

19 April 2013

Mr Geoffrey Leveritt
Senior Lawyer, Strategy & Policy
Australian Securities and Investments Commission
GPO Box 9827
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Email: policy.submissions@asic.gov.au

Dear Mr Leveritt,

Consultation Paper 203: Age pension estimates in superannuation forecasts: Update to RG 229

We wish to make a joint submission on behalf of the Australian Institute of Superannuation Trustees and Industry Super Network.

The Australian Institute of Superannuation Trustees (AIST) is an independent, not-for-profit professional body whose mission is to protect the interests of Australia's \$500 billion not-for-profit superannuation sector. AIST's members are the trustee directors and staff of industry, corporate and public-sector superannuation funds, who manage the superannuation accounts of two-thirds of the Australian workforce.

Industry Super Network (ISN) is an umbrella organisation for the industry super movement. ISN manages collective projects on behalf of a number of industry super funds with the objective of maximising the retirement savings and incomes of their members through improving the super system and enhancing the value of industry super to members, the value of the generic industry super category and the brand of network participants and expanding the market share of network participants.

Our organisations wish to offer support for the proposed amendments to Class Order [CO 11/1227] ("the Class Order") as well as the amendments to Regulatory Guide 229 *Superannuation Forecasts* (RG 229). This submission seeks to provide comment with a view to improving the guidance, only. As a result, our feedback may not specifically address all questions contained within the Consultation Paper directly.

Inclusion of the age pension in a retirement benefit

B1: AIST and ISN support the inclusion of the age pension in retirement estimates, however, we do not agree with making this requirement mandatory. We believe that funds who wish to provide this

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guidance to their members should, given a uniform set of assumptions, be able to display information regarding retirement projections in a way that the fund believes is most appropriate to their members. For example, age pension projections may not necessarily be as appropriate in projections provided by a fund with a young membership demographic, compared to a fund with a demographic that is closer to retirement.

We do not believe that there are significant practical issues with implementing this enhancement, however this point may be moot for funds who choose not to include the age pension in their projections.

B2: AIST and ISN have no objections to the assumptions contained in these proposals, with the exception of proposal (c). We are not convinced that the assumption of a partner is reasonable in all circumstances, and we consider that this assumption could vary with the contents of the member's marital status field in a fund's database. However, we consider it to be vital that greater assurance around funds' maintenance of the marital status field in their databases needs to be provided. Specifically, our organisations have concerns that this field is not kept as up to date as, for example, members' postal address fields.

We also have concerns around the assumptions used for partners. We expect that the description of 'assets' discussed at proposal (c) and contained at Table 2 (RG 229.40) means that it is assumed that the partner has the same superannuation balance and no additional non-superannuation assets, however we believe that this should be made more explicit.

B3: We are comfortable with the warning as it relates to all other income or assets, as well as pension rates and eligibility rules, however, we would prefer that a specific warning be given as to the inability of the projection to take into account any other superannuation accounts that the member may have.

Retirement age assumption

B4: AIST and ISN support this proposal and recognise that the age pension eligibility age of the member is most appropriate.

B5: Having been provided with assurance from ASIC that a 25-year lifespan subsequent to age pension eligibility age should cover 5 out of every 6 retirees, we are comfortable with this assumption as it appears to cover the increased longevity risk of longer lifespans.

We question, however, whether having this figure 'hard-coded' is a good idea. We note that in government actuarial tables of life expectancy going back to 1975-77, the female life expectancy for a 65 year old has climbed approximately 4 ½ years since then, with nearly 5 years for 65 year old males. We would recommend consideration of a more fluid figure, such as 'life expectancy at age pension age + X years' or similar.

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In addition, AIST and ISN supports the position stated in paragraph 32 where it is confirmed that ASIC will take no action with regards to super funds who follow the prescribed assumptions and methodology contained in RG 229 and the Class Order. It is regrettable that ASIC is not in the position to grant trustees who provide projections a safe harbour from civil litigation, however.

Liability for a misleading estimate

B6: We support this approach.

Definition of ‘administration fees’

B7: Our organisations support this approach and we consider that the practical difficulties in administering this are minimal. We do, however request that further clarification be made around what is considered to be the ‘previous year’. Is it the year being reported on, in the case of an annual statement? Or is it the year prior to that?

Also, it is possible that this may be further complicated by funds that report to members in semi-annual statements. Which definition of ‘year’ is to be used? Is it to be a financial year, a calendar year, anniversary year or something else?

We recommend that this clarification be provided around this subject and recommend that previous financial year be used, as most funds are likely to operate on this basis.

Rounding of retirement estimates

B8: AIST and ISN supports the use of rounding to 3 significant figures. The use of more detailed figures can convey the impression that the fund is providing a sort of undertaking to the member and this may lead to confusion. In addition, we believe that members will better understand figures given in the form, ‘\$603,000’, or ‘\$1.26 million’ rather than \$602,870.46 or \$1,264,578.39.

We also agree with paragraph 39, that three significant figures solves the problems identified at paragraph 38.

Wording accompanying retirement estimates

B9: We support the text that is to be specified in Appendix 1 of the revised RG 229, however as previously stated at B3, we believe that additional warning needs to be provided around the possibility that a member may have additional superannuation accounts.

Amendments to RG 229 and the Class Order

AIST and ISN support the majority of the edits made to RG 229. We have not commented on all proposed edits, however, the following comments are made with a view to providing feedback on

areas not previously mentioned. In addition, we have previously provided feedback on Appendix 1 in our response to B9.

We have not commented on the proposed amendments to the Class Order, but would expect these to be consistent with our other comments throughout this submission.

RG 229.14: As indicated above, AIST and ISN supports this edit to RG 229 stating ASIC's position with regards to not taking any action provided that the assumptions and methodologies contained in the Class Order are followed. We also support the clarifying statement about what a 'no-action' position is, as this term may be considered to be jargon.

Table 1 (RG 229.26): As discussed at B5, we consider a fluidly-defined retirement period to be a sort of future-proofing and propose that this be amended here to reflect this, at the line item, 'Retirement age and drawdown period'. We also point to the same line item in Table 2 (RG 229.40), as well as at RG 229.51 and RG 229.53.

In addition, we believe that the new line item 'Members other funds' in Table 2 may need to be amended to be consistent with our recommendations at B3.

RG 229.59 (c): In the context of our comments regarding B2, we highlight this paragraph as potentially requiring rewording.

For more information regarding this submission, please contact Richard Webb, Policy & Regulatory Analyst at AIST on 03 8677 3835 or at rwebb@aist.asn.au or Robbie Campo, Deputy Chief Executive at ISN on 03 9657 4306 or at rcampo@industriysuper.com.

Yours sincerely,



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