FSC Guidance Note No. 21.00

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Calculators – Best Practice Guidance

April 2007

Main features of this Guidance Note are:

- Highlight the importance of calculators in assisting users to 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 licensed financial planner.
- Recommend ways in which providers 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 works in relation to those assumptions and calculator functionality.

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Title:

This Guidance Note may be cited as FSC Guidance Note No.21 “Calculators - Best Practice Guidance”.

Guidance Note and Commentary:

Date of Issue: April 2007

Effective Date:

This Guidance Note applies with effect from July 2007.

Application:

This Guidance Note should be considered as a Guide to best practice for FSC 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.

Following a review conducted by ASIC in 2005 of online super calculators in which the same key facts were input to test 24 different calculators, ASIC expressed concerned with the results produced because:

- the variances in the dollar estimates received were vast; and
- the level of disclosure explaining the variances and underlying assumptions/limitations of the calculator were not adequate.

This Guidance Note builds on FSC’s Discussion Paper *The role of calculators in educating investors* released on 9th March 2006, follows much industry discussion and was finalised following circulation to industry stakeholders as an exposure draft.

Through the approaches outlined in this Guidance Note, FSC’s objective is that, all things being equal, users of calculators will obtain ‘like’ results, based on consistent inputs, from each FSC member’s calculator, where those calculators have been designed to perform the same function.

This Guidance Note details how certain assumptions should be approached in a reasonably consistent way, so to minimise the variances in results obtained by any one user. While this Guidance Note does not seek to prescribe the specific assumptions used, it does outline what is 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 between the estimated results of one calculator and another 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 generic calculators that do not ‘advertise or promote a specific financial product’. There is also industry concern that it does not adequately deal with the provision of investment 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 should 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 05/1122 which provides relief for providers of generic financial calculators only (ASIC has yet to define its policy regarding product specific calculators and investment risk profilers).
- Clarification regarding the boundaries defining the provision of personal and general advice.

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

Statement of Purpose:

Through this Guidance Note, FSC intends 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; and 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 raise awareness of the long term nature of investment and the risk/return trade off.

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

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

Definitions:

Calculator. As defined by CO 05/1122, is a facility, device, table or other thing used to make a numerical calculation or find out the result of a numerical calculation relating to a financial product.

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

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.

User. Means a person using a calculator provided by an FSC member, having regard to the meaning of retail client as defined in section 761G of the Corporations Act.

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

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

Investment options. Means other underlying financial products, asset classes 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.

Providers. FSC member which host or provide calculators to which this Guide is applicable. Please refer to the ‘Out of Scope’ section on page 6.

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 details of how all assumptions are derived (as per CO 05/1122).

b. The provider of the calculator should not be 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.

c. The user does not pay the provider of the calculator a fee for the use of the calculator. (For the purposes of this Guidance Note, a user also includes an existing holder of a financial product that has access to a member website or device, notwithstanding the fact that the member cannot be identified.).

d. The calculator should be accompanied by a clear:

- **I.** statement about the purpose of the calculator (as per CO 05/1122); 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 (as per CO 05/1122); and
- **III.** a clear explanation of why the 'default assumptions', including any statutory assumption, are reasonable for the purposes of working out the estimate and a warning that while the 'default assumptions' are considered reasonable by the calculator provider for most circumstances, they do not provide any guarantee in relation to any illustrated amounts the calculator derives; and
- **IV.** suggestion that the user consider getting advice from a licensed financial planner before making any decision about a financial product, including but not limited to whether or not to acquire an interest, continue to hold an interest or reduce and interest in a financial product (as per CO 05/1122).

e. The user is able to alter key default assumptions to the extent that these assumptions can reasonably be expected to change (as per CO 5/1122).

f. The calculator should not ask the user to discount earnings rates so that they take into account the effect of fees, costs and/or taxes.

g. The calculator, if presented as an electronic facility or device, should enable the user to readily print, record or store the output produced by the calculator.

h. If all other principles 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 financial products offered by the provider.

i. A copy of the software specifications or a copy of the calculator must be kept by the provider for a period of seven years from when it was first made available.

Out of scope:

- Calculators designed for use by licensed financial planners. This is because calculators provided to planners 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, investment risk profilers and premium generators (FSC intends to look at further guidance on these forms of calculators in the future. This is also subject to any further policy statement ASIC may provide, as referred to previously).
- Business life insurance calculators.

Assumptions:

INVESTMENT

Below are suggestions for how certain assumptions can be applied to INVESTMENT CALCULATORS, that is: both superannuation (accumulation phase and income stream products) and non-superannuation calculators.

<u>Use of Current Dollar Values:</u>

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 clearly labelled so as to avoid any user confusion.

<u>Measures of inflation:</u>

The measure of inflation used should be appropriately sourced and referenced within the provider's technical guide. Suggested sources include Average Weekly Ordinary Time Earnings (AWOTE) and the Consumer Price Index (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.

<u>Fees and charges:</u>

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

- 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 is 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. For example the technical guide might feature an indicative fee template outlining fees for an example product.
- 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 dollar based, or the percentage based fees and charges.

<u>The effects of different types of fees:</u>

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 generic in nature, that is it does not relate to a specific product/fund, the management cost field can 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, and the impact this may have on the end result produced by the calculator.

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 detail appropriate management costs - for example the technical guide might feature an indicative fee template outlining fees for an example product.

Where the calculator relates to a specific financial 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 licensed financial planner. This field may therefore be left blank. It is not necessary for this to be a mandatory field, allowing the user to move past this field without inputting a figure.

Where the calculator relates to a specific financial 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 can also 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.

<u>Estimated Earnings Rate:</u>

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 financial 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 FSC'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 (financial) 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, FSC 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 and be complaint with the terms of FSC Standard 6 – *Product performance, calculation of returns.*

Both approaches are detailed below as well as 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 have selected the default by not changing the rate field
- Explain the investment mix within the portfolio and the expected risk/return
- 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 can 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 financial services providers 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(s) they offer, and the actual outcome the user will experience should they choose such a product(s).

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 financial services providers do vary and it is only right that their calculators provide results that reflect the experience a user would have with the relevant product offered by the provider.

FSC 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 obtained 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. However, 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 user's 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 to consider the effects of taxation on the effective rates of investment return.

Where results are generated on an after tax basis, the assumptions and approach used should be clearly disclosed and the user should be warned that the outcome may not reflect their personal tax situation.

SUPERANNUTION (accumulation phase only)

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

<u>Employer contribution rate:</u>

It is appropriate for the default assumption to be that employer contributions are made at the rate of 9% - the current value of the superannuation guarantee (SG). 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 SG contributions to reflect salary sacrifice or additional employer contributions.

<u>Personal contributions:</u>

Calculators should enable users to include personal contributions (undeducted 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 Un-deducted Contribution (UDC) limits.

<u>Timing of personal contributions:</u>

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

<u>Effect of insurance premiums in conjunction with super accumulation:</u>

Because not all superannuation investors pay for insurance cover, and the value of the cover bought will differ for each user, it is appropriate for the default assumption for insurance premiums paid to be zero. This will ensure the user understands that the premiums paid are deducted from their superannuation fund account. It is best practice, however, to provide a warning or prompt that the user is proceeding without the benefits life insurance provide, if the no value is inserted in the premium field

Depending on the level of cover required by superannuation investor and whether or not it is individually underwritten, premiums are paid as 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 and it would be misleading as insurance premium rates are based on mortality and morbidity factors and not inflation. This should be detailed within the technical guide as should warnings that premiums will change over the life time of their investment, depending on the product they have bought and their individual exposure to insurance risk. A reference should also be made to the frequency of payments within the technical guide. These factors will have an impact on the 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 and varies according to the type of policy taken out and according to how the premiums are paid. Consumers should seek professional advice for tax related matters.

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% contributions tax rate applied.

For the earnings tax, it is suggested that all superannuation calculators use the effective tax rate as suggested by ASIC on their website and as such the technical guide should include a warning similar to that which is provided by ASIC. Providers of calculators are encouraged to monitor these sources for any changes to the 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 can be applied to SUPERANNUATION SPECIFIC CALCULATORS (income stream products only).

Financial 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 to 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 users options for more frequent income payments e.g. 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. However, 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 user's tax position.

Where results are generated on a before tax basis it is appropriate to encourage the user 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 can be applied to LIFE RISK INSURANCE SPECIFIC CALCULATORS.

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

Risk 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 Guidance Note 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 be taken into account for calculators addressing income needs to be derived from the investment of a lump sum insurance benefit.

Life Expectancy:

Some calculators attempt to assess the income needs of a surviving spouse until their life expectancy, and convert that income back to the value of the lump sum insured amount 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 Guidance Note, the latest version was 2000 – 2002.

The calculator should include a warning that the result 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:

Where calculators illustrate how the capital sum insured can be invested in order to provide an income to the owner or the beneficiary of the policy, it is important that the calculators serve to educate users about the factors affecting investment performance and the returns that are reasonable to expect.

When a calculator illustrates how investing the lump sum insured can provide income, it is appropriate to adhere to the guidelines outlined above for all 'Investment Calculators' for investment earnings and tax considerations.

Warnings should draw the user's attention to the fact that the investment strategy they choose will have an impact on their income and their underlying capital. They should also highlight that the user's circumstances may change in the future and in turn the amount of money they will require may change. As such their insurance needs will necessitate periodic review.

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. This Guidance Note recommends caution before attempting to express the income amount as net of tax as the user's taxation circumstances are most unlikely to be adequately catered for with the types of calculators envisaged in this Guidance Note. 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 are educational tools and serve to 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 results produced by the calculators are only estimates and 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/warnings.

This section gives guidance on the 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; and

IV. suggestion that the user consider getting advice from a licensed financial planner before making any decision about a financial product.

It is appropriate for these statements to be within 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 which are considered as estimates only.

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 in the calculator as well as being further explained in its accompanying technical guide). This list 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 in a superannuation or retirement income calculator.
Inflation	• To alert users 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.
Investment and superannuation fees and charges	• To highlight that the outcome of all investment calculators will be net of 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 licensed 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 how frequently and when charges are applied to the fund e.g. annually at financial year end.
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 users 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. • To let users know that past performance is no indicator of future performance. • To let users know how often it is assumed that earnings are credited to their account.
Non-superannuation tax	• To alert users 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, show details of the assumptions used in calculating the 'after tax' performance, including a warning that these may not reflect an individual's tax position.

Superannuation tax	• That until July 2007 the 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 users to the fact that depending on their level of income, they may be eligible for a Government co-contribution. • That until July 2007 additional personal contributions are subject to Maximum Deducted Contribution and Un-deducted Contribution limits.
Life insurance in conjunction with superannuation accumulation	• To alert users to the valuable benefits that the insurance provides but inform that insurance premiums will reduce their final accumulated benefit. • To alert users to the fact that insurance premiums may change over the lifetime of their investment, depending on the product they buy and the amount of insurance cover they take. • To alert users to the fact that inflation has not been taken into account and depending on the design of their superannuation insurance , the sum insured might increase with inflation, and premium rates could increase each year as their age increases • To alert users of the need to consider that tax may be payable on insurance claims proceeds on benefits payable under superannuation arrangements.
Life insurance sum insured needs assessment	• To alert users 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 and that life expectancy will alter in the future.