Actuaries Institute.

# Practice Guideline 499.02

# Retirement Benefit Projections

September 2023

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# 1. INTRODUCTION

## 1.1. Application

1.1.1. This Practice Guideline applies to any Member advising a Client or other party in relation to Retirement Benefit Projections. Retirement Benefit Projections may be provided as illustrations or numerical indications depending on the purpose, audience, and the nature of the retirement benefit.

1.1.2. This Practice Guideline relates to Retirement Benefit Projections being provided in relation to superannuation funds, other than cases where insurance contracts (such as insurance bonds or capital guaranteed products) are used. While similar principles apply to most other investments, particularly managed fund investments, this Practice Guideline does not seek to provide specific guidance in such cases.

1.1.3. The categories of Retirement Benefit Projections covered by this Practice Guideline include the following, where prepared by a Member:

(a) Projections provided directly or indirectly to Plan members as the end-users

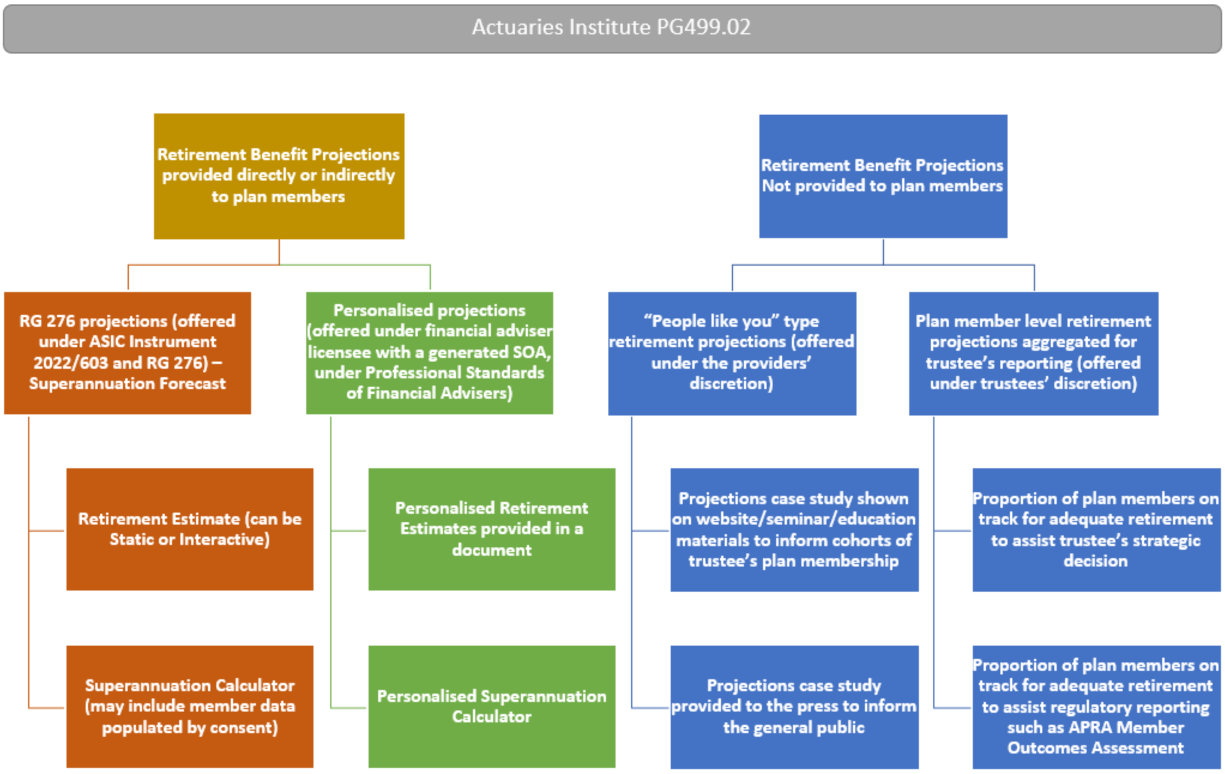
(b) Projections offered under ASIC Instrument 2022/603 and RG 276

(c) Personalised Projections prepared for inclusion in Personal advice being provided via an SOA in accordance with the Act by an appropriately authorised Financial adviser (projections prepared as personal advice will be subject to other requirements under the Corporations Act and relevant regulations. These other requirements are not specifically covered under this Practice Guideline)

(d) Projections not provided to Plan members

(e) “People like you” type retirement Projections

(f) Plan member level retirement Projections aggregated for trustee’s reporting.




1.1.4. The types of Retirement Benefit Projections include but are not limited to:

(a) defined contribution Projections of accumulation-based funds or products, including account-based pensions;

(b) defined benefit Projections (including defined contribution underpins and target benefit arrangements);

(c) Projections through decumulation/draw-down phase, when benefits are taken as lump sums, account-based pensions or other retirement income streams (immediate or deferred life annuities or mortality pooling solutions);

(d) comparisons between defined benefit and defined contribution benefits;

(e) those that will be issued to Plan members using more general case studies/sample member/cameo Projections (such as those provided on a website, or to the press and then used to advise or inform the general public) or to trustees of the Plan members (to assist strategic decision making);

(f) those classed as financial product advice and those covered by regulatory relief, to the extent that the calculation methodology and disclosure is at the Member’s discretion; an

(g) those provided in a document, or as the output of any form of computer software (including websites, and online digital calculators).

(h) those used for modelling and designing retirement income strategies including innovative retirement income streams under the requirements of the retirement income covenant.

(i) those used to support aggregate fund reporting for the purpose of APRA SPS 515 Strategic Planning and Member Outcomes, SPG 515 Strategic and Business Planning and SPG 516 Business Performance Review

(j) those used to support business cases to fulfil Best Financial Interests Duty (BFID)

1.1.5. The purpose of this Practice Guideline is, in cases where Retirement Benefit Projections are produced, to guide Members in preparing the Projection, and in providing sufficient and appropriate information to enable the end-user to understand the projected benefits and to appreciate the risks involved in the arrangement.

1.1.6. Legislation and other requirements or guidance which may be relevant to the work covered by this Practice Guideline include the following:

(a) Legal requirements for Projections may arise from the Act. These include not only the content of a Projection report, but also the possible licensing and other disclosure requirements for a Member preparing a Projection, and/or a person to whom a Member provides a Projection and who then in turn passes on that Projection to another person.

(b) Legal requirements may also arise from section 1041H of the Act and section 12DA of the ASIC Act which provides that a person must not engage in conduct in relation to a financial product or financial service that is misleading or deceptive, or likely to mislead or deceive.

(c) Legal requirements may also arise from section 769C of the Act and section 12BB of the ASIC Act which provides that a person must have reasonable grounds for making a representation in relation to a future matter concerning a financial product.

(d) Members need to be mindful of the underlying principles expressed in ASIC Regulatory Guide 167 (“Licensing: Discretionary Powers”) and Regulatory Guide 170 (“Prospective Financial Information”) which give guidance on the use of prospective financial information such as financial Projections.

(e) ASIC Instrument 2022/603 and RG 276 set out conditions under which superannuation forecasts can be provided without an Australian Financial Services Licence. See the Appendix to this document (section 8) for guidance on implementing ASIC Instrument 2022/603 and RG 276.

(f) Advice regulation (including SOA requirements) and relevant Financial adviser professional standards cover Projections which are provided as Personal advice under the Act by an appropriately authorised Financial adviser.

The Actuaries Institute Good Practice Principles for Retirement Modelling Technical Paper was developed to uplift industry standards by encouraging good practice across retirement models developed in Australia. Members are encouraged to refer to the Technical Paper for further information and guidance about preparing Retirement Benefit Projections, especially in areas that are not covered or specified in this Practice Guideline, relevant regulatory relief or advice regulation.

1.1.7. This version of the Practice Guideline replaces the version issued in September 2020 with updates to terminology, updates to indicate a preferred position on discount rates and to provide specific guidance relating to implementing ASIC Instrument 2022/603 and RG 276. The version history of this Practice Guideline is as follows:

(a) The September 2020 version as PG 499.02 Projected Retirement Benefit Illustrations

(b) The January 2018 version as PG 499.02 Projected Retirement Benefit Illustrations

(c) The April 2009 version as PG 499.02 Projected Retirement Benefit Illustrations

(d) The October 2004 version as Guidance Note 466 Projected Superannuation Benefit Illustrations.

**1.2. About this Practice Guideline**

1.2.1. This Practice Guideline:

(a) has been prepared in accordance with the Institute's Policy for Developing Professional Practice Documents; and

(b) is to be applied in the context of the Code.

1.2.2. This Practice Guideline is not mandatory. Even so, if this Practice Guideline covers the Services a Member provides, then the Member should consider explaining any significant departure from this Practice Guideline to the Principal, and record that explanation.

**1.3. Other relevant documents**

1.3.1. This Practice Guideline must be applied in the context of the relevant legislation, regulation and accounting standards. If there is a conflict in wording, then the legislation, regulation and accounting standards take precedence over this Practice Guideline.

1.3.2. In this context, legislation, regulation and accounting standards include laws, regulations, prudential standards, subordinate standards, rules issued by government authorities and standards issued by professional bodies which have the force of law. Also included are relevant modifications or substitutions of these. Similarly, a reference to a Professional Standard or Practice Guideline includes any modification or replacement of that Professional Standard or Practice Guideline.

1.3.3. Apart from the Code or a Professional Standard, from legislation or from regulatory standards, no other document, advice or consultation can be taken to modify or interpret the requirements of this Practice Guideline.

1.3.4. This Practice Guideline does not constitute legal advice. Any interpretation or commentary within this Practice Guideline regarding specific legislative or regulatory requirements reflects the expectations of the Institute but does not guarantee compliance under applicable legislation or regulations. Accordingly, Members should seek clarification from the relevant regulator and/or seek legal advice in the event they are unsure or require specific guidance regarding their legal or regulatory obligations.

## 2. COMMENCEMENT DATE

This version of the Practice Guideline commences on 1 October 2023.

## 3. DEFINITIONS AND INTERPRETATION

### 3.1. Terms

**'Act'** means the Corporations Act 2001 (Cth) and any regulations made thereunder, as amended or replaced from time to time.

**'ASIC'** means the Australian Securities and Investments Commission.

**'ASIC Act'** means the Australian Securities and Investments Commission Act 2001.

**'ASIC Instrument 2022/603'** means the ASIC Corporations (Superannuation Calculators and Retirement Estimates) Instrument 2022/603.

**'AWE'** means average weekly earnings.

**'AWOTE'** means average weekly ordinary time earnings. **'Code'** means the Code of Conduct

of the Institute. **'CPI'** means consumer price index.

**‘Financial adviser’** means a professional who helps individuals making financial decisions in the context of advice regulation under the Act.

‘**Material**’ means relevant to the circumstances and either important or essential in the opinion of the Member.

**‘PDS’** means ‘Product Disclosure Statement.

**‘Plan member”** means an individual who is a member of a superannuation fund, which may be a retail, personal, employer sponsored plan, defined benefit or defined contribution plan.

**‘Personal advice”** means advice provided to individuals tailored to their financial situation and goals in the context of advice regulation under the Act.

**‘Projections’** means the same as ‘Retirement Benefit Projections’.

**‘Retirement Benefit Projections’** means the presentation of any estimate of an amount that may be received by, or cash flows that may be paid to, an individual in the future to and through retirement. Presentations of the Projections may include illustrations or numerical indications.

**‘RG 276’** means ASIC Regulatory Guide 276 ("Superannuation Forecasts: Calculators and retirement estimates").

**‘SOA’** means Statement of Advice in the context of advice regulation under the Act.

Other capitalised terms used in this Practice Guideline have the same meaning as set out in the Code.

## 4. CALCULATIONS AND ASSUMPTIONS

4.1. It is generally accepted that a Member should be satisfied that, in their professional opinion, the Projections provided are meaningful and realistic for the purpose, audience, and context.

4.2. A Member should use their professional judgement to determine an appropriate set of economic, demographic and other assumptions that are relevant for the Projections being carried out.

4.3. Other considerations for Members when setting assumptions include:

(a) Legislative or regulatory requirements

(b) Consistency of assumptions

(c) Sources of information and data

(d) Implicit or explicit assumptions

(e) Documentation of application and rationale for the selection of assumptions.

4.4. If the Projection design allows the user to alter any of the assumptions used in the Projection, then the Member should consider specifying a reasonable range for the assumptions that are editable by the user. In this instance the Member may consider:

(a) restricting the input fields for the assumptions so that only values within the reasonable range can be entered by the user, or

(b) showing a warning that these assumptions may be inconsistent with other assumptions and/or may produce Projections which are unreasonable; or

(c) Concealing the outputs of the Projection if the assumptions are considered unreasonable or inconsistent.

4.5. Assumptions used should generally reflect the investment time horizon of the Projection.

4.6. A key requirement in the Code in providing actuarial services and in peer review is to address any Material uncertainty implicit in the advice. Good practice is that the Projection will show in some manner how the result will differ if the assumptions used are not borne out. Possible approaches to show range of outcomes, variability of outcomes and assumption uncertainty include:

(a) providing multiple projected benefits **at retirement** with variations in the key assumptions (for example, different investment return assumptions, lifespan assumptions and annuity rates);

(b) quoting the effects **at retirement** of an addition to, or a deduction from, the key assumption (for example, impact of different investment return assumptions, and different lifespan scenarios);

(c) stochastic or historical analysis (for example, a demonstration **using scenarios** over a range of reasonably possible future investment returns, and lifespan scenarios); and

(d) **stochastic analysis** (for example, illustration of a ‘funnel of doubt’ or numerical confidence levels, based on a specified model, from a specified probability distribution based on a wide range of reasonably possible future investment returns and mortality outcomes).

The use of two or more Projections showing **deterministic year-by-year** projected retirement benefits is generally to be avoided, unless an explanation or further information is added so that such Projections do not give the misleading impression that any variation from, for example, the assumed investment earning rate, will be constantly higher or lower than the assumed rate and/or always within the limits of the two or three deterministic results.

Specific requirements on how variability of retirement projections covered under RG276 can be presented can be found in the Appendix.

4.7. If a Projection shows different investment returns for different investment options, the illustration of volatility generally also explains the relative risks and possible differences in volatility of those different investment options.

4.8. **Projected income streams** are generally more appropriately presented in real terms rather than nominal terms to ensure the same purchasing power applies as current.

In certain scenarios, it may be helpful to include **projected future balances or capital values** in nominal terms alongside real terms, particularly for Plan members. When presented in real terms only, it can be confusing for Plan members to compare current and projected balances, potentially lessening the perceived impact of contributions and earnings. Real terms may also create overconfidence, as targets appear closer than they are. Including nominal values can help clarify these issues and aid in Plan member comprehension. Members should use their professional judgement when assessing whether presenting the Projections in nominal values is appropriate in a particular situation. Retirement Benefit Projections provided under ASIC Instrument 2022/603 and RG276 must be presented in real terms by default (see the Appendix for further details).

4.9. Different results may be produced in real terms by deflating using the rate of increase in salary (such as AWE, AWOTE or some other salary-based measure of inflation) versus price inflation (such as CPI).

**For pre-retirement phase** (the period between the date of the Projection and the projected retirement date), it is preferable for future benefits to be **deflated using a wage deflator** in order to allow Plan members to assess their purchasing power at retirement relative to their salary at retirement. The default deflator in the pre-retirement phase under ASIC Instrument 2022/603 and RG 276 is also a wage deflator.

**For post-retirement phase** (the period between the projected retirement date and the Projection end date), **it is generally preferable to use a price deflator as a default**. There is evidence suggesting that living standards for retirees are much more influenced by price inflation than wage inflation[1]. The default deflator in the post-retirement phase under ASIC Instrument 2022/603 and RG276 is also a price deflator.

However, for certain cohorts of retirees a wage deflator may be more appropriate. For example, retirees in poor health may require expensive extra care or services where the costs are more likely to keep pace with wage inflation. If it is allowed to model a retirement income that keeps pace with improvements in living standards, then a wage deflator could be offered. The Member should consider which scenario is more appropriate, taking into account the nature of the Projections, and, if practicable, the Plan members' expectations.

[1] see the Actuaries Institute submission to the Retirement Income Review 4 February 2020

Members who produce retirement benefit projections within and outside the ASIC Instrument 2022/603 and RG 276 should consider the implications of any inconsistency between the choice of deflators against the ASIC default deflators.

4.10. Investment return assumptions are normally stated net of investment fees and tax (and including franking credits). Insurance premiums, administration and other non-investment fees and costs (including those expressed as a percentage of assets) should be taken into account in a Projection, as well as contributions tax charged to a Plan member's account or contributions paid to the account. Any Government contributions may or may not be taken into account, but the approach taken should be clearly set out. Fees should be indexed in accordance with any basis disclosed in any relevant PDS, or if silent, the same deflator as in each of pre-retirement and post-retirement phases might be used. The basis for indexation of fees should be stated.

4.11. Salary growth assumptions beyond wage inflation could also be considered in order to recognise expected promotional real salary growth at younger ages and potential declines in salary at older ages. Relevant data such as contribution history, salary data by age, gender, industry and/or other cohort dimensions may be needed to derive such promotional salary curves.

4.12. A Projection may translate a lump sum benefit at a future date into an income stream to be expected over the Plan member's lifetime or other specified period. Where this is done, a Member will need to disclose the assumptions made about conversion rates and/or other factors Materially affecting the projection of the income stream. Material factors may include choice of product, inclusion of Age Pension, investment return, drawdown period and/or drawdown level specified for the Plan members.

4.13. When communicating the assumptions to an end-user, common practice is to point out that, while the assumptions are considered reasonable for the purpose of the Projection at the date the Projection is prepared (which should be clearly disclosed), the assumptions will need to be reviewed at the time any further Projections are prepared.

## 5. PRESENTATION

5.1. It is always preferable that a Projection is presented to the end-user in a clear, complete and balanced way, with attention drawn to the most important results and assumptions.

5.2. A Projection generally contains a statement of all Material assumptions. The statement usually explains whether and, if so, how allowance has been made for:

(a) the financial goals and circumstances of the end-user;

(b) investment fees and costs, and any investment tax;

(c) the environment in which the modelling is assumed to occur (such as legislative constraints, thresholds, contribution and benefit taxes, the government Age Pension);

(d) the benefits, payment rates and provisions allowed for in the product, plan or investment vehicles modelled and any limitations; and

(e) the future indexation (or otherwise) of any of these assumed quantities.

5.3. Preferred practice is that sufficient information is provided to allow the end-user of a Projection to relate the benefits shown to his or her current income and balance. A projected income may be presented:

(a) in real terms; and/or

(b) as a percentage or multiple of projected salary.

A projected balance or capital value may be presented:

(a) in real terms; and

(b) in nominal terms

The following is one example of how to present the projected balance in both real and nominal terms and projected income in real terms in one statement:

“Your balance is projected to be $x at age 67 in future dollars, which is equivalent to a balance of $y in today’s dollars after taking account of the impact of wage inflation. This can be converted into a retirement income stream of $z per annum in today’s dollars.”

5.4. Preferred terminology in presenting the projected results is:

(a) “today’s dollars” or "in real terms" refers to projected amounts which have been deflated to the projection date using a price or wage-based deflator. It is important that this is defined to explain the basis of deflation.

(b) “future dollars” or “in nominal terms” refers to projected amounts with no adjustments.

(c) The following is an example of a possible explanation of “today’s dollars” when presenting the projected results deflated by a wage-based deflator:

“Today’s dollars” converts your projected future retirement assets or income into a current value. It takes the “future dollars” amount and discounts (or deflates) it back to today at the assumed rate of wage inflation. Wages, salaries and community living standards tend to grow faster than prices over the long-term and converting to “today’s dollars” is intended to allow you to better assess whether your retirement assets or income will be enough to maintain your current standard of living in the future.”

The most important aspect is that the terminology is clear and consistent with respect to the basis for deflation (i.e. whether it is nominal, wage-based or price based).

5.5. In addition to providing basic information, common practice is for a Projection and/or the accompanying explanatory notes to make clear:

(a) what member data has been used (including, where applicable, data provided by the member in the course of preparing the Projection);

(b) how that data is validated, modified and used in the calculations;

(c) which of the Plan member’s funds have been included in the benefit Projection (for example, whether the Projection includes balances the Plan members have with other funds);

(d) what level of future contributions has been assumed (for example, increases to future contribution rates and inclusion of Government co-contributions);

(e) whether any adjustments have been made to future contributions (for example, to recognise the portion that is more likely to be regular versus one-off);

(f) if any asset values used are not market values, and if so, why those values have been used;

(g) how investment earnings have been included in the Projection, and the basis for determining the return rate(s);

(h) whether the Plan member’s spouse details are included. e.g. their age, gender, superannuation balance, salary and contributions; and

(i) whether any other assets and income of the Plan member's household are included.

5.6. Where a projected retirement income amount (annual or otherwise) is presented, it is desirable that such a projection includes an estimate of the government Age Pension which may be available at the point of retirement. Otherwise, accepted practice is to clearly state the exclusion of the government Age Pension to the end-user.

Where a projected retirement income includes an estimate of the government Age Pension, the presentation would usually show the split between the projected income from superannuation and the income from the government Age Pension. Generally, the basis of any government Age Pension estimate at or during retirement would be described. A number of assumptions need to be made to make such an estimate. It is likely that most of the person's circumstances below will be unknown for a lot of Plan members, and the assumptions made would need to be described clearly.

(a) **Government Age Pension rules used:** Generally, it would be stated that the estimate assumes the Age Pension rules will remain the same as those legislated at the effective date of the Projection.

(b) **Australian residential requirements:** Qualifying for the Age Pension currently requires a minimum period of residence in Australia or a recognised alternative. A statement that the estimate assumes the person satisfies such residential requirements would generally be made.

(c) **Partner and homeowner status:** Currently the Age Pension entitlement varies according to whether the person is regarded as single or as a member of a couple, as well as whether the retiree is a homeowner, for Age Pension purposes. Note that even where the person's current status is known, this could change before the projected retirement benefit becomes payable. Some estimates may assume each person is a member of a couple who own their own home at retirement. Others may assume the person's current status, if known, remains applicable at retirement.

(d) **Assets or income affecting Age Pension entitlement:** Generally, the estimate would allow for the means tests effect of the superannuation benefit covered by the Projection, and this would be stated. If allowance for any other assets or income is made, this would also be stated.

While it is desirable to estimate Age Pension entitlements with as much household level financial details as possible for better accuracy, sometimes it is acceptable to estimate the Age Pension with limited information when the inclusion of it is likely to be more helpful to the Plan members than completely excluding it. However, the limitations of the level of inputs taken into account for the estimates of Age Pension entitlements need to be clearly stated.

5.7. Retirement income projections generally:

(a) Involve modelling the decumulation of superannuation assets by income drawdown, or conversion into a lifetime income streams via a retirement income stream product;

(b) include an indication of the effect of mortality/longevity risk on the assumed retirement period;

(c) state whether or not government Age Pensions have been included; and

(d) explain the treatment of any minimum and maximum limits on the rate of drawdown, and treatment of any lifetime income streams paid to the Plan members as a result of holding a retirement income stream product.

5.8. Unnecessary implications of accuracy should be avoided. For most presentations of Projection results, projected benefits calculated to 3 or 4 significant figures are considered adequate.

5.9. Where a Member is involved in the preparation of multiple Retirement Benefit Projections in relation to one Client (for example a written statement and an online calculator), it would normally be expected that the Projections provide consistent results if the same inputs are used. Where this is not the case the advice should include sufficient information for the Client to understand the reason/s for any inconsistency and convey this information to end-users where appropriate. This includes inconsistency that arises from complying with legislative requirements for certain forms of Projections.

5.10. Common practice is for a Projection to:

(a) include appropriate risk warnings and advise the end-user to obtain regular updates of the projection;

(b) disclose the date to which the benefit is projected (for example, the Plan member's 67$^{th}$ birthday, or 30 June in the year following the Plan member's 67$^{th}$ birthday); and

(c) state by whom and for whom the Projection has been prepared, as well as the effective date of the Projection and the purpose for which it has been prepared.

5.11. Members providing (or providing advice on) online calculators for consumer use would be expected to consider matters such as:

(a) the currency of the calculator;

(b) the recommended frequency of updates required;

(c) whether the calculator is intended to comply (see section 1.1.6) with advice regulations or with the conditions of exemption from advice regulations; and

(d) the appropriateness of the range of permissible input values, where applicable.

## 6. COMPARISON OF DEFINED BENEFIT AND DEFINED CONTRIBUTION PROJECTIONS

6.1. Particular care should be taken in preparing a Projection which will be used by Plan members or trustees of Plan members to compare defined benefits and defined contributions, since it is possible that a Plan member will make an irrevocable choice of a future benefit arrangement based on the projected results.

6.2. Consistent with the Code, Members should be alert to the possible conflict between the provision of unbiased information provided to Plan members and the objectives of the employer and trustee of the superannuation plan in relation to such a comparison.

6.3. Given a comparable level of expected contributions, the essence of a choice between defined benefit and defined contribution is the relative risk borne by the employer and the employee. Common practice is to ensure that the Plan member is provided with sufficient information to understand this risk. In some cases, the option to retain defined benefits will be restricted to past service benefits or, for other reasons, the expected level of future contributions will not be comparable. In such cases, the Projections should be appropriately modified to accurately reflect the terms being offered.

6.4. A Projection prepared for the purpose described in section 6.1 above might show separately the projected benefits from existing assets and from future contributions, if any, so the Client can compare both:

(a) current accrued benefits; and

(b) ultimate retirement benefits

assuming service continues to the projected retirement age.

6.5. Common practice in providing a Projection is to ensure that:

(a) the Plan member's attention is drawn to all facets of the offer, including the possible advantages and disadvantages of making the change; and

(b) the information given to the Plan member covers any effect of the change on other benefits such as death, disablement and retrenchment benefits.

6.6. Generally, the assumptions used to project the defined benefit and defined contribution benefits should be consistent.

## 7. CHECKLIST

7.1. The following checklist is provided for assistance only and may not be exhaustive. A Member should consider what is appropriate in the particular circumstances and use their own judgment as to a Projection and what to include in a report of a Projection.

**7.2. Identification**

(a) Purpose of the Projection

(b) By whom and for whom the Projection is prepared

(c) Date to which Projection is provided (or developed)

(d) Name and qualifications of the Member preparing the Projection

**7.3. Assumptions**

(a) Appropriateness

(b) Consistency

(c) Meaningful and realistic at all relevant ages

(d) Match the investment time horizon of the Plan member

(e) Wage-based or price-based deflation used for accumulation phase and retirement phase

(f) Administration fees and costs and indexation

(g) Investment fees and costs and investment tax

(h) Other fees and costs (e.g. insurance charges, indirect costs, advice fees)

(i) Contributions and benefits tax

(j) Disclosure of all significant assumptions

**7.4. Information**

(a) Investment options and risks

(b) PDS fees and costs

(c) Insurance premiums

(d) Death and disablement benefits

(e) Pension increases

(f) Plan member's data allowed for

(g) Contributions and contribution increases

(h) Any Government contributions

(i) Date to which projected

**7.5. Presentation of Results**

(a) Disclosure of deflation basis

(b) Translation into income stream (if applicable)

(c) Split/interaction with Age Pension (if applicable)

(d) Demonstration of potential volatility

(e) Limitations and warnings

(f) Three or four significant figures

**7.6. Defined Benefit versus Defined Contribution comparisons**

(a) Unbiased

(b) Risks explained

(c) Advantages and disadvantages explained

(d) Other benefits (for example death, disablement, retrenchment)

(e) Consistent assumptions

### 7.7. Legislation

(a) Corporations legislation (disclosure and licensing)

(b) Section 1041H and 796C of the Act

(c) Section 12DA and 12BB of the ASIC Act

(d) ASIC 2022/603 and RG 276

(e) Statements required under licensing and other external standards or legislation (if applicable)

### 7.8. Reporting

(a) Clear, complete and balanced presentation

(b) Highlighting of the need for regular review/updating

(c) Statement of consistency with this Practice Guideline and relevant law (if appropriate)

## APPENDIX – GUIDANCE TO PREPARE SUPERANUATION FORECASTS UNDER ASIC INSTRUMENT 2022/603 AND RG 276

### 1.1. Introduction

1.1.1. This Appendix provides guidance to Members in the application of the ASIC Instrument 2022/603 and RG 276. The more general approach in this Practice Guideline can be applied where the ASIC Instrument 2022/603 and RG 276 allow flexibility, and further discussion of good practice can be found in the Good Practice Principles for Retirement Modelling Technical Paper. It is suggested Members be familiar with RG 276 before preparing retirement estimates and superannuation calculators.

### 1.2. Terminology

'**Superannuation Forecast'** means a numerical indication provided to a person of their superannuation balance at retirement, or of their income during retirement, allowing for current information and assumptions about the future (RG 276.1). A superannuation forecast can be a superannuation calculator or a retirement estimate (RG 276.2–RG 276.3).

**'Superannuation Calculator'** means a (digital) application which is populated with default values (or requires the member to enter inputs before they see a result), into which the only personal data used is entered by the member (or with consent of the member) (RG 276.30). Most calculators provided free by superannuation funds are regulated as superannuation calculators for the purposes of ASIC Instrument 2022/603 and RG 276.

**'Retirement Estimate'** means an unsolicited provision of a personalised superannuation forecast to a Plan member, about which the provider holds some relevant information (RG 276.34).

**'Interactive Retirement Estimate'** means a (digital) retirement estimate for which the member has the opportunity to change the inputs and recalculate the estimate (RG 276.35).

**'Static Retirement Estimate'** means a (document-based) retirement estimate in the form of a statement (RG 276.34) with which the member has no opportunity to change the inputs or recalculate the estimate.

### 1.3. "Inputs" vs "Assumptions"

1.3.1. "Inputs" for the purpose of ASIC Instrument 2022/603 and RG 276 can be categorised as:

(a) Factors that are personal to the Plan member and **known** to the trustee. These may include:

- Plan member age
- current balance with the fund
- investment option(s) and fees
- contribution history;
- insurance premiums and costs; and
- administration fees.

For a Superannuation Calculator, these factors despite being known to the trustee cannot be used without consent from the Plan members.

(b) Factors that are personal to the Plan member but **unknown** to the trustee. These may include:

- rate of future contributions
- planned career breaks
- expected retirement age
- length of drawdown
- partner status
- homeownership
- assets and income outside superannuation
- planned lumps sum withdrawals in retirement phase; and
- other factors that may be relevant for the forecast

When carrying out a Superannuation Forecast, Members may make reasonable assumptions for the inputs that are personal to the Plan members but unknown to the trustee. Some inputs would require default values as defined in the regulations.

1.3.2. If the Superannuation Forecast is an Interactive Retirement Estimate or a Superannuation Calculator then the user should be allowed to change all the inputs (known and unknown to the trustee) and work out the Superannuation Forecast based on changed inputs (RG 276.123).

1.3.3. "Assumptions" for the purpose of ASIC Instrument 2022/603 and RG 276 can be categorised as:

(a) Editable assumptions by the Plan members. These include:

- Investment return assumptions;
- fee assumptions;
- insurance premium assumptions;
- Inflation and deflator assumptions (CPI and Wage inflation); and
- Drawdown period assumptions.

(b) Non-editable assumptions by the Plan members. These include all the statutory assumptions for example:

- Tax rates, thresholds and offsets (income tax, Medicare levy, contributions tax and DIV293, LITO, and SAPTO);
- Super Guarantee rates;
- Contribution caps and future indexation of caps;
- Age Pension rate, other supplements, means-testing thresholds and future indexation;
- Transfer balance cap and future indexation;
- Maximum superannuation contribution base and future indexation;
- Lower income super tax offset;
- Government co-contributions rates and thresholds;
- Preservation age and qualification age for the Age Pension;
- Statutory minimum drawdown rates;
- Assumptions on how superannuation balance is drawn down in retirement in addition to the statutory minimum drawdown rates (frequency of drawdown, certain amount etc). This is non-editable for Retirement Estimates, but can be made editable for Superannuation Calculators as it is not a statutory assumption; and
- Other assumptions that may be required for the Superannuation Forecast.

The regulatory guide defines default values that should be used for the 'Editable assumptions'.

1.3.4. A user should be allowed to change the 'Editable assumptions' when working out the Superannuation Forecast offered through a Superannuation Calculator or Interactive Retirement Estimate. A user should not be allowed to change the 'Non-editable assumptions' in the forecast (RG 276.123).

### 1.4. Plan member data

1.4.1. ASIC Instrument 2022/603 requires a minimum level of member data to be used in a retirement estimate, namely: **age, current balance held by the fund, compulsory contributions, insurance premiums and administration fees** (RG 276.178). For interactive retirement estimates for the retirement phase, contributions and insurance premiums are not required as they are irrelevant in this phase.

1.4.2. Members assisting providers to deliver retirement estimates would be expected to have a good understanding of the type of data available from member registry systems, and to use judgement in providing advice around the credibility of recent data for Projections many years into the future.

1.4.3. Superannuation Calculators only use member data that is inputted by the member (or with the consent of the member) (RG 276.180). This reduces the uncertainty over the appropriateness of each data item, but Members should be mindful that Plan members may not choose to enter all data necessary for a reasonable result. Superannuation Calculators should make it clear what minimum level of data is required (mandatary fields), and make it easy to find where to enter it.

1.4.4. Using additional data such as the Plan members' investment option (if known) in the determination of the investment return assumption(s) is preferred practice.

### 1.5. Exclusion rules

1.5.1. Some mandatory criteria about Plan members who are not to be provided with retirement estimates are listed in RG 276.38.

(a) Members who have been members of the fund for less than a year at the date of the estimate;

(b) Members who have been receiving a transition to retirement income stream in relation to the superannuation entity at the date of the estimate;

(c) Members who do not have any superannuation product that is in the accumulation phase at the date of the estimate (for Static Retirement Estimate);

(d) Members who have not made or received a contribution to their accumulation account (if they have one) with the fund in the 16 months before the date of estimate (members who hold a superannuation product in the retirement phase at the date of estimate do not need to make or receive a contribution);

(e) Members who have an account balance with the fund of less than $6,000 at the date of estimate; and

(f) Members who have a defined benefit interest in the fund.

1.5.2. Providers have the flexibility to exclude other members as well; the overarching requirement is that retirement estimates must not be misleading (RG 276.42). Some examples include:

| **Additional exclusion rules for consideration** | **Rationale** |
|---|---|
| Plan member under the age of 18 years at the end of the reporting period | Plan members under the age of 18 are likely to be working in casual jobs or part-time, they are not likely to have started their core career, thus their current contribution is unlikely to be reflective of their long-term future contribution. |
| Plan member joined the fund since the commencement of the reporting period | Lack of historical contribution data for the full period to allow for a reliable long-term projection into the future |
| Plan member does not have a tax file number recorded in system | Tax implications are more complex |
| Plan member has more than one account (accumulation, and/or pension accounts) with a balance at the end of the reporting period greater than 0 | While consolidation of accounts is not mandated, it could be considered misleading to provide a retirement estimate including Age Pension where significant account balances are not included in the member data or multiple retirement estimates (for each account the Plan member holds). It may be considered more appropriate to exclude these Plan members from receiving a projection unless a consolidated view can be provided. |
| Plan members with current insurance claims (TPD, or Terminal illness, or receiving income protection payments) | For Plan members under these types of insurance claims, their future contribution patterns are likely to change materially, which makes standard assumptions of continued uninterrupted contributions less appropriate. |

**1.6. Default assumption values**

1.6.1. Members need to make reasonable assumptions about future contributions, net investment returns, and retirement product settings.

1.6.2. There are certain default assumptions that are prescribed by ASIC Instrument 2022/603 (RG 276.120), as follows:

| Descriptions | Default value and application |
|---|---|
| SG Rates | Increase in SG rates in line with legislation when modelling employer contributions |
| Price Inflation | 2.5% per annum |
| Wage Inflation | 4.0% per annum |
| Deflator | Conversion to present value using a wage deflator for the accumulation phase<br><br>Conversion to present value using a price deflator for the retirement phase |
| Retirement Age | **For members not yet retired:**<br><br>If the Plan member age < 67, then retirement age is 67<br><br>If the Plan member age >=67, then retirement age is Plan member age + 1 (age next birthday)<br><br>Note where Plan members can change the Retirement Age via a Superannuation Calculator or an Interactive Retirement Estimate, the setting of retirement age will have to be >= preservation age<br><br>**For members already retired:**<br><br>Retirement age = Plan member age |
| Drawdown End Age | **For members not yet retired:**<br><br>If the Plan member age < 87, then drawdown end age is 92<br><br>If the Plan member age >=87, then drawdown end age is Plan member age + 1+ 5 (recognize the Plan member is assumed to retire at Plan member age + 1) |

| | |
|---|---|
| Drawdown End Age | **For members already retired:**<br><br>If the Plan member age < 87, then drawdown end age is 92<br><br>If the Plan member age >=87, then drawdown end age is Plan member age + 5 |
| Retirement Period | Retirement period = Drawdown End Age – Retirement Age |
| Age Pension | Inclusion of Age Pension is optional, but if it is included then the following default assumptions need to apply for static retirement estimates:<br>(a) The Plan member has a partner.<br><br>(b) The Plan member and their partner jointly own their own home.<br><br>(c) At retirement, the Plan member's partner has the same amount of super as the Plan member, and the Plan member and their partner have no other assets or income including other superannuation accounts.<br><br>(d) Age Pension rates and thresholds indexation will follow Government legislation. Payment rates are indexed with wage inflation, means test thresholds are indexed using price inflation. It is also provider's discretion to index payment rates using more sophisticated formula by Age Pension components as set out in the social security rules.<br><br>(e) Age Pension entitlements are calculated using the couple payment rate calculated based on means tests that account for twice the Plan member's superannuation account balance. The resulting couple payment is then halved to derive the individual Age Pension entitlement. |

1.6.3. The prescribed price inflation and wage inflation may be different from the provider's economic views which may create some inconsistency against how providers have set their investment return forecast. The prescribed retirement period may also be different from the provider's definition of "retirement period" required under the Retirement Income Covenant.

## 1.7. Modelling of Age Pension

1.7.1. Given the ASIC Instrument 2022/603 requirements explicitly lead to an expected increase in full Age Pension payments over time in today's dollars, Members may have questions about the appropriate way to project Age Pension entitlements into the future. One way of projecting Age Pension entitlements is shown below to assist Members in preparing such Projections:

Consider x is the current time of projection in accumulation phase, and y is time of retirement, and z is the future year to project to in retirement phase. The items below are modelled in nominal terms (future dollars) first before converting into today's dollars (real terms).

$$\text{Full Age Pension}_z = \text{Full Age Pension}_x * (1 + \text{Wage Inflation})^{z-x}$$

$$\text{Age Pension}_z = \max\left(\text{Full Age Pension}_z - \max(\text{Deduction Asset}_z, \text{Deduction Income}_z), 0\right)$$

$$\text{Deduction Asset}_z = \max(\text{Eligible Assets}_z - \text{Asset Threshold}_z, 0) * \text{Asset Taper}_x$$

$$\begin{aligned}\text{Deeming Income}_z \\ &= \min(\text{Eligible Assets}_z, \text{Deeming Threshold}_z) * \text{Deeming Rate Low}_x \\ &+ \max(\text{Eligible Assets}_z - \text{Deeming Threshold}_z, 0) * \text{Deeming Rate High}_x\end{aligned}$$

$$\text{Deduction Income}_z = \max(\text{Deeming Income}_z - \text{Income Threshold}_z, 0) * \text{Income Taper}_x$$

$$\text{Deeming Threshold}_z = \text{Deeming Threshold}_x * (1 + \text{Price Inflation})^{z-x}$$

$$\text{Asset Threshold}_z = \text{Asset Threshold}_x * (1 + \text{Price Inflation})^{z-x}$$

$$\text{Income Threshold}_z = \text{Income Threshold}_x * (1 + \text{Price Inflation})^{z-x}$$

$$\text{Age Pension}\,(real)_z = \frac{\text{Age Pension}_z}{(1 + \text{Price Inflation})^{z-y} * (1 + \text{Wage Inflation})^{y-x}}$$

1.7.2. Full Age Pension refers to the total Age Pension payment rates including maximum basic rate, maximum pension supplement and energy supplement. While the social security rules apply different indexations to the three components, RG 276.170 states it is reasonable to index the total age pension payment rates with wage inflation.

**1.8. Setting appropriate investment return assumptions**

1.8.1. Investment return assumptions will have a significant impact on a superannuation forecast. While ASIC Instrument 2022/603 does not mandate a particular return (or set of investment returns), the table below provides guidance to Members on setting appropriate investment return assumptions based on the Plan members' investment mix.

| **Scenario** | **Guidance** |
|---|---|
| Accumulation phase - when the Plan member is invested in a life-cycle glidepath such as some MySuper defaults | Preferred practice is for future assumptions to reflect the return assumptions of the glidepath based on its design. |
| Accumulation phase - when the Plan member is invested in a single investment option (could be either MySuper default or choice, could be diversified options or single sector options) | Preferred practice is for future assumptions to be based on the return assumption for the single investment option |

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| Accumulation phase - when the Plan member is invested in multiple investment options (e.g. 70% Australian Equities + 30% Cash) | Future assumptions could consider one of the four approaches below:<br>1. Weighted return assuming current asset allocation % remains constant into the future. This implicitly assumes auto-rebalancing (using the same example, it would be 70% Australian Equities + 30% Cash for all future years)<br>2. Using return assumption based on the investment option with the highest asset balance at projection date (using the same example, it would be assuming 100% Australian Equities for all future years)<br>3. Using return assumption based on a similar growth/defensive portfolio. (Using the same example, 70% growth 30% defensive is mapped to a balanced option)<br>4. Project each individual investment option forward separately using the individual option return assumptions. This approach will require additional assumptions to determine the proportion of contributions going into each of the options, and the proportion of fees, and insurance premiums to be deducted from each of the options.<br><br>Note that all these four approaches are reasonable, but none of them is perfect because when Plan members invest in more than one investment option, their assets are generally not automatically rebalanced to the initial asset allocation unless specifically instructed and the fourth approach may not be easy to implement in practice. |
| Retirement phase – for Plan members currently in accumulation phase | It is likely that a Plan member in the accumulation phase will have a different investment strategy in the retirement phase and it may not depend on the Plan member's current investment choice in the accumulation phase. |

| | |
|---|---|
| | For the retirement phase, the return assumption could be set based on the “soft default” investment option offered by a retirement income product if Plan members do not make an active investment choice. The retirement income product assumed should be one that could provide for an annual income stream over the drawdown period (RG 276.134). |
| Retirement phase – for Plan members already in retirement phase | The default investment option may be based on their current investment option. A similar approach can be applied to scenarios similar to setting return assumptions for accumulation phase when the Plan members invest in a glidepath, single or multiple investment options. |

1.8.2. The regulations do not require that investment fees are part of member data, but if they are explicit in the retirement estimate, they must be reasonable. Common practice would consider using a net of fee investment return.

## 1.9. Communicating risk

1.9.1. Considering the Retirement Income Covenant requirement for trustees to help Plan members make informed decisions about balancing level of income, risk around it and accessibility, it is becoming increasingly important for Members who prepare superannuation forecasts to consider the communication of the implications of risk to Plan members, in addition to the deterministic projection of expected retirement balance and income.

1.9.2. A risk measure such as a numerical confidence level or interval is explicitly permitted under ASIC Instrument 2022/603 for Interactive Retirement Estimates and Superannuation Calculators but not for Static Retirement Estimates (RG 276.174). Good practice is for Members to consider inclusion of a risk measure as part of the Projection results, with the aim to help Plan members understand the implications of risk, which will assist them in making an informed trade-off between the three dimensions of level of income, risk around it and accessibility.

1.9.3. In addition to the risk measure examples provided in RG 276.172, Members can find guidance on the calculation and presentation of risk measures in section 4.6 of this Practice Guideline and in the Good Practice Principles for Retirement Modelling Technical Paper. The Institute recognises that this is an area that requires further research and innovation, especially with thoughtful consideration of combining actuarial projection techniques with customer centric design.

## 1.10. Presentation

1.10.1. The presentation of a Superannuation Calculator is not covered in RG 276, except to say that:

(a) the estimated retirement benefit must be presented in today's dollars (RG 276.193)

(b) the providers have discretion to design an appropriate presentation for the user (RG 276.71).

Given this flexibility, it is expected that Members involved in designing the presentation of a Superannuation Calculator would employ principles pursuant to clear and relevant understanding by the end-users.

1.10.2. The presentation of a Retirement Estimate requires the following items:

(a) the estimated retirement benefit must be presented in today's dollars (RG 276.76);

(b) the estimated retirement benefit must also be presented as both (RG 276.77);

- a retirement balance (i.e. the estimated lump sum amount at retirement); and
- an annual income stream (i.e. retirement income).

Note that the annual income stream may be presented as an income amount for each year of the drawdown period or as an annual average income amount (RG 276.79) and the annual income stream can be presented either numerically or graphically.

(c) The retirement balance and annual income stream must be rounded to the nearest three significant figures (RG 276.78);

(d) Disclosure of the assumptions used and why the assumptions are reasonable (RG 276.82);

(e) Disclosure about the purpose and limitations of the estimate, and the impact of any significant limitation (RG 276.87(a) and (b));

(f) A warning that the estimate should not be relied upon for making a financial decision (RG 276.82 (f))

1.10.3. The Retirement Estimates and Superannuation Calculators must not be misleading, and must not advertise or promote a financial product except to the extent that financial product features are necessary for the production of a reasonable estimate (RG 276.33 (a) and 276.37(a)).

**END OF PRACTICE GUIDELINE 499.02**