



Ref No.:

Telephone: [REDACTED]

E-mail: [REDACTED]

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Mr Brad Ruting  
Senior Manager, Superannuation  
Financial Services and Wealth Group  
Australian Securities and Investments Commission  
Level 7, 120 Collins Street, Melbourne, VIC 3000

Dear Brad

## **SUPERANNUATION CALCULATORS AND RETIREMENT ESTIMATES**

The Australian Government Actuary (AGA) has been asked by the Australian Securities and Investments Commission (ASIC) to provide advice relating to ASIC's Consultation Paper 351 (Superannuation forecasts: Update to relief and guidance).

### **BACKGROUND**

#### **General Background**

ASIC currently provides relief for superannuation calculators and retirement estimates under certain conditions via two legislative relief instruments. ASIC is reviewing this relief and released a Consultation Paper in November 2021 that put forward ASIC's proposals for updated relief. ASIC's proposals are aimed at aligning the relief that is currently provided under different instruments to improve the consistency of the forecasts provided to members.

The relief is primarily for schemes providing superannuation calculators and retirement estimates for scheme members along with some generic superannuation calculators provided by what might be termed "financial education" organisations.

The consultation paper considers two types of superannuation forecasts; superannuation calculators that are generic web-based calculators and retirement estimates. The key difference between a retirement estimate and a calculator is that the estimate will be based on information the fund already holds about the member. A retirement estimate may be a static paper-based projection, or it may be a web-based tool. In practice, retirement estimate interactive web-based tools are very similar to superannuation calculators but their starting point is based on member information held by the scheme and similar considerations apply to both. Different considerations will usually apply to static or "paper" form retirement estimates compared to superannuation calculators and interactive web-based retirement estimates.

As a general rule, superannuation calculators involve a degree of active member participation and the member will be able to set, and change, most of the assumptions that are relevant to the member's personal situation. Feedback from the use of ASIC's Moneysmart retirement calculator suggests that the degree of active involvement is very limited in most cases.

Interactive web-based retirement estimates are situations where the member's participation is initially passive but the member will subsequently be able to set, and change, most of the assumptions and so move to active involvement. Static or "paper" form retirement estimates are situations where the member's participation is passive.

A significant number of submissions were received by ASIC regarding ASIC's proposals. A range of views were expressed in the submissions, which in some cases results from there being no single right answer to the options available to ASIC. A number of these submissions have been supplied to the AGA.

ASIC reviewed the submissions. Following this, ASIC then determined a provisional approach for updated relief. ASIC is seeking our views as to the reasonableness of some aspects of the provisional approach and detailed advice on some of the elements of the approach. Specifically, this letter addresses the following matters:

- Economic assumptions;
- Retirement assumptions (default retirement age, drawdown period, inclusion of the age pension and whether retirement estimates should be available to those aged 67 and over);
- Risk and variability in outcomes; and
- Whether retirement estimates should be provided to defined benefit members.

These topics are considered in turn below. Prior to doing that I provide some additional comments on the objectives of the superannuation forecasts as this provides some additional context, against which a preferred position can be evaluated.

### **Forecast objectives**

In this case, we understand that the objectives of the superannuation forecasts are to help individuals understand their likely income in retirement and therefore better plan for retirement. It is therefore intended that the forecasts are reasonably realistic, are not misleading and are periodically updated as experience emerges over time.

Forecasts will be provided by multiple providers across the industry. We understand that ASIC prefers that forecasts are reasonably consistent across providers. Similarly, forecasts are to provide information and education, they are not sales tools. By steering away from sales tools, the forecasts are not intended to encourage the selection of one provider over

another. Similarly, they are not intended to be overly conservative, in a manner that would encourage a member to contribute unnecessarily to a single provider.

This suggests forecasts are intended to be **informative** of the member's expected outcomes, reasonably **realistic** and reasonably **comparable** across providers.

### **Assumptions used in different circumstances**

I have noted earlier that the relief considers both retirement calculators and retirement estimates. For the former, when an individual first interacts with the calculator the provider usually has no knowledge of that individual. In this case, generic default assumptions will be required but they are easily changed by the individual concerned.

For retirement estimates, the fund will hold a range of information about the member and the behaviour of its membership in general. The fund will be able to use generic scheme behaviour and personal individual information to provide a more accurate retirement estimate for that individual. In these cases, fewer assumptions may be needed and the assumptions can be more tailored to the individual situation.

The remainder of this letter considers the specific issues where you have sought our advice and covers some minor associated issues regarding the implementation of ASIC's relief.

### **ECONOMIC ASSUMPTIONS**

There are three key economic assumptions:

- Future inflation (CPI) increases
- Future salary increases
- Future investment returns (noting that investment choice results in assumed investment returns that vary with the underlying option selected by the member).

### **Options**

The central issue at hand is whether the assumptions listed above should be set to industry standard assumptions with no ability for providers to vary the assumptions, set by providers, or some combination of the above. The key alternatives being considered are:

Assumption	Option A	Option B	Option C
Price inflation	Prescribed (CPI)	Prescribed (CPI)	Set by Trustee
Wage Inflation	Prescribed (AWE)	Prescribed (AWE)	Set by Trustee
Investment Return	Prescribed	Set by Trustee	Set by Trustee

Where assumptions are set by the trustee (or provider), it is expected that some guidance would be provided by ASIC around how they are set, the need for professional sign off and the need for the regular review of those assumptions.

Long term, investment returns on a diversified portfolio of assets, such as those that would typically held in the default “balanced” investment option of schemes, would be expected to be of the order of 3% per annum to 6% per annum higher than price inflation (CPI). Similarly, Trustees set investment objectives and usually express these as CPI+X%. Where the Trustees can set investment return assumptions under the above options, it is assumed that it is the value of X% that is the assumption. The value used for CPI in the forecast would be that which is specified in the option above.

An important consideration in the evaluation of economic assumptions is that they need to be **internally consistent**. While these are three separate assumptions, there are linkages between them over long timeframes. General salary increases have averaged around 1.5 percentage points per annum higher than inflation over the long term. However, over shorter timeframes, this relationship does not necessarily hold. This is evidenced by recent anaemic salary increases relative to CPI. For the preparation of superannuation forecasts, setting the assumptions for salary increases and investment returns in terms relative to price inflation supports the internal consistency of the forecast.

### Selection of a preferred option

Arguments can be put forward for each of the three approaches above and none of the approaches is necessarily unreasonable.

Option A could provide **internal consistency** as all assumptions are specified. Internal consistency of assumptions should be a requirement under option C. Under option B, if the Trustee is only able to determine a value for X% for each investment option then reasonable (albeit slightly less than under option A or C) internal consistency could be achieved. Given appropriate guidance to Trustees and providers, all options could provide a reasonable degree of internal consistency.

However, there is a trade-off between giving schemes maximum flexibility to provide what the schemes consider to be realistic estimates of retirement benefits and providing consistency between schemes so that members, financial planners, and financial commentators are in a reasonably informed position to understand (and comment upon) the

retirement estimates from different schemes. In essence there is a trade-off between the **comparability** of forecasts and how **realistic**<sup>1</sup> they are<sup>2</sup>.

- Option A will maximise the comparability of forecasts but the prescribed investment returns will be least tailored to the investment options offered by each fund if there is only one prescribed rate. However, a model similar to that in place in New Zealand where the prescribed rate varies by the member's chosen investment option would allow a degree of prescribed tailoring. It should be noted that there would be some practical implementation issues with the New Zealand approach in terms of categorising the member's chosen investment option.
- ASIC's provisional position is option B. This is that there should be standard ASIC set assumptions for inflation and salary increases but that schemes can determine the assumption (the value of X% in CPI+X%) for investment returns. It is expected that the default assumption would be the assumed return for the default investment option (possibly with a prescribed default in the retirement phase). Anchoring investment return assumptions in standard inflation assumptions will increase the comparability of forecasts across the market relative to option C (all assumptions set by provider), whilst providing an option for reasonably realistic investment return assumptions tailored to the fund's specific investment options.
- Option C will mean that projections are least likely to be comparable across providers. Projected retirement benefits for an individual investing in a similar investment option could vary very significantly in nominal dollars by provider solely due to differing views about nominal price inflation even if they have the same relativities between price inflation salary increases and investment returns. Even in current day terms, a small difference of just 0.5 percentage points in the gap between assumed price inflation and assumed salary increases with the same assumed investment return relative to CPI could result in significant variances. However, this option allows individual funds to provide a forecast that reflects their individual view of price inflation, salary increases and investment returns with the result being what the fund considers to be its best estimate.

Option B provides a pathway that could result in a balance between providing comparable and realistic projections. It could be argued that this balance is marginally ahead of option A. The main weakness of Option C is that individuals may well find projections by different providers difficult to compare.

This is consistent with ASIC's provisional position, which is that there should be standard ASIC set assumptions for inflation and salary increases but that schemes can determine the

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<sup>1</sup> The use of the word "realistic" is intended as interchangeable with the forecast being a "best estimate" assumption.

<sup>2</sup> This assumes that giving flexibility to providers to determine assumptions will result in more realistic forecasts. To support this, I believe that ASIC would need to provide guidance to providers.

defaults for investment returns. Submissions to ASIC on the Consultation Paper indicated a reasonable, but not universal, level of acceptance of this approach as being appropriate.

As noted earlier, any position is a trade-off. With suitable guidance, all options could provide reasonable internal consistency of assumptions. This is an outcome I would give significant weight to. My preference is also to give weight to comparability of forecasts across the market. Full comparability occurs if ASIC set all the default economic assumptions. However, this comes at some cost to how realistic the forecast is as the assumptions regarding the investment returns would inevitably need to be at a more generic level. This reduces the degree to which the forecast is a best estimate forecast. ASIC's provisional approach seeks to address this by allowing trustees to determine investment return assumptions. Subject to suitable guidance being provided on setting real<sup>3</sup> investment returns, I view ASIC provisional approach (Option B) as likely to result in a reasonable balance to obtain a degree of comparability across the market and a best estimate, or realistic, forecast. I do not see why it should not be adopted as the ASIC final approach.

Under Option B, ASIC proposes to set default assumed price inflation at 2.5% per annum and default assumed salary increases at 4.0% per annum. We view these assumptions as being reasonable. Price inflation of 2.5% per annum is in the middle of the Reserve Bank's target range for price inflation over the economic cycle. It is also consistent with Treasury's forecasts of price inflation. As previously noted, historically salary increases have been, on average, around 1.5 percentage points higher than price inflation. Hence, an assumption for future salary increases of 4.0% per annum is consistent with historical experience assuming price inflation of 2.5% per annum. This assumption is also consistent with Treasury forecasts for long term wage increases.

### **Investment return assumptions**

This letter assumes that calculators (which have no knowledge of the user of the calculator) will normally use default investment assumptions based on the fund's default investment strategy in the accumulation phase. The same approach should be used for the retirement phase noting that default investment option in the retirement phase may not be the same as in the accumulation phase. For many funds the default investment option in the accumulation and retirement phase will be the same but the net investment returns will be different due to the more favourable tax treatment which occurs in the retirement phase.

While I regard the above as a starting point for schemes' decisions, schemes should have the flexibility to use other assumptions where they are reasonable and can be justified by the scheme. It would be reasonable for the scheme to incorporate generic scheme behaviour information into the investment returns assumptions where this would be relevant. For instance, members of the scheme may typically invest more conservatively in the

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<sup>3</sup> The "real" return is the excess return above inflation. For this letter I am referring to price inflation, or CPI. This is consistent with the value for X% when investment returns are expressed in the form of CPI+X%.

retirement phase compared to the accumulation phase and it would be reasonable for this generic scheme behaviour to be factored in. In a similar vein, some schemes may have the retirement default option as being a cash option but, in practice, few members select this option in the retirement phase. Again, it would be reasonable for such schemes to assume a post-retirement investment strategy similar to that generally adopted by their retirement phase members when setting default investment assumptions.

For retirement estimates, the member's selected options may, and probably should, be substituted for the above default assumptions where member actions, or information, has provided to the fund that can be used as a basis for alternative assumptions to be adopted.

As noted earlier, allowing providers the flexibility to set investment return assumptions requires some guidance to be provided to ensure that a reasonable degree of internal consistency of assumptions is achieved. Mechanisms that ASIC could consider to help ensure reasonable comparability is maintained are:

- Require Trustees to approve the assumptions that are selected;
- Only permit providers/Trustees to determine the real investment return<sup>4</sup>;
- Require investment assumptions to be based on established investment models and signed off by suitably qualified professionals. If this were targeted to Fellows of the Institute of Actuaries of Australia, then the sign off would be subject to professional standards. It may be reasonable to expect the Institute to establish a professional standard that is specific for this purpose. Adherence to standards is also subject to the Institute's Code of Conduct. Other professional bodies may also have suitable skills in this area, but the key point is that certification should be limited to professions not just with suitable qualifications, but also with the mechanisms in place to ensure professional standards are met; and
- Require a regular review of these assumptions, which I suggest be required at least every three years.

The above will not result in full comparability across the market but they are likely to reduce the range of investment returns being assumed for similar investment strategies with the resulting assumptions being reasonable.

It is reasonable to ask whether schemes should be required to use the same investment return relative to inflation (CPI) as that which is published in their Product Disclosure Statements (PDS). While this might appear to be an obvious requirement, this is not as straightforward as it might first appear. Several submissions noted that the investment

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<sup>4</sup> Some funds (e.g. absolute return funds) set objectives without reference to inflation, or CPI. Funds would have to consider their assumptions for these funds in light of the default inflation assumptions noted above. This may provide some implementation issues that need to be considered.

objectives set out in PDSs incorporate a degree of conservatism across the market rather than being best estimates. Some may also have a minimum target objective rather than an estimated target. For example, “The objective of the balanced investment option is to achieve a return of at least 3.0% per annum in excess of CPI over economic cycles.”

On balance, we believe that it is better not to require schemes to use the same investment return as is used in their PDS. However, where schemes use investment return assumptions different (relative to inflation) from those in the PDS, those schemes should document why those different assumptions have been used.

### **Application of inflation assumptions**

For members to readily find projections of use in planning for retirement, projections in nominal dollars at retirement need to be converted to present day values. ASIC’s provisional approach is that for the pre-retirement phase values should be deflated in line with the salary increase assumption and that for the post-retirement phase values should be deflated in line with inflation for the period after retirement.

There is logic behind this approach. An individual’s expenditure before retirement tends to be driven by their income available which is salary related (expenditure expands as income expands). However, there is evidence that once an individual has retired, expenditure in dollar terms tends to be more related to price inflation rather than community salary levels. In part, this is put down to changing needs in retirement over time and the ability and desires of those retired to spend money. For example, major overseas travel for those of very advanced ages would not be common as many would not be able to travel due to physical or mental impairment but would be common for those who have only recently retired.

Deflating future nominally cash flows in a prescribed manner and at prescribed rates is a key element that will help ensure broad comparability of projections across the market.

Most of the submissions received in respect of the Consultation Paper backed this as being as reasonable approach.

Given the underlying logic of this approach and the views expressed in most submissions, we believe this approach is sensible and reasonable. We are thus happy to endorse this approach and its adoption as the ASIC final approach.



## **RETIREMENT AND DRAWDOWN ASSUMPTIONS**

### **Retirement age**

It would be desirable to have a common default retirement age for all projections. The obvious choice is Age Pension eligibility age which is 67.

Some submissions made by industry funds made the point that the nature of the work covered by the relevant industries meant that the members of these funds were likely to retire significantly earlier than age 67 on average. Adopting a default retirement age of 67 for calculators should not be an issue for these funds as the retirement age should be an input which can be changed by the member. Members are probably best placed to estimate their likely retirement age and having a default age of 67 (Age Pension age) is, at worst, a minor nuisance. Similar arguments apply for interactive web-based retirement estimates.

It is more of an issue where static ("paper" form) retirement estimates are being provided as the value to members of the estimates is eroded by them not being realistic where members on average retire significantly earlier than age 67. Hence, in this instance, the points made in submissions are relevant. One possible way forward with static retirement estimates which gives consistency between schemes but at the same time allows tailoring of estimates to average scheme membership characteristics, is to insist that the default age of 67 is used as the primary retirement estimate but to then allow provision of alternative retirement estimates based on scheme estimates of likely retirement ages or ages nominated by the member. This approach would increase the volume of paper. However, the extra disclosure gained by having two (or more) retirement estimates based on different retirement ages may, by itself, be useful disclosure.

Our recommendation is that the Age Pension age of 67 should be the default retirement age for both calculators and retirement estimates. With "paper" retirement estimates, we would have no issue with schemes also providing an estimate at a different (more realistic from the scheme's perspective, on average) retirement age and would encourage that practice.

### **Post-retirement period (drawdown period)**

The choice of default drawdown period is to some extent interrelated with the default retirement age. The latest Australian Life Tables 2015-17 (ALT 15-17) published by this office have Australian population life expectancies of 18.24 years for males and 20.73 years for females at age 67. Using these life expectancies would suggest a reasonable drawdown period for projections for those retiring at age 67 would be around 20 years, or maybe a little more. However, over time, there have been noticeable improvements in life expectancies. Over the 20 year period since the Australian Life Tables 1995-97, male life expectancy increased by around 3.5 years and female life expectancy by around 2.5 years at age 67. Allowing for mortality improvements (since 2016 and continuing in the future) at the 25 year

mortality improvement rates from ALT 15-17, life expectancies at age 67 would currently be around 20.6 years for males and 22.5 years for females.

Given that 5 years has already passed since the 2015-17 period and that future improvements in life expectancies are likely, a longer drawdown period than 20 years should be adopted for those assumed retiring at age 67. The adoption of a 25 year drawdown period (to age 92) for those retiring at age 67 for projections is not unreasonable. It is probably somewhat on the conservative side for most of those retiring in the near term, particularly if a single male.

The analysis so far has only looked at this from the perspective of life expectancies. At the present time, most retirement superannuation benefits are taken as Account Based Products (ABPs) which have a minimum drawdown (but no maximum drawdown) each year. While there is significant flexibility in drawdowns by individuals, evidence suggests that many individuals are conservative when it comes to making drawdowns with many choosing only to draw down at the minimum level. This behaviour is understandable as individuals do not know how long they will live and, hence, tend to be cautious with drawdowns for fear of running out of money in retirement. In fact, with ABPs, we would expect that around 20% to 30% of the initial capital (including investment earnings thereon) on average to be unused for retirement income and form part of the individual's estate. This conservatism that occurs in practice with drawdowns from ABPs suggests that it is sensible to be somewhat conservative with the drawdown period when preparing projections of retirement income. Hence, we believe that the use of a 25 year drawdown period for those who retire at age 67 is reasonable.

There is a question as to what is a reasonable default drawdown period if the retirement age is not 67. There is a stronger case for having a standardised age at death to determine the drawdown period rather than having a standardised drawdown period. Essentially, expected weighted age at death (age at retirement plus life expectancy at retirement) only varies slightly by age at retirement. For instance, ALT 15-17 life expectancy for males at age 60 is 24.02 years ( $60 + 24.02 = 84.02$ ) and life expectancy for males at age 67 is 18.24 years ( $67 + 18.24 = 85.24$ ). This analysis does not factor in the impact of future mortality improvements which reduces the range of expected weighted ages at death. Essentially, individuals at younger ages have a greater range of ages at which they can die which increases the risk of dying young but they also benefit more from future mortality improvements. Thus, if a drawdown period of 25 years is the default at age 67, it makes sense for the standard default period for other retirement ages to be the period from the retirement age to age 92.

A relevant consideration with the draw down period is the likely perception by users as to the reasonableness of the assumption of a draw down over the period to age 92. That is, does this assumption look reasonable. There is evidence that most individuals underestimate their likely life expectancy. This is generally because one of their main reference points is the ages at which their grand parents and parents died and then

underestimating the impact of mortality improvement over time. It is my view that assuming a drawdown period over the period to age 95 would be perceived by most people as being unduly conservative. This would mitigate against using a draw down period to a higher age than age 92.

### **Age pension**

The incorporation of the Age Pension into superannuation calculators and retirement estimates is, conceptually, highly desirable as it will represent a significant component of an individual's retirement income for most people. At the same time, its incorporation is practically difficult. The Age Pension payable depends very much on the personal situation of the individual. Factors that play a part include whether the individual is a home owner, single or part of a couple and the amount of other assets held by that individual e.g. shares or property. If the individual is part of a couple, the partner's situation and assets (including their superannuation) will also affect the amount of Age Pension payable.

With superannuation calculators and interactive web-based retirement estimates, it would be possible to request pertinent information and come up with reasonable estimates of the Age Pension payable for that individual along with superannuation benefits. However, with "paper" retirement estimates the scheme will often not have the pertinent information to derive a reasonable estimate of the Age Pension payable.

With "paper" retirement estimates, there is no good way forward. If an estimate of the Age Pension is not included with the retirement estimate, it will give a misleading estimate of the individual's income in retirement. On the other hand, if an estimate is provided, the figure shown is likely to be incorrect, possibly by a significant margin.

You provided four options for consideration with "paper" retirement estimates. They were:

- Retain the pre-existing status quo and allow an Age Pension estimate in static estimates;
- Retain the Consultation Paper position of only talking about the Age Pension qualitatively with no amounts shown in the estimate itself;
- Allowing Age Pension amounts for some members only, where the trustee has information on the relevant variables needed to calculate the amounts (e.g. homeowner status); and
- Allowing Age Pension amounts to be included only where there are two estimates given – one with and one without the Age Pension.

Cases can be made for and against each of these options. On balance, we believe that being vaguely in the right “ball park” as far as retirement income is concerned is more useful to the recipient and is better than the alternative of not including an Age Pension estimate. Thus, we are in favour of an Age Pension estimate being provided and, hence, allowing schemes to provide an Age Pension estimate.

We would lean towards the approach of largely maintaining the status quo. However, if the status quo were to be maintained for “paper” retirement estimates, schemes should be strongly encouraged to:

- Chose reasonable assumptions about the individual's situation and, where possible, take account of information the scheme has about the individual. However, where the scheme is not in a position to make reasonable assumptions, which will often be the case, the scheme should continue to use the standard ASIC defaults;
- Have good disclosure about the assumptions made regarding the Age Pension; and
- Reference the availability of the scheme's superannuation calculator or interactive web-based retirement estimate which should be able to provide a better Age Pension estimate.

We would be happy to provide further advice regarding default Age Pension assumptions if this was of assistance.

## **OTHER ISSUES**

### **Risk and variability in outcomes**

Inevitably a retirement projection is only an estimate and outcomes will vary from that which is projected at any point in time. It is important that members are helped to understand the potential effect of such variations and provided with opportunities to take appropriate actions. This is particularly so with “paper” retirement estimates where the member initially has passive involvement with the estimate and uncertainty needs to be conveyed at that time. It is less of an issue with superannuation calculators or interactive web-based retirement estimates that allow the individual to alter key inputs and, hence, scenario test themselves.

Actions ASIC can take to support this include:

- Permitting providers to illustrate the potential variability of outcomes. This can help members understand the potential range of outcomes. It also supports the use of best estimate assumptions by reducing concerns that members may be surprised if actual outcomes turn out to be lower than the projection; and

- Ensuring members receive regularly updated retirement estimates. Outcomes will always vary from the projection. The tool members have to manage this risk is to be informed about the extent of the variance and to adjust their contributions, investment options or retirement objectives accordingly. The more notice they receive, the smaller the adjustment required, all else being equal.

The AGA is not an expert in presenting risk for consumers. We also note that there is a risk of unintentional information overload when extra information is provided. This would reduce the practical usefulness to members of the information provided. This risk is likely to be higher with “paper” retirement estimates. However, accompanying projections with an illustration of risk and providing members with regular opportunity to take actions in response to emerging risk through regular estimates supports the provision of projections on a best estimate basis should be beneficial, at least in theory. We would support the appropriate disclosure of risk and variability as being part of the proposed relief but it would be sensible for ASIC to monitor developments in the disclosure of risk and variability.

#### **Retirement estimates for those aged 67 and over**

Retirement estimates for those over age 67 could provide these individuals with useful information to assist with their retirement planning. This would be particularly so where they are provided via an interactive web-based tool which incorporated an Age Pension estimate based upon member inputs. While far less reliable, a “paper” retirement estimate could still be helpful to the member in terms of retirement planning. Given that these individuals are over age 67, it would seem sensible to assume an immediate exit for those still in the accumulation phase.

For those in the retirement phase, retirement phase interactive web-based “retirement estimates” which incorporate an Age Pension estimate based on the member’s inputs could be useful to the member when considering drawdown amounts from ABPs. I would be against the provision of “paper retirement estimates” for those in the retirement phase. This is because it would not be possible to derive a reasonable estimate of retirement income due to lack of detailed knowledge of the individual’s personal circumstances affecting the payment of the Age Pension. Hence, the Age Pension assumed in the retirement estimate could well be significantly different from the Age Pension actually being paid to the individual.

Overall, we do not see why interactive web-based retirement estimates that allow inputs of member details to determine a reasonable estimate of the Age Pension should not be permitted. We would be against allowing “paper” retirement estimates for those in the retirement phase due to the difficulties of properly allowing for the Age Pension.

We have previously recommended using a default draw down over the period to age 92. We believe that this would still be reasonable for most retirement estimates for those over age

67. However, for those of very advanced ages, we would suggest that the default draw down period be a the greater of the period to age 92 and 5 years.

### **Defined benefits**

There is a stronger case for ASIC providing relief for retirement estimates for defined benefit schemes compared to accumulation arrangements. This is because the defined benefit component in terms of a multiple of individual's salary at retirement is more predictable than for an accumulation arrangement.

One variation to the defaults that is sensible for defined benefit arrangements is to change the default retirement age from age 67 to the scheme's "Normal Retirement Age". If the scheme does not have a "Normal Retirement Age", then the default retirement age of 67 should remain the default. Many defined benefit arrangements have a "Normal Retirement Age" which is often age 65 and this is traditionally the maximum retirement age. Accruals of defined benefits often stop at "Normal Retirement Age". It thus makes more sense for retirement estimates for defined benefit schemes to be based on the scheme's "Normal Retirement Age".

Other assumptions can continue to use the same approach as for accumulation arrangements. For instance, the draw down period for a defined benefit lump sum would still be over the period to age 92. Any accumulation benefit that is part of the defined benefit arrangement would also be assumed to be paid at the "Normal Retirement Age" rather than at the default accumulation retirement age of 67.

Where defined benefits are in payment in the retirement phase (pension payments), or the individual is over "Normal Retirement Age", it would be sensible to have a similar approach to that applying for accumulation arrangements.

We would expect defined benefit schemes to provide retirement estimates based on known individual member data rather than providing a scheme specific calculator where the individual has to input his/her details. If there are any scheme specific superannuation calculators for defined benefit schemes, it would also be reasonable to provide relief with the default retirement age for the scheme's superannuation calculator again being the "Normal Retirement Age" for the scheme.

### **Monitoring and review**

Under any option, there is an ongoing responsibility for ASIC to review the suitability of the assumptions that are being used. The timing of a future full review will depend upon future developments and the results of ASIC's monitoring of industry practice. However, it would be sensible that there be a full review at intervals of no more than 10 years.

In this context, with a fully prescribed economic assumptions environment (Option A), ASIC need to regularly review the prescribed economic assumptions outside of a full review of the assumptions. Even under the proposed Option B approach of only prescribing the price inflation and salary increases assumptions defaults, some periodic review would be desirable even though these economic assumptions are designed to be long term assumptions.

Where flexibility is provided to providers, a review of the choices made by providers and whether that continues to meet the objectives of the relief is similarly required. No option removes the role of regulatory monitoring, it simply changes the focus.

## **SUMMARY**

The issues where you have sought our advice are not straightforward and reasonable cases can be made for various options. This is evidenced by the range of views expressed by submissions made in response to the ASIC Consultation Paper.

In terms of ASIC's provisional approach regarding default economic assumptions, we regard the approach of fixing the default inflation (CPI) and salary increase but not the investment return assumptions as being reasonable. We endorse the approach of determining a current value estimate of retirement income whereby the income in the retirement phase period is deflated by CPI and then further deflated by assumed salary inflation in the accumulation phase period.

We agree with ASIC's provisional approach that the default retirement age be set at age 67 (Age Pension eligibility age) but suggest that with 'paper' retirement estimates, schemes are permitted to provide more than one estimate which can show a retirement estimate(s) at a different retirement age(s) which may be more suited to the characteristics of the scheme's membership.

We believe that a reasonable default drawdown period would be one that assumes retirement income is paid until age 92, or a minimum of 5 years.

On balance, we would favour largely retaining the status quo whereby schemes can include an Age Pension estimate with "paper" retirement estimates. We acknowledge that this is an area that is fraught with practical difficulties but believe that a retirement income estimate that is vaguely in the right "ball park" is better than one that isn't. This is contrary to ASIC's provisional approach. We note that ASIC's provisional approach is not unreasonable.

We believe that schemes should be able to provide information about risk and variability around retirement incomes particularly with retirement estimates, and more so if the estimates are provided as "paper" retirement estimates.

We believe that it is reasonable for relief be provided for interactive web-based retirement estimates to those aged over 67 where the member can input their details so that a reasonable estimate of their Age Pension can be included. We are against the provision of “paper” retirement estimates for those in the retirement phase. We are relatively ambivalent about the provision of “paper” retirement estimates for those in the accumulation phase but, on balance, lean slightly more towards allowing their provision.

We believe that it is both reasonable and sensible that relief be provided for defined benefit arrangements with default retirement occurring at “Normal Retirement Age”.

We believe that schemes should be able to provide information about risk and variability around retirement incomes particularly with retirement estimates, and more so if the estimates are provided in “paper” form.

We believe that regular review is highly desirable. This would be to check on the appropriateness of industry practice and incorporate new developments such as those that might come from retirement covenants and other changes in the environment.

Please feel free to contact me on [REDACTED] or Guy Thorburn on [REDACTED] to discuss further

Your sincerely

[REDACTED]

Michael Burt  
Actuary