

# *Darren Wickham*

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6 May 2003

The Secretary  
Senate Select Committee on Superannuation  
Parliament House  
CANBERRA ACT 2600

Dear Madam,

**Subject: Inquiry Into Planning For Retirement**

I refer to the call for submissions for the Inquiry Into Planning For Retirement. I appreciate that I have missed your extended deadline for submissions, however, having just being made aware of the Inquiry, I would be extremely grateful if the committee would consider my late submission.

I am writing specifically in relation to point (e) in the terms of reference “to examine ways to assist older workers plan for their retirement”.

**Statements of Projected Superannuation Benefits**

One very effective method of assisting all workers to plan for their retirement is for the worker’s super fund to provide them with a statement of projected benefit at age 65. The projections could show the value of their lump sum benefit translated into an annual income they could expect over their lifetime.

For older workers, providing a statement of projected benefits provides them with a more realistic expectation of their benefits at retirement and also allows members approaching retirement to adjust their personal contributions to ensure their benefits are adequate.

In the UK the regulator, the Financial Services Authority (FSA), requires that a benefit projection statement be provided annually for all accumulation style superannuation benefits (“money purchase pensions” as they are called).

The FSA, in conjunction with the Institute of Actuaries (UK), has set standard assumptions that allow actuaries and administrators to calculate these projected benefits.

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In the Appendix, I have included a mock up of what such a statement might look like in the Australian context.

There would be no cost to the Government of this proposal as the cost burden would fall primarily to fund administrators. Inevitably this cost would be passed on to members in higher fees. However, I believe it would be possible to contain this cost through the use of standardised calculation factors. It would be very useful to examine the experience of the UK in this regard.

In any case, I believe the benefits of better planned retirement and more realistic worker expectations outweigh the relatively small additional administration cost.

I would be delighted to provide the Committee with any further information you might require.

Yours sincerely



Darren Wickham  
Fellow of the Institute of Actuaries of Australia\*

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*\* Please note the views expressed in this submission are my own and do not necessarily represent the views of the Institute of Actuaries of Australia and its committees, nor do they represent the views of my employer.*

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## Appendix – Sample Projection Statement

# Your Projected Retirement Benefit

Date Statement Produced 1 July 2003

This statement is a guide to the amount of benefit that you might get when you retire. In this statement, we refer to this as an 'illustration'.

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

### About you

Your name:	John Citizen
Your date of birth:	1/1/1950
Your Membership Number:	12345
The name of your super fund:	The Very Good Superannuation Fund
The value of your account balance at 1/7/03	\$100,000.00

### Your future benefits

On the assumptions we have made we estimate that:

- **your lump sum benefit on retirement at age 65 will be \$200,000.**
- **with this lump sum you could roll it over and purchase an annuity giving you an income of \$12,000 per annum or \$1,000 per month (before tax) for the rest of your life.**

The amount of benefit is shown in today's prices. This illustration 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 the position in our records as at 1/7/03 and on a number of assumptions.

However, what actually happens may vary considerably from these assumptions, and so **your actual benefit when you retire may be significantly different from the amount shown here.** The longer the period from now till your retirement date, the more likely it is that significant differences will arise.

If you have any questions about your illustration you can phone us on: 1800 000 000 or you can write to us at: GPO Box 999999, Sydney NSW 2001

**This illustration should not be used as the only basis for reviewing your superannuation arrangements, or for deciding which super fund to choose.** Because of this, you should consider getting further information or advice before you review your superannuation arrangements.

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## Notes:

This illustration is to help you plan for your retirement. It shows the amount of benefits that might be payable when you retire, **in today's prices** (so that you can see what you would be able to buy if you had this amount of benefit now). We are required by law to provide it, and to use various assumptions in our calculations.

Among other things, your final benefit will depend on:

- when you actually retire and start to take your benefit; we have assumed that your retirement date will be 1/1/2015
- the actual contributions made; we have assumed that you will continue to pay your personal contributions at the rate of 3% of your salary (by salary sacrifice)
- the way your own fund is invested, and the investment growth it achieves; the way in which we have assumed that your super fund is invested, and the investment growth we have assumed it will receive, may not reflect what actually happens between now and when you retire
- how much it costs to buy an annuity when you retire; the actual cost may be significantly different from our assumption
- whether you choose to buy a fixed annuity or one that increases each year; we have assumed that you will buy a annuity that will increase each year in line with inflation (the Consumer Prices Index)
- what allowance (if any) you make for a annuity for your wife - we have assumed that when you retire you will be married to Mrs Citizen, who will receive a annuity equal to half of your annuity if she survives longer than you do.

If you want to know more about the way your illustration has been worked out or the assumptions we have made, see the ASIC projections assumption website ([www.asic.gov.au/page\\_tba](http://www.asic.gov.au/page_tba)).