SUBMISSION

Submission to ASIC — CONSULTATION PAPER 351: Superannuation forecasts: Update to relief and guidance

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

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to the consultation on ASIC's consultation paper on relief and guidance for superannuation forecasts.

About ASFA

ASFA is a non-profit, non-partisan national organisation whose mission is to continuously improve the superannuation system, so all Australians can enjoy a comfortable and dignified retirement. We focus on the issues that affect the entire Australian superannuation system and its $3.4 trillion in retirement savings. Our membership is across all parts of the industry, including corporate, public sector, industry and retail superannuation funds, and associated service providers, representing almost 90 per cent of the 16 million Australians with superannuation.

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If you have any queries or comments in relation to the content of our submission, please contact Ross Clare on [redacted] or by email [redacted]

Yours sincerely

Ross Clare

Director of Research

General comments

The role of superannuation calculators and retirement projections

ASFA appreciates the fact that ASIC provides relief for superannuation trustees to facilitate the provision of superannuation calculators and retirement estimates (collectively, superannuation forecasts). That relief for superannuation calculators may also be relied on by other entities that are not superannuation trustees.

ASFA also agrees with ASIC that superannuation forecasts are tools that can be used to help some if not many or most superannuation fund members think about how superannuation can be part of their retirement income.

ASFA welcomes the proposal to give trustees greater flexibility to set assumptions that reflect the types of products they offer. ASFA also is not against requiring greater consistency in the assumptions that trustees apply across their superannuation calculators and retirement estimates. However, it would be counterproductive if the ASIC proposals while providing greater clarity and consistency for trustees do not support trustees in setting strategies under the retirement income covenant reforms that are expected to come into effect on 1 July 2022.

ASFA supports relief for superannuation calculators and retirement estimates being combined into a single legislative instrument given that similar considerations apply to both and a combined document makes it easier for funds and their advisers to understand the expectations of ASIC in this area.

ASFA also supports a principles based approach in order to allow trustees to tailor superannuation projections to the particular circumstances of the fund and of the fund member. However, it is noted that a number of proposals in the consultation paper are quite prescriptive.

Interaction with Retirement Income Covenant

If the scope of relief for superannuation trustees is too narrow, then important tools for superannuation trustees in meeting the objectives of the Retirement Income Covenant will not be as effective as they could be. Compliance costs would be higher if flexibility is limited and competition in the provision of superannuation retirement income products would be less than it would be under more flexible arrangements.

ASFA appreciates that some retirement income policy settings require legislation or regulations to be made to support the policy settings. However, ASFA considers that where ASIC can within the current legislative framework provide facilitative relief which will support the objectives of legislated policies it should do so.

While it is important to have controls in place to ensure that personal financial advice is provided appropriately and that sales of financial products are consistent with anti-hawking legislation, equally it is important that funds be able to provide information and guidance for fund members in order to facilitate members choosing options and products which will best deliver the retirement outcomes that members want and need.

An important part of the Retirement Income Covenant is that funds are expected to help guide their members to choose a retirement income product suited to the member’s needs and circumstances. Innovation in the provision of retirement income products will involve the development of a range of products with different characteristics. The proposed approach in the consultation paper seems to be based on all funds offering very similar products, with relief limited to products in the accumulation phase.

In this context, ASFA welcomes the indication by ASIC that it will be providing guidance on how assumptions relating to a specific financial product can be used without breaching the requirement not to advertise or promote a specific financial product.

It also would be of assistance if ASIC provided guidance about how a trustee can use calculators to lead into giving personal advice (i.e. having a call to action which directs the consumer to a financial adviser). It would be inappropriate to have excessive barriers to the provision of advice in place when taking into consideration the goal of having consumers make informed financial decisions.

Detailed comments

Including the impact of the Age Pension

The Age Pension should not be removed as an option for retirement estimates as superannuation funds should be able to make reasonable assumptions about Age Pension benefits and disclose these to the consumer. This will align the forecasts with the Retirement Income Covenant and support members in thinking about how superannuation forms part of their retirement income.

Given the critical role that the Age Pension plays in retirement income for many fund members, particularly those in MySuper funds, it would be misleading in most cases to provide a retirement estimate that does not include an estimate of Age Pension entitlement. As well, in a number of funds members have been receiving an annual retirement estimate that includes the Age Pension for a number of years. Removing the Age Pension component going forward would likely result in substantial confusion for members who saw their potential retirement income significantly decrease compared to the estimate provided the previous year.

The Consultation Paper identifies that it has considered the proposed retirement income covenant that is likely to come into effect on 1 July 2022. The Retirement Income Covenant legislation acknowledges that trustees are best placed to know their members' needs in retirement and provides trustees with the discretion to consider the needs of their specific membership and develop assistance to support them. This discretion in regard to the preparation of retirement estimates would be very limited if the proposals in the Consultation Paper in regard to retirement estimates were implemented. Retirement estimates are a very important tool for achieving the objectives of the Retirement Income Covenant.

ASFA considers that it would be reasonable to allow trustees to continue to include Age Pension estimates in static retirement estimates which make use of reasonable assumptions reflecting the knowledge of trustees in regard to their fund members. An alternative approach would be to require trustees to demonstrate that they have sufficient data about members to make reasonable assumptions to include Age Pension estimates in static retirement estimates.

Such estimates of course would be accompanied by appropriate disclaimers, including the need to seek financial advice or make other inquiries (including use of interactive calculators) if the member had significant financial assets in addition to their account balance in the fund concerned.

Those aged 67 and over and/or in retirement phase

We propose that trustees should be allowed (but not required) to provide retirement estimates for members who are in the retirement phase or aged 67 and above.

Providing members in the retirement phase with ongoing guidance on the expected trajectory and duration of their income source and alternative products can play a crucial role in members choosing a more suitable retirement income product, particularly if a new product becomes available after the member retires. When a member is in a simple account based income stream they generally are able to commute that income stream if they desire and use the proceeds to take up an alternative income stream product. Choice of retirement income stream is not necessarily a set and forget process.

As well, the proposed Retirement Income Covenant legislation, currently before Parliament, requires Trustees to formulate a retirement income strategy for beneficiaries who are both retired or approaching retirement. Limiting relief for retirement estimates to those who are not yet retired could be seen as inconsistent with the intent of the Retirement Income Covenant legislation.

Coverage of defined benefit members

ASFA considers that trustees should be able to determine a retirement estimate of a defined benefit member's accumulation account, rather than excluding them altogether (given the definitions of a defined benefit member in the SIS Act).

More than one account with a fund

The draft relief seems to be worded on the basis that a member only has one account in the fund. Many members have multiple accounts by choice (for example, an accumulation account and a transition to retirement account). The relief should be clear that where a member has multiple accounts, the benefit of the exemption applies.

Drawdown assumptions

Drawdown assumptions should be reasonable, rather than having a prescriptive drawdown period of 25 years (which may also limit the growth of innovative retirement income streams, particularly as superannuation trustees can offer deferred annuity style products). As well, in some funds a large majority of members retire well before age 67 due to the physical nature of their work.

We suggest that the relief provided by ASIC in regard to drawdown periods provide that trustees have the option to change the standard 25 year period in order to better suit the needs of their members. This could include trustees providing alternative retirement estimates making use of a range of assumptions about age at retirement and duration of income stream. This could also assist members to choose between different income stream products, including innovative products which address longevity concerns.

If this recommendation is accepted, it would need to be clear that trustees may make changes to the default option but do not have a positive obligation to do so.

Assisted use of projections

There is no specific allowance to assist a person by talking through the operation of a calculator that a superannuation trustee has made available to the public. Calculators are only accessible for those who are connected to internet and have a reasonable level of financial literacy. It would be beneficial to allow consumers to call their superannuation fund and have a consultant go through the calculator with them over the phone or via an interactive live chatbot, with clear guidance on how to avoid personal advice or an exemption provided. This would increase capacity to offer these tools to a wider audience.

Inflation

ASFA does not support the proposal that the provider must by default assume 4 per cent per year inflation in the accumulation phase (reflecting wage inflation) and 2.5 per cent per year inflation in the retirement phase (reflecting consumer price inflation.

ASFA recommends that trustees be permitted to set reasonable assumptions about both price and wage inflation.

As well, trustees should be able to use wage inflation for both the accumulation and retirement phase. The Institute of Actuaries of Australia in its guidance to actuaries allows for either wage or price inflation to be used in the retirement phase.

At the time of retirement and/or age 67 there is no sudden change in the expectations of fund members. Use of wage inflation is appropriate during the accumulation phase and it remains appropriate during the retirement phase. Rather than just maintaining the basket of goods and services consumed at the time of retirement, retirees want to keep up with community standards during what can be several decades in retirement. For instance, retirees twenty years ago may have been content with a fixed line telephone, no internet, and free to air television. Now they want to be able to afford a smartphone, broadband internet and streaming services. Merely adjusting expenditure for price changes from twenty years ago would not support retirees enjoying these changes in expenditure and increased living standards.

As well, the Age Pension is adjusted in line with community standards, that is, the greater of the increase in prices or wages. Requiring projections during the retirement phase along the lines proposed in the Consultation Paper would result in the projected amount of the Age Pension rising in real terms by 1.5 per cent a year. Over a 20 year or more retirement period this leads to a supposed 35 per cent increase in the real value of the Age Pension. However, the reality is that the Age Pension will remain just above the community poverty line given that poverty line calculations are based on changes in community living standards, not changes in prices.

While in certain circumstances it may be appropriate to use price inflation during the retirement phase, it should not be a requirement that price inflation be the default setting. There are strong arguments for using wage inflation.

Implementation date

ASFA proposes a 1 January 2023 start date to implement retirement estimator changes. We recommend that a longer transition period is more appropriate as this will accommodate for necessary technological system changes in terms of altering and developing online superannuation calculators.

As well, superannuation funds typically send out retirement projections with annual statements, making use of 30 June superannuation balances. A 1 October 2002 commencement date for the new relief would lead to a very abbreviated period for funds to adopt a new framework for retirement projections. That date is also in the middle of the period in which annual member statements, which can include retirement projections, are sent out.

At the very least funds should have the option of providing retirement estimates as part of 2021-2022 statements using existing relief.

Planning for retirement estimate programs can start over nine months prior to lodgement (six months prior to year end) and therefore at least 12 months' notice would give funds adequate time to prepare their programs.