



31 March 2015

Senior Adviser  
Financial System and Services Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Email: [fsi@treasury.gov.au](mailto:fsi@treasury.gov.au)

Dear Sir,

## Financial System Inquiry (FSI) Final Report

The Actuaries Institute wishes to make this submission in response to recommendation 37 of the FSI Final Report which reads:

### Superannuation member engagement

*Publish retirement income projections on member statements from defined contribution superannuation schemes using Australian Securities and Investments Commission (ASIC) regulatory guidance.*

*Facilitate access to consolidated superannuation information from the Australian Taxation Office to use with ASIC's and superannuation funds' retirement income projection calculators.*

The Institute wishes to express qualified support for mandatory retirement income projections on member statements for the following reasons:

- There are valuable benefits to be gained from projecting retirement incomes on superannuation statements. These include:
  - Improved member engagement with their superannuation fund
  - The means to represent retirement savings as an income which members can relate to
  - The ability to use a standard comparator (e.g. ASFA standard, replacement ratio) to assist with understanding adequacy
  - Driving positive action on retirement savings

A more educated and engaged superannuation membership will be more likely to take steps to meet their own retirement needs, by evaluating contribution levels, consolidating accounts, assessing the value for money offered by their fund and seeking financial advice.

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- We have concerns with the existing ASIC guidance in relation to benefit projections. The Class Order 11/1227 generates misleading estimates in a lot of circumstances, such as:
  - Members with large irregular contributions
  - Where the fees or insurance premiums applicable have changed
  - Members invested in conservative investment strategies
  - Members who have recently joined retained benefit categories
  - Not allowing for the phased-increase in SG rates
  - Where the last year's cashflows include any amounts in respect of prior periods (e.g. excess contributions tax)

The ASIC guidance is also inadequate for some member's needs in that:

- The superannuation plus age pension income estimate is only related to the first year in retirement
- It can only be issued with a periodic statement
- It does not permit funds to illustrate alternative scenarios such as different effective dates, retirement ages, contributions or insured benefits
- It does not allow for any indication of uncertainty around the estimate

The shortcomings of the current standard could be avoided by applying a principles-based (rather than prescriptive) approach that requires compliance with the principles of an industry-based standard such as actuarial Practice Guideline 499.02 or equivalent, and be signed off by an appropriately qualified professional. Illustrations that comply with the standard should not be deemed personal financial advice. This suggestion would leave the current prescriptive approach in place (though on a mandatory basis) but permit an alternative, consistent and signed-off principles-based approach as an alternative. This added flexibility would also allow benefit projections to be performed for defined benefit members.

The Institute expresses support for allowing retirement calculators to access consolidated balances so as to provide more complete retirement projections statements to members. We see the following issues as needing to be negotiated before this could happen:

- The privacy and security of the data
- The currency of the data (is it up to date?)
- The description of the other accounts (itemised by fund, or not identified)
- The assumptions required for projected amounts in other funds (e.g. fees, investment returns)
- Extending data input to include annual consolidated contributions.

We would be pleased to provide further details and to assist in the development of retirement projection standards etc.



### The Actuaries Institute

The Actuaries Institute is the sole professional body for actuaries in Australia. It represents the interests of over 4,100 members, including more than 2,200 actuaries. Our members have had significant involvement in the superannuation industry and the development of superannuation regulation, reporting and disclosure, interpreting financial statistics, risk management and related practices in Australia for many years.

Please do not hesitate to contact the Chief Executive Officer of the Actuaries Institute, David Bell (phone 02 9239 6106 or email [david.bell@actuaries.asn.au](mailto:david.bell@actuaries.asn.au)) to discuss any aspect of this submission.

Yours sincerely



Estelle Pearson  
President