ASIC
Australian Securities & Investments Commission

Updating relief and guidance for superannuation forecasts

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Introduction

Why are we doing this?

- Superannuation forecasts are low cost tools which can be used to help members think about superannuation as part of their retirement income
- ASIC currently provides relief from personal advice obligations for:
  - Financial (including superannuation) calculators – provided by any person
  - Retirement estimates – provided by super trustees
- We propose continuing the relief with some changes, because:
  - Current relief for retirement estimates sunsets on 1 April 2022
  - Introduction of the Retirement Income Covenant
  - Issues raised by stakeholders with the current relief settings

Consultation process

- ASIC is seeking submissions by **28 January 2022** on:
  - Our proposals in the Consultation Paper (CP 351)
  - The draft legislative instrument and regulatory guide (attached to CP 351)
- We are looking for views to be supported by available data and evidence
- ASIC is working towards having the new relief in place before **1 April 2022**
- ASIC plans to update assumptions in Moneysmart superannuation and retirement calculators to align with the framework in the new relief by **30 June 2022**

Proposed updates to superannuation forecasts relief

ASIC's current relief for superannuation forecasts

Superannuation calculators

- Currently principles-based and open ended
- Providers have flexibility in what they can do and how outputs are presented (lump sum, income stream, stochastic, etc.)
- Flexibility to set own default assumptions (but must be reasonable)

Retirement estimates

- Current relief is prescriptive
- Most assumptions are specified or formula provided in relief instrument
- Standard-form disclosures and limits on how results can be presented
- Trustees have discretion over whether to include age pension in estimate

Relief from obligations relating to personal advice

- ASIC proposes to continue to provide relief from the licensing and disclosure obligations relating to personal advice for providers of superannuation forecasts
- This will be done through a new legislative instrument covering both superannuation calculators and retirement estimates
- To rely on the relief, providers must meet the requirements in the legislative instrument
- Providers will remain bound by the prohibitions on misleading and deceptive conduct

Increased flexibility on delivery and presentation

- We are proposing more flexibility in how forecasts can be delivered to members
  - Presentation and disclosure requirements to be **principles-based** rather than prescriptive
  - Members could be given a retirement estimate at any time, not just with a periodic statement
  - Retirement estimates could be given electronically, such as through a member's online portal
- We are also proposing more explicit guidance for **interactive retirement estimates** – that is, an electronic estimate where the member can change assumptions

No advertising or promoting a specific product

- Our relief will not cover superannuation calculators or retirement estimates that are used to advertise or promote a specific financial product
- Using forecasts to recommend specific products increases the risk members might:
  - misunderstand the purpose of the forecast
  - place too much reliance on the forecast when making financial decisions
  - assume the forecast is a complete substitute for personal advice
  - assume the forecast is making a recommendation that is in the member's best interest
- Our **draft regulatory guide** sets out the guidance we plan to give

Types of members who may be given a retirement estimate

- We are proposing requirements that mean a retirement estimate **cannot** be given to members who:
  - are aged 67 or older (as per current relief)
  - are not a member of the fund for the preceding year (as per current relief)
  - are in the retirement phase
  - have not made or received a contribution during the preceding year
  - have an account balance of less than $6,000 at the date of the estimate; or
  - have a defined benefit interest in the fund
- We think this will reduce the risk of inappropriate and potentially misleading retirement estimates

Other proposed changes

- Six-month transition period
- Relief to last for a set period
- Remove the no-action position in RG229 (in relation to a potentially misleading retirement estimate if trustee follows ASIC default assumptions and methodology)
  - We do not think is still needed in light of our proposals relating to which types of members may be given a retirement estimate and how trustees may set economic and financial assumptions

Transitional timeline

April 2022

New instrument and transitional arrangements commence

April 2022 - June 2022

- An interactive retirement estimate under the new instrument can be provided at any date from 1 April 2022
- Superannuation calculators can be provided either under the new arrangements or under old relief

1 July 2022

- Moneysmart calculators to be updated to new framework
- Retirement estimates issued with periodic statements before 1 October 2022 can be provided under old relief

October 2022

Transitional arrangements end

Proposed approach to setting assumptions

Economic and financial assumptions

- We are proposing a **single framework** for how economic and financial assumptions can be set across both calculators and estimates
- We want to improve the **consistency** of forecasts members receive
- We propose giving trustees/providers flexibility to set some types of assumptions themselves, as long as these assumptions are:
  - Reasonable
  - Applied consistently across types of forecasts (there must be a reasonable basis for use of different assumptions)
  - Kept up to date (e.g. revised at least every 3 years)
- Our **draft regulatory guide** explains how providers can set reasonable assumptions

Investment earnings, fees and costs

- We are proposing to allow trustees/providers to:
  - set their own reasonable assumptions about investment earnings, fees and costs
  - set these assumptions based on products they offer or that members are invested in (but without advertising/promoting specific products)
- For retirement estimates, administration fees should be based on what the member actually paid over the past year

Retirement age and drawdown period

- We are proposing setting **standardised default assumptions**:
  - Retirement age of 67
  - Drawdown period of 25 years from date of retirement
- We think this will make it easier for members to compare the effect of other variables across different forecasts
- Members can change these defaults in a calculator or interactive retirement estimate

Income stream and age pension

- For superannuation calculators, we are **not** proposing changes
- For retirement estimates, we are proposing only allowing trustees to include age pension amounts in **‘interactive’** retirement estimates (where the members can change assumptions)
  - We think this will help give members more realistic estimates and reduce the risk of members being misled due to incorrect assumptions about age pension eligibility
  - For ‘static’ estimates, trustees could provide factual information about the age pension alongside an estimate
- We are also proposing changes to allow age pension amounts to change over time (as super balances are drawn down) in a retirement estimate

Retirement estimates: factors personal to the member

- Contributions and insurance premiums will still be based on the member's account over the preceding year
- We are proposing changes to:
  - require assumed **contributions** to change in line with legislated increased in Superannuation Guarantee rate
  - allow non-compulsory contributions to be excluded
  - require **insurance premiums** to be deducted only if the member still has insurance at the time of the estimate

Inflation

- We are proposing setting **standardised default assumptions**:
  - Long-term wage inflation of 4% in accumulation phase
  - Long-term consumer price inflation of 2.5% in retirement phase
- These figures are based on the 2021 Intergenerational Report
- We think standardised defaults will make it easier for members to compare the effect of other variables across different forecasts
- Members can change these defaults in a calculator or interactive retirement estimate
- We expect inflation rate assumptions will have the biggest impact on real investment earnings (noting contributions would grow at the rate of wage inflation)

Closing

What are we *not* proposing?

ASIC does not want to see superannuation forecasts being used to:

- mislead or confuse members
- encourage behaviours that may not be in members' interests
- advertise or promote specific financial products

Submissions

- Closes **28 January 2022**
- Email to SuperForecastsConsultation@asic.gov.au
- We would like submissions that:
  - explicitly consider the benefits and risks to members
  - put forward solutions to concerns with our proposals
  - provide relevant data or evidence to support views, e.g.:
    - what has past experience shown about how members use forecasts?
    - are forecasts more likely to be used by certain types of members?
    - what delivery mechanisms and framing are most effective?

Questions

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