19 April 2013

Mr Geoffrey Leveritt
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Strategy & Policy
Australian Securities and Investments Commission
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By email: policy.submissions@asic.gov.au

Dear Geoffrey,

ASIC Consultation Paper CP203 regarding Class Order CO 11/1227

Thank you for the opportunity to comment on the proposed amendments to Class Order 11/1227.

The Actuaries Institute (the institute) welcomes the Commission's efforts to facilitate the distribution of meaningful retirement estimates to members of Australian superannuation funds. It is vital that superannuation fund members understand the implications of their superannuation decisions for their standard of living in retirement. While the take-up of this via the Class Order has been slow to date, we feel the latest amendments offer a credible, low cost option to trustees.

Our submission takes the form of short responses to the questions framed in CP203, attached to this letter. The rest of this letter gives background to some of our answers.

The themes of our response are removing trustee decisions, clear and accurate disclosure, and common sense use of data.

Hence, we advocate the use of a standard retirement age, inclusion of the age pension (to become mandatory in the future), and a total income amount to be shown. We believe the more standard the content of the estimates, the more useful they will be over time. Notwithstanding the Commission's objective that the estimates function merely as an engagement tool to drive members to calculators on fund websites or to seek financial advice, the estimates still need to stand on their own right for those members who read them but choose not to engage in other ways.

In several places we have proposed modifications to the disclosure of assumptions in areas where the Institute feels that fund members have the least existing knowledge, mainly around the workings of the age pension.

Finally, we have proposed modified definitions of calculation variables covering contributions and fees. In particular, we believe the proposed changes to the definition of adjusted current contributions are critical to the credibility of the estimates as they come into broader usage. The ability for users of the relief to allow for facts that the member would expect the trustee to be aware of, will allow greater coverage and better estimates.

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Based on our previous discussions, we have stopped short of recommending a clause that actuaries be permitted to modify the prescribed methodology and assumptions. The vast majority of cases in which this power might be used relate to concerns with the contribution data only, and our concerns in this area would be resolved by our amended definition (refer to our detailed response to B6Q2 attached), within the bounds of a prescribed methodology

Instead, we offer the Commission our assistance to incorporate such a clause if it determines that flexibility to allow for any or all of the following options is valuable, bearing in mind that actuaries are likely to be involved in the production of estimates anyway:

a) a member's actual investment strategy,

b) the phased increase in the Superannuation Guarantee (SG) rate,

c) insurance premiums that are not constant in today's dollars,

d) recent changes in rates of administration fees and costs,

e) alternative draw-down patterns in retirement, or

f) yet-to-be-legislated contingencies.

The Institute would issue guidance to our members in the application of any such options.
We look forward to seeing the results of the Commission's deliberations in this matter.

Yours sincerely

John Newman
President

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Question	Actuaries Institute position
A1Q1 Do you currently rely on our relief to offer retirement estimates to super fund members?	Really for trustees to answer. Some of our members use the relief.
A1Q2 Do you agree that refinements of our policy are necessary to address barriers to super funds relying on our relief to provide retirement estimates for their members? If not, why not?	Yes.
B1Q1 Do you agree with our proposal to allow trustees to include the age pension in a retirement estimate? If not, why not?	Yes.
B1Q2 Should it instead be mandatory for a trustee to include the age pension in a retirement estimate?	Would prefer the inclusion of the age pension to be mandatory, because it removes the burden of making another decision from trustees. However, we have no objection if it's optional, especially if it is the aim to make it compulsory in the future.
B1Q3 Are there any practical difficulties for super funds in implementing our proposal?	We propose ASIC direct Class Order users to a website with the current parameters and age pension formula.
B2Q1 Do the proposed assumptions reflect realistic circumstances for a substantial part of the Australian population? What additional or alternative assumptions should be prescribed?	SPD proposes two changes: • remove reference to account based pension (in B2(b)) and replace with superannuation pension. • RG229.59 should emphasise that the assumptions are a best estimate of circumstances at retirement, not at the point the member receives the projection.
B2Q2 Are there any practical difficulties for super funds in implementing our proposal?	No, provided our B1Q3 proposal is implemented.

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Question	Actuaries Institute position
B3Q1 Does the proposed prescribed wording provide sufficient warning to super fund members about their eligibility for the age pension and caution in relying on the figures given?	We propose text be as follows: "This amount represents the current partnered rate of age pension, assuming that at retirement, your partner has the same amount of super, that you are a home owner and that you have no other assets or income. You may not be eligible for some or all of this age pension amount if you (or your partner) have income or assets in addition to this super fund. Pension rates and eligibility rules may change in the future. The age pension amount shown at retirement age may also change during retirement as your super fund balance changes."
B3Q2 Should there be prescribed requirements for presentation of the age pension estimate?	Yes, our preference is for the presentation to show in all cases where an age pension amount is provided: (a) the super income stream amount, and separately, (b) the age pension amount, and also (c) the total of the income stream and age pension amount. Members need a figure they can compare with a quantity they can relate to (eg. their current salary, or to some external amount like the ASFA Retirement Standard). Hence it is important to show (c) above.
B3Q3 Are there any practical difficulties for super funds in implementing our proposal?	No.
B4Q1 Do you agree with our proposal? If not, what age do you think should be assumed for retirement?	We propose that the retirement age be 67 for all members. This removes complication from the calculations and the disclosure, as all members will be entitled at age 67. In practice, members retire at a whole range of ages and some transition to retirement.
B4Q2 Are there any practical difficulties for super funds in implementing our proposal?	No.

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Question	Actuaries Institute position
B5Q1 Do you agree with the proposed wording of the warning notice regarding the potential for a super fund member to outlive the 25-year projected lifespan?	Yes, but the words “you want your super to last for 25 years after your retirement” should be changed to “you want your super income stream to be indexed and to last for 25 years after your retirement”
B5Q2 Are there any practical difficulties for super funds in implementing our proposal?	No.
B6Q1 Do you agree with our proposed approach? If not, why not?	Yes.

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Question	Actuaries Institute position
B6Q2 Does our proposed approach appropriately address industry concerns about potentially misleading or deceptive estimates?	The proposed approach does not provide comfort to trustees that they will be able to issue projections that are not misleading. We have previously described circumstances and provided ASIC with examples of situations where following the Class Order approach will result in misleading projections. Simply stating that ASIC will take no action in this situation does not prevent third parties from taking action against a trustee. The best way to avoid providing a misleading estimate is to allow a trustee to take account of facts that the member might expect the trustee to be aware of in order to provide a better retirement estimate. Just about all situations where the current approach might be misleading involve the value used for adjusted current contributions. To this end we propose the following definition of adjusted current contributions: **adjusted current contributions** = the total contributions that are paid into the member's account with the fund during the year ending on the date of the estimate, less contributions tax and insurance premiums. If a trustee has information readily available (eg. regarding contribution patterns, insurance changes) that would improve the estimate, then the trustee may make further adjustments to reflect this information. The last clause in this definition will pick up: • one-off contributions • changes in membership category or employment status • transactions in relation to a prior period (eg excess contributions tax, co-contributions, a premium rebate, a refunded contribution) As per RG229.14 a trustee is not obliged to act on this last clause, but including it will give the trustee the opportunity to provide a better estimate in some circumstances. Note we have removed the reference to "amounts transferred into the member's account with the fund from another account with another superannuation entity" because such amounts are not contributions.
B7Q1 Do you agree with our proposal in relation to administration fees? If not, why not?	Yes.

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Question	Actuaries Institute position
B7Q2 Are there any practical difficulties for super funds in implementing our proposal?	We propose the definitions of F and f be as follows: **F** = (a) where the fund deducts fixed dollar administration fees (i.e. not based on the balance of the member's account) on a relevant basis – the total in dollars of the administration fees (if any) deducted directly from the member's account with the fund during the year ending on the date of the estimate; or (b) otherwise – 0. **f** = (a) where the fund deducts administration fees based on a percentage of the balance of the member's account with the fund or different percentages of different parts of the balance or where there are indirect administration fees – the annual or annualised percentage rate at which administration fees have been deducted from that account during the year ending on the date of the estimate plus the annual or annualised percentage rate of indirect administration fees that are attributable to the member's account during the year ending on the date of the estimate; or (b) otherwise – 0. We propose that the definitions of administration fees and indirect administration fees be as follows: ***administration fees*** means, in relation to a superannuation entity, any fee, cost or charge (however described) borne by the member and deducted directly from the account of a member of the entity or otherwise deducted from the assets of the entity other than: (a) a fee or charge for the management of investment of the assets of the entity (whether or not it is paid by the trustee to another person); or (b) contributions tax; or (c) insurance premiums. ***indirect administration fees*** means any administration costs borne by the member that are not deducted directly from a member's account. The amount of indirect administration fees attributable to a member's account is calculated by multiplying the member's current balance by the ratio of the fund's indirect administration fees to the fund's total average net assets.

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Question	Actuaries Institute position
B8Q1 Do you agree with our proposal for rounding of estimates? If not, what approach to rounding do you suggest?	Yes.
B8Q2 Are there any practical difficulties for super funds in implementing our proposal?	No.
B9Q1 Do you agree with our proposed revised wording of the prescribed consumer warnings? If not, what alternative text do you suggest?	We propose additional disclosure around member's current age the danger of combining age pension estimates from multiple funds there being no allowance for the phased increase in the SG rate to 12%
B9Q2 Are there any practical difficulties for super funds in implementing our proposal?	No.
Other items	
Periodicity of income stream amount	Annual is preferred.
SG to 12% not included	We can live with it because it's conservative. See B9Q1 re disclosure.
Queries and typos	On page A1-14 in the section on "Pension Entitlement" insert "(including superannuation)" after "same income and assets"? This change would need to be made wherever this expression is used e.g. last item on page A2-2. On page A1-17 RG229.62 should conclude "member's working life and retirement years". On page A1-18 "relying on this relief" should be inserted after "retirement estimate". On page A2-6 in (c) "the performance of your investment" should be "the performance of your investments".

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