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19 April 2013

Subject: Age pension estimates in superannuation forecasts: Update to RG 229

Dear Mr Leveritt

Mercer is pleased to respond to the Australian Securities and Investments Commission's request for comments on the consultation paper which sets out proposed refinements to the policy on superannuation forecasts.

Mercer is generally supportive of the proposals put forward in CP203. However, we do have particular concerns around the restrictive nature of the proposal in B6Q2 whereby ASIC will not take action if a trustee follows the prescribed assumptions and methodology. Mercer believes it is critical trustees be permitted to use readily available information to vary certain assumptions/data to produce better results, which are less likely to be misleading or deceptive. In this way trustees can take into account facts the member might expect the trustee to consider such as current contributions (i.e. excess contributions tax, co-contributions and refunds) and current employment status. Without ASIC's support for such variations, we expect trustees will be unable to provide retirement forecasts for many members as the results, based on the prescribed assumptions and methodology, will be misleading.

Our detailed comments are set out in Appendix 1. Background information on Mercer is included in Appendix 2.

If you have any queries on our submission, please contact me on 03 9623 5464 or by email at david.knox@mercer.com or Richard Starkey on 03 9623 5650 or email at richard.starkey@mercer.com.

Yours sincerely



Dr David Knox
Senior Partner

SCHEDULE 1

A1 We propose to make refinements to our policy to address certain issues that may have limited adoption by super funds of retirement estimates for their members. These proposals (outlined in this consultation paper) cover the following topics:

- (a) the optional inclusion of the age pension in a retirement estimate (see proposals B1–B3);**
- (b) the use of the retirement age assumption (see proposals B4–B5);**
- (c) liability for misleading estimates (see proposal B6);**
- (d) the definition of ‘administration fees’ (see proposal B7);**
- (e) the use of rounding in retirement estimates (see proposal B8); and**
- (f) the wording accompanying retirement estimates (see proposal B9).**

A1Q1 Do you currently rely on our relief to offer retirement estimates to super fund members?	Currently, a very small number of our trustee clients have relied on CO 11/1227 and provided retirement estimates. However, many funds are now starting to appreciate the need to consider including projections on benefit statements.
A1Q2 Do you agree that refinements of our policy are necessary to address barriers to super funds relying on our relief to provide retirement estimates for their members? If not, why not?	Yes, Mercer agrees refinements to the policy are necessary to address barriers to super funds relying on ASIC relief to provide retirement estimates for members.

B1 ASIC proposes to amend RG 229 and issue a class order to amend [CO 11/1227] to allow a super fund trustee (if they wish) to include an estimate of the age pension in a member's superannuation forecast.

<p>B1Q1 Do you agree with our proposal to allow trustees to include the age pension in a retirement estimate? If not, why not?</p>	<p>Mercer strongly agrees with ASIC's proposal to allow trustees to include the age pension in a retirement estimate.</p>
<p>B1Q2 Should it instead be mandatory for a trustee to include the age pension in a retirement estimate?</p>	<p>No. Mercer believes it should be optional for a trustee to include the age pension in a retirement estimate. In some cases the fund may be a second fund for many members and including an age pension estimate would be misleading. In other cases, it is likely few members will be eligible for the age pension or the retirement age for members may be considerably different to the age pension age.</p>
<p>B1Q3 Are there any practical difficulties for super funds in implementing our proposal?</p>	<p>Some of the practical difficulties for super funds in implementing ASIC's proposal could be avoided by the CO directing trustees to a reliable source of information (website) on the latest pension amounts and parameters.</p>

B2 We propose to require that, if the super fund includes an estimate of the age pension, the pension estimate must use the following assumptions:

- (a) the member qualifies for an age pension under s43 of the *Social Security Act 1991*;**
- (b) the member owns their own home and has no other assets or income affecting the amount of the age pension payable to the member other than a single superannuation fund retirement benefit equal to the lump sum, which is applied on the date of the estimate to purchase an account-based pension that provides the member with income in that year equal to the annual income stream amount; and**
- (c) the member has a partner and the partner has the same income and assets as the member.**

<p>B2Q1 Do the proposed assumptions reflect realistic circumstances for a substantial part of the Australian population? What additional or alternative assumptions should be prescribed?</p>	<p>Mercer believes the proposed assumptions represent a practical way forward given the variety of potential circumstances. However some flexibility is desirable; for example, when the trustees know the member is single.</p> <p>However, we have recommended additional disclosure wording – refer to B3Q1.</p>
<p>B2Q2 Are there any practical difficulties for super funds in implementing our proposal?</p>	<p>Mercer cannot see any practical difficulties for super funds in implementing this proposal provided our recommendation in B1Q3 is implemented.</p> <p>In the short term, following the Government's recent announcement on deeming, there will be two potential income tests depending on when the member commences their pension. Many members will consider commencing a transition to retirement pension before 1 January 2015 in order to lock in the current income test.</p>

B3 We propose to require that, if the super fund includes an estimate of the age pension, it must also include the following prescribed consumer warning in close proximity to the age pension estimate:

You may not be eligible for some or all of this age pension amount if you (or your partner) have income or assets in addition to this super fund.

Pension rates and eligibility rules may change between now and when you retire.

<p>B3Q1 Does the proposed prescribed wording provide sufficient warning to super fund members about their eligibility for the age pension and caution in relying on the figures given?</p>	<p>Mercer believes the proposed prescribed wording does not provide sufficient warning to super fund members about their eligibility for the age pension and caution in relying on the figures given. Mercer recommends an extra sentence to precede the standard pension disclosure:</p> <p><i>This amount represents the current partnered rate of age pension assuming at retirement, your partner has the same amount of super, you are a home owner and you or your spouse have no other assets or income. Note your partner may have considerably more or less superannuation than you and this may affect your entitlement to the age pension.</i></p>
<p>B3Q2 Should there be prescribed requirements for presentation of the age pension estimate?</p>	<p>Mercer recommends the following be prescribed requirements for presentation of the age pension estimate:</p> <ul style="list-style-type: none"> • The age pension should be presented with the same periodicity as for the income stream amount i.e. annually. • Separate disclosure of; the super income stream amount, the age pension amount and the total of the income stream and age pension amount. <p>We believe this information will be sufficient for a member to make comparisons with a quantity they can understand i.e. current salary or an external amount (e.g. ASFA Retirement Standard).</p>
<p>B3Q3 Are there any practical difficulties for super funds in implementing our proposal?</p>	<p>No. Mercer cannot see any practical difficulties for super funds in implementing ASICs proposal.</p>

B4 We propose to issue a class order to amend [CO 11/1227] to specify that the retirement estimate must be calculated based on retirement at the age the super fund member will become eligible for the age pension.

<p>B4Q1 Do you agree with our proposal? If not, what age do you think should be assumed for retirement?</p>	<p>Mercer considers a better outcome would be achieved by adopting the approach to make the retirement age the nearest whole integer (i.e. 65 for 65, 66 for 65.5 and 67 for 66.5 etc).</p>
<p>B4Q2 Are there any practical difficulties for super funds in implementing our proposal?</p>	<p>No. Other than the retirement age complexity referred to above, Mercer does not see any practical difficulties for super funds in implementing the above proposal.</p>

B5 We propose to amend the required information to clarify that the annual income stream amount is based on an assumed lifespan of 25 years following retirement.

<p>B5Q1 Do you agree with the proposed wording of the warning notice regarding the potential for a super fund member to outlive the 25-year projected lifespan?</p>	<p>Mercer agrees with the proposed wording of the warning notice regarding the potential for a super fund member to outlive the 25-year projected lifespan. However, we would recommend some reference to the fact the super income stream is to be indexed.</p>
<p>B5Q2 Are there any practical difficulties for super funds in implementing our proposal?</p>	<p>No. Mercer does not see any practical difficulties for super funds in implementing the above proposal.</p>

B6 We propose to clarify in RG 229 our original intent that we will not take action if a super fund trustee follows the prescribed assumptions and methodology set out in this guide. We do not consider that it is necessary for a trustee to make specific inquiries to determine whether a member’s individual circumstances match the prescribed assumptions: see draft RG 229.14.

<p>B6Q1 Do you agree with our proposed approach? If not, why not?</p>	<p>Mercer agrees with the proposed approach outlined above, subject to the concern below.</p>
<p>B6Q2 Does our proposed approach appropriately address industry concerns about potentially misleading or deceptive estimates?</p>	<p>No. Mercer recommends trustees are provided additional comfort, particularly in relation to varying the assumptions to give a better estimate and to minimise the provision of misleading information. Such variation is necessary so trustees can minimise complaints and potential actions from members and third parties.</p>

B7 We propose to issue a class order to amend:

- (a) [CO 11/1227] to clarify that any amount of administration fees and costs effectively paid or borne by the super fund member in the previous year (either directly or indirectly) should be included in the calculation of a retirement estimate; and**
- (b) the reference in [CO 11/1227] to ‘management of the assets of the entity’ to clarify that the definition of administration fees only excludes costs related to the management of investment of the super fund’s assets.**

<p>B7Q1 Do you agree with our proposal in relation to administration fees? If not, why not?</p>	<p>Mercer agrees with the principle of complete recognition of costs.</p>
<p>B7Q2 Are there any practical difficulties for super funds in implementing our proposal?</p>	<p>No. Provided there is no overlap or double counting of fees.</p>

B8 We propose to issue a class order to amend [CO 11/1227] to require that the estimated lump sum amount and annual income stream amount should be rounded to three significant figures. For example, an annual income stream estimate of \$23,289 should be rounded to \$23,300.

<p>B8Q1 Do you agree with our proposal for rounding of estimates? If not, what approach to rounding do you suggest?</p>	<p>Mercer agrees with the above proposal for rounding of estimates.</p>
<p>B8Q2 Are there any practical difficulties for super funds in implementing our proposal?</p>	<p>No. Mercer does not see any practical difficulties for super funds in implementing the above proposal.</p>

B9 We propose to make minor refinements to the wording of the prescribed consumer warnings: see draft RG 229, Appendix 1.

<p>B9Q1 Do you agree with our proposed revised wording of the prescribed consumer warnings? If not, what alternative text do you suggest?</p>	<p>Mercer agrees with the proposed revised wording of the prescribed consumer warnings subject to additional disclosure showing the member's current age, the danger of combining age pension estimates from numerous funds, the potential variability of estimates of the age pension and there being no allowance for the increase in SG to 12%.</p>
<p>B9Q2 Are there any practical difficulties for super funds in implementing our proposal?</p>	<p>No, there are no practical difficulties for super funds in implementing the above proposal.</p>

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APPENDIX 2

WHO IS MERCER?

Mercer is a leading global consulting leader in talent, health, retirement and investments. Mercer helps clients around the world advance the health, wealth and performance of their most vital asset – their people.

Mercer also provides customised administration, technology and total benefits outsourcing solutions to a large number of employer clients and superannuation funds (including industry funds, master trusts and employer sponsored superannuation funds). We have \$55 billion in funds under administration locally and provide services to over 1.3 million super members and 15,000 private clients. Our own master trust, the Mercer Super Trust, has approximately 260 participating employers, 240,000 members and more than \$15 billion in assets under management.