

*Submission in Response to
Age Pension Estimates in
Superannuation Forecasts: ASIC
Consultation Paper 2013*

April 2013

National Seniors

Australia

About National Seniors Australia (National Seniors)

With over 200 000 members Australia-wide, National Seniors is the consumer lobby for the over-50s. It is the fourth largest organisation of its type in the world.

We give our members a voice – we listen and represent our members' views to governments, business and the community on the issues of concern to the over 50s.

We keep our members informed – by providing news and information to our members through our Australia-wide branch network, comprehensive website, forums and meetings, bi-monthly lifestyle magazine and weekly e-newsletter.

We provide a world of opportunity – we offer members the chance to use their expertise, skills and life experience to make a difference by volunteering and making a difference to the lives of others.

We support those in need – as a not-for-profit organisation, we raise funds and redirect monies received to older Australians who are most in need.

We help our members save – we offer member rewards with discounts from over 7000 businesses across Australia, we offer discount travel and tours designed for the over 50s, and we provide older Australians with affordable, quality insurance to suit their needs.

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National Seniors Recommendations

Recommendation 1: That ASIC mandate trustees/superannuation funds to provide a pension estimate, however the estimate must be clearly separate from the estimated superannuation payment.

Recommendation 2: That ASIC require trustees/superannuation funds to make inquiries into the member's financial situation to determine the members' eligibility for the pension.

Recommendation 3: That ASIC require trustees/superannuation funds to assume the member is not eligible for the pension, if no information to the contrary is provided by the member.

Recommendation 4: That ASIC amend the consumer warning to:

- The age pension estimate (is only a general guide) and should not be relied on, only the Department of Human Services can officially determine your eligibility for the age pension.
- Pension rates and eligibility rules may change between now and when you retire.
- You may not be eligible for some or all of this age pension amount if the information you provided is incorrect or changes.

Recommendation 5: That ASIC prescribe the presentation of the age pension estimate. The prescribed presentation should be drafted by ASIC and then released for consultation and comment.

Recommendation 6: That ASIC disallow the use of aggregated totals (i.e. the age pension estimate and the estimated benefit attributed to the member's superannuation accounts).

Recommendation 7: That ASIC require trustees/superannuation funds to calculate the pension estimate based on retirement at the age the superannuation fund member will become eligible for the age pension.

Recommendation 8: That ASIC prescribe that the post-retirement lifespan (currently 25 years) is amended to align with the average Australian lifespan.

Recommendation 8A: That ASIC develop and mandate a standard format for the presentation of all warning notices, as outlined in this submission.

Recommendation 9: That ASIC require trustees/superannuation funds to make specified? limited inquiries (see Recommendation 2) into the members specific circumstances.

Recommendation 10: That ASIC require lump sum and annual income stream estimates to be rounded down to three significant figures.

Recommendation 11: In addition to (Recommendation 4 and 5) ASIC should amend the consumer warning to include the contact details of the Department of Human Services.

Recommendation 12: That ASIC standardise the format and presentation of the consumer warning.

Introduction

National Seniors Australia welcomes the opportunity to respond to the consultation paper; Age pension estimates in superannuation forecasts.

National Seniors welcomes Australian Security and Investment Commission's (ASIC) objective to prompt superannuation fund members to engage with their superannuation fund and take practical steps to improve the security of their retirement income.

National Seniors also supports the three pillar retirement income system comprising the age pension, compulsory employer superannuation contributions and voluntary retirement savings.¹

Older Australians have indicated that uncertainty over their retirement income is affecting their retirement plans and reducing confidence in the retirement income system.² The consequence of poor retirement planning is magnified for older Australians given the reduced options older Australians have to recover any lost wealth.³

The decision to seek financial advice and ask clarifying questions regarding superannuation and the age pension are not easy tasks for some seniors. Older Australians with lower financial literacy who would benefit the most from more information are less likely to seek financial advice.⁴ Given these restrictions National Seniors believes that the onus should be on superannuation funds to provide their members with as much information as possible in a format accessible and understandable by all its members including older Australians.

To enable seniors to adequately plan for their retirement all relevant information including pension estimates must be available in a user friendly format which clearly separates the potential incomes available from superannuation and the age pension. National Seniors believes that this separation is the key to reducing confusion and anxiety experienced by some older Australians and will encourage seniors to take practical steps to improve their retirement income and achieve a self-funded retirement.

¹ Commonwealth Treasury (2004) *A More Flexible and Adaptable Retirement Income System*, Australian Government.

² National Seniors Australia Productive Ageing Centre (2012), *Barriers To Mature Age Employment: Final Report Of The Consultative Forum On Mature Age Participation*, National Seniors Australia.

³ National Seniors Australia Productive Ageing Centre (2013), *The Role of Financial Literacy and Financial Adviser Anxiety in Older Australians' Advice Seeking*, National Seniors Australia.

⁴ *ibid*

Our Position

Inclusion of the Age Pension in a Retirement Estimate

B1Q1 Do you agree with our proposal to allow trustees to include the age pension estimate?

B1Q2 Should it instead be mandatory for a trustee to include the age pension in a retirement estimate?

- B1Q1 and B1Q2 National Seniors believes that the provision of a separate age pension estimate should be mandatory.

Recommendation 1: That ASIC mandate trustees/superannuation funds provide a pension estimate, however the estimate must be clearly separate from the estimated superannuation payment.

Nationals Seniors believes the age pension will continue to be an essential pillar of the retirement income system and a major component of the retirement income of the majority of seniors. An estimate of the potential age pension payments will assist older Australians in their retirement planning.

B2Q1 Do the proposed assumptions reflect realistic circumstances for a substantial part of the Australian population?

- B2Q1 National Seniors does not believe the proposed assumptions are realistic for a substantial part of the Australian population.

What additional or alternative assumptions should be prescribed?

Recommendation 2: That ASIC require trustees/superannuation funds to make inquiries into the member's financial situation to determine the member's eligibility for the pension.

Before superannuation funds provide a pension calculation it must attempt to determine if the member will be eligible for the pension. National Seniors suggest that unofficial eligibility could be determined via three high level key questions:

1. Do you own your own home?
2. Do you intend or envision yourself earning the cut off threshold amount of income (to be stated) once you reach (the member specific) pension eligible age?
3. Do you own or do you envision yourself owning assets valued above the cut off threshold for a homeowner or non-homeowner once you reach the (member specific) pension eligible age?

National Seniors does not believe that the proposed assumptions are realistic. National Seniors considers the application of the proposed assumptions as dangerous specifically the **assumptions that all members qualify for an age pension and own their own home**. The exception to the assumptions are too great to ignore with 31 percent of Australians not owning their own home⁵ and 23 percent of older Australians not receiving any age pension payments⁶.

The proposed assumptions would provide many members with an inflated estimate and a false impression of financial security, discouraging members from taking any steps to adjust their asset and investment mix. The unfortunate superannuation member would only discover the reality (not being eligible for the pension) when they reach the eligible pension age and apply to the government, by this time it is too late to make any changes to their investment strategy.

Any online calculators should also include these three questions before a pension estimate is provided.

Recommendation 3: That ASIC require trustees/superannuation funds to assume the member is not eligible for the pension, if no information to the contrary is provided by the member.

The assumption of ineligibility for the pension is a safer choice than the assumption of eligibility as currently proposed. National Seniors believes that members will be motivated to answer the three key questions if the provision of this information is a requirement for a pension estimate.

All members including older Australians are more likely to consider their asset and investment mix and take steps to improve their financial security if they are informed that they are not eligible for a pension based on their current income and assets.

⁵ Australian Bureau of Statistics (2012) *1301.0 - Year Book Australia, 2012* Australian Government.

⁶ Department of Families, Housing, Community Services and Indigenous Affairs (2009) *Pension Review Background Paper* Australian Government.

B3Q1 Does the proposed prescribed wording provide sufficient warning to super fund members about their eligibility for the age pension and caution in relying on the figures given?

- B3Q1 National Seniors does not believe the proposed wording provides sufficient warning to superannuation fund members about their eligibility for the age pension and caution in relying on the figures given.

Recommendation 4: That ASIC amend the consumer warning to read:

The age pension estimate is only a general guide and should not be relied on, only the Department of Human Services can officially determine your eligibility for the age pension.

Pension rates and eligibility rules may change between now and when you retire.

You may not be eligible for some or all of this age pension amount if the information you provided is incorrect or changes.

National Seniors believes that it is vital that the superannuation funds ensure that their members understand that the pension estimate is only a general guide subject to change.

B3Q2 Should there be prescribed requirements for presentation of the age pension estimates?

- B3Q2 National Seniors believes that they should be prescribed requirements for presentation of the age pension estimates.

Recommendation 5: That ASIC prescribe the presentation of the age pension estimate. The prescribed presentation should be drafted by ASIC and then released for consultation and comment.

As a minimum National Seniors suggest that the presentation of the age pension estimate must be separate from the superannuation estimate. In addition National Seniors suggests that ASIC develop standard graphs, tables and the format for the pension estimate and the presentation of all warning notices including the use of separate colours for the two income sources.

Many older Australians have more than one super account and therefore a standard template and presentation style will greatly assist them in understanding their total estimated retirement income and allow them to adjust their investments accordingly.

Recommendation 6: That ASIC disallow the use of aggregated totals (i.e. the age pension estimate and the estimated benefit attributed to the members superannuation accounts).

National Seniors believes that an aggregated total is misleading, the different risks associated with the final superannuation payout and the eligibility for the pension are too diverse to justify a combined total. Once the members understand the risks associated with each component separately they can then perform a simple addition to determine their potential total payout.

Retirement Age Assumption

B4Q1 Do you agree with the proposal (to specify that the retirement estimates must be calculated based on retirement at the age the super fund member will become eligible for the age pension)?

- B4Q1 National Seniors agrees that the retirement estimates must be calculated based on retirement at the age the superannuation fund member will become eligible for the age pension.

Recommendation 7: That ASIC require trustees/ superannuation funds to calculate the pension estimate based on retirement at the age the superannuation fund member will become eligible for the age pension.

National Seniors believes that use of the age pension eligibility age is more appropriate that the current use of a standard retirement age of 65.

B5Q1 Do you agree with the proposed wording of the warning notice regarding the potential for a super fund member to outlive the 25-year projected lifespan?

- B5Q1 National Seniors agrees with the proposed wording of the warning notices.

Recommendation 8: That ASIC prescribe that the post-retirement lifespan (currently 25 years) is amended to align with the average Australian lifespan.

Recommendation 8A: That ASIC develop and mandate a standard format for the presentation of all warning notices, as outlined in this submission.

National Seniors notes that the warning notices utilise the Australian Life Tables 2005-07. Whilst acknowledging that they are the most recent tables available, ASIC should ensure that the lifespan in the warning notice is updated when required to reflect the post-retirement lifespan current at that time.

National Seniors believes that there is a risk that some warning notices will be lost in the small print, to ensure this does not occur ASIC should develop a standard format to be used by all superannuation funds ensuring the use of large text and requiring that each warning notice is displayed in close proximity to the financial estimate to which it refers.

Liability for a Misleading Estimate

B6Q1 Do you agree with the proposed approach?

- B6Q1 National Seniors does not agree with the proposed approach not to consider it necessary for a trustee/superannuation fund to make specific inquiries to determine if the member's circumstances match the prescribed assumptions.

Recommendation 9: That ASIC require trustees /superannuation funds make limited inquiries (see Recommendation 2) into the members specific circumstances.

National Seniors believes that simply following the current guide and assumptions will lead to many false and misleading assessments and estimates including the inclusion of pension payments for which members are unlikely to be eligible. This overestimation discourages members from planning and saving for their own retirement.

Rounding of Retirement Estimates

B8Q1 Do you agree with our proposal for rounding of estimates?

- B8Q1 National Seniors does not agree with the proposal for rounding of estimates.

Recommendation 10: That ASIC require lump sum and annual income stream estimates to be rounded down to the last three significant figures.

National Seniors believes that a three figure estimate is appropriate, however to avoid unrealistic results and to ensure that members actual returns are close to the estimate National Seniors suggest that the lower rounded figure is utilised for example an annual income stream estimate of \$23,289 should be rounded to \$23,200 rather than \$23,300.

The current requirement to round to the nearest \$10,000 for lump sum and the nearest \$1,000 for annual income streams is unrealistic and unacceptable.

Wording Accompanying Retirement Estimates

B9Q1 Do you agree with our proposed revised wording of the prescribed consumer warning? If not, what alternative text do you suggest?

- B9Q1 National Seniors does not agree with the proposed revised wording of the prescribed consumer warning?

Recommendation 11: In addition to (Recommendation 4 and 5) ASIC should amend the consumer warning to include the contact details of the Department of Human Services.

Including the contact details of the Department of Human Services will allow members to access further information regarding their eligibility for the pension thus enhancing the value and accuracy of the pension estimate.

Recommendation 12: That ASIC standardise the format and presentation of the consumer warning.

National Seniors is concerned that some members will overlook the consumer warnings due to unclear presentation and poor font choice.

Conclusion

National Seniors considers access to a reliable pension estimate to be highly beneficial for older Australians in their retirement planning. National Seniors believes that pension estimates can be provided in an appropriate format balancing the need for accuracy with the uncertainty associated with all estimates.

National Seniors believes that ASIC should ensure that all superannuation funds present pension estimates in a standardised format to ensure that all members regardless of their superannuation fund experience the same level of information disclosure and consumer protection.

National Seniors hopes that ASIC will implement the above recommendations and looks forward to continuing to work with ASIC to improve all superannuation and pension estimates, encouraging members to take practical steps to improve the security of their retirement income.

References

Australian Bureau of Statistics (2012) *1301.0 - Year Book Australia, 2012* Australian Government. Accessed 17 April 2013
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