

SUBMISSION

Submission to ASIC —
ASIC proposal to update
the default wage inflation
assumption in ASIC
Instrument 2022/603

2 August 2024

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Australian Securities and Investments Commission

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100 Market Street

Sydney NSW 2000

Via email: SuperEnquiries@asic.gov.au

2 August 2024

Dear Sir/Madam

ASIC proposal to update the default wage inflation assumption in ASIC Instrument 2022/603 and RG 276, and on transitional arrangements

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to the ASIC consultation.

About ASFA

ASFA is a non-profit, non-partisan national organisation whose mission is to continuously improve the superannuation system, so all Australians can enjoy a comfortable and dignified retirement. We focus on the issues that affect the entire Australian superannuation system and its \$3.9 trillion in retirement savings. Our membership is across all parts of the industry, including corporate, public sector, industry and retail superannuation funds, and associated service providers, representing over 90 per cent of the 17 million Australians with superannuation.

The regulatory relief proposed

ASIC is proposing that there be a period of transition to 31 December 2024 for the proposed change, recognising that providers delivering superannuation forecasts to consumers in the 2024 calendar year may need time to make updates. It is also proposed that up to 31 December 2024, providers can adopt either the existing default nominal wage inflation rate (4 per cent p.a.) or the revised rate (3.7 per cent p.a.) when converting future dollars to today's dollars if a provider is relying on the ASIC relief.

From 1 January 2025 it is proposed that the revised default nominal wage inflation rate of 3.7% p.a. will apply.

ASFA's response

The period for transition proposed

ASFA welcomes ASIC's acknowledgement that a transition period is necessary. However, the proposed change is regulatory relief is unlikely to be formally recognised in the ASIC Instrument before September 2024. A number of funds require some months' prior notice to undertake IT changes and updates, particularly in the runup to the end of the calendar year. In this context, ASFA recommends that the transitional arrangements be extended until 28 February 2025.

The proposed quantum for the nominal wage inflation default assumption

ASFA supports a reduction in the wage inflation default assumption. In the last decade annual nominal wage inflation has in eight years out of ten been lower than 4 per cent per year. With the rate of CPI inflation returning to the more normal range the likelihood of long term average nominal wage inflation being 4 per cent a year is very low.

The proposed reduction lessens but does not eliminate the inconsistency in the ASIC regulatory relief between the use of nominal wage inflation in the accumulation phase and consumer price inflation in the retirement phase (assumed to be 2.5 per cent per annum). ASFA considers that use of consumer price inflation in the retirement phase is misleading. Using the proposed values, it leads to the default assumptions indicating that the Age Pension will grow in real terms by 1.2 per cent per year. The reality for those on the Age Pension is that the indexation arrangements in place mean that the Age Pension is only keeping up with growth in community living standards rather than increasing in real terms.

ASFA does not oppose the reduction in the default nominal wage growth assumption. However, it recommends that those relying on the ASIC regulatory relief be able to choose between consumer price inflation and nominal wage inflation during the retirement phase.

When should changes be made by ASIC to the quantum for the wage inflation default assumption

We note that by the time changes are implemented 17 months will have passed since the release of the 2023 intergenerational report. We would encourage ASIC to consult earlier in the future if there are changes to the long term outlook in official sources for either wage or price inflation to improve consistency in the system.

If you have any queries or comments in relation to the content of our submission, please contact Ross Clare on 0417 680 908 or by email rclare@superannuation.asn.au.

Yours sincerely

James Koval

Head of Policy and Advocacy

