CONSULTATION PAPER 101

Superannuation forecasts

July 2008

About this paper

This consultation paper sets out issues and options in relation to the provision of superannuation forecasts (i.e. estimates provided to consumers of the likely balance of their superannuation investment at retirement).

The purpose of this paper is to stimulate discussion on these issues, and to seek the views of consumers, superannuation providers, and other interested parties on the various options.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Document history

This paper was issued on 28 July 2008 and is based on the Corporations Act as at 28 July 2008.

Disclaimer

The proposals, explanations and examples in this paper do not constitute legal advice. They are also at a preliminary stage only. Our conclusions and views may change as a result of the comments we receive or as other circumstances change.

Contents

The consultation process

You are invited to comment on the proposals in this paper, which are only an indication of the approach we may take and are not our final policy.

As well as responding to the specific proposals and questions, we also ask you to describe any alternative approaches you think would achieve our objectives.

We are keen to fully understand and assess the financial and other impacts of our proposals and any alternative approaches. Therefore, we ask you to comment on:

- the likely compliance costs;
- the likely effect on competition; and
- other impacts, costs and benefits.

Where possible, we are seeking both quantitative and qualitative information.

We are also keen to hear from you on any other issues you consider important.

Your comments will help us develop our policy on member benefit statements.

Making a submission

We will not treat your submission as confidential unless you specifically request that we treat the whole or part of it (such as any financial information) as confidential.

Comments should be sent by 31 October 2008 to:

Chloe Youl
Lawyer
Strategic Policy
Australian Securities and Investments Commission
GPO Box 9827
Melbourne Vic 3001
facsimile: (03) 9280 3306
email: policy.submissions@asic.gov.au

What will happen next?

This consultation represents the first stage in a wider project, which will include the following stages:

Stage 1	28 July 2008	ASIC consultation paper released
Stage 2	31 October 2008	Comments due on the consultation paper
Stage 3	ASIC will consider feedback received during the consultation process, and conduct further consultation if necessary	

A Background

Key points

There is evidence that some Australians do not fully engage with superannuation and planning for retirement.

ASIC's view is that consumers will benefit strongly from some form of personalised superannuation forecast, which can give them an indication of what will be available to them at retirement.

Superannuation forecasts can be produced in the form of an end-benefit projection or through use of a calculator. The two forms serve different purposes:

- end-benefit projections may quickly engage consumers with the issue of retirement savings;
- calculators may be a better or more sophisticated education tool to illustrate the effects of various choices the consumer can make.

ASIC currently provides relief from the personal advice provisions of the Corporations Act for providers of certain calculators. This paper discusses whether there should be similar relief for end-benefit projections, and what form that relief should take. This paper also seeks feedback on whether we should amend our relief for calculators.

Nature and extent of the problem

1 Many Australians do not currently hold adequate retirement savings.

2 According to an Australian Bureau of Statistics (ABS) study, in the relevant survey period (2003–04) around 75% of all households had some superannuation assets; however, the average value was $87,000 for these households, with half having assets under $35,000.[1] The mean superannuation value for those aged 45–54 years was just over $90,000 and around $50,000 for those aged 35–44 years.[2] In a survey of AMP corporate super members published by Access Economics in July 2007,[3] it was found that 46% of workers relying on superannuation contributions made at the level of the superannuation guarantee were below target to achieve

[1] Australian Bureau of Statistics, 2006, *Australian Social Trends*, Cat. No. 4102.0, p. 152, [online] <http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/178044E4F02B2490CA2571B0001A6078/$File/41020_2006.pdf> viewed 3 July 2008.
[2] ibid, p. 153.
[3] Access Economics, 2007, *The AMP Superannuation Adequacy Index report*, [online] <http://www.amp.com.au/display/file/0,2461,FI183200%255FSI4305,00.pdf?filename=AMP+Superannuation+Adequacy+Index+FINAL.pdf>, viewed 3 July 2008.

'adequate' retirement savings,[4] and 33% of workers making additional voluntary contributions over the guarantee level were below target.[5]

3 While compulsory superannuation has increased Australians' level of retirement savings, most people do not engage fully with their superannuation. They have little idea of how much they will have when they retire, and how this compares to the amount they will need.

4 Recent research has illustrated this low level of engagement with superannuation among Australians. For example, Mercer Wealth Solutions' 'Simpler Super Study'[6] found that 11% of baby boomers (aged over 50 but still working) had not given much thought to retirement and had made no preparations, 24% had given some thought to it but made very little preparation and 44% had made some but 'not enough' preparation.

5 This low level of engagement is partly due to the fact that some Australians lack the knowledge and confidence to engage with their superannuation. The Financial Literacy Foundation has found that, while Australians are relatively confident about more straightforward money management issues, like managing a household budget, they are not confident about matters like investing and ensuring they have enough money for retirement, and would like to learn more.[7]

6 An additional problem lies in the number of superannuation accounts each Australian holds. A Choice study published in November 2006[8] found that there were 2.6 superannuation accounts per workforce participant. Having their retirement savings in a number of places may contribute to consumers' confusion about the amount and adequacy of the end benefit they are likely to receive.

Objectives

7 This consultation represents the first stage of a wider project, the aim of which is to help consumers achieve financial security in retirement by improving the clarity and effectiveness of information provided to them about their superannuation. Such information will give consumers a sound basis for making choices that best suit their needs.

---

[4] ibid, p. 3. For the purposes of the study, 'adequacy' was defined as a retirement income 65% of pre-retirement income (post-tax and savings).
[5] ibid.
[6] Mercer Wealth Solutions, 2007, 'Simpler Super dividing Baby Boomers, Mercer survey finds', [online], <http://www.mercerwealthsolutions.com.au/articles/subject/76/1674/Simpler-Super-dividing-Baby-Boomers-Mercer-survey-finds/>, viewed 3 July 2008.
[7] Financial Literacy Foundation, *Australians Understanding Money* (September 2007).
[8] Choice, 2006, 'The Super Secret: How multiple accounts cost consumers billions', [online], <http://www.choice.com.au/files/f127162.pdf>, viewed 3 July 2008.

8 Our view is that consumers may benefit from some form of personalised superannuation forecast, which could give them an indication of what will be available to them at retirement. We envisage that such forecasts could serve an educative purpose, helping consumers to make choices about their super savings that will assist them to achieve financial security in retirement.

9 The personal advice provisions of the *Corporations Act 2001* (Corporations Act) apply to advice that superannuation funds give to their members. This project will consider what relief (if any) from the licensing and personal advice provisions of the Corporations Act is necessary in order to allow superannuation funds a low-cost, efficient means of providing accurate and relevant information to members about their superannuation and likely financial position in retirement.

10 This paper seeks to stimulate discussion on the various issues raised by superannuation forecasts. Depending on the feedback we receive, we may:

(a) develop and consult further on specific proposals for relief to facilitate end-benefit projections; and/or

(b) develop and consult further on specific proposals to amend the relief we currently give to certain calculators in Class Order (CO 05/1122) *Relief for providers of generic calculators* (see paragraph 19); and/or

(c) develop a proposal for law reform.

What are 'superannuation forecasts'?

11 A superannuation forecast is an estimate provided to a consumer of the likely balance of their superannuation investment at retirement, taking into account their current account balance, the impact of fees and costs, and assumptions about future contributions and earnings.

12 A superannuation forecast may be generated by the provider of the superannuation product and provided to consumers in the form of a statement (referred to in this paper as an 'end-benefit projection'). On the other hand, it may be provided in the form of a calculator involving, to some extent, the input by consumers themselves of certain information.

End-benefit projections and calculators have some things in common

13 Both forms of superannuation forecast can be used to give consumers an idea of the likely amount of their retirement benefits, and can serve an educational/informative purpose.

14 As both forms of superannuation forecast involve looking into the future, they both include many variables. In applying these variables, assumptions must be made about the future conditions that will apply. The usefulness of

both end-benefit projections and calculators varies considerably depending on the quality of those assumptions.

End-benefit projections and calculators are different in crucial respects

15 End-benefit projections are generally provided without the need for any positive action by the consumer, for example, by inclusion in a periodic statement. These kinds of forecasts may be customised to some extent to the consumer's circumstances (e.g. by being based on the consumer's age and chosen investment strategy), but do not allow manipulation by the consumer to show the effect of different decisions or assumptions. However, they may achieve the initial step of enhancing consumers' awareness of their likely financial position at retirement, and causing consumers to seek out other information.

16 Generally, consumers have to seek out calculators and make an active decision to use them. Some calculators can be quite complex, allowing for a large number of variables and high degree of manipulation by consumers; others are quite simple, with a limited number of variables and, therefore, a limited degree of manipulation. They may give greater scope for providing financial education (e.g. by providing comparisons of different funds, or by showing the impact of certain life choices, like taking time out of the workforce, increasing contributions, etc). Some calculators require the consumer to have a level of financial literacy in order to understand the variables and input realistic figures; others are simpler. Calculators may enhance the understanding initially generated by an end-benefit projection.

Application to particular types of superannuation products

17 This paper mainly considers issues about end-benefit projections and calculators for defined contribution schemes; however, we are interested in feedback on whether these issues are equally relevant to defined benefit schemes, or whether any different measures need to be undertaken to ensure that consumers who are members of defined benefit schemes also have information about their end benefits at retirement.

Legal issues

Personal advice

18 Superannuation forecasts are likely to be personal advice, as they take into account the consumer's objectives, financial situation or needs (e.g. information about their initial investment, investment timeframe, ongoing investments, salary, age, attitude to risk, etc). Therefore, without relief, providers of superannuation forecasts would need to hold an AFS license and comply with the personal advice requirements of the licensing regime.

19 We currently give relief to providers of certain financial calculators from the requirement to hold an AFS licence. Where providers already hold an AFS licence, we have given relief from the advice, conduct and disclosure requirements of Pt 7.7 of the Corporations Act: see Regulatory Guide 167 *Licensing: Discretionary powers* (RG 167) and CO 05/1122. The relief only applies to financial calculators that do not advertise or promote one or more specific financial products.

20 The relief for calculators does not apply to end-benefit projections provided to the consumer without user input. This means, for example, that an end-benefit projection of likely future benefits provided to a consumer in their periodic statement is not subject to the relief, and, currently, the provider would need to comply with the personal advice requirements of the financial services licensing regime.

Facilitative or mandatory approach?

21 Our current approach to calculators is facilitative. That is, if persons choose to provide a calculator to consumers, we provide licensing relief, or, where providers already hold an AFS licence, relief from the personal advice requirements in relation to that calculator. The relief we provide is conditional on compliance with the requirements of CO 05/1122, including that the calculator does not advertise or promote one or more specific products.

22 It could be argued that a mandatory requirement to provide end-benefit projections in every periodic superannuation statement would have significant benefits for consumers. Such an approach would require amendment to the Corporations Act.

Other legal issues

23 Some have argued that superannuation forecasts could give rise to future liability in the case of consumer loss. Others argue that this risk may be minimal to non-existent, because it can be sufficiently mitigated by, for example, consumer warnings, and the use of standardised assumptions across the superannuation industry. We also note that the fear of potential liability has not prevented superannuation providers from making financial calculators available.

What have other countries done?

24 Other countries have also attempted to address the issue of engaging people with retirement saving decisions, and two examples, the United Kingdom and Sweden, are set out below. While these case studies are informative, it is important to note that practices in these jurisdictions have been developed

under very different market and regulatory environments to those that exist in Australia.

United Kingdom

25 UK legislation requires pension schemes to provide members with an end-benefit projection on a yearly basis. The end-benefit projection estimates the amount that is likely to accrue to a member of a pension scheme at their retirement date. This is provided in members' annual statements.

26 End-benefit projections must be calculated and presented according to standard rules set out in technical guidance published by the Faculty of Actuaries and the Institute of Actuaries. This technical guidance sets out detailed procedures for the methods to be used in making the calculation, assumptions that should be made about mortality and the frequency of payment of the annuity to be purchased, assumed earnings rates, and expenses that members will incur before and after retirement (e.g. in converting a lump sum to an annualised income stream).

27 The end-benefit projection must be accompanied by statements to the effect that the information provided is only for the purposes of illustration, and does not represent any promise or guarantee, and should not be regarded as the only consideration by reference to which the member should make decisions about pension arrangements, and that certain assumptions have been used, including about the nature of the investments to be made by the scheme, and their likely performance, which may not eventuate.

28 End-benefit projections are not required for defined benefit occupational schemes.

Sweden

29 In Sweden, where the pension system consists of three tiers (state pensions, employer contributions, and additional voluntary retirement insurance), employers pay contributions to a central government agency, which then distributes the contributions to funds chosen by the individual. The agency uses the data on contributions to send out an annual end-benefit projection to every individual on whose behalf contributions have been made, giving information on likely future benefits, using standardised assumptions. The end-benefit projections also illustrate the different effects of altering various variables (e.g. age of retirement, investment strategy and real earnings).

30 The main purpose of the end-benefit projection is to increase awareness of future entitlements, and the factors that will affect their size. For this reason, they are sent out in characteristic 'orange envelopes', the purpose of which is widely known and understood.

Issues

A1 We seek your feedback on the issues raised in this section.

Your feedback

A1Q1 Are our proposed objectives appropriate? If not, why not? Do we need to consider any other objectives?

A1Q2 To what extent will personalised superannuation forecasts deliver benefits for:

(a) consumers?

(b) superannuation providers?

A1Q3 What form of superannuation forecast (end-benefit projection or calculator) would provide the best information for members, and what issues may arise out of providing it? Is there a role for both forms of superannuation forecast?

A1Q4 Should it be mandatory for superannuation providers to provide superannuation forecasts (end-benefit projections and/or calculators) to consumers?

A1Q5 How has the current relief for providers of certain calculators from the personal advice regime worked in practice?

A1Q6 To what extent should providers of end-benefit projections also be given relief from the licensing and personal advice regime?

A1Q7 How significant is the risk of liability for providers of superannuation forecasts and how should these risks be best addressed?

(a) Would standardisation of calculation methods and presentation give sufficient comfort?

(b) Can consumer warnings eliminate the risk of potential liability?

A1Q8 What other resources will consumers need in order to use and/or understand end-benefit projections (e.g. advice from a financial adviser, general financial literacy training/resources, ASIC's FIDO website for consumers, etc.)?

A1Q9 Are there any other barriers to consumers' engagement with their superannuation not discussed above?

A1Q10 Are there any different issues involved in relation to defined benefit schemes or other niche superannuation products?

A1Q11 What can we learn from the overseas experience that is relevant to the Australian system?

B Calculation methods

Key points

Calculating a superannuation forecast involves considering several variables, some of which involve unknown factors about which assumptions need to be made.

Relevant variables will include investment earnings, fees and costs, salary and contribution levels, inflation, taxation and other legal conditions, retirement date, and the insurance payments made by a member.

Two issues need to be resolved:

- firstly, what assumptions should be used; and
- secondly, who should make those assumptions.

31 Superannuation forecasts can only ever provide an estimate of a consumer's likely future return. This is because the calculation process involves inputting a number of variables. Some of these variables will depend on known facts that are personal to the consumer (e.g. the consumer's current balance and contribution levels); others depend on fixed external factors (e.g. the superannuation guarantee contribution rate).

32 However, a third group of variables involves factors that are uncertain, and for these variables, certain assumptions need to be made. The quality of the information produced by superannuation forecasts is related to the quality of the assumptions made, and consumers need to be confident that assumptions are robust, accurate and relevant to their situation.

Making assumptions

33 Where assumptions need to be made, a decision must be made as to who should make them. In relation to end-benefit projections, we consider that there are four options:

(a) Firstly, providers could make assumptions. ASIC could facilitate this by giving relief similar to that in CO 05/1122, which requires providers of calculators to set default assumptions, but these must be reasonable and the reasons why they are reasonable set out.

(b) Secondly, the main assumptions could be standardised and prescribed by government (e.g. prescribed by ASIC on the advice of the Government Actuary).

(c) Thirdly, the main assumptions could be set by an independent body (e.g. Institute of Actuaries).

(d) A fourth option is to allow providers to make some assumptions (e.g. those that relate specifically to the fund or the consumer), and for government or an independent body to prescribe others (e.g. those that relate to external factors).

34 Determining who makes the assumptions may have implications for the kinds of assumptions that are to be made. For example, where providers are to make assumptions, it may be more appropriate that, for variables such as fees, costs and earnings rates, providers use the actual fees, costs and earnings rates of their funds, rather than setting single assumed rates for these variables. On the other hand, if assumptions are to be standardised by a third party, it may be that single assumed rates would be more appropriate for these variables.

35 In relation to calculators, our relief in CO 05/1122 is only available where the calculator allows the consumer using it to change any of the assumptions that are applied by the calculator other than for variables that reflect a rate or amount fixed by legislation (e.g. taxation and superannuation guarantee rates). It may be that other assumptions used in calculators should be fixed, although we consider that some degree of manipulability is inherent in the nature of calculators.

36 To be as accurate as possible, assumptions should reflect conditions at the time the forecast is calculated. Some assumptions may need to be updated regularly.

Issues

B1 Determining who should make assumptions is an important issue, and has implications for what assumptions are to be made.

Your feedback

B1Q1 In relation to who should make assumptions, which of the options in paragraph 33 do you support, if any:

(a) for end-benefit projections?

(b) for calculators?

Is there another option we have not considered?

B1Q2 If you support option 4 in paragraph 33(d) (i.e. some assumptions set by providers and others by a third party) which assumptions should be set by which parties?

B1Q3 If all or some assumptions are to be standardised, what would be an appropriate body to do this?

B1Q4 If all assumptions are standardised (e.g. earnings rates and fees and costs) will this prevent people using forecasts to compare funds? Does this matter? Is this one of the things forecasts should be used for?

B1Q5 Which assumptions in particular require updating and how often?

Investment earnings, fees and costs

Variables

37 The size of a consumer's superannuation benefit at retirement is affected by the related factors of investment earnings and fees and costs.

Investment earnings

38 Earnings rates are affected by the kind of investment strategy in place. For example, the ASIC superannuation calculator identifies four investment strategies, set out in Table 1. There may be other ways of distinguishing between investment strategies.

Table 1: Investment strategies identified in the ASIC superannuation calculator

Balanced	Fund investing 60–70% in shares or property, the rest in fixed interest and cash, with reasonable returns, but less than growth funds
Growth	Fund investing 70–80% in shares or property, aiming for higher returns over the long term but accepting a higher risk of losses in bad years
Capital stable	Fund investing 60–70% in fixed interest and cash, with some shares or property, aiming to reduce risk of loss and therefore accepting a lower return over the long term
Capital guaranteed	Fund investing 100% in deposits with Australian deposit-taking institutions or in a capital guaranteed life insurance policy, guaranteeing against investment loss

Fees and costs

39 Fees and costs have a similar direct impact on the size of a consumer's investment holdings. However, from fund to fund, these may be structured and labelled in different ways.

40 Schedule 10 of the Corporations Regulations 2001 (the Enhanced Fee Disclosure Regulations) requires product issuers to disclose 'management costs' within the Product Disclosure Statement.[9] Management costs include all the relevant costs involved in managing the fund and deriving an investment return for members or product holders.[10] However, some costs are specifically excluded from the definition of 'management costs'; these

[9] Schedule 10 was amended by the Corporations Amendment Regulations (No. 1) 2005, known as the 'enhanced fee disclosure regulations'.
[10] See Explanatory Statement to the Corporations Amendment Regulations (No. 1) 2005, SLI 2005 No. 31 (Explanatory Statement).

include one-off costs like contribution, switching, termination and withdrawal fees, as well as transactional and operational costs (e.g. the costs of brokerage, settlement, and stamp duty on investment transactions).

41 In a periodic statement for a superannuation product, providers are required to disclose:

(a) management costs deducted directly from a consumer's account;

(b) 'other management costs', that is, the approximate amount of management costs that affected a consumer's investment over the reporting period and were not deducted directly from their account; and

(c) the total fees and costs that affected an individual's investment over the reporting period—although this figure does not generally include 'transactional and operational costs',[11] which are generally reflected in the size of the investment return received by the consumer.[12]

42 Distinctions may also be made between 'administration' and 'investment' fees. The former category may include the costs of custody, compliance and the internal management of assets, as well as one-off fees like contribution and withdrawal fees, and the latter the costs of external investment management and transaction-related costs. These terms are not defined in law, and the way fees and costs are split between the two categories may vary greatly between funds. For example, funds may charge specific administration fees for all administration costs, or they may charge a single administration fee and recover excess administration costs by deducting them from a consumer's investment earnings. A lack of standardisation may affect the ease with which a consumer can interpret information presented in a superannuation forecast.

Assumptions

43 Calculating investment earnings, fees and costs involves a variety of both known and unknown factors, and a number of different assumptions could be made.

Investment earnings

44 With respect to earnings, superannuation forecasts could be calculated using:

(a) a single assumed earnings rate;

(b) different investment earnings rates for different strategies (e.g. growth strategies would be assumed to earn more than conservative investment strategies); or

[11] 'Transactional and operation costs' are defined in clause 103 of the Enhanced Fee Disclosure Regulations to include brokerage, buy-sell spreads, settlement costs, clearing costs, and stamp duty on an investment transaction.
[12] See Explanatory Statement.

(c) the past earnings rate of a particular fund calculated over a sufficient period of time to reflect a range of market conditions (e.g. 10 years).

45 With the second option above, decisions would need to be made about:

(a) how different investment strategies should be defined (e.g. what constitutes a 'balanced investment strategy'); and

(b) what the assumed earnings rates should be for each investment strategy.

Fees and costs

46 With respect to fees and costs, superannuation forecasts could be calculated using:

(a) the *actual costs* paid by the consumer (i.e. the provider would use the actual fees they charge when calculating the superannuation forecast);

(b) a *hybrid model*, where the actual administration costs paid by the consumer would be used, but for 'investment costs', which are harder to predict, a standardised assumed figure would be used when calculating the superannuation forecast;[13] or

(c) a *common assumption* about fees and costs, which would apply to all superannuation funds for the purposes of calculating the superannuation forecast regardless of the actual fees charged by the provider.

47 We consider that there may be advantages and disadvantages involved in all approaches, some of which are illustrated in Table 2.

[13] This approach has been advocated by the Institute of Actuaries in its discussion paper *Outstanding issues for benefit projections and online calculators* (April 2008).

Table 2: Potential advantages and disadvantages of assumptions about investment earnings, fees and costs

<table>
<tr><th colspan="2" rowspan="2"></th><th colspan="3">Assumptions about investment earnings</th></tr>
<tr><th>Single earnings rate</th><th>Multiple earnings rates</th><th>Actual past earnings rates</th></tr>
<tr><td rowspan="2">Assumptions about fees and costs</td><td>Single assum-ption</td><td>Advantages of approach:
• simplest model with the easiest application
• may provide a good way of giving consumers a basic understanding
Disadvantages of approach:
• will disadvantage funds with comparatively high earnings rates
• provides little scope for transparency in relation to fees and costs—will advantage funds with high investment and administration costs
• difficult to clearly define investment costs and administration costs</td><td>Advantages of approach:
• simplifies calculation of fees, with no ability for providers to leave certain fees out of the calculation (e.g. contingency fees, additional exit fees for withdrawal of large amounts)
Disadvantages of approach:
• involves the difficulty of defining different investment strategies
• provides little scope for transparency in relation to fees and costs—will advantage funds with high investment and administration costs</td><td>Advantages of approach:
• may provide consumers with more information about their actual fund
• may allow comparison between funds
Disadvantages of approach:
• past performance is not necessarily a reliable indicator of the future performance
• depending on the period used, may result in forecasts that vary from year to year
• difficulty of applying this approach to funds that have operated for a short period of time
• provides little scope for transparency in relation to fees and costs</td></tr>
<tr><td>Actual costs used</td><td>Advantages of approach:
• relatively simple and easy to apply
• may make fees and costs more transparent
Disadvantages of approach:
• will disadvantage funds with comparatively high earnings rates—may discourage investment in strategies that are higher earning over the long term</td><td>Advantages of approach:
• may make fees and costs more transparent
Disadvantages of approach:
• most complex model, involving the difficulty of defining different investment strategies</td><td>Advantages of approach:
• may provide consumers with more information about their actual fund
• may allow comparison between funds
• may make fees and costs more transparent
Disadvantages of approach:
• past performance is not necessarily a reliable indicator of the future performance
• depending on the period used, may result in forecasts that vary from year to year
• difficulty of applying this approach to funds that have operated for a short period of time</td></tr>
</table>

		Assumptions about investment earnings		
		Single earnings rate	**Multiple earnings rates**	**Actual past earnings rates**
Assumptions about fees and costs	**Hybrid model**	Advantages of approach: • will highlight administration costs for the consumer • if investment costs naturally rise as earnings rise, then it is appropriate to net these off Disadvantages of approach: • if investment costs are not always in fixed proportion to investment earnings, no matter what the investment strategy these will be hidden from the consumer—may disadvantage funds with cheaper investment costs or with proportionately higher earnings rates • difficult to clearly define investment costs and administration costs • will disadvantage funds with comparatively high earnings rates—may discourage investment in strategies that are higher earning over the long term	Advantages of approach: • will highlight administration costs for the consumer Disadvantages of approach: • involves the difficulty of defining different investment strategies • will advantage funds with high investment costs or disadvantage higher earning funds • difficult to clearly define investment costs and administration costs—may allow providers to manipulate fees and costs	Advantages of approach: • will highlight administration costs for the consumer • may provide consumers with more information about their actual fund • may allow comparison between funds Disadvantages of approach: • past performance is not necessarily a reliable indicator of the future performance • depending on the period used, may result in forecasts that vary from year to year • difficulty of applying this approach to funds that have operated for a short period of time • difficult to clearly define investment costs and administration costs

48 The complexity of the model chosen should reflect the intended use of the superannuation forecast. For example:

(a) a simple model may be less sensitive to the specific conditions of the product, but could produce an indicative estimate that may allow consumers to interpret information and engage with the subject matter quickly; however

(b) a more complex model may allow consumers to become more aware about investment earnings rates and the potential effects of fees and costs on their end benefits and promote more refined analysis and decision-making.

It may be that one model may be more appropriate for end-benefit projections and another for calculators.

49 Further assumptions would need to be made about the potential for future change in fees and costs to occur.

Issues

B2 There are several ways assumptions could be made in relation to investment earnings and fees and costs, with each option having respective advantages and disadvantages.

Depending on the approach taken, standardised definitions for investment strategies and fees and costs may also be required.

Your feedback

B2Q1 What assumptions about earnings rates, fees and costs should be made for:

(a) end-benefit projections?

(b) calculators?

Please give reasons for your answer.

B2Q2 What assumptions, if any, should be made about the potential for future change in fees and costs to occur?

B2Q3 Who should make assumptions in relation to investment earnings, fees and costs?

B2Q4 Is it possible to have standardised definitions for investment strategies? What definitions would you use?

B2Q5 If a fund offers multiple investment strategies, could these be grouped into a smaller range of ‘standard’ investment strategies?

B2Q6 If a fund's actual past performance is used in the calculation, what time period is appropriate? How could this approach be applied to funds that have been operating for a short period of time?

B2Q7 How could we standardise definitions around fees and costs?

B2Q8 If the hybrid model is adopted, how should ‘administration’ and ‘investment’ costs be defined? Who should develop these definitions?

External factors

Inflation

50 The effect of inflation on a consumer’s end benefit, and the corresponding deflation in the purchasing power of the amount they will receive at retirement, is relevant if superannuation forecasts are to be shown in today’s dollars.

51 This requires a choice of an appropriate deflator to apply in the calculation process. The deflator could either be based on:

(a) the Consumer Price Index (CPI); or

(b) salary growth.

52 Consumers may find a superannuation forecast more useful if it is presented in today’s dollars as this may allow them to consider their likely retirement needs, and gain a realistic picture of the standard of living and wellbeing they will be able to achieve with their current holdings. It may be necessary to consider not only the consumer’s likely future purchasing power, but also how that compares with the rest of the community’s likely future living standards. In this case, a salary-based deflator could be more appropriate as it would enable consumers to gain an idea of the amount they will need to achieve an adequate living standard in retirement relative to the rest of the community.

Issues

B3 A forecast may need to take into account the potential effect of inflation.

Your feedback

B3Q1 Should the effect of inflation be dealt with when calculating:

(a) an end-benefit projection?

(b) a forecast using a calculator?

B3Q2 What assumptions should be made in relation to inflationary factors? Please give reasons for your answer.

B3Q3 Do you support a CPI- or salary-based deflator?

B3Q4 Who should determine the assumptions to be used for inflation?

Taxation conditions and other legal factors

53 Superannuation forecasts will need to assume that current taxation conditions and other legal factors (e.g. the superannuation guarantee) will remain unchanged.

54 Superannuation is subject to taxation at a number of points (e.g. investment earnings, salary sacrifice contributions, termination payments), and each of these vary in treatment, including through the concessions that apply. A variation in the tax treatment of superannuation could affect a consumer's end benefit.

55 A variation in other legal factors applying to superannuation (e.g. the level of the superannuation guarantee, preservation rules) could similarly affect a consumer's end benefit.

Issues

B4 A superannuation forecast may need to take into account the potential effects of taxation and other legal factors.

Your feedback

B4Q1 Do you agree that end-benefit projections and calculators will need to assume that current taxation conditions and other legal factors will remain unchanged?

B4Q2 Are there certain taxation issues that cannot be taken into account when making a forecast because they are personal to the consumer? If so, how should the consumer be made aware of this?

Factors personal to the consumer

Salary and contribution levels

56 The level of contributions, whether through the superannuation guarantee contribution, employer contributions above the guarantee rate, or through means of salary sacrifice, post-tax contributions, or co-contributions, is a clear source of variation in the size of end benefits. Salary levels, and their rate of growth, will impact on contribution levels. Time out of the workforce for any reason will also impact on a consumer's end benefit.

57 The provider will not usually know what the consumer's intentions are, or consumers may be uncertain themselves, so calculating the effects of salary and contribution levels involves making assumptions about uncertain future events.

58 In relation to salary, superannuation forecasts could either:

(a) be neutral to the possibility that consumers' salaries will likely rise; or

(b) take into account projected salary increases.

If the latter approach is taken, an assumption must be made about salary increases (e.g. through taking into account average weekly earnings data from the ABS).

59 An assumption would also need to be made about contribution levels. Forecasts could be based on the assumption that either:

(a) contributions will be made at the level of the superannuation guarantee; or

(b) that additional contributions will be made over the superannuation guarantee, whether by employers or by consumers themselves.

60 Forecasts (particularly if made using a calculator) could also take into account the possibility that a consumer may take time out of the workforce (e.g. to raise children).

Issues

B5 Calculation of a forecast may need to take into account the potential effects of salary and contribution levels.

Your feedback

B5Q1 How should the effects of salary and contribution levels be dealt with in superannuation forecasts?

B5Q2 What assumptions should be made in relation to salary increases? Please give reasons for your answer.

B5Q3 If forecasts are to take into account the likelihood of increases in consumers' salaries, what index should be used?

B5Q4 What assumptions should be made in relation to contribution levels?

B5Q5 Is it possible for a forecast to take into account the potential effects of a consumer's potential for time out of the workforce, or would this unduly complicate the forecast?

Retirement date and life expectancy

61 A consumer's intended retirement date, as determined to some extent by preservation rules, will affect the consumer's total contributions made into superannuation, and therefore the consumer's end benefit.

62 The proximity of retirement at the time that the forecast is issued may have overall effects on the robustness of the forecast as a whole—the closer the retirement date at the time the forecast is calculated, the less chance for any

assumed variables to change, meaning that the forecast may be more reliable.

63 Forecasts could be calculated on the basis that retirement will occur:

(a) when the consumer reaches a certain age; or

(b) on a date advised by the consumer to be the current planned date of retirement.

64 On the other hand, a forecast could illustrate the effects of retiring at a range of dates, starting with the earliest date at which superannuation could be accessed under the preservation rules.

65 Additionally, if the consumer's end benefit is to be converted into an annual income stream in the forecast, a consumer's likely life expectancy must be taken into account.

Issues

B6 Calculation of a forecast will need to take into account the potential effects of a consumer's choice of retirement date. A consumer's potential life expectancy may also be a relevant factor to take into account.

Your feedback

B6Q1 How should the effects of a consumer's choice of retirement date and their potential life expectancy be taken into account?

B6Q2 What assumptions should be made in relation to a retirement date? Please give reasons for your answer.

B6Q3 What assumptions should be made in relation to mortality? Should these depend on factors specific to the consumer (e.g. current age, gender, etc.)?

Insurance payments made by the member

66 Insurance premiums paid for death and total and permanent or temporary disability cover taken out by consumers will affect the size of end benefits, given that they are generally deducted directly from the superannuation account. Premium levels will vary from fund to fund.

67 Forecasts could reflect the effects of insurance costs on a consumer's holdings. If so, this could be through:

(a) standardised rates; or

(b) actual premium levels paid by each consumer.

Alternatively, the effect of insurance premiums could be ignored in any superannuation forecast, provided consumers are given appropriate warnings.

Issues

B7 Calculation of a forecast may need to take into account the potential effects of a consumer's insurance premiums.

Your feedback

B7Q1 Should the effects of a consumer's insurance premiums be taken into account? Please give reasons for your answer.

B7Q2 If yes, what assumptions should be made in relation to insurance premiums? Please give reasons for your answer.

Identifying relevant variables and assumptions

68 The variables that we have discussed above are likely to be the main ones that will need to be taken into account when calculating a superannuation forecast, and we have also set out a number of options for making assumptions. However, there may be other variables and assumptions that should be considered.

Issues

B8 There may be further variables and assumptions that need to be considered.

Your feedback

B8Q1 Have we have identified all of the relevant variables in this section? If not, how would you add to or vary the list we have set out?

B8Q2 Are there any other assumptions not discussed above that need to be considered?

B8Q3 Should the assumptions for end-benefit projections and calculators differ?

B8Q4 Do different assumptions need to be made where defined benefit schemes are involved?

C Presentation of end-benefit projections in periodic statements

Key points

End-benefit projections are intended to be an educational tool for consumers. Therefore, end-benefit projections in periodic statements should be presented in a way that makes them understandable to consumers. One issue to be considered is whether presentation format should be standardised, including through developing standard terminology.

An end-benefit projection will need to be accompanied by additional statements about its purpose and limitations.

Presentation of monetary amounts in today's dollars or future dollars, and as a lump sum or annual income stream, will give important context for the consumer in illustrating the financial resources that will be available in retirement.

69 This section considers the issues that arise in relation to the presentation of end-benefit projections in periodic statements, and does not deal directly with issues arising out of the presentation of results produced by calculators. However, where relevant, we have also sought feedback on specific questions in relation to calculators.

70 The presentation of an end-benefit projection in a periodic statement will have a significant effect on a consumer's ability to understand and use the projection, and could ultimately influence the decisions that consumers make about their superannuation and retirement planning.

Presentation format

71 Using a standard format or template for end-benefit projections would give a consistent presentation and assist allied educational initiatives. For example, consumers could be educated to look for the same features in the same place regardless of the particular product or provider.

72 However, a standard format may inhibit providers from innovating and developing presentation formats that are designed for the particular needs of consumers.

73 From the consumer's perspective, the complexity of the presentation format may influence its effectiveness. For example:

(a) a simple presentation format may provide the consumer with a quick indication; however, it may not provide sufficient information to allow the consumer to make further decisions (see paragraphs 82–87 for further discussion on how end-benefit projections could provide guidance on further action by the consumer); however

(b) a more complex model may be off-putting and might not engage the consumer.

74 If a standard format were to be developed, one aspect to consider is whether to develop consistent terminology to name projections, which would be used by all providers. One option would be to refer to end-benefit projections by a name that could quickly engage consumers, for example, ‘super snapshots’. We think that using consistent terminology is likely to enable consumers to quickly recognise the purpose of the information provided to them, and lead them to think and talk about their end benefit, as well as inspiring public discussion about the issue generally. This approach would also be useful in that, even if consumers move between funds, they will easily be able to find the information in the statement for their new fund.

75 We note that, whatever decisions are made about whether a standard presentation format is developed, or the complexity of presentation format, consumer testing will provide insights into consumer understanding of the information presented in projections.

Issues

C1 End-benefit projections could be presented through a standard format or template or providers could be free to determine the best format for presenting an end benefit projection.

Your feedback

C1Q1 Should a standardised format or template be developed, or should providers be free to determine the best format for presenting an end-benefit projection? In answering this question could you please address the following issues:

(a) Would a standardised format or template assist consumers in using and understanding an end-benefit projection?

(b) Would a standardised format or template assist providers?

C1Q2 If a standardised format or template is to be used, who should develop this?

C1Q3 If a standardised format or template is to be used, should all of the text be standardised, or just parts?

C1Q4 Would a simpler or more complex presentation format be more useful to consumers?

(a) for calculators?

(b) for end-benefit projections?

C1Q5 In relation to calculators, should both a simple and a complex version be presented, with the choice left to consumers to decide which to use?

C1Q6 To what extent should calculation methods be exposed for consumers to see?

C1Q7 Will referring to end-benefit projections by a consistent name help engage consumers to think about their superannuation? What would be an appropriate name (e.g. 'super snapshot')?

Statements accompanying the end-benefit projection

76 As well as the end-benefit projection itself, additional statements may be useful to explain the purpose and limitations of the end-benefit projection. Types of additional statements could include informative text, consumer warnings and guidance on further action by the consumer.

Informative text and consumer warnings

77 Informative text could set out (in consumer-friendly language) what the end-benefit projection is trying to illustrate, what assumptions have been made and how amounts have been calculated.

78 Consumer warnings could be used to explain the limitations of the end-benefit projection. For example, a consumer warning could say:

(a) that amounts shown may not necessarily be what the consumer will receive on retirement;

(b) many factors may affect investment earnings; and

(c) that the end-benefit projection does not represent comprehensive personal advice, and that the consumer should seek further information to assist them in planning for their retirement.

79 The statements to accompany an end-benefit projection could be worded and set out as in the example provided in Appendix 1. There may be other ways of wording and presenting these kinds of statements.

Issues

C2 Informative text and consumer warnings are necessary to explain the purpose and limitations of the end-benefit projection.

Your feedback

C2Q1 What issues should the consumer warnings address?

C2Q2 In relation to calculators, CO 05/1122 currently requires providers to display particular consumer warnings. Do these need to be added to or amended? In what way?

Guidance on how to access further information

80 An end-benefit projection could educate consumers on how to obtain further information about their superannuation. For example, the end-benefit projection might include information such as the following:

> 'If you want more information about how to increase your retirement savings you could seek financial advice from a licensed financial adviser or obtain more information from a source such as FIDO or Understanding Money.
>
> If you want more information about superannuation and the impact of fees and costs and different earnings rates on your final savings go to **www.xxx.gov.au** (e.g. FIDO or Understanding Money).'

81 There may be other ways of wording and presenting these kinds of statements.

Issues

C3 End-benefit projections could play a role in educating consumers about where to obtain further information about their superannuation.

Your feedback

C3Q1 Should end-benefit projections direct consumers to where they can obtain further information?

Guidance on further action by the consumer

82 An end-benefit projection could include some guidance on how a consumer could go about using the information provided to take make further decisions about their retirement savings, including taking action to increase their likely end benefit if necessary.

Illustrating alternative decisions: Choice of investment strategy

83 As an educative tool, an end-benefit projection could be used to illustrate more than just the likely outcome based on a consumer's current investment strategy. For example, if different investment strategies are assumed to have different earnings rates (see paragraph 38) an end-benefit projection could be used to illustrate to the consumer the effect of a change in investment strategy and consequent change in the earnings rate.

84 However, without such information being presented as part of personal advice that takes into account all of the consumer's relevant circumstances,

it is possible that illustrating changes to a consumer's investment strategy may be less helpful.

Issues

C4 End-benefit projections could illustrate the potential effects of changing investment strategy.

Your feedback

C4Q1 Should end-benefit projections be based only on the consumer's current investment strategy or should they also be presented to include additional illustrations based on different investment strategies?

C4Q2 Would an end-benefit projection illustrating the effect of different investment strategies be confusing or misleading for consumers?

C4Q3 Should end-benefit projections include additional information directing consumers how to take further action in relation to their superannuation? If so, what should this be?

C4Q4 Should there be a requirement that this be limited to general information or should providers be permitted to include information specific to the provider and/or product?

Illustrating alternative decisions: Contribution changes

85 An end-benefit projection that represents the effect of a change in the amount contributed to superannuation by the consumer may help the consumer make better choices.

86 For example, a projection could compare making no change to contribution levels with making a notional increase, as follows:

> 'If you continue to make contributions at the current levels, you will have $X.
>
> If you increase your contribution levels by $Y per week, you will have $Z.'

87 There may be other ways of illustrating the potential effects of changing contribution levels.

Issues

C5 End-benefit projections could illustrate the potential effect of changes in contribution levels.

Your feedback

C5Q1 Should providers be required to present an illustration of the effects of changes in the amount of contributions?

C5Q2 Should providers be prohibited from presenting alternative illustrations based on different contribution amounts, unless the provider has ascertained further information about the consumer's circumstances?

C5Q3 Should providers be free to choose whether to present alternative illustrations?

Presentation of monetary amounts

Today's dollars or future dollars

88 In order to provide useful information for consumers, monetary amounts must be presented in such a context that they can be properly understood. In particular, an important issue is whether monetary amounts are presented in today's dollars or future dollars. Presenting monetary amounts in today's dollars may assist consumers to make an informed judgement about the adequacy of their superannuation.

Issues

C6 Monetary amounts in an end-benefit projection could be presented in today's figures or in future projected amounts.

Your feedback

C6Q1 Should there be a requirement that monetary amounts be represented in today's or future dollars? What do you consider to be the potential positive or negative aspects of either approach?

C6Q2 Should providers be free to choose the presentation method for the particular product or consumer (on condition that there is clear disclosure advising the consumer of the method used)?

C6Q3 Under CO 05/1122, a calculator that produces a forecast must have a clear and prominent statement specifying whether the forecast takes into account an assumed change in the cost of living. Is this an appropriate approach or should forecast produced by calculators always be in today's dollars?

Conversion into annual income stream

89 End-benefit projections could be presented as a lump sum and/or an annual income stream. An annual income stream may better illustrate to consumers the ongoing financial resources that will be available in retirement.

90 Where benefits are illustrated in this way, different illustrations could be provided to show the effects of life expectancy and longevity on a consumer's retirement needs, in order to prompt consumers to take into account the number of years an end benefit may need to last. For example, a projection could illustrate a range of life expectancies, as follows:

> 'If you live until 85, you could spend $X per year, and your money will not run out before you die.
>
> If you live until 95, you could spend $X per year, and your money will not run out before you die.'

91 There may be other ways of illustrating the potential effects of life expectancy.

Issues

C7 End-benefit projections could be presented as a lump sum and/or an annual income stream.

Your feedback

C7Q1 Should there be a requirement that end benefits be presented:

(a) as a lump-sum payment?

(b) as an annual income stream?

(c) in both ways?

C7Q2 If presented as an income stream, should the sum displayed reflect the expenses that will be incurred in converting the investment into an annual income stream (e.g. in purchasing a pension)?

Key terms

Term	Meaning in this document
ABS	Australian Bureau of Statistics
AFS licence	An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries out a financial services business to provide financial services Note: This is a definition contained in s761A.
ASIC	Australian Securities and Investments Commission
calculator	An interactive mechanism for forecasting the likely amount of a consumer's end benefit Note: See paragraphs 11–16 for a discussion of the differences between calculators and projections
CO 98/55 (for example)	An ASIC class order (in this example numbered 98/55)
Corporations Act	*Corporations Act 2001*, including regulations made for the purposes of that Act
Corporations Regulations	Corporations Regulations 2001
CPI	Consumer Price Index
end-benefit projection	A superannuation forecast provided to consumers in the form of a statement, rather than through a manipulable calculator facility
Enhanced fee disclosure regulations	The regulations contained in Schedule 10 of the Corporations Regulations
financial product	Generally a facility through which, or through the acquisition of which, a person does one or more of the following: • makes a financial investment (see s763B); • manages financial risk (see s763C); • makes non-cash payments (see s763D) Note: See Div 3 of Pt 7.1 for the exact definition.
financial service	Has the meaning given in Pt 7.1, Div 4 of the Corporations Act
licensee	A person who holds an AFS licence

Term	Meaning in this document
personal advice	Financial product advice given or directed to a person (including by electronic means) in circumstances where: • the provider of the advice has considered one or more of the person's objectives, financial situation and needs; or • a reasonable person might expect the provider to have considered one or more of those matters Note: This is a definition contained in s766B(3)
Product Disclosure Statement (PDS)	A document that must be given to a retail client in relation to the offer or issue of a financial product in accordance with Div 2 of Pt 7.9 Note: See s761A for the exact definition.
projection	A forecast provided to consumers in the form of a statement Note: See paragraphs 11–16 for a discussion of the differences between projections and calculators
retail client	A client as defined in s761G of the Corporations Act and Ch 7, Pt 7.1, Div 2 of the Corporations Regulations
RG 148 (for example)	An ASIC regulatory guide (in this example, numbered 148)
s766E (for example)	A section of the Corporations Act (in this example numbered 766E)
Statement of Advice (SOA)	A document that must be given to a retail client for the provision of personal advice under Subdivs C and D of Div 3 of Pt 7.7 Note: See s761A for the exact definition.
superannuation forecast	An estimate provided to a consumer of the likely balance of their superannuation investment at retirement, taking into account their current account balance, the impact of fees and costs, and assumptions about future contributions and earnings Note: See paragraphs 11–16 for a discussion of superannuation forecasts

Appendix 1: Sample informative text and consumer warnings for end-benefit projections

92 As stated in paragraph 79, we have provided the following text as an example of how statements accompanying an end-benefit projection could be worded and set out. There may be other ways of wording and presenting these kinds of statements.

> ‘This statement is a guide to the amount of money that you may get when you retire. It is shown in today’s prices and is not a promise or guarantee that you will receive this amount. This is because it is based on a number of assumptions. It is therefore for illustrative purposes only.
>
> The amount of money that you may get when you retire will depend, among other things, on:
>
> - when you actually retire and take your superannuation investment;
> - the actual contributions made;
> - the way your own fund is invested, and the investment growth it achieves;
> - whether you choose to buy a fixed pension upon retirement; and
> - what allowance (if any) you make for a pension for your spouse or de facto partner.
>
> This statement has been calculated using general assumptions about various factors, including:
>
> - xx
> - xx
> - xx
>
> What actually happens, and your own individual circumstances, may vary considerably from these general assumptions. The actual amount of money you will get will depend on the actual performance of the investments and so may be significantly different from the amount shown here. In addition, the effect of any old-age pension you may be entitled to receive is not illustrated.
>
> Because of this, you should consider getting further information or advice before you review your retirement savings arrangements.
>
> If you want to know more about the way this has been worked out or the assumptions we have made, contact **xx** or see the **xx** website.’

Appendix 2: List of all feedback questions

A1 Issues raised in Section A

A1Q1 Are our proposed objectives appropriate? If not, why not? Do we need to consider any other objectives?

A1Q2 To what extent will personalised superannuation forecasts deliver benefits for:

(a) consumers?

(b) superannuation providers?

A1Q3 What form of superannuation forecast (end-benefit projection or calculator) would provide the best information for members, and what issues may arise out of providing it? Is there a role for both forms of superannuation forecast?

A1Q4 Should it be mandatory for superannuation providers to provide superannuation forecasts (end-benefit projections and/or calculators) to consumers?

A1Q5 How has the current relief for providers of certain calculators from the personal advice regime worked in practice?

A1Q6 To what extent should providers of end-benefit projections also be given relief from the licensing and personal advice regime?

A1Q7 How significant is the risk of liability for providers of superannuation forecasts and how should these risks be best addressed?

(a) Would standardisation of calculation methods and presentation give sufficient comfort?

(b) Can consumer warnings eliminate the risk of potential liability?

A1Q8 What other resources will consumers need in order to use and/or understand end-benefit projections (e.g. advice from a financial adviser, general financial literacy training/resources, ASIC’s FIDO website for consumers, etc.)?

A1Q8 Are there any other barriers to consumers’ engagement with their superannuation not discussed above?

A1Q9 Are there any different issues involved in relation to defined benefit schemes or other niche superannuation products?

A1Q10 What can we learn from the overseas experience that is relevant to the Australian system?

B1 Who should make the assumptions?

B1Q1 In relation to who should make assumptions, which of the options set out in paragraph 33 do you support, if any:

(a) for end-benefit projections?

(b) for calculators?

Is there another option we have not considered?

B1Q2 If you support option 4 in paragraph 33(d) (i.e. some assumptions set by providers and others by a third party) which assumptions should be set by which parties?

B1Q3 If all or some assumptions are to be standardised, what would be an appropriate body to do this?

B1Q4 If all assumptions are standardised (e.g. earnings rates and fees and costs) will this prevent people using forecasts to compare funds? Does this matter? Is this one of the things forecasts should be used for?

B1Q5 Which assumptions in particular require updating and how often?

B2 Assumptions about investment earnings, fees and costs

B2Q1 What assumptions about earnings rates, fees and costs should be made for:

(a) end-benefit projections?

(b) calculators?

Please give reasons for your answer.

B2Q2 What assumptions, if any, should be made about the potential for future change in fees and costs to occur?

B2Q3 Who should make assumptions in relation to investment earnings, fees and costs?

B2Q4 Is it possible to have standardised definitions for investment strategies? What definitions would you use?

B2Q5 If a fund offers multiple investment strategies, could these be grouped into a smaller range of ‘standard’ investment strategies?

B2Q6 If a fund's actual past performance is used in the calculation, what time period is appropriate? How could this approach be applied to funds that have been operating for a short period of time?

B2Q7 How could we standardise definitions around fees and costs?

B2Q8 If the hybrid model is adopted, how should ‘administration’ and ‘investment’ costs be defined? Who should develop these definitions?

B3 Assumptions about inflation

B3Q1 Should the effect of inflation be dealt with when calculating:

(a) an end-benefit projection?

(b) a forecast using a calculator?

B3Q2 What assumptions should be made in relation to inflationary factors? Please give reasons for your answer.

B3Q3 Do you support a CPI- or salary-based deflator?

B3Q4 Who should determine the assumptions to be used for inflation?

B4 Assumptions about taxation and other legal factors

B4Q1 Do you agree that end-benefit projections and calculators will need to assume that current taxation conditions and other legal factors will remain unchanged?

B4Q2 Are there certain taxation issues that cannot be taken into account when making a forecast because they are personal to the consumer? If so, how should the consumer be made aware of this?

B5 Assumptions about salary and contribution levels

B5Q1 How should the effects of salary and contribution levels be dealt with in superannuation forecasts?

B5Q2 What assumptions should be made in relation to salary increases? Please give reasons for your answer.

B5Q3 If forecasts are to take into account the likelihood of increases in consumers’ salaries, what index should be used?

B5Q4 What assumptions should be made in relation to contribution levels?

B5Q5 Is it possible for a forecast to take into account the potential effects of a consumer's potential for time out of the workforce, or would this overly complicate the forecast?

B6 Assumptions about retirement date and life expectancy

B6Q1 How should the effects of a consumer's choice of retirement date and their potential life expectancy be taken into account?

B6Q2 What assumptions should be made in relation to a retirement date? Please give reasons for your answer.

B6Q3 What assumptions should be made in relation to mortality? Should these depend on factors specific to the consumer (e.g. current age, gender, etc.)?

B7 Assumptions about insurance

B7Q1 Should the effects of a consumer's insurance premiums be taken into account? Please give reasons for your answer.

B7Q2 If yes, what assumptions should be made in relation to insurance premiums? Please give reasons for your answer.

B8 Are there other variables and assumptions that need to be considered?

B8Q1 Have we have identified all of the relevant variables in this section? If not, how would you add to or vary the list we have set out?

B8Q2 Are there any other assumptions not discussed above that need to be considered?

B8Q3 Should the assumptions for end-benefit projections and calculators differ?

B8Q4 Do different assumptions need to be made where defined benefit schemes are involved?

C1 Standardisation of presentation

C1Q1 Should a standardised format or template be developed, or should providers be free to determine the best format for presenting an end-benefit projection? In answering this question could you please address the following issues:

(a) Would a standardised format or template assist consumers in using and understanding an end-benefit projection?

(b) Would a standardised format or template assist providers?

C1Q2 If a standardised format or template is to be used, who should develop this?

C1Q3 If a standardised format or template is to be used, should all of the text be standardised, or just parts?

C1Q4 Would a simpler or more complex presentation format be more useful to consumers?

(a) for calculators?

(b) for end-benefit projections?

C1Q5 In relation to calculators, should both a simple and a complex version be presented, with the choice left to consumers to decide which to use?

C1Q6 To what extent should calculation methods be exposed for consumers to see?

C1Q7 Will referring to end-benefit projections by a consistent name help engage consumers to think about their superannuation? What would be an appropriate name (e.g. 'super snapshot')?

C2 Informative text and warnings

C2Q1 What issues should the consumer warnings address?

C2Q2 In relation to calculators, CO 05/1122 currently requires providers to display particular consumer warnings. Do these need to be added to or amended? In what way?

C3 Guidance on how to access further information

C3Q1 Should end-benefit projections direct consumers to where they can obtain further information?

C4 Illustrating changes in investment strategy

C4Q1 Should end-benefit projections be based only on the consumer's current investment strategy or should they also be presented to include additional illustrations based on different investment strategies?

C4Q2 Would an end-benefit projection illustrating the effect of different investment strategies be confusing or misleading for consumers?

C4Q3 Should end-benefit projections include additional information directing consumers how to take further action in relation to their superannuation? If so, what should this be?

C4Q4 Should there be a requirement that this be limited to general information or should providers be permitted to include information specific to the provider and/or product?

C5 Illustrating changes in contribution levels

C5Q1 Should providers be required to present an illustration of the effects of changes in the amount of contributions?

C5Q2 Should providers be prohibited from presenting alternative illustrations based on different contribution amounts, unless the provider has ascertained further information about the consumer's circumstances?

C5Q3 Should providers be free to choose whether to present alternative illustrations?

C6 Presentation in today's dollars, or future dollars

C6Q1 Should there be a requirement that monetary amounts be represented in today's or future dollars? What do you consider to be the potential positive or negative aspects of either approach?

C6Q2 Should providers be free to choose the presentation method for the particular product or consumer (on condition that there is clear disclosure advising the consumer of the method used)?

C6Q3 Under CO 05/1122, a calculator that produces a forecast must have a clear and prominent statement specifying whether the forecast takes into account an assumed change in the cost of living. Is this an appropriate approach or should forecast produced by calculators always be in today's dollars?

C7 Conversion into annual income stream

C7Q1 Should there be a requirement that end benefits be presented:

(a) as a lump-sum payment?

(b) as an annual income stream?

(c) in both ways?

C7Q2 If presented as an income stream, should the sum displayed reflect the expenses that will be incurred in converting the investment into an annual income stream (e.g. in purchasing a pension)?