



Nicole Chew, Senior Lawyer, Superannuation
Australian Securities and Investment Commission
GPO Box 9827
Brisbane QLD 4001
By email: SuperForecastsConsultation@asic.gov.au

Consultation Paper 351 - Superannuation forecasts: Update to relief and guidance

B1 / B2 - ASIC proposes continued relief for superannuation forecasts and merging relief into a single instrument

Super Consumers Australia supports ASIC providing relief for providers of superannuation calculators and retirement estimates. Resources provided by superannuation funds is a major port of call for many when retirement planning. The Retirement Income Covenant will require funds to create a retirement strategy which is likely to significantly increase the assistance provided to members through calculators and estimates. Good quality superannuation forecasts therefore form an important piece of the puzzle for people seeking retirement guidance.

Merging the current relief into a single instrument will ensure consistency, particularly for providers who create both superannuation calculators and retirement estimates. It will also simplify the framework for those seeking to create superannuation forecasts by moving the relief into one spot.

B3 - Instead of mandating specific standardised text, as is currently required for retirement estimates, ASIC proposes that the disclosure requirements for both superannuation calculators and retirement estimates be principles based.

Removing the standardised text from retirement estimates provides more flexibility to trustees in how they disclose their assumptions. This will give providers the ability to create meaningful and more tailored guidance to people. But it also places a high level of trust in providers to be clear and up-front. ASIC has recently discovered significant shortfalls in the way super funds communicate with consumers on issues like maintaining inactive insurance and fund underperformance.

In our work creating new retirement targets, we tested how respondents reacted to certain presentations and assumptions. Our investment earnings assumptions were not disclosed to respondents in our testing. This resulted in some respondents trying to replicate the assumptions incorrectly. Other respondents noted the lack of transparency which reduced confidence in the targets. Findings such as this highlight how important assumptions and presentation can be to superannuation forecasts.

A misleading forecast could nudge people into products that are inappropriate for their needs. Most recently in September 2021, Media Super discovered that the fees, premiums and returns used by their tool on their public website were last updated in 2015. The information underpinning the member dashboard function had been out of date since its 2018 inception.

These issues can be resolved if ASIC is able to appropriately provide proper and timely oversight. With the ability to monitor the disclosure of superannuation forecasts, ASIC will be able to stamp out any misleading behaviour. This will allow good quality discretion to thrive ensuring forecasts can be tailored specifically to products and spurring positive innovation in retirement guidance. To do so, we recommend ASIC create a superannuation forecast register.

Super Consumers Australia recommendation - Require providers to provide machine readable data to ASIC to create a forecast register

Super Consumers Australia recommends that ASIC require superannuation forecast providers to provide their disclosure text and assumptions to ASIC in machine readable data. This will be the most efficient way for ASIC to undertake proper and timely oversight.

Doing so, will provide ASIC with the capability to create a register of disclosure and assumptions for superannuation forecasts, particularly trustees who provide retirement estimates. It will ensure ASIC does not need to proactively monitor each forecast that is provided to consumers, because they will receive the data in a timely manner. ASIC will be able to better compare forecasts and determine if outliers exist in the market. They will also be better positioned to determine if forecast data is equivalent to actual product data.

A forecast register aligns with the Quality of Advice draft terms of reference which has regard to enabling innovation and the development of technological solutions including the use of regulatory technology and digital advice. The data in the registry can be ultimately used to create a public comparator tool for products. It also has the potential to be leveraged into the ability to provide mass market low-cost advice by having access to a large amount of product data.

Attaining and providing this data should not create any extra regulatory burden on providers. Forecast providers will have access to this data and will be storing it in their current systems.

They should easily be able to provide this to ASIC at regulator periods electronically.

B4 - ASIC will retain a requirement that superannuation calculators must not be used to advertise or promote a specific financial product, and introduce a requirement that retirement estimates must not advertise or promote a specific product.

Super Consumers Australia agrees that superannuation forecasts should not be used to promote products due to the risk that it will be taken as a substitute for financial advice. There is also an inherent conflict with allowing funds to provide guidance on taking up specific products. This may not lead to harm if the super fund has good performing products that capture the needs of the individual, but this will not be the case for many funds. For example, retirement phase products are currently not captured by performance benchmarking protections, potentially leaving people exposed to underperforming options. The UK Financial Conduct Authority found: "the majority of consumers (60%) do not switch providers when they buy an annuity, despite the fact that 80% of these consumers could get a better deal on the open market, many significantly so".¹ Therefore disconnecting retirement estimates from product advertising will hopefully provide a break, albeit small, in consumer decision making and may encourage some to seek additional product advice, preferably from a non-conflicted source.

Although out of scope of the current consultation, this lack of connection between retirement planning advice and quality independent product recommendations remains a significant limitation for consumers looking to smoothly navigate the retirement system. People need an affordable, independent offering to provide them retirement guidance. We encourage ASIC to highlight this gap and solutions in the consumer decision making process. Addressing this gap is especially important in the context of a new retirement product market. Super Consumers Australia strongly supports development of an independent retirement guidance service which would help people who are not currently accessing financial advice for cost or trust reasons.

B5 - ASIC proposes to retain the requirement that retirement estimates may only be given to members aged under 67 who have been a member of the fund for the year ending on the date of the estimate. They cannot be given to people in the retirement phase or haven't made a contribution

Retirement estimates (or an amended version) should be provided to people that have retired, rather than providing them with nothing.

¹ Financial Conduct Authority, February 2014. At <http://www.fca.org.uk/static/documents/thematic-reviews/tr14-02.pdf>

The cohort of people using these calculators and engaging with estimates are still likely to be over 67. Our research found approximately 40% of people over 65 continue to spend significant time (more than a week) on retirement planning. Additionally, only 38% of people between 70 and 74 have assessed how much they need for retirement. Three quarters of those that had made this assessment found it useful.² Retirement calculators play an important part in helping people align their household budgets with their retirement savings. They also provide a useful check-up throughout retirement to help people assess how changes in circumstances (e.g. market changes and expenditure patterns) impact their ability to spend as they age.

B6 / B7 - ASIC proposes that retirement estimates can be provided more frequently and that they can be interactive

Super Consumers Australia supports trustees providing retirement estimates more frequently and the ability for them to be interactive. This is a useful way to drive ongoing engagement with retirement savings and should help people 'dial in' their desired retirement balance as they near retirement. Projections always have a degree of uncertainty related to them, by encouraging people to check in at appropriate times people will be in a better position to avoid under or over saving.

Input on relevant assumptions and economic forecasts

C2 - ASIC proposes to give trustees and other providers flexibility to set their own reasonable assumptions relating to investment earnings, fees and costs for superannuation products. These assumptions must be reasonable and certain disclosure requirements must be met.

It makes sense for providers of products to have the flexibility to set their own reasonable and realistic assumptions based on actual data from their products. Trustees are well placed to make reasonable assumptions for the products they own. This is likely to provide the most realistic result for a consumer using superannuation forecasts from product providers.

As we have recommended, if providers were required to provide data to ASIC this would provide an effective monitoring mechanism to ensure that providers are setting assumptions reasonably.

² Retirement Planning Survey, February 2021, Super Consumers Australia and Fiftyfive5, N=1,541, <https://superblog.netlify.app/2021/07/28/nationally-representative-retirement-survey-results/>

Investment earnings

Extreme care should be taken to make sure investment earnings are reasonable. Given the long term nature of superannuation, small changes in the investment earning rate can materially change the end result of a superannuation forecast. Again, we recommend that machine readable data to be provided to ASIC and made public. This will allow the regulator and public scrutiny of the reasonableness of investment earning assumptions and track if they are appropriately updated in response to long term changes in market conditions or investment option strategy. Having to make these available to the regulator and public is likely to increase transparency and make funds more accountable for the assumptions they use.

In providing an explanation for their forecast methodology, it would also be appropriate for providers to state any outperformance over a passive benchmark they assume. This would provide a simple benchmark for both consumers and ASIC to refer to in assessing the reasonableness of the assumptions.

C4 - ASIC proposes to update their guidance to explain how trustees and other providers can set reasonable assumptions

We support the explanation ASIC has provided about when a default assumption is likely to be reasonable. Factors such as ensuring they are backed by evidence, for example by basing an assumption on a current product offering and its fees, is extremely important to ensure providers are not being misleading.

We reiterate our proposal for machine readable data to be provided as explained in B3.

C5 - ASIC proposes to update their guidance to state that it expects trustees who provide both superannuation calculators and retirement estimates will set assumptions consistently across these forecasts.

Trustees who provide both superannuation calculators and retirement estimates should set assumptions consistently across forecasts. Without this guidance, there may be a temptation to set superannuation calculators with more favourable assumptions to lure potential members into products. Alternatively, they may set favourable assumptions in their retirement estimates to encourage people to contribute and oversave. To the extent that assumptions must be different, they should be reasonable and justifiable. An ASIC registry will be able to quickly determine the cases where this is prevalent.

C6 - ASIC propose to prescribe default assumptions for the retirement age (age 67) and drawdown period (25 years) that must be applied to superannuation calculators and retirement estimates:

Super Consumers Australia supports prescribing default assumptions for the retirement age and drawdown period. These are assumptions that benefit consistency over flexibility.

C9 / C10 / C11

For superannuation calculators, ASIC do not propose setting prescriptive requirements about how providers should make assumptions about annual income streams or age pension benefits

For retirement estimates, ASIC propose requiring trustees to work out the annual income stream on the basis that the member would have a constant income from year to year, after inflation, for 25 years. This includes drawing down their lump sum on retirement to zero and taking into account the minimum drawdown rules

For retirement estimates, ASIC propose giving trustees the option to include Age Pension amounts in the annual income stream for a retirement estimate only if it is an interactive retirement estimate

Retirement estimates are proposed to not include the Age Pension in the annual income stream. This means the annual income stream will be based purely on the superannuation balance of the member.

In June 2019, around 2,533,000 people, or 65 per cent of people over Age Pension eligibility age received the Age Pension.³ Therefore, a forecast that does not include the Age Pension is likely to be more unrealistic than realistic for the majority of people.

Leaving the Age Pension out means people may overestimate how much they need to save for adequate retirement income. People who are eligible for the Age Pension will have to first determine their eligibility and do extra calculations to determine their retirement incomes. This brings a risk of miscalculation and can make the process more complicated.

On the available evidence we do not think the case for change has been made to restrict trustees from assuming Age Pension eligibility in a retirement estimate. On balance, consumers are likely to be better off if providers are to assume Age Pension eligibility and determine its

³ Retirement Income Review (2020) p 73

impact based on reasonable assumptions about the savings people have outside of super and any information a fund may know about a person's savings within super.

As a general rule, in a digital age trustees should be relying less on static assumptions for building these calculators. A stronger emphasis should be placed on trustees using interactive tools and building assumptions based on the individual wherever possible.

C14 / C15 - ASIC proposes to set standardised default inflation rates that must be used when showing the present value of a retirement estimate or the output of a superannuation calculator. These rates would reflect growth in wages (wage inflation) during the accumulation phase (4%) and growth in consumer prices (price inflation) during the retirement phase (2.5%).

Super Consumers Australia supports prescribing default inflation assumptions for superannuation forecasts, in particular the use of wage inflation during accumulation and price inflation during the retirement phase. Price inflation more closely matches people's actual expenditure needs in retirement. The Retirement Income Review (RIR) concluded that "retirees have flat or falling spending relative to prices as they age" based on an analysis of data from the ABS Household Expenditure Survey on the expenditure of the population between 1988-89 and 2015-16.⁴ Flat expenditure in retirement means that their spending rises at the same rate as prices. This implies using price inflation in retirement is appropriate, as it reflects actual retiree expenditure patterns.

⁴ Retirement Income Review (2020) p. 487