CONSULTATIVE REPORT:

Retirement Spending Levels and Savings Targets

MARCH 2022

Super Consumers Australia

ABOUT US

Super Consumers Australia (Super Consumers), formerly known as the Superannuation Consumers' Centre, is an independent, not-for-profit consumer organisation formed in 2013. Super Consumers was first funded in 2018. We work to advance and protect the interests of low-and-middle income people in the Australian superannuation system.

During its start-up phase Super Consumers has partnered with CHOICE to deliver support services. CHOICE is the leading consumer advocate in Australia, as an independent voice, ensuring consumers get a fair go.

We thank the Ecstra Foundation for funding this project.

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EXECUTIVE SUMMARY – AUSTRALIANS NEED REALISTIC RETIREMENT TARGETS

Knowing that people find retirement planning complex, and given deficiencies in the available information, Super Consumers Australia embarked on a project to help Australians answer the question "how much do I need to save for retirement?". In doing so, our organisation's mission as an independent advocate for superannuation consumers was crucial in allowing us to make considered decisions on appropriate methods and assumptions, free from vested interest.

The aim of this report is to provide a comprehensive picture of the project in order to solicit feedback on the validity of its rationale, methodology and outputs. We have incorporated consultation questions at the end of each section for feedback on specific areas but any other constructive feedback is welcome. The remainder of this summary provides an overview of the motivation, methodology, outputs and implications of the project.

Our research led us to conclude that for most people, maintaining their standard of living into retirement is both desirable and appropriate. We commissioned research with a diverse group of people close to or recently retired, and they strongly endorsed this view.[1] Looking at subjective wellbeing in retirement, the evidence shows that over 65s have the highest mean financial satisfaction and overall life satisfaction of all age cohorts.[2] A large majority of retirees report being financially satisfied and happier than during working life.[3] This is in the context of recent retiree age cohorts maintaining or reducing their overall spending on average once they retire.[4]

In addition, most retirees leave "the bulk" of the wealth they had at retirement as a bequest suggesting they are not income constrained.[5]

If you are an outright homeowner or expect to be in retirement, and....

Aged	Live	Want to spend about this much in retirement[1] (per fortnight)	(per year)	Then you need(ed) to save this much by age 65[2]
Around 67	By yourself	$1,077 (Low[3])	$28,000	$70,000
		$1,423 (Average)	$37,000	$259,000
		$1,923 (High)	$50,000	$758,000
	In a couple[4]	$1,538 (Low)	$40,000	$88,000
		$2,115 (Average)	$55,000	$369,000
		$2,808 (High)	$73,000	$1,021,000
Around 57	By yourself	$1,269 (Low)	$33,000	$89,000
		$1,654 (Average)	$43,000	$313,000
		$2,077 (High)	$54,000	$742,000
	In a couple	$1,846 (Low)	$48,000	$115,000
		$2,385 (Average)	$62,000	$409,000
		$3,077 (High)	$80,000	$1,034,000

[1]Spending levels are in today's dollars (December 2021). Retirement is defined as age 65 to 90 and spending in retirement rises with price inflation (stays the same in real terms). [2]This number provides 90% confidence that, given uncertain investment outcomes, you will be able to maintain spending (in real terms) at the standard level until age 90. The savings targets incorporate eligibility for the Age Pension.[3]Low, average and high describe spending relative to all recent retirees [4]Couple spending levels are the combined spending of both members.

On the basis of these findings, we developed retirement savings targets that help people achieve the goal of maintaining their standard of living in retirement. We use the best available data from the Australian Bureau of Statistics (ABS) on what people actually spend in retirement to derive spending levels and savings targets for a broad range of cohorts approaching or arriving at retirement. In order to have broad relevance, but also ensure our targets imply a minimum adequate standard of living in retirement, we produce standards for homeowners who are either single or coupled. Single and coupled homeowners currently represent 69% of over-65s households.[6] Retired homeowners have relatively low income poverty and financial stress rates relative to other retirees. By contrast, retired renters have elevated Income poverty and financial stress rates and as such, standards based on actual expenditure are not appropriate for them.

For the groups we target, we provide a 'low', 'medium' and 'high' level of spending in retirement and an associated savings target that will enable that level of spending through retirement. This is to allow people to compare their own spending level to our benchmarks and get a ballpark figure for how much they need to save to enable that spending in retirement. Our spending levels are based on the 30th, 50th and 70th percentile of the spending distribution of recent retirees. This gives people a basic 'rule of thumb' to help figure out their savings needs.

For the savings targets, we use credible assumptions based on the weight of evidence e.g. evidence around retiree spending patterns, to ensure the targets provide realistic estimates of required savings. Our method incorporates investment uncertainty and is calculated to provide a high level of confidence that the spending will be sustainable regardless of the investment environment. This is something that our consumer testing found people preferred,[7] but we are open to further feedback on. We provide a 'user guide' to consumers that has been consumer tested and is in the process of being refined.

Our goal is for independent and realistic retirement targets to gain broad adoption so that people have a trustworthy source of information on retirement planning and consumption. We have deliberately designed these targets to provide a heuristic for consumers to use in setting retirement savings targets. They are succinct enough to be communicated via static communications channels (e.g. media coverage) allowing engagement with a wide audience. However, these targets should be seen as the beginning of a retirement planning journey and should be supported by more tailored resources to help people who want to develop plans to suit their individual circumstances. As such, they are designed to get more people engaged with a fundamental question in retirement planning, 'how much do I need to retire?'.

INTRODUCTION

Super Consumers Australia hypothesised that retirees were left stranded when undertaking retirement planning and that Australians needed more help.

The Retirement Income Review found that complexity, misconception and low financial literacy have resulted in people not adequately planning for their retirement or making the most of their assets when in retirement.[8] It declared people need better information and guidance.

As a result, Super Consumers Australia ran a nationally representative survey of 45-80 year-olds to find out how they plan for retirement and what was important to them. We found that knowing how much to save for retirement was the most difficult aspect of retirement planning. The lack of help for people meant that only one in three had undertaken this assessment, but for those that did it was considered useful.

Knowing that people are confused, and that there is a lack of useful information and guidance, we embarked on a project to reshape retirement planning assessments for the typical Australian. If we could improve the quality and accessibility of knowing how much to save then we could help people with the major barrier in retirement planning.

What we set out to do to improve retirement planning in Australia

Super Consumers Australia undertook a research project to produce more realistic and useful spending levels and associated savings targets for retirement.

Using our commissioned nationally representative survey and in-depth interviews, we sought to understand how people plan for retirement and how they respond to and use spending levels and targets.

Supported by the fact that a large majority of retirees are happier and more financially satisfied once they are retired, we determined that the actual spending of Australians was the perfect basis for retirement targets. Using ABS data[9], we produced spending level guidance for recent retirees and pre-retirees (around age 57) based on the real expenditure of their peers.

We did this for:
- people who are singles and part of a couple;
- people who own their home; and
- people with low, middle and high expenditure (based on the distribution of expenditure of recent retirees).

HOW DO PEOPLE APPROACH RETIREMENT?

We commissioned market research agency Fiftyfive5 to help design and implement a nationally representative survey of 45-80 year-olds.[10] This was designed to capture the views of people who were planning for retirement and those who had already retired. We surveyed respondents on how they'd approached retirement planning and how they engage with retirement spending levels and savings targets.

We were interested in finding out whether the information we provided was something that people approaching retirement sought and valued. In addition, we wanted to know whether certain groups had a particular interest.

What are the most difficult aspects of retirement planning?

We sought to understand what people were finding most difficult about retirement planning and found that knowing how much to save for retirement was the most difficult aspect. This was the most commonly nominated area of difficulty among a list of 11 common retirement planning activities, as shown in Figure 1. It was also the most commonly researched question among pre-retirees, with 66% reporting to have researched it.[11]

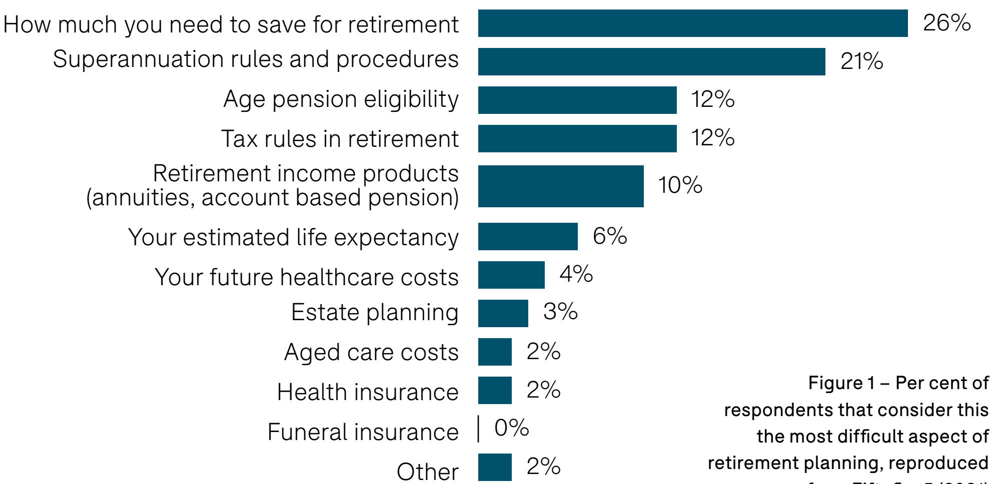

Figure 1 – Per cent of respondents that consider this the most difficult aspect of retirement planning, reproduced from Fiftyfive5 (2021)

Have people tried to work out how much they need in retirement?

We asked whether respondents had made an assessment of how much they needed for retirement or had one made on their behalf. Only 37% of respondents had such an assessment undertaken. However, for those that did, 76% found it useful, as shown in Figure 2. So, while only a minority of people are making or having these assessments made, it's clear that once they are undertaken, they provide significant value to those people and their retirement.

In the majority of these assessments (62%), the respondent had the aid of a financial advisor, accountant or Association of Superannuation Funds of Australia (ASFA)'s industry retirement standard to come to a figure. This shows that in many cases, people find it difficult to undertake these assessments on their own and they require assistance to empower them.

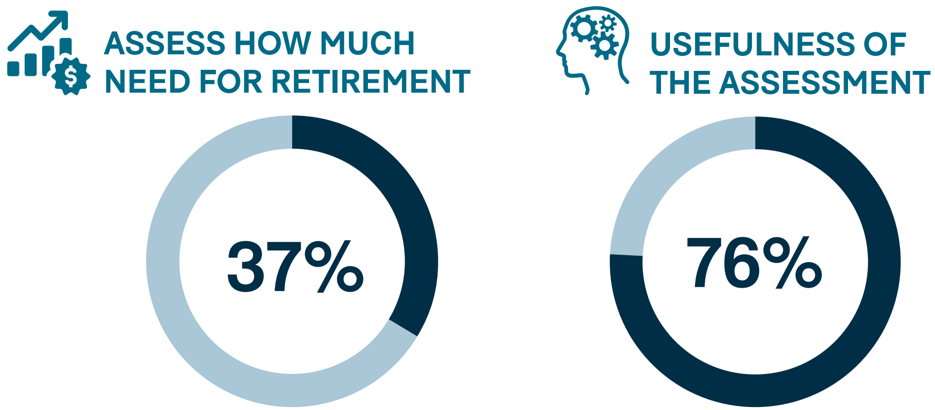

Figure 2 – Percentage of respondents that have had an assessment made and the percentage that found it useful, reproduced from Fiftyfive5 (2021)

Would people use retirement savings targets?

After presenting retirement savings targets to respondents, we asked them directly whether they were interested in making use of them and 62% of pre-retirees showed moderate or greater interest. Respondents younger than 59 had significantly higher than average interest, with 55-59 year-olds scoring the highest at 66%.[12] Given the high engagement from this group and the reduced applicability of standards designed to reflect the expenditure of older people, this result influenced us to develop savings targets for this demographic.

Will people choose targets that align with their household income?

It is important to know if we provide people with retirement targets, they will be able to use them effectively. We provided respondents with the draft spending levels and savings targets and asked them to choose the combination that best suited them. Given demographic information collected we were able to see whether the choices respondents made aligned with their actual household income and wealth. We found that across all three income levels the majority of people chose savings targets that aligned with their household income.[13]

We did find that those with low confidence in their ability to make financial decisions showed significantly less alignment, which points to the need for appropriate, accessible guidance to ensure the information we provide can be correctly interpreted by this group.[14]

People's approach to retirement planning is not homogenous

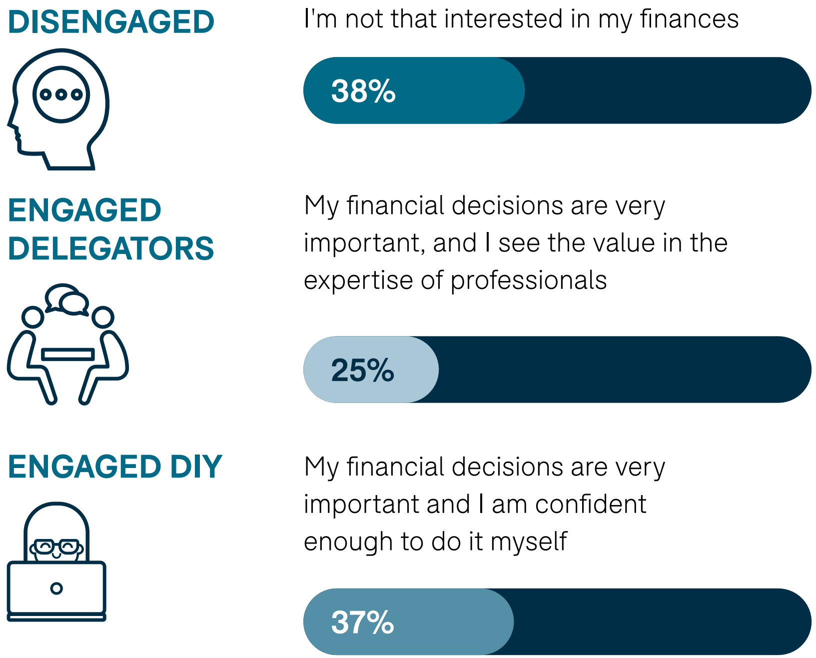

Figure 3 – Financial engagement groups, reproduced from Fiftyfive5 (2021)

Super Consumers Australia research reveals that there are three distinct approaches people take to retirement planning, detailed in Figure 3. These three groups are important as they give an indication of the likelihood of people to rely on the spending targets we have developed and where they are likely to source them.

The engaged DIYs (37%): This group is highly engaged with their finances but want to make decisions themselves. They are less likely to trust others to make decisions for them, including financial planners.[15] This group would likely benefit from independent tools that help them understand their retirement needs.

Our retirement savings targets are one such source. This group was also more likely than other groups to use the existing ASFA retirement income standards.[16] Given they didn't want to rely on financial professionals, such as financial advisers, to make decisions on their behalf, we see a unique place for independent bodies, such as Super Consumers Australia or Moneysmart, to provide them with this information.

The engaged delegators (25%): This group is engaged with their finances but look to others to make decisions for them, including financial advisers or default options. People in this group will require professional financial advisers offering quality advice, backed by appropriate default options.

The engaged delegator cohort, despite not using this information fully on their own, had a clear interest in this type of information. In fact, they spent more time on retirement planning than the engaged DIYers. This confirmed to us that it was important to make sure retirement targets were available to the people they do go to for decision making. This was commonly found to be financial professionals and super funds. With realistic retirement targets, advisers and super funds will be able to direct this cohort to appropriate levels of expenditure.

The disengaged (38%): This group is less engaged with financial decision making, in part because they tend to have limited means. They invested limited effort in making financial decisions and had low confidence that they would make good ones. They require the support of default options and super funds to assist with their retirement.

Our qualitative research, consisting of 24 x 80 minute online in-depth interviews with those planning on retiring in the next five years (and have actively started planning) or have retired in the last five years, indicated the disengaged group would be the hardest to reach with these targets. This is because this cohort doesn't plan their retirement journey and often have a catalyst to retirement and take action at that point.[17] But over half of the disengaged segment in our survey expressed at least moderate interest in the standards.[18] It provides hope that we may be able to reach some of the disengaged segment with our work.

Figure 4 – Breakdown of financial engagement questions by engagement group, reproduced from Fiftyfive5 (2021)

Where do people look for retirement planning guidance?

The information sources that people use for retirement planning is varied.

> *"There's a lot of info out there but it's hard to find, you really have to look around – it would be great if there was a one-stop-shop for all retirement investment info – it would take the pain out for people who don't have the time or interest to find it all out."* - **Maria pre-retiree, 67yrs**

Consistent feedback we received is that there is no one-stop-shop for retirement planning guidance. Figure 5 shows the relative popularity of different sources.

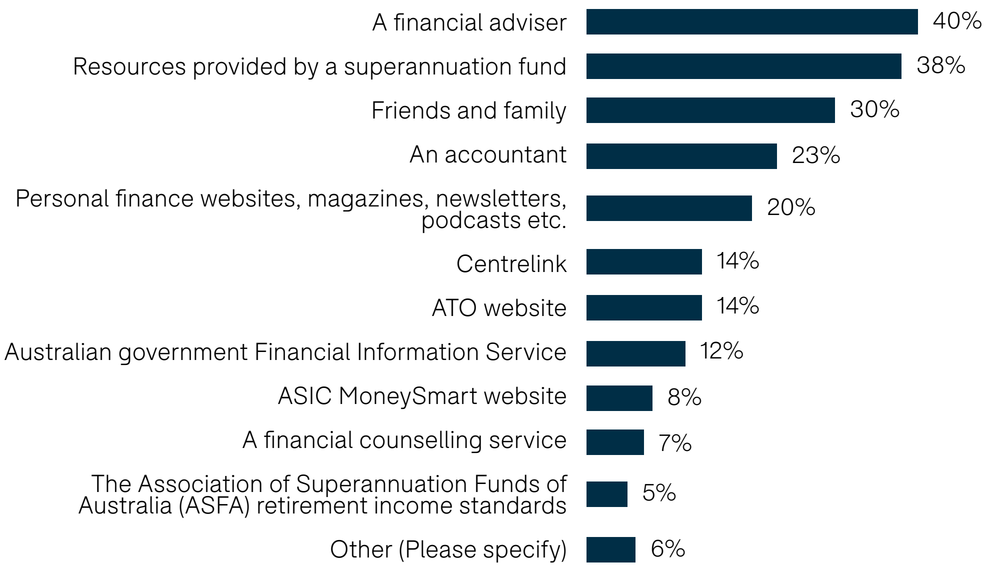

Figure 5 – Usage of different retirement planning sources, reproduced from Fiftyfive5 (2021)

Super funds are the second most widely used resource for retirement planning. However, interviewees in our qualitative research had reservations about the credibility of information about savings needed for retirement provided by super funds. They had a strong preference for independent information and saw our work as more credible for this reason.[19] This was also our finding when we asked survey respondents who they trusted to provide retirement savings estimates – an "independent, expert superannuation consumer group", "the superannuation industry" or some other source. 54% opted for the consumer group, against 34% for the industry with the rest specifying another source.[20]

Our survey also showed substantial use of free online resources such as personal finance media and government backed services like the Australian Tax Office (ATO) or Centrelink. The engaged DIY segment were the most likely to use this sort of resource and also the most likely to use the ASFA standards.[21] This suggests the engaged DIY segment is the group of consumers most likely to seek out our standards when they are publicly released.

Questions for consultation

1.1 Our research uncovered three distinct approaches to retirement planning. Are you aware of complementary research that affirms or conflicts with this segmentation?

LEARNING FROM THE SHORTCOMINGS OF EXISTING RETIREMENT STANDARDS

In Australia, there is currently only one set of retirement standards, which are widely used by super funds, regulators, academics and the media. Produced by a superannuation industry lobby group known as the Association of Superannuation Funds of Australia (ASFA), they are generally referred to as the ASFA standards.

They consist of budgets that are intended to represent both a 'modest' and a 'comfortable' standard of living in retirement, for singles and couples "around 67" and "around 85" years old. They also produce associated savings targets that provide an estimate of the cost of funding these budgets through retirement.

ASFA standard	Household	standard amount
modest	single	$29,139
modest	couple	$41,929
comfortable	single	$45,962
comfortable	couple	$64,771

Figure 6 – ASFA 'modest' and 'comfortable' standards for people aged "around 67"

In recent years there have been a number of more critical assessments on the value of the ASFA standards as a tool for guidance, research and policymaking. In the Productivity Commission's comprehensive report on the state of the superannuation system, they refer to the ASFA standards as "more than many people spend before retirement" and "no more than an arbitrary benchmark that should be ignored in policymaking".[22] The more recent and similarly comprehensive Retirement Income Review, commissioned by the Federal Government, came to similar conclusions.[23]

We also consider the ASFA standards to have significant limitations, particularly for consumers seeking to understand how much to save for retirement. In this chapter we consider the influence of the ASFA standards on public perceptions of retirement income adequacy, provide historical context to the ASFA standards, consider the merits and drawbacks of the budget standard approach and consider some limitations of the ASFA standards for consumers, researchers and policymakers.

Influence of the ASFA standards

Reliance on the ASFA standards has affected media and public perceptions of what constitutes an adequate retirement income. Much of the media coverage around retirement incomes has focused on the supposed inadequacy of Australians' retirement balances by comparing them with the ASFA 'comfortable' standard, which was initially designed for, and still broadly reflects, a standard for the top 20% of retirees. Our qualitative research found a common perception among people near to or recently retired that a couple needs at least a million dollars to retire.[24] The ASFA targets are lower than this but given the savings targets are well above what most savers will achieve, still contribute to the narrative that Australians have inadequate retirement savings.

"Almost one third of Aussies believe they'll need more than $1 million to retire" **News.com.au 28/4/21**

"For a ballpark figure on how much super you need, you can start with figures from ASFA" **ABC Everyday 17/08/21**

"According to ASFA, those that aim for a "comfortable" retirement need $545,000 (singles) or $640,000 (couples)" **News.com.au 22/10/21**

"A comfortable income in retirement requires an annual income of $62,083 for couples and $43,901 for singles, according to ASFA" **Australian Financial Review 03/2/21**

History of the ASFA standards and a consideration of the merits and drawbacks of the budget standard approach

The origins of these standards are in an academic project commissioned by the Department of Social Security in 1995 to help assess the adequacy of social security payments.[25] The logic of the budget standard approach can be summarised as "budget standards thus provide a framework for identifying and costing the full range of needs associated with economic and social participation in a given society at a given point in time".[26]

To do this, the level of social and economic participation the standard is intended to reflect needs to be set. The authors describe their "modest but adequate standard" (which forms the basis for the current ASFA 'modest' standard) as intended to allow "full opportunity to participate in contemporary Australian society and the basic options it offers". They set themselves the task of determining what a set of defined households need to satisfy this aim, while also attempting to "describe the situation of households whose living standards fall somewhere around the median standard of living experienced in the Australian community as a whole".

In essence, instead of just looking at expenditure, they want to allow for expert judgement in order to ensure the budget achieves its aim while also ensuring it is seen as legitimate and "relevant to the actual lives and values of Australian households". This is ensured in two ways. Firstly, the authors extensively use actual expenditure data to populate the budget where there is no clear norm to follow regarding expenditure. Secondly, the authors validate the budgets based on their alignment with the median expenditure of the relevant household using ABS Household Expenditure Survey (HES) data.

What this amounts to is a budget that is partly normative (based on expert judgements), partly behavioural (based on actual expenditure patterns) and partly amended to better align with actual expenditure. The authors consider the primary value of this approach is the normative component, as it allows expert judgement of household needs and the cost of fulfilling them. There is a clear value to this if you are assessing minimum adequacy, as the normative component includes more objective assessments of factors such as adequate nutrition and housing. However, for the "modest but adequate" standard, the need for normative considerations is less clear. There is some value from a research perspective in answering questions such as whether middle income households can really afford 'full participation' in Australian society. However, the inclusion of expert judgements is likely to be more subjective, which is potentially a problem for retirement planning if the users do not accept the assumptions made by the authors, as noted in the Retirement Income Review.[27]

In 2004, key members of the same group that produced the original standards were commissioned by ASFA to produce an updated 'modest but adequate' standard specifically for older Australians, and a new standard referred to in the report as 'comfortably affluent but sustainable'. The authors note it "reflects a standard of living among older, healthy and fully active self-funded retired Australians … It represents a lifestyle that is common amongst those in the top (income) quintile of the aged population".[28]

At this higher level of income, the question of the value add of "expert judgement" is even more acute. What normative considerations add value for the "comfortably affluent" over simply describing the actual consumption patterns of their peers? There does not appear to be much value except that the budget approach ensures the user can fully survey the consumption the target expenditure affords them.

Since 2004 ASFA has increased the 'modest' and 'comfortable' standard quarterly, based on changes in the Consumer Price Index (CPI), as well as periodically modifying the budget contents to reflect changes in consumption patterns among Australian households, most recently in 2018. These periodic changes in content of the consumption baskets have led to shifts in their value relative to the actual expenditure of Australian households. This is important in terms of their applicability to pre-retirees. ASFA includes a calculator on their website that allows a working age person to assess their future retirement income against the ASFA standard, inflated by CPI. The accuracy of this assessment for those more than a few years from retirement (assumed to be 67) is questionable, given that the contents of the budget standard are intended to be periodically updated, causing abrupt shifts in their value not reflected in the calculator.

The current limitations of the ASFA standards for people seeking information about how much they need for retirement

2. The standards are not appropriate targets for key cohorts

To understand the limitations of the ASFA standards for some key cohorts, it's important to specify what are appropriate goals for retirement income. In our view, the two main goals of the retirement income system should be to provide at least a minimum adequate standard of living and to support people to maintain their standard of living between working life and retirement.

The second goal reflects the logic of consumption smoothing – consumer welfare is optimised by smoothing consumption through a lifetime. As the Retirement Income Review laid out in detail, the ASFA 'comfortable' standard is in conflict with this goal for a middle-income earner as it is a retirement goal that implies a "substantially lower standard of living in working life". A median income earner would need a compulsory superannuation savings rate of 16.5% to support the ASFA 'comfortable standard' in retirement, well above the legislated superannuation guarantee rate, even after its scheduled rise to 12% in 2026.[29] As noted above, the 'comfortable' standard was originally designed for the top income quintile of retirees and still broadly reflects this intention. Figure 7 shows that the 'comfortable' standard approximately corresponds to the 80th percentile of spending for single retirees who are outright homeowners, and the 60th percentile for couples.

The 'modest' standard sits near the 50th percentile for singles and the 30th for couples. What this means is the ASFA standards give some cohorts no appropriate standard to maintain their spending through retirement. To some extent this is an inevitable issue with a retirement standard that attempts to lump a large percentage of the population into a broad cohort. The issue is particularly pronounced with the ASFA standards, as the diversity of retirement income needs in the community is reduced down to just two levels. The standards are then given subjective names (e.g., 'modest' and 'comfortable') that may have little bearing on a person's income smoothing needs. For these cohorts, and especially those with savings far below the ASFA comfortable targets, this may actually disengage them from retirement planning, although they may in fact be on track to maintain their standard of living. It is of course true that some people may desire not to smooth consumption, but our qualitative research found a consensus among interviewees that they wanted to maintain their spending levels into retirement.[30]

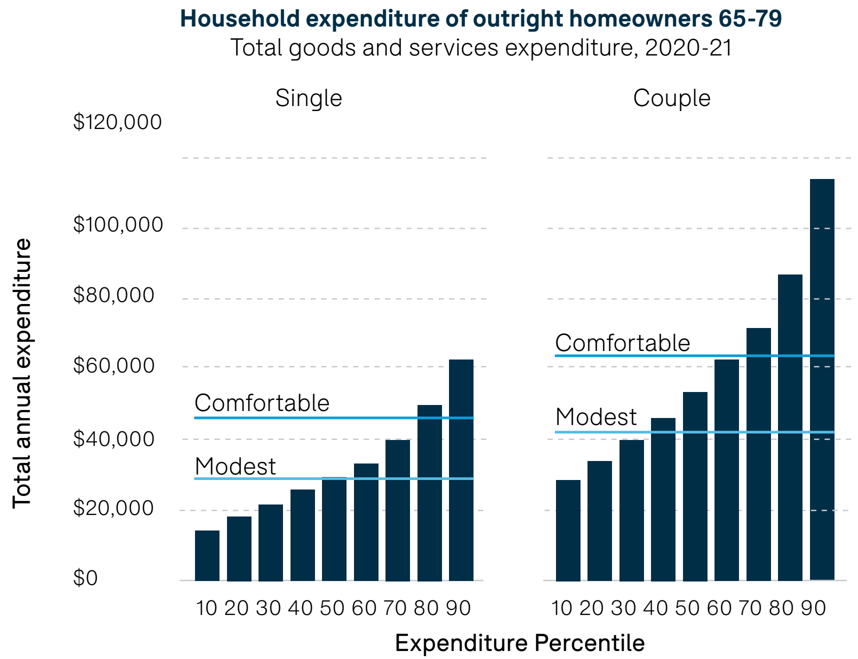

Figure 7 – Comparison of ASFA spending levels with actual 65-79 year-olds outright homeowner expenditure

3. The savings targets are inflated

In order to produce a level of savings that will fund the consumption of the ASFA standards through retirement, an assumption has to be made about what happens to the level of expenditure as the person or couple age. ASFA chooses to inflate the spending with wage growth, in order that it keeps pace with general community living standards. However, the best evidence available suggests that the expenditure of recent age cohorts of middle-and-high income Australians tends to stay the same or fall in retirement, in real terms. This was the Retirement Income Review's conclusion based on a quasi-longitudinal analysis of ABS HES data.[31] Figure 8 shows how median expenditure for a selection of age cohorts evolves into retirement, showing maintenance or decline from age band 65-69 across all cohorts. The HES analysis is corroborated by bank account data collected by actuarial consulting firm Milliman[32], which shows spending declining with age through retirement, regardless of wealth level.

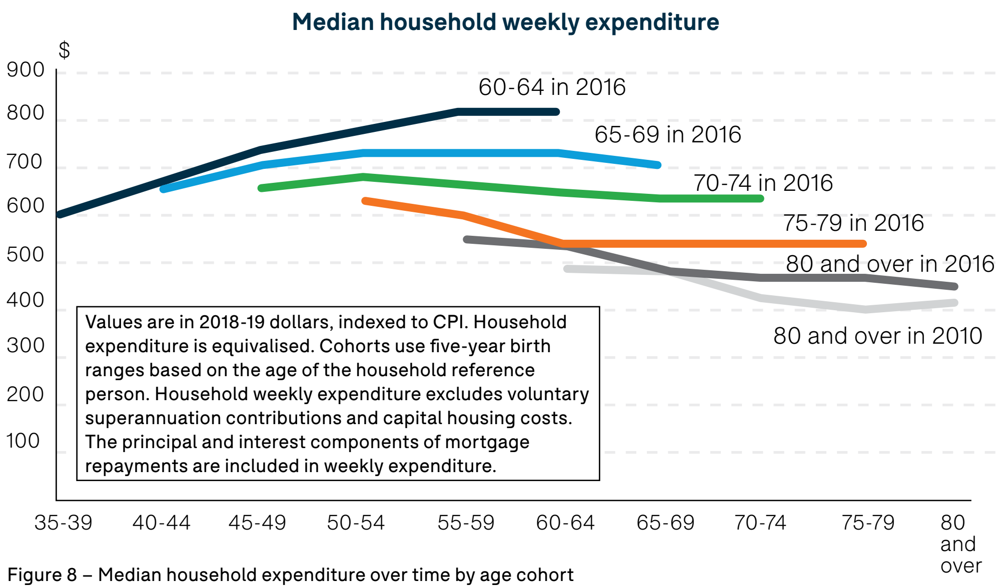

Figure 8 – Median household expenditure over time by age cohort (reproduced from the Retirement Income Review)

This implies it is more appropriate to use an assumption of maintenance of real terms expenditure, which in turn implies the ASFA savings targets are inflated. This has the practical implication that even people that would be able to maintain their standard of living by aiming for the ASFA standard will over-save if they use the ASFA savings target as their guide. One very large super fund, Aware Super, clearly acknowledges the potential threat of over-saving by amending the ASFA savings targets to use price rather than wage inflation in modelling it provided to the Retirement Income Review[33] and to its membership.[34]

4. It is inappropriate to apply the standards to pre-retirees in their mid-50s and younger Australians

The ASFA standards are consumption bundles and so in the short term, inflating them by changes in consumer prices is appropriate. However, in the mid-to-long term, consumption patterns among the target groups will change with technological, cultural and social changes in Australian society. ASFA recognises this and periodically alters the contents of the standard budgets to reflect changes, such as the advent of mobile phones.

However, this also means that inflating the standards more than around five years into the future could see them lose track with the underlying logic of a representative bundle "relevant to the actual lives and values of Australian households". This issue becomes even more pronounced if the projections are made decades from retirement. Currently the ASFA website allows anyone age 21 or over to benchmark their future selves against the standard using a calculator. Given the amount of rebalancing of the ASFA standards that needs to occur because of its approach to modelling, the result cannot accurately reflect the actual future value of the standards for people in their mid-50s, let alone younger people.

This is a problem as intuitively retirement savings targets are most useful to those who 1) are actively engaging with the question of how much to save; and 2) have time to take action to ensure they achieve the target. Our research shows that people in their 50s are the most engaged with the concept of retirement standards[35] and are likely to be in the "focused planning" stage of their retirement journey, as shown in Figure 9.

An independent approach that learns from shortcomings and adds value for consumers

These limitations in the ASFA standards mean they add little value for many people seeking guidance about how much to save for retirement. While name recognition of the ASFA standards is low – only 5% of 45-80 year-olds said they had used them for retirement planning[36] – their use by various media outlets and super funds means they may have a larger impact on people's decision making.

Both our qualitative and quantitative research suggest a level of distrust in savings estimates provided by and produced for super funds. This reflects the obvious incentive for funds to maximise contributions, which is aided by higher savings targets. When asked who they were most likely to trust to provide retirement savings targets, 51% of 45-80 year-olds preferred an "independent, expert superannuation consumer group", while only 34% chose "the superannuation industry".[37] In our qualitative research, interviewees felt it was imperative that information about how much to save for retirement came from an impartial source, as expressed in the quote in Figure 10.[38] This finding is reinforced by results from consumer group CHOICE's nationally representative consumer pulse survey, which found that when comparing superannuation funds, 65% of respondents expressed a preference for information that is independent and free from conflicts.[39]

Figure 10 – Quote from Fiftyfive5 interview participant

"I've used calculators before, but they are from superfunds themselves, so you always wonder. like that this is based on actual people, and it makes it more independent - ***Pre-retiree, female 58yrs***

Figure 9 – Retirement planning journey of financially-engaged interviewees in commissioned qualitative research[79]

EARLY/MID 40S → **EARLY/MID 50S** → **EARLY/MID 60S** →

Financial diligence through contributing to super, and asset accumulation and/ or wealth generation to build a stable and secure financial future

Early/ first idea of seeking to retire early; seeking to spend more quality time and enjoy freedom. Spurred on by realization of mortality (e.g. friends/ parent die, and/or starting to feel 'fatigued' from decades of hard work; setting a broad timeline

Focused attempt in retirement planning; working out the 'magic number', Speaking to others; doing homework financial advisor to help formulate broad plan in context other than spending

Often needing to deal with financial set back due to redundancy, illness, divorce, investment issues and seeking to get back on track; including re-adjusting plans

Seeking to pivot their spending into retirement funding including boosting Super contributions and streamlining assets and investments. Most have niggling uncertainty regardless of funds/ assets available

The time to retire often requires a catalyst; typically, this relates to no longer enjoying work due to changes and/or being more fatigued or major health scare; engaging financial planner to work out finer details

Retirement doesn't mean stop earning and/or stop seeking to build wealth, some continue to have plans to invest, buy property, earn etc.

In the following chapters we detail an alternative approach to producing retirement standards that addresses the shortcomings listed here. Our approach aims to provide useful information to a much wider group of people using more realistic assumptions. Our organisation's purpose as an independent advocate for superannuation consumers makes us well placed to produce guidance designed exclusively to add value for consumers.

Questions for consultation

2. 1 Our savings target is constructed using the assumption of constant real terms expenditure in retirement. In your view, is this an appropriate assumption?

2. 2 One benefit of budget standards is the ability to provide detailed insights into what can be afforded by someone spending at the level of the budget. Do you see value in providing similar context to people using standards based on actual expenditure and how would this best be achieved? e.g. expenditure on holidays

2. 3 Are there any further considerations that we ought to take into account in our analysis of the existing retirement standards, that might impact our conclusions regarding their limitations?

2. 4 In this section we focus on the ASFA standards as they are the only widely cited set of retirement standards in Australia. Are there lessons to be learned from other retirement standard research, in Australia or abroad, that should be incorporated into our approach?

RATIONALE FOR OUR APPROACH TO ANSWERING THE QUESTION "HOW MUCH DO I NEED TO SAVE FOR RETIREMENT?"

In producing guidance for people on how much to save for retirement, we were guided by two main concerns:

1. **What is the most useful way to derive spending level targets for consumers?**
2. **What are the most realistic assumptions on which to base our savings targets?**

In this chapter we explore the rationale behind our approach to producing retirement standards, answering the questions posed above.

Deriving spending level targets

In the previous section we considered the pros and cons of ASFA's budget standard approach. We noted that once we move from a minimum standard to standards that reflect higher levels of expenditure, the value of '"expert judgements" of what consumers need falls in value. Additionally, those budget standards are in large part based on behavioural data and amended to align with actual expenditure. This begs the question, for those with means beyond a minimum adequate standard of living, why not just directly use the actual expenditure of the target cohorts? In this way, we can produce spending levels relevant to a much broader section of the population in a substantially cheaper and less time-consuming way.

A possible limitation of this approach for some cohorts is that their actual spending is constrained – it does not represent the lifestyle they desire but only the lifestyle they can afford. To consider whether this is the case for retiree cohorts we can look at measures of general and financial wellbeing. In general, over 65s have the highest mean financial and overall life satisfaction of all age cohorts.[40] The large majority of recent retirees (88%) claim to be financially satisfied, as shown in Figure 11.

Financial satisfaction among recent retirees

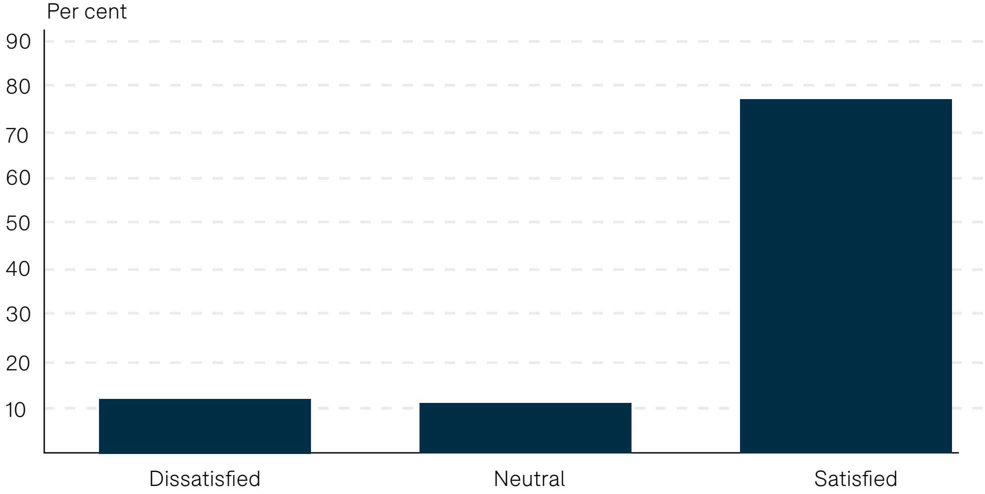

Figure 11 – Financial satisfaction of recent retirees, reproduced from the Retirement Income Review Final report (2020)

Note: Recent retirees refers to people who retired in the five years up to 2018. 'Satisfied' refers to retirees who reported a financial satisfaction score of 6 or greater in 2018. 'Neutral' is a score of 5 and 'Dissatisfied' is 4 or less.

Levels of financial satisfaction in retirement are only weakly related to income – even at low-income levels we see high rates of satisfaction, as shown in Figure 12.[41]

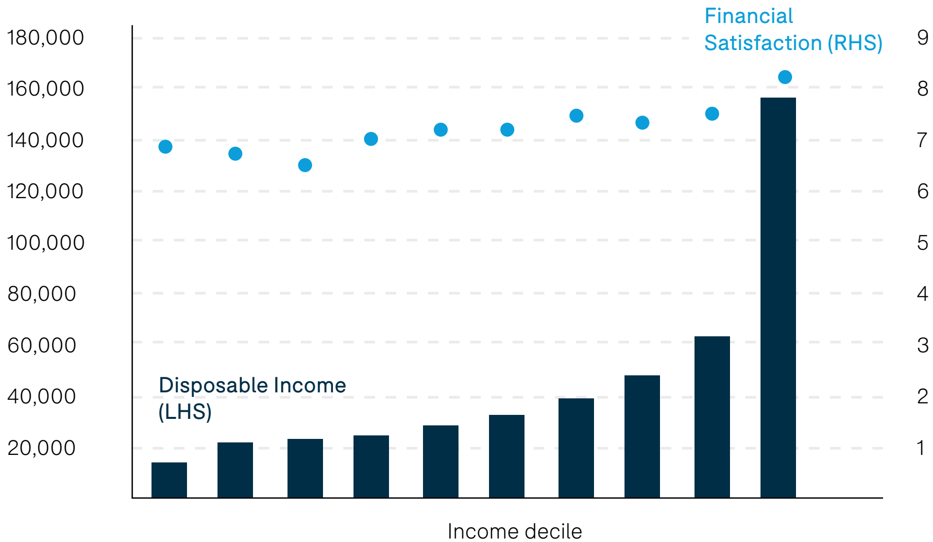

Figure 12 – Financial satisfaction by income decile. Reproduced from Daley et al (2018)

Notes: Households are weighted according to HILDA survey weights. Households with negative disposable income are coded as disposable income equal to $0. Self-reported satisfaction with 'overall financial situation'. Financial satisfaction at the household level is the average of the financial satisfaction of all responding members of the household.

Finally, a large majority of retirees are happier in retirement than during working life. As shown in Figure 13.[42]

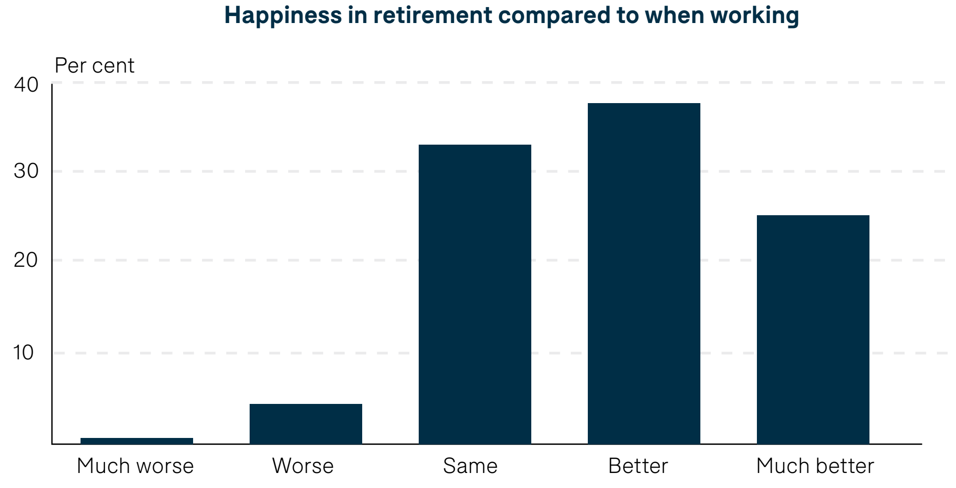

Figure 13 – Happiness in retirement compared to when working, reproduced from the Retirement Income Review Final report (2020)

Note: Proportion of responses to 'Better or worse since you retired - your overall happiness?' last asked in 2015.

There are some important exceptions to this positive overall picture. Retiree renters and involuntary early retirees have lower levels of financial satisfaction than other retirees. They also have elevated rates of income poverty and financial stress compared with other retirees, as shown in Figure 14 and Figure 15. For these groups, the value of a retirement standard is mixed. Developing targets based on actual expenditure for this group would be inappropriate as we know they lead to high levels of financial stress and poverty. Developing aspirational targets based on demonstrating the expenditure required to have similar goods and services expenditure to homeowners, whilst also paying rent, may have some utility to younger renters who can alter their circumstances but may only lead to disengagement for those closer to retirement, as they are likely to be unable to afford the standards.

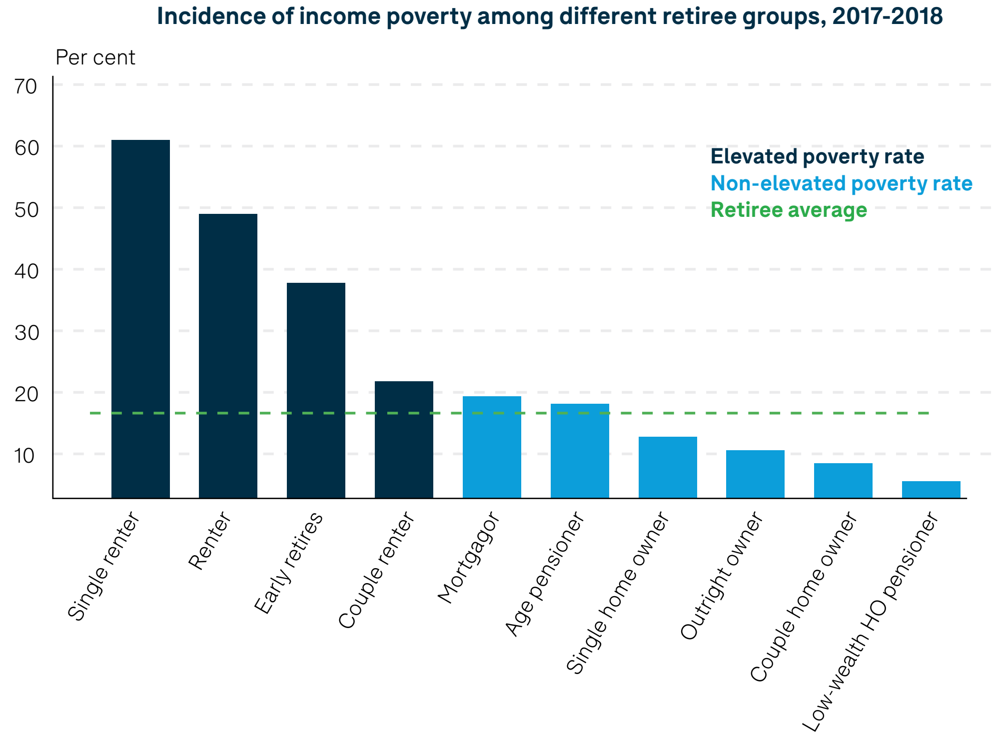

Figure 14 – Income poverty rates among different retiree groups, reproduced from the Retirement Income Review Final report (2020)

Note: Data relates to 2017-18 financial year. Elevated poverty rate defined as 5 percentage points above retiree average. Retirees are where the household reference person is aged 65 or over. There is overlap between some categories; for example, the age pensioner and all couple retiree categories. Early retired means aged 55-64 and not in the labour force. Low-wealth HO pensioner means outright home owning retired households in receipt of government payments and in the bottom 20 per cent of the wealth distribution. Housing costs includes the value of both principal and interest components of mortgage repayments

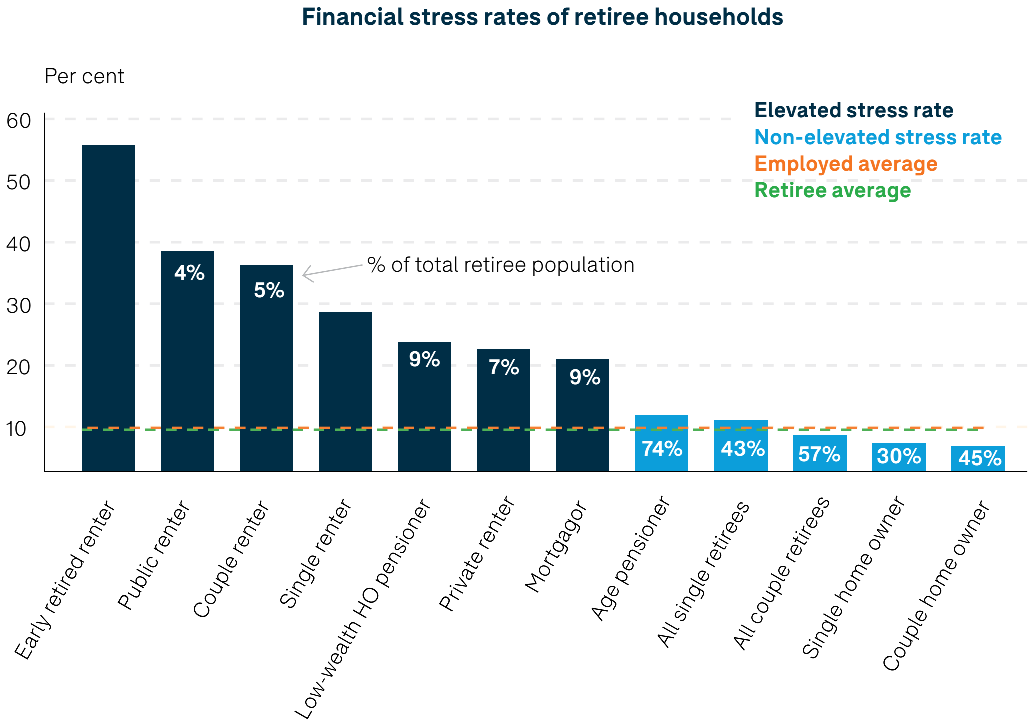

Figure 15 – Comparison of financial stress levels among selected retiree groups, reproduced from the Retirement Income Review

In the development of our public-facing standards, we decided to address this by focusing on homeowners and setting the retirement age at 65 (the average age in recent surveys).[43] In the over-65s cohort, outright homeowners are the large majority of households, which gives our standard broad relevance.

For homeowners, the Age Pension provides an adequate floor on their retirement income. The Age Pension exceeds absolute and relative poverty lines[44] and the Retirement Income Review found pensioners do not have elevated levels of financial stress (see Figure 15). Since our 'low' standard lies above the Age Pension, as shown in Figure 16, they are an appropriate baseline for home-owning retirees.

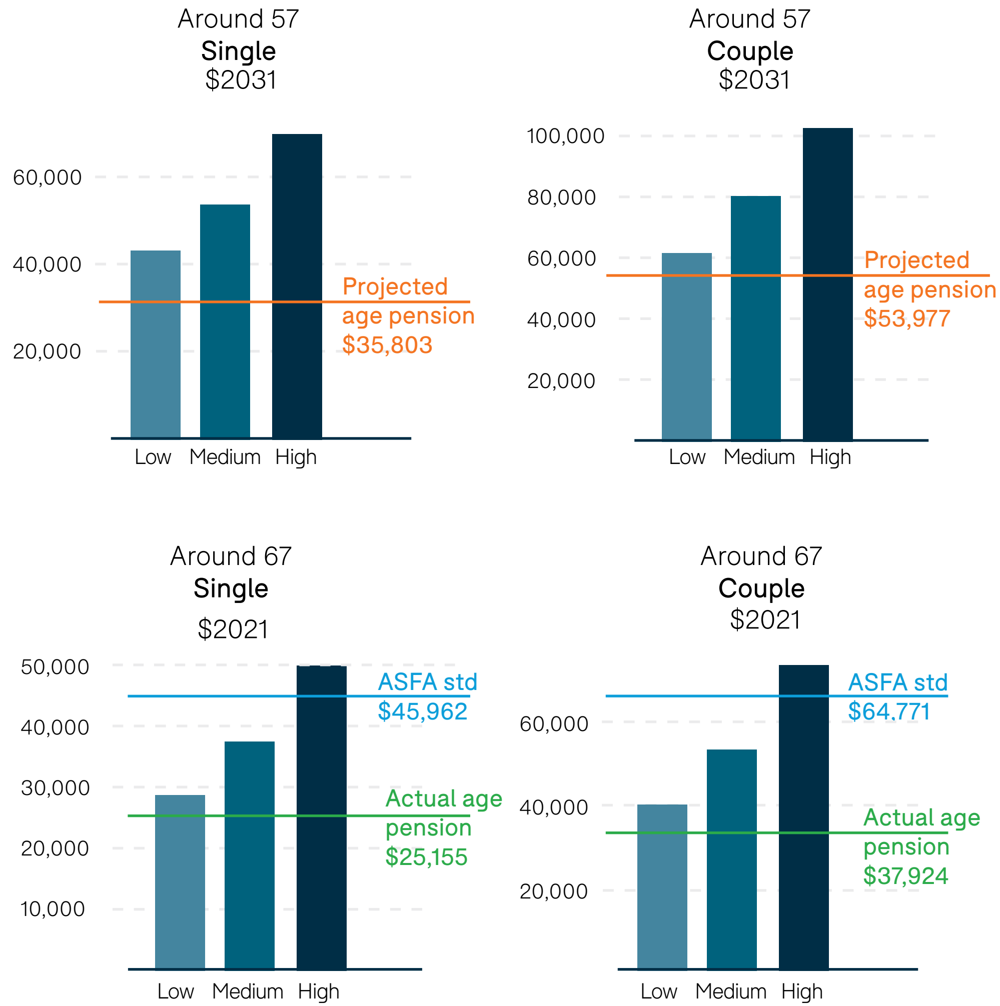

Figure 16 – Super Consumers retirement standard spending levels, benchmarked to actual and forecast values of the age pension

A second issue of importance is whether using actual expenditure aligns with the goal of lifetime consumption smoothing. There are two parts to this. Firstly, can standards based on actual expenditure provide enough variation in spending levels to ensure that they are useful to most people who are pursuing a goal of maintaining their standard of living in retirement? As noted in the last section, some key cohorts are not well served by the ASFA standards. Given that we can produce a spending level for any percentile of total goods and services expenditure using ABS HES data, using actual expenditure makes it a lot easier to achieve the goal of relevance.

Secondly, does using actual expenditure imply that the user of our guidance will be able to achieve an adequate replacement rate of pre-retirement income? That is, will they be able to maintain a similar level of spending in retirement relative to working life, taking into account that housing costs tend to fall 25-35% as people pay off their mortgage? When the Retirement Income Review looked at replacement rates for current retirees, they found them adequate regardless of income level.[45]

Realistic assumptions for saving targets

In order to produce savings targets, a key assumption is how to model the progression of expenditure through retirement. In doing so, we should consider what kind of lifestyle people desire in retirement and what actually happens to their expenditure.

In 2021, Super Consumers commissioned two pieces of research on retirement planning. The qualitative research consists of 24 x 80 minute online in-depth interviews with those planning on retiring in the next five years (and have actively started planning) or have retired in the last five years. The sample included a mix of income levels, household types, whether they owned or rented and states of origin. The research found that "regardless of level of wealth, all interviewees sought to continue their current lifestyle and level of spending".[46] This leads us to conclude that people generally desire to maintain spending in retirement.

Super Consumers also commissioned a nationally representative survey of 1500 Australians aged 45-80. The survey asked respondents what they thought would happen to their expenditure in retirement (pre-retirees) or what had happened (retirees). In both cases, around 75% (73% for pre-retirees, 78% for retirees) thought their spending would stay the same or "somewhat decrease", as shown in Figure 17.[47] This suggests people are generally expecting to maintain or slightly reduce their spending in retirement.

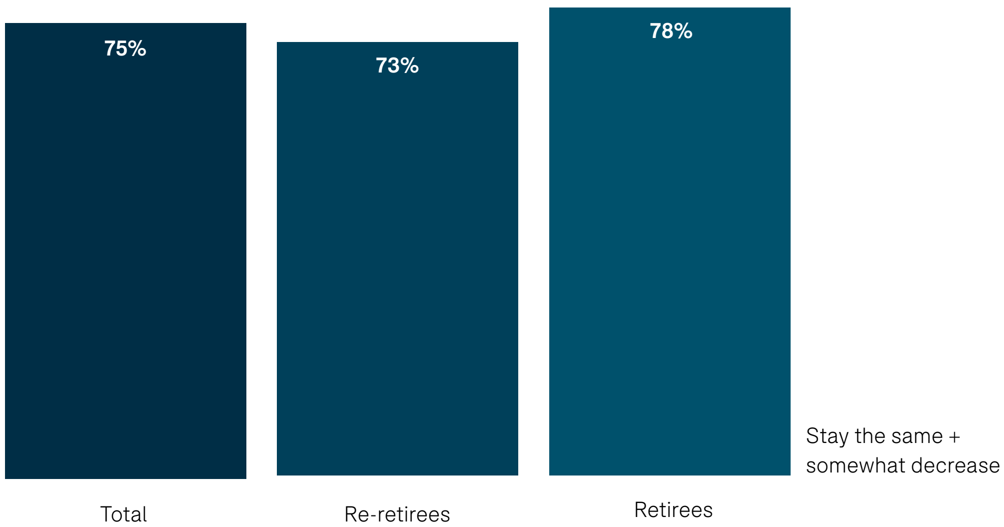

Figure 17 – Expectation or experience of expenditure in retirement. Reproduced from Fiftyfive5 retirement expectations survey (2021)

In terms of what actually happens to spending in retirement, the best available evidence suggests that the expenditure of retired Australians tends to stay the same or fall in retirement, in real terms. This was the Retirement Income Review's conclusion[48] based on a quasi-longitudinal analysis of ABS HES data. Figure 18 shows how median expenditure for a selection of age cohorts evolves into retirement, showing maintenance or decline from age band 65-69 across cohorts. The HES analysis is corroborated by bank account data collected by actuarial consulting firm Milliman[49], which shows spending declining with age through retirement, regardless of wealth level.

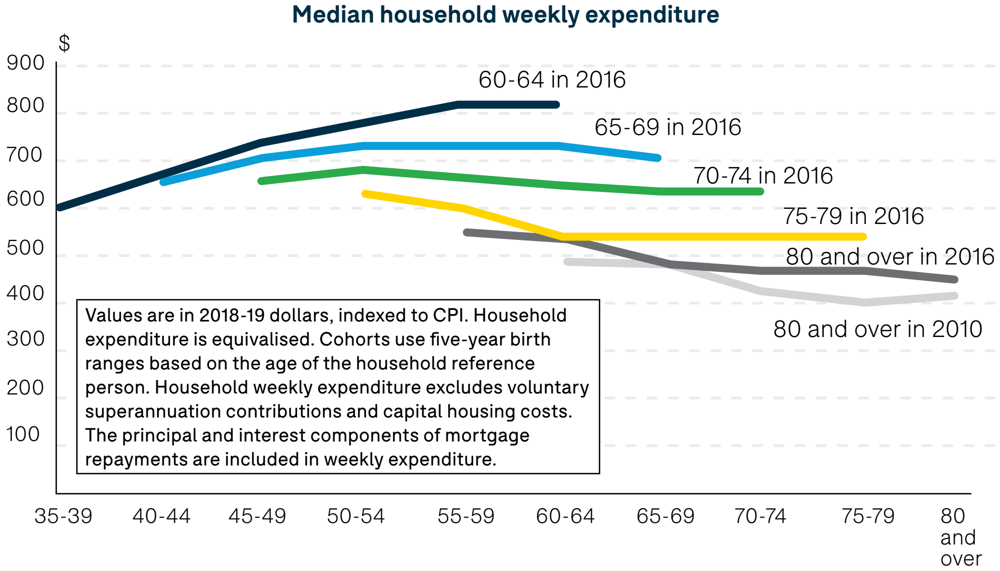

Figure 18 – Median household expenditure over time by age cohort (reproduced from Retirement Income Review 2020*)*

Together, this evidence on desired, expected and actual spending in retirement suggests that a conservative approach is to assume spending is maintained in real terms in retirement. This is the approach we have taken. The following chapter explains the methodology for our retirement standards in detail.

Questions for consultation

3. 1 Given the prevalence of income poverty and financial stress among retired renters, and their likely inability to achieve aspirational targets, we opted not to produce standards for this cohort. Is it feasible and desirable to provide standards for renters, and if so, how would this best be achieved? e.g. producing standards for younger renters

3.2 We find that a large majority of retirees are financially satisfied, happier than in working life and have low levels of poverty and financial stress. In addition, our standards target homeowners and sit above the age pension. Therefore, we assume using actual expenditure for our targets is appropriate. In your view, is this assumption justified and what evidence motivates your opinion?

OUR RETIREMENT STANDARDS – OVERVIEW, PRESENTATION AND METHODOLOGY

This section provides a detailed overview of our retirement standards, how we intend to present them to consumers and how we constructed them. Our goal was to produce standards useful to a broad section of the population at and approaching retirement, while ensuring a credible methodology and an accessible presentation to consumers.

Overview of standards

We developed two sets of spending levels and savings targets, one for pre-retirees aged around 57 and one for recent retirees aged around 67. Both sets are designed for outright homeowners in retirement. As noted in the previous section, outright homeowners make up the large majority (74%) of over 65s. A further 10% of over-65s have a mortgage on their home.[50] The standards are still relevant to these mortgage holders as their outstanding mortgage can be subtracted from their retirement savings to give a person an indication of the ongoing expenditure their savings will support.

We do not produce standards for renters as actual expenditure is not an appropriate basis to produce targets for this cohort, given their low levels of expenditure, high levels of income poverty and financial stress. We urge caution in the use of retirement standards for this cohort, as they are less likely to be in a position to improve their circumstances to avoid poverty and financial stress. Instead, we call on policy makers to review what system level improvements are required for this cohort to avoid poverty and financial stress in retirement (e.g., affordable housing and rent assistance).

By having distinct standards for pre-retirees using a robust methodology, we can provide truly useful guidance to this group, which is typically a more highly engaged group of retirement planners. For those aged around 57 and 67, we produce standards for people retiring as a single person or in a couple, as these are the two major household types (collectively 87% of all households) for over 65s.[51]

We produced versions for people with low, average or relatively high expenditure across the distribution. The standards give high level guidance on a person's saving requirements based on their relative peer group's expenditure. The intention is to give people a relevant figure to benchmark their own spending to, so they can use the associated savings target as a rough guide to how much they need to maintain that level of spending in retirement.

The savings targets provide the amount an individual needs to have saved in their superannuation by age 65 in order to spend at the level in the standard until age 90. To produce the target, we use a model that incorporates investment uncertainty. Our savings targets provide 90% confidence that given uncertain investment outcomes in retirement, spending is sustained to age 90. This is intended to give users who have saved enough confidence to spend in retirement. Confidence to spend in retirement is a key area the Retirement Income Review found consumers could be better supported to maximise their retirement savings.[52] So these standards also have value in achieving broader policy goals for the retirement system.

The table below provides our retirement standards. The spending levels and savings targets are presented in today's dollars (December 2021). Given many people budget based on a fortnightly spend or think in terms of annual salary, the spending levels have a fortnightly and annual version to add interpretation for consumers. Along with this table, we have produced a user guide in the next section in this report to help with communication of these standards to consumers. The user guide is based on user testing of the standards we undertook as part of development.

Standards table

Target age group	Standard level	Household	Fortnightly spending	Annual spending	Savings target
Around 67	Low	single	$1,077	$28,000	$70,000
	Medium		$1,423	$37,000	$259,000
	High		$1,923	$50,000	$758,000
	Low	couple	$1,538	$40,000	$88,000
	Medium		$2,115	$55,000	$369,000
	High		$2,808	$73,000	$1,021,000
Around 57	Low	single	$1,269	$33,000	$89,000
	Medium		$1,654	$43,000	$313,000
	High		$2,077	$54,000	$742,000
	Low	couple	$1,846	$48,000	$115,000
	Medium		$2,385	$62,000	$409,000
	High		$3,077	$80,000	$1,034,000

Standards user guide

We produced a user guide (reproduced in Appendix A) to be used directly by people and also incorporated by anyone using these standards for financial guidance, including super funds and advisers. In 2021, Super Consumers commissioned qualitative research consisting of 24 x 80 minute online in-depth interviews with those planning on retiring in the next five years (and have actively started planning) or have retired in the last five years.[53] We looked at active planners as our quantitative research found a correspondence between planning, financial engagement and interest in our retirement standards. The sample included a mix of income levels, household types, tenure and states of origin. We asked participants to provide feedback on the standards and accompanying consumer guidance.

Our qualitative research found that regardless of wealth level, people wanted to maintain their spending and standard of living in retirement.[54] To reflect this in our guidance in an intuitive way, we described the spending levels as representing "what people like you spend in retirement". This message resonated well with interviewees. We explained to users that the savings targets are a reflection of "how much you would need to save to have confidence you can maintain your spending throughout your entire retirement". In our qualitative research, we presented saving levels at four levels of confidence (50, 80, 90, 95). Interviewees expressed a preference for the highest level of confidence.[55] In our updated guidance, we responded to this by only providing a single, high level of confidence. We selected 90% as we wanted to somewhat mitigate the degree of over-saving that is likely to occur on average if users are saving enough to provide 90% confidence.

We also provided an overview so that users would feel confident that the targets we developed were based on assumptions that were relevant to them. We explained that the spending levels are based on what actual retirees spend, naming our data source (ABS). We also explained that the savings targets were created by Australian National University (ANU) academics. This was widely supported as positive by interviewees – they found the sources added credibility. Interviewees also responded positively to the independence of the source, seeing it as "imperative" for the standards to have credibility.[56]

Our participants confirmed that the concept of retirement standards guidelines is well received and understandable. Our instructions looked and sounded simple enough to them. However, they were sceptical of the numbers, given estimates of adequacy they had been previously exposed to. They also expressed a desire for a geographic split to expenditure that accounted for different spending in metro vs regional areas. So, while the simple guidance we provided was a reasonable starting point, we are now producing updated guidance that incorporates these concerns. Further, the intention of the standards is to provide a ballpark figure for how much to save for retirement; future enhancements can tailor it more to individual needs.

Data sources

We use the 2015-16 ABS HES[57] to produce our spending levels for different cohorts. The HES collects information about income, wealth, housing and expenditure from a sample of 10,046 residents in private dwellings in Australia (excluding very remote areas). The large sample size and completeness of the expenditure survey make it a suitable source to derive spending levels for the cohorts of interest.

To produce our savings targets, we use a stochastic model that relies on historical data on investment returns across all major asset categories (equities, fixed income, property and cash). We use an appropriate index for each asset class (see Appendix B for details).

How we derive the spending levels

The method of derivation for recent retirees is as follows:

1. Analyse equivalised household expenditure (excluding housing costs) of home-owning (outright and mortgage) households aged 65-69 years from ABS HES 2015-16
2. Set retirement benchmarks at 30th percentile, 50th percentile and 70th percentile of retiree spending
3. Add in typical housing costs for outright homeowners at each expenditure percentile
4. Inflate all spending forward to 2020-21 by changes in the CPI since 2015-16

The methodology for pre-retirees is similar, but requires an extra step:

1. Analyse equivalised household expenditure (excluding housing costs) of homeowning (outright and mortgage) households aged 55-59 years from ABS HES 2015-16
2. Set retirement benchmarks at 30th percentile, 50th percentile and 70th percentile of retiree spending
3. Apply a factor to each benchmark expenditure equal to the observed change in household expenditure for that percentile for the cohort aged 55-59 in the 2003-04 HES and 67-71 in the 2015-16 HES.
4. Add in typical housing costs for outright homeowners at each expenditure percentile
5. Inflate all spending forward to either 2020-21 by changes in the CPI since 2015-16

There are a number of key assumptions underlying this methodology. One is that the age cohort chosen reflects recent retirees. Our analysis of the HES finds 71% of household heads in this cohort are not in the labour force, indicating the assumption is broadly appropriate.[58] Another is that expenditure near the start of retirement is an appropriate measure for expenditure through retirement. We think this is a conservative assumption, given recent cohorts see declining expenditure through retirement.

A third issue is whether inflating spending by consumer price inflation is an appropriate reflection of recent retiree spending changes since the survey was undertaken. In order to test this assumption, we undertook analysis comparing the average equivalised ex-housing spending of 65-69 year-olds in the 2009-10 HES to the 2015-16 HES. We found it increases at a similar rate to CPI – with the median expenditure increasing 16% versus a 14% increase in CPI.[59]

A fourth important question is whether the factor used for the pre-retiree standards accurately reflects life cycle decline in expenditure to retirement. We feel this is a reasonable assumption as it reflects the change in the most recent age cohort to progress from 55-59 to 65-69 years of age. However, we note that aggregate spending changes combine preferences, cohort-specific changes and external factors (e.g., the Global Financial Crisis). There is scope to improve the factor. This might be tested in future research by using an average of several cohorts or a regression approach that separates different factors influencing average spending changes.

Finally, an important consideration is the interpretation of the spending levels and savings targets of the standards aimed at pre-retirees. The spending levels are in today's dollars and reflect what a recent retiree would spend in 2031, assuming the spending of this cohort rises with inflation until then. The saving targets are what is required to fund that 2031 spending through retirement, deflated into today's dollars. Using today's dollars throughout ensures pre-retirees can benchmark the standards to their current expenditure and savings.

How we derive the savings targets

We produce savings targets that provide an estimate of the savings required to sustain spending at one of our low, medium and high spending levels through retirement. Below we detail the rationale for each of our major assumptions and explain the process used to produce the savings targets.

Major assumptions for savings targets:

- We use the age of 65 as the beginning of retirement based on the Retirement Income Review analysis of recent surveys, which finds the average retirement age is generally between 62-65[60] and a recent ABS survey, which found the average intended retirement age is 65.5.[61]
- We use 90 as the end of retirement based on cohort estimates of life expectancy from age 60 and 70 in the 2015 Intergenerational report, which indicate 90 is a conservative estimate for men and accurate for women.[62]
- We assumed CPI of 2.5%, the midpoint of the Reserve Bank of Australia's inflation target band.
- We assumed nominal wage growth of 4%, consistent with Treasury estimates of long-term nominal wage growth as set out in the 2021 Intergenerational report.[63]
- We assumed the user(s) were invested in a 60/40 growth/defensive split balanced fund based on the Productivity Commission finding, reproduced in the Retirement Income Review, that this is the average split in the retirement phase.[64]

- We derived a rate of return net of tax and fees during accumulation of 5% and a net return of 5.6% during the retirement phase, with a portfolio standard deviation of 10%, based on historical returns for an Australian portfolio with 60/40 weights. We assumed fees of $90 plus 0.8% variable fee - 0.98% on a $50k balance. This is slightly less than the average total fees charged on superannuation products in 2021.[65] We employed a portfolio tax rate of 10% during the accumulation phase and zero in retirement.
- We assumed people were in receipt of any Age Pension they were eligible for. We applied the Age Pension eligibility test based on an assumption of $25,000 in assets outside of super (consistent with the ASIC MoneySmart retirement calculator).

We applied a bootstrapped model for investment returns based on the assumptions above to produce each of the savings targets, producing versions for confidence levels at 50%, 80%, 90% and 95%. The model used was produced for Super Consumers Australia by Gaurav Khemka, Senior Lecturer in Actuarial Studies and Statistics at the Australian National University. When we ran interviews on the draft retirement standards, participants preferred the highest level of confidence.[66] In order to address this but also balance it with the consideration that high levels of confidence may imply over-saving on average, we now present a single 90% level of confidence.

Areas for further research

There are two main areas where we see value in further research. The first is whether explicitly accounting for gender is of value to consumers. The issue here is if gender variations in expenditure exist, this will impact the spending levels and associated retirement savings targets. We intend to analyse this to determine the significance and size of differences in expenditure.

The second area concerns geography. Interviewees in our qual research from regional areas expressed the view that accounting for geographic differences in expenditure would enhance the relevance of the standards for them, as they assumed them to be metro focused.[67] We know it is possible to implement a regional-metro split using the HES data and intend to analyse this in future research.

Questions for consultation

4. 1 In order to produce standards that are relevant and interpretable to current pre-retirees, we expressed retirement spending and balance required at retirement in today's dollars in our disclosure. Is this the most appropriate presentation and what caveats if any should accompany this disclosure in our presentation to consumers?
4. 2We lay out the methodology for construction of the spending levels and savings targets in detail in this section. What, if any, improvements would you suggest to enhance the robustness of our approach?
4. 3 We use a factor to represent the lifecycle change in expenditure between pre-retirement and retirement. Our approach is to look at how a single cohort's spending changes using HES data. Are there other approaches that would help isolate the factor of interest - lifecycle decline in spending?
4. 4 In the work to date we have not incorporated geographic differences in expenditure such as differences in housing expenditure between regional and metropolitan areas. In your view, would this offer value to consumers and if so, how would it best be implemented?
4. 5 Given the relative popularity of super funds and financial advisors as sources of retirement planning information, how can we best tailor our standards to suit their methods of information delivery? (e.g., website, consultation.)
4. 6 Our assumptions for the savings targets imply real terms growth in the age pension. This follows from our assumption that wage growth will outpace CPI in the long term and reflects the current framework for how the age pension is set. In your view, is this the most appropriate approach to take and what evidence informs your view?
4. 7 We decided to limit our standards to three expenditure levels (low, medium and high). There is a trade-off between utility and complexity here – have we struck the right balance or would additional levels add substantially more value?

WHAT OUR STANDARDS MEAN FOR CONSUMERS AND THE RETIREMENT INCOME SYSTEM

In this section we consider what the impact of widespread adoption of our standards might be for consumers and the retirement income system as a whole. We consider whether our savings targets will give consumers a greater confidence to maximise their retirement income. We look at the potential for a shift to a more realistic conception of retirement income adequacy. We highlight the significant contribution the Age Pension makes to people's retirement income in our user guide. Finally, we look at the problems faced by renters in retirement in the context of our work and possible policy solutions.

Why it is important to help people maximise their retirement income

The Retirement Income Review found that people were not using their superannuation balances and other savings effectively to maintain their standard of living in retirement.[68] It also found that if people made better use of these savings, they could achieve the same retirement outcomes with a lower level of savings and therefore higher standard of living in their working life. From a consumer's perspective, the reasons for not adequately spending down savings are understandable. The entire retirement system has been directed towards accumulating savings and there is a lack of clear unbiased advice to help people understand what they'll need to spend in retirement and how much they can safely draw down on their savings. Our retirement standards are designed to help consumers overcome these barriers to safely spending down their savings and to prevent over-saving, which may in turn lower working life living standards.

Reducing complexity to help spend down savings in retirement

Retirement planning is complex and there is little guidance to navigate that complexity. Our research found one of the main questions people wanted answered as part of their retirement planning was how much they needed to retire. In our survey, "How much do I need to save for retirement?" was the most researched retirement planning topic among 11 presented to pre-retirees.[69]

This is not a straightforward question to answer, a consumer needs to consider:

- expenditure requirements of the household throughout retirement, which for many is projecting decades into the future at a time when health, care and housing requirements are likely to evolve;
- projecting the income their current level of savings can deliver, factoring in investment approach, fees, retirement age, confidence levels, etc.;
- Age Pension eligibility and its impact on income across retirement.; and
- longevity – how long a person is likely to live.

Few, if any, consumers have the ability to factor in all of these considerations without help. Looking at the actual expenditure of low, medium and high spend retirees, across single and couple households, we've captured a more typical reflection of retirement than is currently available to consumers. Our standards take the heavy lifting out of a 'first pass' assessment of these factors to help a person see if they are on track. For example, they are concise enough to be included in public communications, such as media outlets. Our hope is that use of the standards leads to greater engagement with retirement expenditure needs and helps people seek further advice and guidance where appropriate to get more personalised information.

Reframing from a 'nest egg' to retirement income

The Retirement Income Review also found that part of the reluctance to consume savings that are framed as assets is because people have been primed to think about these savings as a 'nest egg' to be grown and preserved.

These same findings were replicated in our qualitative research that found people in and close to retirement had a strongly embedded saving mentality. The sentiment expressed included:[70]

- Conditioned to be 'smart' with money and save for uncertain times
- Super came relatively late in their working life – many have had only 20 years of super
- Strong belief and reliance on property as a primary asset (if possible) and a nest egg investment
- Believe in diversified investments (many saw the impact of the GFC on stocks and shares and loss of wealth
- Almost fearful of not having enough, and sacrifice living in the now for living in the future

The Retirement Income Review found that there needed to be a shift in talking about superannuation balances in terms of retirement income to the same way people think about working life income. Our retirement standards help people make that mental shift by presenting on an annual and fortnightly basis the amount a household can confidently spend based on reaching a savings target.

Giving confidence about appropriate levels of spending

To build confidence we based the retirement standards on the actual expenditure of the current cohort of retirees. As part of the user testing, we presented people with savings targets based on four confidence levels (50%, 80%, 90% and 95%). This was done to capture potential differences in future investment market performance. People gravitated to higher confidence levels and were more willing to trade off lifestyle and spending levels to improve certainty. The findings in the qualitative research led us to present future versions of the standards with a single, high confidence level (90%) to address the confusion caused by multiple confidence levels and the fact that people gravitated to higher levels anyway.

Further research needed on confidence levels

Despite where we settled for the first iteration of the standards, we think there is scope for further research on consumer understanding and preferences related to confidence levels in investment returns. As discussed, the confidence level provided can have a significant impact on the quantum of savings required and subsequently impact on people's lifestyle and spending levels. There was also some evidence in the user feedback that the explainer of confidence levels was misunderstood, with one user interpreting it to mean personal confidence in the savings targets. Future research should delve deeper into whether confidence levels can be better communicated to consumers. Additionally, there is value in further research to better understand why people gravitate to higher confidence levels. There was strong evidence that people believed they needed a million dollars to retire comfortably and, as a result, they may have gravitated to higher confidence savings balances that were closer to that figure.

Shift towards a more realistic conception of retirement income adequacy

Much of the media coverage around retirement incomes has focused on the supposed inadequacy of Australians' retirement balances by comparing them with the ASFA 'comfortable' standard, which was initially designed for and still broadly reflects a standard for the top 20% of retirees by expenditure. Combined with the 'one million dollar retirement target' belief, consumers have been poorly served by current sources of guidance.[71]

Our 'medium' expenditure standards are based on a more realistic assumption about spending growth in retirement are both more relevant to and more reflective of the spending and saving behaviour of the average pre-retiree and recent retiree. Figure 19 provides a comparison of our 'medium' (spending) standards savings target for a single person aged around 67, the 'comfortable' standard target for a single person age around 67 and actual median superannuation balances of men and women aged 65-74 in financial year 2017-18, according to the ABS.[72]

Target group	SCA 'medium' for single person around 67 ($2021)	ASFA 'comfortable' for single person around 67 ($2021)	ABS median superannuation balance for men aged 65-74 ($2018)	ABS median superannuation balance for women aged 65-74 ($2018)
Total superannuation balance	$259,000	$545,000	$250,000	$200,000

Figure 19 – Comparison of different standards savings targets and actual balances at retirement

Figure 19 shows that our standard is far more likely to be relevant to middle income retirees. Consider also that our standards are calculated from age 65 (two years prior to age pension eligibility) and provide 90% confidence that the user will be able to spend at the medium standard level until age 90.

Standard	Actual renter expenditure ($2021)	Aspirational expenditure ($2021)	OECD 50% income poverty line ($2021)	Actual renter savings target ($2021)	Aspirational savings target ($2021)
Low	$23,000	$36,000	$25,177	$49,000	$147,000
Medium	$27,000	$47,000		$57,000	$444,000

Figure 20 – Spending levels and savings targets for a single renter aged around 67 from our standards based on actual and aspirational expenditure levels and the OECD 50% of median household disposable income poverty line

Our hope is that widespread adoption of these standards shifts the narrative around retirement income adequacy away from a standard that is unrealistically high for most Australians, to a standard that will allow most people nearing retirement to fulfil their desire of maintaining their standard of living. Our standards provide more useful context for a wide range of Australians of varying incomes on how much they need to save to achieve this goal than currently exists.

Greater recognition of the contribution of the Age Pension to retirement income

There is widespread community scepticism about the sustainability of the Age Pension.[73] However, the Retirement Income Review found that it will remain widely used by seniors and is sustainable for governments into the distant future.[74] Interviewees in our qualitative research expressed concerns about wanting more information about how the Age Pension impacted the spending levels and savings targets and more assurance that the savings targets were sufficient to maintain their spending.

In response we intend to add a graphic to the user guide that demonstrates visually how much of a household's spending in each year of retirement comes from their superannuation versus the Age Pension. In addition, for each standard we can provide a statistic that represents the percentage of their income in retirement derived from the Age Pension. Our hope is that widespread adoption of our standards will help inform the public of the significant role the Age Pension continues to play in ensuring retirement income adequacy.

Greater recognition of the issues facing renters in retirement

In this project, we initially looked at retirement standards for renters. The goal was to create aspirational standards that were based on providing renters with the same standard of living as homeowners in retirement. However, after looking at the expenditure this entailed and comparing it to the actual expenditure of pre-retirees and recently retired renters, shown in Figure 20, we decided the discrepancy was too large and we ran a great risk of providing renters with unachievable savings targets that were likely only to produce greater disengagement with retirement planning.

Another option would have been to produce standards for renters based on actual expenditure. The Retirement In Review found 48% of retiree renters are experiencing income poverty.[75] Our analysis of the ABS HES 2015-16 found renters with similar expenditure to our low and medium standards, had rates of financial stress of 46% and 26% respectively.[76] This is consistent with the findings of the Retirement In Review, that retired renters have elevated levels of financial stress as an overall cohort.[77] As a result, developing targets based on actual expenditure for this group would be inappropriate as we know they lead to high levels of financial stress and poverty.

There is clearly a role for policymakers in addressing this issue, as it isn't one that can be solved by consumer guidance alone. We support policy reform to alleviate the problems faced by renters in retirement, but we will leave it to policy experts in this field to comment on which are best adapted. However, the Retirement Income Review found that increasing CRA by 40% would produce a modest reduction in income poverty rates among retired renters. Further modelling of larger and targeted increases in CRA and other broader measures have merit, given a change in policy has the potential to make an immediate impact on the welfare of people currently experiencing poverty in retirement.

Questions for consultation

5. 1 Are you aware of any research that goes to the question of how well people understand confidence levels and their decision process when faced with a choice between different levels of confidence?
5. 2 Do our standards do enough to give people confidence to spend their retirement income, or are there enhancements we could make to further this goal?

CONCLUSION AND NEXT STEPS

The aims of this project were to produce more realistic and useful spending levels and associated savings targets for retirement. We were able to achieve this by using actual expenditure, appropriate assumptions and models adapted via consumer testing. Our research showed that the majority of people we surveyed were interested in using what we produced and trusted the source of the information.[78] We implemented enhancements to deal with the issues raised, which ensured the final product is useful and understandable to the target audience.

Our ultimate goal is to get widespread adoption of the savings targets we've created and to do this we'll need key stakeholders to understand and have confidence in the research and its assumptions. Given the high number of assumptions, some of which there are ongoing debates over, we see it is necessary to take this approach to ensure there is informed debate over its wider use.

We see scope for further enhancements of the standards in future, based on research insights, such as explicitly incorporating gender and varying savings targets based on geographic location.

CONSULTATION INFORMATION AND QUESTIONS

In order to help collect feedback on this report, all consultation questions from each section of the report are reproduced below. Feel free to limit your feedback to specific questions or provide feedback on issues not specifically addressed by the questions provided. Please send your feedback as a word document to feedback@superconsumers.com.au The consultation will run until the 1st of April 2022.

How do people approach retirement?
1.1) Our research uncovered three distinct approaches to retirement planning. Are you aware of complementary research that affirms or conflicts with this segmentation?

Learning from the shortcomings of existing retirement standards
2.1) Our savings target is constructed using the assumption of constant real terms expenditure in retirement. In your view, is this an appropriate assumption?

2.2) One benefit of budget standards is the ability to provide detailed insights into what can be afforded by someone spending at the level of the budget. Do you see value in providing similar context to people using standards based on actual expenditure and how would this best be achieved? e.g. expenditure on holidays

2.3) Are there any further considerations that we ought to take into account in our analysis of the existing retirement standards, that might impact our conclusions regarding their limitations?

2.4) In this section we focus on the ASFA standards as they are the only widely cited set of retirement standards in Australia. Are there lessons to be learned from other retirement standard research, in Australia or abroad, that should be incorporated into our approach?

Rationale for our approach to answering the question "How much do I need to save for retirement?"

3.1) Given the prevalence of income poverty and financial stress among retired renters, and their likely inability to achieve aspirational targets, we opted not to produce standards for this cohort. Is it feasible and desirable to provide standards for renters, and if so, how would this best be achieved? e.g. producing standards for younger renters

3.2) We find that a large majority of retirees are financially satisfied, happier than in working life and have low levels of poverty and financial stress. In addition, our standards target homeowners and sit above the age pension. Therefore, we assume using actual expenditure for our targets is appropriate. In your view, is this assumption justified and what evidence motivates your opinion?

Our retirement standards – overview, presentation and methodology

4.1) In order to produce standards that are relevant and interpretable to current pre-retirees, we expressed retirement spending and balance required at retirement in today's dollars in our disclosure. Is this the most appropriate presentation and what caveats if any should accompany this disclosure in our presentation to consumers?

4.2) We lay out the methodology for construction of the spending levels and savings targets in detail in this section. What, if any, improvements would you suggest to enhance the robustness of our approach?

4.3) We use a factor to represent the lifecycle change in expenditure between pre-retirement and retirement. Our approach is to look at how a single cohort's spending changes using HES data. Are there other approaches that would help isolate the factor of interest - lifecycle decline in spending?

4.4) In the work to date we have not incorporated geographic differences in expenditure such as differences in housing expenditure between regional and metropolitan areas. In your view, would this offer value to consumers and if so, how would it best be implemented?

4.5) Given the relative popularity of super funds and financial advisors as sources of retirement planning information, how can we best tailor our standards to suit their methods of information delivery? (e.g., website, consultation.)

4.6) Our assumptions for the savings targets imply real terms growth in the age pension. This follows from our assumption that wage growth will outpace CPI in the long term and reflects the current framework for how the age pension is set. In your view, is this the most appropriate approach to take and what evidence informs your view?

4.7) We decided to limit our standards to three expenditure levels (low, medium and high). There is a trade-off between utility and complexity here – have we struck the right balance or would additional levels add substantially more value?

What our standards mean for consumers and the retirement income system

5.1) Are you aware of any research that goes to the question of how well people understand confidence levels and their decision process when faced with a choice between different levels of confidence?

5.2) Do our standards do enough to give people confidence to spend their retirement income, or are there enhancements we could make to further this goal?

APPENDIX A – DRAFT SPENDING LEVELS AND SAVINGS TARGETS USER GUIDE

Important context
The user guide reproduced below was designed for the qualitative research, including user testing, undertaken by Fiftyfive5 on the behalf of Super Consumers in July 2021. It uses a draft version of the retirement standards that is different to the final version presented elsewhere in this report. We intend to produce an updated version of this user guide using the insights from the qualitative research, as well as feedback to this report.

Draft user guide

How much do you need in retirement?

Are you nearing retirement or recently retired and want help figuring out if you've saved enough? The independent consumer group Super Consumers Australia has put together a guide to help you understand:

1. **How much people like you spend each year in retirement**. This may help you decide how much you want to spend in retirement and how you compare to your peers if you have already retired.
2. **How much you would need to save to have confidence you can maintain your spending throughout your entire retirement.** This will give you a realistic target of how much you need to save for retirement and help you understand how long your money will last if you are retired.

We've crunched the numbers from a nationally representative survey of Australians conducted by the Australian Bureau of Statistics (ABS) and discovered how much recently retired singles and couples (aged 65 to 74) spend per year. We've divided the data up for low, middle or high spenders to help you understand what your peers spend in retirement. Research shows that regardless of income, retirees are happier and financially satisfied.

We then got academics from the Australian National University (ANU) to calculate how much you would need to save before retirement to have a particular level of confidence (e.g., 90%) of maintaining these levels of spending until age 90. We incorporate the value of the Age Pension and uncertainty in investment markets. This can help you understand how much you need to save depending on how confident you want to be that your money will last.

Research by retirement experts suggests that retiree spending tends to stay the same or decline with age, whether you are a low, middle or high income retiree. Our savings targets assume you maintain your spending in real terms (adjusted for inflation) throughout retirement, which means they will either be about right, or give you a small buffer of additional savings.

How to use

Look at the appropriate table below [tables omitted here as they are based on an older version of the standards] and select the column that reflects your current age. Then, based on whether you are a single person or in a couple, choose the spending standard that is closest to what you would like to spend.

On the next page there is information about what the three levels of standard we have produced represent to help you make a decision. You may want to maintain your spending into retirement. Your current level of spending can be a good guide – we provide fortnightly and annual spending levels for the standards to help you compare.

Once you have chosen a standard, look to the right. This number represents how much you would need to have saved in your super to ensure that if you retire at 67 you can spend at the level of the standard until age 90.

An example

Let's say I'm a 66 year-old woman and I live with my 64 year-old husband. That means I would use the 'standards for people 63 and over' table. I am part of a couple and we own our home outright. The table tells me what other home-owning couples spend. The levels available for me to pick from are a 'basic' level of $1,423 per fortnight, which translates to $37,000 per year, a 'comfortable' level of $1,885 per fortnight or $49,000 per year and an 'affluent' level, which is $2,615 per fortnight or $68,000 per year. I pick the comfortable level because it best corresponds with what I spend per fortnight currently, since I am near retirement and intend to maintain my spending in retirement.

I now look at the savings targets for the comfortable level, which tell me that if I want to have 50% confidence that I can spend $49,000 per year till age 90, I need to have $63.8k saved in my super by age 67. If I want greater confidence, the 80%, 90% and 95% targets tell me I need to save somewhat more to achieve this.

Spending levels

Low

- This standard covers essential expenditure and ensures you live above the poverty line.
- This level is similar to someone receiving just the full Age Pension for homeowners, with no additional income sources.

Medium

- This level of spending is approximately equal to the spending of the average recent retiree single or couple.
- The standard allows for some discretionary spending in addition to higher quality essentials.

High

- Spending at this level means spending more than 70% of all retirees.
- The standard allows for substantial discretionary spending and high-quality essentials.

APPENDIX B – FINANCIAL INDEXES

Asset class	Index name
Australian Equities	S&P/ASX300 Accumulation Index
World Equities	MSCI World Ex Australia in $A gross dividends
Australian Property	S&P/ASX 300 Property Trust Accumulation Index
Australian Fixed Income	Citi Australian Bond Accumulation Index
World Fixed Income	Salomon Smith Barney World Bond Accumulation (Hedged) Index
Cash	Estimated from 90 Day and 30 Day Bank Bill Yields

Endnotes

1 Fiftyfive5 (2021) “Retirement Income Standards: Qualitative Report” p. 14
2 HILDA statistical report (2020) p. 110
3 Retirement Income Review (2020) p. 172
4 Ibid, p. 487
5 Ibid, p. 18
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8 Retirement Income Review (2020) p. 19
9 ABS Household Expenditure Survey 2015-16 Basic CURF
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12 Fiftyfive5 (2021) “Retirement Income Standards: Quantitative Report”, p. 24
13 Ibid, p. 28
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37 Ibid, p. 33
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39 CHOICE (2021) “2021-09 Consumer Pulse Survey W30 Spotlight Summary” p. 2
40 HILDA statistical report (2020) p. 110
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42 Retirement Income Review (2020) p. 172
43 Ibid p. 63
44 Ibid p. 132, 139
45 Ibid p. 171
46 Fiftyfive5 (2021) “Retirement Income Standards: Qualitative Report” p. 14
47 Fiftyfive5 (2021) “Retirement Income Standards: Quantitative Report”, p. 21

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