (c) administration fees and costs borne by the employer do not have to be allowed for because they do not impact on member’s benefits.

2. Fees relating to “management of assets” could refer to fees other than those relating to the investment of assets.

The ASIC representatives advised that the words “management of the assets” in paragraph 11(a) of the Class Order should be interpreted as meaning “management of the investment of the assets”.

3. Rounding required in paragraphs 6(a) and 6(b) for members who are close to 65 and have small balances can produce misleading results.

ASIC confirmed that compliance with the Class Order will not be compromised if the final results are rounded to at least three significant figures.



4. **The statement relating to inconsistency with the member statement in paragraph 10(b) can sometimes be inappropriate.**

ASIC confirmed that compliance with the Class Order will not be compromised if the statement relating to the member statement is omitted if it does not apply.

If you have any questions about this communication please contact ASIC or a member of the Institute's Superannuation Projections and Disclosure Sub-committee.

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