

Super Policy Forum - *Super in the New World*

Superannuation Projections
and Disclosure Committee

Agenda

- SPD terms of reference
- SPD policy goals
- Key projects
- Benefit projections
- Superannuation disclosure
- Discussion

Terms of reference

The overall goals of the Superannuation Projections and Disclosure Sub-Committee are to:

- Position the actuarial profession to be thought leaders in disclosure and advice issues (especially relating to benefit projections and disclosure of fees, costs and investment performance) for superannuation.
- Provide support for actuaries practicing in this area (via professional standards, practice guidelines or discussion/information notes as deemed appropriate).

Policy goals

- Promote and facilitate the introduction of a requirement for benefit projections to be provided to members annually.
- Support the Institute goal that, for adequacy purposes, retirement forecasts and projection calculators should include allowance for the age pension.
- Promote the standardisation of key assumptions and terminology (especially in relation to today's dollars).
- Allow provider generated projections ("standardised assumption" projections) without a statement of advice.
- Promote the Australian Government Actuary taking a major role in the setting of standardised assumptions.
- Allow stochastic projections to illustrate risk / ranges of outcomes without the need for a statement of advice.
- To have projections of administration fees and costs included in PDSs
- To promote standardised superannuation disclosure that enables fair comparison of fees, costs, investment performance, insurance and projections.

Current members

- Bill Buttler Melbourne (Convenor)
- Jackie Downham Sydney
- Colin Grenfell Melbourne (Secretary)
- Glenn Langton Sydney
- David Orford Melbourne
- Richard Starkey Melbourne
- Raymond Stevens Melbourne
- Brnic Van Wyk Brisbane
- Simone Thompson Sydney (Institute liaison)

Key projects

- Benefit projections:
 - Class order 11 / 1227
 - Inclusion of Age pension
 - Template for statements
- Stronger Super disclosure
 - MySuper fee comparisons
 - MySuper investment performance
- Superannuation investment disclosure:
 - Calculation of investment returns
 - Disclosure of investment risk

Benefit projections

Class Order 11 / 1227 and Regulatory Guide 229

Inclusion of Age pension in benefit projections

Benefit projection templates

Class Order 11 /1227

- Issued December 2011
- Benefit estimates can be issued without AFSL
- Must be included with periodic statement
- Prescriptive method
- No alternative scenarios
- Prescriptive disclosure
- No allowance for age pension

RG 229 sets out how trustees must present and calculate retirement estimates to rely on the relief in CO 11/1227

Class Order implementation

Data problems with CO include:

- One-off contributions
- Investment strategy
- Known fee changes
- Known membership changes

Problems with standard wording

Other problems

Refer to AI submission to ASIC dated 20 April 2012 for full details

Class Order solution

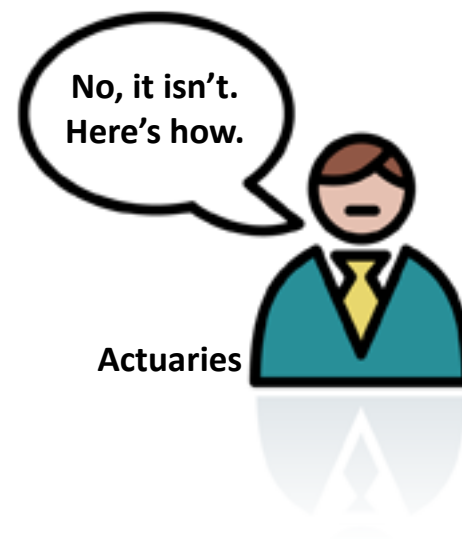
Partial solution – some variations allowed

- Variations must provide a better outcome for members
- Variations must be disclosed
- Full details in AI communication of 13 December 2012
- The issue of age pension inclusion was raised, but not resolved

Refer to AI communication of 13 December 2012

Inclusion of Age Pension

- Age pension is significant
- Ignoring this makes projections misleading
- ASFA and AI - joint submission to ASIC in 2010 – look up table
 - Projected super income
 - Corresponding age pension
 - Corresponding combined income
- Assumptions for age pension, e.g.:
 - Member has partner same age and super
 - Homeowner - no other assets/income counting under means test
- Look-up table to be owned by AGA



Projection templates

Your Projected Retirement Benefits

This statement is a guide to the amount of benefit that you *might* get when you retire.

Please read all of this statement. The notes on the next page explain more about the way your future benefits have been calculated and what will impact on how much your final benefit will be.

About you – John Citizen

Fund:	BC Superannuation Fund	Total employer and salary sacrifice contributions in 2011/12:	\$4,500
Member Number:	777777	Total post-tax contributions in 2011/12	\$500
Employer:	Big Company	Total Govt. co-contribution in 2011/12	\$124
Date of Birth:	2 March 1952	Total account balances at 30 June 2012	\$79,000

Your Projected Retirement Income

Based on the stated assumptions, your lump sum at age 65, on 2 March 2017, is projected to be \$111,000 (in today's dollars). You can use your super lump sum to receive an income in retirement (e.g. from a pension or annuity).

The table below shows your projected retirement income (in today's dollars) if you used your entire lump sum at age 65 to purchase a 25 year fixed term super pension.

	Monthly
A. Super Pension income (from this super)	\$523.33
B. Age Pension (for you only) <i>(assuming this super is your only income and asset)</i>	\$1,233.92
Total retirement income (Super + Age pension)	\$1,757.25

Do you have more than one super fund?

You may receive a similar statement from your other super funds. Care should be taken when combining your total retirement income from multiple funds. Remember – you are only eligible to receive one Age Pension.

Can I boost my super?

BC Superannuation Fund has a website calculator which will allow you to examine the impact of making extra contributions; and alternative scenarios for investment return and other assumptions. You can visit www.bcsuperfund.com.au/calculator

Like to know more / Any questions?

The next page has further information about how your benefit is calculated - but if you want to know more about the way your projected benefit has been worked out you can go to www.urif.gov.au or speak to your financial adviser.

There are no guarantees !!!

This illustration of your projected retirement benefit is not a promise or guarantee that when you retire you will receive the amount of benefit shown here. This is because the illustration is based on your balance as at 30 June 2012 and future contributions and depends on a number of assumptions (see next page).

In particular the Age Pension amount is only an estimate and may be reduced if you have other income (e.g. from another super fund) or other assets

We have had to make assumptions

In estimating your benefits we have used various assumptions in our calculations that may not be borne out in practice. Also rules about tax, super and the age pension may change in the future. More information about assumptions used to prepare this illustration can be found at www.urif.gov.au.

Today's Dollars

This illustration shows you the amount of benefits that might be payable when you retire, in "today's dollars". "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 4.0% pa). Wages, salaries and community living standards 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 standard of living.

Other Income

Depending on your personal financial position at retirement, you may potentially have access to other sources of retirement income. These may include:

- Membership of one or more other account-based superannuation funds. You may receive a similar Projected Retirement Benefit statement from each such fund;
- Membership of a fund that defines benefits as a multiple of salary at or near retirement (a "defined-benefit" fund);
- Membership of a SMSF (Self-Managed Superannuation Fund);
- Income from non-superannuation investments (e.g. a share portfolio, term deposit or property investment);
- Other Social Security benefits;
- If you have a partner, your partner may be eligible to receive the Age Pension and Superannuation benefits (your partner's benefits are not shown on this statement).

Super Pension

Among other things, your final benefit will depend on:

- The actual contributions made – we have assumed that your annual employer contribution will be \$4,500, your annual personal post tax contribution will be \$500 and your annual Government co-contribution will be \$124, each growing by 4.0% a year in the future (due to salary inflation).
- The way your own fund is invested, and the investment return it achieves – we have assumed that your super fund is invested in a way that until age 65 will achieve an average investment return of 7.0% pa net of tax and investment fees and costs. This will not, in practice, reflect what actually happens between now and when you retire.
- Fees and costs – we have allowed for administration fees and costs of 0.5% pa of your account balance plus \$120 pa growing by 4% each year (and the assumed investment return is net of investment fees and costs). Your actual fees and costs may differ in the future.
- Death and disablement insurance – we have assumed the annual cost of your death and disablement insurance is \$100 increasing, until age 65, in line with your salary.
- Tax – we have allowed for 15% contributions tax (and, the assumed investment return until age 65 is net of investment tax).
- Whether you have super in other funds – we have not allowed for amounts in other funds.
- Whether you change your hours, take parental leave or have other broken periods of employment.
- If you have any benefit splitting arrangements or any payment flags under Family Law Legislation that had not been processed at the date of this correspondence.
- Whether you roll over your lump sum to a pension and the type of pension you choose – we have assumed that you will choose a pension payable for a fixed term of 25 years. We have assumed that the amount paid in your first year of retirement will be 5.66% of your initial balance and each year afterwards you will receive the same amount increased by salary inflation. Withdrawing your super in this way means your super is expected to last until age 90. More details about this calculation can be found at www.urif.gov.au.

Age Pension

We have assumed that you satisfy the Australian residency requirements to qualify for the Age Pension and that all current eligibility rules remain unchanged. At 1 July 2012 the maximum Age Pension including the Pension Supplement is \$1,233.92 per month each if you have a partner and \$1,436.92 per month for singles. Eligibility is subject to asset and income tests and the pension is payable fortnightly. We have assumed that at age 65 you will own your home and have no assets or income affecting your Age Pension, other than your BC Superannuation Fund retirement benefit. It is assumed this benefit will be used to purchase a fixed term pension payable for 25 years. **Based on this, we have estimated your Age Pension, allowing for a possible reduction due to the assets test or income test applying because of your super.**

We have also assumed that you will receive the couple rate of Age Pension and that your partner has the same super balance as you – but their Pension income is not shown. Your actual Age Pension may be different from what we have estimated; it will depend on your relationship status, your assets and income and that of your partner if you have one.

You should seek professional financial advice if you wish to obtain a comprehensive estimate of your overall financial position at retirement.

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\$523.33 per month

When you retire you may also be eligible for the Age Pension. If you are eligible, your projected Age Pension entitlement at age 65 (in today's dollars) would be \$1,233.92 per month. This pension would be paid as well as your superannuation pension and is based on the assumptions set out on the next page.

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Class Order review

ASIC reviewing Class Order at present:

- Scope covers the above, plus age pension inclusion
- Want to get an idea of usage - survey
- If indications imply scant usage, the review might not continue
- This would remove a cheap option for smaller funds to provide useful projections without an AFSL

Other projection options

- Factual information? General advice?
- Statement of advice with fact find through planner
- Doppelganger statement
- Scaled advice, intra-fund advice

Next steps on projections

- Survey re CO
- Liaise with ASIC
- Explore scaled advice options

Superannuation disclosure

Product Dashboard
APRA reporting standards
MySuper “League tables”
Investment return calculations

Product Dashboard

- 1017BA(2) and (3) of Corporations Act 2011
- Methodology set by APRA
- For each investment option of a choice product or a MySuper product
 - Investment return target – APRA proposing % above AWOTE over 10 and 20 years
 - Number of times target met in the last 10 financial years
 - Level of investment risk – APRA proposing number of negative net investment returns over 10 and 20
 - Statement of liquidity – APRA proposing % of assets that can be redeemed in 30 days without changing the value of the asset.
 - Average amount of investment plus administration fees during last quarter expressed as % of assets
- MySuper products – 1 July, 2013, Choice products – 1 July 2014 18

APRA Reporting Standards

- APRA discussion paper and draft forms released September 2012
- Submissions closed 16 November 2012
- Key proposed reporting requirements:
 - collecting material data for RSE licensee, each RSE and for sub-funds, MySuper products and choice investment options;
 - expanded information about investments, including look-through of investment asset allocation and costs;
 - MySuper and select choice option investment returns;
 - expanded information relating to DB funds and sub-funds.
- Institute met with APRA in November to discuss prior to making submission
- Final reporting standards and forms expected March 2013
- First reporting from 1 July 2013

Investment Return Target

- Net investment return over AWOTE over 10 and 20 years
- Issues:
 - Confusion with Net Return which APRA (and ASIC) are interpreting as net of investment and administration fees
 - Differentiating between two time horizons
 - Conflict with actual investment objectives if based on CPI
 - Member understanding of AWOTE v CPI

Investment Risk

- Estimated number of negative annual returns over 10 and 20 years
- Joint FSC/ASFA working group – Standard Risk Measure
- Investment options labelled

Risk Band	Risk Label	Estimated number of negative annual returns over any 20 year period
1	Very Low	Less than 0.5
2	Low	0.5 to less than 1
3	Low to medium	1 to less than 2
4	Medium	2 to less than 3
5	Medium to high	3 to less than 4
6	High	4 to less than 6
7	Very high	6 or Greater

- Institute critical of this as risk measure. Labels may mislead

APRA Reporting – Net Investment Return

- Investment returns (net of investment fees and taxes) over 1, 3, 5 and 10 years as at 30 June (regardless of year of income)
- Time weighted return
- Investment fees and taxes added back to get gross returns
- Investment fees and taxes on look through basis (to provide transparency of investment fees/taxes through layers of investment vehicles)

APRA Reporting - Net Return

- Net Return = Net Investment Return less average administration fees
- Will be reported by APRA and compared between funds
- Fees for Dashboard will be sum of investment and administration fees
- Institute does not support either of these.
 - Comparing average administration fees provides no real basis for comparing fund's cost of administration. Will vary by:
 - Size of fund
 - Level of contribution flow
 - Number of members
 - Comparing Net Returns provides no real basis for comparing funds.
 - Only Net Investment Returns should be considered when reviewing investment performance.
 - Administration fees should have regard to the services provided and the quality and efficiency of those services.

Institute Submission

- Submission dated 19 Nov 2012.
- Crucial issues
 - “Fees” must include total costs, not just those charged to members’ accounts
 - Net investment return target over CPI should be allowed
 - Net Return should be removed as focus should be on Net Investment Return
 - Reported fees should only include administration fees and costs and should be an average per member not % of assets
 - Crediting Rates are different to Net Investment Returns

APRA Reporting – League Tables

- S. 348A of SIS Act
 - As soon as practicable after the end of each quarter, the Regulator must publish the following information on its website in respect of the quarter:
 - a) the fees charged in relation to MySuper products, on a product by product basis;
 - b) the costs incurred in relation to MySuper products, on a product by product basis;
 - c) the net returns to beneficiaries of regulated superannuation funds who hold MySuper products, on a product by product basis;
 - d) any other information prescribed by the regulations.

Institute Submission: Fees/Costs “League tables”

ADMINISTRATION FEES AND COSTS

The two tables below provide information about the administration fees and costs charged by superannuation funds and the effect of these on members' benefits. Both of the tables exclude all fees and costs relating to investment. They also exclude insurance premiums and advice fees. The tables assume zero initial fund balances. If a member has an existing superannuation balance, then the tables do not indicate the full effect of administration fees and costs on the member's overall superannuation benefits.

Annual Contribution \$5,000						
If your annual contribution exceeds \$7,500, see the blue table below						
	Index (note 3)		Effect of Fees and Costs (in today's dollars)		Rank	
	Membership		Membership		Membership	
	40 years (note 1)	10 years (note 2)	40 years (note 1)	10 years (note 2)	40 years (note 1)	10 years (note 2)
Fund 05	98.8	99.0	-\$3,861	-\$515	1	1
Fund 14	98.7	98.7	-\$4,093	-\$635	2	3
Fund 09	98.5	98.5	-\$4,750	-\$737	3	4
Fund 10	98.0	98.0	-\$6,333	-\$983	4	6
Fund 26	97.6	98.8	-\$7,584	-\$595	5	2
Fund 11	97.5	97.5	-\$7,917	-\$1,229	6	9
Fund 23	97.1	97.1	-\$9,238	-\$1,434	7	13
Fund 01	97.0	97.0	-\$9,374	-\$1,455	8	14
Fund 04	97.0	97.0	-\$9,500	-\$1,475	9	15
Fund 17	96.5	96.5	-\$11,084	-\$1,721	10	17
Fund 08	96.0	96.0	-\$12,667	-\$1,966	11	18
Fund 20	95.4	98.4	-\$14,565	-\$797	12	5
Fund 19	95.0	95.0	-\$15,834	-\$2,458	13	20
Fund 22	94.5	96.6	-\$17,387	-\$1,692	14	16
Fund 27	94.0	94.0	-\$19,000	-\$2,949	15	24
Fund 18	94.0	95.6	-\$19,126	-\$2,140	16	19
Fund 16	93.0	97.6	-\$22,136	-\$1,166	17	7
Fund 13	92.7	97.2	-\$22,998	-\$1,388	18	10
Fund 25	92.6	97.5	-\$23,299	-\$1,225	19	8
Fund 03	90.1	91.6	-\$31,292	-\$4,139	20	27
Fund 06	89.2	95.0	-\$34,071	-\$2,459	21	21
Fund 12	87.9	97.1	-\$38,440	-\$1,429	22	12
Fund 02	87.7	97.1	-\$38,975	-\$1,420	23	11
Fund 07	85.2	94.7	-\$46,832	-\$2,601	24	22
Fund 24	84.8	94.2	-\$48,054	-\$2,840	25	23
Fund 15	83.5	93.7	-\$52,409	-\$3,081	26	25
Fund 21	77.9	92.7	-\$69,852	-\$3,586	27	26

Please note:

- 1 This membership has been used to sort the above table (because 40 years is closer to the total potential membership of most people).
- 2 This membership has been included to illustrate how rankings may depend on the period of fund membership. Each fund's PDS shows the effect of fees and costs for periods of 2, 5, 10, 20 and 40 years.
- 3 The index provides a measure of how administration fees and costs effect members' benefits. The smaller the index the greater the effect on benefits. A fund where members incur no fees or costs (e.g. because they are paid by the employer) would have an index of 100.

ADMINISTRATION FEES AND COSTS

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Fees/Costs “League tables”

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- Stress fees and **costs** to ensure hidden costs are included.
- Index is projected benefit as % of projected benefit without fees.
- Advantages of Index approach
 - Shows combined impact of different types of fees
 - Rank similar regardless of duration
- Ranked on Index for 40 years.
- Included \$ cost in today's dollars to show impact of fees/costs
- Also prepared table for contribution of \$10,000.

Institute Submission: Investment “League tables”

Fund	Net Investment return												Current investment fees & costs
	Last 4 years (1/7/07 to 30/6/11)			Previous 4 years (1/7/03 to 30/6/07)			First 4 years (1/7/00 to 30/6/04)			12 years (1/7/89 to 30/6/11)			
	Number of funds: 103			Number of funds: 71			Number of funds: 57			Number of funds: 57			
	Net investment return pa	Rank	Quartile	Net investment return pa	Rank	Quartile	Net investment return pa	Rank	Quartile	Net investment return pa	Rank	Quartile	
	(Note 1)	(Note 2)	(Note 3)	(Note 1)	(Note 2)	(Note 3)	(Note 1)	(Note 2)	(Note 3)	(Note 1)	(Note 2)	(Note 3)	
Fund A	3.7%	(5)	Q1									0.45%	
Fund A1	-4.0%	(3)	Q1	8.2%	(13)	Q1						0.56%	
Fund A2	-0.4%	(91)	Q4	10.1%	(11)	Q1	1.0%	(31)	Q1	-4.2%	(33)	Q3	0.17%
Fund A3	-4.0%	(3)	Q1	8.2%	(14)	Q4	1.7%	(47)	Q4	-4.0%	(40)	Q3	0.62%
Fund B	1.40%	(52)	Q3	10.5%	(2)	Q1	4.4%	(15)	Q2	5.4%	(12)	Q1	0.37%
Fund B1	-1.2%	(97)	Q4	8.7%	(41)	Q3	1.0%	(51)	Q4	2.7%	(50)	Q4	0.22%
Fund B2	-1.2%	(97)	Q4	8.7%	(41)	Q3	1.0%	(51)	Q4	2.7%	(50)	Q4	0.62%
Fund B3	-0.2%	(90)	Q4	7.0%	(54)	Q4						0.22%	
Fund C	0.7%	(72)	Q3	8.1%	(53)	Q3	0.8%	(53)	Q4	3.1%	(46)	Q4	0.68%

- Net investment return calculated at 30 June
- Reported for 3 contiguous 4 year periods
- Advantages
 - Show real trends in relative performance
 - Trends not dominated by latest return
- Show rank to show relative position
- Show quartile to show trends
- Include investment fees and costs

Net Investment return

Fund

Fund	Net Investment return												Current investment fees & costs
	Last 4 years (1/1/07 to 30/6/11)			Previous 4 years (1/1/03 to 30/6/07)			First 4 years (1/1/99 to 30/6/03)			12 years (1/1/89 to 30/6/11)			
	Number of funds 103			Number of funds 71			Number of funds 57			Number of funds 57			
	Net investment return pa	Rank	Quartile	Net investment return pa	Rank	Quartile	Net investment return pa	Rank	Quartile	Net investment return pa	Rank	Quartile	
	(Note 1)	(Note 2)	(Note 3)	(Note 1)	(Note 2)	(Note 3)	(Note 1)	(Note 2)	(Note 3)	(Note 1)	(Note 2)	(Note 3)	
Fund A	2.7%	(6)	Q1									0.45%	
Fund A1	4.0%	(3)	Q1	0.2%	(2)	Q1						0.58%	
Fund A2	-0.4%	(91)	Q4	10.1%	(1)	Q1	3.0%	(3)	Q3	4.2%	(3)	Q3	0.37%
Fund A3	4.0%	(3)	Q1	0.2%	(2)	Q4	1.7%	(47)	Q4	4.0%	(4)	Q3	0.62%
Fund B	1.43%	(52)	Q3	10.5%	(2)	Q1	4.4%	(2)	Q3	1.4%	(1)	Q1	0.37%
Fund B1	-1.3%	(97)	Q4	0.7%	(4)	Q3	1.0%	(5)	Q4	1.7%	(5)	Q4	0.32%
Fund B2	-1.3%	(97)	Q4	0.7%	(4)	Q3	1.0%	(5)	Q4	1.7%	(5)	Q4	0.62%
Fund B3	-0.2%	(90)	Q4	7.0%	(4)	Q4						0.32%	
Fund C	0.7%	(7)	Q3	0.1%	(5)	Q3	0.0%	(5)	Q4	1.1%	(4)	Q4	0.68%

Investment return calculations

- Information Note – Investment Return Calculation Principles – April 2012
- Objective to ensure fair comparison between funds and options
- Specifically for reporting to members
 - Principle 1 – time weighted
 - Principle 2 – for periods 1 July to 30 June
 - Principle 3 – market values
 - Principle 4 – investment earnings (realised and unrealised) during period
 - Principle 5 – net of all investment taxes
 - Principle 6 – net of all investment fees/costs
- Feedback has been received. Any further feedback welcome

Reporting Issues for 2013

- Expanded methods of disclosing investment risk
- Methods of explaining risks associated with projections.

Discussion

