Investment & Financial Services Association Ltd
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20 November 2006

The Secretary
Parliamentary Joint Committee on
Corporations and Financial Services
Suite SG.64
Parliament House
CANBERRA ACT 2600

Dear Mr Sullivan

Supplementary Submission to the Parliamentary Joint Committee Inquiry into the structure and operation of the superannuation industry (Inquiry) - Calculators

Further to the IFSA submission of 29 September 2006, we wish to make the following supplementary submission to item 15.5 of the IFSA submission which deals with the role of calculators in assisting consumers.

The IFSA recommendation called for an exemption from the personal advice requirements of the law for licensed financial services providers in respect of financial calculators including investment risk and insurance risk profilers ('**calculators**') to the extent that they complied with industry standards. Attached to this submission is a draft industry Guidance Note entitled **Calculators - Best Practice Guidelines** that have been developed by IFSA members and which address the issues identified by ASIC as critical to the development of useful and reliable calculators.

IFSA has been working with member companies over the last year to develop a best practice guide for providers of calculators. The Guidance Note is a result of that consultation process and follows feedback to IFSA's Discussion Paper *'The role of calculators in educating investors'* (March 2006).

Background

Industry acknowledges the need for greater consistency in the standard of calculators made available to consumers. The preparation of the IFSA Guidelines followed the review by ASIC of online superannuation calculators in 2005. As part of its review, ASIC put the same key facts into 24 different calculators and were concerned about the variances in the dollar estimates they received. As a result ASIC concluded that there were three factors which are critical to developing useful and reliable calculators:

- Reasonableness of assumptions
- Adequacy of explanations about the limitations of the calculator
- Providing results in today's dollars (allowing the user to see a result which takes inflation into account).

These matters have been addressed in the Guidance Note.

The Guidance Note

This Guidance Note details how certain assumptions might be approached in a reasonably consistent way to minimise variances in results seen by any one user inputting the same data into different calculators. While this Guidance Note does not seek to prescribe the specific assumptions used, it does outline what might be considered a reasonable basis for, or approach in relation to, the assumptions. It also provides guidance for disclosure through the Technical Guide and the use of flags so the assumptions used are clearly explained to users and any differences can be understood by the user.

It is believed by many in the industry that users of calculators too often accept the default figures given within calculators, without question. This is a particular concern when it comes to the rates of return used within calculators, as this behaviour may lead the user to consider the rate given as a 'promise of benefit'.

The rate of return that a user will actually experience if they invest in any given vehicle or product will be determined not only by their behaviour and the investment strategy they chose, but a range of other macro and micro-economic factors which the provider of the calculator, the broader industry or the regulator is unable to foresee. These include investment returns, rates of inflation, interest rates and any change in personal circumstances.

It is, therefore, important that the user be asked to consider the rate of return, either by stopping the user from progressing further through the calculator without acknowledging that the figure is not a promise of benefit, or by asking the user to input their own figure.

An example of where consumer expectations have been mismanaged through the use of 'projected' rates of return is the mortgage endowments crisis in the UK. Market linked investment endowments were sold along side 'interest only mortgages'. Through the use of projected rates of return, people were led to believe that their market linked investment would, over time, provide an adequate return cover the cost of the outstanding capital owing on the mortgage. Since the protracted Bear market in the late 1990s, the UK insurance industry has received over 1.4 million complaints of 'misselling' where the endowment has failed to provide the projected return. Industry has paid out over £2 billion to policy holders in relation to projections.

It is important to note that the approach followed in the Guidance prescribes methodology and not inputs. It is hoped that this Guidance Note will be finalised early in 2007, following final circulation as an exposure draft to IFSA members.

Conclusion

Calculators are designed to help people assess if a financial product might help them reach their financial goals. They take basic information provided by a user and perform a simple mathematic calculation. The result goes along way to helping the user understand the product features, the factors which might impact on the return they receive, and their tolerance for risk. Well designed calculators have an important role to play in helping people make informed financial decisions without charge or obligation. They are also an important educational tool.

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We trust that this further information is of assistance to the Committee in its consideration of IFSA recommendation 15.3 and we would be pleased to provide any further information you may require.

Yours sincerely

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Chief Executive Officer

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Calculators – Best Practice Guidelines

EXPOSURE DRAFT

[DATE TO BE INSERTED]

2007

Main features of this Guidance Note are:

- Highlight the importance of calculators in assisting users make informed financial decisions without charge or obligation.
- Provide guidance for the providers of calculators designed for use directly by consumers, without the aid of a qualified financial adviser or authorised representative/representative.
- Outline ways in which providers might approach a range of assumptions, so to increase the comparability of calculators across the industry and maximise the educational benefit for users.
- Outline how disclosure might work in relation to those assumptions and calculator functionality.

Table of Contents

Title:

This Guidance Note may be cited as IFSA Guidance Note No.xxxx "Calculators Best Practice Guidelines".

Guidance Note and Commentary:

Date of Issue:

[DATE TO BE INSERTED]

Effective Date:

This Guidance Note applies with effect from [DATE TO BE INSERTED].

Application:

This Guidance Note should be considered as a Guide to best practice for IFSA members. Where there is a conflict between the requirements of this Guidance Note and applicable legislation, the requirements of this Guidance Note should, having regard to the purpose of this Guidance Note, be modified accordingly.

Statement of Principles:

Well designed calculators play in an important role in assisting consumers to make informed financial decisions without charge or obligation.

In a review of online super calculators in 2005, ASIC input the same key facts into 24 different calculators and were concerned that the variances in the dollar estimates received were vast and were not explained by adequate disclosure of the assumptions which underlie the estimate.

This Guidance Note follows an IFSA Discussion Paper released on the 9th March 2006, industry feedback and discussion. Through the approaches outlined in this Guidance Note, IFSA hopes that, all things being equal, users of calculators will obtain 'like' results, based on consistent inputs, from each IFSA member's calculator, where those calculators have been designed to perform exactly the same function.

This Guidance Note details how certain assumptions might be approached in a reasonably consistent way, so to minimise the variances in results seen by any one user. While this Guidance Note does not seek to prescribe the specific assumptions used, it does outline what might be considered a reasonable basis for, or approach in relation to, the assumptions. It also provides guidance for disclosure through the Technical Guide and the use of flags so the

assumptions used are clearly explained to users and any differences can be understood by the user.

In December 2005, ASIC issued a class order giving relief to providers of 'generic' calculators. Industry has generally taken a conservative view in adopting CO 05/1122 given that the relief is limited to calculators that do not provide advice related to specific financial products, nor does it adequately deal with the provision of risk profilers (see PS 167.54, 167.56, 167.58, 137.79-83). The Government's original intent was to "promote the provision of basic online calculators to enable consumers to understand and compare financial products and services without that being classed as personal advice".

This Guidance Note outlines ways in which providers might approach a range of assumptions, so as to increase the comparability of calculators across the industry and maximise the educational benefit for users. Being comfortable in making calculators available, providers would benefit greatly from:

- Further clarification on ASIC Class Order 02/1122 which provides relief for providers of generic financial calculators only (ASIC has yet to define its policy regarding product specific calculators and risk profilers).
- Clarification regarding the boundaries defining the provision of personal-v-general advice.

It should be noted that, while calculators can be useful educational tools, they are not a substitute for personal advice from a financial adviser.

Statement of Purpose:

Through this Guidance Note, IFSA hopes to:

- Help users gain a better understanding of their financial needs. That is, to assess their need for life and disability insurance, for superannuation accumulation, for retirement incomes and for investment to help achieve future goals.

- Help users understand the broad types of features available with different types of financial products and classes of products. For example, the various investment options available and related risks and volatility. The general features that are available with life and disability insurance products.

- Help users better understand the factors which will have an effect on the performance and returns of their long term investments.

- Help users gain an appreciation of their tolerance to investment risk.

- All things being equal enable users to obtain 'like' results, based on consistent inputs, from each IFSA member's calculator, where those calculators have been designed to perform exactly the same function.

- Ensure that calculators are used to their maximum educational benefit.

Definitions:

Calculator. Refers to any questionnaire or calculation tool provided for use by consumers in any medium. They are tools designed to assist users in assessing whether a financial product or class of product might help them achieve their financial goal(s).

In line with the ASIC Class Order of Calculators (C0 05/1122) this Guidance Note is not intended apply to Risk Profilers at this stage. The definition of calculators therefore does not extend to Risk Profilers for the purposes of this Guidance Note.

Financial product. Defined by s763A & 764A of the Corporations Act 2001 (as amended).

Class of products. Means a group of financial products that share common rules and provide similar solutions to consumer objectives, for example; superannuation, life insurance and managed investments are all classes of products.

Investment options. Means other underlying financial products and strategies accessible to an investor through a financial product in which they are investing.

'Like' results. Means results that are similar to, or having similar characteristics. It does **not** mean the same results.

Product specific calculator. Means a calculator that relates solely to a particular financial product available from a particular company.

Management Expense Ratio. A ratio expressed as a percentage per annum, used to capture expenses incurred by an unlisted scheme as a percentage of the total assets. Charges incurred by a direct Investor in the same assets should be excluded where these can be identified.

Providers. Companies which host or provide calculators to which this Guide is applicable.

Flags. Disclosure embedded within the body of the calculator or as a link from the body of the calculator.

All other definitions are as outlined in Guidance Note No. 5.00 'Industry Terms and Definitions'.

General Principles for Calculators:

a. A Technical Guide should accompany all calculators, including a glossary of terms and detailing how all assumptions are derived.

b. The provider of the calculator should not able to identify the user from the user's use of the calculator or the information the user deploys and/or enters to the calculator while they are using it. However it is appropriate that the provider will be able to track how a user uses the calculator to obtain aggregated intelligence about the effectiveness of the calculator; and

c. The user does not pay the provider of the calculator for the use of the calculator; and

d. The calculator should be accompanied by a clear:

I. statement about the purpose of the calculator; and

II. warning about the limitations of the calculator including that the provider of the calculator does not know all of the user's particular objectives, financial situation and needs; and

III. warning that while the 'default assumptions' are considered reasonable by the calculator provider for most circumstances, the default assumptions do not provide any guarantee in relation to any illustrated amounts the calculator derives. This is because the calculator does not know all the user's particular objectives, financial situation and needs; and

IV. suggestion that the user consider getting advice from a qualified adviser before making any decision about a financial product; and

e. The user is able to alter key default assumptions to the extent that these assumptions can reasonably be expected to change; and

f. The output of the calculator should be readily capable of being recorded by the user electronically or printed by the user; and

g. If all other principals are adhered to, providers of the calculator are able to offer a prompt which, when positively agreed with, will enable the user to view information on relevant products offered by the provider.

h. A copy of the specifications for the software or a copy of the publication must be kept by the provider for a period of seven years.

Out of scope:

- Calculators designed for use by licensed financial advisers. This is because calculators provided to advisers are tools designed to assist them in the provision of professional services to their consumers and have regard to a consumer's particular financial objectives, financial situation and needs.
- Calculators which do not meet the criteria outlined or are not covered by the categories listed below.
- Asset allocators, risk profilers and premium generators (IFSA intends to look at further guidance on these forms of calculators in the future).
- Business life insurance calculators.

Assumptions:

INVESTMENT

Below are suggestions for how certain assumptions might be applied in INVESTMENT CALCULATORS. That is both super (accumulation phase and income stream products) and non-super calculators.

Use of Current Dollar Values:

Over time, inflation will reduce the buying power of money. Because industry participants want to give consumers some idea of what their investment may be at current dollar values at the end of the specified term (when the calculator's prime purpose is to project a future investment or superannuation accumulation amount), the outcome of all calculators should take inflation into account and should convert the future projected amount into current dollar values. If a provider wishes to provide a result in future dollars as well as current dollars, both should be sufficiently labelled so as to avoid user confusion.

Measures of inflation:

The measure of inflation used should be appropriately sourced and referenced within the technical guide. Suggested sources include AWOTE and the CPI, as supplied by the Australian Bureau of Statistics.

Where appropriate, it is suggested that the measure used take into account rates of both wages and prices growth. Providers are encouraged to monitor their source for any changes to acceptable figures and update their calculators as soon as is practicable.

Fees and charges:

General principles in relation to fees and charges which can be applied within all calculators.

- Consistent with Regulations and IFSA Standards 6 and 10, all calculators should present a result net of fees and charges.
- Details of when the charges are applied to the fund i.e. mid way through the year, should be within the accompanying technical guide.
- Where blank fields are used, it's appropriate for flags to feature prominently in this area of the calculator, encouraging users to consider the charges they will incur and signposting to appropriate sources for information on applicable fees and charges.
- As highlighted by Rice Walker Actuaries in their research published on 15th March 2005, fees and charges are as likely in some cases to decrease as they are in others to increase. For that reason it is not appropriate to apply inflation to either the $ based, or the percentage based fees and charges.

The effects of different types of fees:

To maximise the educational benefit of calculators and allow users to see the effect of fees and charges, some providers may choose to have separate fields for the fees and charges within their calculators. Where separate fields are shown, providers should refer to the following points.

1. Management costs

Management costs refer to the fees and costs charged for managing the investment.

Where the calculator is general in nature, that is it does not relate to a specific product/fund, the management cost field might be left as blank. If left blank, this field should be a mandatory field, ensuring the user is not able to progress through the calculator without considering the level of fees they will incur. Flags should feature prominently in this area of the calculator advising the user that it is unrealistic to expect not to be charged any management cost, these should also signpost them towards documentation which might detail appropriate management costs i.e. the PDS for any particular product.

Where the calculator relates to a specific product/fund, it may be appropriate for the calculator to have the management cost for that product as the default for the management cost field.

2. Contribution Fees

Not all financial products charge a contribution fee. For those that do, the fees will generally be negotiable by the member through a financial adviser. This field may therefore be left blank. It is not necessary for this to be a mandatory field, allowing the user to move passed this field without inputting a figure.

Where the calculator relates to a specific product/fund, it may be appropriate for the contribution fee for that product to be the default for that field.

3. Dollar based fees and charges

Calculators should have provision for incorporating the impact of any dollar based fees or charges. Given that there is no uniform dollar based fee charged by funds, the default assumption for this field may also be left blank. This field may therefore be left blank. It is not necessary for this to be a mandatory field, allowing the user to move passed this field without inputting a figure.

Estimated Earnings Rate:

It is important to the industry that calculators serve to educate users about the factors affecting investment performance and the returns that are reasonable to expect.

The rate of return that a user will actually experience if they invest in any given vehicle or product, will be determined not only by their behaviour and the investment strategy they chose but a range of other macro and micro-economic factors which the provider of the calculator is unable to foresee. These include investment returns, rates of inflation, interest rates and any change in personal circumstances.

It is the concern of IFSA's members that users of calculators too often accept the default rate given, moving through the calculator without stopping to consider whether this rate can be related to their investment option or given circumstances. Such behaviour is likely to lead to the user believing that the result of the calculator might be something they can realistically expect to receive.

In the absence of any research that might shed light on how users navigate though default rates and the way they interpret the results, IFSA considers that there are significant risks involved in having a fixed default rate of return, without sufficient mechanisms being put in place to ensure the users expectation are appropriately managed.

This Guidance Note details two different approaches to the earnings rate, both of which should be supported with flags and information sources.

For both approaches, the earnings rates that are given as a guide for the user should be appropriately sourced, using historic information that takes into account the last ten or 20 years' returns for any given investment strategy/asset class. It should take into account at least one economic cycle.

Both approaches are detailed below as is an indication of the flags which are appropriate:

Option 1 - Leaving the earnings rate blank:
In order to ensure that users of calculators do not see the result as a promise of benefit and to maximise the educational benefit of calculators, providers may wish to use a blank earnings rate field.

In this case, such a field should be a mandatory field, ensuring the user does not progress through the calculator without considering what return would be reasonable in their circumstances.

Flags:

- There should be guidance in this area on appropriate rates. This should reflect the points above regarding sourcing and covering at least one economic cycle.

Option 2 - Using a default rate:
If the provider wishes to use a single default rate, like all other assumptions, this should be able to be changed by the user. A flag should appear if the user attempts to move through the calculator without altering the default rate. Such a flag would encourage them to consider what rate of return would be reasonable given their circumstances.

Flags:

- Warn the user that they had selected the default by not changing the rate field
- Explain the default rate/the (portfolio) investment that would be expected to derive it
- Encourage them to seek further information on what might be a reasonable rate for them in their circumstances before proceeding through the calculator. This information might be detailed in the Technical Guide and should reflect the points above regarding sourcing and covering at least one economic cycle.

<u>Crediting the earnings:</u>

The calculator should work on the basis that earnings are credited to the fund at least once a year. Some companies may wish to use a more frequent rate of crediting the fund, but this should only be inline with the administrative capabilities within the product they offer and the actual experience the consumer will have should they chose such a product.

The frequency and timing of crediting should be made available to users within the technical guide.

It is acknowledged that the frequency of crediting earnings to the fund will have an impact on the result a user will get from the calculator. However some of the administrative capabilities of companies do vary and it is only right that companies provide results that reflect the experience a consumer would have with the relevant fund offered by the provider. IFSA has also calculated

the impact of the frequency of crediting earnings on funds over 5, 10, 20, 30 and 40 years. The impact is therefore marginal and not an area where consistency is necessary.

Assuming an earnings rate of 7% pa (nominal), an opening balance of $5,000 and annual contributions of $5,000 (made once per year), we get the following account balances:

	Earnings credited yearly	Earnings credited quarterly	Earnings credited monthly
5 years	$37,779.21	$38,008.33	$38,061.63
10 years	$83,753.75	$84,707.79	$84,930.63
20 years	$238,674.31	$244,250.70	$245,564.14
30 years	$543,426.48	$563,591.36	$568,383.09
40 years	$1,142,920.14	$1,202,782.79	$1,217,139.87

Taxation:

To take tax into account in a meaningful way will require further questions to be asked of the user, having said that, ignoring tax has the potential to overstate the result considerably, and position Managed Funds as better than Superannuation (where it is best practice for taxation to be taken into account).

At this stage it is appropriate for the provider of the calculator to decide whether or not to offer the user the option for the result to take into account the users tax position.

Where results are generated on a before tax basis, flags should feature prominently in this area of the calculator, to encourage the user consider the effects of taxation on the effective rates of investment return.

Where results are generated on an after tax basis it is appropriate for the provider to determine the approach used so long as it is reasonable, the assumptions are clearly disclosed and the user is warned that the outcome may not reflect their personal tax situation.

SUPERANNUTION (accumulation phase only)

Below are suggestions for how certain assumptions might be applied in SUPERANNUATION SPECIFIC CALCULATORS (accumulation phase only).

Employer contribution rate:

It is appropriate for the default assumption to be that employer contributions are made at the rate of 9% - the current value of the super guarantee. Providers may choose to indicate that SG contributions only have to be made up to the level of maximum quarterly earnings base.

As per the principles listed at the beginning of this document, the user should be able to increase the rate of contributions to reflect salary sacrifice or additional employer contributions.

Personal contributions:

Calculators should enable customers to include personal contributions (un-deducted or deducted or both). The calculator might also let the user know that they may be eligible for the Government's co-contribution. Flags should feature prominently in this area of the calculator to highlight that personal contributions are subject to Maximum Deducted Contribution (MDC) and Undeducted Contribution (UDC) limits.

Timing of personal contributions:

As a minimum, contributions should be assumed to be credited at least once per year. However some providers might wish to offer consumers options for more frequent contributions i.e. Monthly, Quarterly, depending on their operational capability.

Effect of insurance premiums in conjunction with super accumulation:

Because not all superannuation investors pay insurance, and the value of the cover bought will differ for each user. It is therefore appropriate for the default assumption for insurance premiums paid should be zero. This will ensure the user understands that the premiums paid are deducted from their account.

Depending on the level of cover required by superannuation investor and whether or not it is underwritten, premiums can be paid either as a single dollar amount or a variable amount which is reviewed each year. Because it is not possible for the calculator to factor in all these personal decisions, it is not appropriate to apply inflation to the premium payable. This should be detailed within the Technical Guide as should warnings that premiums will change over the life time of their investment, dependent on the product they have bought and their individual exposure to insurance risk. This will have an impact on their total investment value at the end of the term the user selects.

The technical guide should also include an explanation that the tax treatment on premiums and on any claims proceeds, varies according to the type of policy taken out and according to how the premiums are paid. People should seek professional advice for tax related advice.

Taxation:

Superannuation calculators should account for contributions and earnings tax but not for employer or personal tax deductions.

Employer and salary sacrifice contributions should have the 15% tax rate applied.

For the earnings tax, it is suggested that all super calculators use the effective tax rate as suggested by ASIC on their website. Providers of calculators are encouraged to monitor these sources for any changes to acceptable figures and update their calculators accordingly within six to twelve months of the change.

If providers of superannuation calculators choose not to take into account lump sum tax, they should alert the user to the fact that their end benefit may be subject to lump sum tax and that the rate will depend on their individual circumstances.

NOTE: The Government has announced that from 1 July 2007, individuals in receipt of lump sums from a taxed source will be tax free when paid to individuals aged 60 or more. Tax will continue to apply to lump sum payments paid to individuals aged below 60.

SUPERANNUATION (Pensions phase only)

Below are suggestions for how certain assumptions might be applied in SUPERANNUATION SPECIFIC CALCULATORS (income stream products only).

Product type:

The calculator should provide the user with options for the types of income stream product available e.g. annuity, allocated pension, or term allocated pension. There should be a brief explanation of each of these products.

NOTE: Different types of products may exist from 1 July 2007 as a result of the introduction of the Government's 'Simplify and Streamline Superannuation' changes. While the Government has issued some of the details for the new simplified income streams, it would be prudent for providers to wait until the relevant legislation/regulations are made before releasing income stream calculators based on these new rules. Where calculators are designed around the commencement of a new income stream product, users should not be able to input a commencement date prior to 1 July 2007. Equally, where income stream calculators are designed around an income stream's pre-1 July 2007 features, users should not be able to choose a commencement date on or after 1 July 2007.

This section will be reviewed once the new income stream payment rules have been finalised.

Age of the user:

The age of the user of the calculator should be assumed to be at least 55 at the start of the income stream projection and therefore eligible to access their superannuation benefits.

Level of income:

For allocated pensions, the user should be allowed to select their annual income level between the minimum and maximum limits as prescribed by government.

NOTE: From 1 July 2007, the Government has announced that there will be no maximum payment limit applied to pensions.

Commencement of the income stream:

For simplicity, assume that the pension commences on 1 July. However, if providers choose not adopt this assumption, the gross pension payments received should be pro-rated for the remainder of that tax year. All following years' pension payments should be calculated per full tax year and not on a calendar year or other basis.

Payments from the income stream:

It should be assumed that payments from the income stream are made at least once per year. However some providers might wish to offer consumers options for more frequent income payments i.e. Monthly, Quarterly.

Taxation:

NOTE: The Government has announced that from 1 July 2007, individuals in receipt of income stream from a taxed source will be tax free when paid to individuals aged 60 or more. Tax will continue to apply to income stream payments paid to individuals aged below 60.

To take tax into account in a meaningful way will require further questions to be asked of the user, having said that, ignoring tax has the potential to overstate the result considerably.

At this stage it is appropriate for the provider of the calculator to decide whether or not to offer the user the option for the result to take into account the users tax position.

Where results are generated on a before tax basis it is appropriate to encourage to consider the effects of taxation on the effective rates of investment return.

Where results are generated on an after tax basis it is appropriate for the provider to determine the approach used so long as it is reasonable, the assumptions are clearly disclosed and the user is warned that the outcome may not reflect their personal tax situation

LIFE INSURANCE

Below are suggestions for how certain assumptions might be applied in LIFE INSURANCE SPECIFIC CALCULATORS.

Calculators can be used to help consumers understand their need for life, disability and trauma insurance.

Insurance needs:

The need for insurance or the value of insurance required can be assessed in two ways and these depend on whether the lump sum paid will be used to:

- provide for capital needs – e.g. pay off debts [mortgage, loans, credit card balances, outstanding taxes, etc] pay funeral expenses, for the costs of illness and rehabilitation, etc or
- provide a capital sum which when invested would provide for the income needs for a surviving spouse, children and any other dependants in the case of a death, or for the life insured in the case of disablement or illness.

The way to assess the sum insured required for capital needs [i.e. to repay debts etc] is normally clear cut and this discussion paper does not attempt to provide any lead on how these matters should be designed.
Assessing income needs is more complex and this guidance notes seeks to outline the considerations that need to be recognised and taken into account for calculators addressing income needs to be derived from the investment of a capital sum.

Life Expectancy:

Some illustrations attempt to assess the income needs of a surviving spouse until their life expectancy, and convert that amount back to a lump sum that should be purchased today to fit the need. Where such methods are deployed, the life expectancy calculations should be based on the latest Australian Life Tables produced by the Australian Government Actuary. These figures are updated every five years and at the time of writing this paper, the latest version was 2000 – 2002.

The calculator should include a warning that the illustration has been based of the present life expectancy of the beneficiary nominated, but that the life expectancy is an average and may or may not be appropriate for the beneficiary involved.

Estimated Earnings Rate: Investment of capital to provide income to the owner or the beneficiary of the policy.

When a calculator illustrates how investing the capital sum might lead to an income, it is envisaged that the calculator will adhere to the guidelines outlined above for all 'Investment Calculators'.

Calculators may highlight that the investment strategy will have an impact on their income and their underlying capital and that most people considering this type of product choose an investment which is conservative in nature. A warning note should be included that draws this matter to the attention of the user.

High levels of insurance:

Life insurance projections can result in very large suggested sums insured emerging depending on the parameters that the user selects. When large amounts [for example amounts exceeding $1.5M] are illustrated, a user warning should be included that the amount suggested may not actually be available for purchase. The warning should add that the amount of insurance and whether it is available or not will depend on the user's medical financial and personal circumstances when they apply for insurance and the life insurer's underwriting criteria.

Taxation:

Consistent with the guidance above for investment and superannuation calculators, any assessment of income needs should express that income amount in gross, before income tax terms. There should be no attempt to express the income amount as net of tax as the users taxation circumstances are most unlikely to be adequately catered for with the types of calculators envisaged in this discussion paper. A warning note should be included that draws this matter to the attention of the user.

DISCLOSURE

It is important that the user understands that calculators can only illustrate the issues they should consider when making a decision about investing or purchasing insurance. Calculators are not intended to provide personal advice. It is also important that they understand that the assumptions used by the calculator are just that – 'assumptions'. For this reason it is appropriate for calculators to be accompanied by both a technical guide and the prominent use of flags.

This section gives guidance on what appropriate levels of disclosure:

General Principles for Calculators:

As detailed earlier in this Guidance Note among the General Principles for Calculators, the calculator should be accompanied by a clear:

I. statement about the purpose of the calculator; and

II. warning about the limitations of the calculator including that the provider of the calculator does not know all of the user's particular objectives, financial situation and needs; and

III. warning that while the 'default assumptions' are considered reasonable by the calculator provider for most circumstances, the default assumptions do not provide any guarantee in relation to any illustrated amounts the calculator derives. This is because the calculator does not know all the user's particular objectives, financial situation and needs; and

IV. suggestion that the user consider getting advice from a qualified adviser before making any decision about a financial product; and

It is appropriate for these statements to be within the body of the body of the calculator and clearly visible to the user.

The Technical Guide and the use of Specific Flags:

A technical guide should accompany all calculators, including a glossary of terms and detailing how all assumptions are derived.

Providers should also use flags within the calculator to alert the user to the fact that altering some parameters can have a significant impact on the calculator's results.

Below are some of the areas which should be considered for inclusion within the Technical Guide or within the body of the calculators as flags (To the extent that they have already been detailed within the Guidance Note, some pieces of information should be presented using flags and should not only be within the Technical Guide). This list is should not be seen as exhaustive and providers are encouraged to consider items for inclusion beyond this list.

Age	• Providers should include warnings if an inappropriate retirement age is input by the user.
Inflation	• To alert the user to the fact that the results are presented in current dollars with a definition of what is meant by current dollars.

	• Where the calculator shows both current and future dollars both should be clearly labelled.
Fees and Charges	• To highlight that the outcome of all investment calculators will be net of ICR related fees and charges. • If the user puts a 0% in the Management Cost field, they should be alerted to the fact that it is not realistic to expect not to be charged a Management Cost. • To encourage users to consider the charges they will incur by the fund. Also that they might incur a fee from a financial planner if they chose to use one. • To warn users that fees and charges may change over the lifetime of their investment and that this will have an impact on their investment return. • Highlight when charges are applied to the fund i.e. mid way through the year.
Investment returns	• To provide guidance on what rate of return/earnings it might be appropriate to use in the proximity of the estimated earnings rate field. • Earnings rates are only indicative and are not a promise of benefit. • To alert the user to the fact that these are long-term rates. • To alert users to the risk reward trade off – the higher the return, over the same period, the higher the risk. • To encourage users to consider the impact various investment strategies will have on their overall return – low risk low return may be appropriate for people approaching retirement but a more aggressive strategy might be considered by people who have a longer time horizon. • To let the user know that past performance is no indicator of future performance. • To let the user know how often it is assumed that earnings are credited to their account.
Non-super tax	• To alert the user to the fact that investment returns are subject to tax and that this will depend on their individual circumstances. • If the calculator provides a result on an 'after tax' basis, details of the assumptions used in calculating the 'after tax' performance.
Super Tax	• To alert the user to the fact that their end benefit may be subject to lump sum tax and that that rate will depend on their individual circumstances. • To highlight that income stream calculators do not take into account an individual's tax position.
Superannuation Contributions	• To alert the user to the fact that depending on their level of income, they may be eligible for a Government co-contribution. • That additional personal contributions are subject to Maximum Deducted Contribution and Undeducted Contribution limits.

Insurance in conjunction with superannuation accumulation	• To alert the user to the valuable benefits that the insurance provides but inform that insurance premiums will affect their end benefit. • To alert the user to the fact that insurance premiums may change over the lifetime of their investment, depending on the product they buy and their exposure to insurance risk. • To alert them to the fact that inflation has not been taken into account. • To alert the user of the need to consider that tax may be payable on benefits.
Life insurance sum insured needs assessment	• To alert the user to the fact the availability of the insurance will depend on the life insurers underwriting standards being meet. • That any assessment of income needs will be expressed in gross, before tax terms. • That any illustration is based on the present life expectancy rates. • That users may consider applying a conservative growth rate for their income generated from the investment of capital.