

CORPORATE SUPER ASSOCIATION

ABN 97 799 893 065

Suite 6, Level 6, 470 Collins Street,
Melbourne, VIC 3000
Tel: 03 9620 5155 Fax: 03 9620 5122
Email: corsuper@netspace.net.au
Website: www.corsuper.com.au

11 December 2009

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

Email: policy.submissions@asic.gov.au

Dear Ms Youl

SUBMISSION: SUPERANNUATION FORECASTS CONSULTATION PAPER CP 122

The Corporate Superannuation Association appreciates the opportunity to comment on the above Paper issued in October 2009.

Background – Corporate Superannuation Association

Established in 1997, the Association is the representative body for large corporate superannuation funds and their employer-sponsors. The Association represents a total of 46 funds controlling 39 billion dollars of member funds. In general, these funds are sponsored by corporate employer sponsors with membership restricted to employees from the same holding company group, but we also include in our membership a few multi-employer funds with similar employer involvement and focus.

Our funds typically are established without shareholder interests in the governing body, and no profit is derived from the operations of our funds. This also means that any cost of compliance increase has a direct impact on members' benefits. The funds are run as mutual entities, where the decisions are the responsibility of a trustee board. The board provides equal representation for employer and employee interests.

SUBMISSION: CONSULTATION PAPER CP 122

CORPORATE SUPER ASSOCIATION

Our views on forecasts

We refer to our previous submission dated October 2008 relating to CP 101. Our position remains as follows:

- in relation to accumulation accounts, the primary forecasting resource for a member should be a calculator rather than a calculated benefit projection; and
- for defined benefits, there should be no difficulty in providing members with projected benefits at specific ages, after disclosing any salary increase assumptions and any other assumptions underlying the projected benefits. Given that these projections would be no more than the provision of information about the way the fund's governing rules provide for benefits, combined in some cases with declared assumptions regarding salary inflation, we believe that the provision of this information should not be subject to licensing requirements.

We would also support the provision of calculators for defined benefit members, permitting members to choose input for certain limited variables.

Defined benefit projections should not be subject to requirements or restrictions that they be calculated using standard assumptions only. The assumptions that should be used are those used in calculating benefits under the fund's deed. In relation to the major variable - future salary increases - it would be helpful if left to members to explore the effect of varying increases through the use of calculators provided by the fund. We believe that the member may be the person best informed about his or her own salary increase expectations.

Comments on CP 122

Objective of engaging members with their super

We applaud ASIC's stated objective of trying to engage members with their superannuation, but we have major concerns about the use of forecasts as a tool for achieving this end.

It is necessary to consider the adequacy of savings and to use targeted methods of encouraging further saving. However, we believe these objects may be best pursued by means other than a projection document presented by the trustee of the member's fund.

CORPORATE SUPER ASSOCIATION

For a fund to provide a projection to a member, in the context of the annual or periodic statement, it gives the impression that this is what the member can expect from that fund. The draft Regulatory Guide would mandate assumptions about variables (in particular earnings, fees, retirement age) to the extent that these may bear no relation to the fund's current arrangements or likely performance.

In addition, the assumption that the contributions will remain at a constant real level may not be at all realistic. We fully understand that this is a way of enabling standardised projections, but it is not a way of enabling a fund's trustee to provide an honest projection of what the member may receive from that fund.

We do understand that the motivation for enabling these projections is to engage members with their superannuation rather than to provide a realistic projection of benefits that are likely to arise from membership of a particular fund. We do not, however, believe that the trustee's communication to the member, in the context of presentation of current account balance, is the context in which these projections, which will not be the trustee's actual best estimates of future benefits, should be provided.

For this reason, we believe that the production of projections based on standard assumptions, as envisaged in the draft Guide, should be separated from fund reports to members.

Context for realistic accumulation projections

We believe that where information is provided by a trustee to a member projecting future benefits, that information should be produced only where the projection of likely benefits is feasible and where the inherent uncertainties are not too great. For example, for some accumulation members, it is reasonable to assume a continued pattern of minimum SG contributions. For others, assumptions about future contribution levels may be an area of considerable uncertainty. Where the uncertainties are considerable, we remain of the view that a calculator is of greater assistance to the member.

We believe that in order for a member to review a projection in an informed way, he or she should be aware that a projection involves the input of assumptions.

If a member is sufficiently well-informed to understand the limitations of assumptions, he or she is well enough informed to use a calculator responsibly to model a situation using his or her best information about future plans.

CORPORATE SUPER ASSOCIATION

Current dollar values

Where projections are provided, we agree with the proposed approach in providing benefit forecasts in current dollar values.

This enables members to consider their likely superannuation balance or pension in the context of their current expenditure. The approach proposed in Table 2 for accumulation benefits appears sound, in applying any inflation adjustments to current salary, accumulating earnings, and then applying an appropriate deflator to return the figures to current day terms. We recommend a corresponding (but different) approach to any defined benefit projections, as discussed below.

Calculator design

In the design of calculators for use in such situations, we fully support the requirement under Class Order CO 05/1122 that the default assumptions used in a calculator be reasonable.

It is suggested in the draft Regulatory Guide that the requirement to use “reasonable” assumptions as defaults will best be met by the use of the mandated assumptions which the Paper proposes should be set for retirement forecasts. We suggest that for many accumulation accounts this approach will be acceptable, but believe that the use of standard assumptions of this nature should be flagged for members, so that they are aware that the default assumptions have been set in this way rather than in a way that may more closely approximate their particular fund’s recent or expected performance. We also believe that “reasonable” assumptions for calculators provided by defined benefit funds should be separately defined and this issue is discussed further below.

Defined benefits

In CP 101 defined benefits were not discussed at length, nor is there any detailed discussion about their distinct situation in CP 122. However, in the draft Regulatory Guide following CP 122, it is suggested at RG 000.19 that defined benefit funds may take advantage of the relief, provided that, by using the variables and assumptions outlined in the guide, they would not produce a misleading or deceptive projection. We would be concerned about using the approach suggested in Tables 1 and 2 of the draft Regulatory Guide, as these have been drafted with the situation of accumulation funds in mind and would generally be misleading if adopted to forecast a defined benefit.

We propose a separate approach to the situation of defined benefit funds.

CORPORATE SUPER ASSOCIATION

The very nature of defined benefits is that projection of the member's benefit involves fewer unknowns. The trust deed or governing document sets out the anticipated benefit for the member in terms of (typically) final average salary, years of service and age at retirement. Separate rules may apply for withdrawal other than at retirement. We believe that if it is appropriate to provide a licensing exemption for the trustees of accumulation funds providing retirement benefit projections using controlled assumptions, it is certainly appropriate to exempt trustees of defined benefit funds that provide retirement benefit projections to their members. (However, our position would be, in any case, that such projections involve the provision of information, not advice, and would not require the provider to be licensed.) Most of the assumptions underlying the calculation of benefits are set out in the fund's governing documents and these assumptions can be made clear to the members.

The assumptions provided by the fund will be objective and clearly not adopted with the aim of suggesting a superior investment performance or a reduced fee profile when compared with other funds. There will be few areas in relation to defined benefits where assumptions should be made that are not fund specific. Assumptions regarding pace of funding and related matters simply do not affect benefits available to members, although they are of concern to sponsoring employers.

For simplicity and clarity, it is best that for defined benefits, projected benefits should be limited to the simple situation of age retirement and that it should be made clear that this limitation applies.

A parameter which is variable is future salary increases for the individual member. These can be split between inflationary increases and increases attributable to promotion. It is possible to provide projections either assuming no salary inflation, or adopting a reasonable rate for salary inflation. We suggest that it would be consistent with the proposed approach to accumulation accounts (which involves a deflator adjustment to bring benefits to current day dollar terms) to provide defined benefit members with projections assuming that final salary is equal to current salary. This approach assumes nil salary inflation and no salary increase arising from promotion. This will provide a proxy for current dollar value of expected future benefits (ignoring promotion). This ignores niceties such as the distinction between anticipated CPI inflation and wage inflation, but is a simple approach.

Alternatively, members can be offered access to an online calculator in which a variable may be anticipated salary at retirement: see further discussion below.

CORPORATE SUPER ASSOCIATION

Calculators for defined benefit members

We suggest that the provision of special calculators for defined benefit interests (if not already permissible in that the provision of a calculator involves providing members with information and a facility to apply that information to their own situations) should be permitted without the requirement for an AFSL, if these meet the requirement that the assumptions adopted are “reasonable” (CO 05/1122) in the circumstances applicable to defined benefits. We believe that the assumptions used for defined benefit calculators will be reasonable if these calculators reflect the terms of the fund’s governing rules. The parameters that can be varied by the member should be limited, given that much is fixed by the governing rules or irrelevant to the outcomes for the member (earnings, fees). There would be value to a defined benefit member in being able to use a calculator to forecast the effect on the defined benefit of varying assumptions about future salary increases. A complementary variable could be a deflator to bring the projected amount to current dollar terms.

Date of retirement may also be a helpful variable in assisting a defined benefit member in planning for the future.

We note that a number of large defined benefit funds do provide Benefit Projectors (calculators) that allow user input. Defaults are provided, and the calculators limit user amendments to these to a “reasonable” range. Typically, the member is required to acknowledge by ticking a box that he or she understands the limitations of the calculator and that use of the calculator is subject to his or her personal choice and responsibility.

We look forward to further discussion.

Yours faithfully



Mark N Cerché
Chairman
Corporate Superannuation Association