Superannuation benefit statement projections

Instrument 2022/603 calculations

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Cumpston Sarjeant
CONSULTING ACTUARIES

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1. Introduction

ASIC allow superannuation funds to provide their members with superannuation projections on annual benefit statements. These projections include a projected balance at retirement and projected income in retirement. ASIC have specific requirements that must be met in preparing these projections for a fund to avoid financial services licence requirements.

ASIC updated the regulations which govern these projections effective 1 January 2023. This update allows for greater flexibility, and I believe provides for more realistic benefit projections.

This note discusses the changes in the ASIC regulations. It also discusses a maths engine we have developed to perform projections which comply with the current ASIC guidance.

Appendix A outlines the data needed to perform the projections consistent with the current ASIC guidance.

Appendix B outlines configuration options in our maths engine.

Appendix C outlines exclusions which can be applied (ie criteria for excluding some members from receiving projections) and business rules to apply to the input data. The ASIC guidance requires some members to be excluded from receiving a projection. There are also likely to be other members which should be excluded in the interest of providing only reasonable projections to members.

2. Previous ASIC Guidance

ASIC Class Order {CO 11/1227] applied to projections on benefit statements up to 30 June 2022 (a transition period was in place from 1 July 2022 to 30 December 2022, in which either the previous or current guidance could be relied upon).

Under this guidance, ASIC required that the projected balance at retirement assume retirement at age 67. In estimating the projected income from superannuation in retirement, the methodology mandated by ASIC in effect meant that the superannuation income amount represented the constant real superannuation drawings over a 25-year period (until funds were exhausted at age 92).

An estimate of age pension entitlements could also be provided. If such an estimate were provided, the methodology prescribed by ASIC in effect meant that this estimate was a snapshot of the individual's age pension entitlement at the point of retirement (by applying the age pension asset and income test based on superannuation assets at retirement).

Under this guidance, ASIC mandated that:

- Member data such as contributions, tax, administration fees and insurance premiums be based on actual cashflows in the prior 12 months.
- A real investment return of 3% pa be used in both the accumulation and pension phases.
- Projections could only be provided to members age less than 67.
- The age pension estimate assume that the individual: is married and a homeowner; has a partner of the same age and with the same superannuation balance; and that there are no other assets or income.

There were several shortcomings:

- The method did not allow for SG increases.
- Members who were still working and over 67 could not receive a projection.
- The age pension estimate was only a snapshot at the point of retirement.
  The superannuation income estimate assumed the drawdown of superannuation assets in retirement until funds were exhausted at age 92. With this assumed drawdown of assets over the retirement period, age pension entitlements would be expected to increase over time (with lower asset amount being subject to the asset test). However, the age pension estimate under the previous guidance did not capture this.
  There was therefore an underlying difference between the superannuation income estimate and the age pension income estimate. The superannuation income estimate represented an income amount over the whole retirement period. However, the age pension estimate represented income in just the first year of retirement.
- The 3% real return had to be used for all members, regardless of their actual investments.
- The superannuation income amount was estimated via a factor mandated by ASIC. The factor represents the output of an annuity formula with prescribed parameters (3% real discount rate and 25 year draw-down period). By using this factor alone however meant that no fees were considered in the retirement period.

3. Current ASIC guidance

ASIC (Superannuation Calculators and Retirement Estimates) Instrument 2022/603 applies to projections on benefit statements from 1 January 2023 (a transition period was in place from 1 July 2022 to 30 December 2022, in which either the previous or current guidance could be relied on).

Under the current guidance, ASIC mandate that:

- Assumptions concerning contributions should be "reasonable based on current contribution levels". We usually use contributions in the prior 12 months as our starting point. Contributions can be increased in line with Superannuation Guarantee increases.
- Assumptions concerning insurance premiums should be reasonable "based on the actual amount of insurance premiums currently paid by the member, and reasonable assumptions about how these will change in future". We usually use insurance premiums paid in the prior 12 months.
  An adjustment is made if insurance cover was discontinued during the year and no insurance premiums are payable at the statement date.
- Fee assumptions must be reasonable.
- Investment returns must be reasonable but otherwise can be set by the fund.
- For members currently younger than 67, the assumed retirement age is 67. For members aged 67 or over the assumed retirement age is the next birthday.
- Projections should assume that funds are withdrawn in a way that they are exhausted by age 92.
  The exception to this is any member who is currently working and age over 87. Having assumed that they will retire on their next birthday, the calculation must then assume that funds are drawn down and exhausted over 5 years.
- The age pension estimate should be an average of the age pension entitlement over the period in which superannuation funds are drawn down.

The main advantages in the new guidance are:

- Greater flexibility in assumption setting and calculation methodology.
- Fee assumptions are set based on the fund's current fee basis, rather than historical fee amounts paid by the member.
  This is particularly useful with capped asset fee arrangements and where fees are different between the accumulation and pension phases.
- Flexibility around the investment return assumption.
  This means that different return assumptions can be made for different members, depending on how their funds are currently invested.
  ASIC do recognise that it may not be feasible to align assumptions about investment returns with a member's current investments, and there is still the option to use a more generic single return assumption (ASIC point to the assumptions in the MoneySmart calculator as a possible generic basis).
- Allowing individuals over age 67 to receive a projection.
- The capacity to allow for SG increases.

Further, the age pension estimate captures the way in which age pension entitlements would be expected to increase as superannuation assets are drawn down (as discussed further below).

4. Modelling issues

There are two important differences in the underlying modelling approach between the previous and current guidance.

4.1 The representation of income amounts

The first important difference in the underlying modelling approach between the previous and current ASIC guidance relates to what the income estimates represent.

I have already noted that under the previous guidance there was a disconnect between the superannuation income and the age pension income amounts. Specifically, the superannuation income amount represented the constant real income that could be drawn from superannuation over a 25-year period (from assumed retirement at age 67 until funds were assumed to run out at age 92). By contrast, the age pension amount represented a snapshot of the age pension entitlement at the point of retirement (based on superannuation assets at that time). The age pension estimate did not capture the way in which age pension entitlement would be expected to increase over the retirement period (given the assumption that superannuation assets are drawn down).

Under the current guidance total income (ie the sum of superannuation income and age pension income) is a constant real amount over the retirement period. This approach enables the calculations to reflect the expected pattern where early in the retirement period age pension entitlements are lower (with a higher superannuation balance) and later in the retirement period age pension entitlements are higher (with a lower superannuation balance). Conversely (to maintain a constant level income) the amount needing to be drawn from superannuation is higher early in the retirement period and lower later in the retirement period. The new guidance permits a model which captures this pattern and in which income in retirement reflects an average over the retirement period.

4.2 Discounting

The second important difference in the underlying modelling approach between the previous and current ASIC guidance relates to discounting.

Under the previous guidance, projections were performed in real terms. Annual cashflows reflected current amounts and the assumed investment return was a real rate (which ASIC mandated to be 3% pa). As such no explicit assumption was made in relation to the discount rate.

Under the current guidance, projections can be performed in nominal terms. Future amounts are then discounted to present values. The new guidance requires that in the accumulation period future amounts are discounted to present values with wage inflation (with a mandated rate of 3.7% pa as at March 2025) and in the retirement period future amounts are discounted to present values with price inflation (with a mandated rate of 2.5% pa as at March 2025).

Although expressed in terms of discounting, the mandated approach on the current guidance appears to reflect an underlying position on how income needs in retirement should or do increase each year (noting that to present a constant amount in present values we inflate and discount at the

same rate). To index income needs in retirement with price inflation in effect means that a retired individual is content with the bundle of goods they can (or do) purchase at the time of retirement. Over time, a retired individual's nominal expenditure increases in line with the inflating price of that bundle of goods, but otherwise does not change. This is consistent with a constant absolute standard of living over the retirement period.

An alternative approach would be to inflate income needs each year in retirement with wage inflation. Inflating retirement income with (the higher rate of) wage inflation would imply that a retired individual is able to purchase a more generous bundle of goods over time. This may be more consistent with a constant relative standard of living (that is, relative to society generally).

5. Current ASIC guidance – Considerations when preparing estimates

The current guidance allows greater flexibility, though also brings a number of issues that need to be considered when preparing estimates of the projected retirement balance at retirement and income in retirement.

- Return assumptions
  Under the current guidance there is the option to make different investment return assumptions for different members (for example, based on the member's current investment option).
  However ASIC do note that it may not be feasible to align assumptions about investment returns with a member's current investments, and a more generic assumption is possible (ASIC point to the assumptions in the MoneySmart calculator as a possible generic basis).
  Where the return assumption does vary by member there are some issues to consider. For example, it is probably not feasible to customise the return assumption for every member, particularly where there is a "Member direct" type option where members can in effect select individual equities. It may then be necessary to allow for a limited number of assumed investment options, and then group members into those options depending on their current investment strategy.
  Data requirements to set different investment return assumptions are discussed further in Appendix A1 and A3.
- There is the capacity to allow for SG increases.
  In preparing these projections we are unlikely to have salary details. The starting point in setting contribution assumptions is then the contributions received in the prior 12 months. It is still possible to allow for SG increases, by scaling up past contributions in line with the increases in the SG contribution rate.
  Doing so in a reasonable manner requires the fund to be able to differentiate SG contributions from any other concessional contributions. It is only appropriate to allow for SG increases on SG contribution amounts.
  If it is possible to separately identify SG contributions from other concessional contributions, then SG increases can be applied to SG contributions.
  If it is not possible to separately identify SG contributions, then a choice needs to be made: either SG increases can be applied to all concessional contributions (thereby incorrectly increasing some contributions which are not genuinely SG contributions); or ignoring SG increases altogether (thereby not allowing for actual SG increases on SG contributions).
- Division 293 tax
  In preparing these projections we are unlikely to have salary details. A proper calculation of Division 293 tax liabilities is therefore not possible. In the absence of salary details, I believe the most reasonable approach is to start with actual Division 293 tax amounts paid in the prior 12 months.
- Age pension
  As previously discussed, the age pension estimate under the current guidance is more reasonable than under the previous guidance; it represents an average entitlement over the retirement period and captures the way in which age pension entitlements increase as superannuation assets are drawn down.
  Nonetheless, there remain limitations in the mandated approach (limitations which are inevitable given the limited amount of data on which the estimates are made). ASIC require that age pension estimates assume that the member is married and a homeowner, and that

their partner retires at the same time and with the same superannuation balance.
Given the inevitable uncertainty about whether these assumptions are appropriate for a particular individual, there is a decision to make whether or not to provide an age pension estimate.

6. Current ASIC guidance – Calculations

We have developed a maths engine to perform calculations that comply with *ASIC Instrument 2022/603*.

The engine projects a balance at retirement and then the income in retirement (both drawings from superannuation and age pension entitlements).

In projecting the balance at retirement, the engine:

- Contributions
  Initial contribution assumptions are based on SG contributions, other concessional contributions and non-concessional contributions made in the prior 12 months.
  Contributions are assumed to increase in line with wage inflation.
  The engine can allow for SG increases.
  In each year, the projected balance is compared against the projected transfer balance cap. Where the projected balance exceeds the projected transfer balance cap, any non-concessional contributions are assumed to cease.
  In each year concessional contributions are also assessed against the concessional contribution cap. The engine has a configuration option, and can limit concessional contributions each year to the corresponding cap.
- Fees
  Administration fees are set based on the fund's own fee basis. Fees can allow for capped asset fee arrangements.
  Dollar based fees, and asset fee cap thresholds, are indexed with wage inflation.
- Insurance premiums
  Insurance premiums will ordinarily be set based on premiums paid in the previous 12 months.
  However in the case that a member does not have cover at the statement date, it is appropriate to allow for no ongoing insurance premiums.
  Insurance premiums are indexed with wage inflation.
- Division 293 tax
  In the absence of salary details which would enable a full calculation of Division 293 tax obligations, Division 293 tax assumptions are based on the amount paid in the previous 12 months.
  Division 293 tax amounts are assumed to increase with wage inflation.
- Investment earnings
  Investment assumptions are set by the fund.
  Assumptions may be different for different members (for example, based on their current investment basis), or may be a single rate, for example based on the ASIC MoneySmart Superannuation Calculator default return assumptions.
- Accumulation projection period
  For member's currently younger than or equal to 67, the engine will project to retirement at age 67.
  For member's currently older than 67, the engine will project to retirement at their next birthday.

- Discounting
  In the period up to retirement, future amounts are discounted to present values with wage inflation.

In calculating income in retirement, the engine:

- Fees
  Different fee assumptions can be set for the retirement period, including capped asset fee arrangements.
- Drawdown period
  The drawdown period depends on the member's current age, and also allows for an edge case for members with low balances:
  i. For members who are younger than 67, having projected to a retirement age of 67, funds are drawn down over 25 years until funds are exhausted at age 92.
  ii. For members over age 67 but less than 87, having projected to a retirement age at their next birthday, funds are also drawn down and exhausted by age 92 (resulting in a shorter drawdown period given the later retirement age).
  iii. For members age over 87, having projected to a retirement age at the next birthday, funds are drawn down over 5 years.
  iv. For members with low balances, there are cases where a member is better off withdrawing more of their superannuation earlier than would be the case with a 25-year drawdown period. This can provide for a higher constant real income while funds are drawn down, and, after funds are drawn down, age pension income alone which is higher than the income over the drawdown period. This situation can arise because under the ASIC guidance total income in retirement increases with price inflation but under the age pension rules the full rate of age pension increases with wage inflation. Where this occurs, the engine allows for this shorter drawdown period.
- Total income
  For the purpose of these projections, total income in retirement is comprised of age pension income and drawings from superannuation. The estimated total income for any individual represents the constant real income which can be obtained over the drawdown period.
  Total income is estimated by an iterative approach. It is estimated so that, given the balance at retirement and the drawdown period, the superannuation income component of the total income results in superannuation funds being exhausted at the end of the drawdown period.
- Superannuation income
  The superannuation income estimate is an average (in present values) of superannuation drawings over the drawdown period.
- Age pension income
  The age pension estimate is an average (in present values) of age pension entitlements over the drawdown period.
- Statutory minimum drawings
  Statutory minimum drawing requirements are allowed for. The total retirement income amount reflects the income which could be obtained in all retirement years. The minimum drawing requirements may result in some years having higher income.
- Discounting
  In the period after retirement, future amounts are discounted to present values with price inflation.

7. What we do

Cumpston Sarjeant work with superannuation funds to produce projections which comply with Legislative Instrument2022/603. /1227. This includes:

- Ensuring appropriate data is used in the calculations;
- Working with the fund to establish a suitable series of criteria on which to exclude members;
- Performing the calculations in compliance with the Legislative Instrument;
- Preparing the benefit projection output to ensure it is in a format which can be used by the fund or the fund administrators in preparing the benefit statements.

We have an ongoing partnership with Gallagher:

- Gallagher prepare member benefit statements in Australia, the UK and the US.
  Gallagher specialise in effective communication with members. Cumpston Sarjeant performs the calculations that appear on the statements.
- In addition to paper and PDF statements, Gallagher also prepare personalised video statements.
  The benefit projections we prepare can be populated by Gallagher into video statements customised for each member.

Gallagher and Cumpston Sarjeant have also built the Lifetime Superannuation model. This is a web-based superannuation model, intended for superannuation funds to enrich their online offering. In partnership, we also provide tailor-made superannuation calculators for Australian superannuation funds.

Appendix A: Data requirements

To perform projections in accordance with the ASIC Legislative Instrument we need member data, fund data and investment return assumptions.

A1: Data requirements – Member data

1: Member ID

2: Date of birth

3: Current balance

4: SG concessional contributions [a]

5: Other concessional contributions

6: Non concessional contributions

7: Government co-contributions

8: Insurance

9: Division 293 tax [b]

10: Investment return flag [c]

Notes:

a: The projections can allow for SG increases. In order to do so, it is useful to have a split between SG concessional contributions and other concessional contributions such as additional employer contributions or member voluntary contributions. It is more reasonable to apply SG increases only to SG contributions.

b: The Division 293 tax applies where the sum of income and superannuation contributions exceeds $250,000. The available member data is unlikely to have an income figure. If the projections are to allow for the Division 293 tax, then it would be useful to know the amount of this tax that was paid in the financial year.

c: It is possible to make different investment assumptions for different members (for example, based on their current investment option).
If we are to adopt different return assumptions for different members, a flag is required here, which maps to the investment return options in A3.
If we are to use the one return assumption for all members, this field is not required.

A2: Data requirements – Fund data

1. Accumulation phase assumptions

    1a: Annual dollar-based administration fee

    1b: Asset-based administration fee

    1c: Is there a cap on the asset-based administration fee?

    1d: Asset fee cap (where applicable)

2. Pension phase assumptions

    2a: Annual dollar-based administration fee

    2b: Asset-based administration fee

    2c: Is there a cap on the asset-based administration fee?

    2d: Asset fee cap (where applicable)

A3: Data requirements - Investment returns

The current ASIC guidance allows us to make different investment return assumptions for different members (for example, based on their current investment option).

If we are to make different return assumptions for different members the following is required:

1. Each investment option in the below format (one row for each option). Return assumptions should be after-tax and after investment-related fees.
2. A corresponding investment return flag for each member in the member data (as in A1 above, data item 10).

Flag	Accumulation phase return	Pension phase return
Default	6.18%	5.65%
Etc		

Although there is the option to provide different assumptions, there is no obligation to do so. If the one return assumption is to be used for all members, only one option is needed above.

One possible approach is to use the ASIC MoneySmart basis adopted in the Retirement planner calculator.

The Retirement Planner has the following configuration: 7.5% Accumulation phase return (before tax and fees); 6.5% Pension phase return (before fees); 7% effective tax rate; and 0.85% Investment based fee. The return assumptions in the table above reflect the after-investment-fee and after-tax (for the accumulation return) return assumptions.

The ASIC assumptions have a lower return assumption in the Pension phase than Accumulation phase. This presumably reflects a more conservative investment basis in retirement, which more than offsets the impact of there being no tax on investment earnings in the retirement phase.

Appendix B: Configuration options

The maths engine we have developed has the following configuration options:

Option	Description	Y/N
1	Should the projections include age pension entitlements?	
2	In the available data, is it possible to differentiate SG concessional contributions from other concessional contributions?	
3	Should the projections allow for Superannuation Guarantee increases?	
4	Should concessional contributions be limited to the concessional contribution cap in each future year?	
5	Are expenses explicitly tax deductible for the member? I understand that in some funds the declared fee basis in effect wraps up the impact of the tax deduction for expenses, and so no explicit tax deduction applies. For example: If expenses are explicitly tax deductible, contributions tax will be estimated as: (Contributions – expenses) * 15%. If expenses are not explicitly tax deductible, contributions tax will be estimated as: Contributions * 15%.	
6	If expenses are deductible, can this result in a tax refund to the member's account. This is only relevant if the expenses themselves are tax deductible (ie if Option 5 is set to "Yes"). For example, if member contributions are $1,000 and expenses are $2,000: If a tax refund can arise, the credit arising from contributions tax would be: ($1,000 - $2,000) * 15% = $150. If a tax refund can result from tax deductibility, this amount would be credited to the member's account. If a tax refund cannot arise, in this case there would no credit to the account, contributions tax would in effect be taken to be $0.	

Appendix C: Exclusions and data-related business rules

The ASIC Legislative Instrument requires some members to be excluded from receiving a projection. There are also likely to be other members which should be excluded in the interest of providing only reasonable projections to members.

Exclusions can be enforced at different stages of the process: either by the Administrator or fund prior to providing the data; by Cumpston Sarjeant prior to running the projections; by Cumpston Sarjeant after running the projections; by the Administrator or fund after provision of the projections. For each exclusion criteria, it is important to clearly understand who will enforce the exclusion and at what point it will be enforced.

Exclusion criteria and business rules to apply include:

Exclusion criteria/ business rule	Description	Note
Phase 1: Applied by the Administrator/fund prior to providing data		
1	The member joined the fund in the last 12 months	Exclusion mandated by ASIC
2	If no contributions have been received in the past 16 months.	Exclusion mandated by ASIC
3	If the member is in the retirement phase	Exclusion mandated by ASIC
4	No Tax File Number on record	
5	If there is a death/insurance claim relating to the account	
6	If the member has a DB account/Multiple accounts/pension account/TTR account	Exclusion mandated by ASIC
Phase 1a: Either applied by fund or Cumpston Sarjeant		
7	Age – minimum age	Not mandated by ASIC, but some funds elect not to provide projections to members younger than say 18 or 25.
8	Age – maximum age	Not mandated by ASIC, but some funds elect not to provide projections to members older than say 67 or 75.
9	Negative cashflows – Contributions; fees; insurance premiums	If there are negative cashflow amounts, this suggest data issues or perhaps a correction of a data issue in a previous year.
10	Current balance < $6,000	Exclusion mandated by ASIC
111	Co-Contributions > $500	Suggests data issues or that the co-contribution amount relates to more than one financial year.

Exclusion criteria/ business rule	Description	Note
Phase 2: Applied by Cumpston Sarjeant, prior to running projections		
11	Concessional contribution amount	Usually limited to the concessional contribution cap (not capped, simply limited to the cap).
12	Non-Concessional contribution amount	If there is a large non-concessional contribution, funds generally assume it is a one-off and not ongoing. If it is small, we could assume that these will be ongoing. The threshold for large/small is a matter of judgement.
13	Division 293 tax – Amount (if greater than 15% of concessional contribution cap)	If the concessional contribution amount is capped, also important to cap Division 293 tax for consistency.
14	Division 293 tax – Rate (if greater than 15% of concessional contributions	Ensure consistency with the assumed concessional contribution amount.
Phase 3 – Applied by Cumpston Sarjeant, after running projections		
15	Projected balance	Not mandated by ASIC, but some funds elect not to provide projections to members where the projected balance is less than the current balance, or where the projected balance is less than a certain amount, for example $30,000.
Phase 4: Applied by the Administrator/fund after receiving the projection		
16	Optional	