Financial Services Forum
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Actuaries Institute

SYNOPSIS

GOOD PRACTICE PRINCIPLES FOR MODELLING RETIREMENT
Superannuation Projections & Disclosures Committee

Key words: retirement, risk, good practice principles, superannuation projections, investment, financial planning, age pension, modelling, communication

Purpose of your paper: To propose a set of good practice principles for the industry to consider when modelling retirement in Australia.

Synopsis: Where a household has very large retirement assets they can have it all. Those with small retirement assets will have to rely on the Age Pension. But those in the middle have to make choices, often involving complex cashflow shapes and significant uncertainty. The role of retirement models is to make sense of the decisions households face and to help people make informed choices.

For retirement models to achieve this they need to be relevant, easy enough to digest, and give people total confidence that the complexity and assumptions 'under the bonnet' are accurate, fit-for-purpose and can be trusted.

In this paper we look at retirement through the eyes of the consumer. What decisions must they make? How do they frame the trade-offs they must make such as risk versus reward, and short-term versus long-term cashflow?

We consider what a retirement model needs to deal with in order to assist properly and we set out a set of good practice principles for professionals who build retirement models to refer to, along with examples. The paper also considers how an actuarial control cycle approach can assist a retired household to make the most of their retirement assets in light of investment experience and evolving health status.

The principles will consider both the technical specification of the model and, just as importantly, what concepts need to be presented to users given the nature of modern retirement in Australia. The principles address issues such as aligning the complexity of the model with the user's key decisions, quantifying uncertainty, allowing for a spouse and non-superannuation assets, modelling fees, modelling longevity risk, modelling post retirement, including the Age Pension and other sources of income, modelling tax, dealing with risk preferences and comparing scenarios.

This paper draws on the work of the Superannuation Projections & Disclosures Sub-Committee as well as UK research on how to best communicate financial concepts to consumers.