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27 January 2022

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# Consultation Paper 351: Superannuation forecasts

Industry Super Australia (ISA) is a research and advocacy body for Industry SuperFunds. ISA manages collective projects on behalf of a number of industry super funds with the objective of maximising the retirement savings of nearly five million industry super members.

ISA broadly supports ASIC's proposals to update the relief and guidance for super calculators and retirement estimates. In particular we support the following proposals, which will help ensure members receive more accurate and helpful forecasts:

- ensuring greater consistency in the assumptions used across these tools, with some flexibility where appropriate, and
- ensuring the Moneysmart calculators use the same assumptions in the updated relief.

To improve retirement outcomes for more members, ISA recommends the following changes to the updated relief and guidance.

1. **Less emphasis on the role of personal advice**: The proposed relief and guidance continue to emphasise that members should not rely on super forecasts and instead, should seek personal advice before making decisions about their super. This undermines the utility of these tools and does not reflect the reality that most members will not seek personal advice for a range of reasons. It is therefore a missed opportunity to improve retirement outcomes for these members.

2. **Providing retirement estimates to more members**: Funds should be able to rely on the relief to provide retirement estimates to members who are over 67 years of age (regardless of whether they are in the accumulation or retirement phase) and to members who are in the retirement phase.

3. **Inclusion of age pension in static retirement estimates**: Funds should be able to include age pension amounts in static retirement estimates.

4. **The assumed inflation rate should be 2.5 per cent**: 2.5 per cent is a more appropriate figure that is consistent with the inflation rate target set by the RBA of 2-3 per cent. ASIC should monitor the set assumed inflation rate and update the relief instrument as needed, to ensure consistency with the RBA's inflation rate target.

## Less emphasis on the role of personal advice

We agree that there are inherent limitations on the accuracy of super forecasts and understand these limitations are the reason the proposed relief and guidance emphasise that members should not rely on these tools to make financial decisions, and instead should seek personal advice from a licensed provider.

However, this undermines the utility of these tools, which will likely be more accurate and helpful following the implementation of many of the proposals in the consultation paper. It also does not reflect that for many members, obtaining personal advice may be unaffordable or perceived to be unnecessary (for example, for members with smaller balances and/or few assets outside of super).

The issue of personal advice being unaffordable is clearly documented.[1] We acknowledge that ASIC and the Government have been working on this issue, however as it stands, fewer Australians are receiving personal advice because of high costs.

For these members, super calculators and retirement estimates are a more accessible way to obtain information that can inform their decision-making in relation to their retirement, including decisions about whether to make additional voluntary contributions to their super.

At the very least, a member who engages with their super and retirement by relying on these tools is likely to be better off in retirement than if they did not rely on the tools and also did not seek personal advice. In other words, we think there would be minimal consumer harm involved if a member relied on the forecast provided by one of these tools to make financial decisions.

Accordingly, the requirement that providers of these tools must include statements that members shouldn't rely on these tools and should instead seek personal advice are out of touch and may simply put members off engaging with their retirement altogether.

Recommendation: The relief and guidance should be amended so that providers of these tools are *not* required to include statements that members should not rely on the tools to make financial decisions and should seek personal advice instead.

It is sufficient from a consumer protection perspective for providers to comply with the other disclosure requirements in the proposed relief and guidance – namely, the requirements to disclose any significant limitations of the tool, the assumptions that are relied on and why they are considered to be reasonable. We also note the role of the existing prohibition on misleading or deceptive conduct in this context.

## Providing retirement estimates to more members

Under the proposed relief, funds cannot give retirement estimates to members who are over 67 years of age (even if they are still in the accumulation phase) and members who are in the retirement phase.

[1] For example, ASIC Report 627 *Financial advice: What consumers really think* and Adviser Ratings *The 2020 Australian Financial Advice Landscape*, June 2021.

Members in these cohorts may still benefit from being given retirement estimates by their funds. For example, members in the retirement phase may benefit from seeing their remaining retirement estimate presented as an annual income stream to illustrate the level of spending that can be supported throughout the rest of their retirement. It can also give them a quick indication of the possible adequacy of their remaining retirement balance.

Provided the assumptions that are relied on are reasonable, presented clearly and the other disclosure requirements are complied with, it is unclear what the consumer harm might be if these members are given retirement estimates.

Recommendation: The relief should be amended so that funds can provide retirement estimates to members who are over 67 years of age and members who are in the retirement phase.

## Inclusion of age pension in static retirement estimates

Under the proposed relief, funds cannot include age pension amounts in static retirement estimates but can do so in forecasts from super calculators and interactive retirement estimates.

For many members, the age pension can make up a significant proportion of their retirement income. Receiving a static retirement estimate without age pension entitlements in the same document could be more confusing for members.

Provided the assumptions that are relied on are reasonable, presented clearly and the other disclosure requirements are complied with, it is unclear what the consumer harm might be in providing age pension amounts in static retirement estimates.

Recommendation: The relief should be amended so that funds can include age pension amounts in static retirement estimates.

We also support prescribing a requirement that if a fund chooses to include age pension amounts in a static retirement estimate, the fund must include a link in the same document to a super calculator or interactive retirement estimate to allow the member to input their own assumptions.

We consider that the assumptions about the age pension entitlement in the proposed relief and guidance (RG 000.141 to RG 000.149) for super calculators and interactive retirement estimates should also be applied to static retirement estimates.

## Assumed inflation rate

The assumed inflation rate should be 2.5 per cent, which is a more appropriate figure that is based on the RBA's inflation rate target of between 2-3 per cent. This is the medium to long-term inflation rate agreed by the Governor of the RBA and the Treasurer as to the appropriate inflation target for monetary policy. The proposed assumed inflation rate of 4 per cent bears no relationship to the RBA target or existing or any anticipated inflation rates.

Setting an inflation rate that is too high in these tools will artificially depress the forecasts. While it could possibly encourage some to make voluntary contributions, it could also reduce confidence in the retirement system. ASIC should monitor the set assumed inflation rate and update the relief instrument as needed to ensure consistency with the agreed RBA and Treasury targets. To do otherwise invites confusion.

Recommendation: The assumed inflation rate in the relief should be 2.5 per cent, consistent with the inflation rate target set by the RBA of 2-3 per cent. ASIC should monitor the set assumed inflation rate and update the relief instrument as needed to ensure consistency with the RBA's inflation rate target.

## Other comments

The proposed guidance (at RG 000.80) indicates that funds should not include alternative scenarios in static retirement estimates. However, in our view these alternative scenarios can make the retirement estimates more useful for members by clearly illustrating how a specified number of voluntary contributions, combined with compound returns, can grow their super balance. Accordingly, we suggest that the guidance be amended to allow funds to include alternative scenarios in static retirement estimates.

If you have any questions, please feel free to contact myself or [redacted]

Kind regards

[redacted]

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