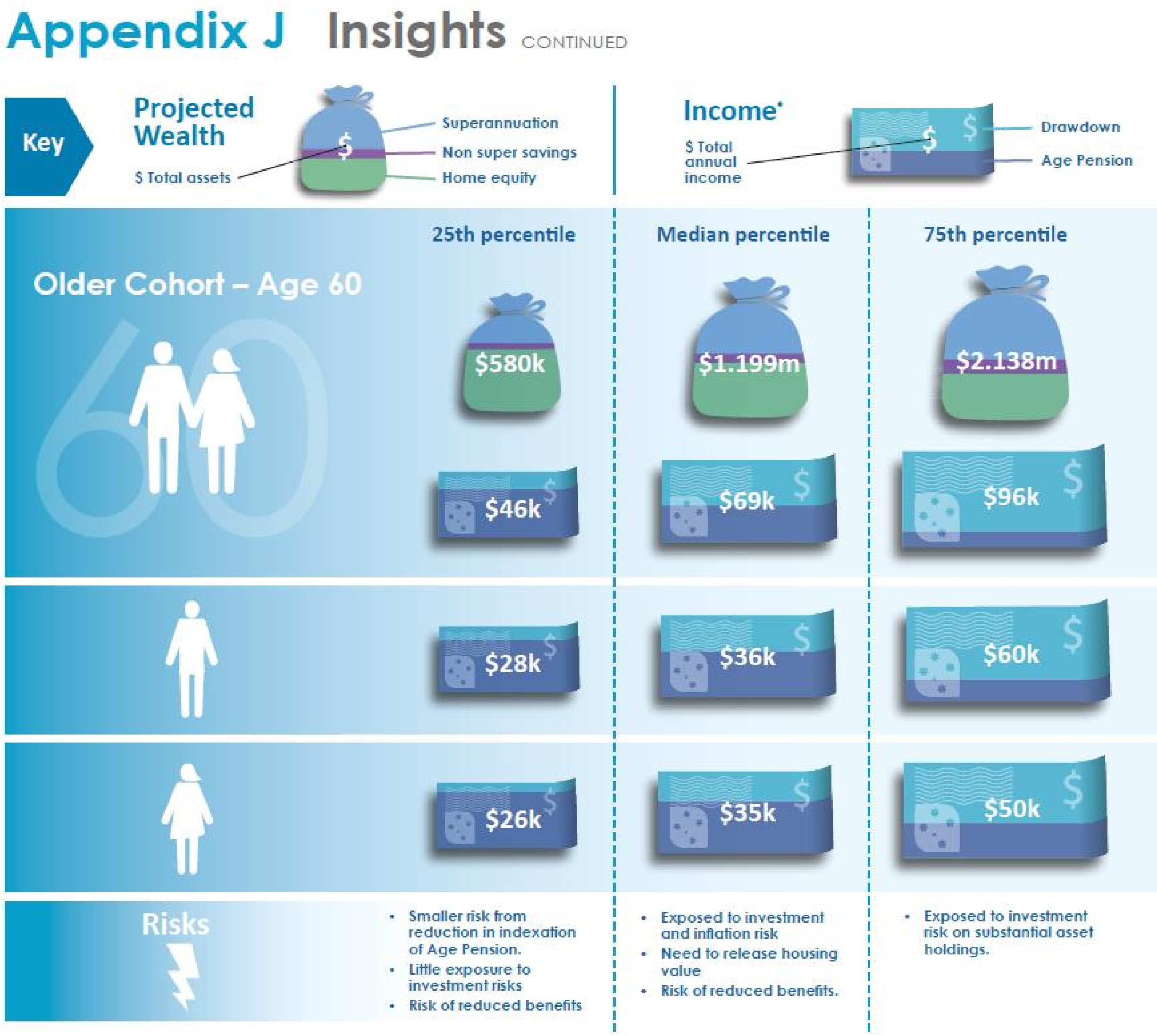
2 September 2015

Profile Snapshots: Australians in retirement



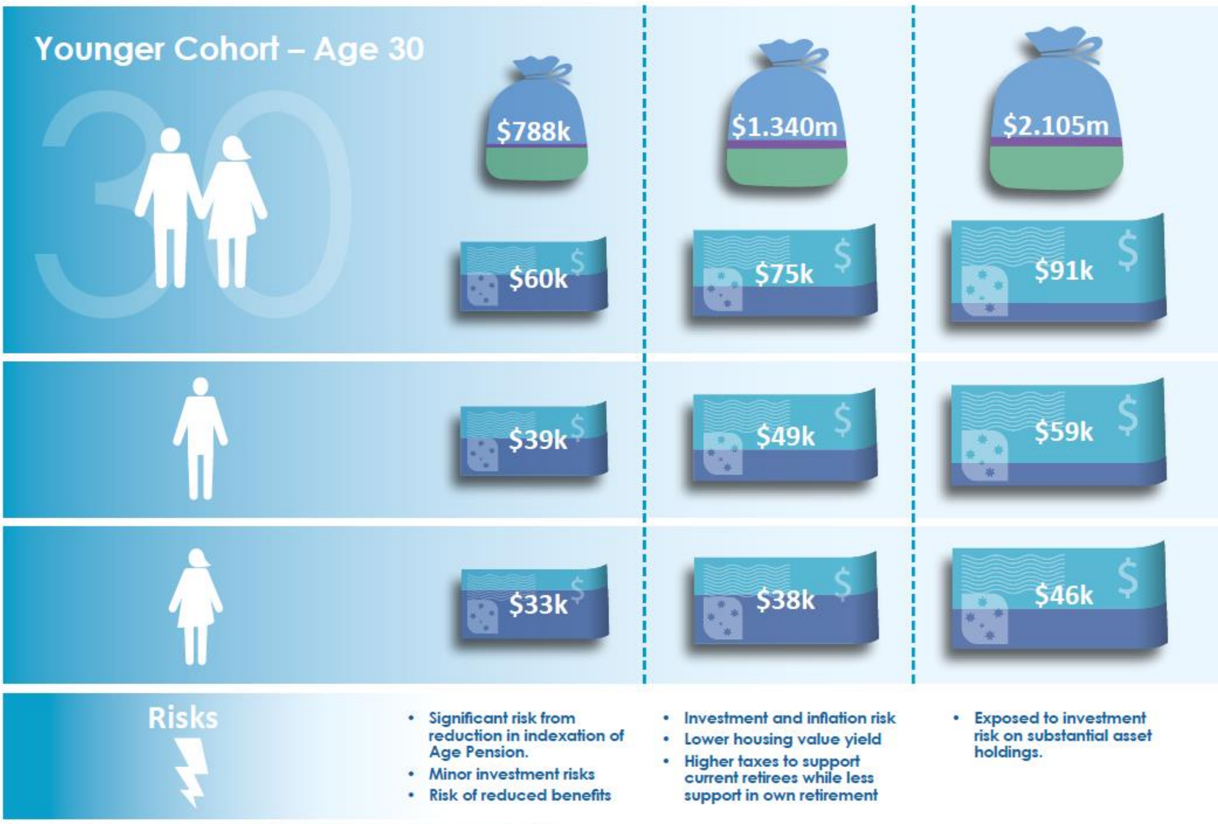
Couples

The majority of Australians will retire as part of a couple (75%). For those about to retire in the next five years there is a strong reliance on the Age pension for at least half the population. The Age pension comprises 93% of the total retirement income for the poorest 5% of the population, 73% for the lowest 25% and 44% for Middle Australia (50% of the population).

Wealthy Australian couples (75% level) are expected to have a comfortable lifestyle in excess of the industry standard until life expectancy even without the support of the Age Pension, which they receive under current rules.[1]

This compares with the bottom 25% of retirees who will not reach an industry recognised comfortable lifestyle while the poorest 5% will only manage to have a moderate lifestyle.

The good news is that when 30 year olds are retiring 35 years from now they will be a lot less dependent on the Age Pension, having benefitted from a working life entirely under the Superannuation Guarantee. For this group the Age Pension will comprise 68% of total retirement income for the poorest 5%, 53% for the lower 25% and 36% for Middle Australia (50%).



* Income is the present value of annual income over expected life

[1] The Association of Superannuation Funds of Australia (ASFA) estimates a comfortable lifestyle requires total annual income of $58,364 for a couple while a "modest" lifestyle require total annual income of $33,766. For singles, the equivalent amounts are $42,604 and $23,469.

Wealth on retirement

Among its wealth profile analysis, the white paper found that the projected wealth at age 65 for a Middle Australian couple now aged 60 will be $1.2 million, with estimated annual income in retirement of $69k. Wealth and income levels are not very different for middle income Australian couples aged 30 but more is provided by superannuation savings than the Age Pension.

The biggest change is for a couple in the bottom 25% income bracket, whose wealth increases from $580k to $788k and income increases from $46k to $60k.

A significant portion of Australians' wealth is in the family home. For those in the lowest 25% income bracket, housing represents 90% of their savings, for Middle Australia it's 80%, for wealthy Australians it reduces to 60% and falls away for the top 5% of the population to 40%.

The challenge for policy makers is how to progressively unlock this large and illiquid pool of savings.

"Up until now the focus of the superannuation system has been on the accumulation of assets and not the development of a sustainable and comfortable income stream in retirement for all Australians, particularly singles. We have reached the point where this focus now needs to change" Ms Pearson added.

Intergenerational wealth comparisons

For 60 year olds entering retirement the difference in projected wealth between the lowest and the highest sections of society (5th percentiles) is close to 50 fold, reducing to ten-fold for those aged 30 now, indicating that the compulsory superannuation system will reduce inequality among retirees in the future.

The wealthiest quartile of Australian couples at age 60 have 3.6 times the wealth of couples in the bottom quartile but only twice the income because the Age Pension provides a safety net for the less well off.

There is a similar profile when comparing Middle Australia with the bottom quartile. Although Middle Australia retiring in 5 years' time will have double the wealth of those in the bottom quartile their income will only be 50% higher and for the 30 year olds in this category it will only be 25% higher. This is due to the full Age Pension boosting the incomes of the less wealthy.

Home equity represents a much higher proportion of the wealth on retirement for lower income earners. Those retirees at age 60 at the lower 25% level have 66% of their wealth in the family home compared to 48% for Middle Australia and 37% for the top 25%, so being able to progressively access this wealth for retirees will be important for their future lifestyle.

Singles

According to the white paper, the outlook for single women is much less attractive than single men. Without the Age Pension, single women now aged 30 or 60 cannot hope to retire with a comfortable level of income. (By contrast, single men at the 75th percentile now aged 60 and nearing retirement as well as those aged 30, can have a comfortable retirement without any access to the Age Pension).

The financial disadvantage confronting women is attributable to a number of factors including a propensity to live longer than men, generally lower average incomes, and potentially less time in continuous employment. While single women who have been widowed or divorced might end up potentially better off, divorce can also make each partner worse off than when they were a couple.

"Single women are likely to experience the worst outcome in retirement compared to couples and single men. The number of single women retirees is also set to increase from approximately 35,000 today to almost 300,000 in 15 years – presenting policymakers and the financial planning industry with another serious challenge that needs to be investigated now," said Ms Pearson.

Increasing life expectancy and longevity pooling

One of the many challenges facing the industry and policy makers is the increasing life expectancy of Australians and the difficulty of forecasting life expectancy.

In order to better manage their future incomes retirees may have to consider different longevity insurance alternatives.

"To have a reasonable retirement lifestyle people about to retire will need to consider some alternative initiatives to supplement their incomes – like pooling their retirement funds, particularly for single retirees," Ms Pearson noted.

The white paper said longevity pooling such as Group Self Annuitisation involves those who die earlier than expected sharing their unspent funds with the remaining members of the pool. Other types of longevity insurance include lifetime annuities and some form of Deferred Lifetime Annuity (DLA) scheme.

A DLA is where an amount of money is set aside and invested at retirement but the recipient does not start to receive an income from those funds until they reach a certain age, say 85, for example.

Download a copy of the White Paper here.

Contacts
Ian Pemberton
P&L Corporate Communications
0402 256 576

Matthew Russell
P&L Corporate Communications
0419 805 838