

Financial Wellbeing in Retirement

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Fundamental issues

- Financial wellbeing (FWB) is about the adequacy of financial resources and support to meet reasonable expenditure needs without excessive concern
- FWB is not just about superannuation
- The principal responsibility lies with the individual (family)
- Women have historically faced greater impediments to achieving FWB in retirement and continue to do so
- Better financial education and retirement planning is critical.

Government support

- Government support to assist in obtaining FWB includes tax concessions for retirement savings as well as pension, health and aged care outlays
- An ageing population places increased pressure on government budgets to provide adequate support
- Delicate balance in providing adequate support to enable individuals to achieve FWB in retirement while not reducing personal responsibility for FWB in retirement
- Government policies can have significant distributional consequences both inter-generationally and within age-cohorts

Demographic Projections

Year	1970	2010	2050 (projection)
Dependency ratio	7.5	5	2.7
Life expectancy at age 60	N/A	M: 23.4 F: 26.6	M: 29.2 F: 31.4
Total Population (mill)	12.5	22.2	35.9
Percentage 65 and over	8.3	13.5	22.7
Government Spending % of GDP			
• Health		4.0	7.1
• Age Pensions		2.7	3.9
• Aged Care		0.8	1.8

Source: Treasury (2010) <http://www.treasury.gov.au>

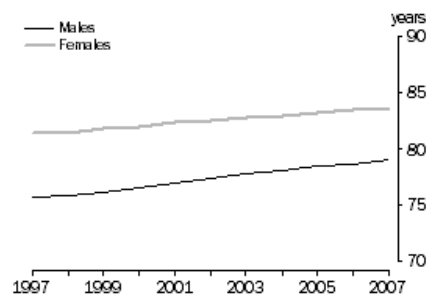
Background Issues

- The Cooper Super System Review reported to the Commonwealth Government on 30 June 2010
- Major review recommendations: SuperStream and MySuper proposals
- An apolitical mechanism to link the age pension access age to longevity trends would enhance sustainability of the system
- Frequent changes to superannuation policy can undermine confidence in the superannuation system

Increasing longevity

Over the last century life expectancy at birth increased:

- For males from 55.2 years in 1901-10 to 79 years in 2007; and
- For females from 58.8 years to 84 years in 2007.



Source: 1383.0.55.001 - Measures of Australia's Progress: Summary Indicators, 2009

Individual Responsibility

- Few individuals focus adequately on long-term planning for FWB in retirement
- A two-pronged approach is required
 - compulsion and tax incentives
 - information and education
- Policy should draw on lessons from behavioural economics

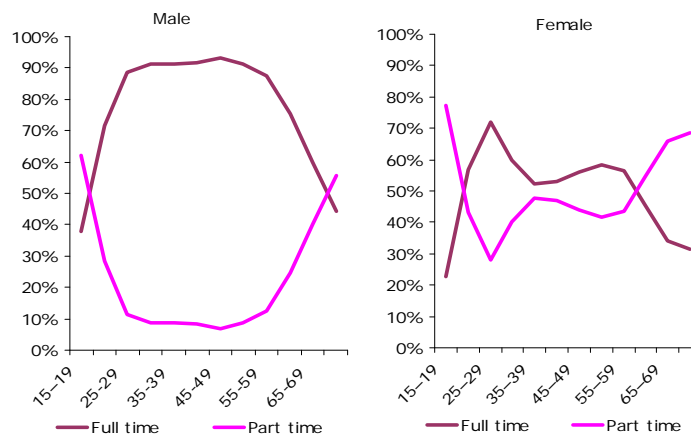
Projections of people receiving full, part or no pensions

<i>People receiving pensions and no pensions</i>	2007	2017	2027	2037	2047
Full pension	55.1	48.5	40.6	37.8	35.8
Part pension	24.9	31.1	36.6	38.6	40.7
No pension	20.0	20.4	22.8	23.6	23.6
Total	100.0	100.0	100.0	100.0	100.0

Current superannuation concerns

- Relatively few 'self-funded' retirees projected even in long term
- Women currently 'super-disadvantaged'
- Engagement with superannuation is limited
- Compulsory contributions miss many people
- Taxation incentives can be regressive
- Despite changing work patterns, early retirement trends
- Longevity risk of increasing importance

Labour force participation rate profiles by gender



Pre-retirement savings

- Superannuation is only one tax-advantaged form, others include housing, business equity and insurance bonds
- Marked differences in usage and appeal of various superannuation vehicles
- Lobby groups may achieve benefits for a few possibly at the expense of many
- There is a lack of appreciation about the savings requirements for FWB in retirement

The retirement decision

- Early retirement appropriate for some, but
 - consideration of increasing the preservation age seems warranted
 - arguably 'transition to retirement' available too early
- Increased longevity risk highlights importance of policies to encourage longer workforce participation
- Individual planning for retirement generally not thorough

Proportion of males and females participating in employment



Retirement income and products

- Many existing products do not adequately address longevity risk
- Possible approaches which may require compulsion or tax incentives, include
 - deferred annuities
 - guaranteed income – allocated pension products
- Self managed superannuation funds face different challenges in the retirement versus accumulation phase
- Government expenditure subsidies may have merit if they induce expenditure patterns with social externalities
- Pension asset tests favour home-owners and also reduces incentives to 'down-size' and use accumulated home equity for consumption

Age pension means test

	Income test		Asset test	
	Free threshold	Part payment cut-off	Free threshold	Part payment cut-off
	\$ per fortnight	\$ per fortnight	\$	\$
Homeowner Single	142	1,544	178,000	645,500
Homeowner Couple	248	2,362	252,500	957,500
Non-homeowner Single	142	1,544	307,000	774,500
Non-homeowner Couple	248	2,362	381,500	1,086,500

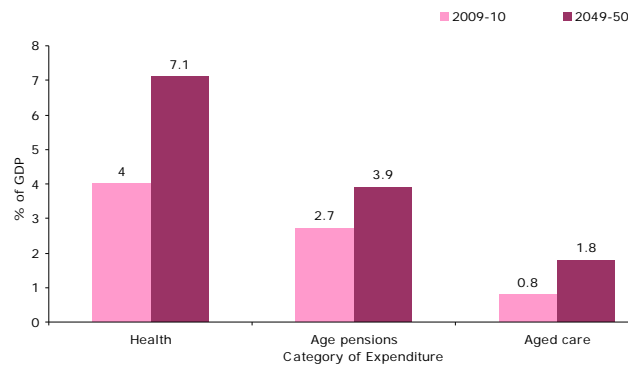
Maximum Rates of Payment: \$644.20 (single) and \$485.60 (each for a couple)
\$16,750 p.a. \$25,250 p.a. (combined)

Source: Centrelink (2010)

Housing and health

- Home equity release can alleviate financial pressure in retirement but can be complicated and risky. Bequests motives inhibit usage
- Aged care accommodation is becoming an issue for an increasing number of people
 - government financial support is warranted
 - financial arrangements (particularly accommodation bonds) warrant review
- Subsidized health expenditure important for FWB in retirement

Projected cost to government

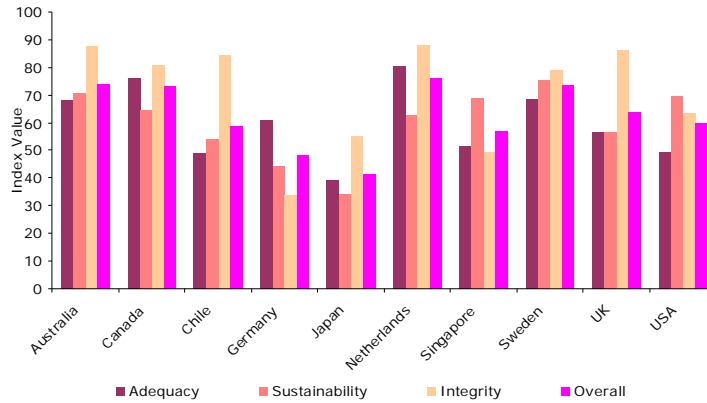


Source: *The Treasury (2010)*

Achieving and measuring success

- Objectives can be classified as
 - adequacy; sustainability; integrity, equity
- Australia's strong international ranking could be improved by:
 - product restrictions and availability to better deal with longevity risk
 - increased savings rate

International retirement systems



Source: Melbourne Mercer Global Pension Index, Melbourne Centre for Financial Studies (2009)

Financial wellbeing

- Perceived well being does not appear to be closely linked to income *per se*
- Important factors include
 - position relative to peer group as well as expectations
 - health and adaptability to changed circumstances
 - social contacts and networks
- Policy implications re FWB
 - focused expenditures
 - facilitating family/community support rather than explicit government financial support