

CORPORATE SUPER ASSOCIATION

October 2008

Ms Chloe Youl
Lawyer
Strategic Policy
Australian Securities and Investment Commission
GPO Box 9827
Melbourne VIC 3001

By e-mail to policy.submissions@asic.gov.au

Submission: Superannuation Forecasts

Dear Ms Youl

I refer to the Consultation Paper 101, *Superannuation Forecasts*, issued by ASIC on 28 July 2008. The Corporate Superannuation Association welcomes the opportunity to provide comments.

1. Background: the Corporate Superannuation Association

The Corporate Superannuation Association represents thirty major not-for-profit corporate superannuation funds and their corporate sponsors. These funds are most of the largest funds in the corporate fund sector. In general, the funds are sponsored by corporate employer sponsors with membership restricted to employees from the same holding company group. We also include in our membership a few multi-employer funds with similar employer involvement and focus to our stand alone member funds.

The Association provides the following comments in relation to the Paper and the proposals.

2. Major questions

As we understand it the ASIC Paper 101 asks 2 major questions:

- How should accumulation funds provide benefit forecasts?
- Should licensing requirements apply?

We would comment as follows.

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2.1. Defined benefits

ASIC have, in passing sought views on forecasting for defined benefits. It is intrinsic to defined benefits that members have a broad indication of their anticipated benefits. There should be no difficulty in providing members with projected benefits at specific ages, after disclosing any salary increase assumptions underlying the projected benefits. We believe that the provision of this information should not be subject to licensing requirements.

2.2. Accumulation benefits

For accumulation benefits, we recognise that forecasting is complex and there are many variables. Consumers will not understand the nature and effect of assumptions unless these are clearly stated. We recognise the tension between:

- providing information in a standard format and using standardised assumptions, an approach which may ignore aspects of benefit design, performance and fee structure; and
- the risks of unregulated customisation which may result in optimistic forecasts and which may cause consumers to use the forecasting tools to make comparisons between funds which may not be soundly based.

In an ideal world the consumer would have an understanding of the above issues, but currently such understanding is not universal. Literacy education or access to “cheap” financial advice will assist.

We believe that consumers should have access to tools that enable them to estimate as closely as possible the likely benefits available to them from their fund at retirement. We believe that a fund should be able to choose between referring members to the ASIC calculator, or providing a fund specific calculator incorporating the trustee’s assumptions about earnings, fees, taxes and inflation. Where a fund provides a calculator and/or a forecast based on such a calculator there should be clear and full disclosure of the assumptions used.

The choice as to whether the fund uses a calculator, or a benefit forecast based on additional member-specific assumptions about contributions and age at retirement, will depend on the trustee’s assessment of the profile of the membership, including their access to internet, and their ability to interpret different options.

3. Our recommended approach

3.1. Primary resource

We believe that where, in the trustee’s view, the membership’s situation and state of knowledge permits, the primary tool should be a calculator rather than a benefit forecast, because a calculator provides the member with flexibility to vary assumptions regarding:

- additional contributions;
- years to retirement; and
- alternative investment strategies.

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ASIC calculator

The calculator made available by ASIC is a valuable resource for members and for funds that do not provide their own calculators. We understand that independent actuarial advice was taken regarding the earnings, tax and inflation assumptions. We believe that this is helpful but that it would be useful to increase the field of advice, for example by requiring the standard assumptions for earnings, tax and inflation to be approved by the Government Actuary after consultation with the Institute of Actuaries for each of the 4 standard investment streams, and regularly updated. The calculator should remain available on the ASIC web site and funds should be required to make members aware of it.

Fund specific calculators

Funds should also be permitted to provide their own calculators. We believe that it is important that they should be able to do so if they wish, in order to provide a forecast tailored to the features of the specific fund, rather than using average or standard assumptions.

The assumptions made regarding:

- earnings (for each investment option, where applicable);
- fees (again with variations for separate investment options if applicable);
- tax;
- inflation; and
- any other assumptions

should be clearly stated. If the calculator permits members to vary these assumptions, additional warnings should be provided, and the calculator should not permit variation outside reasonable parameters.

There should be a standard agreed warning on accessing the calculator. The user should be permitted to access the calculator only if he or she acknowledges that he or she has read the warning and accepts the conditions. The warning should be phrased along the following lines:

“This operates as a calculator only and uses the assumptions and information you include.

“The contributions made, the actual investment performance of the fund and the costs you pay will be major factors in determining the benefit you will receive. Before making any decision in relation to your super, it is recommended you get advice as to your particular circumstances from a licensed financial advisor.”

Licensing requirements

Providing access or a reference to the ASIC calculator should not be considered to be financial advice, as it simply involves directing members to information that the regulator provides.

Provision of fund specific calculators, after adequate warning and disclosure of assumptions, should be possible without the need for an AFS licence. The calculator provides information only, allowing the member if he or she chooses to take advantage of a calculation method using clearly stated assumptions and relying on the member to input specific personal information.

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3.2. Use of the calculator for projections included with benefit statements

It should be possible for funds to provide projections for inclusion with periodic statements. Again it will be critical that the assumptions underlying the calculations should be clearly stated. Where a forecast or projection is provided there are additional assumptions involved, relating to:

- Future contributions; and
- Years to retirement.

A reasonable estimate of these amounts will be based on member-specific information, but will remain an estimate only, in view of the possibility of variable contribution level and of early or late retirement. Because these amounts are unpredictable it is crucial that the estimated parameters should be clearly stated and the fact that they are estimates only should be emphasised.

The fact that member specific information will be used in preparing forecasts has given rise to concern that the provision of forecasts may be personal advice. We take the view that if the forecast is provided alongside a periodic statement it is simply an arithmetic outcome of the benefit statement using stated assumptions. Whether or not a forecast provided in these circumstances is technically personal advice, we believe that an unlicensed trustee or a trustee with a limited AFS licence should be able to provide such forecasts without breaking the law.

3.3. Need for continuing education and access to advice

The above proposals would require a framework of universal access to straightforward unbiased advice and a continuation of the steps currently being taken to increase financial understanding in the public.

4. Summary and conclusion

In summary, the Corporate Superannuation Association would welcome an approach involving:

- a standard calculator made available by the regulator, using approved assumptions;
- the use of fund specific calculators where the trustee provides full and clear information about all assumptions underlying the calculator;
- the provision of forecasts where the trustee believe that the profile of the membership is such that a typical member may not have access to a calculator or may not be able to make full use of a calculator. This approach will involve the trustee in providing further clear information about the additional assumptions made in providing the member-specific information.

The consumer should be put in a position where he or she can access information about his or her future benefits in an informed way. This involves provision of full and clear information about assumptions used, backed up where required by low-cost access to simple and clear advice. Access to clear information will be assisted by:

- the removal of licensing barriers to the provision of calculators and forecasts under the conditions outlined above, and
- permitting trustees to provide fund advice without licensing obstacles.

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Please contact my office on +61 3 9620 5155 or by e-mail to corsuper@netspace.net.au if you would like to discuss the above.

Yours sincerely

A handwritten signature in black ink, appearing to read "Bruce McBain". The signature is written in a cursive style with a large initial "B" and "M".

Bruce McBain
CEO
Corporate Superannuation Association