Richer or poorer - gender, income and wealth

Planning for retirement

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Outline

- The retirement savings and planning landscape

- Some barriers to retirement planning

  - Low levels of financial competence (financial literacy, numeracy, product knowledge)

  - Pessimistic subjective survival probabilities

- What can be done?
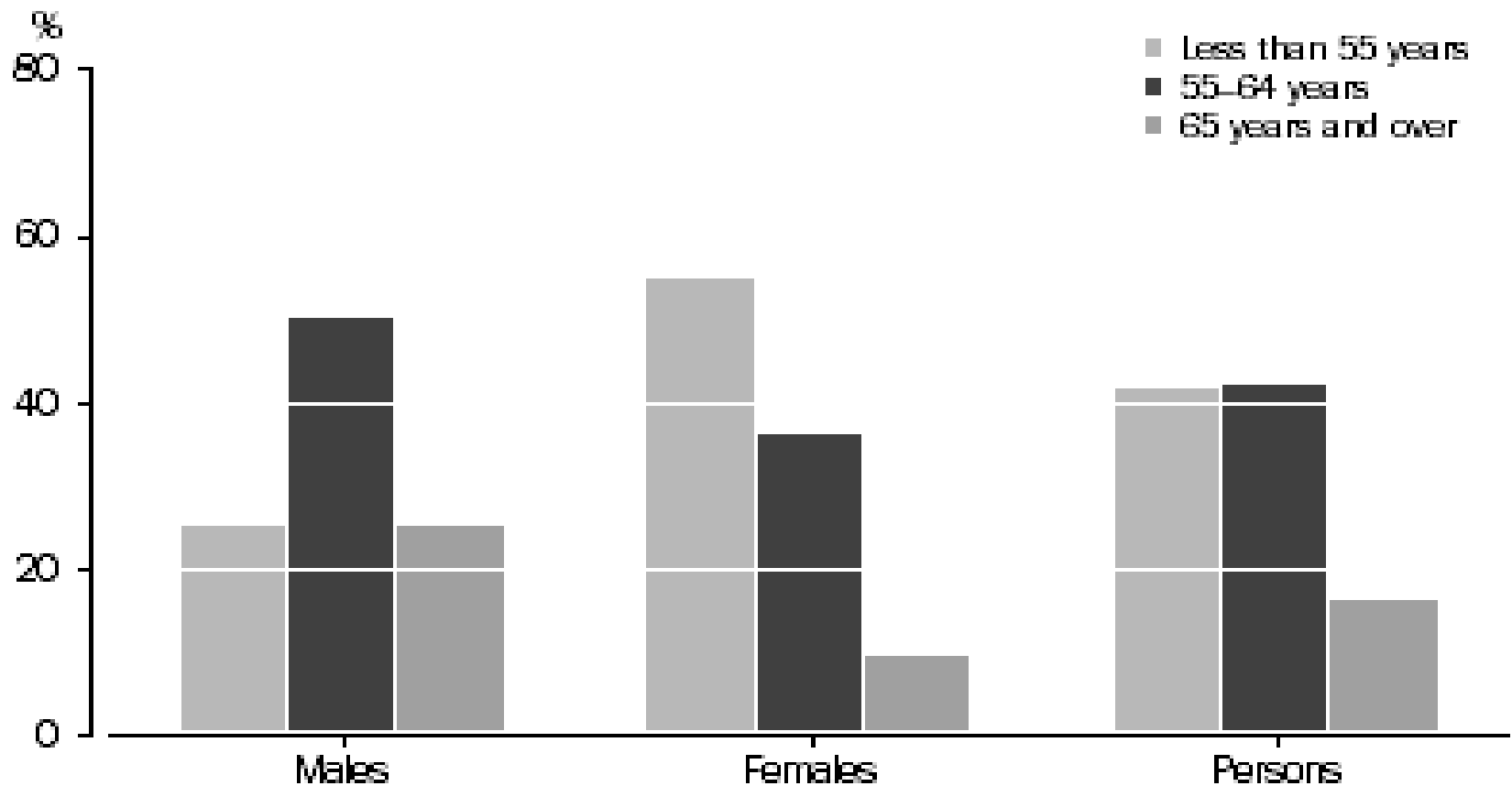
Retirement savings and planning landscape

Gender differences in:

- Retirement age

- Retirement accumulations

- Life expectancy

  → Time in retirement
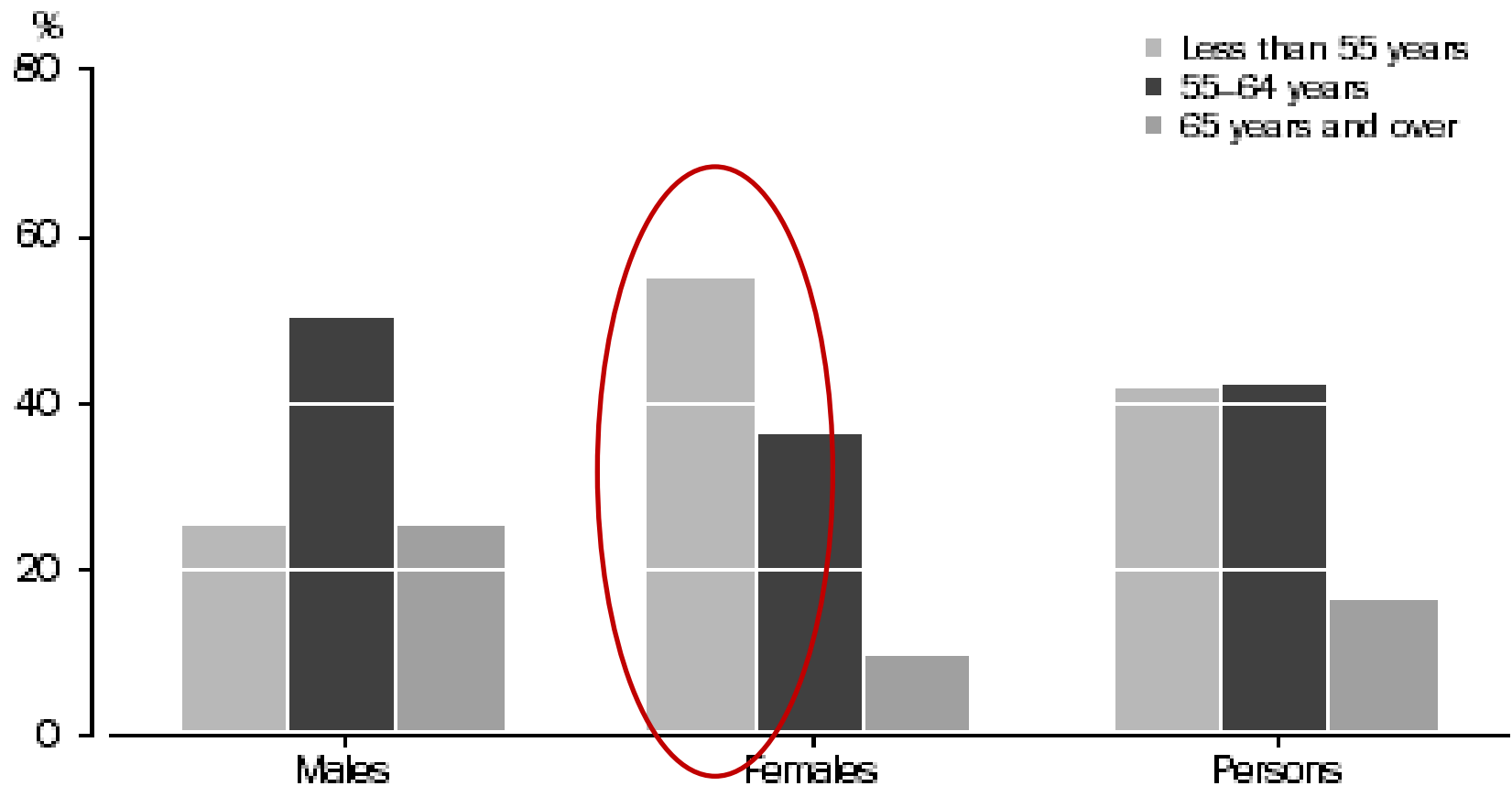
Continued **gender differences** in actual and intended **retirement age**

Persons retired from Labour Force – by age and gender

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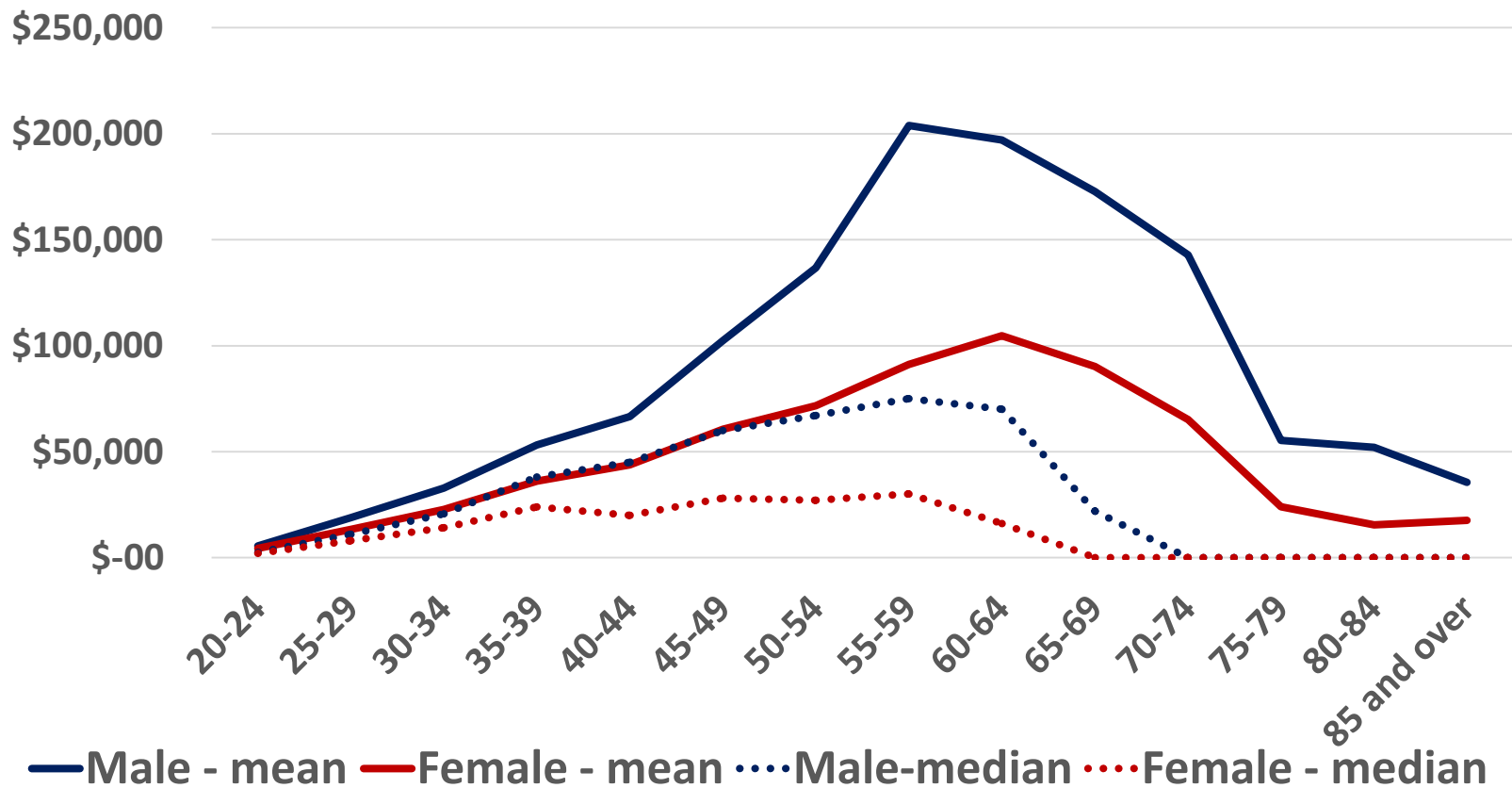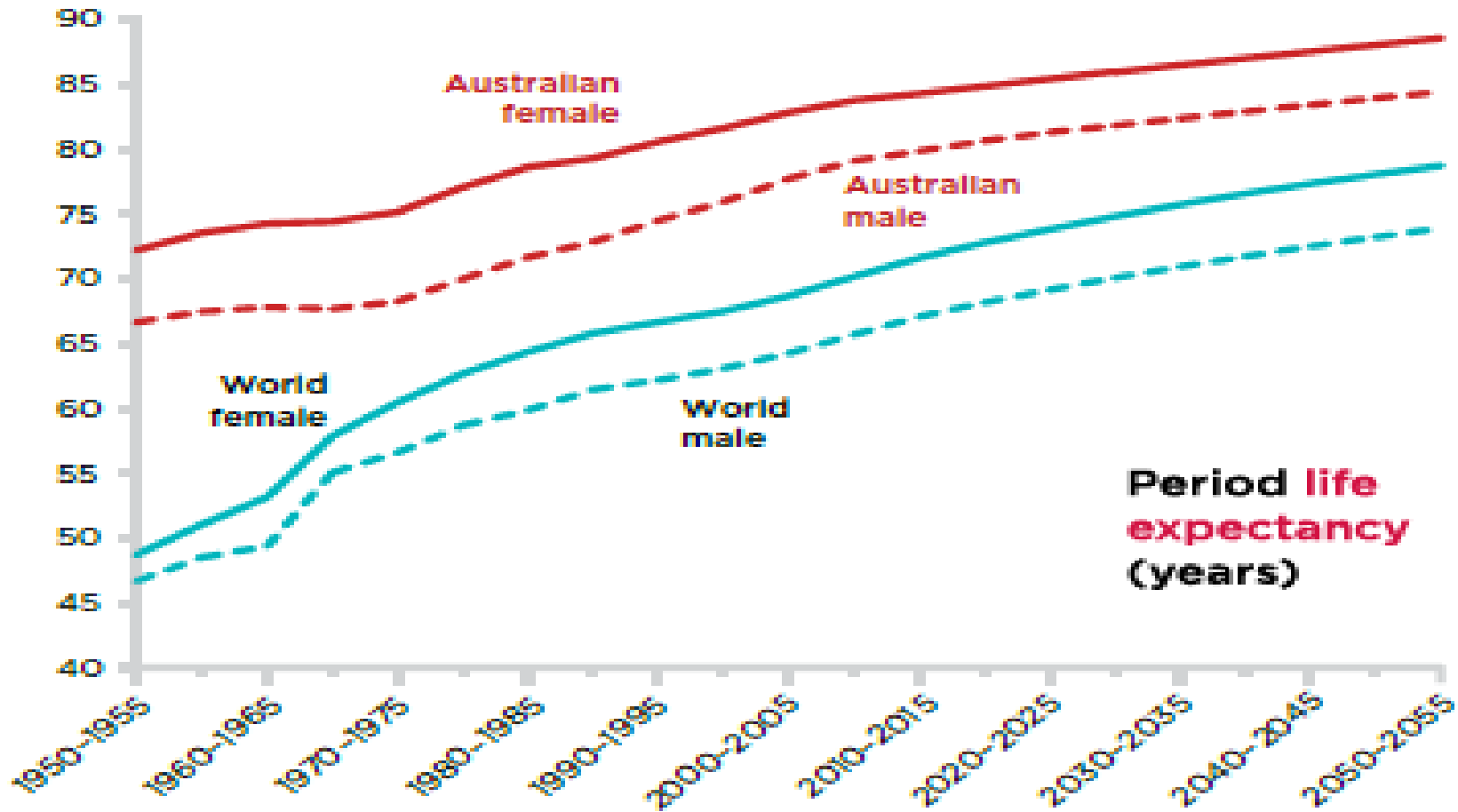

72% of male workers intend to work until at least age 65

60% of female workers intend to work until at least age 65

Legend:
- Less than 55 years
- 55–64 years
- 65 years and over

X-axis: Males, Females, Persons

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Superannuation assets **differ by age and gender,** with **median balances quite small**

Legend: Male - mean, Female - mean, Male-median, Female - median

Continued gender differences in life expectancy

Continued gender differences in life expectancy

Current cohort life expectancy at age 65: 89 females, 86 males

Surveys of pre retirees indicate **uneven planning for retirement** – eg Agnew et al (2013) survey of non retired 50-74 year olds

- Only around 45% had tried to work out how much money they would need for retirement

- Fewer than one in five discussed retirement with friends and co-workers

- Fewer than one in four had attended a retirement seminar

Fielded May 2011, online panel provided by Pureprofile, 920 people, Ages 50-74 see Agnew, Bateman, Thorp (2013) Work, Money, lifestyle: Plans f Australian Retirees, JASSA.

Planning for retirement is complex

Need to work out how much to save and then how to drawdown (taking account of interactions with means tested benefits) to ensure:

- Adequate income

- Coverage of key retirement risks

- Access to liquidity if required

Account for possible housing transitions, changes in health status, change in household type, and potential aged care costs

+ retirement itself may be involuntary

… at the very least

- Require adequate level of **financial competency** and understanding of policies and products

- Some awareness of one's own **life expectancy**

Poor financial literacy of Australians as measured using standard financial literacy questions, although some improvement with age

% correct answers

(Age)	Interest	Inflation	Risk	Total
< 35	79%	55%	42%	**31%**
36-50	85%	69%	58%	**44%**
51-65	80%	86%	62%	**52%**

Agnew, Bateman, Thorp (2013), Financial Literacy and Retirement Planning in Australia, Numeracy, Vol 6(2), Article 7.

Large differences between males and females –
particularly for the 'risk diversification' question

% correct answers

Gender	Interest	Inflation	Risk	Total
Males	85%	74%	62%	**52%**
Females	82%	65%	48%	**34%**

Agnew, Bateman, Thorp (2013), Financial Literacy and Retirement Planning in Australia, Numeracy, Vol 6(2), Article 7.

The same survey indicated **poor knowledge of super system and retirement income products**

Lifetime annuity	Yes
Have you heard of this product?	**37%**
- Offers lifetime income?	22%
- Offers guaranteed income level?	8%
Allocated (account-based) Pension	
Have you heard of this product?	**48%**
- Offers choice of income subject to regulated minimum?	25%
- Withdrawal of capital is possible?	20%

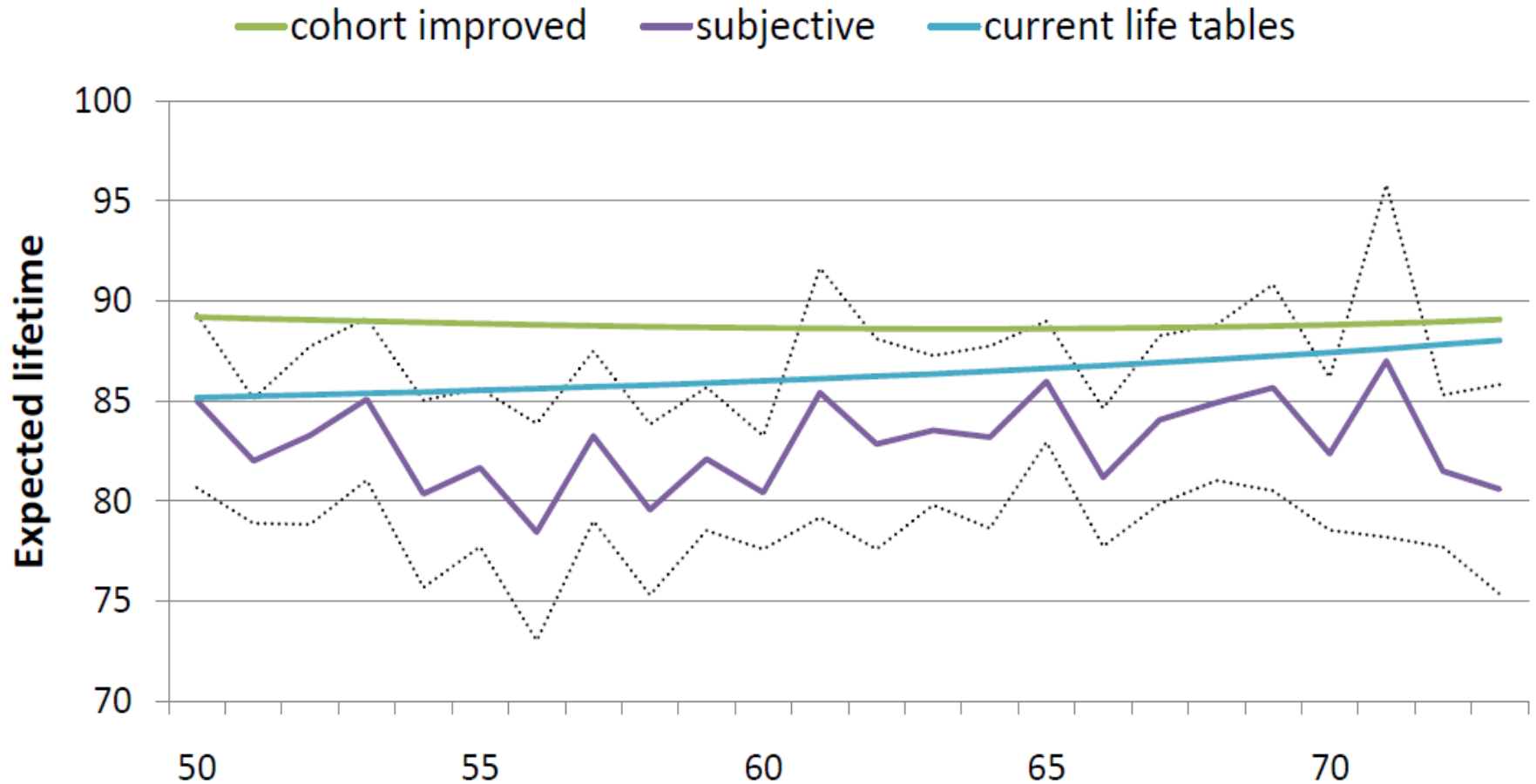# **Financial competence matters** for retirement planning and saving decisions

- Higher levels of financial literacy (and numeracy) associated with :
    - Increased probability of planning for retirement
    - Understanding of, and participation in, financial markets, benefits of diversification
    - Better comprehension of investment risk information
    - Better understanding of risks relevant for retirement planning (investment risk, longevity risk)

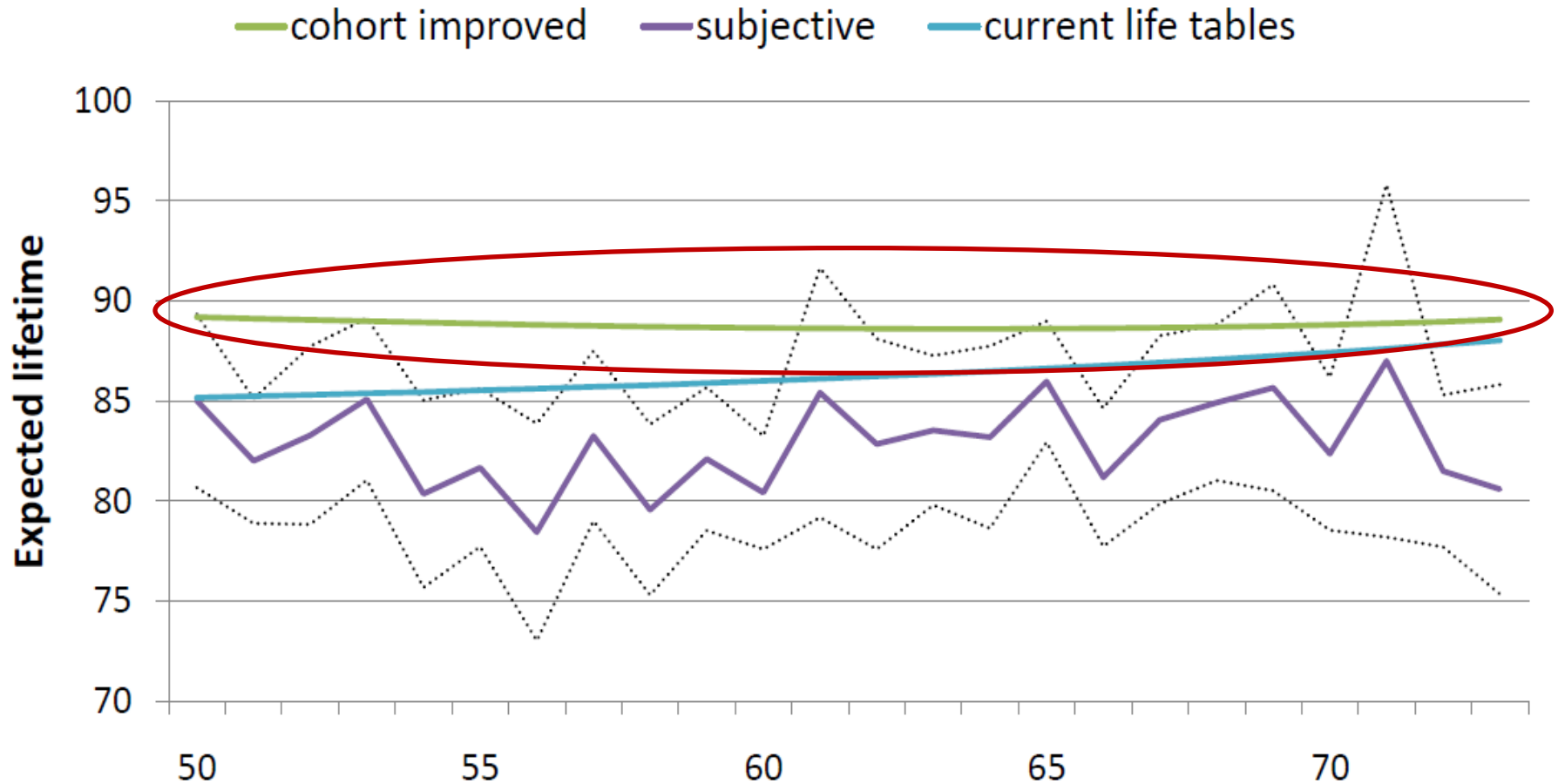# How well do people anticipate their life expectancy?

- Survey question asks people their subjective survival probabilities to 7 target ages '**What are the chances you will live to be age (75, 80, 85, 90, 95, 100, 120)**

- Respondents **chose probabilities that best matched expectation of survival** from 0 to 10, where:

  0 No chance, almost no chance (1 in 100)
  :
  5 Fairly good possibility (5 chances in 10)
  :
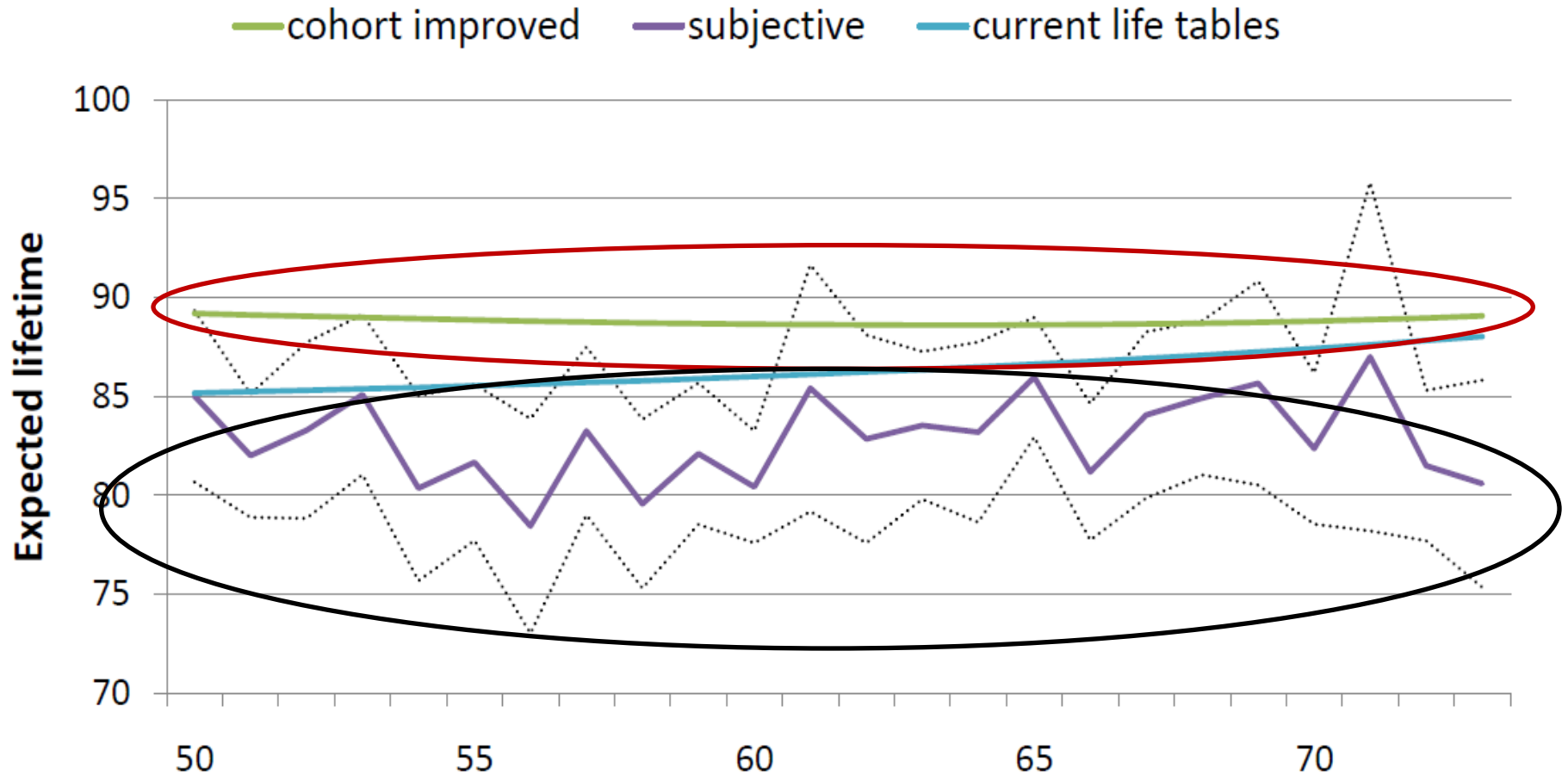 10 Certain, practically certain (99 chances in 100)

Females , subjective life expectancy suggests pessimism
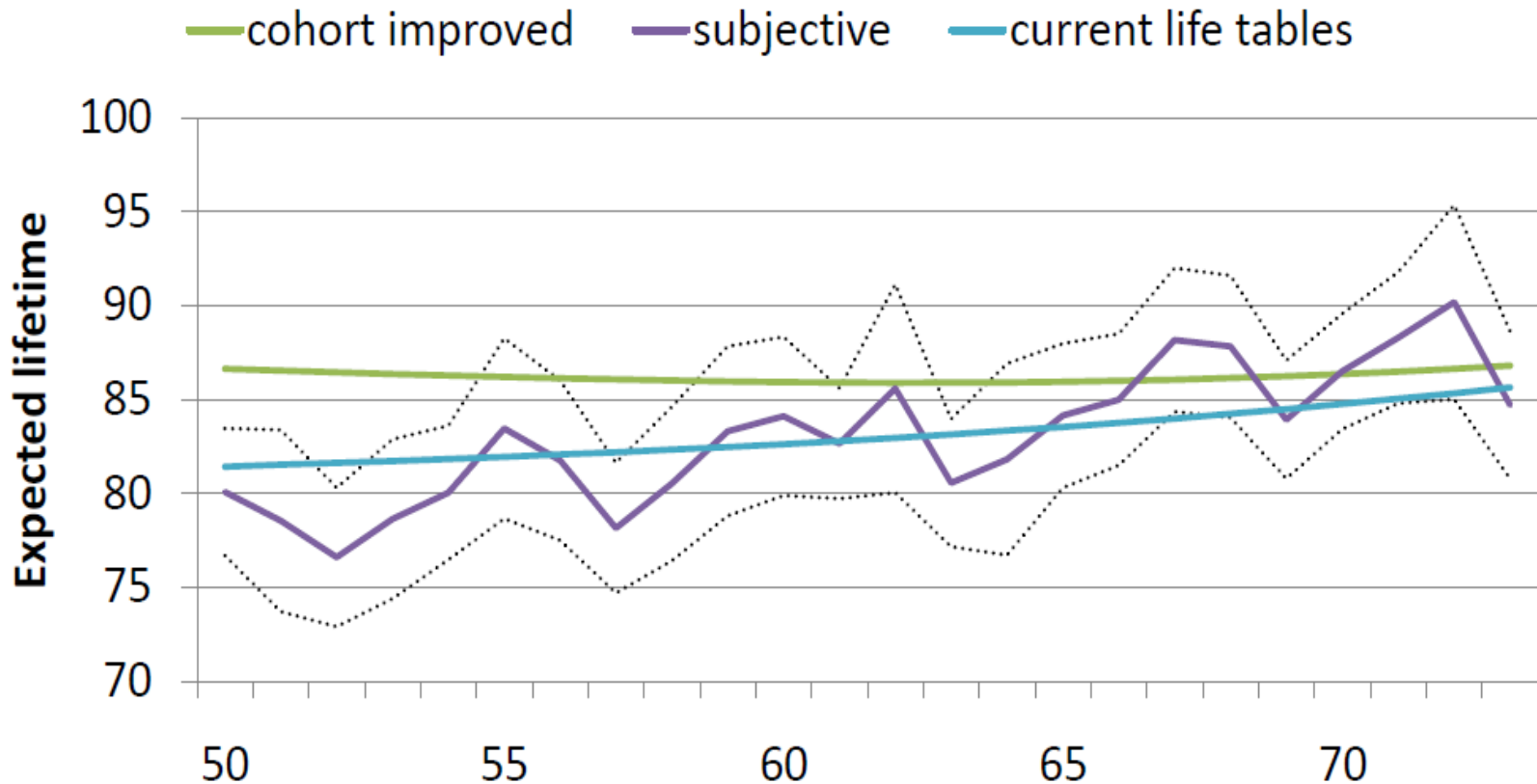
Females , subjective life expectancy **suggests pessimism**

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Males, subjective life expectancy suggests more accuracy, particularly at older ages

Most women and younger men **anticipate a shorter retirement** than they are likely to experience

- Women more pessimistic:
  - In 50s underestimate lifetimes by 7 years on average, in 60s by 5 years on average

- Men more accurate:
  - In 50s underestimate by 6 years on average, but in 60-70s estimated close to life tables

Optimistic subjective life expectancies are **associated with long term decisions**

- Saving for retirement

- Planning for retirement

- Buying retirement benefit products with longevity features

What can be done to improve retirement financial planning and decisions?

- **Initiatives to improve financial literacy, product knowledge, numeracy:**
  - 'just in time' education in context with a specific financial decision

- **Assist people with subjective survival probabilities:**
  - preliminary study providing cohort and family information about life expectancy seems to create confusion/pessimism

Gender differences, but most people will need help - personal financial advice/guidance is required

Questions

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Measuring **financial literacy** of super fund members, using 'standard' financial literacy questions

1. Interest: Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years how much do you think you would have left in the account if you left the money grow? More than $102, Exactly $102, less than $102, Do not know, Refuse to answer.

2. Inflation: Imagine that the interest rate on your savings account was 1% per year and inflation was 2% year. After 1 year, how much would you be able to buy with the money in this account? More than today, Exactly the same, Less than today, Do not know, Refuse to answer.

3. Risk: Buying shares in a single company usually buys a safer return than buying shares in a managed share fund.