17 April 2013

by email: policy.submissions@asic.gov.au

Geoffrey Leveritt
Senior Lawyer, Strategy & Policy
Australian Securities and Investments Commission
GPO Box 9827, Melbourne VIC 3001

Dear Mr Leveritt,

This letter and attachments contain CV Solutions' submission to ASIC Consultation Paper 203.

CV Solutions provides a retirement income estimation service to super funds. We do not rely on the class order as we do not view our estimates as including advice. A short description of our service is set out in an attachment.

We commend ASIC for attempting to encourage super funds to provide useful retirement income estimates to members. We agree that this is key to the critical policy objective of increasing engagement with members. However**,** we believe the class order, even as amended, **acts contrary to the policy objective** as funds we have spoken to universally hold the view that, inter alia, the prescribed method will often result in misleading estimates. This perverse outcome is evident in the lack of reliance on the existing class order. Also, they are unlikely to rely on the amended class order, regardless of the "no action" clause in draft RG229.14.

The amendments do not address the class order's primary deficiencies, which we see as:

1. It is not necessary. RG229.22 states: "*If a trustee does not provide personal advice in giving a member a retirement estimate, it is likely to be providing factual information and does not need to rely on the relief in (CO 11/1227).*"

2. It will often lead to poor estimates of retirement income as they ignore investment risk.

3. By relieving trustees from liability the first layer of protection for members is destroyed.

4. It is likely to result in disengagement when a member receives conflicting information.

5. Its prohibition on providing more information is both paternalist and limiting.

We have a number of other concerns which are included in the answers to your specific questions set out in an attachment.

In our view, ASIC would be better to scrap the class order and make clear the circumstances in which retirement income estimates do not constitute advice. Ideally ASIC should go further and clarify that a retirement estimates report demonstrating the outcome of saving more or investing differently does not constitute advice and can be provided along with retirement estimates. This is one area in which the promotion of innovation is likely to be beneficial and outweigh the unlikely risk that funds will use retirement estimates for inappropriate competitive purposes.

We would be delighted to meet with you to elaborate if requested.

Yours faithfully

Chris Condon and Peter Vann

Answers to questions in CP203

A1Q1	No. We do not believe that the retirement estimates that we provide constitute advice. Moreover, the class order (even as amended) is far too simplistic and, in our view, potentially misleading.
	However, our avoidance of the provision of additional information (such as "what if" charts) with appropriate qualifications and disclaimers does reduce the useful information we can deliver to members. We would like the class order to permit such additional information.
A1Q2	Yes and no.
	No: In our view, super funds do not need to rely on the class order to provide factual information in the form of retirement estimates. Having said that, while the proposed amendments are on the right track, they do not go far enough.
	Yes: It is not clear to many super funds if the provision of retirement income estimates is advice or not. Indeed, the existence of the class order serves to confuse the matter rather than making it clear. We believe that the class order should either (a) be replaced with a simple statement confirming that the provision of retirement estimates is not providing advice or (b) should be amended in the ways we suggest that permit sophisticated retirement estimates.
	The approach in the amended assessment regarding **liability for misleading estimates** should not be necessary and removes a key protection for members. In our view it is wrong for ASIC to allow (indeed force) trustees to provide retirement estimates that will often be misleading. Instead we believe that a better policy is to require trustees to retain the responsibility for providing quality estimates AND allow them to do so.
B1Q1	Yes. In our view this information is critical for many members. Retirement income estimates for such members that omit this information is likely to increase disengagement.
B1Q2	Yes. If ASIC is aiming for standardisation of the calculation and reporting of retirement income estimates, then the standardisation should also apply to inclusion of the Age Pension if the member passes the income and assets test.
B1Q3	No
B2Q1	Yes. The default assumptions you make regarding home ownership, eligibility and marital status are sensible.
B2Q2	Yes.
	First, estimates of the age pension will have to determine if the assets or income test constrains the age pension. If the assets test is the constraining test in the first year of retirement, then the calculation will need to include an estimate of the asset value each year to see when, if at all, the constraining test on the age pension switches to the income test. You may wish to provide guidance on this matter.
	Second, the wording in class order clause 7(c) is ambiguous. You should make clear that it means that the couple has no other income or assets other than those of the member. As it reads, it could be interpreted as the partner having the same quantum of assets and income as the member.

B3Q1	Yes
B3Q2	Yes. The annual estimate of the total retirement income should clearly show the components funded from their superannuation and the estimated age pension.
B3Q3	No
B4Q1	Yes and no. If the superannuation fund has no other information regarding the member's retirement age intentions, then the proposed amendment makes sense and is, indeed, consistent with government policy as implied by the Age Pension eligibility rules. But if the superannuation fund does hold information regarding the member's retirement plans, then the fund should be encouraged to provide retirement income estimates based on the best information to hand as long as this is clearly stated in the estimate report.
B4Q2	No
B5Q1	Yes. But we believe a more informative approach would be for the retirement income estimates to be provided for a range of durations.
B5Q2	No
B6Q1	**No. Whilst we believe that this is reasonable for most assumptions, we believe that following ASIC's requirement for using a 3% real return each year has potential to introduce a significant error for members whose investment strategies are expected to deliver a different return. Members who become engaged may wonder why a fund, who relies on the class order, uses inappropriate investment assumptions for their retirement estimate. Will the fund pass this liability back to ASIC?** Our specific concerns are: 1. The requirement that the same return (with no requirement to adjust for risk) must be used for all investment strategies. 2. Even if a better estimate of the return for a member's investment strategy was allowed, the requirement to use of a simplistic deterministic model may often lead, in our opinion, to misleading indications of retirement income; this may result in some members changing to inappropriate strategies due to higher retirement income estimates from deterministic models when the opposite may be the case when account is taken of investment risk. A deterministic model doesn't account for investment risk whose impact varies according to the age of the member, and the balance of their accumulated savings to date and their future contributions. 3. The policy objective of improving engagement is likely to backfire. We believe that it could result in confusion followed by disengagement when the member seeks retirement estimates that better reflect the risk and return characteristics of their investment strategy (e.g. from an advisor or an on-line calculator). You can imagine the unnecessary and distracting dialogue that will be required to move the member from expectations formed from the simplistic deterministic estimate under the class order to that which uses full risk and return information available to financial planners or more sophisticated on-line calculators. Do you really want funds and planners to point out the inappropriateness of the regulator-mandated

	estimate based on 3% returns both before and after retirement?
	4. Prohibiting the provision of more information is both paternalist and limits the utility of the information. We believe that the class order should permit:
	a. Retirement income estimates for durations other than 25 years
	b. Retirement income estimates at different levels of certainty (other than just a point estimate with no indication of likelihood)
	5. If the fund has better information on contribution patterns and retirement income patterns, then it should be permitted to model those. For instance, the member may have advised the fund of a planned pattern of salary sacrifice. This should be taken into account if known.
	6. Allowance for the mandated changes to mandatory minimum contributions should be allowed, eg the change from 9% to 12%. Once again, imagine how confusing it will be for members who start to become engaged when told the inappropriateness of the regulator-mandated exclusion of the increases in minimum superannuation contributions from 9% to 12% that they are currently seeing splashed across their TV screen.
	7. The requirement that the retirement estimates can only be provided with the member statement works against the policy objective of improving member engagement for several reasons:
	a. It inhibits a fund from conducting off-cycle engagement programs that focus on retirement adequacy. Requiring retirement estimates to accompany the member statement will generally mean that they will get lost in the pack and council recycling bins will be even fuller with unread member statements.
	b. It locks funds into relying on their administrator to incorporate retirement estimates. Administrator systems are often inflexible and very expensive to adjust. Numerous superannuation funds we have spoken to raise this as another unfortunate hurdle to providing retirement income estimates with member statements as required by CO11/1227.
	8. The static nature of the class order inhibits beneficial innovation that will result from competition in methodology. Having said this, we understand and support the desire for standardising the assumptions to avoid funds using retirement estimates as inappropriate competitor comparisons. But we believe it is possible to draft the class order to retain this protection without stifling benign innovation.
B6Q2	No. It will still result in potentially misleading information being provided to members. Moreover, as the trustees will not be held liable by ASIC for providing potentially misleading information, a key line of protection for members has been removed.
B7Q1	No comment
B7Q2	No comment
B8Q1	Yes

B8Q2	No
B9Q1	Yes, if the dollar amount of "super contributions during the previous year" is also provided.
B9Q2	No

Retirement Income Estimation Service

Who is CV Solutions?

CV Solutions is a partnership of Peter Vann and Chris Condon Financial Services Pty Ltd.

Over the last two decades both Peter and Chris have researched and promoted solutions aiming for a closer link between superannuation assets and retirement liabilities for both defined benefit funds and defined contribution members. Our passion is that the superannuation industry should better address the needs of members. We are attempting to follow through by providing a service to superannuation funds so that they can provide a better service to their members.

CV Solutions is effectively a partnership of just two individuals, each with nearly three decades experience in Australia's institutional investment industry (our CVs are attached.) CV Solutions is entirely owned by the two principals and has no connection with any financial services organisation[1]. The contracting party for our business is Chris Condon Financial Services Pty Ltd, which holds an AFSL permitting the provision of investment advice to wholesale investors.

Retirement income estimation service

CV Solutions has built a service that enables superannuation funds to report retirement income estimates for each member. This service explicitly incorporates investment risk. The way we display the results enables members to understand the three way trade-off between (a) investment risk, (b) quantum of retirement income and (c) longevity. In our view this is a key step to a member identifying that they should seek advice to improve their retirement outcomes and will serve as an effective catalyst for increased engagement across all ages, particularly the younger member.

In our view, the reporting service we provide **does not constitute advice** as it does not recommend a call to action. Instead, we believe it only involves the provision of factual information and is thus consistent with RG229.22. The fact that some of that factual information is derived using a stochastic model that uses assumptions of the future (which we disclose) does not make that information advice (in our view). As such **we do not believe that we need to rely on the class order to provide the service**.

We attach an example of the type of retirement income report we plan to provide to members ("simple report.pdf"). This report does not in our view constitute advice.

Ideally we would like to extend this information to enable members to understand the impact to their retirement incomes from changes of their level of contributions, or investing in other investment strategies offered by the fund. However, we do worry that this extended report (attached as "extended report.pdf") is at risk of being construed to containing advice. For this reason we do not plan to provide it to members as part of the unsolicited reporting by the fund. This valuable tool is available as an extension of our service when using our online calculator (exempted by CO 05-1122). However, we believe that ASIC could improve member engagement by making clear what additional information, with appropriate qualifications and disclaimers, does not contain advice, and thus be included as part of an estimated retirement income report.

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[1] The partners do have other clients in the investment management and financial services industry. And they may hold positions on boards and investment committees. But none of these is related to the CV Solutions business of providing retirement estimates.

Curriculum Vitae: Chris Condon

Principal, Chris Condon Financial Services Pty Ltd

From March 2010

In March 2010 Chris established a new advisory firm to assist institutional investors in the development, implementation and management of their investment programmes.

Services include investment research and strategy; advice on investment governance, including coaching or reviewing internal investment teams; participation in clients' investment review and approval processes (including boards and investment committees); and advice on product development.

Chief Investment Officer, MLC Investment Management

1997 to February 2010

Chris, as CIO, led the investment team at MLC Investment Management. MLC uses a manager of managers approach for (at the time) approximately $A60 billion in assets. As such it is one of the largest true manager-of-manager funds businesses in the world.

The 19 strong MLC investment team reported to Chris and included 4 senior investment portfolio managers and a team of investment analysts and support staff. The team was responsible for asset allocation, investment manager selection and monitoring, capital markets research, performance analysis and. Chris was intimately involved in all aspects of this activity as well as the interface with clients, advisers, and product managers.

During much of this period the Chris was also responsible for the Investment Implementation function, which includes day to day allocating monies funds to and from investment managers, rebalancing, transitions and fund structuring. And for several years Chris was also responsible for the MLC Implemented Consulting business (which provides asset consulting services to institutional investors).

Director of Consulting, Frank Russell Company

1990 to 1997

As Director of Consulting at Frank Russell Australia, Chris was responsible for leading the team of asset consultants providing asset consulting advice to the firm's Australian and New Zealand institutional consulting clients.

In 1995 Chris took a role in London with Frank Russell Company as part of the development of that firm's worldwide investment management capability. While in London he was involved in installing a state of the art multi-period stochastic asset/liability capability to an Italian bank.

Consultant, Towers Perrin

1984 to 1990

Chris joined Towers Perrin, an actuarial and superannuation consulting firm, in 1984. In 1985 Chris was appointed Consultant with direct client responsibility.

In 1987 Towers Perrin in Australia established an asset consulting practice. Chris was appointed one of the founding members of this practice and focussed his services on the provision of asset allocation advice and asset/liability analysis to institutional investors.

Qualifications

Fellow of the Actuaries Institute

Bachelor of Commerce, University of NSW (first class honours in Fiance)

Professional Memberships

Actuaries Institute.

The Institute of Quantitative Research in Finance (known as Q Group Australia)

Key board and committee roles

Nonexecutive Director, JCP Investment Partners Limited,   2010 to current

Independent Chair of Investment Committee, Certitude Global Investments, 2011 to current

Independent adviser to ESSSuper Investment Committee, 2011 to current

Convenor, Actuaries Institute Wealth Management Subcommittee 2011-2013

Qualifications

Fellow of the Actuaries Institute

Bachelor of Commerce, University of NSW (first class honours in Fiance)

Curriculum Vitae: Peter Vann

Education and Employment

- B.Sc, M.St.St, Ph.D. (Qld)
- Dominguez Barry Samuel Montagu Limited (1987 – 1990, Associate Director from 1988)
- Consultant, Westpac Investment Management (1990-1992)
- Director, Condell Vann & Co. Australia Limited (1992 - 1996)
- Head Structured Investments Group, County Investment Management (1996-2000)
- Head Investment Research, Constellation Capital Management (2000 - 2012)

Professional Affiliations

- President & Founder, Institute for Quantitative Research in Finance (Q-Group Australia) (1990 - Dec 1995): currently Committee member
- Chairman, School Advisory Committee, School of Finance and Economics UTS (1992 - 1996)
- Member, Course Advisory Committee for Bachelor of Mathematics & Finance, UTS (1990 - 1992)
- Member, Task Force for the Diploma course in Applied Portfolio Management, Securities Institute of Australia (1989 - 2005); Principal Lecturer 1997 – 2005
- Associate Editor, "Journal of Investing", a quarterly US financial journal (1991 - present)
- Review Board Member, "Journal of Indexes" (2002-present)
- Fellow FINSIA (elected by SIA National Council in 2001)
- Honorary Fellow, Macquarie University Applied Finance Centre (2005 – present)
- Member, Policy Advisory Council, FINSIA (2008 – present)

Industry Involvement

Since joining the financial community, Peter continues to be a major contributor as evidenced by his affiliations in both industry bodies and academia. He has been involved in Investment Management for over 25 years, initially in the risk management and structured products, and more recently undertaking fundamental company research in Constellation's value based approach utilising his earlier experience advising on asset liability risk management and capital structures.

Peter gained relevant investment management experience in Westpac and DBSM developing and managing protection portfolios and index funds. Peter has also worked on risk identification and assessment, asset-liability analysis and capital structures for a range of entities including life and general insurance companies, government and various special transactions (clients on the public record included AMP, NSW Auditor General, NSW Treasury, Boral and Queensland Treasury Corporation). Peter has the distinction of co-authoring four chapters of the NSW Auditor General's special audit of HomeFund.

Joined by his peer group, Peter founded the Australian Q-Group (Institute for Quantitative Research in Finance), of which he was the founding President. The Q-Group is highly regarded by the major finance and investment houses and is seen to present a core of professionals and academics within the financial community whose objective is to seek a better understanding and develop quantitative solutions to financial and investment problems.

Peter is a major contributor to several important financial publications including two chapters in global and quantitative investing books published by Probus and Dow Jones. In addition, Peter has authored over 70 finance papers for conferences, internal use, magazines and publications, and has been a regularly sort after for conference speeches and company commentary.

ABC-XYZ Superannuation Fund

Retirement Income Estimate for John Young

Your superannuation is intended to provide income in retirement. We have estimated that your current balance, together with assumed future contributions, will have a good chance of delivering a retirement income of:
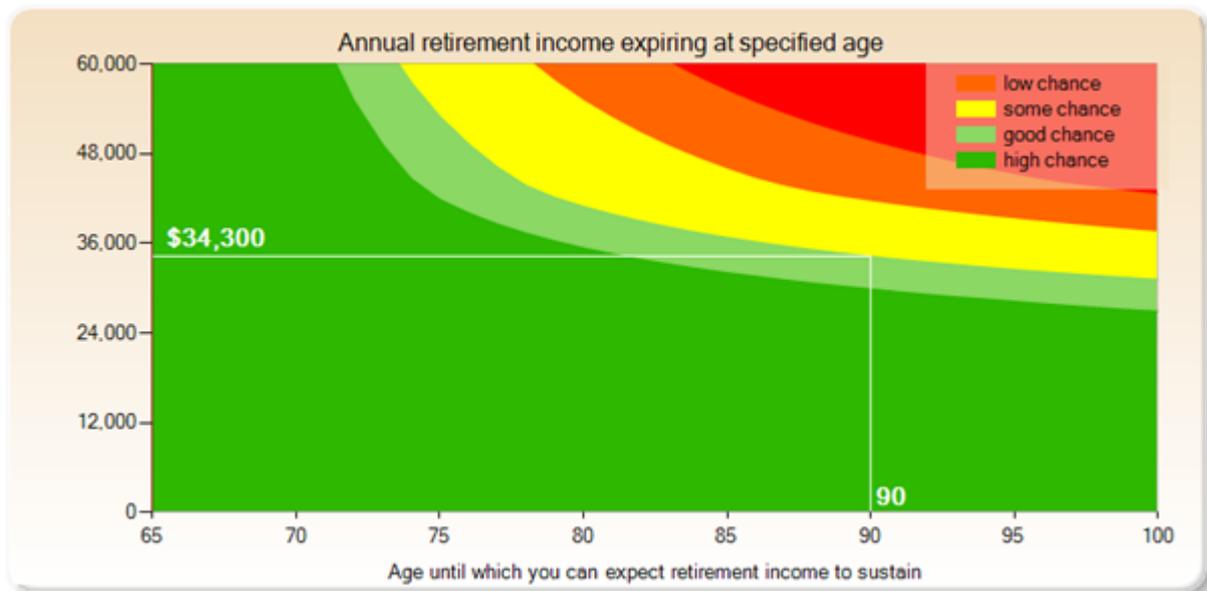
$34,300 each year

until 1 January 2083, when your nearest birthday is your 90th.

This estimate is presented in today's dollars thus allows you to compare the estimated retirement income with today's living expenses.

Data and assumptions used to make this estimate are set out on page 3. This estimate should not be construed as advice as it has not considered your personal circumstances.

How long will a different income level last?

Because of the variability of investment returns, you can't be certain how long a specified retirement income will last. The above assessment of $34,300 was for a "good chance" to "age 90". If you would like to see the income you may sustain to another age, or the age a different level of income has a different chance of lasting to, the next chart will assist you. For example, the chart below shows that you would have a good chance of being able to spend $41,000 up to age 80 and thereafter to live off the Age Pension of approximately $20,000 if you and your partner satisfy eligibility criteria. The paragraph below the chart explains how to use the chart.

How to use this chart? If you want to see how long you have a good chance of being able to have a retirement income $34,300, you look along the white line from the vertical axes showing a retirement income of $34,300 until it reaches the boundary of the green and yellow regions, then go down to the horizontal axes showing age and see that the age is 90. This means that there is a good chance that you can have a retirement income of $34,300 until age 90.

ABC-XYZ Superannuation Fund

Retirement income components

The following chart shows the level of annual retirement income and Age Pension (if eligible) that you have a good chance of experiencing during retirement to Age 90.
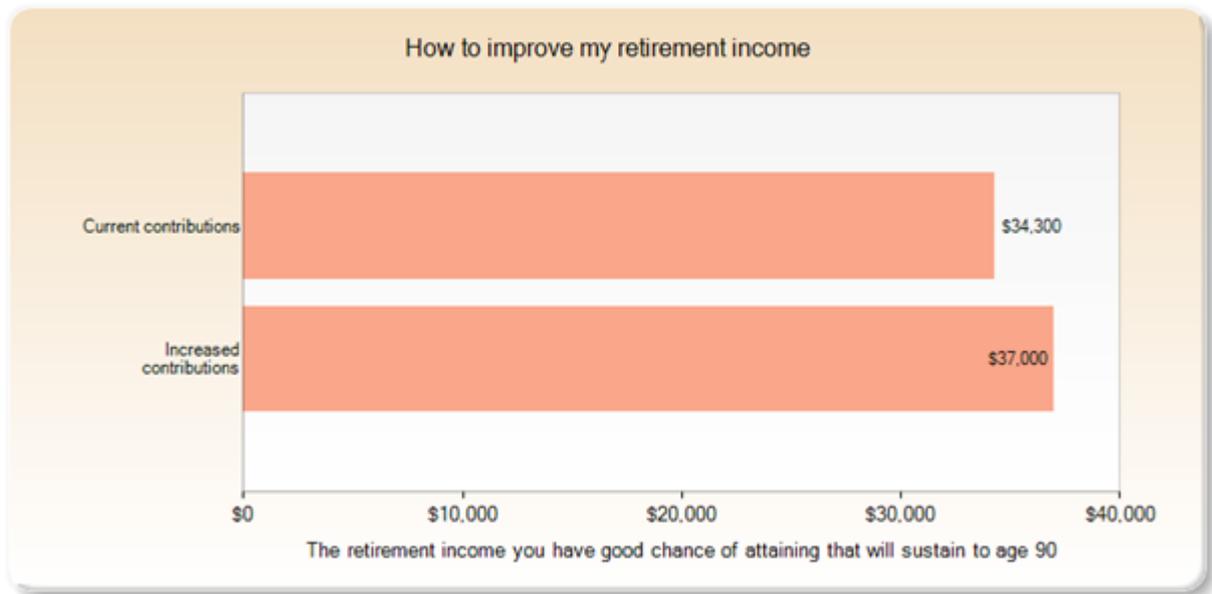
ABC-XYZ Superannuation Fund

Something to think about

If you would like to improve your estimated retirement income you could consider:

1. Increasing your contributions

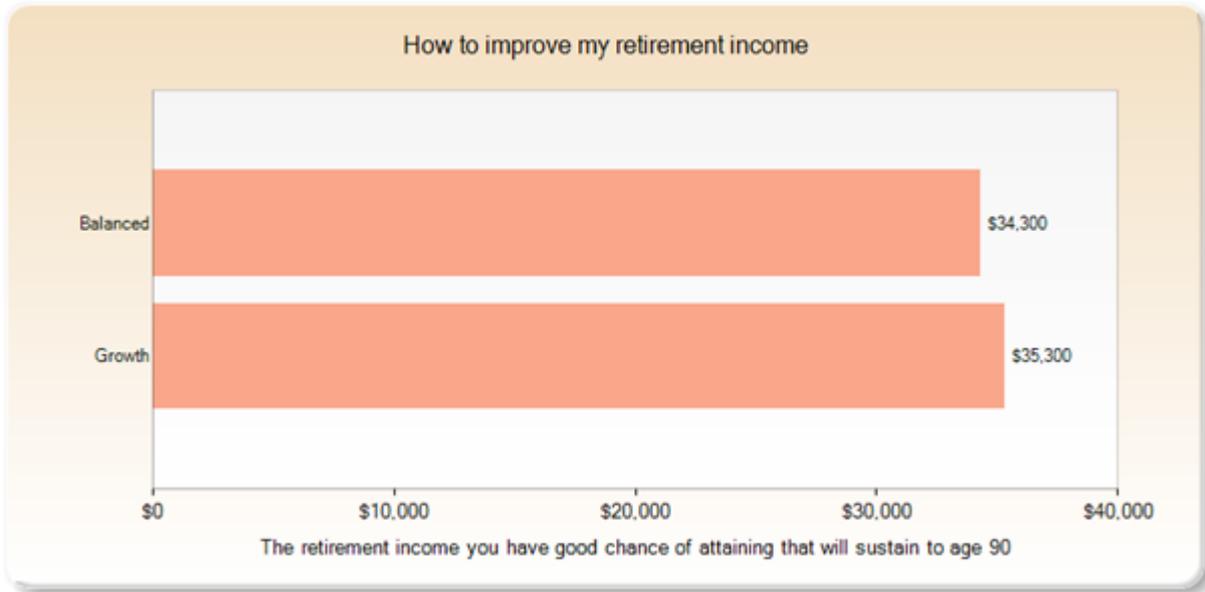|	
Additional contribution	$900 each year
Impact on retirement income	Your estimated retirement income that you have a good chance of receiving increases by $2,700 each year until age 90, ie total of $37,000 each year.

2. Change your investment strategy

There may be a potential to receive a higher retirement income by using a different investment option. For example, a change from your current Balanced investment option to the Growth investment option will impact your retirement income since the Growth investment option introduces both higher returns and higher investment risk. The Growth option provides you a good chance of achieving a retirement income of $35,300 to age 90. This is marginally higher than the sustainable income of $34,300 from your current investment strategy.

Investment option	Growth
Impact on retirement income	Your estimated retirement income that you have a good chance of receiving increases by $1,000 each year until age 90, ie total of $35,300 each year.

How to improve my retirement income

Balanced — $34,300
Growth — $35,300

The retirement income you have good chance of attaining that will sustain to age 90

3. Increase your contributions and change your investment strategy

Furthermore if you increase both your contributions and your allocation to growth assets, then you will obtain additional improvements as seen below.

How to improve my retirement income

Current contributions and Balanced — $34,300
Higher contributions and Balanced — $37,000
Current contributions and Growth — $35,300
Higher contributions and Growth — $38,500

The retirement income you have good chance of attaining that will sustain to age 90

Background Data and Assumptions

ABC-XYZ Superannuation Fund used the following information from our records, plus the following assumptions to estimate your Retirement Income:

	From our records
Age nearest birthday	20 on 1 January 2013
Superannuation balance	$4,000 on 1 January 2013
Investment option	Balanced
Current contributions	$4,500 (before deduction of contributions tax)
	Assumptions
Other Investments	We have not included the benefit from any other superannuation accounts and investments you may have.
Assumed date of retirement	1 January 2058, when your nearest birthday is your 65th
Further information	Additional information, such as: - future investment returns assumptions - inclusion of Age Pension if eligible - future contributions assumptions - limitations of projections such as this, and - what we mean by "good chance" can be obtained from http://ABCSuper.com.au/Assumptions

If any of the above information is incorrect, please contact ABCFund Service Desk on XX-XXX XXX.

To find out more

You can call our Help line on XX-XXXX XXXX and one of our staff will assist you to update the above background data or incorporate additional information which may have a material impact on these projections.

You can also use our on-line Retirement Adequacy Calculator which produced the above report. You will need to logon to or http://ABCSuper.com.au/Calculator where you can enter additional data yourself and explore various what if scenarios at your leisure.

Retirement Income Estimate for John Young

Your superannuation is intended to provide income in retirement. We have estimated that your current balance, together with assumed future contributions, will have a good chance of delivering a retirement income of:
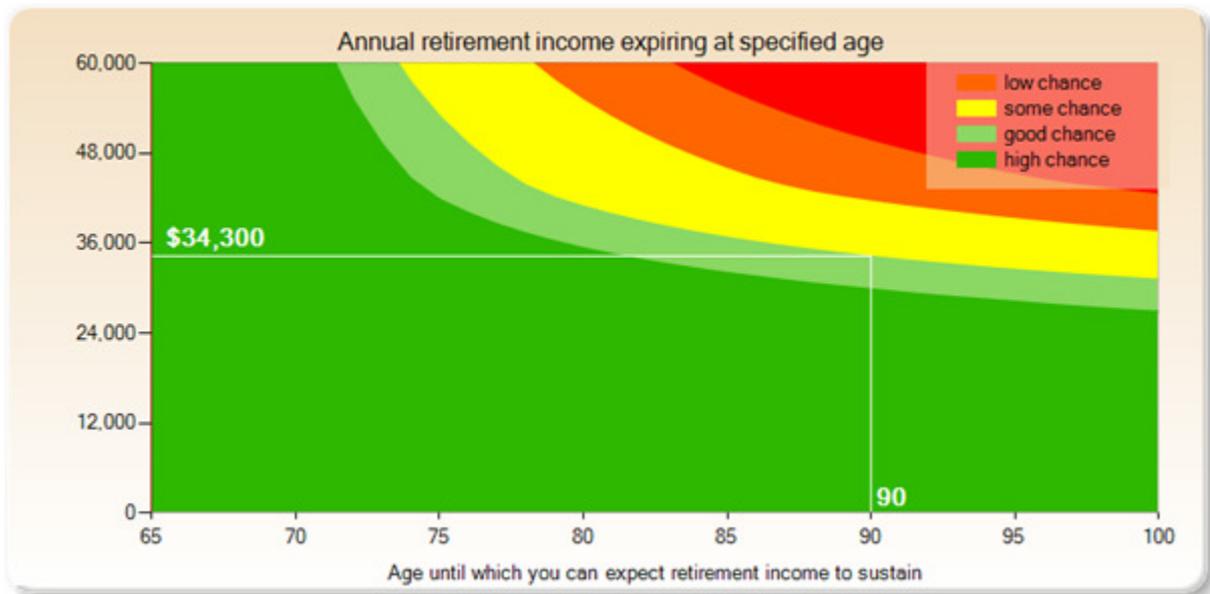
$34,300 each year

until 1 January 2083, when your nearest birthday is your 90th.

This estimate is presented in today's dollars thus allows you to compare the estimated retirement income with today's living expenses.

Data and assumptions used to make this estimate are set out on page 2. This estimate should not be construed as advice as it has not considered your personal circumstances.

How long will a different income level last?

Because of the variability of investment returns, you can't be certain how long a specified retirement income will last. The above assessment of $34,300 was for a "good chance" to "age 90". If you would like to see the income you may sustain to another age, or the age a different level of income has a different chance of lasting to, the next chart will assist you. For example, the chart below shows that you would have a good chance of being able to spend $41,000 up to age 80 and thereafter to live off the Age Pension of approximately $20,000 if you and your partner satisfy eligibility criteria. The paragraph below the chart explains how to use the chart.

How to use this chart? If you want to see how long you have a good chance of being able to have a retirement income $34,300, you look along the white line from the vertical axes showing a retirement income of $34,300 until it reaches the boundary of the green and yellow regions, then go down to the horizontal axes showing age and see that the age is 90. This means that there is a good chance that you can have a retirement income of $34,300 until age 90.

ABC-XYZ Superannuation Fund

Retirement income components

The following chart shows the level of annual retirement income and Age Pension (if eligible) that you have a good chance of experiencing during retirement to Age 90.

Background Data and Assumptions

ABC-XYZ Superannuation Fund used the following information from our records, plus the following assumptions to estimate your Retirement Income:

	From our records
Age nearest birthday	20 on 1 January 2013
Superannuation balance	$4,000 on 1 January 2013
Investment option	Balanced
Current contributions	$4,500 (before deduction of contributions tax)
	Assumptions
Other Investments	We have not included the benefit from any other superannuation accounts and investments you may have.
Assumed date of retirement	1 January 2058, when your nearest birthday is your 65th
Further information	Additional information, such as: • future investment returns assumptions • inclusion of Age Pension if eligible • future contributions assumptions • limitations of projections such as this, and • what we mean by "good chance" can be obtained from http://ABCSuper.com.au/Assumptions

If any of the above information is incorrect, please contact ABCFund Service Desk on XX-XXX XXX.

To find out more

You can call our Help line on XX-XXXX XXXX and one of our staff will assist you to update the above background data or incorporate additional information which may have a material impact on these projections.

You can also use our on-line Retirement Adequacy Calculator which produced the above report. You will need to logon to or http://ABCSuper.com.au/Calculator where you can enter additional data yourself and explore various what if scenarios at your leisure.