

How realistic are senior Australians' retirement plans?

A report by

**National Seniors Australia
and Challenger**

July 2014

National Seniors
Australia

challenger 

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Introduction

Australians are living longer than ever before, while increasingly being required to be financially self-reliant in retirement. To prevent the risk of not managing retirement savings sufficiently and potentially suffering adverse consequences to quality of life, effective financial planning for retirement can be crucial.

There are three specific areas that people should consider closely when planning for retirement:

- Understanding and being realistic about their own life expectancy.
- Spending in retirement.
- Meeting aged care costs.

To understand the extent of knowledge of these issues among Australia's seniors, and their level of planning, in late 2013 the National Seniors Social Survey asked a number of related questions to over 2,000 people aged 50 years and over (see Appendix for more details). This report details the findings from this survey in relation to these issues.

Results show that seniors generally have some form of plan for retirement and covering aged care costs. The survey, however, highlights that seniors could plan more effectively (especially in being realistic about their own life expectancy).

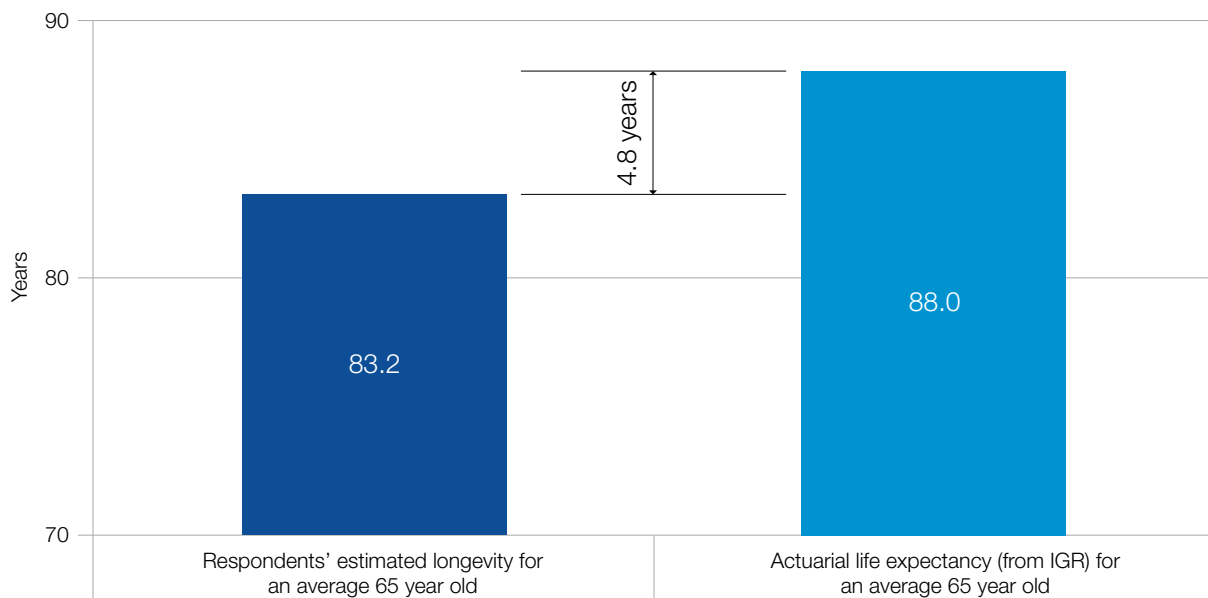
Life expectancy

Understanding life expectancy

The current level of general knowledge about life expectancies in the broader community is quite low, which is reflected in the survey results. This could have serious financial and other implications for retirement.

Figure 1 compares the average age that survey respondents think an average 65 year old Australian will live to, compared with the latest estimate figure from Treasury's 2010 Intergenerational Report (IGR). When asked to estimate the average life expectancy of a 65 year old, the average response in the survey was 83.2 years. This is almost five years below the estimate of the IGR of 88 years.

Figure 1: Average estimated life expectancy (years) for a 65 year old versus actuarial life expectancy (from IGR) for an average 65 year old



Source: National Seniors Social Survey Wave 3, 2010 IGR¹

¹ Commonwealth of Australia, 2010, 2010 Intergenerational Report, Treasury, Canberra. Data supplied.

Own life expectancy estimation

Respondents were also asked to estimate their own life expectancy. Table 1 shows the average estimate for each age cohort compared to the Treasury IGR life expectancy for that cohort. The results show that seniors are materially underestimating their own life expectancies in the pre-retirement age cohorts, but become more accurate in their estimates as they age. The average estimation of own life expectancy for the 50-54 age group is seven years below that of the IGR, while for the 70-74 age group it is two years below.

Table 1: Estimation of own life expectancy (years)²

Age group	Average estimation of own life expectancy	IGR	Underestimation
50 to 54	81.4	88.5	-7.1
55 to 59	82.8	88.2	-5.4
60 to 64	83.5	88.0	-4.5
65 to 69	84.0	88.0	-4.0
70 to 74	85.4	88.3	-2.9
75 to 79	86.9	88.9	-2.0

Although nobody can predict in advance exactly how long they are going to live, these findings demonstrate that, on average, seniors are underestimating their own lifespan, and therefore under-valuing the cost of retirement. The average 50 year old who is underestimating their average life expectancy by more than seven years, is going to find it very difficult to lay down an effective financial plan for retirement. For seniors who are approaching retirement, this lack of knowledge and information about life expectancy needs to be remedied, especially in a system where people are largely responsible for their own financial wellbeing in retirement.

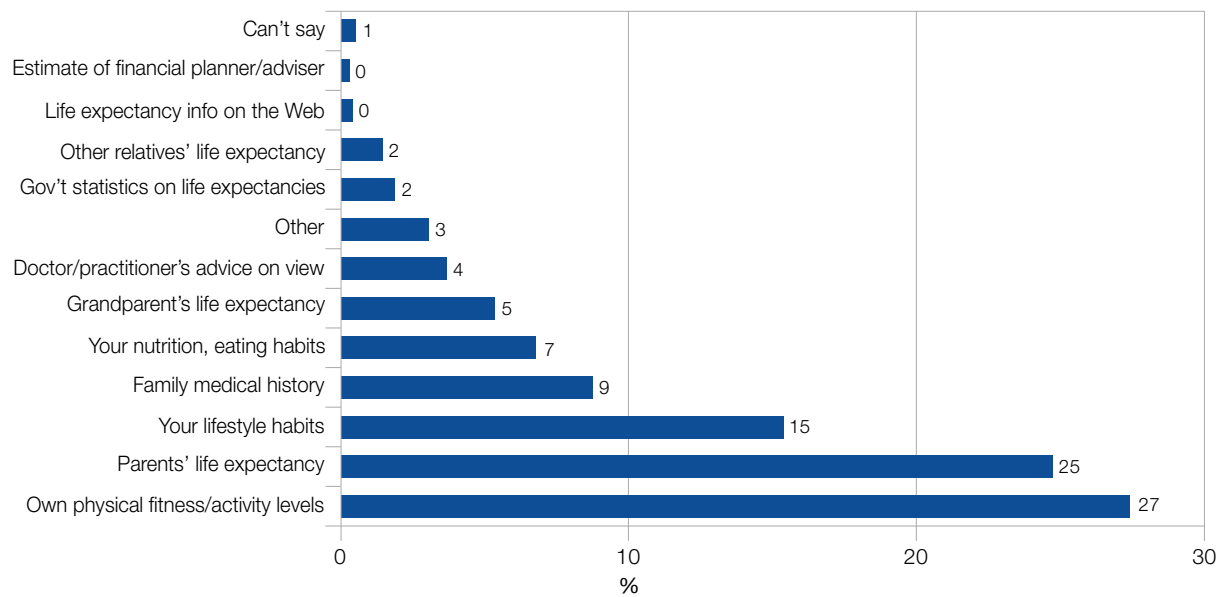
Factors impacting own life expectancy estimates

Respondents were also asked to report the main factor influencing estimates of their own life expectancy. Figure 2 shows that the vast majority of seniors nominated main factors that are, at best, anecdotal sources that would not have a professional understanding of life expectancy. The main factors people used to estimate their own life expectancy were; own physical fitness at 27%; parents' life expectancies at 25%; and lifestyle habits (e.g. smoking and drinking) at 15%. These factors might intuitively seem appropriate for working out their life expectancy by way of a rule of thumb, but are not sufficient for financial planning purposes.

In contrast, only 6% utilised information from professional sources to inform their own life expectancy estimates; doctor/practitioners were at 4%; government life expectancy tables at 2%; and, alarmingly, only 0.3% of respondents said their source of information was advice from a financial adviser.

Professional sources of information and advice about life expectancy need to play a much larger role in retirement planning. Greater consideration by seniors of information about life expectancy could narrow the gap between their own estimates and official estimates. It is crucial that seniors' retirement plans inform them of the age ranges they are likely to live for, including a margin of safety in case they live longer than average.

² The Appendix presents average own life expectancy for males and females, as well as the age distribution of both own life expectancy and average 65 year old's life expectancy (see Tables A.1-A.6).

Figure 2: Main factor influencing own life expectancy estimates (%)

Longevity planning

Although seniors have a significant need to be better informed regarding their likely longevity, survey results suggest that seniors are generally unwilling or haven't taken the opportunity to talk about life expectancy in the context of retirement budgeting.

A majority of seniors (58%) said they do not need more information on budgeting in retirement given their life expectancy (Table 2). Given the level of life expectancy underestimation this is a cause for some concern.

Table 2: Whether more information is required for budgeting for retirement (%)

More information	%
Yes	31.7
No	57.9
Can't say	10.4
Total	100.0

Not knowing how long one could live when budgeting for retirement could have a seriously adverse effect on a retiree's standard of living. If a prospective retiree doesn't seek information about their potential lifespan and plan adequately, they could face a large retirement budget shortfall. As an example, according to the ASFA Retirement Standard³ a comfortable retirement costs a single person about \$42,158 per year. Those in the age group 60-64 are, on average, underestimating their life expectancy by 4.5 years. Although it is difficult to quantify precisely the impact of an additional 4.5 years of life on the adequacy of retirement savings, this could imply that seniors are, on average, under-budgeting by at least \$100,000, possibly more if real returns on their savings are low.

Slightly over half of survey respondents (52%) said they have never discussed life expectancy with a financial adviser to help plan their investments and budget for later life (Table 3). Some of the explanations for not doing so included: 'don't need/not worried about it' (16%), 'self or family can do it' (15%), 'don't trust financial advisers' (7%), 'haven't thought about it' (7%), and 'not enough money to invest' (7%).

Table 3: Ever discussed life expectancy with financial adviser (%)

Ever discussed with financial adviser	%
Yes	45.6
No	51.9
Can't say	2.5
Total	100.0

³ ASFA, ASFA Retirement Standard, Available at superannuation.asn.au/resources/retirement-standard

These findings highlight the need for financial advisers and planners to take every opportunity to discuss with their senior clients just how life expectancy could impact their retirement. Seniors cannot prepare effectively for retirement if they are unaware of the need to ask about, or are not provided with, accurate information about longevity in retirement.

Aged care planning

Survey respondents were next asked to state how much they have thought about the cost of future aged care needs.

Most seniors have given thought to the cost of aged care, with 75% giving it some thought or a great deal of thought (Figure 3). Furthermore, 76% have given some or a great deal of thought towards other associated care costs.

Figure 3: Aged care planning (%)



Although high numbers of seniors have given at least some thought to future care costs, effective planning also requires a detailed plan on how to fund aged care costs, while maximising retirement income and Age Pension entitlements.

To explore this issue, seniors were asked how they think the cost of aged care accommodation and/or other associated care costs would be financed. Over half of seniors nominated selling their family home to pay for aged care accommodation and/or other associated care costs.

Table 4: How respondent thinks the cost of their aged care costs would be financed

Ways of financing aged care costs	%
Sell family home	52.6
General savings	32.7
Sell other assets	24.9
Income from investments	22.8
Funds are currently being put aside	8.2
Equity release or reverse mortgage	7.1
Children will pay	1.0
Don't know	15.5

Note: % does not necessary add up to 100 because respondents can have multiple responses

These findings suggest that seniors are not considering the broader implications of funding aged care. Seniors who sell their own home to cover the costs of aged care could increase the asset base under which they are means tested for Government support. Such a strategy could result in a dramatic decrease in Age Pension payments and inadvertently increase the cost pressure of aged care.

By contrast, only 8% of seniors said that they would use funds specifically put aside to finance aged care costs. Seniors don't appear to be discussing with advisers how to fund aged care costs using a financial instrument, such as an aged care annuity or accumulated savings.

Given the implications of selling the family home to fund aged care costs, it was a surprisingly high proportion of respondents (59%) who said that they had 'thought a great deal' about aged care costs and yet who nominated selling the family home as the solution (Table A.7). This lends further weight to the argument that, while seniors are stating that they are planning for retirement, they are not planning effectively.

Spending in retirement

Seniors are under prepared for retirement largely because they do not have sufficient funds put aside. The survey findings reveal that 53% of pre-retirees will have less than \$400,000 or don't know what they will have at the start of retirement (Table 5). Of those who have already retired, 64% had less than \$400,000 of household savings or can't say how much they had at the start of retirement (Table 5). This is well below the \$544,000 lump sum that ASIC estimates on its MoneySmart website the average single person will need for a comfortable lifestyle in retirement.⁴

Much of this outcome is driven by the fact that the Australian superannuation system isn't mature and many retirees have not participated in super for the whole of their working lives. It does, however, highlight that effective retirement budgeting and planning is crucial for those who might face a budgeting shortfall, especially given the lack of knowledge around life expectancy in retirement.

Table 5: Household retirement savings at retirement (pre-retirees and post-retirees, %)

Total savings and investments	Pre-retiree (%)	Post-retiree (%)
Can't say	9.5	14.6
\$50,000 or less	8.1	13.3
\$50,001 – \$100,000	6.3	8.3
\$100,001 – \$150,000	4.5	6.1
\$150,001 – \$200,000	6.0	4.2
\$200,001 – \$250,000	4.9	4.1
\$250,001 – \$300,000	5.0	6.0
\$300,001 – \$400,000	8.5	7.1
\$400,001 – \$500,000	6.3	7.6
\$500,001 – \$600,000	7.7	5.5
\$600,001 – \$750,000	7.6	5.0
\$750,001 – \$1,000,000	10.8	8.0
Over \$1,000,000	14.6	10.1
Total	100.0	100.0

Note: Total savings and investments includes superannuation and rental properties but excluding own home

⁴ ASIC, MoneySmart, moneysmart.gov.au

Around 40% of both pre and post-retirees say that they have spent or will spend more money in the early years of retirement than in later years (Table 6). While this spending habit is understandable given that the early stage of retirement is more active, if seniors are underestimating the length of time they are likely to spend in retirement, this could mean that they are actually over-spending in the early years. Appendix Tables A.8 and A.9 present these results according to the amount of savings and investments at retirement (or expected at retirement); these findings show that, broadly, spending more money in the early years in retirement is more common among people who had, or expect to have, higher savings and investments at retirement.

Table 6: Expected spending pattern in retirement of pre-retirees and spending pattern since retirement of post-retirees (%)

Spending pattern	Pre-retiree (%)	Post-retiree (%)
Spend more in early years	43.2	40.8
Spend less in early years	3.4	5.6
Spend evenly	32.0	37.0
Spend more in middle years	0.6	3.5
Can't say	20.7	13.1
Total	100.0	100.0

An effective retirement plan will budget for the three major life phases of retirement:

- Active, early stage of retirement associated with higher levels of expenditure as retirees are more able to enjoy additional activities such as travel.
- Passive, middle stage of retirement where spending on bigger items dips but day-to-day living costs remain prominent.
- Frail, the last stage of retirement that typically involves lower spending levels, but with health and aged care costs dominating the budget.

These only reflect broad trends of what many people do in retirement, but they can form a basis for a realistic plan.

Conclusion

Seniors do, of course, plan for retirement. It's very rare that someone doesn't prepare at all for one of their biggest life changes. However, it is essential that people plan more effectively for their retirement. This means, among other things:

- Understanding and being realistic about their potential life expectancy and budgeting accordingly, including a margin of safety for living longer than average;
- Knowing the implications of funding aged care on their retirement income; and
- Ensuring they have a budget to reflect their likely spending patterns in the different stages of retirement.

This report indicates that many senior Australians are not effectively planning for their retirement by not understanding key factors associated with their retirement such as their own life expectancy. There is considerable scope for improved education of seniors with respect to these key issues. Financial advisers in particular have a significant role to play in educating people about longevity risk in the context of retirement savings.

Appendix

Data

The data in this report is taken from the National Seniors Social Survey Wave 3. The survey was conducted from late September to late October 2013 among 2,062 members of National Seniors Australia aged 50 years and over. Survey weights were applied to each combination of age, sex and State/Territory, to adjust for differences in response rates by these population groups and to make the results representative of the Australian population aged 50 years and over.

Additional tables

Table A.1: Average age respondents think an average 65 year old Australian will live to, by current age and sex

Age group	Males	Females	All
50-59	81.6	83.4	82.6
60-64	81.8	84.0	82.8
65-69	82.3	83.6	83.0
70-74	82.6	84.7	83.7
75-79	82.9	84.3	83.6
80+	84.9	84.7	84.8
All	82.3	84.0	83.2

Table A.2: Average age that respondents think they will likely live to, by current age and sex

Age group	Males	Females	All
50-59	81.4	83.5	82.6
60-64	82.7	84.4	83.5
65-69	83.4	84.6	84.0
70-74	84.8	85.9	85.4
75-79	86.4	87.4	86.9
80+	89.8	89.8	89.8

Table A.3: Distribution of age that males think an average 65 year old Australian will live to (%), by current age

Current age	Age think average 65 year old Australian will live to						Total
	65-72	73-77	78-82	83-87	88-92	93+	
50-59	7.2	12.7	30.2	42.4	6.0	1.4	100.0
60-64	2.7	14.0	35.5	39.9	7.4	0.5	100.0
65-69	0.0	11.5	37.6	44.2	5.2	1.4	100.0
70-74	1.5	4.3	45.5	39.4	8.8	0.5	100.0
75-79	0.9	5.8	39.8	42.3	8.2	3.1	100.0
80+	0.0	4.4	24.5	44.5	22.0	4.7	100.0
All	2.8	10.9	35.0	41.6	8.3	1.4	100.0

Note: Age groups 73-77 etc and not 70-74 etc are used because the majority of life expectancy is reported at ages in multiples of 5 (e.g. 70, 75 etc)

Table A.4: Distribution of age that females think an average 65 year old Australian will live to (%), by current age

Current age	Age think average 65 year old Australian will live to						Total
	65-72	73-77	78-82	83-87	88-92	93+	
50-59	4.4	6.2	23.9	46.8	18.0	0.8	100.0
60-64	0.4	5.2	29.0	43.6	20.0	1.9	100.0
65-69	1.4	6.0	31.1	44.3	13.9	3.3	100.0
70-74	0.0	2.2	27.1	49.6	17.9	3.1	100.0
75-79	1.9	1.2	26.5	49.1	19.4	1.8	100.0
80+	2.5	3.8	24.1	38.6	29.8	1.3	100.0
All	1.9	4.9	27.0	44.9	19.5	1.9	100.0

Note: Age groups 73-77 etc and not 70-74 etc are used because the majority of life expectancy is reported at ages in multiples of 5 (e.g. 70, 75 etc)

Table A.5: Distribution of age that males think they will live to (%), by current age

Current age	Age think they will live to								Total
	60-67	68-72	73-77	78-82	83-87	88-92	93-97	98+	
50-59*	6.8	8.6	12.4	20.5	29.9	16.1	4.0	1.8	100.0
60-64	0.0	6.1	16.4	24.0	33.1	14.8	2.3	3.2	100.0
65-69	0.0	1.5	14.8	30.4	25.7	24.6	1.5	1.5	100.0
70-74	0.0	0.0	6.9	25.4	39.9	21.7	5.4	0.8	100.0
75-79	0.0	0.0	0.0	16.0	49.9	29.2	2.8	2.2	100.0
80+	0.0	0.0	0.0	0.0	31.6	47.5	14.8	6.1	100.0
All	1.5	4.4	11.8	21.7	32.9	21.1	4.0	2.6	100.0

Note: Age groups 73-77 etc and not 70-74 etc are used because the majority of life expectancy is reported at ages in multiples of 5 (e.g. 70, 75 etc)

* There were no responses where people thought they would live to age 50-59.

Table A.6: Distribution of age that females think they will live to (%), by current age

Current age	Age think they will live to								Total
	60-67	68-72	73-77	78-82	83-87	88-92	93-97	98+	
50-59*	3.2	6.7	9.2	21.3	28.9	22.4	5.7	2.6	100.0
60-64	0.0	4.3	9.0	29.3	21.7	25.1	7.1	3.6	100.0
65-69	0.0	5.2	6.2	26.3	28.4	26.0	3.8	4.2	100.0
70-74	0.0	0.0	3.3	24.5	32.7	29.4	7.6	2.6	100.0
75-79	0.0	0.0	0.0	11.6	36.9	44.9	2.1	4.4	100.0
80+	0.0	0.0	0.0	3.5	19.5	58.6	14.7	3.7	100.0
All	0.9	4.1	6.5	21.9	26.5	30.0	6.9	3.3	100.0

Note: Age groups 73-77 etc and not 70-74 etc are used because the majority of life expectancy is reported at ages in multiples of 5 (e.g. 70, 75 etc)

* There were no responses where people thought they would live to age 50-59.

Table A.7: How much respondents have thought about the cost of future aged care accommodation costs for self or spouse/partner (%), by how they think aged care accommodation/other associated costs would be financed

How aged care-related costs will be financed	Thought about the cost of future aged care accommodation costs			Total
	Not thought about	Given some thought	Thought about a great deal	
Sell family home	47.9	54.3	58.8	52.6
General savings	32.1	35.7	30.4	32.7
Sell other assets	26.8	25.7	23.9	24.9
Income from investments	19.0	24.6	24.1	22.8
Funds are currently being put aside	6.7	7.1	12.9	8.2
Equity release or reverse mortgage	6.3	7.7	7.2	7.1
Children will pay	1.1	0.9	1.1	1.0
Don't know	21.9	12.7	13.8	15.5

Note: Column % does not necessary add to 100 because respondents can have multiple responses. Costs are for self or spouse/partner.

Table A.8: How much savings and investments respondents had at start of retirement (% of retired), by spending pattern since retirement

Savings and investments at start of retirement	Spending pattern since retirement					Total
	Spend more in early years	Spend less in early years	Spend evenly	Spend more in middle years	Can't say	
\$50,000 or less	34.0	5.8	32.4	2.3	26.0	100.0
\$50,001 – \$100,000	36.6	7.4	37.2	2.3	16.5	100.0
\$100,001 – \$200,000	40.7	8.3	41.9	0.0	9.1	100.0
\$200,001 – \$400,000	49.9	4.6	34.6	4.1	6.7	100.0
\$400,001 – \$600,000	46.5	5.4	37.9	3.5	6.7	100.0
\$600,001 – \$750,000	51.5	6.8	26.7	6.4	8.6	100.0
\$750,001 – \$1,000,000	51.0	2.9	36.5	5.1	4.6	100.0
Over \$1,000,000	43.6	5.1	42.0	6.5	2.9	100.0
Can't say	24.6	5.1	37.7	3.6	29.0	100.0
Total	40.8	5.6	37.0	3.5	13.1	100.0

Note: Savings and investments include superannuation but excluding own home.

Table A.9: How much savings and investments respondents think will have at start of retirement (% of non-retired), by likely spending pattern in retirement

	Likely spending pattern in retirement					Total
	Spend more in early years	Spend less in early years	Spend evenly	Spend more in middle years	Can't say	
\$50,000 or less	17.1	3.8	29.6	1.9	47.6	100.0
\$50,001 – \$100,000	40.2	0.0	26.7	0.0	33.1	100.0
\$100,001 – \$200,000	19.6	6.6	43.1	0.0	30.7	100.0
\$200,001 – \$400,000	41.5	8.1	32.8	0.5	17.1	100.0
\$400,001 – \$600,000	51.5	2.0	29.6	0.7	16.2	100.0
\$600,001 – \$750,000	65.6	1.5	28.4	0.0	4.4	100.0
\$750,001 – \$1,000,000	49.0	0.0	39.5	0.0	11.6	100.0
Over \$1,000,000	62.0	1.3	32.6	0.8	3.3	100.0
Can't say	29.0	1.2	24.6	1.6	43.5	100.0
Total	43.2	3.4	32.0	0.6	20.7	100.0

Note: Savings and investments include superannuation but excluding own home.

ABOUT NATIONAL SENIORS AUSTRALIA

National Seniors Australia is the leading independent voice of over 50s in Australia. As the nation's largest not-for-profit organisation for over 50s, we represent the views of older Australians and their families to governments of all levels, on issues ranging from age discrimination and mature age employment to the age pension and health and aged care. Founded in 1976 and now with more than 200,000 members, we provide unrivalled access to policy makers, innovative and practical research and a raft of commercial benefits to our members. Every day, National Seniors Australia seeks to improve the quality of life for mature age Australians.

For more information about National Seniors Australia visit www.nationalseniors.com.au or call **1300 76 50 50**.

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