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

Thank you for the opportunity to submit a response to this Consultation Paper.

The Actuaries Institute Superannuation and Investments Practice Committee is currently finalising the development of a "Good Practice Principles for Retirement Modelling" Information Note for Institute Members. Much of this submission is built on the content of the Information Note, which we will share with ASIC when it is finalised.

We are supportive of ASIC's proposals on:

- revising the current relief for superannuation forecasts by providing greater flexibility in setting appropriate assumptions with principle-based disclosure requirements; and
- aligning the requirements for superannuation calculators and retirement estimates for greater consistency.

We strongly suggest two key areas of improvement:

- **Illustrating more than one outcome:** it is important to provide useful information to educate and guide members about the risks they are facing in retirement and make sure the approach is simple to understand and helpful. We strongly support this view and thus would like to suggest a slight revision of section 7 (1) (j) (ii) of draft ASIC Instrument 2022/XXX to allow the illustration of more than one potential outcome with a condition that appropriate disclosures are provided.
- **Full flexibility in setting assumptions**: to achieve the objectives of having greater flexibility in setting assumptions and greater consistency in aligning the different projections, full flexibility must be offered. The proposed partial flexibility and standardisation will not work. For example, it is inadvisable to prescribe rates of CPI or AWOTE to be x% and y% while allowing flexibility in setting investment return assumptions as this will create consistency issues. Different trustees and service providers will always have different views on future economic and demographic outcomes and will use these to derive their PDS-stated investment objectives and other communication to members. Many of them will differ from some or all of the standardised assumptions. This will be best addressed by explaining to members in accompanying information and disclosure of the assumptions used rather than confusing them with two sets of "best estimates".

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We have addressed many of the specific questions asked in the Consultation Paper in the attachment. We bring to ASIC's attention the following points where we believe enhancements could be made. Where relevant, we provide evidence from the results of the retirement projection and adequacy survey the Institute conducted in conjunction with ASIC and ASFA in April 2021.

- Principles in setting assumptions including reasonable default assumptions
- Longer duration of retirement period than 25 years to account for longevity risk
- Including the Age Pension in retirement estimates as a default requirement
- Clarifying the difference between (a) indexation – the assumed increases in contributions, salaries, fees and retirement income and (b) deflation – the measure used to convert nominal future figures to real dollar/present value terms.
- Prescribing the deflator in the accumulation phase to be salary growth and the deflator in retirement phase to be price inflation.

In addition, we encourage ASIC to:

- Encourage trustees to take as much of the member's circumstances into consideration as possible, e.g. a partner, other assets and liabilities, homeownership etc.
- Address the risk aspects of retirement estimates including longevity risk and investment risk
- Take the opportunity to educate and guide members about trade-offs and balancing the three key objectives identified in the retirement income covenant.

In this submission we have argued for full flexibility in setting assumptions as this is the best way to achieve the stated objectives of this review. With full flexibility, we noted the potential issue with inter-fund comparability. We note the various consumer protections ASIC has in place to ensure that estimates and projections are used only for their intended purpose of educating members about income in retirement and not for promoting a specific product or misleading members in comparing products across funds. These are important safeguards. If full flexibility is not acceptable, then the only workable alternative (less ideal) is full standardisation as in the current Class Order (but with clear recognition of the difference between price and wage inflation) with ASIC or the government being responsible and accountable for the assumptions.

Should you wish to discuss aspects of this submission or require further information please contact Actuaries Institute (02) 9239 6100 to do so.

Yours sincerely,

Annette King
President

Responses to selected questions posed in CP351

Continued relief for superannuation forecasts (B1 and B2)	
B1Q1 Should ASIC continue to offer relief to trustees and other providers for superannuation calculators? Why or why not?	Yes, because it makes calculators more accessible, without having to obtain a license to provide personal advice. The regulations covering personal advice are onerous and largely irrelevant to the provision of calculators which are seeking neither to advise consumers or promote financial products.
B1Q2 Should ASIC continue to offer relief for trustees to provide retirement estimates to their members? Why or why not?	Yes, because it is a useful reminder each year that super is for retirement and gives an indication of how the member's plans are progressing. Based on the projection and adequacy survey the Actuaries Institute conducted in April 2021 which covered more than 30% of superannuation FUM, we know 75% of funds who provided retirement projections had relied on ASIC Class Order relief. All funds that did not provide retirement projections gave reasons of cost and the amount of effort required. Removing the relief will likely make it harder for funds to provide retirement estimates to their 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, because current relief does not allow for the same assumptions and methodology to be used in retirement estimates as is allowed in superannuation calculators. Some of the simplifying assumptions in the current relief such as universal 3% p.a. real investment return may have discouraged funds as these assumptions are not reflective of the member's actual investment option and there is a risk of misleading members into taking unintended actions which are not necessarily beneficial for achieving their retirement goals. There are also attributes of the current calculations and estimates which may not give the member their best perspective on achieving their goals. In particular, there are unhelpful limitations on being able to provide illustrations of the risks involved.

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, because they do essentially the same task, and it is important that fund members receive consistent projections across channels.

Presentation and disclosure of superannuation forecasts (B3 and B4)

General comments on disclosure (B3):

Good disclosure serves an educative purpose as well as a legal one. Super fund members are generally unaware of how complex the process of providing a retirement projection is, of the decision points needed to arrive at a robust retirement plan, and particularly of the inherent uncertainty involved with estimates about potential outcomes many decades into the future.

We believe the assumptions involved in a retirement projection can be distilled down to 8 key items.

1. Deflator
2. Scope of retirement income
3. Retirement income strategy
4. Default investment return, net of all investment fees and tax – net investment return
5. Legislative environment
6. Age Pension basis
7. Administration fees and costs and insurance premiums
8. Indexation of dollar contributions, fees and premiums

We also propose the following to be adopted as standard terminologies:

- Net investment return
- Accumulation phase
- Retirement phase
- Indexation
- Deflator
- Price inflation
- Wage inflation
- Improvements in living standards

We propose that some kind of uncertainty metric be included in the disclosure to give the member a sense of the range of outcomes that may be experienced. We suggest that section 7 (1) (f) (iii) of draft ASIC Instrument 2022/XXX be changed to: "a clear and prominent statement of *<u>where users can access</u>* the assumptions." We believe that most users should be focused on contribution rates and retirement age that they can change and not the economic assumptions where they are unlikely to have the capability to change in an informed manner.	
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?	Agree. A principles-based approach to disclosure allows for flexibility to serve different types of funds, members and channels. A fund can use their own 'tone of voice' and vocabulary in communicating retirement projections as well as keep things consistent with their other communications to members. The risk is that the same metrics may be described using different terms, and this could confound comparability between providers. We suggest that ASIC monitor the use of key terms across superannuation funds to ensure that there is minimal confusion.
B3Q2 Should we prescribe how specific assumptions should be disclosed (e.g. insurance premiums)?	No. We would expect trustees to place greater emphasis on the assumptions that are under the control of the members (e.g. investment choice) and less on those that are not (e.g. investment return assumptions for a particular investment option). We do believe that all assumptions should include a statement as to the likely deviations over the member's lifetime. We believe that fees and insurance premiums should be based on the latest PDS. They should not be rigidly based on last year's fees and insurance premiums as in the current Class Order.
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?	The introduction of new terminology of "superannuation calculators" and "retirement estimates" have been confusing as there has already been existing terminology including "projections" and "modelling" used in the industry. We therefore suggest a revision of the terminology to reduce confusion.

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?	Yes. Some will be under the control of the trustees and product providers and it is important that trustees apply their minds to ensuring that fair comparisons are made. ASIC has a monitoring role to ensure that they have done so. It is important to provide useful information to educate and guide members about the risk they are facing in retirement and one common approach is to show the range of potential outcomes members are facing. As clarified in the briefing session, ASIC's intention is not to limit this as long as there is evidence showing the information provided is simple to understand and helpful. We strongly support this view and thus would like to suggest a slight revision of section 7 (1) (j) (ii) of draft ASIC Instrument 2022/XXX to allow the illustration of more than one potential outcome with a condition that appropriate disclosures are provided and appropriate member testing has been conducted.
Timing and delivery of retirement estimates (B5 to B7)	
B5Q1 Do you agree with the proposed restrictions on who may be provided with a retirement estimate? Why or why not?	Broadly agree. However, we propose that: • an estimate of what level of income can persist would be appropriate for a member in retirement phase, rather than restrict to those under 67; • if a defined benefit interest can be modelled, then the instrument should not prevent trustees from doing this; • for funds where most of the members are retiring at different ages because of workplace conditions, it should be permissible to illustrate using an alternative retirement date; • those under 18 be excluded from receiving an estimate because the pattern of recent contributions is unlikely to be representative of the rest of their working lifetime; and • for those with accumulation accounts for insurance only purposes to be excluded.
B5Q2 How do trustees currently decide which members to give retirement estimates to? For example, are members selected on the basis of age, current	Based on the projection and adequacy survey the Actuaries Institute conducted in April 2021 which covered more than 30% of superannuation FUM, we know funds generally provide retirement estimates to all members excluding those: • below and above certain ages;

balance, contributions history or other factors?	• with Defined Benefits; • with unusual employment status (no employer, more than one employer and unusual service); • with large non-concessional personal contributions (post-tax) more than $30K; • with no contributions in the last 12 months; • with excess contributions tax amount; • with prior period adjustment (e.g. adjustment to account, premium or fee rebate); • with projected balance less than a threshold; • with a current insurance claim or who have previously made an Income Protection claim; • with very low current balance; • with transition-to-retirement accounts; • with an overseas postcode; and • who made a benefit category change in the last 12 months.
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 inclusion/exclusion should be whether the projection is potentially misleading.
B6Q1 Are there practical limitations to trustees providing retirement estimates more frequently than in periodic statements?	Based on the projection and adequacy survey the Actuaries Institute conducted in April 2021, cost has been the top consideration for providing retirement estimates even in annual statement. We assume cost will continue be a key consideration. Web based projections can be made at any time, in the login area of a provider portal, based on data the trustee holds and may have less cost consideration regarding to the ability to be provided more frequently.
B6Q3 What are the risks in allowing trustees to deliver retirement estimates to members through an online portal?	With changes to account balances occurring frequently, members will see regular changes to their retirement estimates. They will be unlikely to be able to replicate the balance date retirement estimate they see on their static periodic statement. However, this is not unlike logging into a banking app and noting that your balance has changed from last time you used it.

	There is a risk that users may misunderstand what is presented, as a result it is very important to make sure appropriate disclosures and accompanying information are provided to explain to users. Our view is the risk of members misinterpreting estimates provided online is much lower than that of members having no information on which to base their decisions.
B6Q4 What are the risks in allowing trustees to deliver retirement estimates to members in video or audio format?	Video and audio formats are more difficult to reference, and so need to be supported by written material that can be revisited more easily.

Our approach to economic and financial assumptions (C2 to C5)

General comments on setting assumptions (C2):

All modelling is necessarily a simplification of the real world, and a good model will identify and focus on the inputs that are key drivers of the process being modelled. While each key input should be reasonable in its own right, the whole set of assumptions should also be internally consistent. Depending on the objective of the model, explicit conservative margins may be built into the assumptions, but the modeler should be cognisant of the impact of multiple margins in the interactions between inputs.

If some inputs are required to be standardised, that sets a constraint on the selection of other assumptions. In this case, if ASIC holds wage and price inflation to be standardised, then this implies a more limited range of investment earning assumptions in order to maintain a consistency principle. This constraint may then flow on to other processes unrelated to retirement modelling (e.g. setting and disclosing investment objectives).

For this reason, our support of flexibility in setting investment earnings assumptions requires us to oppose standardised inflation values.

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, we support trustees and providers having flexibility to set their own reasonable assumptions for investment earnings, including on the basis of the product a member is invested in. Trustees and providers will have their own advisers, models and approaches that they use for other purposes, and should be able to use investment assumptions consistent with those. Trustees should be able to demonstrate consistency between economic assumptions used across all superannuation forecasts.

	We note however that some of the PDS assumptions may be more conservative than others, and suggest that the RG should specify the level of prudence that should be incorporated into all assumptions. Yes, trustees and providers should be able to set their own reasonable assumptions for investment fees and costs, including on the basis of the product a member is invested in, which should be consistent with their PDS document(s). Current stated levels of fees and charges should be used as the basis for projections on an 'if not, why not' basis to allow for supportable future changes. We believe that ASIC should monitor assumptions for investment earnings, fees and costs, with the overriding principle that projections are not to be misleading.
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, trustees should be able to set reasonable assumptions for contributions, retirement age, retirement income (including indexation and product mix), period in retirement, lump sum drawdowns, home ownership, couple or single status. As funds build a long-term relationship with their members, they will gather information to allow them to further personalise retirement estimates and calculators. It would be desirable for ASIC to allow and encourage trustees to personalise the estimates by taking into account more information about the members. It could lead to member disengagement if they have to enter the same retirement goals each time they visit a calculator.
C4Q1 Do you agree with our explanation of when default assumptions are likely to be reasonable? Why or why not?	Yes. However, economic variables are inherently unknown and can be modelled by probability distributions, so that any single assumption for, say, investment earnings will have an attached level of confidence. Trustees should be mindful of the implied level of prudence in setting investment earnings assumptions. If it is not a central estimate (most of the cases for the PDS stated investment objective), then the confidence level should be disclosed.
C4Q2 How frequently should providers be expected to revise the economic and financial assumptions they apply?	Economic assumptions should be set based on at least a ten-year outlook. If they allow for current market conditions, they should be reviewed at least annually. If they are set

	independently of the market cycle, then they should be reviewed at least every three years. Regardless, the economic assumptions should be reviewed consistently with the fund's PDS update cycle.
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?	Yes.
Investment earnings, fees and costs (C6 and C7)	
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 advantages are that default assumptions can be set on the basis of a provider's actual products (SAA and PDS fees). It can help with consistency in these assumption settings across platform and channel. Another advantage of flexibility is that by being required to set their own assumptions, trustees will have greater accountability for superannuation forecasts. If there is standardisation, there is more onus on ASIC and difficulty in amending the standard rates. The disadvantage of flexibility is that projections from different providers may be less comparable. The balance is unclear, so without adequate reasons to regulate standard assumptions, trustees should be given freedom to set their own appropriate assumptions.
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	Yes, it would be practical for the trustee to set assumptions based on the products members are invested in. If a member is invested in multiple products, then it would be reasonable to use assumptions for the majority product if a weighted average approach was not achievable.

based on the products members are invested in? Why or why not? Are there alternative approaches?	It would be desirable to also align the Generic Calculator requirements of using the same set of investment returns assumptions for consistent member experience and not perceived as promoting a “specific product”.
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?)	There are different views on setting investment earnings assumptions. • Economic assumptions can be based on central estimates of at least 10 to 20 year expectations, i.e. the median geometric average return over 10 to 20 year periods. • Alternatively, investment earnings assumptions can be set based on PDS stated investment objectives, which is easier for members to verify. We note that using investment return objectives will not give a central estimate because objectives are usually set to have a greater than 50% chance of being achieved. The level of conservative bias would be between 50% and 75% in most cases. We recognise there is no consensus on using investment objectives or best estimates, but we recommend that funds be required to disclose their methodology. Investment fees and costs could be based on the PDS for the relevant products, but a reasonable approximation should be acceptable (e.g. where fees are complex), or investment fees and costs can be allowed for within the setting of the “net investment return”.
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 approach may be workable in practice but excludes members who have not been in the product for 12 months. This could be overcome by setting the administration fees based the current PDS or forecast administration fees. This is forward looking and can allow for known changes. In practice, the level of administration fees has a much smaller impact on superannuation forecasts relative to other factors, and there is little reason for much prescription.
C7Q2 Could members be misled if trustees use member specific assumptions for administration fees in	No, this would not be misleading. In fact, the more tailored the assumptions can be, the better. Investment earnings cannot be known, but administration fees (at least in the near future) can be known.

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?	
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?	For someone in accumulation phase, generic assumptions (aligned with current Retirement Income product fee structures) about the retirement phase should be used. For someone in retirement phase, the administration fees should reflect the product they are in.
Retirement age and drawdown period (C8)	
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	It makes sense to prescribe a default retirement age. However, there may be good reasons why a trustee may choose a different default retirement age, particularly in employer-sponsored funds. Retirement age is probably the easiest retirement concept for members to relate to and as long it is disclosed in close proximity to the estimate, members will not be confused by estimates based on different retirement ages. However, we note that a single retirement age assumption precludes projections that take into account the probability of a couple who wish to retire at different times. The drawdown period is more complex – particularly as Australia's Retirement Income Framework takes shape and more sophisticated retirement income strategies (including longevity solutions) and products get implemented by funds. Superannuation calculators and retirement estimates should be allowed to provide projections for these strategies using appropriate methods including a fixed period of retirement, lifetime approach and target income approach. If a single default drawdown period is prescribed, then there are problems associated with:

(c) any differences in likely future retirement ages or drawdown periods across different superannuation funds' memberships.	• retired couples; and • uncertain lifespan/health. The use of a fixed period of retirement is hard to justify if the income is to be drawn from an account-based pension, because most members will adjust their draw down amounts as balances decline. (For further information see two UNSW research papers that provide analysis of different drawdown patterns by Australian retirees[1].) If we use a fixed period of retirement approach, our response to C8Q4 below provides our suggestions on setting the x years. Trustees should be allowed to use a tailored retirement period for individual members or groups of members that better represents their life expectancy, or the joint life expectancy of a couple. Alternative approaches to retirement modelling should also be allowed if they are more appropriate for the purpose of a specific superannuation calculator/retirement estimate based on the member's situation and the retirement income strategies considered. One alternative is a lifetime approach which uses a lifetime annuity formula to estimate the member's retirement income as the baseline assumption. If requested, the Actuaries Institute would be happy to discuss and advise on appropriate annuity formulas to use for this purpose. • The annuity formula approach has an overseas precedent (in the UK[2]). It acknowledges the fact that an individual cannot set a figure for their own lifespan and therefore shows outcomes from a product class that removes this risk. It can also take their age and gender into account. • With annuities and lifetime income products, Australia's means-test rules produce smoother Age Pension income throughout retirement which presents less of a concern for having to target a constant total income in some cases.

[1] See I.Balnozan et al., 2020, *Hidden Group Time Profiles: Heterogeneous Drawdown Behaviors in Retirement* and I.Balnozan et al., 2018, *Slow and Steady: Drawdown Behaviors in Phased Withdrawal Retirement Income Products*.

[2] The use of a lifetime annuity formula is prescribed in the UK for pension fund income projections (under the Financial Conduct Authority Conduct of Business Sourcebook 13 Annex 2 Projections).

	A second alternative is a target income approach which some existing calculators are already using. This approach allows the trustees/members to set an income target based on a desired lifestyle and the calculation will produce the number of years this target income will last for. For all approaches considered, providers should make sure clear disclosure is provided to members regarding to whether a fixed period of retirement, lifetime approach or a target income approach is being used and the implication to members of making any decision considering this information. In section 7 (1) of draft ASIC Instrument 2022/XXX, the Institute considers (a) is unnecessary. Trustees should be able to use alternative retirement ages and drawdown periods if they are reasonable.
C8Q2 Are there some types of superannuation calculator for which these assumptions would be inappropriate or irrelevant?	Non-projection calculators (e.g. co-contribution calculator) would have no use for an assumption about default retirement age or drawdown period.
C8Q3 Is age 67 (the age pension eligibility age) a reasonable assumption for the retirement age? Why or why not?	Yes, this makes good sense as a default retirement age. While most people currently retire before age 67, using any earlier age than this requires further assumptions on how to finance the retirement income when there is no Age Pension, which is likely to create confusion for members. However, trustees should be allowed to use a tailored retirement age for individual members.
C8Q4 Is 25 years a reasonable assumption for the duration of the retirement period? Why or why not?	Please refer also to our comments in C8Q1. If a fixed period of retirement is considered, the uncertainty around the potential lifespan of each individual retiree or group of retirees should be considered[3].

[3] https://actuaries.asn.au/Library/Miscellaneous/2020/RNLifeExpectancy.pdf

	With allowance for the Australian Government Actuary's "25 year" mortality improvement rates, people under age 40 have a 50% chance of living beyond age 91 and a 20% chance of reaching age 97. Couples have even higher probabilities of reaching these ages and one spouse is generally younger than the other. In this context, we believe 30 years is a better assumption for the retirement period. The following table shows the age to which 25% of retirees are expected to live, and the number of projection years this results in. A 25-year retirement period may be sufficient for most single males, but females are expected to live longer and once couples are considered the retirement period needed would be longer still.

Gender	Starting age	Projection end age to which the modelled member has <25% of outliving	Number of projection years
Male	65	91	26
	67	92	25
Female	65	94	29
	67	94	27
Couple	65	96	31
	67	96	29

Source: Australian Life Tables 2015-2017, with mortality improvements 50/50 on 25-year and 125-year improvement factors.

Annual income stream and age pension benefits (C9 to C11)

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	As Australia's Retirement Incomes Framework is implemented, including the Retirement Income Covenant, superannuation funds are likely to offer a growing range of products for retirement income which may include 'menus' of retirement solutions that combine these products.

proposed relief facilitate calculators for different types of retirement income product in a way that does not advertise or promote specific financial products?	We note that under the current relief, superannuation funds already face a tension between providing calculations to help members understand their choices and 'promoting' specific financial products that the fund offers (given these are likely to be what is being modelled). ASIC should provide clear guidance/principles for what is meant by the word 'promoting' a specific product. Where a fund is providing product education by simply illustrating outcomes from its own product options, then ideally this should not breach the 'promoting' rules. There may need to be clear guidance on how to do this in an unbiased way, and to differentiate between impartial scenario testing and education versus advertising/selling a particular organisation's branded product. E.g. If one set of product choices provides a better projection than another, then does this constitute 'promotion'? What are the thresholds for presenting results in an unbiased way without 'promoting' a product? It is important that users are directed to unbiased information to compare lifetime annuities, account-based pensions and any other retirement products in the market. There is evidence that superannuation funds and financial advisers actively resist the sale of lifetime annuities[4].

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?	In addition to the retirement age and the drawdown period, these assumptions are needed.
	• Net investment return in retirement phase – investment return, net of fees and taxes
	• Choice of retirement income product type
	• Indexation of retirement income
	• Age Pension
	    o Statutory rates and thresholds
	    o Indexation of means test thresholds and benefit rates
	    o Partner status

[4] See A. Asher (2021): Supply Side Resistance to Lifetime Annuities.

	o Homeowner status o Other assets • Any other non-super assets that can be used to generate the income stream and their net investment returns • Fees and cost assumptions including the indexation • Present value deflator for retirement phase • Profile of the retirement income (constant, increasing, decreasing or others) The need for these additional assumptions means that a closed formula for calculating a level total retirement income is not feasible. It requires a programmatic solution.
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	The disadvantage is that members who only see their retirement estimate will get an inadequate picture of their retirement. This may or may not be enough to pique their interest to engage with an interactive retirement estimate. The other disadvantage is that many members are used to seeing a retirement estimate that includes the age pension on their annual statement, and now they will see a degraded version. The advantage is that it is simpler to calculate and show, and requires fewer assumptions – but this is trivial in comparison with the loss of information. Nevertheless, providers who offer superannuation calculators already have the means to include an Age Pension estimate in a retirement estimate.

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?	
C11Q2 Should age pension amounts be required by default in interactive retirement estimates or in superannuation calculators? Why or why not?	Yes, the inclusion of Age Pension amounts should be required by default in interactive and static retirement estimates and superannuation calculators that provide projections. This is because the estimation error of excluding the Age Pension completely is much larger than the estimation error of not using the accurate assumption. This does not necessarily mean that the trustee needs to know the household assets/liabilities. In an interactive retirement estimate setting, the trustee could rely on default assumption about the household information while allowing members to put in their own inputs. The Actuaries Institute has previously suggested that the Treasury investigate providing trustees access to the necessary data through the ATO, Centrelink and MyGov to enrich trustees' knowledge about members without the need to ask every member to enter the information manually through the calculators[5].
Retirement estimates: Factors personal to the member (C12 and C13)	
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	This assumption is complicated in that many people have more than one source of income and may therefore be contributing to more than one fund. We note that the ATO has this data, and that it would not be impossible for it to be provided to trustees – perhaps using the Consumer Data Right.

[5] https://www.actuaries.asn.au/Library/Submissions/2021/6Aug.pdf

what extent would this better reflect how contribution levels may change over the long term for most members?	
C13Q1 Are there other ways in which future insurance premiums could be taken into account in working out retirement estimates?	We note that no provision is made to reduce insurance premiums if the member has recently reduced coverage. We have also seen insurance design which makes insurance premiums change over time based on factors such as age and the pattern of change is usually less relevant than the changes of economic indicators including price and wage inflation. We suggest that the difference between different reasonable ways of projecting insurance premiums is likely to be immaterial and not worth detailed regulation.

Inflation (C14)

General comments on inflation (C14):

It is important to be clear about the different measures of inflation and the different purposes an inflation assumption can be put to. In CP351 and CI207, ASIC appears to have recognised the difference between wage inflation and price inflation, including that the margin between them represents improvements in living standards.

Perhaps even more relevant in view of its opacity is the use of inflation rates as deflators to bring future values back to amounts that can be related to today's purchasing power or community living standards. **We believe the use of the term "inflation" in CP351 is too loose, and ASIC should distinguish between the use of inflation as an indexer and a deflator.**

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	Considering the use of standardised inflation rates as deflators, the key advantage of ASIC setting standardised default inflation rates is that projections are directly comparable across funds, and any differences are limited to indexation assumptions and methodology. Future projected values can differ significantly with even 0.5% p.a. difference in the deflator. It is our expectation that there will often be alignment between the deflator for the retirement phase and the indexation of total retirement income. In this way the projection can describe retirement income as one number.

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 key disadvantage of setting standardised default inflation rates is that the standard rates may be inconsistent with modelling used to set default investment returns, and this modelling is often used to set CPI based investment objectives. For example, an investment option may be able to achieve its CPI+ 3.5% p.a. objective with 67% probability with an average CPI of 2.5% p.a.. Using the investment objective and the return assumption with a view of CPI being 2.5% p.a. means the return of the option is about 6% p.a.. However, if ASIC prescribes inflation to be 3.5% p.a., should trustees set the investment return of this option to be 6% p.a. or, by using the ASIC inflation, 3.5% + 3.5% = 7% p.a.? Based on the PDS, the return should be 7% p.a. as the objective is stated as a buffer regardless of inflation. However, the SAA investment objective review only supports an objective CPI+ 3.5% p.a. when CPI is on average 2.5% p.a.. In addition, the difficulties in changing standardised assumptions in a timely manner should not be underestimated, particularly if inflation is to increase erratically over the next few years.
C14Q2 What are the most appropriate types of inflation rate to apply to the accumulation and retirement phases?	To project current quantities into the future we recommend the following: *Indexation with wage growth* • Salary, contributions, fees • Contribution and transfer balance caps • Age Pension payment rates *Indexation with price growth* • Age Pension means test thresholds • Total retirement income As deflators we recommend: *Deflator accumulation phase* • Wage growth *Deflator retirement phase* • Price growth or, provided the basis is clearly explained, wage growth

	We accept that it is appropriate to use wage growth as a deflator during the accumulation phase as it is related to salary growth, and price inflation as a deflator during the retirement phase as the evidence points to slightly declining levels of expenditure in retirement. We note, however, that there has been very little difference between price and wage growth in recent years, and that wages tend to peak in people's mid-forties, so that wages tend to grow slower than average in the two decades leading to retirement. This pattern probably differs by industry and occupation group. This diversity and the possibility of further changes again lends weight to ASIC not prescribing the approach.
C15Q1 How should ASIC set values for the default inflation rates, and how frequently should these rates be reviewed?	Default price and wage growth rates for deflator purposes should be reviewed at least every three years, and there needs to be a strong case to change. If ASIC were to set values for the default inflation rates, we suggest it could set up an industry committee or regular survey to take the price/wage inflation assumptions from the industry as the basis for setting the appropriate value.