

Thursday, 18 April 2013

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Dear Sir,

Consultation Paper 203: Age pension estimates in superannuation forecasts – Update to RG 229

We refer to the above consultation paper.

By way of background, UniSuper is the industry superannuation fund dedicated to people working in Australia's higher education and research sector. With more than 479,000 members and over \$35 billion in assets under management, UniSuper is one of Australia's largest superannuation funds.

UniSuper has a range of sophisticated retirement calculators on its website and has in-house financial planners who are responsible for advising members. However, UniSuper does not currently include retirement forecasts in its periodic statements. That said, this is an innovation that UniSuper may well adopt in future and, in that regard, we are following ASIC's reforms in this area with interest and welcome ASIC's endeavours to provide more flexibility to trustees and to facilitate greater use of retirement forecasts to build member engagement.

We make the following submissions with regard to the consultation paper.

1. From UniSuper's perspective, the current prohibition against including the age pension in retirement forecasts is *not* the reason why UniSuper has previously refrained from including retirement forecasts within periodic statements.
2. Even if ASIC were to proceed with the proposed reforms, UniSuper would most likely not wish to include the age pension in any retirement forecasts which UniSuper chooses to provide in future. We would therefore suggest that it should not be mandatory for trustees to include the age pension in retirement forecasts. Some trustees will be generally reluctant to publish forecasts based on simplified assumptions concerning a highly complex

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matter, especially when there is a very real prospect of the assumptions being incorrect for a significant portion of our membership. Equally, it is conceivable that some trustees may prefer to exclude the age pension from their forecasts because they may be reluctant, or simply not in a position, to respond to the queries from members about the age pension that would inevitably follow. Further, given the risk of action being taken by members for misleading forecasts (i.e. notwithstanding ASIC's no-action position), it would be unusual if trustees were to be compelled to include age pension forecasts and thereby expose themselves to that latent risk. Further, for trustees already including retirement forecasts with their periodic statements, we query whether there would be sufficient lead time for them to make the necessary changes regarding the age pension prior to the next run of periodic statements being issued following 30 June 2013, especially with the current focus on MySuper and APRA's prudential standards. For all these reasons, we submit that it should not be mandatory to include the age pension in retirement forecasts.

3. We believe we can encourage our members to seek financial advice from our financial planners and to use our online calculators without resorting to overly simplified retirement forecasts and, therefore, without exposing UniSuper to the risk of complaints from members who are disappointed with their actual position relative to the forecast.
4. The length of the prescribed disclaimers and standardised text is also a significant impediment to including retirement forecasts with periodic statements. The prescribed text potentially runs for 1 – 2 pages. For a fund with half a million members that issues periodic statements every six months, this would involve printing up to an additional 1 million pages, twice per year. We believe it would be far more efficient if all trustees could simply refer members to a page on the ASIC website which includes the standardised assumptions and other text.
5. The consultation paper seems to focus entirely on accumulation-styled benefits, but apparently overlooks the impact on defined benefit funds, including hybrid funds. We submit that the relief should extend to defined benefit funds. For a member entitled to receive defined benefits as well as accumulation-styled benefits, the defined benefit component would in most cases represent the largest portion of their benefit. For this reason, projecting the value of their accumulation benefits (to the exclusion of their defined benefits) would be an inaccurate projection. As such, trustees may be inclined not to include retirement forecasts for those members who, as well as having an accumulation account (perhaps even a MySuper product), also have a defined benefit interest. This would potentially create issues under the MySuper legislation, since trustees must provide access to the same facilities for all members holding a MySuper product.
6. We note the proposal that trustees should assume that contributions by a member in all future years (until retirement) will be the same as contributions in the preceding year. UniSuper would be particularly concerned about making such an assumption when calculating any forecasts published by UniSuper, given the various

circumstances in which this assumption would be significantly inaccurate. For example:

- a. Over the next few years, the rate of compulsory superannuation contributions will increase from 9% to 12%. For a member with, say, 30 years until retirement, the compounded effect of assuming that contributions will continue at 9% (when the reality is that contributions will be made at a 12% rate for most of those years) will be significant. It ought not be difficult for trustees to factor in the effect of announced changes to the superannuation guarantee contribution rate.
 - b. The focus should perhaps be on 'net contributions' – in other words, contributions net of withdrawals and contribution taxes, including excess contribution taxes. This is particularly significant given the recent announcement by the Government that members will be entitled to withdraw any contributions in excess of the concessional contributions cap.
 - c. Substantial non-concessional contributions which are likely to have been made on a once-off basis should not be assumed to continue. For example, if a member has taken advantage of the "bring-forward" provision for non-concessional contributions (e.g. by contributing \$450,000 in one year instead of only \$150,000 per year, on the basis that no further non-concessional contributions will be made for another 3 years), it would be inaccurate and inappropriate to assume that the member would continue to contribute \$450,000 per annum by way of non-concessional contributions.
 - d. More generally, the assumptions about future contributions should be consistent with the caps that apply to concessional and non-concessional contributions (for example, the assumptions should not involve assuming contributions being made in excess of the caps). Such an assumption would ideally take into account the different caps that apply to members of different ages (especially in light of recent Government announcements) and perhaps even incorporate assumptions about the likely indexation of those caps in future.
7. We note that the standardised assumptions do not address or provide for any future salary increases, not even on account of inflation. While there is clearly a focus on expressing future investment returns in today's dollars, the proposal seems to suggest (through omission) that forecasts must be calculated on the basis that members will suffer salary decreases in real terms (which has a flow on effect on the amount of contributions). In our view, trustees should be permitted (or required) to allow for some increase in salaries, whether by reference to CPI, AWOTE or some other standardised measure.
8. We note that the standardised assumptions require forecasts to be calculated on the basis that members' accounts will earn a 3% real return per annum. This is an assumption that UniSuper would be uncomfortable making in circumstances where the relevant member's chosen investment option aims to achieve significantly more

or less than the assumed 3% real return, or where in current market conditions the expected return for their chosen option is significantly more or less than the assumed 3% real return. In our view, trustees should be permitted to utilise a more appropriate set of return assumptions, whether they reflect the (real) investment return objectives for the relevant member's chosen investment options or perhaps the assumed rates of (real) return utilised in the trustee's online calculators.

We thank you for the opportunity to participate in the consultation. If you require clarification on any of these issues, please contact