

# What is a reasonable standard of living in retirement?

## COTA National Forum

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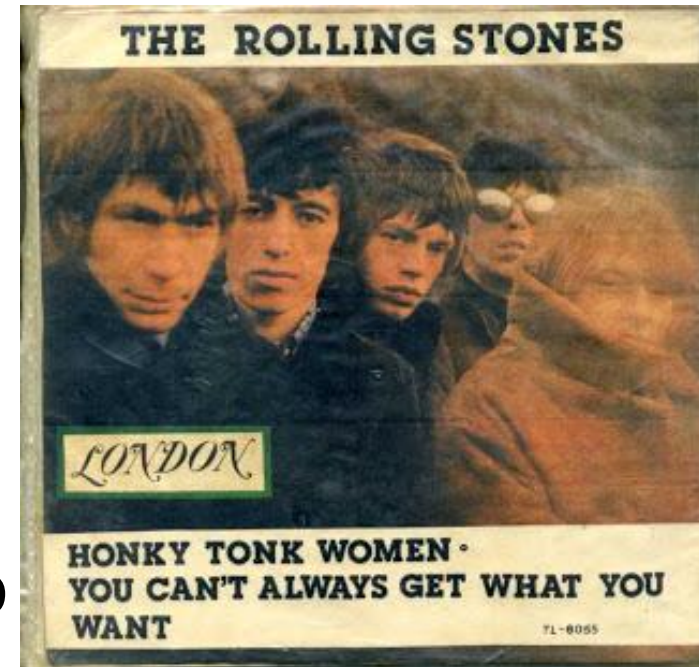
# What I will be talking about

- ❑ What individuals want and deserve
- ❑ What individuals need
- ❑ What they are getting now
- ❑ What they are likely to get in the future



# My musical inspiration

- ❑ You can't always get what you want, and if you try sometime you find you get what you need
- ❑ Captures nicely optimism, disillusion and resigned pragmatism
- ❑ Mick Jagger now old enough to get the Age Pension



# What individuals want – generational divides

- ❑ Previous generations of retirees tended to have modest expectations – both life expectancy and income
- ❑ Babyboomers want more
- ❑ Generation Y want the lot – early retirement and big retirement income – but have some trouble doing the maths



AGED  
16 TO 30?  
YOUNG, GIFTED  
& BROKE?

# What the Age Pension provides

- ❑ Centrelink used to claim “the Age Pension ensures that you have an adequate income in retirement”
- ❑ Harmer Review described it as “conditional, basic income support”
- ❑ FAHCSIA now describes it as “safety net for those with few resources and supplements income of seniors with more resources”



# The ASFA Retirement Standard

- ❑ First invented in 2004, revamped in 2009
- ❑ Roots were in social policy research on expenditure budgets to meet basic needs of social security recipients
- ❑ What sets it apart is focus on retirees and on both modest and comfortable lifestyles



# Market acceptance of the Retirement Standard



- ❑ 27,000 web references to “ASFA Retirement Standard”
- ❑ On just about every major fund website, also used extensively by financial advisers, financial educators, government departments, and various advocacy groups



# The groups the standard relates to

- ❑ Those aged 65 to 70 and no longer in paid work
- ❑ Home and car owners
- ❑ Still active physically and mentally and in good health (for their age)
- ❑ Calculated for couples, singles, and by capital city





# Retiree lifestyles



Or this?



Or this?



# Older retiree leisure?



Or this?



Or this?



Or this for retirees?



# Levels of retirement living standards

- ❑ Modest – a modest standard of living where the retirees can afford to participate in a range of opportunities available in contemporary society
- ❑ Comfortable – retirees can engage in a broad range of leisure and recreational activities and also have better other stuff





# Some significant cost components

- ❑ Private health insurance now in both the modest and comfortable budgets
- ❑ Allowance for costs of the digital age – broadband internet, mobile phone, flat screen TV compared to post and telephone in the first budgets from ASFA
- ❑ Costs of health gap payments and out of pocket expenses allowed for to some extent
- ❑ Individuals have to build in their own amount for gifts or alcohol and/or tobacco

# ASFA Retirement Standard – March 2013



	Single	Couple
Modest retirement lifestyle	\$22,641	\$32,603
Comfortable retirement lifestyle	\$41,169	\$56,317

National figures, March 2013 for annual expenditure needed to support given lifestyle

## Lump sums needed

	Single	Couple
Modest retirement lifestyle	\$35,000	\$50,000
Comfortable retirement lifestyle	\$430,000	\$510,000

National figures, March 2013. Estimates take into account receipt of Age Pension of \$21,076 a year for single, \$31,775 for a couple.

# What about older retirees, say age 90?

- ❑ Package of goods and services needed changes with age
- ❑ Financial challenges of longevity are likely to differ to, say, replacing the car or financing a holiday trip overseas
- ❑ However, some expenditure requirements do not change much



## Housing

- ❑ Around 25% of those aged 85 plus are in permanent residential care
- ❑ So 75% are still in own residence
- ❑ By age 90 many of these residences are also ageing
- ❑ Very complicated financing arrangements for residential care



# Clothing

- ❑ Older Australians still need and want to dress well
- ❑ Not good to be caught in a fashion time warp
- ❑ Some types of clothing may no longer be purchased much
- ❑ Incontinence and feet problems can lead to additional clothing and footwear costs



# Health costs

- ❑ Survival rates up, but so are rates of chronic diseases and disabilities
- ❑ Assumed continuing takeup of private health insurance
- ❑ Budgets for 90 year olds have higher amount for out of pocket drug and medical expenses
- ❑ Capital cost of major medical procedure spread over 5 years in the budget



# Impact of ageing on care costs

- ❑ Impact of ageing on disability rates
- ❑ HACC contributions and private care costs (including home cleaning)
- ❑ Disability care costs basically either uninsurable or insurance not offered in Australia
- ❑ Resident cost contribution in institutional care setting beyond this presentation





# Percentage reduction compared to Retirement Standard for 70 year olds



	Single	Couple
Modest retirement lifestyle	4.6%	0.8%
Comfortable retirement lifestyle	8.4%	11.6%

# Conclusions

- ❑ There are considerable similarities between budgets for 70 year olds and 90 year olds
- ❑ Main differences relate to health costs, care services, transport and leisure costs
- ❑ Age Pension not sufficient to deal with longevity financial risks
- ❑ Constant expenditure over retirement should not be assumed

