Submission on Consultation Paper 351 – Superannuation Forecasts: Update to Relief and Guidance

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Abstract:

This revision of guidance, and the move to consistency in requirements more broadly across superannuation forecasts is a welcome move and necessary.

If the intention of this guidance is embraced across the industry, I believe that we will see increased engagement with superannuation from younger ages, leading to wealth benefits for Australia.

Could the guidance be improved? Yes, some of the requirements will create misleading illustrations.

It is however a great improvement on the restrictions of CO 11/2227.

Why am I making this submission?

As maybe the first to introduce what would now be seen as a superannuation calculator in Australia, (way back in the eighties) I have a unique depth of experience in this arena.

The objective however, 'to help some superannuation fund members think about how superannuation can be part of their retirement income', has always been the same, from my point of view, and the updated guidance makes significant positive moves in this direction.

What I will address

My submission will address the technical side of the guidance. I will not be addressing 'what are you currently doing' and 'what are your members currently doing' questions, but I will share some insights on the potential impact of a robust. consistent and broadly available calculator universe, made possible by the expanded guidance, based on material I wrote for a 2019 submission to the Senate Select Committee on Financial Technology and Regulatory Technology.

Proposal B1:

Q1: Yes, continued relief is vital because personal advice is expensive. What that means in short is that those who are in most need of advice will never receive it. They will never receive it because it cannot be provided affordably under current regulation. There is also the confidentiality aspect. While someone may not feel ready to part with the level of information they need to for an advisor (under the current regulation which effectively locks advisors out of a lot of in demand services) to be able to advise them, they will be far more inclined to interact with a superannuation calculator, which potentially under this guidance can provide them with meaningful results.

Q2: Yes, the relief is even more necessary for the provision of retirement estimates given the concerns outlines well in paragraph 13 of CP 351. Interactive retirement estimates will potentially bridge the gap between retirement estimates and a superannuation calculator type of experience.

Q3: I can't say for certain that this is true but if I was a trustee of a superannuation fund today, I would regard the restrictions under CO 11/1227 as being likely to result in misleading retirement estimates so I would not allow them. Under the new guidelines, if my later concerns were addressed, I would be much more likely to provide them.

Q4: I have experience in how estimates are provides under personal advice provisions, but none of estimates being provided under this relief, so no comment.

Proposal B2:

Q1: This is in my view not negotiable. It is unworkable to have separate guidelines as such will only lead to confusion and expense.

Q2: Yes, relief should still be allowed for financial calculators related to retirement savings accounts but in my view this relief should come under the same guidelines providing the relief for superannuation calculators and retirement estimates – simpler is better.

I consider your rationale in paragraph 41 as absolutely critical to establishing trust in the mechanisms, which is vital to any increased engagement.

Proposal B3:

Q1: Principles based requirements are preferable as they allow differing member cohorts to be addressed in ways that are more likely to foster engagement. I would think that existing mechanisms for trustee oversight and audit and ASIC oversight are already sufficient to ensure adherence to guidelines.

Q2: I would prefer not to see such specificity; however, I would consider a watching brief over this area to ensure this is reasonably done. I think that prescriptions of font size etc, as I have seen elsewhere should be avoided but sharp behaviour, should it occur, be rectified.

Q3: I like the B3 approach, but again a watching brief will help ensure standards are reasonable.

Proposal B4:

Q1: I like the approach taken in RG 000:93-RG 000:96, except for the requirement that certain disclosures be less prominent than others. I think 'no more prominent' would be better. Surely if all disclosures are consistently prominent except those mentioning the product in which the member is invested, that will actually draw attention to those statements and so defeat your intention.

Q2: I think that other methods are unnecessary as it is unlikely the necessary mentions of product you have foreseen will trigger any impression that 'this should be relied on to make a decision about a specific financial product'. This is especially true given the statement required in B3 (e). I think that the high-level intention of retirement forecasts, to help members think about their superannuation, needs to be kept in mind. The fact is that their superannuation is in a specific product and that any decision they make as a result of thinking about superannuation will – prima facie – be a decision that involves that product in some way. As the drafters of these guidelines have recognised, there is a line between consumer protection and treating people as fools.

Proposal B5:

Q1: In a broad sense these are reasonable, though a case could be made for providing retirement estimates for those aged 67 or older and not in retirement phase. The 'already a member' requirement is particularly useful as otherwise the estimate could become a prospecting tool. I'm not sure that the minimum balance restriction achieves much, and I am concerned about the contributions base for estimates but that will be addressed at a later question.

Q2: from my limited experience, limitations such as 'not in retirement phase' and 'not having a defined benefit interest' are standard considerations, but others are much better positioned than I to comment on this.

Q3: I think that for static retirement estimates this 'triage' list is reasonable, however I think that for anything else, such as when we get to interactive, this is too restrictive, as will become clear.

Proposal B6:

Q1: I don't believe so

Q2: It seems to, however please feel free to contact me to discuss.

Q3: Providing retirement estimates through an online portal potentially reduces risk. While I would not mention them in here and they may indeed make submission themselves, I have connections who can give you firsthand experience judgement on this.

Q4: Again, I see this as potentially reducing risk as disclosure become less avoidable.

Proposal B7:

Q1: Some do, but this is for others to answer.

Q2: None that I know of rely on ASIC's current relief.

Proposal B8:

Q1: Does the relief need an expiry date or a review period. I lean towards the latter.

Q2: From my experience, engagement average age is 10 to 15 years younger – which when you consider the potential benefits of engagement, is a massively important difference. Refer

Senate Select Committee for Fin Tech and Reg Tech, *'Financial advice for all Australians'* in Sargon Submission (28) at: https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Financial_Technology_and_Regulatory_Technology/FinancialRegulatoryTech/Submissions (Item number 28, page 2, 'Sargon')

Q3: See above for a start!

Proposal B9:

I would think that a six-month transition is ample but I expect resistance. Others are better positioned to comment on their specific positions.

Proposal B10:

Surely this update is absolutely necessary and not negotiable.

Proposal B11:

I believe that a no action position is absolutely necessary as the requirements of the relief will absolutely result in misleading illustrations, particularly the requirement to use previous year's contributions.

Section C – Proposed approach to economic and financial assumptions:

Proposal C1:

In hindsight, this consistency probably should always have been the case.

Proposal C2:

Q1: I support this and further, see it as absolutely necessary. As stated earlier, in the position of superannuation trustee I would not be comfortable providing, and would likely regard as misleading, a retirement estimate provided without this flexibility. The 'reasonable basis' for any projection is vital for it to be meaningful. There is more to making these reasonable than earning rates and fees so couple these comments with my comments at C12. On the specifics of RG 000.116- RG 000.128 I have made some particular notes:

- I suspect there will be debate on 121 and 122 though I regard the requirements as clear and reasonable
- On 124, I'm a bit wary of the wisdom of basing admin fees for a projection on fees in the previous year which could be unusual for whatever reason (LWOP, Maternity leave for example). Basing them on the current investment profile would be far more sound, and consistent with the requirement for earning rates.
- With 127 and 128 I wonder if we are straying a little from the real benefits of these changes, which are making illustrations more meaningful for the member. I'm thinking that as a trustee I would prefer for members where such approximations were required to be 'triaged' to a different channel for their illustration.

Q2: Clearly there are risks in the interpretation of the word 'reasonable', but overall, the benefits well outweigh the risks. Obviously we could impose a new layer of expensive oversight and reporting to make sure that 'reasonable' is reasonably interpreted, but I think that from a member point of view, I would be content with the ability to change these to what I thought was reasonable – so for example I could use the same rates used so a similar fund I have with another provider – in other words an interactive retirement estimate. It is probably also worth considering the competitive rating system for funds that now exists and how that evolves, with 'unreasonable' potentially leading to dissatisfaction and lowered ratings. In short it seems workable.

Q3: Yes, they should have flexibility around fees as outlined above and the basis for contributions – see C12.

Proposal C3:

Q1: From my experience people tend to understand projections best (forgive me but I have always hated calling projections or illustrations 'forecasts' – I think that word has too much sense of certainty attached to it and should be avoided – but there you go…) when the outcome is compared to something they understand. A clear example which you have recognised is the usefulness of today's dollars. That can be enhanced though by comparison of say 'retirement income supported' with a goal that the member has set. Imagination is the only limitation here and these days you can make that a lot more meaningful again – but that's a discussion for elsewhere.

Proposal C4:

Q1: I think that is a very reasonable set of guidelines for assessing reasonableness. I particularly insist on (d), but combining the four criteria, or at least three, will be a good measure.

Q2: Is every three years reasonable? I think that with today's technology we should be in a position to have reviewed assumptions available on an ad hoc basis. I'm not suggesting that they would change, even at three yearly intervals, and might stay the same even when benchmarks strayed occasionally to the edge of a confidence interval, but I think much more frequent perusal than three yearly is needed. For example, your 'in retirement' and 'to retirement' inflation assumptions outlined in table 4 of RG 000 are consistent with the assumptions I specified in 2005, based on reasonable expectations, but I reviewed them often in between.

Proposal C5:

Q1: Without doubt assumptions across calculators or illustrations purporting to project the 'same thing' must be consistent.

Proposal C6:

Q1: The key advantage is that the member will get projections that better reflect what is seen as the likely outlook for themselves and not standardised guff that is irrelevant. The key here is forward looking. This is wrapped up in the previously explored definition of reasonable.

Q2: There is evidence that members can be mislead by the unscrupulous, but many layers of protection provide a substantial shield for that. Of course, members will not understand the depth of what has gone into the derivations of projections, hence the prompt to seek advice and indeed these guidelines. What should not be overlooked though is that these guidelines provide the basis for learning that will lower the incidence of misunderstanding in the future.

Q3: Not only is it practical (it can be automated – I have done it) but it is absolutely necessary to meet duties to members.

Q4: I tend to lean away from the investment return objectives (which really are business and I suspect often marketing based) to suitable term-based asset sector return expectations independently assessed. The portfolio 'reasonable returns' can be derived from those.

Proposal C7:

Q1: For this proposal I am assuming that 'administration fees' is broadly interpreted to include all fees so is very much dependent on the activity in the year. For example this could include contribution fees in a year where there has been an unusual contribution pattern. This makes them meaningless as a basis for a future projection. Fees taken into account should be product and portfolio based to given the member meaningful information.

Q2: Yes, see Q1

Q3: Yes, probably. If you follow my rationale regarding illustrating the fees reasonable expected rather than some historical level that may or may not be l=relevant, and your own rationale regarding returns pre and post retirement, the answer is clear. If there is a reasonable expectation that the fee structure will change post retirement, that should be taken into account.

Proposal C8:

Q1: A default retirement age is clearly necessary, otherwise retirement would not occur. A duration in retirement linked to retirement and an 'upward adjusted' life expectancy, (e.g., life expectancy plus 5 years, which at age 67 comes out awfully close to 25 years!) is preferable to a fixed number but 25 years is well suited to a retirement age of 67. In short, these are perfectly reasonable choices, with the former being age pension age also very convenient.

For retirement estimates the discussion needs go no further. They are reasonable selections, the member can't change them, so they are therefore also a perfectly reasonable base. Rather than comparing results, the member is most likely to be adding outcomes to get a total, so such important factors being the same will definitely help.

For comparison though, that all falls over because given these guidelines no two retirement estimates from different funds are likely to be comparable because starting balances will be different, fees will be different, and contributions will be different. Therefore, remembering also that the member must actually already be a member to receive an estimate, we can discard the notion of any relevance of defaults to comparisons across retirement estimates.

Moving to interactive retirement estimates and calculators, I feel that both can likely be grouped.

Here, if contributions, pension status variables and balances are editable, these become relevant for comparisons, but if those other items are editable, retirement age and 'how long do you want your money to last in retirement will probably also be edited.

There are more important factors to making these useful and I will come to these.

From my personal experience, desired retirement age will be one of the first items changed, it might be useful therefore to specify some default link between changed retirement age and retirement duration default. I think that is more important and relevant.

Q2: I'd love to know what you were thinking for this question.

Q3: See Q1 above

Q4: Perfectly reasonable, see Q1 above. If you were using one of my calculators and selected retirement age 67, without selecting gender, you would probably have obtained approximately that number of years, so if I said it wasn't reasonable, I would be hypocritical.

Proposal C9:

Q1: I'm sorry, I have no input on this question

Proposal C10:

Q1: I regard your specification as reasonable already. There are a number of ways to do this and you are right to limit the calculation including pension to interactive scenarios where the member can specify the critical marital status and home ownership. I'm disappointed that you have not gone further and allowed specification at least of outside assets and income, as due to this your results will be meaningless for many. ASIC could specify a formula, if there were such a thing. I'm afraid you will find that there isn't one that will be suitable for a 25 year duration in retirement for all scenarios.

Proposal C11:

I think the rationale in this proposal overall is brilliant and will be really helpful to superannuation fund members. Yes, from my many years of experience, a measure of income in retirement is definitely, when used correctly the most meaningful.

Q1: Of all the specifications in these guidelines this is probably the one that pleased me most. I had resigned myself to seeing more standardised irrelevance, and there still will be a large degree of that – see my comment at C10 – but this brings the result much closer to being useful and meaningful. I don't so much see estimates including age pension influencing member behaviour, more lessening their feeling of hopelessness when they see how little their super alone will cover. A personalised illustration will always be better received than a bunch of facts. Note that when I say personalised, the most important personalisation here is done by the member in the interactive calculator. The insight of leaving age pension out where there hasn't been interaction, is very useful and will increase the value of the standard retirement estimate.

Q2: I think they should be preferred by default, but I am also convinced that they should be switchable, in other words the member should be able to turn them off. I'm thinking here especially of the scenario where the member is getting more than one illustration to try to ascertain their overall retirement outlook.

Proposal C12:

Q1: Now we come to what I think is the weak link in the whole guideline and the aspect that will potentially sink the effectiveness of engagement with the process.

The idea of basing future contributions of last year's contributions is sadly lacking and apart from anything else has the potential to grossly mislead. I imagine at this point you will point to a statistic that says that some large majority of members only have super guarantee contributions, and I am sure that is true. The methodology however will not work even for them because last year, particularly recently, might have bee disrupted so the contributions received were not representative. Then you have situations where an SG instalment was received late and so on. Even worse is the scenario where members are making their own deductible or undeducted contributions, or salary sacrificing, worked higher duties for months and so on. In fact, while last year's contributions might be a useful default, they are not a useful basis to 'lock in' as your guideline seems to intend.

An instant solution that might have had some effect in the past would have been to exclude undeducted contributions but that is much less effective than previously as member contributions will now be substantially concessional contributions now. We risk way overestimating outcomes and severely misleading members.

I suggest allowing the member to enter their contribution salary – which would enable easy calculation of the SG component. That gives a firm and useful base. Of course, they could do nothing and accept the default, but we have to remember that those likely to be engaging earliest with this sort of facility are most likely to also have made additional contributions.

You correctly identify the problem that most super funds don't actually have the data to determine the breakdown. They certainly don't (maybe surprisingly!) have salary information for most, so this is for interactive and calculators, but will enhance use greatly.

Of course, it would also be useful to allow the user to enter voluntary contributions both deductible and non-deductible – that they intend to continue long term.

A three-year rolling average is backward looking and over a three-year period including the last two? Probably meaningless.

This desperately needs solution as it is undoubtedly the weakest link.

Proposal C13:

Q1: there are many other ways in which insurance premiums could be taken into account but given the variability of scenarios and the lesser significance, the proposed measure is sufficient.

Proposal C14:

Q1: A key weakness in this approach is that age pension will under this scenario will increase too slowly as it is benchmarked to AWOTE, a factor often overlooked.

I note that you have spelled out the necessity of highlighting the falling living standards implicit in these assumptions (post retirement) and I applaud that insight.

Are we expecting that growth in income supported will be illustrated throughout the accumulation phase? Personally, I see this as very useful as it helps members understand the impact a couple of years difference in retirement age can make and would be extremely valuable. That's the way I would do it. If you are going to do this though it is not as simple as 4% pre-retirement and 2.5% after. In fact, both rates will need to be used in both phases. If you would like more explanation of that please feel free to contact me.

Proposal C15:

Q1: Since your assumptions align with what I would recommend, you are obviously doing it correctly, so I have nothing to add 😊