11 February 2016

Mr Tony Christie
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Australian Securities and Investments Commission

email: policy.submissions@asic.gov.au

Dear Mr Christie,

RE: CONSULTATION PAPER 249

Thank you for the opportunity to make a submission on this important regulation. Actuaries Institute members regularly engage with the existing Class Order and the issues arising with the presentation of projection models more generally. Please note, while we have tried to keep terminology inclusive of financial calculators in general, the context in which many of our members provide advice on generic financial calculators is in superannuation and retirement income. Hence our examples are drawn from this field.

We set out some general principles relating to the preparation of financial calculators, and then address the specific questions asked in the Consultation Paper.

General principles

1. A financial calculator comprises input data, methodology, assumptions and the presentation of results. The user ultimately controls the input data, but the other elements are under the control of the calculator provider.
2. Of the above elements, assumptions about the future require the most judgement. The current Class Order requires assumptions to be reasonable and to be justified as reasonable.
3. The methodology (ie calculation) employed in a calculator is the component that best lends itself to the label 'generic'. However, the most useful results are achieved when the input data and assumptions are 'specific' to the user.
4. It is in the public interest that financial calculators give consistent results (for the same input and assumptions) and are broadly comparable. It is important to recognise, however, that different calculators have different purposes, model a range of different products using varying levels of detail, and have different audiences. The media has focussed some attention on the investment return assumptions used in superannuation calculators. There are legitimate reasons for different providers to set different default investment returns. We do not see a problem with this provided the assumptions are reasonable and justified as so, in particular relative to the deflator used.
5. A calculator presenting results projected into the future should take account of the impact of inflation, and make appropriate disclosure of this, using terminology which is consistent across the industry.

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6. The presentation of uncertainty in any future projected value(s) should be addressed and calculators that demonstrate how the end result will differ if the assumptions used are not borne out should be encouraged. For example, as an absolute minimum, this would be a description or illustration of how the result would differ if one or more of the key assumptions in the scenario are varied, along with a suitable caveat that other assumptions may also vary the end result materially. Further guidance on possible approaches is included in section 5.5 of the Actuaries Institute's Practice Guideline 499.02, a copy of which is included as an Appendix.
7. A financial calculator should contain disclosure appropriate to the user, the intended purpose and the risks associated with the results. Sufficient information should be provided to allow the user to relate the results to their situation. Any material assumptions about the user's situation and behaviour should be disclosed.
8. Some providers develop financial calculators for defined benefit funds. Defined benefit funds are not a generic product and are often not open to new members. The Class Order should not prevent:
   - specific benefit features and assumptions; or
   - fixed member-specific input data being used in financial calculators for defined benefit funds
9. Financial calculators that project future values, and in particular retirement calculators that incorporate superannuation and age pension calculations, are inherently complex applications. This calls for appropriately qualified practitioners to be involved for sign-off on compliance with standards. For example, actuaries providing advice on benefit projections are subject to Practice Guideline 499.02 (Projected Superannuation Benefit Illustrations).

Response to questions

B1Q1 Do you agree with these proposals? If not, why not?

10. We support the facilitation of generic financial calculators as exempt from financial product advice laws, and the continuation of CO 05/1122.
11. We support allowing for layering of disclosure information, in accordance with materiality considerations. This may reduce the wordiness of introduction screens.
12. We support a requirement to adjust medium-long term results for inflation. See response to B1Q5 for more details.
13. Self-reporting is already required in relation to breaches by financial services providers. However we have concerns with the extension of reporting to "likely breaches". We consider a more appropriate quality control mechanism would be to require any such calculator to be "signed-off" by an actuary. (The Actuaries Institute issued Practice Guideline 499.02: Projected Superannuation Benefit Illustrations in April 2009 and similar guidance for its Members has existed since October 2004.)
14. We have concerns with being unable to refer to a particular product. For a calculator to be useful for someone who is invested in a particular product or is considering it, the calculator must reflect the terms of that product. Different assumptions about fees and costs and investment returns will be necessary for different products. There is a logical difficulty in justifying the default assumptions without referring to the financial product. We believe that referring to a specific financial product is not the same as advertising or promoting it.

B1Q2 Instead of remaking [CO 05/1122], should ASIC allow [CO 05/1122] to sunset on the basis that providers of generic financial calculators can refer users to the calculators provided on ASIC's consumer website, MoneySmart, for additional financial information and education?

15. No. Calculator providers should be supported in innovating to include features and layouts that meet the needs of their users and their preferred devices. There will no doubt, from time to time, be a need for financial calculators not currently covered by the MoneySmart website.
16. The MoneySmart superannuation and retirement calculators are not ideal. They do not allow for the inclusion of additional features such as those mentioned below, do not work on many mobile devices and the user interface is dated and unresponsive to window size.
17. We point out that the methodology and presentation used by the MoneySmart retirement calculators do not deal with some of the more material drivers of retirement outcomes in Australia. The MoneySmart retirement calculators:
    - Do not illustrate the variability in outcomes if the assumptions are not borne out in practice, particularly where volatile assets are used
    - Do not allow for changes in lifestyle patterns (i.e. spending) over the course of retirement
    - Ignore other sources of income in retirement (including part time work, DB pensions and annuities and non-superannuation assets)
    - Use "management cost" terminology that is not relevant for superannuation. They do not distinguish between administration and investment fees and costs. Also, the way that the MoneySmart calculators allow for investment fees and costs is inconsistent with RG 229.

B1Q3 Do these proposals help achieve our objective of facilitating the provision of useful and accurate information about financial products and services through generic financial calculators?

18. No, although there are some improvements, the concerns with the prohibition of references to a particular product hampers the above objective of 'facilitating the provision of useful and accurate information about financial products'.

B1Q4 Do you think the current requirement that a generic financial calculator must display to the user in the ordinary course of its use clear and prominent statements and explanations is achieving its objective of promoting user engagement with this information?

19. This is certainly possible and allowing layering of disclosure will better enable providers to design calculators which can display this information in an engaging way.

B1Q5 If we include a requirement that future projected amounts must be adjusted for inflation, should we prescribe an appropriate measure of inflation or should the provider be left to make assumptions about the rate of inflation? Would the Consumer Price Index averaged over a period of time, or the inflation assumptions used by ASIC's MoneySmart calculators, be an appropriate measure of inflation? Please give reasons for your view.

20. We support a requirement to show results beyond two years in today's dollars. Inflation adjustment should be calculated by way of discount rate, or deflator.
21. We support the proposal that ASIC set the default (or long-term best estimate) deflator, but the actual rate should be forward-looking, not based on past experience. The rate, or rates, should be set and regularly reviewed on the recommendation of the Australian Government Actuary.
22. Calculators that demonstrate variability in consumer outcomes should be permitted to model a range of inflation scenarios, and appropriate deflators for those scenarios.
23. For retirement projections, a wage-based deflator is the most appropriate for the period up to retirement (i.e. the accumulation phase). This approach is used on ASIC's MoneySmart Superannuation Calculator. After retirement, the provider should have the choice of using a price-based or wage-based deflator as a default.
24. When a wage-based deflator (only) is used the results should be called "today's dollars"
25. When a wage-based deflator is used up to retirement and a price-based deflator is used after retirement, the result should be called "current dollars".
26. The default deflator should be allowed to be changed by the user.

B1Q6 Should we require that generic financial calculators include a field relating to fees and costs? Alternatively, should we allow the provider the flexibility to determine disclosure about fees and costs subject to the requirement that if the calculator does not include a provision for fees and costs this has to be clearly and prominently explained, including the impact of this limitation?

27. Yes. Calculators that purport to show a projected super balance at retirement or projected income in retirement should be required to allow for fees and costs. Default values and disclosure should be clear as to how the cost parameters are applied. Insurance premiums should also be allowed for or explained if not allowed for.
28. We are concerned with potential s29QC requirements as these may provide misleading estimates of super balances.

B1Q7 If ASIC required generic financial calculators to include a field relating to fees and costs, should we prescribe standardised fees and costs? On what basis should the fees and costs be calculated and what requirements should ASIC set?

29. Standard fees and costs should not be prescribed by ASIC. They should be set by the provider having regard to the product provisions relevant to the likely user group. Where a specific product is referenced, the fees and costs should be consistent with that product's PDS, so that the user can generate a result more relevant to their situation. Fees and costs are not an assumption. They are input data and should not be treated in the same way as investment return assumptions.

B1Q8 How has the requirement in [CO 05/1122] that the provider of a generic financial calculator must take reasonable steps to ensure that the calculator does not advertise or promote a specific financial product worked in practice?

30. There have been some issues and this requirement is a major concern.
31. For example, we consider it reasonable that the names of the investment options listed in a particular calculator should reflect those available to the user.
32. Another example is whether ancillary marketing material that is elsewhere on a fund website (eg a panel highlighting the benefits of rolling your super into the fund), can be included on the same screen as a calculator even though not part of the calculator.
33. Finally the CO is not clear whether 'specific financial product' means a class of financial product (eg account based pension) or a particular instance of a financial product (eg the XYZ Personal Super Division Account Based Pension).

B1Q9 Do you think that we should introduce a new express requirement that statutory assumptions, such as the taxation rates or the rates of compulsory superannuation contributions, must remain up to date?

34. Whilst it is important for calculators to remain up to date, it is unclear what is meant by "up to date" when many legislative changes may not have immediate impact but instead are either phased in over time or apply from a future date. SG is the most obvious example and ASIC should provide clear guidance about how and when to allow and disclose future SG increases. Another example is the phasing of the Age Pension eligibility age.
35. We consider that all legislative provisions modelled in a calculator should be updated within at most six months of a change to those provisions.
36. Any calculators should show:
    - A list of relevant legislative provisions (including legislated future changes) that have and have not been allowed for in the calculations; and
    - The date(s) at which assumptions and existing parameters (eg taper rates and thresholds) were last updated or reviewed.

B1Q10 If the proposals about the 'super estimator' referred to in paragraph 9(d) are implemented, should ASIC make any changes to the relief in relation to superannuation funds retirement benefit projections where the super estimator applies?

37. We do not support the super estimator in the manner it is currently described. The super estimator does not comply with the current class order. Weakening the class order is not the solution. It seemed to be agreed at the recent APRA and ASIC Roundtable discussions that the super estimator is quite unsuitable for Dashboards and that further consideration should be focused on Benefit Statements or PDS's.
38. Our main concern with the super estimator is that it is the wrong tool for the Dashboard.
    - ► If it seeks to be a genuine comparator, it fails because the fee assumptions are not related to the member's balance and the return assumptions are not related to the fund's asset mix.

- If it seeks to be simply an engagement tool, then it distracts from the purpose of the Dashboard; because once a member is engaged with modelling a retirement estimate they have moved on from comparing funds on the basis of fees and returns.

As retirement estimates on member statements become more prevalent, the perceived hunger for estimates evidenced in the Dashboard consumer focus groups will diminish. We are comfortable with Dashboards containing a simple link to a calculator.

B1Q11 Please give details of any additional costs associated with the implementation of our proposals. If possible, please quantify these costs.

39. We do not consider the changes proposed are likely to be overly costly to providers.
40. However, if more prescriptive measures were to be included in the Class Order, to the extent that calculators become strongly standardised, it may be that many providers will choose not use the Class Order. In that case, the costs of modifying calculators to comply with personal financial product advice laws could be considerable.

B1Q12 What benefits do you consider will result from these proposals? If possible, please quantify these benefits.

41. The benefits of the new proposals are not significant. Being able to refer to particular products (without advertising or promoting them) would have far more value. We believe that implementation of our proposals in answer to question B1Q5 will materially benefit consumers.

We would be pleased to elaborate on these points, and look forward to hearing from you on the next iteration of the Class Order.

Yours sincerely,

Andrew Boal
Chairman of Superannuation Practice Committee
Actuaries Institute

Enclosure (PDF document): Appendix
[Actuaries Institute Practice Guideline 499.02: Projected Superannuation Benefit Illustrations]

Institute of Actuaries of Australia

PRACTICE GUIDELINE 499.02

PROJECTED SUPERANNUATION BENEFIT ILLUSTRATIONS

April 2009

1. INTRODUCTION

1.1 Application

1.1.1 This Practice Guideline applies to any Member advising an employer, trustee, existing or prospective plan member or other party in relation to a Projected Superannuation Benefit Illustration.

1.1.2 This Practice Guideline relates to benefits being provided through superannuation funds, other than cases where insurance contracts (such as insurance bonds or capital guaranteed products) are used. While similar principles apply to most other investments, particularly managed fund investments, this Practice Guideline does not seek to provide specific guidance in such cases. At a later stage, this Practice Guideline may be expanded to more specifically cover such other cases.

1.2 Classification

1.2.1 This Practice Guideline has been prepared in accordance with Council's Policy for Drafting and Developing Practice Guidelines, as varied from time to time. It must be applied in the context of the Institute's Code of Professional Conduct.

1.2.2 This Practice Guideline is not mandatory.

1.2.3 Nevertheless, if the Professional Services provided by a Member are covered to any extent by this Practice Guideline, a Member should consider explaining any significant departure from this Practice Guideline to the Principal, and document such explanation.

1.3 Background

Illustrations covered by this Practice Guideline include Illustrations:

(a) of defined benefits (including defined contribution underpins and target benefit arrangements) and accumulation-based funds or products, including account-based pensions;

(b) relating to the draw-down period, when benefits are taken as account-based pensions;

(c) that will be used to compare defined benefit and defined contribution benefits;

(d) that will be issued to plan members and those not related to specific individuals (such as those provided to the press and thence used to advise or inform the general public); and

(e) provided in writing, or as the output of any form of computer software (including websites).

1.4 Purpose

The purpose of this Practice Guideline is, in cases where Projected Superannuation Benefit Illustrations are made, to guide Members in providing sufficient and appropriate information to enable the recipient to understand the benefits illustrated and to appreciate the risks involved in the arrangement.

1.5 Previous versions

This Practice Guideline replaces Guidance Note 466 (Projected Superannuation Benefit Illustrations) which was issued in October 2004.

1.6 Legislation

1.6.1 Possible implications for Illustrations arise from the Corporations Act and Corporations Regulations 2001 (Cth) as a result of financial services reforms. These include not only the content of an Illustration report, but also in relation to the possible licensing and other disclosure requirements for a Member preparing an Illustration and/or a person to whom a Member provides an Illustration and who then in turn passes on that Illustration to another individual.

1.6.2 Possible implications may also arise from section 1041H of the Corporations Act which provides that a person must not engage in conduct in relation to a financial product or financial service that is misleading or deceptive, or likely to mislead or deceive.

1.6.3 Members also need to be mindful of the underlying principles expressed in Regulatory Guide 170 (“Prospective Financial Information”) issued by the Australian

Securities and Investments Commission ("ASIC") which gives guidance on the use of prospective financial information such as financial projections.

1.6.4 In the event that there is or may be a conflict between legislative requirements and this Practice Guideline, the legislative requirements override this Practice Guideline to the extent of the inconsistency.

2. COMMENCEMENT DATE

This Practice Guideline commences on 17 April 2009.

3. DEFINITIONS

'AWE' means average weekly earnings.

'AWOTE' means average weekly ordinary time earnings.

'Code' means the Code of Professional Conduct of the Institute.

'Corporations Act' means the Corporations Act 2001 (Cth).

'Illustration' has the same meaning as Projected Superannuation Benefit Illustration.

'Institute' means The Institute of Actuaries of Australia (ABN 69 000 423 656).

'**Material**' means important or essential in the opinion of the Actuary.

'Member' has the same meaning as set out in the Code.

'Principal' has the same meaning as set out in the Code.

'Professional Services' has the same meaning as set out in the Code.

'Projected Superannuation Benefit Illustration' means any estimate of an amount that may be received by an individual at some point in the future.

4. ASSIGNMENT CLARITY

Before starting an assignment, Members are reminded to be clear about the purpose of an Illustration and the nature of any benefit promise.

5. CALCULATIONS AND ASSUMPTIONS

5.1 It is generally accepted that a Member should be satisfied that, in his or her professional opinion, Illustrations are meaningful and realistic for individual plan members at all relevant ages.

5.2 Generally, the assumptions used, or the range of assumptions allowed or recommended, should be consistent and reasonable. Common practice is that if plan members can select their own assumptions, then any assumptions outside an allowed range (or other than the default) would include a warning that these assumptions may be inconsistent with other assumptions and/or may produce Illustrations which are unreasonable. Alternatively, when assumptions are outside an allowed range, Illustrations might not be produced. Similarly, common practice is that where the actual experience could be outside the allowed range (for example, short-term negative returns) then appropriate warnings are included.

5.3 Existing assets and future contributions (if any) taken into account in an Illustration are usually measured on bases consistent with the assumptions used.

5.4 Assumptions used generally reflect the proximity of retirement. As such, if a plan member draws his or her benefit at the illustrated retirement age shortly after receiving an Illustration on the same terms, and the economic environment is substantially unchanged, he or she would receive a benefit broadly equal to the amount in the Illustration. Where satisfying this is impractical (for example, where Illustrations are required for all members of a large plan), a warning or comment is usually included.

5.5 A key requirement in the Code in providing actuarial advice and in peer review is to address any Material uncertainty implicit in the advice. General practice is that an Illustration will describe or illustrate how the result will differ if the assumptions used are not borne out. Possible approaches to illustrating volatility and assumption uncertainty include:

(a) providing multiple illustrated benefits **at retirement** with variations in the key assumptions (for example, different investment return assumptions and annuity rates);

(b) quoting the effect **at retirement** of an addition to, and a deduction from, the key assumption (for example, investment return);

(c) stochastic or historical analysis (for example, a demonstration **using scenarios** over a range of reasonably possible future investment returns); and

(d) **stochastic analysis** (for example, illustration of a 'funnel of doubt', based on a specified model, from a specified probability distribution based on a wide range of reasonably possible future investment returns).

The use of two or more Illustrations showing **deterministic year-by-year** projected benefits is generally to be avoided, unless an explanation or further information is added so that such Illustrations do not give the misleading impression that any variation from, for example, the assumed investment earning rate, will be constantly higher or lower than the assumed rate and/or always within the limits of the two or three deterministic results.

5.6 The description or illustration referred to in section 5.5 above will usually, where appropriate, include a description or illustration as to how any income benefits or their expected duration will differ if the assumptions used (including annuity purchase rates) are not borne out.

5.7 If an Illustration shows different investment returns for different investment choices, the illustration of volatility generally also illustrates or explains the relative risks and possible differences in volatility of those different investment choices.

5.8 Illustrations may be in real terms or monetary terms. For Illustrations in monetary terms, Members' attention is drawn to the guidance given in section 6.3 below and to the accepted practice of pointing out that the projected amounts will not have the same purchasing power as applies currently.

Different results may be produced in real terms by deflating results using the rate of increase in salary (be it an AWE or some other salary-based measure of inflation) rather than price inflation. For an Illustration that may be used to examine the adequacy of a benefit at retirement, it is preferable for future benefits to be deflated using a salary-based assumption in order to allow plan members to assess their relative purchasing power at retirement.

If a salary-based deflator is not used, a statement is generally made that the Illustration may overstate the plan member's income at retirement relative to other incomes (and also relative to the plan member's own pre-retirement income).

5.9 Preferred practice in respect of the use of terminology in an Illustration is that:

"Today's Dollars" refers to projected amounts which have been deflated to the calculation date using an income (for example, salary, AWE or AWOTE) based assumption. It may be characterised as the sum of a price inflation component and a component reflecting increases in community living standards;

"Future Dollars" is used for situations where there are no adjustments; and

"Deflated Dollars" is used for adjustments which include only price inflation.

The following is an example of a possible explanation of "Today's Dollars" for use with Illustrations:

> "Today's dollars" converts your future retirement benefit or income into today's relative buying power. It takes the future dollar amount and discounts (or deflates) it at the rate of salary inflation (assumed to be … pa). Wages, salaries and community living standards and the cost of living have tended to grow faster than price inflation, and converting to "today's dollars" means you can better decide if your future retirement benefit or income will be adequate compared to your current income or salary.

5.10 Administration and other non-investment fees and costs (including those expressed as a percentage of assets), as well as contributions tax charged to a plan member's account or contributions, are usually taken into account in an Illustration. Government co-contributions may or may not be taken into account, but the approach taken is generally clearly set out. Fees are usually indexed in accordance with the basis disclosed in any relevant Product Disclosure Statement ("PDS"). If fees are subject to possible future change over and above this indexation, this is usually stated.

Where the fees and costs to be allowed for have not been taken from the PDS by a Member, but have been provided to the Member by the client, common practice is for the Member to request a copy of the PDS and then check that the fees and costs to be allowed for are consistent with the PDS or that there is a valid reason for any variation. Where the fees and costs assumed in the projection are not consistent with the PDS, common practice is to disclose this circumstance.

5.11 An Illustration may translate a lump sum benefit at a future date into an income amount to be expected over the plan member's lifetime or other specified period. Where this is done, a Member will need to make assumptions about rates of mortality, mortality improvement, indexation of payments, fees and costs and the investment returns expected on assets backing an annuity liability. In doing so, a Member's attention is drawn to section 5.4 above regarding the possible need for special treatment of persons close to the retirement age used in the Illustration. In cases where commercial annuities are likely to be used to provide the income stream, accepted practice for converting lump sums to income amounts is to use factors consistent with current commercial annuity rates. Where conversion of lump sums to income amounts is available under the plan rules on a guaranteed basis, this basis may be adopted and, if so, usual practice is to clearly set this out.

5.12 When communicating the assumptions to a client, the usual practice is to point out that, while the assumptions are considered reasonable for the purpose of the

Illustration at the then present time, the assumptions will need to be reviewed at the time any further Illustrations are prepared. Usual practice is also to state that an Illustration prepared more than (say) three years ago should not be used for any purpose without having the assumptions reviewed.

6. OTHER ISSUES

6.1 It is always preferable that an Illustration is presented to the ultimate recipient in a clear, complete and balanced way. For example, an Illustration which includes a number of columns of figures may be made clearer by explaining the relationship between figures in various columns (perhaps by use of an example).

6.2 An Illustration generally contains a statement of all Material assumptions. The statement usually explains how allowance has been made for:

(a) investment fees and costs and any investment tax; and

(b) if potentially applicable, benefit tax and/or Government co-contributions.

6.3 Accepted practice is that sufficient information is provided to allow the ultimate recipient of an Illustration to relate the benefits shown to his or her current income. An Illustrated benefit may be:

(a) a monetary amount (but see section 5.8 above);

(b) in real terms (as discussed in section 5.8 above); or

(c) a percentage or multiple of projected salary.

6.4 An Illustration will generally make clear what death and disablement benefits (if any) and what level of increases in pension payments (if any) have been allowed for in the calculation of the illustrated benefits.

6.5 In addition to providing basic information, the usual practice is for an Illustration and/or accompanying explanatory notes to make clear:

(a) which of the plan member's funds have been included in the illustrated benefits (for example, whether the projection includes additional voluntary contributions);

(b) what level of future contributions has been assumed (including increases to future contributions and Government co-contributions);

(c) whether any adjustment has been made to future contributions (for example, to cover the cost of insured death and disablement benefits);

(d) if any asset values used are not market values and, if so, why those values have been used; and

(e) what levels of administration fees and other non-investment costs charged to a plan member's account or contributions have been allowed for (and the basis on which these fees and costs have been assumed to increase in future years).

6.6 Where an Illustration of benefits at retirement age expresses the benefit as an income amount (annual or otherwise), it is desirable that such an Illustration includes an estimate of the social security pension which would be available. (Where an estimate of the social security pension is not included in an Illustration of expected retirement income, it is desirable that this be stated.) Where an income estimate includes an estimate of the social security pension, an Illustration would usually show the split between the projected superannuation and social security income. Generally the basis of any social security estimate would be described. A number of assumptions need to be made to make such an estimate. Except perhaps for an individual case or for a very small plan, it is unlikely anything will be known about the person's circumstances in respect of some of the following, and the assumptions made would be described.

(a) **Social security rules used:** Generally it would be stated the estimate assumes the social security pension rules will remain the same as those currently applying.

(b) **Australian residential requirements:** To qualify for the Age Pension currently requires a minimum period of residence in Australia or other recognised alternatives. A statement that the estimate assumes the person is a long term Australian resident would generally be made.

(c) **Marital status:** Currently the pension entitlement varies according to whether the person is regarded as single or as a partner of a couple for social security purposes. Note that even where the person's current status is known, this could change before the Illustrated retirement benefit becomes payable. So some estimates may assume each person is a partner of a couple at retirement. Others may assume the person's current status, if known, remains applicable at retirement.

(d) **Assets or income affecting social security entitlement:** Generally the estimate would allow for the effect of the superannuation benefit covered by the Illustration, and this would be stated. If allowance for any other assets or income is made this would also be stated.

6.7 Income draw-down Illustrations generally include an outline of the effect of mortality/longevity and state whether or not social security pensions have been included (and, if so, show the split between the projected superannuation and social security income and describe how allowance has been made for means-testing). Such Illustrations would also generally explain the treatment of any minimum and maximum limits on the rate of draw-down.

6.8 Spurious accuracy should be avoided so that, for most Illustrations, illustrated benefits calculated to 3 or 4 significant figures are considered adequate.

6.9 Standard practice is for an Illustration to:

(a) include appropriate risk warnings and advise the ultimate recipient to obtain regular updates of the Illustration;

(b) disclose the date to which the benefit is projected (for example, the plan member's 65th birthday, or 30 June in the year following the plan member's 65th birthday); and

(c) state who the projection has been prepared by and for whom, as well as the purpose for which the projection has been prepared.

7. COMPARISON OF DEFINED BENEFIT AND DEFINED CONTRIBUTION BENEFITS

7.1 Particular care should be taken in preparing an Illustration which will be used to compare defined benefits and benefits from defined contributions, since it is possible that a plan member will make an irrevocable choice of a future benefit arrangement based on such an Illustration.

7.2 Members should be alert to the possible conflict between the provision of unbiased advice to plan members and the objectives of the employer in relation to such a comparison.

7.3 Given a comparable level of expected contributions, the essence of a choice between defined benefit and defined contribution is the relative risk borne by the employer and the employee. Common practice is to ensure that the plan member is provided with sufficient information to understand this risk. In some cases, the option to retain defined benefits will be restricted to past service benefits or, for other reasons, the expected level of future contributions will not be comparable. In such cases, it is usual for an Illustration to be appropriately modified.

7.4 An Illustration prepared for the purpose described in section 7.1 above might show separately the illustrated benefits from existing assets and the illustrated benefits from future contributions, if any, so the recipient can compare both current accrued benefits and ultimate retirement benefits assuming service continues to the illustrated retirement age.

7.5 General practice in providing an Illustration is to ensure that:

(a) the plan member's attention is drawn to all facets of the offer, including the possible advantages and disadvantages of making the change; and

(b) the information given to the plan member covers any effect of the change on other benefits such as death, disablement and retrenchment benefits.

7.6 Generally, the assumptions used to project the defined benefit and defined contribution benefits should be consistent.

8. CHECKLIST

The following checklist is provided for assistance only and may not be exhaustive. A Member should consider what is appropriate in the particular circumstances and use his or her own judgment as to an Illustration and what to include in a report of an Illustration.

8.1 Identification

- Purpose of Illustration
- Who Illustration is prepared by and for whom
- Date Illustration is provided (or developed)
- Name and qualifications of the Member preparing the Illustration

8.2 Assumptions

- Appropriateness
- Consistency
- Meaningful and realistic at all relevant ages
- Reflect the proximity of retirement
- Whether salary or price deflation used (if applicable)
- Administration and other non-investment fees and costs and indexation

- Investment fees and costs and investment tax
- Cost of insured death and disablement benefits (if applicable)
- Contributions tax
- Disclosure of all significant assumptions

8.3 Information

- Investment choices and risks
- PDS fees and costs
- Death and disablement benefits
- Pension increases
- Plan member's funds included
- Contributions and contribution increases
- Government co-contribution
- Benefit tax
- Non-market valued assets
- Date to which projected

8.4 Results

- Real or monetary terms (or a percentage or multiple of projected salary)
- Translation into income stream (if applicable)
- Split/interaction with social security pension (if applicable)
- Demonstration of potential volatility
- Limitations and warnings
- 3 or 4 significant figures

8.5 Defined Benefit to Defined Contribution comparisons

- Unbiased
- Risks explained
- Advantages and disadvantages explained
- Other benefits (for example death, disablement, retrenchment)
- Consistent assumptions

8.6 Legislation

- ASIC's Regulatory Guide 170 ("Prospective Financial Information")
- Corporations legislation (disclosure and licensing)
- Section 1041H of the Corporations Act
- Statements required under licensing and other external standards or legislation (if applicable)

8.7 Reporting

- Clear, complete and balanced presentation of Illustration
- Highlight the need for regular review/updating of Illustration
- Statement of consistency with this Practice Guideline and relevant law (if appropriate)

END OF PRACTICE GUIDELINE 499.02