Australia today – Part 3

A look at lifestyle, financial security and retirement in Australia

Part 3
A path to saving retirement

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Australia today – Part 1 and Part 2

Australia today – Part 1 'We're all in the middle, aren't we?' and Part 2 'Are we worried about the future?' is available for download **mlc.com.au/australiatoday**

Executive summary of research findings

Many of us feel unprepared for retirement

Of those not presently retired, 2 in 3, (66%) are 'slightly or not at all prepared' for retirement. Only 15% said they were 'very well or fairly well' prepared. Unsurprisingly, young people aged 25–29 were significantly more likely to feel unprepared (79%). So too, were women (74% compared to 57% of men) not surprisingly—who retire with 40% less super than men.

Knowledge makes a big difference to our level of confidence

The knowledge gained from working with a financial professional made a significant difference to how prepared participants felt when it came to self-funding their retirement. Those who used some type of financial professional were significantly more likely (21%) to feel 'very well/fairly well prepared' for retirement, while those who used financial planners/advisers specifically were even more confident (35%)—than those who did not use any type of financial professional at all (only 9% of these felt very well/ fairly well prepared' for retirement).

Will our super be enough to see us through?

Just how many Australians are on the path to a self-funded retirement? Only 54% believe that their superannuation will be enough to see them through their post-work lives. However those with financial planners/advisers (76%) and those with accountants (63%) were more confident, being much more likely to agree that they would rely on their superannuation in retirement.

Those who used financial professionals were also much less likely to say they would rely on the government in retirement: only 27% of those with a financial planner/adviser and 31% of those with an accountant indicated that they agree with 'I am/will relying on the Australian Government in my retirement', as opposed to 49% among those who don't employ a financial professional.

In general, super is starting to creep onto the radar, with some topping up their retirement savings: 29% made additional contributions to their super funds in the preceding 12 months.

Research findings: *Part 3 – A path to saving retirement*

Many of us feel unprepared for retirement

Are we on the path to self-funded retirement? Will we have enough money to see us through? They're questions that many are asking themselves as they ponder the balances of their super.

Baby boomers, who have had to play a huge game of 'catch-up' in this regard, are particularly concerned, according to qualitative research by the *Ipsos Mind & Mood Report*.

'I didn't contribute to my super for the first 20 years of my working life, so I'm probably 20 years behind in my super saving. There's a lot of work to be done before I retire. '

'I'm staying in the workforce as long as I can. But I'm still going to be short. So the longer I stay in work the better. And I don't want to live a life that's horrid. I want to have a holiday. So now I'm putting things into place that I should've 15 years ago.'

The growing discourse around the ageing population is putting retirement on the agenda for many everyday Australians—who will now spend a larger proportion of their lives out of the workforce: by 2050, life expectancy at birth is projected to be 84 years for men and 89 years for women.[1]

Expectedly, the impact of population ageing on public spending and the economy will be significant. Australian Government expenditure on health per person is projected to more than double over the next 40 years, while economic growth is projected to slow slightly due to lower population growth and declining workforce participation rates.[2]

When it comes to retirement savings and the ability for Australians to self-fund their retirement, a significant savings shortfall is looming for too many Australians. The projected savings gap—the amount needed to make all Australians (bar low income earners) self-sufficient in retirement—is projected to be $2.052 trillion (excluding the impact of the age pension), and even with the aged pension taken into account, the gap is still projected to be $768 billion.[3]

With a long retirement set to become the norm, just how prepared are Australians (of all ages) feeling? The research findings paint a picture of a population that is far from ready for the challenge. Of those not presently retired, 2 in 3, (66%) are 'slightly or not at all prepared' for retirement. Only 15% said they were 'very well or fairly well' prepared.

1 Centre for Excellence in Ageing Research (CEPAR), Population Ageing Fact Sheet, May 2103 http://www.cepar.edu.au/media/115866/cepar_fact_sheet_for_screen.pdf

2 Australian Government, The Treasury, 2015 Intergenerational report: Australia in 2055, March 2015, http://www.treasury.gov.au/PublicationsAndMedia/Publications/2015/2015-Intergenerational-Report

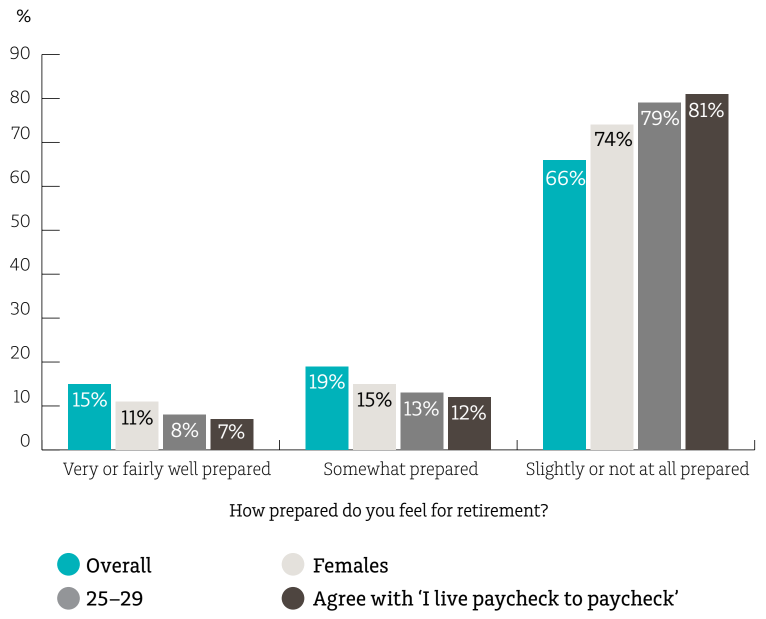
3 Financial Services Council, Savings and Longevity report: *Retirement Gap as at June 2014*. http://www.fsc.org.au/downloads/file/ResearchReportsFile/2015_0806_FSCSavingsandLongevityReport.pdf

Research findings:
Part 3 – A path to saving retirement

Young people aged 25–29 were significantly more likely to feel unprepared (79%). So too, were women (74% compared to 57% of men), not surprisingly, considering that they retire with 40% less super than men.[4] Average balances in 2009–10 were $71,645 for men and $40,475 for women, while average retirement payouts in the same period were $198,000 for men and only $112,600 for women.[5]

While the super savings gap between men and women is on track to narrow in the future due to greater workforce participation rates[6] and pay equality improving among younger generations,[7] **women are likely to still be left with a retirement shortfall** because of differing work and longevity patterns; time taken out of the workface to raise children, being likely to re-join the workforce part-time and having a longer life expectancy than men.

Woman and young people are more likely to feel unprepared for retirement



4 MLC, Quarterly Australian Wealth Survey, Q 2 2014.

5 ASFA – Developments in the level and distribution of retirement savings.

6 Australian Bureau of Statistics, 4125.0, Gender Indicators, Australia, January 2013.

7 Australian Government, Workplace Gender Equality Agency, August 2015, https://www.wgea.gov.au/research-and-resources/fact-sheets-and-statistics

Research findings:
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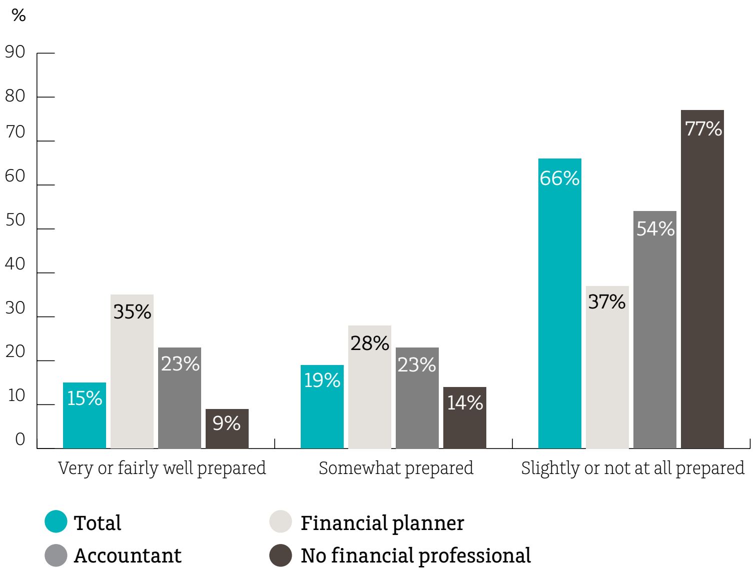
Knowledge makes a big difference to our level of confidence and ability to self-fund our retirement

When it comes to feeling prepared for retirement, the knowledge gained from working with a financial professional made a significant difference to how prepared participants felt. **Those who used financial planners/advisers were significantly more likely (35%) to feel 'very well/fairly well prepared' for retirement, more than three times the figure for those who did not use a financial professional (9%).** Those who used financial professionals were also much less likely to say they would rely on the government in retirement: only 27% of those with a financial planner/adviser and 31% of those with an accountant indicated that they agree with 'I am/will relying on the Australian Government in my retirement', as opposed to 49% among those who don't employ a financial professional.

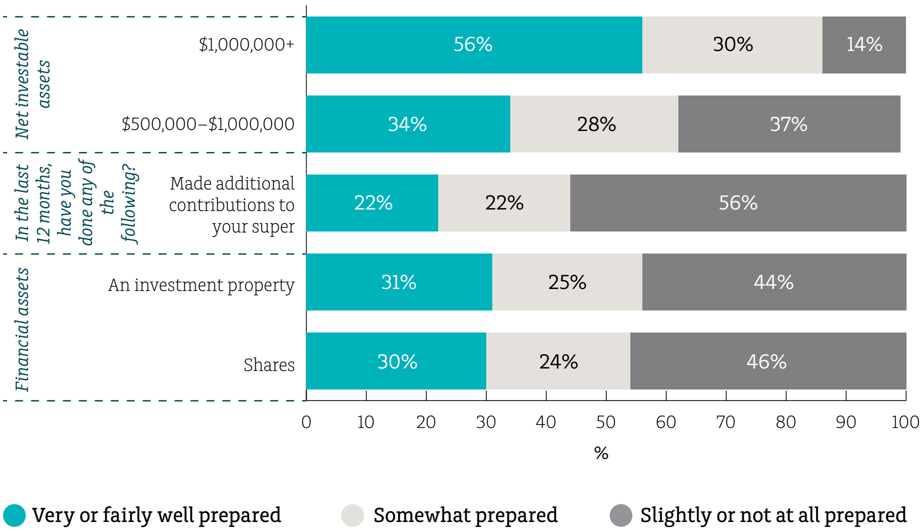
Ownership of assets or shares had a significant impact on how prepared respondents felt as well. **Just over half (56%) of those with assets of one million dollars or more (not including the family home) felt 'very or fairly well prepared' for retirement.** Similarly, **more than half of those with investment properties or shares felt better prepared for retirement, compared to only 15% of those with none of these assets.**

Use of financial professional and preparedness for retirement



Q21. How prepared do you feel for retirement? Base: all who aren't retired; n=1647
Note: total is total of those not currently retired

Assets, shares and making additional contributions to super significantly boosts a sense of preparedness



Q21. How prepared do you feel for retirement? Base: all who aren't retired; n=1647
Note: total is total of those not currently retired

Research findings: *Part 3 – A path to saving retirement*

Will our super be enough to see us through?

Despite the fact that Australia has one of the leading retirement savings frameworks in the world in compulsory employer superannuation, many are uncertain if their super will see them through, which may account for why many people plan to stay in the workforce longer to ensure that they stay on the path to a self-funded retirement: according to the ABS almost one in five Australians over 45 years of age who intend to retire, plan to retire from the labour force at 70 years and older. This represents a significant change to current patterns: the average age at retirement for recent retirees, that is, people who retired less than five years ago, was 61.5 years. The average age of retirement for men in this group was 63.3 years, while the average age of retirement for women was 59.6 years.[8]

However, there is still much uncertainty about exactly how much money is needed for a self-funded retirement. While current industry figures indicate that a couple (aged around 65) needs a lump sum of around $640,000 ($58,784 a year) to maintain a comfortable lifestyle in their retirement,[9] many are still unsure of about just how much super they will need.

'They say you need something like $50,000 or $60,000 a year to live on, I saw something on TV the other night.'

'On the radio the other day, they were saying that it depends on the lifestyle you want to lead. They were asking 'do you want to go on a holiday every year?' and they list this, this and this, and depending on what you want to do, you need so much.'

Some research participants nearing retirement age admitted to having no super at all, after being forced to raid modest funds due to divorce or illness.

I had to draw on my super because of illness. It's all gone.'

'I had to take mine out when I got divorced. I lost my house, lost everything. I had no choice but to access my super. I had no other way to live during that time.'

While other empty nesters felt conflicted between their desire to give their kids a leg up financially—usually with a house deposit—and saving as much as they could for their post work lives.

'It's an ongoing battle of balance between preparing for my own retirement and helping the kids. I don't have the answers to these things.'

The research findings reveal that only **54% believe that their superannuation will be enough to see them through their retirement. However those with financial planners/advisers (76%) and those with accountants (63%) were much more likely to agree that they would rely on their superannuation in retirement.**

Perhaps because of this uncertainty about having enough super, some are topping up their retirement savings: 29% made additional contributions to their super funds in the preceding 12 months, with men (28%) slightly more likely to do so than women (24%).

The importance of consolidating super is slowly creeping onto the radar too, with 27% having done so in the last 12 months. Interestingly, consolidation of super was more common amongst younger people (35% amongst those aged 25–29). Women too, were more likely to have consolidated their super (32% vs 23% for men), as well as those with a personal income of $70,000–$99,000 (40%), while only 21% of those aged 50–70 have done so.

Of those currently retired, women exhibited less confidence in their super seeing them through: 57% expect to outlive their savings (vs 32% of men) and 27% expect their savings to just last (vs 33% of men), and only 16% expect their savings to outlast them (vs 35% of men).[10]

8 Australian Bureau of Statistics, 6238.0 - Retirement and Retirement Intentions, Australia, July 2012 to June 2013 http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6238.0Media%20Release1July%202012%20to%20June%202013?opendocument&tabname=Summary&prodno=6238.0&issue=July%202012%20to%20June%202013&num=&view=

9 The Association of Superannuation Funds of Australia (ASFA), ASFA Retirement Standard, http://www.superannuation.asn.au/resources/retirement-standard

10 Investment Trends, Pty Ltd, Oct 2015 Retirement Income Report.

Research findings:
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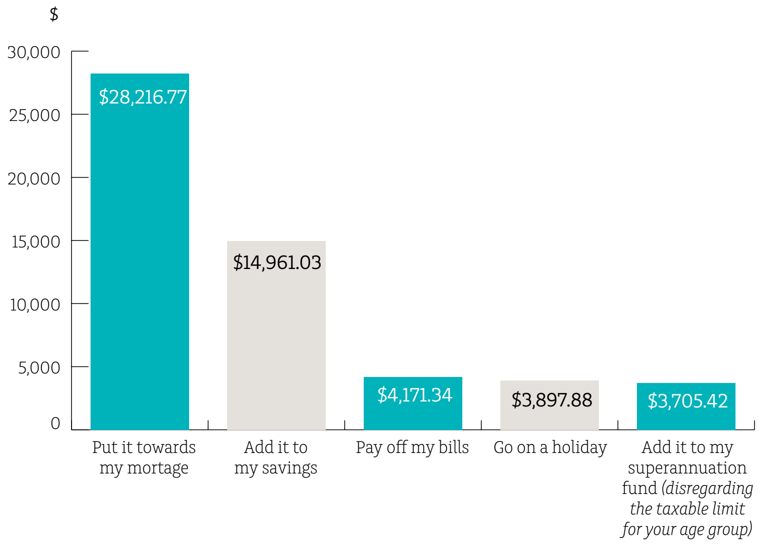
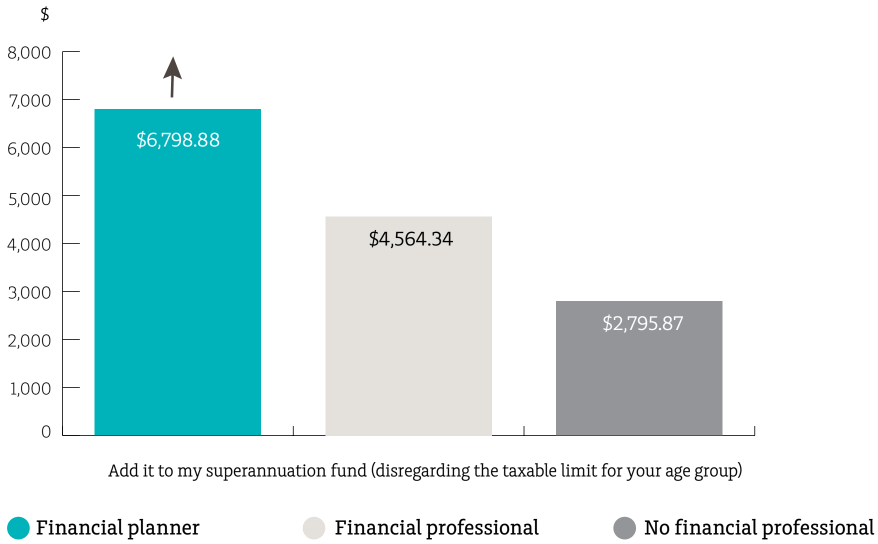
Despite increasing awareness about the importance of super, it's still not at the top of the priority list for most Australians. If gifted $50,000 most would spend the money other things such as the mortgage – participants would put more than half of their windfall on this – as well as savings and going on a holiday.

However those who use a financial planner ($6,798) and any kind of financial professional ($4,564) would put more of their $50,000 windfall into their super than those who don't use either of these ($2,795).

Hypothetical allocation of $50,000 gift



Those who use financial professionals would hypothetically contribute significantly more to their super if gifted with $50,000.

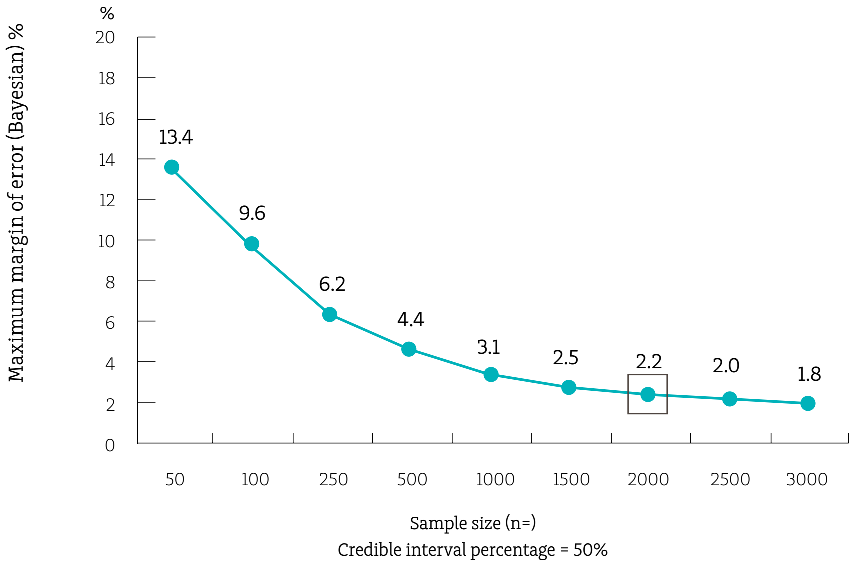


About the research: methodology and sample

The following section outlines the sampling, weighting and analysis used in this research.

Sampling

- National sample of n=2038, aged 25–70 collected through an online panel during August 2015. Gender, age and location quotas and weights were applied to ensure the sample was representative of the population
- Age, gender and location quotas were used in fieldwork. These were calculated on the ABS's 2011 Census data.
- This sample size has a maximum Bayesian margin of error of +/- 2.2% at 95% confidence, as depicted below. This means that if the study was repeated, a result of 50% could fall in the range of 47.8% and 52.2% and still be a reliable and valid finding. It should be noted that the margin of error decreases more slowly as sample sizes increase (for example, a sample of n=3000 would only decrease the maximum error by +/- 0.4%).



Weighting

- Data were weighted retrospectively to ensure maximum representativeness.
- Age, gender and location weights were calculated based on the ABS's most recent population estimates at the time of research.

Statistical analysis

- Each question was run by at least 18 different demographic and economic variables (including gender, age, income, social grade, use of financial advisors, tenancy, education, role within company, etc).
- Standard inferential statistics (including Chi-Square test of independence), ANOVAs/t-tests, Pearson correlations, Latent Class Analysis and Principle Component Analysis used to interrogate the data.

Additional qualitative research

Verbatim quotes are drawn from the existing, syndicated qualitative research by the *Ipsos Mind & Mood Report*, Australia's longest running social trends study, now in its 37th year.

The *Ipsos Mind & Mood Report* research is based on group discussions with Australians conducted in major capital cities and regional areas. Discussions follow the classical principles of non-directive research, which has three essential features:

- Groups used for the research are AFFINITY GROUPS—naturally occurring groups of friends, neighbours, workmates, etc.
- Discussions are held in the NATURAL HABITAT of the groups—private homes, clubs, offices or wherever the members of a particular group feel most comfortable.
- The asking of direct questions is avoided and the role of the researcher is essentially passive. Group members are encouraged to participate in SPONTANEOUS DISCUSSION.

About Ipsos and MLC

About Ipsos

Ipsos is a leading global market and social research organisation headquartered in Paris. Ipsos has Australian offices in Sydney, Melbourne, Brisbane and Perth. The social research division of the company, The Ipsos Social Research Institute, conducted the quantitative research and analysis, while the social trends division of the company, *The Ipsos Mind & Mood Report*, Australia's longest running qualitative social trends study, analysed the data, conducted additional desk research and wrote the whitepaper.

About MLC

For 128 years MLC has been helping our customers create the best possible future. Here's how we do it.

We believe in empowering our customers to grow and manage their wealth into retirement.

As National Australia Bank's wealth management division, we're committed to providing investment, superannuation, insurance and financial advice to our corporate, institutional and retail customers

Our wealth management expertise, coupled with the strength of being within the NAB Group, enables us to provide holistic financial solutions for our customers.

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