ASIC CP 351
Superannuation forecasts: Update to relief and guidance

Aware Super Submission

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Contents

Executive Summary

Aware Super welcomes ASIC's *Consultation Paper 351 Superannuation forecasts: Update to relief and guidance* (the consultation paper) and associated draft ASIC instrument and regulatory guide. We are pleased to have the opportunity to provide feedback on the proposed updated relief.

Overall, Aware Super agrees with ASIC's goal of ensuring that consumers receive better, more useful information to support them in making decisions about their retirement.

We agree that tools such as calculators and retirement projections can play an important role in helping members frame their thinking about superannuation as income for retirement, rather than as an asset, and in providing information that helps members to frame their decision-making as they consider retirement.

We also strongly support ASIC's proposal in terms of the need for ongoing, expanded relief that aligns the requirements for superannuation calculators and forecasts to promote consistency and delivers a better member experience.

In the context of other regulatory change, including the anticipated implementation of the Retirement Income Covenant, we see the update of this ASIC relief as an important step to help superannuation funds better understand, engage and support their members.

This submission provides feedback on the technical aspects of the proposals, however we have also considered the practical impact of the relief on the experience of members and ways that the member experience could be streamlined and improved.

As such, it draws on many of the key themes in Aware Super's 2021 submission on the Retirement Income Covenant, where we highlighted the importance of policy and regulatory reforms that ensure super funds can provide clear, tailored and consistent information to members across multiple channels and throughout different stages of the member journey through guidance and advice.

We would be happy to meet with ASIC to discuss the material included in this submission, in particular the member testing that has informed elements of our response.

About Aware Super

Aware Super has been the fund for people who value the community since 1992. We're one of Australia's largest funds and we're continuing to grow.

We merged with VicSuper and WA Super in 2020 and manage approximately $150 billion in savings, including $32.6 billion in retirement assets at 30 June 2021. Our members—including teachers, nurses, public servants and emergency services officers—work in roles that support our community, and they expect us to do the same by investing in ways that do well for them, and good for all.

Aware Super Recommendations

1. Amend relief to allow information gathered in the process of developing a retirement estimate under personal advice rules to be fed into retirement estimates developed under the ASIC relief.

2. Explicitly state that the ASIC Instrument is intended to provide relief for interactive estimates and calculators which encourage member exploration and experimentation with inputs/assumptions.

3. Amend ASIC Instrument and RG to specify that presenting risk and volatility information as part of a retirement estimate is explicitly allowable, and encouraged with appropriate disclosures.

4. Expand the groups permitted to be provided retirement estimates to include:
   - members who have not contributed for up to 16 months;
   - defined benefit members; and
   - retired members.

5. Amend the draft LI and RG to explicitly allow funds to provide static retirement estimates outside of annual statements, for example as part of email communications.

6. Amend the ASIC Instrument and guidance to allow trustees to set their own default assumptions on the retirement period, where this is appropriate to their membership, clearly disclosed, and able to be changed by members in interactive tools.

7. Use 30 years as a default assumption for retirement where a fund does not set a tailored assumption.

8. Administration fee assumptions should be based on the actual formula used to calculate administration fees, rather than fees previously paid, to better project the level of fees likely to be paid into the future.

9. Insurance premium assumptions should be based on the current PDS, rather than on previous premiums paid.

10. Align investment return objectives to CPI+ objectives as set out in product PDS.

11. Allow trustees to include Age Pension amounts in retirement estimates where appropriate for their membership.

12. Trustees should have flexibility to set appropriate assumptions for estimates and calculators in order to provide more useful and meaningful information to members.

13. Clarify that product-specific information, assumptions and labelling can be used in relation to retirement estimates in the form of static projections and interactive calculators and generic calculators.

14. Provide clear guidance on expectations in terms of disclosure and labelling where product-specific assumptions are used, to ensure trustees are comfortable that they can take advantage of the relief.

15. Trustees and providers should be required to clearly disclose which of their assumptions are standardised vs tailored.

16. The ASIC Instrument and guidance should make clear that non-super assets are permitted to be included in retirement estimates.

Comments on ASIC proposals

1. Limitations of current relief

Aware Super has expressed significant concerns with the existing relief relating to the provision of calculators and retirement estimates, most recently in our submissions in relation to the Retirement Income Covenant.

Our VicSuper brand has been providing retirement estimates under the current Class Order relief. Both Aware Super and VicSuper brand provide superannuation calculators under the *ASIC Corporations (Generic Calculators) Instrument 2016/207*.[1]

However, the limitations of the relief have driven us to develop more sophisticated calculators under personal advice regulations to allow us to provide more appropriate estimates that are less likely to mislead members.

A key difficulty with this approach has been an inability to use the additional information gathered through the use of these tools to provide consistent, or at least coherently different, information to members receiving a retirement estimate under the existing relief after going through a digital advice journey.

As a result, moving to a personal advice model has limited our ability to provide a consistent, meaningful retirement narrative over time. Being unable to provide useful retirement estimates to members in other contexts has impacted member take-up of more sophisticated tools and has unnecessarily constrained broader member communications.

Specifically, we are uncomfortable with the standard assumptions required under the current Class Order relief, which:

- do not accurately reflect a member's superannuation investments and their likely investment outcomes; and
- cannot be aligned with projections from more sophisticated calculators that we have developed for use by our members under personal advice regulations or the generic version under the *ASIC Corporations (Generic Calculators) Instrument 2016/207*.

This means that retirement income projections provided to members under this relief may be at best confusing, and at worst actively misleading, to members seeking to engage with their superannuation.

This is concerning, given academic research demonstrates how effective tools like retirement projections can be in promoting engagement, and we are pleased that this consultation is aiming to address this concern by:

- providing greater flexibility in setting appropriate assumptions; and

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[1] Link to Aware Super Calculator: https://aware.com.au/member/forms-and-resources/calculators/super-projection

Link to VicSuper Calculator: https://www.vicsuper.com.au/forms-and-resources/calculators

- aligning the requirements across the range of superannuation calculators and retirement estimates provided to members for greater consistency.

Projections provided on statements, and through other channels, should be member friendly, reflect a members' actual investment strategy, align with projections provided through the fund's retirement calculator and avoid member confusion by enabling consistent messaging across various communications, tools and channels.

2. Key opportunities to improve member outcomes

2.1. Demonstrating impacts of member decisions

The current requirement to use standard assumptions in projections used on annual statements means that members may be misled about the impacts of their decisions, including investment and contributions decisions, on their retirement outcomes.

Our member testing has shown that members struggle to apply generic information to their own specific circumstances. Where inconsistent/different information is shown to members it can be difficult for them to understand the drivers of these, especially where those drivers are regulatory constraints, and can erode members confidence in their understanding of super. Providing retirement estimates that do not reflect what we know about a member's account is likely to confuse members, and in certain circumstances can be actively misleading.

For example, a member who switched their account to cash during a period of market volatility would not see a difference in their retirement estimates provided with their next annual statement. Failing to signal to that member that their decision would likely impact their retirement outcomes if they remain in the cash option long term, and combined with the lower volatility in their account balance year to year, could actually reinforce poor decisions.

The development of more sophisticated calculators under personal advice regulations has helped provide members with more tailored and specific information, however our experiences have shown the limitations of this approach from a member engagement perspective.

Many more members could benefit if higher-quality retirement estimates could be provided to members under ASIC relief, encouraging them to make use of our digital tools that can personalise these estimates further. The key to a successful member experience – that empowers rather than confuses – is the ability to use consistent, appropriate and reasonable assumptions across multiple platforms and channels.

In this context, we are pleased to see that ASIC proposes to combine the retirement estimates and calculator guidance/relief and allow trustees to make use of tailored assumptions which better reflect the members' actual circumstances.

2.2. The member journey

It is important that the relief provided by ASIC is sufficiently flexible to allow funds to create an environment where the information being provided to members is, as far as possible, internally consistent.

This applies both in terms of the assumptions used between different tools, and the ability to provide information and outcomes across multiple communication channels once a member has used a tool.

There are two broad forms a member journey might take in terms of engaging with calculators and estimates:

- A member is first provided with a retirement estimate, either static or interactive, based on the information the trustee holds about them. After seeing an estimate they may engage with superannuation calculators (either under the existing generic calculator relief or personal advice regulation) to tailor the projections to suit their personal circumstances. It is important in this scenario that the retirement estimate can use the same methodology and assumptions as the calculators to provide a consistent experience.
- a member may engage proactively with interactive tools (either under the existing generic calculator relief or personal advice regulation) with or without previously being provided with a retirement estimate, and provide additional information including spouse's details, home ownership and other assets and income outside super. In this scenario, it is important that this information can be taken into account in any subsequent retirement estimates provided to the member.

Ultimately, whichever way a member approaches engagement, a trustee should have the ability to:

- tailor assumptions to what they already know about the individual member and their membership as a whole;
- make the information relevant to the individual's product and investment options; and
- use information gathered at a previous point in the journey to inform future estimates and interactions (with appropriate disclosures and explanations, and allowing members to confirm the validity of these information with a mechanism for them to update if anything has changed).

These principles should apply in a technology-neutral and format-neutral manner, whether information is being provided in annual statements, by email, through member portals or other digital interactions.

This broad principle of allowing clear, tailored, and consistent information to members, which maximises their ability to engage with and understand their retirement journey, informs the recommendations throughout this submission.

2.3. Aligning information across channels

Currently, personalised calculators which provide personalised information without making recommendations (for example, calculators showing projections that incorporate member circumstances but do not recommend a course of action) can only be developed under intrafund advice and presented to the member alongside a Statement of Advice (SoA).

This means the information that informs these tools, and their outputs, cannot be presented back to members as part of other member communication – for example in a member dashboard or in an annual statement.

As a result, where an estimate is provided as part of a member journey under personal advice rules (whether through full personal advice, intrafund advice or digital tools) we would be required to provide different, less tailored information in some circumstances, even after members have gone through the process of providing additional personalised information. This is potentially confusing and frustrating to members.

Providing it is accompanied by appropriate disclosure and explanation, we believe it would be more useful to members if the more relevant, personalised information originally accompanied by an SoA could then be presented back to members within a reasonable period of time.

This could be done by explaining that the estimate is based on the additional information provided by the member at the time the SoA is generated, and the estimate has been updated to reflect change in age, balance and contribution and recognise any changes in investment options and insurance since the last SoA was produced.

It would also be appropriate to include an accompanying message to prompt members to review and confirm the additional information provided in producing the previous SoA is still valid, otherwise they are able to update them easily by logging into the personalised calculator.

This would allow these projections to be more useful as part of a member journey, rather than just as a one-off tool.

Recommendation
1. Amend relief to allow information gathered in the process of developing a retirement estimate under personal advice rules to be fed into retirement estimates developed under the ASIC relief.

2.4. Encouraging engagement and education

We are pleased that the Consultation Paper acknowledges the importance of members being able to use calculators and interactive estimates to explore and understand the impact of different inputs and assumptions.

However, aspects of the personal advice regime, which we currently use to make calculators more personalised, are geared towards the ‘fact find’ and not conducive to allowing members to experiment with different inputs.

Currently this is navigated by a need to clearly delineate when members are in “play mode” and when they are moving forward with recommendations, however the concept of playing and exploring the impact of different inputs and decisions still does not sit well with a personal advice model.

In order to assist in streamlining the member journey through these various tools, it would be helpful for ASIC to continue to clearly state in guidance that there is a clear role for calculators and interactive estimates in allowing member-led exploration around inputs and assumptions, and that this should be encouraged.

This additional certainty will help trustees be confident in creating tools that encourage exploration and experimentation, particularly as part of broader member journeys that involve personal advice (for example, digital advice functionalities).

Recommendation
2. Explicitly state that the ASIC Instrument is intended to provide relief for interactive estimates and calculators which encourage member exploration and experimentation with inputs/assumptions.

2.5. Communicating risk

Another key opportunity to improve member outcomes through the use of retirement estimates and calculators is by using them as a tool to communicate risk and volatility. It is important for members to understand the two key risks they face in retirement: investment risk and longevity risk.

We know that:

- most members are poor at understanding and judging risk, and many will end up with worse outcomes through trying to actively manage their super through market volatility than they would have by staying the course with their investments.
- many members tend to underestimate how long they are going to live and the length of time their retirement savings need to last.
- members can over-estimate the impact of short-term volatility on their retirement savings, selecting investment options and reacting to market volatility without fully appreciating the longer-term implications.

Combined, these forces can lead members to forego the lifestyle they could afford, and yet still face significant risk of outliving their savings.

It would be helpful for retirement estimates to include not just a single point figure, but a broader window of potential outcomes, their distribution around their target, and the likelihood of falling short or exceeding the projected amount based on market conditions and mortality outcomes.

Paragraph RG 000.71 of the draft Regulatory Guide appears to allow the presentation of risk information, but it would be helpful to clarify that providing these as part of the estimate would be appropriate and encouraged. We would also suggest section 7(1)(j)(ii) of draft ASIC Instrument 2022/XXX to be modified slightly to allow the illustration of a range of outcomes with a requirement that appropriate disclosures are provided.

Without the ability to communicate risk, consumers will find it difficult to contextualise the information provided and by only ever seeing the 'expected' results will generally see from a calculator or interactive retirement estimate that it only pays off to take more risk.

In this light, allowing flexibility in the investment return assumption without providing the risk context could lead to unintended consequences. Our member testing suggests it is possible to provide context around risk without unduly confusing members, when done using human centred design principles.

Providing more context around risk will help consumers use these tools to better understand the trade-offs associated with different decisions.

For members earlier in their career, this will help them stay the course in higher growth investments by showing that the long-term impact from switching to cash is likely to be more significant than the impact of short-term market volatility. For those nearing retirement, it will help them to understand the potential upside and downside implications of investing in higher growth assets and when changing their investment options as they approach retirement.

Providing this broader level of information around an estimate may also help to provide the context members need to not place excessive confidence in a single number or rely on a calculator as their only decision-making tool.

Recommendation

3. Amend ASIC Instrument and RG to specify that presenting risk and volatility information as part of a retirement estimate is explicitly allowable, and encouraged with appropriate disclosures.

2.6. Restrictions on providing retirement estimates

We note that the prohibition on giving retirement estimates for members who have not contributed for 12 months may inadvertently capture members who have not ceased employment, for example those on parental leave. It is preferable to extend this period to 16 months, which would align with other definitions of inactive members and help continue engagement with members taking temporary time out of the workforce.

In some circumstances it may also be appropriate to provide estimates to individuals who have not contributed for longer periods, where they have interacted with calculators or other tools.

Defined benefit members should also not be excluded. Defined benefit members may also have accumulation accounts, and projection excluding their defined benefit part is not going to be helpful. As a result we believe ASIC should not prevent trustees from providing estimates to members, if they are able to model them appropriately.

Retirement income projections for retired members should also be allowed to support the development of retirement income strategies required under the Retirement Income Covenant.

Noting that the nature of calculations and member needs will change for members in retirement, additional guidance may be required to support the development of these tools.

Recommendation

4. Expand the groups permitted to be provided retirement estimates to include:
   - members who have not contributed for up to 16 months;
   - defined benefit members; and
   - retired members.

2.7. Other opportunities to improve member outcomes

We agree with the comments in the consultation paper that calculators and estimates should not be seen in isolation as the only tools available for consumers considering their retirement needs.

For many members, these tools will be part of a journey that may include additional advice and/or guidance. The tools may also be designed for use on an ongoing basis to allow members to 'check in' on their progress or test potential decisions, rather than as a one-off point in time tool or infrequent (annual) communication. For example, the provision of retirement estimates during periods of market volatility may help alleviate member anxiety and call centre volumes, and help members to stay the course.

It is not currently clear from the consultation paper and draft RG that it would be allowable to provide static retirement estimates to members at times other than through annual statements. It would be helpful to specifically clarify that these could be provided as part of member communications at any time, for example by email as part of regular communications (assuming other legislative requirements, such as privacy considerations, are managed appropriately).

Funds should ensure that appropriate support and guidance is provided to inform and contextualise the use of these tools, both through appropriate disclosure and ensuring that members are directed to guidance and advice as appropriate.

Recommendation

5. Amend the draft LI and RG to explicitly allow funds to provide static retirement estimates outside of annual statements, for example as part of email communications.

3. Flexibility to set reasonable assumptions

Member testing has shown that it is helpful to consumers when calculators and estimates present them with information that is easy to relate to their own circumstances.

On this basis, it is appropriate to provide trustees with flexibility to tailor assumptions to their own members wherever possible.

3.1. Duration of retirement

Default duration of retirement

Member testing has clearly shown that our members are concerned about ensuring their money will last through their period of retirement and would not be comfortable with an estimate that gives them effectively a coin-toss chance that they would outlive their savings.

We acknowledge that the Retirement Income Review used a 25-year retirement period to roughly reflect life expectancy, and this is broadly appropriate at a system level.

However, for the purpose of providing information to individual members to assist in planning their retirement, a more conservative approach to longevity which reflects their key concern about outliving their savings is more appropriate.

Based on our calculator usage data, 72% of members who used our calculator stayed with the default retirement period. This suggests that it is important to provide an anchor point for calculators and estimates that is likely to be relevant to the member.

This is especially important considering retirement estimates are provided to young members who are likely to live even longer than current retirees due to longevity improvement over time.

As a starting point, we recommend a 30 year default period.

This would reflect an appropriate level of conservatism, and is broadly consistent with the two thirds probability rule of thumb typically used by trustees when setting long term return objectives.

For example, current actuarial estimates with appropriate improvement factors suggest around two thirds of current 65-year-olds will pass away by this point. This takes into account that the majority of 65-year-olds are part of a couple at retirement, and rounds the assumption to the nearest five years to avoid giving a false sense of accuracy.

It is also important that estimates provided in accumulation are consistent with the retirement planning process to ensure a smooth transition at the point of retirement and ensure that forecasts accurately frame a member's thinking about their retirement income.

Tailoring retirement assumptions

Despite the above, ASIC should not prescribe a single default retirement period, due to the high likelihood of different outcomes arising from uncertainty of lifespan as well as other factors such as partnership status and health considerations.

Going forward, funds will need to develop thoughtful estimates of this under their Retirement Income Strategy to inform product development and guidance. Trustees may have good reasons and data to support setting a different retirement age.

For example, some funds have a majority of members working in a particular industry, which may have implications for the retirement age and retirement period of their members. Our police force members, on average, retire earlier than others and may also expect to have a shorter retirement period. It is important for trustees to reflect this when providing superannuation forecasts to their members, to streamline the member experience as they transition from accumulation into retirement.

It should also be made clear that members should be able to adjust this number in calculators and interactive retirement estimates.

Recommendation

6. Amend the ASIC Instrument and guidance to allow trustees to set their own default assumptions on the retirement period, where this is appropriate to their membership, clearly disclosed, and able to be changed by members in interactive tools.
7. Use 30 years as a default assumption for retirement where a fund does not set a tailored assumption.

3.2. Administration fees and insurance premiums

Aware Super does not support the proposal to have trustees set assumptions about administration fees based on the administration fees paid by the member over the previous year.

This is an unnecessary over-simplification, and will potentially lead to systemic underestimation of fees in retirement estimates.

Trustees are required to state clearly how administration fees are going to be charged to members' accounts. It is often a combination of asset-base percentage fee, and fixed dollar fee with fee caps if applicable.

It would be preferable to use the formula that is applied to determine a member's annual administration fees to project future fees rather than using the fee charged over the previous year. This would more accurately capture percentage-based administration fees as well as any fee cap applicable than the proposed approach.

Given balances are expected to rise considerably over time, assuming percentage-based fees would remain constant each year would result in a significant underestimate of the fees a member would pay. This also work for all members including new entrants who do not have 12-month history with the fund.

Similarly, it is more appropriate to calculate insurance premiums based on the current PDS than the current backward-looking method.

Recommendation

8. Administration fee assumptions should be based on the actual formula used to calculate administration fees, rather than fees previously paid, to better project the level of fees likely to be paid into the future.
9. Insurance premium assumptions should be based on the current PDS, rather than on previous premiums paid.

3.3. Investment return objectives

Although there are different ways of setting investment return assumptions, we strongly believe setting return assumptions on the basis of existing investment return objectives is the most appropriate approach. This is because:

- While allowing full flexibility for trustees and providers to set investment assumptions, there could be concern about inter-fund comparability, and we believe using CPI+X% objectives reduce this being an issue as what drives the difference between projections produced by different funds would be the margin X% which is published. The CPI rate itself become secondary if all other indexations and deflator used in pension phase are linked to CPI.
- From a member experience perspective, it is better to have only one consistent reference of returns and members are already seeing the CPI plus objectives stated in their PDS. It would be more confusing if there is another set of "expected returns" used for projection purposes that is different to what they see on PDSs.
- There is public reference for the investment return used in PDS which members can easily verify.
- The CPI plus objectives have often incorporated conservatism – in most cases it is 2/3 probability rather than a central best estimate of closer to 50%. This is more appropriate to use considering it is what the trustee board signed-off with confidence for delivery to members. Disclosure should be clearly stating the level of conservatism incorporated.
- CPI plus objectives have stayed relatively stable over time. This is desirable as a key driver of projection results as it would create another layer of difficulty for members to understand the projection results if the long-term return assumptions used for projection purpose keep changing all the time.

It will be important for ASIC to clarify that tailoring return assumptions to reflect the members actual investment option is not considered as "promoting specific products".

While we believe CPI plus objective is the appropriate return assumption for the main projection outcomes, as noted above we also think illustrating the range of outcomes is important to educate members about the key risk they are facing in retirement.

Recommendation
10. Align investment return objectives to CPI+ objectives as set out in product PDS.

3.4. The Age Pension

We believe the Age Pension should always be included in retirement estimates.

Based on our internal modelling across all members, we know more than 70% of our members are going to be eligible for some sort of Age Pension.

As a key pillar of the retirement system and an important source of retirement income, it is crucial to include the Age Pension to ensure members are aware of its existence, acting as a potential prompt to provide more relevant, personal information so a more tailored projection can be provided.

We have included Age Pension in all of our existing retirement estimates or calculators provided to members across generic and personalised offerings. Based on our calculator usage data, 100% of our members who used our calculator stayed with the default inclusion of Age Penson although they have the option to exclude it. This shows us that members find the inclusion valuable, and helps maintain consistency in the member experience across channels that promotes member understanding and engagement.

The estimation error in not including Age Pension is much more significant than including it based on broad assumptions as a starting point.

Recommendation
11. Allow trustees to include Age Pension amounts in retirement estimates where appropriate for their membership.

3.5. Other Assumptions

Retirement income solution and drawdown methods

Trustees and providers should be allowed to consider alternative retirement income solutions that are not 100% account-based pension as more comprehensive retirement income strategies are being developed under the Retirement Income Covenant.

This may include a combination of account-based pension (including drawdown methods) and longevity products, how they are being modelled and the setting of appropriate assumptions.

Given the potential diversity of retirement income products that are likely to be provided by trustees, the best way for the proposed relief to facilitate calculators for these products is to allow trustees to set product-specific assumptions (e.g., product name, income level, fees and investment earnings). It will benefit both trustees and members if ASIC provides clear guidance on how this can be achieved without being perceived as advertising or promoting specific financial products.

Inflation rate

While this is an economy wide assumption and there is an argument for standardising this across the industry for the purpose of inter-fund consistency, the reality is that standardising this will very likely create intra-fund inconsistency.

Funds use different inflation assumptions in their Strategic Asset Allocation review (which could be for a number of reasons, including due to working with different asset consultants) which underpins investment earnings assumptions.

If the prescribed inflation assumption under the ASIC relief is different from the inflation rate used in the SAA process, then the trustee will face a dilemma when setting the investment earnings assumptions for superannuation forecasts.

Other assumptions

Where trustees and providers have quality data to support decisions, they should be allowed to set assumptions on other key member information such as:

- Age Pension entitlement;
- single/couple status;

- home ownership;
- other income and assets outside super.

Personalised data

As trustees and providers learn more about their membership through gathering information via multiple channels, they should be encouraged to use personalised data if the members already provided them, with the appropriate consent to use that data.

For example, if a member told their financial adviser they do not own their home, then this should be taken into account in any subsequent communications including retirement estimates which should assume the members is non-homeowner. Disregarding information that members already provided often leads to member disengagement and poor experience.

Recommendation
12. Trustees should have flexibility to set appropriate assumptions for estimates and calculators in order to provide more useful and meaningful information to members.

3.6. Product-specific assumptions

We note that ASIC has some concerns about the use of product-specific assumptions in a way which may be seen to be promoting a particular product.

From a member perspective, there is significant value in being able to provide results that mirror as closely as possible the likely actual experience of the product, and the potential outcomes, to inform decision-making.

We know that members struggle to apply generic information to their own circumstances, so the ability to tailor an estimate as closely as possible to their own circumstances is key to member understanding of specific products and the implications of particular decisions.

However, we acknowledge it will be important that appropriate disclosure and context is provided so that users understand the limitations of the tools.

The draft regulatory guide appears to allow the use of product-specific assumptions but require that the detail of the product is less prominent than other disclosures.

While we understand that ASIC is trying to prevent members making product decisions based on a single forecast, making it less obvious that results are based on a specific product (or making it difficult to relate calculator settings back to investment options) will make it harder for members to understand how the results relate to their circumstances. This may also inadvertently lead an individual to believe that the results are more general in nature and could be applied across other products or funds.

With appropriate disclosure, we recommend ASIC explicitly allow product and investment option labelling to be connected to generic calculators and retirement estimates where these products/options have informed the assumptions.

Appropriate use of branding, product information and assumptions to ensure consumers aren't being misled or presented with biased information should be monitored by ASIC on an ongoing basis. Other regulatory tools, such as DDO, should also help to ensure consumers are not being pushed into inappropriate products.

Recommendation
13. Clarify that product-specific information, assumptions and labelling can be used in relation to retirement estimates in the form of static projections and interactive calculators and generic calculators. 14. Provide clear guidance on expectations in terms of disclosure and labelling where product-specific assumptions are used, to ensure trustees are comfortable that they can take advantage of the relief.

3.7. Consistency of assumptions within and between funds

As noted above, internal consistency of projections is key to minimising confusion and increasing engagement of fund members.

However, allowing funds to tailor assumptions will inevitably mean that assumptions, and therefore outcomes presented to members, differ between funds.

It is not clear the extent to which members would be likely to use tools provided by multiple funds – but we would expect this may be most likely to occur where a member (or a couple) has multiple accounts with different funds, or where a member is trying to understand the potential impact of product choice between funds.

While the use of different assumptions may cause confusion for some members, clear disclosure and explanation of the assumptions that are tailored to particular funds or to the member's circumstances should assist members who may use multiple tools.

This could include clearly highlighting where standard assumptions vs tailored assumptions have been used, so members are able to see at a glance which variables may change between different tools.

While we acknowledge that ASIC will need to monitor these assumptions so they are not gamed, the use of reasonable and realistic assumptions by trustees, which reflect their products and anticipated member outcomes, seems likely to provide the best member outcome.

We understand that this approach will mean that it is more difficult to compare results between funds. However, inter-fund comparability would be extremely difficult to achieve without compromising the usefulness of the information provided to consumers - an environment where tools are overly standardised and does not reflect the potential for different outcomes from different products would be unlikely to improve member outcomes.

Recommendation
15. Trustees and providers should be required to clearly disclose which of their assumptions are standardised vs tailored.

3.8. Other inputs into calculations

Data from the use of Aware Super's Explorer calculator and member testing shows that approximately 30% of members would like to consider their non-super assets as part of their retirement income projections.

The paper is silent on the inclusion of non-super assets in retirement projections, although we note that ASIC has confirmed that this is intended to be permitted under the relief.

Given the potential influence on retirement outcomes and contribution decisions, Aware Super believes it is preferable to include these explicitly.

Recommendation
16. The ASIC Instrument and guidance should make clear that non-super assets are permitted to be included in retirement estimates.

Appendix: Consultation Questions

B1Q1 Should ASIC continue to offer relief to trustees and other providers for superannuation calculators? Why or why not?

Yes. These tools can provide valuable information and education opportunities for superannuation members. Research has shown they can increase engagement and early engagement through actions could materially enhance member retirement outcomes.

B1Q2 Should ASIC continue to offer relief for trustees to provide retirement estimates to their members? Why or why not?

Yes. It is necessary relief in order to manage business risks and have the confidence to provide estimates to members.

B1Q3 Are there elements of the current relief for superannuation calculators or retirement estimates that discourage or prevent the provision of these tools by trustees?

Yes.

See Section 1 above

B1Q4 How are superannuation calculators and retirement estimates currently being provided by industry under ASIC's current relief?

VicSuper provided retirement estimates through member statements under the relief and personalised estimates through digital advice.

Aware chose not to use the relief due to the concerns it can mislead, but uses the calculator relief for its public calculator and a more sophisticated personalised calculator developed under personal advice regulations. The expense and complexity of complying with personal advice rules means the clarification of the allowability of the interactive retirement estimates is welcome.

B1Q5 Are superannuation calculators or retirement estimates being provided without relying upon the current relief? If so, why are providers choosing not to rely on the relief?

Aware Super considers that using intrafund advice to offer solutions can provide better support and outcomes for members by providing:

- more personalised projections using the member's personal interests in the fund and the actual investment option invested by the member
- personal advice recommendations to improve members confidence to take action
- the ability to support implementation of the advice
- the ability for intra-fund advisers to support members through the digital solution.

Member engagement generally and the take up of these tools is likely to be materially higher where a member journey can be created linking retirement estimates to the availability of more sophisticated tools. However, we consider is it imperative that the underlying assumptions align where this approach is taken, to avoid confusing members.

B1Q6 Are our proposed changes to RG 229 easy to understand? Is the structure and format of the regulatory guide helpful, or would a different approach be preferable? If so, why?

We have highlighted several areas where additional clarity would be helpful to ensure that we are able to make use of the relief and have comfort that we would be compliant.

B2Q1 Do you agree that our relief for superannuation calculators and retirement estimates should be combined into a single legislative instrument? If not, why not?

Yes. It makes sense to combine these documents to ensure consistency of approach and to allow funds to align the underlying assumptions used across channels and across the retirement estimates, calculators and interactive tools available to members.

B3Q1 Do you agree with our proposal for principles based disclosure requirements? Why or why not? Should there be any conditions or other steps taken to address particular risks arising from a principles-based approach?

Aware Super agrees with the proposal for principles-based disclosure requirements, providing sufficient clarity and guidance is provided to allow trustees to be confident their disclosures are compliant.

ASIC should be open to providing additional clarity, for example through FAQs, to support trustees implementing disclosure requirements in the event that there is ongoing uncertainty as funds work through implementation.

B3Q2 Should we prescribe how specific assumptions should be disclosed (e.g. insurance premiums)?

No, considering the range of difference in insurance design and how fees and costs charged to members account, we believe it is best to allow for flexibility for trustees to determine the most appropriate way to set assumptions.

We believe fees and insurance premiums should be based on the latest PDS. The current Class Order method of basing it off last year's fees and insurance premium amount is less desirable.

B3Q3 Are there any specific changes we should make to our relief or guidance on presentation or disclosure that would encourage trustees to provide superannuation calculators or retirement estimates?

Specific changes recommended by Aware Super include:

- allowing projections provided under intrafund advice rules, and presented with an SoA, to be re-presented to members through other channels (such as statements) reflecting updated factual information on age, balance, contributions and changes in investment options and insurance since the last SoA was produced.

- allowing risk and volatility scenarios to be included in retirement estimates and calculator outputs
- allowing static retirement estimates to be provided through a broader range of communications channels, including email campaigns seeking to improve member engagement.

B4Q1 Do our proposed changes to the relief and guidance give sufficient clarity about how a superannuation calculator or retirement estimate may be given without advertising or promoting a specific financial product? If not, why not?

Further, explicit guidance is required to provide clarity to funds about the level of product information that is allowable. Without this, it is likely that funds will take a conservative approach to reduce compliance risk at the expense of providing information that would be of assistance to members.

Members will naturally expect funds to use the names of their products where we are designing tools and projections based on those products. If different "generic" names were used instead, members will be confused on how to map calculator results back to their own circumstances and choices.

B4Q2 Are there other ways to reduce the risk of a member assuming the forecast can be relied on to make a decision about a specific financial product?

Our member testing indicates that members are generally understand that estimates are just that, and that they can't be relied on to project exact returns.

Key measures which will reduce the risk of members relying on forecasts to make specific financial product decision include:

- clearly specifying the purpose of the forecast;
- clearly disclosing which assumptions are generic and which are personalised/tailored;
- providing helpful information about upside/downside risk that is easy for members to understand

B5Q1 Do you agree with the proposed restrictions on who may be provided with a retirement estimate? Why or why not?

We believe there is value in broadening some restrictions on who can be provided with a retirement estimate, including:

- members who have not contributed for up to 16 months;
- defined benefit members; and
- retired members.

See section 2.6 above.

B5Q3 Are there other types of members that should be included or excluded from the scope of our relief for retirement estimates? Why or why not?

The key criteria for excluding a member should be based on the view that such projection is potentially more misleading than helpful. Trustees should be able to set reasonable criteria outside those determined by the relief.

B6Q1 Are there practical limitations to trustees providing retirement estimates more frequently than in periodic statements?

In general, the most practical and cost-efficient way to push information to members is to align it with existing communication cycles, such as annual and half-yearly statements.

The benefit of including estimates in statements is the likelihood of increasing engagement, in a communication where a lot of other relevant information is provided (assuming the assumptions in the estimate are sufficiently tailored to the individual's circumstances).

However, there is no reason why this information could not be provided at other points in time, particularly through digital channels where supporting information can be easily accessed.

For example, we agree that providing information online in the portal on a member dashboard is a useful way to provide context and prompt engagement with the concept of superannuation as retirement income at any time the member logs in to view their super. These projections could be updated on a regular basis to reflect any changes to the member's investments.

Providing static retirement estimates through other email communication (aside from statements) should also be explicitly allowed in the legislative instrument. Timely communication of retirement estimates during periods of market volatility may reduce anxiety and help members stay the course. Similarly, personalised communication following periods of market volatility to members who switched to cash could help members understand the long term implications of that decision and help them take further action, noting the majority of Aware Super members who switched to cash during the GFC had not switched back 5 years later in spite of generalised communication?.

B6Q2 Does draft ASIC Instrument 2022/XXX appropriately facilitate the provision of retirement estimates to members through an online portal? Would further ASIC relief or guidance help trustees deliver estimates in this way?

Our recommendations around improving the relief, including allowing tailored assumptions and the use of information gathered through the SoA process in retirement estimates, are key to Aware Super being confident in providing retirement estimates under the relief.

B6Q3 What are the risks in allowing trustees to deliver retirement estimates to members through an online portal?

While there are risks associated with delivering retirement estimates through an online portal, there is no reason they cannot be appropriately managed by trustees.

It will be important to ensure any personal information used in a projection is up to date – this could be addressed through disclosure and appropriate prompts to update the fund on personal circumstances.

It will also be important that if estimates are not able to be updated in real time, meaning that for example the balance used in the estimate may differ from the member's displayed current balance, this is clearly labelled and explained.

Appropriate information about risk and volatility will ensure members are not unduly alarmed by any changes to their estimate during periods of market volatility.

B6Q4 What are the risks in allowing trustees to deliver retirement estimates to members in video or audio format?

Member testing has shown that video formats in particular are a very effective means of communicating information to members. As long as appropriate disclosures and explanations are provided, ASIC should encourage the delivery of information in video/audio format where this can improve member understanding.

B7Q1 Do trustees already provide interactive forms of retirement estimates? If so, how are these provided to members?

Currently we only provide interactive estimates under personal advice rules in conjunction with an SoA owing to current regulatory restrictions.

B7Q2 Are these interactive estimates provided by relying on ASIC's current relief? How are the default assumptions set?

At Aware Super, these online interactive estimates are not provided by relying ASIC's current relief but relying on intra-fund advice rules with a SOA. This is because these interactive estimates are personalised which means they are based on:

- the members' inputs such as retirement age, other income and assets outside super and spouse details which means the current ASIC Class Order [CO11/1227] cannot be relied upon; and
- the members' current investment options with the same names as the product are used, which means the ASIC Corporations (Generic Calculators) Instrument 2016/207 cannot be relied upon.

While these estimates are not provided under the current relief, the default assumptions are set to be in accordance with the calculator relief to the extent it is possible.

B8Q1 What is the appropriate period of time for the relief, given the need for trustees and other providers to have certainty about the regulatory settings to make use of the relief?

It is appropriate to extend the relief for an extended period of at least five years, noting that ASIC may review the relief and assumptions sooner if required – for example to align with other legislative or regulatory change.

We also support ASIC's proposal to evaluate the practical use of the relief once it is in place, to ensure it remains fit-for-purpose and is not creating unintended poor outcomes, or inadvertently constraining innovation.

B8Q2 How do superannuation calculators and retirement estimates currently influence member behaviour? What data and evidence do trustees and other providers currently collect on how these forecasts, including their assumptions and presentation, influence member behaviour and outcomes?

Our personalised calculator journey provides a holistic estimates of the members retirement income as it asks members to provide their other asset and income outside super as well as their spouse's details if applicable.

On average, within 12 months, our members who have gone through the personalised calculator journey and obtained an SOA:

- roll in 30% more than members who have not used the calculator;
- roll out 50% less than members who have not used the calculator.

B8Q3 What reliable and robust data and evidence can trustees and other providers collect on how their superannuation calculators or retirement estimates influence their members' behaviour or outcomes?

We are able to track member actions to collect a broad range of data on behaviour and outcomes, including:

- Important data on personal circumstances collected through the use of digital tools, which will impact the members' Age Pension entitlement and thus overall retirement outcomes, such as:
  - other assets and income outsider super;
  - whether they are single or part of a couple, and if couple - spouse's details including age, super balance etc ;
  - home ownership status.
- Retirement income target or benchmark indicated by members as measure of adequacy
- member actions following the use of calculators (rollins, additional contributions etc) to understand how the use of the calculator impacts members behaviour.

Alignment of superannuation calculators and retirement estimates across channels and platforms will be a key enabler to allow trustees to make use of projections for meaningful members engagement and education, and this is likely to lead to higher calculator usage.

As more members start using calculators, member data could also be aggregated to provide important insights into member cohorts to support the design of retirement income strategies per Retirement Income Covenant.

B9Q1 Do you agree that a transition period of six months is appropriate for providers to comply with the proposed relief (i.e. by 1 October 2022, assuming the new instrument is made on 1 April 2022)? If not, do you consider a longer or shorter period is required?

Given the potential impact on systems and complexity of ensuring appropriate assumptions and compliance with a new instrument, it would be preferable to provide a one-year transition period. We note a 6 month transition would not capture the next round of annual statements for most funds. However, trustees or providers who are ready to transition into the new requirements should be allowed to do so as soon as the new instrument is effective on 1 April 2022.

B9Q3 Will it be practical for trustees to provide retirement estimates under the proposed relief as part of, or alongside, periodic statements for 2021–22?

It's not clear that it would be achievable to provide estimates in line with the new relief for the 2021-22 financial year. Annual statement processes begin several months before statements are released, and may already be well underway by the time the relief is finalised.

However, funds should not be prevented from implementing the proposed relief if they are able.

B10Q1 What impact (if any) will our plans to update the default assumptions in our calculators have on trustees or other providers who choose to use the same assumptions?

We believe the updated assumptions on the Moneysmart calculator will provide important guidance to trustees or other providers in setting the assumptions of their superannuation forecasts and improve the quality of information and guidance provided to the public.

C2Q1 Do you support trustees and other providers having flexibility to set their own reasonable assumptions for investment earnings, fees and costs, including on the basis of the product a member is invested in? Why or why not?

Yes. As trustees and providers are responsible for setting their own investment strategies and investment objectives, they should be allowed to use consistent investment assumptions. It would be desirable to have consistency in all communication materials (e.g. PDS, retirement estimates, calculators) provided to members to avoid confusion.

In order for members to understand the impacts of decisions, including investment decisions, it is helpful for them to be able to see outcomes that are tailored to their particular product.

Limiting the assumptions that can be used by trustees could lead to misleading information being provided to members (see Section 2.3 above).

C2Q2 What are the risks to members and to industry of trustees setting their own reasonable assumptions for investment earnings, fees and costs relating to the product in which a member is invested in, or a product which the trustee offers? How can these risks be mitigated?

While there are concerns around trustees providing tools and projections with assumptions that are not consistent across the industry, from a member perspective it is more useful for information to reflect an individual's actual circumstances – see Section 2.3 above.

Appropriate disclosure of the tailored nature of assumptions should help members understand where assumptions are generic, and where they have been set in relation to a particular product.

C2Q3 Should trustees have greater flexibility to set other types of assumptions, either for a retirement estimate or superannuation calculator? Why or why not?

Yes, greater flexibility is needed for trustees to set other (non-product specific) assumptions to best represent the circumstances that their members are in. This is essential to provide superannuation forecasts that are both intra-fund consistent and relevant to members.

Key assumptions where the trustee should have flexibility include:

- Retirement age and drawdown period
- Retirement income solutions and drawdown methods
- Age pension entitlements
- Inflation rates
- Other personalised data

See Section 3 above.

C3Q1 Is there evidence for how members understand or interpret differences in forecasts, either across types of forecast (superannuation calculators and retirement estimates) or across different trustees (or other providers of superannuation calculators)?

As noted, our member testing has not raised concerns about members being able to understand that estimates may not reflect their actual outcomes, for a variety of reasons.

To assist members in contextualising information provided by trustees, MoneySmart should be very clear about the generic assumptions used and that individuals should expect differences between those estimates and the ones provided by their fund that are based on more tailored information.

C4Q2 How frequently should providers be expected to revise the economic and financial assumptions they apply?

It is reasonable to expect that providers review their assumptions on an annual basis, to ensure that they remain current and appropriate to the products they are reflecting. It would be reasonable to expect that changes to a PDS would also trigger updates where assumptions should be consistent with PDS information (for example, fees, insurance premiums, CPI+ targets)

C5Q1 Should trustees be expected to set the same assumptions across all superannuation calculators and retirement estimates they provide? In what circumstances should assumptions be able to differ?

As far as possible, it would be preferable for trustees to standardise assumptions across the calculators and estimates they provide to members.

However, it may be appropriate to maintain flexibility for some assumptions to differ when providing more tailored estimates, for example under personal advice – it should not be mandated that trustees use a single set of assumptions where it is not reasonable to do so.

C6Q1 What are the advantages and disadvantages of giving trustees and other providers flexibility to set their own reasonable default assumptions for investment earnings, fees and costs?

The main advantage of allowing flexibility is that members are more likely to see results that accurately reflect their specific circumstances and decisions. Being able to accurately reflect different circumstances makes it significantly easier for members to understand and engage with a projection – see Section 2.4 above.

However, it is important that these tailored assumptions are appropriately disclosed and contextualised, to ensure members understand how they relate to their personal circumstances and that tolls are not necessarily comparable across funds.

C6Q2 Is there evidence that members may misunderstand forecasts that are based on specific superannuation products? If so, are there ways to reduce this risk? In what circumstances would differences across forecasts be misleading (e.g. by creating a sense of false precision)?

Member testing undertaken by Aware Super has shown that members appear to be very clear that these types of forecasts are only estimates, and do not expect precision.

Members also showed a very strong preference for personalisation of information wherever possible to better understand how a forecast relates to their personal circumstances.

Our member testing also suggested some members would request information to understand the risk implication knowing the expected outcome is a coin toss.

C6Q3 In working out a retirement estimate, would it be practical for trustee to set assumptions about investment earnings, fees and costs that may differ based on the products members are invested in? Why or why not? Are there alternative approaches?

We see significant value in being able to tailor assumptions to a member's current products, particularly in relation to investment options. The inability to tailor these assumptions is currently a key barrier to Aware being comfortable providing retirement estimates on annual statements – see Section 2.1 above.

If a member invests in one option only then it is straightforward to come up with the return assumption for that one option. If a member invests in more than one option, often it would be reasonable to consider a weighted average approach or using the return assumption of the option with the highest balance.

It would be important for ASIC to clarify tailoring return assumptions to reflect the members actual investment option is not considered as "promoting specific products".

C6Q4 What guidance should ASIC provide on how assumptions about investment earnings, fees and costs should be set? Would it be appropriate for trustees to set assumptions on the basis of existing investment return objectives for superannuation products they offer (e.g. the return objective disclosed in the Product Disclosure Statement (PDS) or set by the trustee board?)

Although there are different ways of setting investment return assumptions, we strongly believe setting return assumptions on the basis of existing investment return objectives is the most appropriate approach. See Section 3.3 above.

C7Q1 Would requiring trustees to make reasonable assumptions about administration fees based on the administration fees paid by the member over the previous year be workable in practice?

This is an unnecessary over-simplification. It is preferable to use the actual formula that is applied to determine a member's annual administration fee to project future fees.

See Section 3.2 above.

C7Q2 Could members be misled if trustees use member specific assumptions for administration fees in working out a retirement estimate alongside generic assumptions for investment earnings and investment fees and costs? If so, how could the risk of misleading forecasts be minimised?

We do not think this is going to mislead members. Our member testing has suggested members prefer tailored assumptions that more appropriately reflecting their situations than a generic one.

It is more likely to mislead members if generic assumptions are used which underestimate fees.

C7Q3 Should we allow or require trustees to set different default assumptions for administration fees in the accumulation and retirement phases when working out a retirement estimate? Why or why not?

Yes. Where the fees paid by a member will differ between accumulation and retirement phases, it is appropriate that this is factored into a retirement estimate. As far as possible, the fee assumptions should reflect the actual fees members will pay, based on disclosed fee structures.

C8Q1 What are the advantages and disadvantages of prescribing a default retirement age and drawdown period for superannuation calculators and retirement estimates under our relief? Please include relevant evidence, where available, of: (a) the extent to which prescribed assumptions would reduce the risk of members being confused or misled if they use one or more superannuation calculator or retirement estimate; (b) the proportion of members that currently choose to input their own retirement age or drawdown period assumptions into superannuation calculators; and (c) any differences in likely future retirement ages or drawdown periods across different superannuation funds' memberships.

Based on our calculator usage data, 72% of members who used our calculator stayed with the default retirement period.

This suggests that it is important to provide an anchor point for calculators and estimates that is likely to be relevant to the member.

From our member research, we see members generally tend to underestimate how long they need to plan for in retirement. This means the setting of default drawdown period/retirement period is an important opportunity for member education.

Going forward, funds will need to develop thoughtful estimates of this under their retirement strategy to inform product develop and guidance. Trustees may have good reasons and data to support setting a different retirement age. For example, our police sector members generally retire earlier than the population average due to occupation reasons. Trustees should be allowed to set different default retirement ages depends on their membership profile. It is important that estimates used in calculators align with this to assist with the member experience as they transition from accumulation into retirement.

C8Q3 Is age 67 (the age pension eligibility age) a reasonable assumption for the retirement age? Why or why not?

Yes, this is a reasonable default assumption.

For Aware Super members, the average retirement age is 65 with a spread of approximately 10 years.

However, we have already begun to see this shift gradually as the Age Pension eligibility increases and would expect 67 to become the age retirement age over the medium term. This assumption is therefore likely to require ongoing review to reflect this societal change.

It is also important that members are able to adjust this assumption to suit their own circumstances. Bringing forward or delaying retirement materially impacts retirement outcomes. Our modelling shows that for the average Aware Super retiree delaying retirement from age 65 to 66 could potentially increase retirement income by around $900 p.a. The ability to 'play' with these assumptions can be an important education opportunity.

C8Q4 Is 25 years a reasonable assumption for the duration of the retirement period? Why or why not?

No.

As a generic default, 30 years is a more appropriate starting point. However, trustees should have the flexibility to tailor assumptions based on their membership, and members should have the flexibility to alter this period in interactive estimates and calculators.

See Section 3.1 above.

C9Q1 How do superannuation calculators show forecasts representing different types of retirement income products (such as account based pensions and annuities) under ASIC's current relief? How could ASIC's proposed relief facilitate calculators for different types of retirement income product in a way that does not advertise or promote specific financial products?

Trustees and providers should be allowed to consider alternative retirement income solutions that are not 100% account-based pension as more comprehensive retirement income strategies are being developed under Retirement Income Covenant. This may include a combination of account-based pension (including drawdown methods) and longevity products, how they are being modelled and the setting of appropriate assumptions.

Given the potential diversity of retirement income products that are likely to be provided by trustees, the best way for the proposed relief to facilitate calculators for these products is to allow trustees to set product-specific assumptions (e.g., product name, income level, fees and investment earnings). It will benefit both trustees and members if ASIC provides clear guidance on how this can be achieved without being perceived as advertising or promoting specific financial products. See Section 3.6 above.

C10Q1 For retirement estimates, what additional assumptions would need to be made to work out the annual income stream in the way that we propose? Should ASIC prescribe a specific formula? Why or why not?

We think it is more appropriate to give trustees and providers the flexibility to be able to model the retirement income streams to appropriately reflect member circumstances and possible retirement solutions.

Additional assumptions required include:

- Investment return assumptions, administration fees and costs for pension phase
- Retirement income solution composition. E.g. 100% account-based pension, including which investment option/risk profile, or with some allocation to a longevity solution or other innovative product
- Indexation of retirement income and deflator in retirement phase
- All assumptions required for calculation of Age Pension
- Spouse details
- Other assets and incomes outside super
- Shape of retirement income streams (constant in real term, increasing or decreasing)

C11Q1 What are the advantages and disadvantages of allowing trustees to include age pension amounts in a retirement estimate only if it is an interactive retirement estimate that allow the member to make changes to the assumptions? (a) What evidence is there for how numerical forecasts of age pension eligibility influence member behaviour? Does this vary depending on the magnitude or accuracy of the forecast? (b) Would factual information alongside a static retirement estimate be more or less effective in raising member awareness of their potential age pension eligibility compared to a numerical forecast? Why or why not? (c) Why do trustees currently choose to include, or not to include, age pension amounts in retirement estimates? Do trustees choose to include age pension amounts only for specific subsets of their members? (d) Would trustees be less willing to provide retirement estimates to their members if they could not include age pension amounts in static estimates? If so, would trustees seek to provide interactive retirement estimates instead?

We believe the Age Pension should always be included in retirement estimates.

Based on our internal modelling across all members, we know more than 70% of our members are going to be eligible for some sort of Age Pension.

As an important source of retirement income, it is crucial to include it for members to be aware of its existence and it may potentially prompt them to tell their funds more about their personal information so a more tailored projection can be provided.

We have included Age Pension in all of our existing retirement estimates or calculators provided to members across generic and personalised offerings. Based on our calculator usage data, 100% of our members who used our calculator stayed with the default inclusion of Age Penson while they have to option to exclude it. This shows us that members find the inclusion valuable, and helps maintain consistency in the member experience across channels that promotes member understanding and engagement.

The estimation error in not including Age Pension is much more significant than including it based on broad assumptions as a starting point.

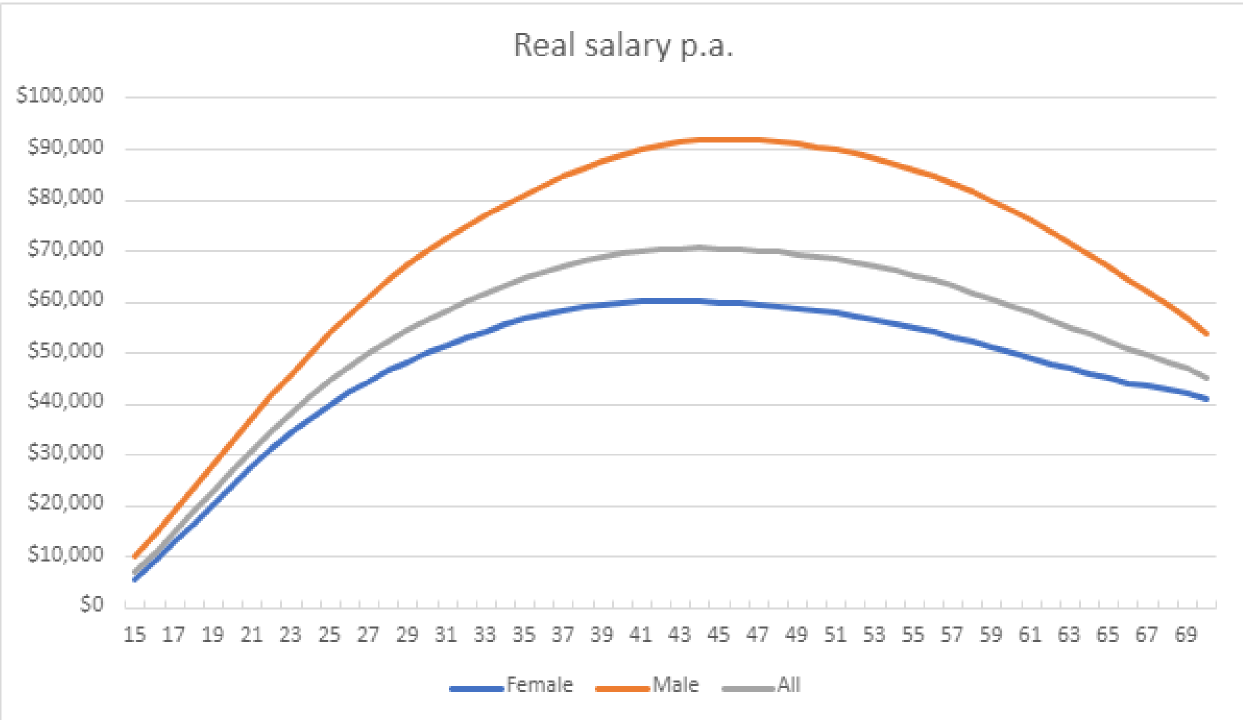
C11Q2 Should age pension amounts be required by default in interactive retirement estimates or in superannuation calculators? Why or why not?

Yes. See response to C11Q1.

C12Q1 Are there other ways in which assumptions could be made about future superannuation contributions in working out retirement estimates (e.g. using a three-year rolling average)? To what extent would this better reflect how contribution levels may change over the long term for most members?

Our member data shows that there is an age-based salary scale. This age-based salary curve is not unique to only Aware Super members – it is also apparent in Census data.

We think where trustees and providers have quality data to support the modelling of more accurate promotional scales, they should be allowed to use these in retirement estimates and calculators.



C13Q1 Are there other ways in which future insurance premiums could be taken into account in working out retirement estimates?

Insurance premiums are often modelled by taking the last year insurance premium amount and applying an indexation that is aligned with either CPI or AWOTE.

However, this may not reflect how the insurance premium is likely to evolve over time. For example, the Aware Super insurance offering is an age-based design which means it is more accurate to model future insurance premium by applying an age-based look up table in a similar way to the age-based salary scale we mentioned in C12Q1. Again we feel that where trustees and providers have the ability to model these assumptions more accurately, they should be allowed to do so.

C14Q1 What are the advantages and disadvantages of ASIC setting standardised default inflation rates for both superannuation calculators and retirement estimates? Please include relevant evidence, where available, of: (a) the extent to which common assumptions would increase or reduce the risk of members being confused or misled; (b) the proportion of members that currently choose to input their own inflation rate assumption into superannuation calculators; and (c) any differences in forecasts of long-term price or wage inflation across different superannuation funds' memberships.

The main advantage of ASIC setting standardised default inflation rates is inter-fund comparability.

However, it will result in intra-fund inconsistency with trustees' internal processes for setting their CPI plus investment return objectives for their products. We believe intra-fund consistency is more important to avoid confusion to members, as a result trustees and providers should have the flexibility to set appropriate inflation assumptions.

To reduce the issues arising from inter-fund comparability, we recommend the use of CPI plus objectives as the return assumptions, which tend to be broadly consistent by risk profile across the industry, and allow funds to set inflation assumptions that achieve intra-fund consistency (e.g., use the same inflation as what is used in setting their investment return objectives). We have provided detailed reasoning in C6Q4.

We rarely see members having the need to make changes to inflation rate assumptions.

C14Q2 What are the most appropriate types of inflation rate to apply to the accumulation and retirement phases?

We strongly support the use of wage inflation as the deflator in accumulation phase and price inflation as the deflator in retirement phase.

C15Q1 How should ASIC set values for the default inflation rates, and how frequently should these rates be reviewed?

If ASIC want to set default inflation rates, then one option is to set up an industry committee to agree with the "best estimate" and the upside and downside range of rates to use. Another option is to conduct regular surveys from the industry and similarly a "best estimate" can be derived. It would be reasonable to review on an annual basis.