FSC FINANCIAL SERVICES COUNCIL

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Dear Mr Leveritt

FSC Submission on Consultation Paper 203 *Age pension estimates in superannuation forecasts: Updates to RG 229*

The Financial Services Council (FSC) welcomes the opportunity to make a submission to the Australian Securities and Investments Commission (ASIC) on Consultation Paper 203 *Age pension estimates in superannuation forecasts: Updates to RG 229*.

The FSC represents Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks, private and public trustees. The FSC has over 130 members who are responsible for investing $1.8 trillion on behalf of more than 11 million Australians.

The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world. The FSC promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.

General

We welcome ASIC's position that the framework remains optional for trustees to provide retirement estimates to its members.

However, we caution that predicting tax, returns and age pension entitlements over a 25 to 30 year period can be misleading, particularly where there is no assessment of an individual's own circumstances. This point does not appear to have been acknowledged in ASIC's Consultation Paper.

Accordingly, we reaffirm the position from the original (IFSA) submission from 2009 that there are clear warnings – for example:

- This forecast is an estimate only and is not a prediction, forecast or guarantee of what the actual outcome will be. The actual outcome may differ significantly from the forecast;

- This forecast should not be used to compare funds;
- You should contact your provider or adviser if you are unclear of what the forecast is telling you; and
- Your preservation age may vary from the age of 65 that has been used in the forecast.

In particular, the length of time that the pension runs for is important when taken in the context of the age at which retirement income is assumed to commence. Given that ASIC proposes for retirement to commence at 67 years, in line with age pension age, the FSC is concerned that ASIC's proposal that the pension is assumed to run for 25 years is not sufficiently conservative. The FSC is of the view that a 30 year period is more appropriate as longevity improves and, to some extent, accommodates those who retire before 67 years.

Critically, the "prescribed" investment returns will not take account of perhaps the most important variable – market sequence risk as the GFC demonstrated [Proposal B2].

In addition, the value of advice should not be understated in developing an individual's retirement plan. The Consultation Paper acknowledges that the intention of the RG is to prompt a member to undertake further investigation by either using a calculator or by seeking advice from a financial adviser. This point should be reflected in the RG.

Finally, there appears to be an inconsistency between the policy intent of ASIC's RG and the detailed requirements under the forthcoming Stronger Super product dashboard framework. In contrast, ASIC's framework is high-level and assumption based.

Responses to ASIC's questions

- A1Q2 – despite all the prescribed content and qualifications, it will still be difficult for trustees to form an opinion that the retirement estimate is not misleading where standard assumptions apply for all members
- B1Q2 – it should not be mandatory to include age pensions in an estimate
- B4Q1 – it should not specifically align with pension age. We support the FSC's original submission that age 65 (fixed) be specified as the retirement date.
- B6Q1 – as for A1Q2
- B6Q2 – no, there is still a risk that any forecast may be potentially misleading or deceptive in certain situations and depending on a person's specific circumstances. For example, we question whether a forecast would have helped a 62 year old in a growth investment strategy just prior to the start of the GFC.? Having said this, it may be that a **very clear** explanation that the forecast is a guide and not a guarantee or prediction of the actual outcome, may ameliorate the risks of investors not understanding that actual outcomes may well differ significantly from an outcome implied in any superannuation forecast.
- B7Q1 – the treatment of fees is confusing as terminology is different from that used for MySuper Product fees. We think the treatment of investment fees needs further explanation. Also, we are not sure why different fee assumptions are used pre and post retirement.

- We consider that future contributions should be assumed to continue on the same basis as current regular contributions (concessional and non concessional) received in the previous 12 months
- Para 229.5 – as per the general comment above, there should be a clear warning that the forecast should not be used to compare funds.

Please feel free to contact me with any question or for more information on the matters raised in this submission.

Yours sincerely