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28 January 2022

Nicole Chew, Senior Lawyer, Superannuation
Australian Securities and Investments Commission
GPO Box 9827
Brisbane QLD 4001

SuperForecastsConsultation@asic.gov.au

Dear Nicole,

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

AMP appreciates the opportunity to make a submission in relation to Consultation Paper 351 that was released in November 2021.

AMP strongly supports ASIC intent to better align superannuation calculators and retirement estimates and to give trustees greater flexibility to set assumptions that reflect the types of products they offer. We consider that this reform is essential to achieve the broader aims of the Retirement Income Framework and the upcoming Retirement Income Covenant.

We have contributed to the FSC and ASFA submissions in relation to this consultation. In addition to those submissions, AMP wishes to provide greater detail in response to a number of questions, as detailed in the following pages. We support many of the proposals suggested by ASIC in CP351. In this submission we just focus on those proposals where we have a suggested change or a specific comment to make. In particular, we wish to raise the following important points:

- We suggest that trustees must have flexibility to make reasonable assumptions in forecasts – this ensures that forecasts are provide members with information that better reflects their product and enables members to optimise their retirement outcomes.
- We believe that the current interpretation - of when the output of a calculator will otherwise be personal advice - is too narrow (capturing many instances where, in our view, there is no recommendation given). Unfortunately, we have seen a number of instances where the member/customer would genuinely benefit from receiving information but (wary of the broad interpretation of 'personal advice' and the significant penalties for breaches) trustees take a conservative approach and do not provide the tools that would genuinely help members to better understand likely outcomes. We seek ASIC's support for sensible interpretations of the 'personal advice' requirements that will encourage providers to offer innovative tools that will genuinely benefit members.
- Products developed in response to the proposed retirement incomes covenant are likely to be more complex than typical superannuation products. It is likely that one of the simplest and most

effective ways to show an existing or prospective member the likely outcomes of making different choices within that retirement incomes product will be to have an interactive tool (like a calculator). It is therefore important that the relief relating to calculators is broad enough to ensure that appropriate tools are developed that are of the greatest benefit to members. This would include flexibility to use assumptions and default settings that are appropriate to the particular product (that the member is in or is considering). This means that a calculator may be specific to a particular product (and if so, that should be clear to members on the face of the calculator).

- We understand that the question of whether the current settings relating to 'personal advice' remain appropriate is likely to be raised in a number of consultations. We ask the approach to CP 351 be consistent with the outcome of those consultations.
- We oppose the use of wage inflation when expressing projected values in today's dollars as this leads to unduly conservative forecasts, and we have research clearly demonstrating consumers do not understand this concept – this will ensure that customers receive information that they understand, can engage with, and is appropriate to them.

We would welcome the opportunity to meet with ASIC to discuss this submission. In the meantime, should you have any queries, or wish to discuss further, please contact me on [redacted].

Yours sincerely,

Ben Hillier
General Manager, Retirement Solutions

Question	AMP Response
B1Q1 Should ASIC continue to offer relief to trustees and other providers for superannuation calculators? B1Q2 Should ASIC continue to offer relief for trustees 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, relief should continue to be provided to enable trustees to continue to provide superannuation calculators and retirement forecasts to members and to encourage further development of these tools for members. However, ASIC relief should target the following contributing factors that inhibit products and innovations that could otherwise lead to improvements in financial outcomes for members: 1. Cloudy interaction with advice laws means trustees are unable to provide interactive tools to members There exists a widespread concern that the use of a superannuation calculator or provision of retirement estimates contain personal advice within the meaning of s766B(3) of the Corporations Act 2001. Breaches of provisions relating to personal advice attract significant penalties. As a result, trustees tend to take a conservative approach and do not offer some of the tools that would genuinely help members to engage with their superannuation, make better decisions, and achieve optimal outcomes in superannuation or retirement. Superannuation or retirement estimates are likely to include consideration of a person's "objectives, financial situation or needs" because the forecast or estimate normally uses that person's information (entered by that person or already held by the trustee about that person). We acknowledge the concern raised by the industry that the output of those tools may be a "statement of opinion" and where the tool relates to a particular product, may be seen as an implied recommendation relating to that product. This creates the concern that the output of superannuation forecasts is "personal advice". This setting may inadvertently be disadvantaging members. There are significant benefits to members in having quality information based on their own circumstances and the product that they are invested in (or are considering). It lifts engagement of the member with their superannuation and helps them make choices that lead to better retirement outcomes. At present, to give that information, trustees need to either: • Take a view that it is not personal advice. (As mentioned above, in the current regulatory environment, many trustees are not willing to take this risk) • Comply with one of the reliefs (such as covered by this CP 351); or

	• Comply with all of the obligations relating to giving personal advice. This is costly and therefore less likely to be offered without charge to the members using the tool. Therefore, it is important that the relief provided by ASIC is broad enough to allow trustee to offer members the innovative tools that may benefit those members. In our view, that proposed relief does not go far enough. For example, calculators should be able to pre-populate variable fields with data held by the trustee about that member. Members may then be prompted to check those fields remain correct. However it is likely to increase member engagement for the tool to input information that the member may otherwise have to look for or may not have immediate access to (such as current superannuation balance, contributions made last year etc). Similarly, it would benefit some members to be able to work backwards from a stated objective. For example, an online tool may recommend an investment in a particular class of product to achieve a specific objective inputted by a person (e.g. provide a certain level of income until a certain age). For example, some of the innovative retirement products being developed by trustees split a member's superannuation between account balance and guaranteed income products to give members greater certainty of amount and longevity of income in retirement. Members considering those products are likely to know what retirement goal they are striving for. The information that will most help those members is for the tool to show how different splits between the classes of product (account balance and guaranteed income) are likely to meet that goal. There may also be an opportunity for ASIC to provide further clarity (e.g. through the Regulatory Guide or FAQs) by giving broader examples of tools where the output is not personal advice and thus do not require relief from the requirements of such. 2. There is an unbridged gap between the paper and digital experience of members resulting in sub-optimal member engagement Ideally, further clarification from ASIC should be technology neutral with symmetrical principles between the paper and digital experience. ASIC has previously provided relief in relation to more innovative PDF formats in Regulatory Guide 221 including facilitating the digital delivery of other statutory documents like significant event notices, financial services guides, etc. It would benefit members if forecasts/calculators could be presented as part of (e.g. imbedded or incorporated into) the digital versions of statutory disclosure documents such as product disclosure statements. For example, a trustee may wish to include a calculator as

	part of its product disclosure statement to help a prospective member better understand the interaction between investment choices, additional contributions, withdrawals, tax, age pension and retirement outcomes – leading to better member engagement with their super and a better retirement outcome. Clear guidance that relief applies to situations like the above will contribute to overcoming existing reticence to develop innovative and member-centric solutions designed to bridge members and their super to achieve optimal member outcomes in super or retirement. ASIC relief should also be broad enough to permit trustees to use information already provided by a member. This enables these tools to provide maximum utility to members and facilitates access to tools across member demographics (e.g. pre-filled information may assist members with accessibility requirements or where use of the tool is facilitated a member phoning a contact centre). ~~ASIC may also wish to consider whether it would be appropriate to provide relief in relation to hawking laws.~~ Of course, the trustee should still be required to ensure that any assumptions and variables are reasonable and are appropriately disclosed, and we would suggest that assumptions should align to updated ASIC guidance for superannuation forecasts, regardless of whether the forecast contains personal advice or not.
B2Q1 Do you agree that our relief for superannuation calculators and retirement estimates should be combined into a single legislative instrument?	Yes we agree, as we consider the current situation to be far from optimal in that trustees are often unable to provide consistent forecasts to members across multiple channels.
B3Q1 Do you agree with our proposal for principles-based disclosure requirements? Should there be any conditions or other steps taken to address particular risks arising from a principles-based approach?	Yes we strongly agree with a principles-based approach and do not propose further conditions except as noted elsewhere in this submission.
B4Q1 Do our proposed changes to the relief and guidance give sufficient clarity about how a superannuation calculator or retirement estimate may be given without advertising or promoting a specific financial product? If not, why not?	The guidance in RG 000.93- 000.96 provides useful clarity that superannuation calculators or retirement forecasts can include or be based upon the features and pricing of specific products, without being deemed as advertising or promoting such products. However, in our view, that does not go far enough. In some circumstances a calculator tool may be the clearest way to explain a likely outcome to members for a specific product (e.g. a member would like to look at the impact of reduced income on their superannuation balance because they are considering moving to part-time). We note that the Retirement Income Covenant encourages the development of new products. Those products are likely to be more

	complex than the average superannuation product. Hence, trustees should plan to provide additional support to help members make good decisions about those products. Many members will not have advisers. Interactive tools may be the simplest and clearest way to communicate with members to help them understand the implications of the various choices they could make – so leading to better retirement outcomes for those members.
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?	We consider existing consumer protections and the further clarity in this Consultation Paper to provide sufficient mitigation to such risks.
B5Q1 Do you agree with the proposed restrictions on who may be provided with a retirement estimate?	We consider restrictions relating to contribution status and low balance to be reasonable. However, we see no reason to exclude the provision of retirement estimates to members who are over age 67 or who are in the retirement phase. We are aware of another fund which recently launched a lifetime pension product, and the average starting age has been reported as 70, and many such members were already retired. A key finding of the Retirement Income Review is the need to take members *through*, not just *to*, retirement, and we believe retirement income estimates can help to achieve this objective for members of any age. Similarly, if a trustee determines that a defined benefit member who also holds a separate accumulation interest in the fund may benefit from a retirement estimate, the trustee should be able to offer one (noting that a retirement age of 67 may not be appropriate for all DB schemes). For some members, the accumulation account could be a significant part of their total retirement benefit. That retirement estimate should be able to take into account the anticipated defined benefit to give the member a more complete picture of their expected retirement outcome.
B8Q1 What is the appropriate period of time for the relief, given the need for trustees and other providers to have certainty about the regulatory settings to make use of the relief?	Our preference is that a relief instrument does not expire whilst the underlying legislative framework remains intact. However, to the extent that all legislative instruments require a sunset clause, we request that be the maximum period permitted (noting that any changes to the relief can be enacted by ASIC at any time during that period). During that period, it would be appropriate to consider whether permanent relief should be given in the Corporations Legislation. This may be an issue considered by the Australian Law Reform Commission as part of its current review of Financial Services Legislation.
B9Q1 Do you agree that a transition period of six months	Legislative or regulatory amendments that require technology system changes will generally require nine to twelve months to implement.

is appropriate for providers to comply with the proposed relief (i.e. by 1 October 2022, assuming the new instrument is made on 1 April 2022)? If not, do you consider a longer or shorter period is required?	Such changes are rarely simple, and funds typically will already have allocated resources to other projects that then must be reallocated at short notice. We recommend that a transition period of twelve months in this instance is more appropriate, given that funds typically make changes to annual statements at set times during the year, and changes to retirement estimates will be required to slot into this existing window. ASIC may also wish to consider whether to time the transition relief to coincide with other legislative changes such as the commencement of the Retirement Income Covenant.
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?	We strongly support flexibility for trustees to set their own reasonable assumptions in superannuation forecasts. This flexibility will support the following situations: • retirement products where investment choice is prescribed or restricted • retirement products with investment guarantees or other features which protect the capital or income in some manner • retirement products with significant exposure to illiquid assets such as unlisted infrastructure or property with longer-term redemption periods to increase member returns and minimise tax liability • retirement products that distribute mortality credits, either embedded into total returns or income levels, or perhaps paid explicitly as account credits • trustees who tailor forecasts to the precise investment strategies of individual members • the ability to tailor to defined benefit schemes, The ability to flexibly set reasonable assumptions will also ensure that retirement estimates and superannuation calculators could be tailored to give those members a better understanding of how various choices (available to the member) could impact the member's retirement outcomes. This reduces the gap between the calculator outcomes generated by "generic" assumptions and outcomes based on tailored assumptions that are more relevant for that product. This is more likely to reflect the actual outcomes that a member may experience and so is more helpful to those members.
C4Q1 Do you agree with our explanation of when default assumptions are likely to be reasonable?	We support these principles as stipulated in the discussion paper.
C5Q1 Should trustees be expected to set the same assumptions across all superannuation calculators and retirement estimates they	A trustee may offer a number of different superannuation products. Those products could have quite different features and hence, expected outcomes.

provide? In what circumstances should assumptions be able to differ?	For example, a tailored employer plan product with benefits and features designed for employees in a heavy blue-collar industry is quite different to a product designed for white-collar employees. If the trustee has to adopt the same assumptions for each of these, then those assumptions are unlikely to be appropriate for the members of either product. By contrast, if a trustee could adopt the different assumptions for each product that are most appropriate for that product, then the calculator/ retirement estimate be more useful to members and will better help members of each product understand their likely superannuation outcomes. However, there should be an expectation of consistency across superannuation calculators and retirement estimates in "like" situations. For example, if 2 superannuation products offer a growth investment option and that option holds the same assets for both products (e.g. each wholly invests into the same underlying growth managed investment scheme), the assumption relating to investment returns should be the same for both products. We request that trustees should be able to use different assumptions within the same product where different cohorts of members have different features and benefits (and so are likely to have different outcomes). For example, have different assumptions to reflect where a particular cohort of members is on the lifecycle curve (for products that adopt a lifecycle approach to investments/insurance). Similarly, we request that trustees be able to use assumptions that better reflect the choices that a particular member has already made in that product. For example, not to have a default investment return where the trustee knows the investments that the member has invested in (instead, the trustee should be able to use the assumptions that are appropriate for those investment options instead). This gives members information that is more useful as it reflects the precise investment mix already selected by the member.
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? C6Q2 Is there evidence that members may misunderstand forecasts that are based on specific superannuation products?	Please refer to our response to C2Q1 where we strongly support the flexibility for trustees to set their own reasonable default assumptions for investment earnings, fees and costs, *and other relevant factors such as mortality credits*. We are not aware of evidence that members may misunderstand forecasts that are based on specific superannuation products – in fact our experience firmly indicates that forecasts are a critical tool to improve consumer understanding of specific superannuation products.

	Concerns about members misunderstanding that the assumptions are specific to that product could be addressed by disclosure making that clear to the member. We request that interactive retirement estimates have similar flexibility to superannuation calculators as members will be able to change assumptions in real time to affect outcomes. For example, a member may want to understand the impact of certain events (e.g. moving to part-time work, taking time off to study again) on their retirement estimate. Providing this flexibility to interactive retirement estimates empowers members by providing relevant information resulting in greater engagement and more optimal retirement outcomes.
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? 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?	We consider that the most accurate forecasts will use current administration fees, as disclosed in the current PDS for the product. We also consider that trustees should have discretion to update forecasts with forthcoming administration fee changes that been approved and announced, subject to appropriate disclosure in the forecast. Trustees should consistently apply this discretion, whether fees are increasing or decreasing. Not mandating the use of historical fees will give trustees the flexibility to use administration fees that match their current product parameters, including where fees differ in the accumulation and retirement phases where fees are capped by total balance or combined family unit to give a discount. This will give member more accurate (and hence more useful) information that is more likely to reflect the actual experience of that member in that product.
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	We agree that in most instances, it is reasonable to have a default retirement age of 67 for retirement estimates for members who are below the age of 67 and where the member has not provided an alternate desired retirement age. However, Trustees should retain the flexibility to provide calculators with different default retirement ages where appropriate. For example: • a calculator intended for use by the members of a heavy blue employer plan, may well have an earlier default retirement age that reflects that almost all of the members of that plan retire before age 67; • a calculator intended for use by members who also have defined benefits may have the same default retirement age as in the defined benefit formula (if the experience is that most members choose to retire once their defined benefit accrual ceases); • a calculator being used by members who are already over age 67 (and have not retired) may have a different way to set the default retirement age (eg current age plus X years). In fact,

<table>
<tr><td>superannuation calculators; and (c) any differences in likely future retirement ages or drawdown periods across different superannuation funds’ memberships. C8Q2 Are there some types of superannuation calculator for which these assumptions would be inappropriate or irrelevant? C8Q3 Is age 67 (the age pension eligibility age) a reasonable assumption for the retirement age? C8Q4 Is 25 years a reasonable assumption for the duration of the retirement period?</td><td>in some instances (like this one), it may be appropriate to have no default retirement age (forcing the member to actively input a retirement age before the interactive retirement estimate/calculator generates an output). Trustees should retain the flexibility to have no default and to require the user/member to input their own expected retirement age.

In our view, a default age of 67 undermines the goals of the Retirement Income Framework and the Retirement Income Covenant as retirees still have an interest in ensuring the sustainability of their future income stream drawdowns and by providing retirement estimates and calculators to the post-retirement demographics ensure they still have access to a ‘financial health check’ and alter their income needs over time (e.g. health costs, life expectancy, or greater desire for income in a given year). This will result in a poorer experience and sub-optimal living standard for retirees.

Similarly, we do not support a default drawdown period of 25 years. This would be an inappropriate assumption in a range of circumstances, for example:

• when the member is older than 67 – eg a 90-year-old person using an online calculator should not be presented with a forecast to the age of 115
• a default setting of 25 years does not accommodate the differences between male and female life expectancies - there is currently a three-year gap between life expectancies of 60-year-old males and females
• when it is known that the member has a spouse – the life expectancy of a 60-year-old mixed-gender couple is six years longer than of the male’s individual life expectancy

We would consider best-practice to be forecasts that are calculated on individual or couple life expectancies, plus a suitable margin (e.g. plus five years or 20%). In our view, the member disadvantages above outweigh any small advantage in consistency between providers (if all trustees assumed 25 years). Forecasts that are reasonably accurate with some variation between trustees would be a preferable member outcome to forecasts that are less likely to be accurate for that member.</td></tr>
<tr><td>C9Q1 How do superannuation calculators show forecasts representing different types of retirement income products (such as account-based pensions and annuities) under ASIC’s current relief? How could ASIC’s proposed relief facilitate calculators for</td><td>Given that the retirement product offering of most providers is under-developed (as found by the Retirement Income Review), we are not aware of many examples of forecasts illustrating different types of retirement income products. However, we would consider it a measure of success for the proposed ASIC relief if the instrument does not impede the development, communication and take-up of new retirement income products.</td></tr>
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different types of retirement income product in a way that does not advertise or promote specific financial products?	To some extent, any calculator that uses the assumptions of a particular product may be seen as promoting that product. However, where the member already holds an interest in that product (or is looking to acquire an interest) assumptions that reflect that product will produce the most useful information for that member. A projection or a calculator based on generic assumptions may give outcomes that are materially different to the expected outcomes if assumptions relevant to that product were used.
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?	Trustees should have the flexibility to forecast retirement income streams that meet their obligations under the proposed Retirement Income Covenant i.e. they should seek to maximise income whilst managing the risks to the sustainability and stability of such income. ASIC should not prescribe a specific formula, as this will not match the range of emerging retirement income products. For example, guaranteed annuities provide certainty of income level and duration, but group-self annuities can provide much higher levels of income with lower levels of certainty. Trustees offering differing products should be given the flexibility to provide retirement estimates that match their product suite.
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?	We acknowledge the difficulty in including age pension projections in retirement estimates. However, we do not agree with this proposal for the following reasons: • Under the draft Retirement Income Covenant, trustees must include Income from an age pension in their Retirement Income Strategy • Trustees may know sufficient information (from data collection, advice interactions, or other means), to project a more accurate calculation of age pension entitlements • Members might request for an age-pension projection to be included in a retirement estimate
C12Q1 Are there other ways in which assumptions could be made about future superannuation contributions in working out retirement estimates (e.g. using a three-year rolling average)? To what extent would this better reflect how contribution levels may change over the long term for most members?	We agree that the previous year gives the most accurate prediction of future contribution levels, as it accommodates recent salary increases and changes to employment role and status. However, trustees should have discretion to use a three-year rolling average in cases where the previous year's contribution differ materially from the average (e.g. where no contributions or materially higher contributions were received).
C14Q1 What are the advantages and disadvantages of ASIC setting standardised default inflation rates for both superannuation calculators and retirement estimates?	We do not oppose ASIC setting standardised default inflation rates, as long as such rates are reasonable. However, we strongly oppose the use of wage inflation on top of consumer price inflation, as discussed below. <u>Consumer perceptions of retirement forecasts</u>

Please include relevant evidence, where available, of: (a) the extent to which common assumptions would increase or reduce the risk of members being confused or misled; (b) the proportion of members that currently choose to input their own inflation rate assumption into superannuation calculators; and (c) any differences in forecasts of long-term price or wage inflation across different superannuation funds' memberships. C14Q2 What are the most appropriate types of inflation rate to apply to the accumulation and retirement phases?	We conducted a simple survey to test how people perceive retirement forecasts. We presented simple forecasts of a balance at retirement, and a retirement income to age 95, and asked whether people assumed such forecast were in nominal terms or were deflated by inflation and/or living standards (we used common English descriptions – for further detail see Appendix A). Slightly more than one third of respondents said they wouldn't assume and would read the detailed assumptions (though this figure is likely to be inflated by those who perceived this was the 'correct' answer). Of the remainder, around 85% assumed forecasts were nominal, with no accounting for inflation before or during retirement. Very few respondents assumed that projections were deflated by improvements in living standards i.e. wage growth. This is not a surprising result, as our experience generally indicates that consumers have very poor comprehension of results presented in today's dollars. We suggest two recommendations to compensate for this issue: 1. The word 'equivalent' should be prominently used whenever a future forecast is presented in today's dollars. We also consider that best practice would be to include projections in both nominal and real terms, for example "Your balance at age 67 is forecast to be $900,000, which is the equivalent of $600,000 today after taking inflation into account". 2. We strongly oppose differing rates of inflation in different phases (accumulation and retirement), as this will exacerbate already low consumer comprehension levels. <u>Misleading when used to forecast living standards</u> The most commonly utilised indicator of living standards in retirement is the ASFA Comfortable measure. This is calculated explicitly in reference to the costs of a publicly available (and often scrutinised) standard of living that is deemed to represent comfort for retirees. This measure is updated quarterly in line with price inflation. Expressing projected values (balances or income levels) in today's dollars by using wage inflation is inaccurate and misleading when used in conjunction with an ASFA Comfortable standard (or any other benchmark that is calculated on cost-of-living expenses). Following is an example using the Moneysmart Retirement planner of a 30 year-old couple on a single income of $80,000, with only $20,000 in super. Using default assumptions (which include price and wage deflation of future values), they are projected to have a balance of $484,061 and a retirement income of $56,340. This couple would justifiably consider that they are on-track for an uncomfortable retirement, with this income being 12% under the current ASFA Comfortable standard. Removing wage inflation however increases the projection to a balance of $684,673 and a retirement income of $72,653, equivalent to 14% over the current ASFA Comfortable

	standard. This calculation is a more correct comparison - if the assumptions are correct, this couple will indeed be able to afford the standard of living currently described as ASFA Comfortable, assuming it also increase in line with the price inflation measure used. The former calculation introduces inconsistency between methodologies and is misleading. <u>Undue conservatism of forecasts</u> We are concerned that many forecasts are unduly conservative, possibly for several reasons: • As above, using wage inflation to deflate future living standards makes forecasts unduly conservative. • Prudent trustees tend to make conservative assumptions for future investment returns and inflation. However, when several conservative assumptions are used together this makes the forecast unduly conservative and therefore unrealistic. Lower returns are often correlated with lower price and wage inflation, yet forecasts often use uncorrelated assumptions. • Retirement forecasts almost universally do not include increases in superannuation guarantee contributions, even though these increases are legislated to occur up to a final level of 12%. Not including these increases is a prudent measure given they are yet to occur, but they contribute to compounded conservatism. • It could be perceived that some industry participants are motivated by self-interest and use conservative assumptions in order to influence government policy (to legislate higher superannuation guarantee levels for example) or to motivate consumers to contribute higher amounts to superannuation. We note that the industry frequently cites that a retirement balance of $640, 000 is necessary to achieve an ASFA Comfortable living standard, yet the Moneysmart Retirement planner calculates that only ~$540,000 is required when using default assumptions, and only ~$440,000 is required when using price inflation only (as above, we believe this to be the more appropriate approach). We <u>do not</u> suggest that those who commonly quote these figures do so with poor intent, but we do contend that this common behaviour contributes to undue conservatism and lower consumer confidence. We consider that a key responsibility of trustees is to provide consumers with confidence as they approach and experience retirement - without being overly optimistic but neither being unduly pessimistic. It is our view that the use of overly conservative assumptions in retirement forecasts is not assisting this objective. <u>Validity of wage inflation in forecasts</u>

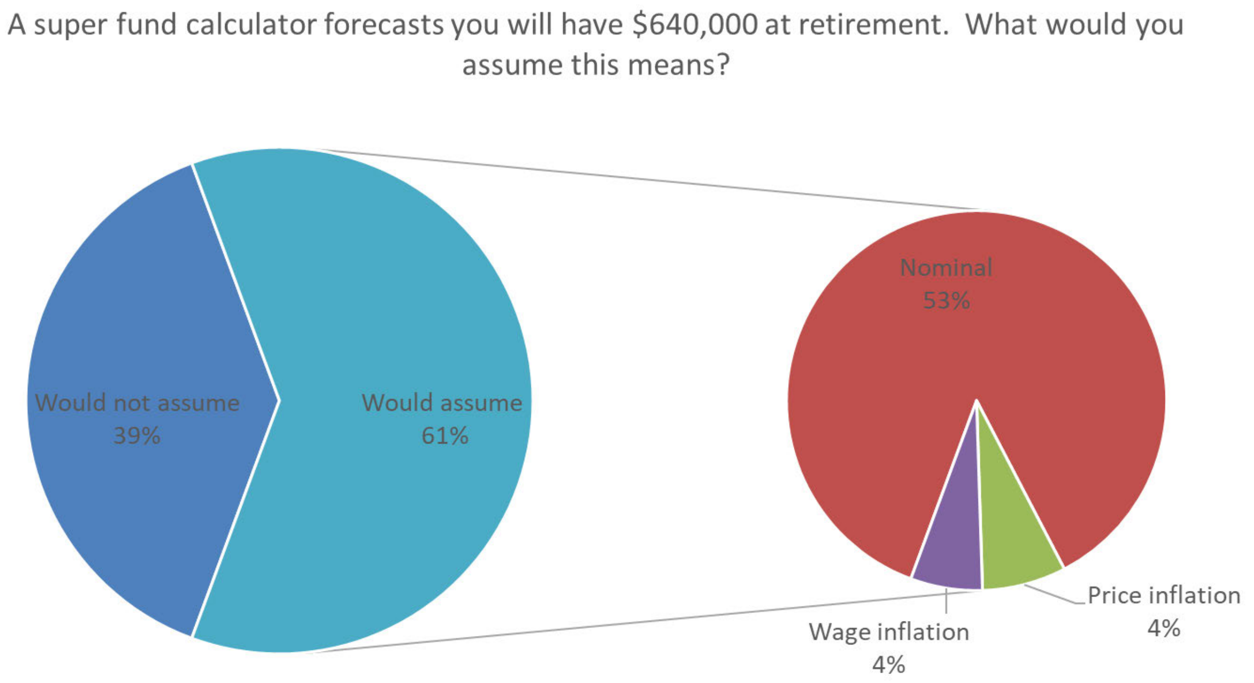
	Given the factors above, we oppose using wage inflation to deflate future values when calculating retirement forecasts, and we propose that only price inflation is included. Otherwise, consumers are highly unlikely to understand the meaning of the projections, and the inclusion of wages adds to the undue conservatisms that is already too common. Including consumer price inflation is unarguably a sound practice, but needs to be explained better as above. Going beyond this however will materially reduce consumer comprehension, will exacerbate already low levels of consumer confidence, and could be perceived as self-serving behaviour by trustees. Note that we support the use of wage inflation in calculating future projections where relevant, as opposed to deflating future values into today's dollars. For example, contribution assumptions should be inflated by expected wage growth, as should age pension income levels.
C15Q1 How should ASIC set values for the default inflation rates, and how frequently should these rates be reviewed?	Subject to our comments above, we agree with ASIC's current approach of using the mid-point of the RBA target inflation rate. As this is a long-term target, we see no reason to review this in the short or medium term (i.e. at a frequency less than ten years).

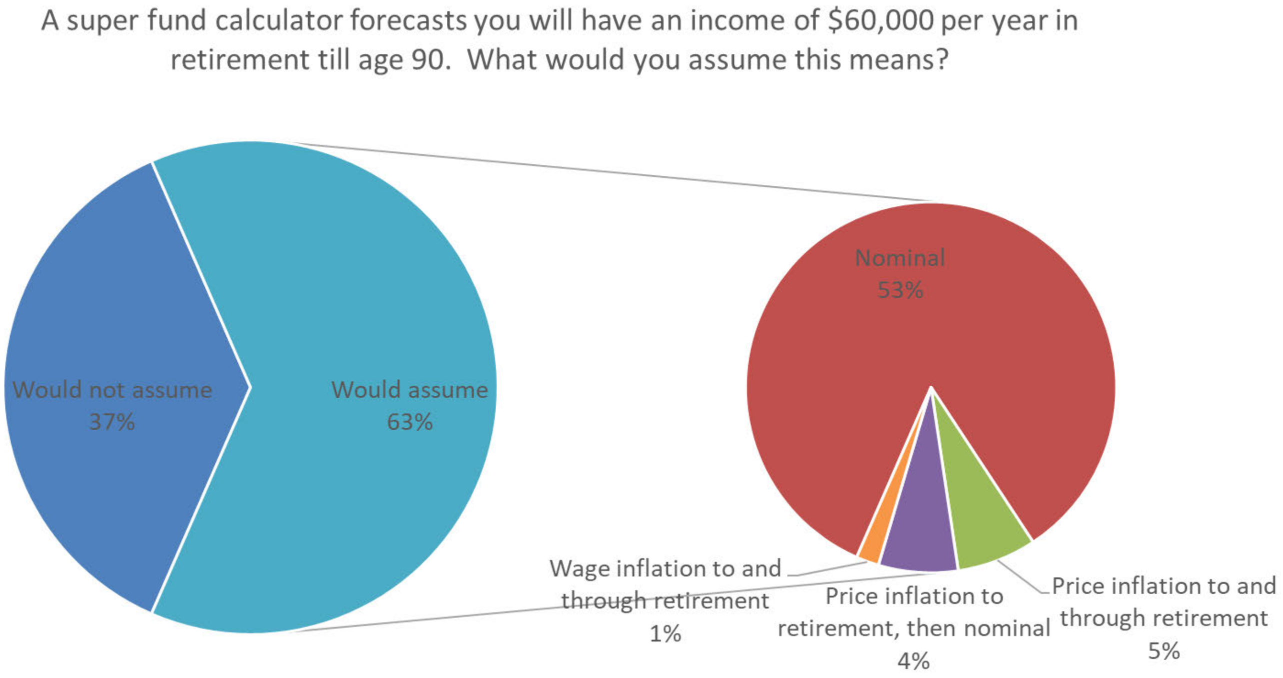
Appendix A – Retirement Forecasts Comprehension Survey

Method

An online survey was conducted from 15 December 2021 to 21 January 2022. The survey link was shared on social media and respondents were encouraged to participate for the chance to win a $200 gift card. There survey attracted 160 valid responses.

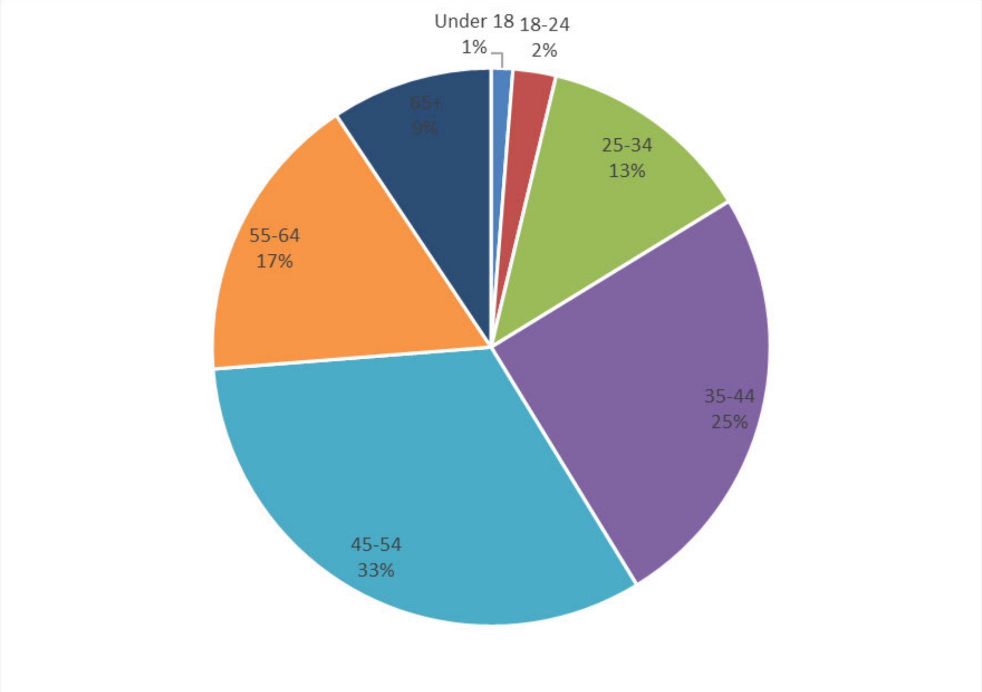
Results





Age of respondents

The age distribution of respondents was as follows.



Detailed responses

A super fund calculator forecasts you will have $640,000 at retirement. What would you assume this means?	#
I would not assume any of these - I would read the detailed assumptions, terms and conditions of the calculator	62
Your balance when you retire will be $640,000	85
Your balance when you retire will be the equivalent of $640,000 today - but will actually be higher at that point to account for inflation (e.g. $800,000)	7
Your balance when you retire will be the equivalent of $640,000 today - but will actually be higher at that point to account for inflation and improved living standards (e.g. $900,000)	6

A super fund calculator forecasts you will have an income of $60,000 per year in retirement till age 90. What would you assume this means?	#
I would not assume any of these - I would read the detailed assumptions, terms and conditions of the calculator	59
Your annual income when you retire will be $60,000, and will remain at $60,000 until age 90	85
Your annual income when you retire will be the equivalent of $60,000 today but will actually be higher to account for inflation (e.g. $80,000) and will continue to increase in line with inflation until age 90 (e.g. rising to $140,000)	7
Your annual income when you retire will be the equivalent of $60,000 today but will actually be higher to account for inflation (e.g. $80,000) and will remain at that level until age 90	7
Your annual income when you retire will be the equivalent of $60,000 today but will actually be higher to account for inflation and improved living standards (e.g. $90,000) and will continue to increase in line with inflation and improved living standards until age 90 (e.g. rising to $185,000)	2