AUSTRALIAN INSTITUTE of SUPERANNUATION TRUSTEES

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Dear Nicole,

CONSULTATION PAPER 351: Superannuation forecasts: Update to relief and guidance

In brief

AIST broadly supports the proposals put forward by ASIC, including adopting a common framework for setting some assumptions, making a single legislative instrument that covers retirement estimates and calculators, and allowing trustees to provide retirement estimates through an online portal.

However, AIST makes several recommendations that would promote member engagement, improve the member experience, and contribute to enhanced interaction of the relief with frameworks like the Retirement Income Covenant.

About AIST

Australian Institute of Superannuation Trustees ("AIST") is a national not-for-profit organization whose membership consists of the trustee directors and staff of industry, corporate and public sector superannuation funds.

As the principal advocate and peak representative body for the $1.6 trillion profit-to-members superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST advocates for financial wellbeing in retirement for all Australians regardless of gender, culture, education, or socio-economic background. Through leadership and excellence, AIST supports profit-to-member funds to achieve member-first outcomes and fairness across the retirement system.

Summary

AIST welcomes the opportunity to make a submission to ASIC on *Consultation Paper 351 – Superannuation forecasts: Update to relief and guidance*. We are broadly supportive of the proposed amendments, including amendments:

- to adopt a common framework for setting economic and financial assumptions
- to allow funds to provide access to retirement estimates through an online portal
- to make a single legislative instrument that covers both retirement estimates and superannuation calculators

However, AIST considers that the amendments could be enhanced to interact more intimately with advice and a potential retirement income covenant. This submission provides general comments in relation to Consultation Paper 351 (**CP 351**) after consultation with member superannuation funds and responds to some of the CP 351 questions directly. AIST makes the following recommendations:

- Extend the relief to allow trustees to provide retirement income estimates to members aged over 67, in a retirement phase at the date of the estimate, or in a defined benefit scheme
- Remove principle that requires providers to clearly and prominently disclose that the calculator or estimate is not intended to be relied upon to make a decision and to seek advice instead
- Retirement age and drawdown period assumptions:
  - Allow trustees flexibility to use a retirement age tailored to its membership based on data
  - Allow trustees flexibility to use a drawdown period tailored to its membership and extend the default minimum drawdown period to 30 years
- Static retirement estimates:
  - Allow the inclusion of age pension amounts in static retirement estimates
  - Allow funds to provide static retirement estimates outside of the annual statements cycle
- Extend the transition period to at least 12 months and allow trustees to provide estimates as part of 2021-2022 statements using the existing relief
- Review the assumptions underlying the default inflation rates and adjust assumed nominal wage growth down from 4% p.a. during the accumulation phase to align with the Reserve Bank of Australia's inflation target of 2.5% p.a.

General Comments

CP 351 outlines a general shift towards encouraging trustees to build tools that are intended to inform members, but explicitly forbids the use of these tools by trustees to assist members in making a decision. AIST acknowledges ASIC's concerns that members may rely fully on the estimates from these tools without appropriately considering the impact it may have on their retirement income. However, the introduction of a retirement income covenant, design and distribution obligations, and the looming Quality of Advice Review all provide an opportunity to balance this risk with making calculators and retirement estimates materially useful for members in the absence of affordable, accessible quality personal advice.

We note that the provision of a retirement estimate is one form of assistance alongside many other channels available to members provided by superannuation funds to assist them in making a decision. For example, other forms of assistance include webinars, factsheets, and personal advice.

Interaction with Retirement Income Covenant

The updated relief and proposed guidance must be considered in conjunction with the introduction of a retirement income covenant and how the new obligations under the proposed covenant interact with the use of tools such as calculators and retirement projections. The existing regulatory framework limits how trustees can make use of these tools to assist members under the obligations outlined in the Bill, and the proposed updates do not expand far enough to support trustees meet these obligations, particularly how a trustee intends to assist beneficiaries under a retirement income strategy[1].

The release of CP 351 sets out proposals that would amend legislative instruments on superannuation calculators and retirement estimates. We welcome this consultation and highlight that it is a good opportunity for Government to consider a holistic approach to setting up a sound structure on which trustees can assist members in the context of a retirement income strategy.

The consultation paper makes explicit note of how trustees will use these tools to comply with the covenant. However, ASIC have outlined their expectations in relation to how superannuation calculators and retirement forecasts cannot be used, including not using them to recommend specific products.

[1] Corporate Collective Investment Vehicle Framework and Other Measures Bill 2021, Explanatory Memorandum, p. 319-320.

AIST generally agrees with this approach to ensure consumer harm is minimised from misleading conduct. However, we think this is a missed opportunity to leverage these tools for a retirement income strategy. The explicit limit of the proposed relief hinders trustees' ability to assist and provide guidance to members as required by the obligations in the Bill.

Requiring trustees under the retirement income covenant to assist and guide members as part of a retirement income strategy, but not allowing them to nudge or present appropriate products that would be beneficial to the member would leave members with little help outside of formal financial advice to make an informed decision. AIST believes that there is room for this to be developed and urges the relief to be expanded to allow the showing of retirement income products in line with a retirement income strategy.

Regulatory Context

AIST supports frameworks that shield consumers from harm. In particular, we acknowledge the findings from ASIC's **REP 614 – Financial advice: Mind the gap (REP 614)** where ASIC highlighted poor conduct in relation to general advice distribution models, including the "use of general advice to sell complex products [which] increases the risk of consumer loss"[2].

Recent regulatory and legislative change seeking to address some of these risks have come into effect in 2021. For example, new obligations such as design and distribution obligations, the hawking prohibition, changes to internal dispute resolution regulations, and future proposals to expand heatmap and performance testing to other products must also be taken into consideration when assessing the risks identified in REP 614.

Assumptions

AIST agrees with proposals to streamline assumptions and have a consistent approach across the industry. However, we recommend re-consideration of the default assumptions ASIC is seeking to set about retirement age, drawdown period, and inflation rates.

Retirement age

Different funds will have a membership with significant variations in retirement age, for reasons such as involuntary retirement arising from injury or disability, gender, socioeconomic background, or education levels[3]. Having a set default age of 67 for retirement would not be

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[2] ASIC (2019). Financial advice: Mind the gap. *Report 614*. https://download.asic.gov.au/media/5054882/rep614-published-28-march-2019.pdf

[3] Callaghan, M., Ralston, D., Carolyn, K. (2020). Retirement Income Review. *Final Report*. https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf.

helpful for many members who retire early or are unable to work due to injury or illness. The RIR found that "42 per cent of people retired involuntarily between 2012 and 2015 […] with 28 per cent retiring involuntarily *before age 65* [emphasis added] and 8 per cent retiring involuntarily after this age"[4].

The RIR also found differences across cohorts in retirement age. For example, women tend to retire earlier than men; more educated people tend to retire, on average, later than people with no post-school qualification; and a higher rate of involuntary retirement tends to occur for blue-collar workers in comparison to white-collar workers[5]. These characteristics identified by the RIR showcase a relatively high proportion of retirees outside of the standard age 67 voluntary retirement age assumed by CP 351.

Evidence across from some of our member funds further supports a tailored approach to retirement age based on a fund's membership. We have seen data which indicates that retirement ages across funds can vary by a range of at least 7 years[6]. This difference is too large to conclude that a one-size-fits-all default retirement age of 67 is a reasonable assumption for some funds which would offer limited guidance to members and; again, it has a blunting effect on the utility that the provision of retirement estimates and calculators has for members as a guide.

We therefore consider it appropriate, based on fund membership data and reasonable assumptions, to allow funds to set a different default retirement age, either alongside a "benchmark" age 67 or on its own. An alternative proposal is to allow for a range of retirement ages and their outcomes to be shown in retirement income estimates.

These two alternative solutions keep the age 67 default retirement age proposed in CP 351 but provide sufficient and appropriate flexibility for trustees to provide more realistic estimates that align better to the circumstances of a fund's particular membership. We believe this enhances the utility of the calculators and retirement estimates without creating more risk to members than the benefit it provides.

Drawdown period

Similar to the retirement age, drawdown periods will vary significantly for different fund memberships. Noting the early retirement figures outlined in the RIR, it is evident that for a large

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[4] Ibid, p. 316

[5] Ibid, p. 318

[6] Figures provided to AIST on a de-identified basis.

cohort of retirees their drawdown period is much longer than the assumed 25-year drawdown period proposed in CP 351.

Whilst this drawdown period is used in the RIR[7], for some funds it will not reflect the reality of its membership and thus the value of providing a retirement estimate will lose efficacy. Members who have materially different time horizons for retirement will be impacted by inaccurate estimates.

AIST considers it is prudent to allow trustees to set a drawdown period that reflects its membership, based on data and reasonable assumptions arising from a fund's knowledge of its membership.

Inflation rates

Setting standardized default inflation rates to show the present value of a retirement estimate or the output of a superannuation calculator is appropriate. This sets consistency across the board in showing retirement outcomes and facilitates comparability across the sector. However, AIST considers it more appropriate to revise down the rate of long-term nominal wage growth of 4.0% p.a. to align with the Reserve Bank of Australia's long-term inflation target of 2.5% and with historical trends.

Research by the Parliament of Australia shows why 4.0% p.a. assumed nominal wage growth may not be appropriate for a retirement income estimate. The analysis highlights "a range of measures show a significant slowing in wage growth in Australia over the past five years. The Wage Price Index (WPI) grew at an annual average of 2.2 per cent in the five years to December 2018, which compares with average annual growth of 3.3 per cent in the previous five years to December 2013"[8].

Data sourced from the Australian Bureau of Statistics' (ABS) WPI shows the seasonally adjusted annual change to wage has creeped up over 4% only about 4.5 years over a 25-year period since

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[7] Callaghan, M., Ralston, D., Carolyn, K. (2020). Retirement Income Review. *Final Report*, p. 503. https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf.

[8] Gilfillan, Geoff (2019). The extent and causes of the wage growth slowdown in Australia. *Research Paper Series, 2018-2019*. Statistics and Mapping Section, Department of Parliamentary Services. https://parlinfo.aph.gov.au/parlInfo/download/library/prspub/6609740/upload_binary/6609740.pdf

1997, between June 2005 and March 2009. In fact, the average annual change over the period of 1997 to 2020 was 3.1%[9].

Assuming labour productivity growth of 1.5% and an inflation rate of 2.5% equates to approximate nominal wage growth of around 4%.0. This assumption seemingly ignores the historically low productivity growth of the last decade, and the impact the Covid-19 pandemic is likely to have on long-term productivity. In the last 6 years, average annual labour productivity growth has remained well under 1%; taking this into consideration, it is reasonable to conclude that the viability of the assumption behind the factors contributing to a nominal wage growth rate of 4.0% p.a[10] should be reconsidered.

AIST reiterates its recommendation that the rate of long-term nominal wage growth be revised down to 2.5%. This rate should be reviewed on an ongoing basis every 3 years to appropriately capture structural shifts in labour productivity that could impact the feasibility of the assumed nominal wage growth rate.

Inclusion of the Age Pension

CP 351 excludes the Age Pension from static retirement estimates. It is unclear from the Consultation Paper the risks associated with including the Age Pension into these estimates.

The RIR found that around two-thirds of eligible Age Pension recipients were in receipt of the Age Pension[11]. With such a high Age Pension take up rate, AIST considers that it is appropriate to allow the inclusion of the Age Pension into static retirement income estimates as a majority of superannuation members will have the Age Pension as part of their retirement income.

CP 351 outlines ASIC's expectations about members not having to rely on calculators or retirement income estimates to make a decision. Unfortunately, for many members, obtaining personal financial advice is expensive, inaccessible, and daunting. As such, the utility of these tools must be enhanced so that a member with limited avenues to make an informed decision

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[9] Analysis by AIST using Wage Price Index data released February 2021 for a December 2020 reference period. Australian Bureau of Statistics. https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/wage-price-index-australia/dec-2020#key-statistics

[10] Analysis by AIST using Estimates of Industry Multifactor Productivity released December 2021 for the 2020-2021 financial year. Australian Bureau of Statistics. https://www.abs.gov.au/statistics/industry/industry-overview/estimates-industry-multifactor-productivity/latest-release

[11] Callaghan, M., Ralston, D., Carolyn, K. (2020). Retirement Income Review. *Final Report*, p. 73. https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf.

can have at the very least the best available information. For many members, this will include tools such as calculators and retirement income estimates.

For this reason, AIST considers it is appropriate for Age Pension figures to be included in static retirement income estimates, with appropriate assumptions and explanations about these assumptions in line with CP 351.

Responses to specific proposals

Proposals B3 and B4

AIST supports a principles-based approach to disclosure requirements. This allows trustees the flexibility to tailor calculators and retirement forecasts to their specific membership. Having regard to this approach, we also support a consistent format of disclosure.

The approach relies on key principles around disclosure, including the benefits and limits of the calculator or estimate, assumptions and the rationale behind these, the fact that the tools are not intended to be relied on to make a decision, among others. AIST agrees with these broad principles but considers that more flexibility should be provided in allowing appropriate product alternatives to be provided.

This risk is identified by ASIC as the possibility of misleading or incomplete information may lead to adverse decision-making by the member. AIST acknowledges this but highlights that the best interests duty under the Corporations Act would compel the trustee to act in the best interest of the member when building a retirement income estimate.

Further to this, requiring trustees to state that members should seek personal advice instead of using tools like calculators and estimates is likely to blunt any effect or benefit these tools can have in helping members. We think that bridging the gap between these tools and personal advice would drive better long-term outcomes for members and acknowledge that the Quality of Advice Review may explore such potentials.

Proposal B5

AIST has consulted with member funds and based on feedback we believe it is appropriate to consider extending the relief to allow trustees to give retirement estimates to members aged over 67, in a retirement phase at the date of the estimate, or in a defined benefit scheme. This is appropriate for two reasons:

1) It aligns to the proposed retirement income covenant framework, which include maximizing expected retirement income, manage expected risks, including longevity risk, and having flexible access to expected funds

2) Excluding members aged over 67, who are in the retirement phase, or have a defined benefit interest has the potential to minimise the certainty of outcomes or their ability to manage longevity risk – the benefit of excluding them is not commensurate with the benefit of making estimates available to this cohort

This approach would also be a positive step towards addressing the Government's concern about retirement spending and unspent superannuation by retirees at death.

Proposal B9

AIST considers it prudent to extend the transition period from six months to at least 12 months. This is a more appropriate approach given that a majority of trustees have their annual statements projects under way for 2021-2022 and a six-month transition period would not be practical for trustees to comply with the proposed relief. We further recommend that funds should have the option of providing estimates as part of the 2021-2022 statements using existing relief.

Proposals C2 and C3

AIST supports ASIC's proposal to provide trustees and other providers flexibility to set their own reasonable assumptions. We note this flexibility relates to investment earnings, fees and costs.

We suggest it would be appropriate for ASIC to consider giving trustees greater flexibility to set other types of assumptions. Some funds have a membership composition where the default assumptions of age 67 retirement age or a drawdown period of 25 years do not hold.

AIST recommends flexibility for trustees to set an appropriate retirement age based on their membership. Alternatively, the relief should be extended to allow trustees to share retirement income estimates that show different retirement ages.

For further information regarding our submission, please contact [redacted]

Yours sincerely,

[redacted]

Eva Scheerlinck
Chief Executive Officer