

**Global
Retirement
Reality
Report
2018**

Australia
Snapshot

Hopes & Fears

The Expectations and Reality of Retirement

2017 was a meaningful anniversary for Australia, and not just for the disappearance of Harold Holt off Cheviot Beach 50 years ago. 2017 marked the 25th year since compulsory employer superannuation was extended to all employees in Australia. Not that it has been all smooth sailing.

Around 77% of the population between the ages of 15 and 64 has at least one superannuation account¹. Assets in superannuation funds have now grown to AUD2.6 trillion². Since 1992, governments have made near continuous changes to superannuation regulations, taxation and the workings of the Age Pension. The current employer rate of 9.5% of salary is barely adequate and there is no political consensus on where the final contribution rate should land.

Behind the scenes, regulators have become increasingly active. The Productivity Commission has just released its draft report into the efficiency and competitiveness of the superannuation system recommending some fundamental changes. But what do those outside the financial services echo chamber think about superannuation and their retirement? And how do their views compare with others around the globe?

In this report we take a look at Australian workers' attitudes as they approach retirement, and how they feel once they have entered retirement.

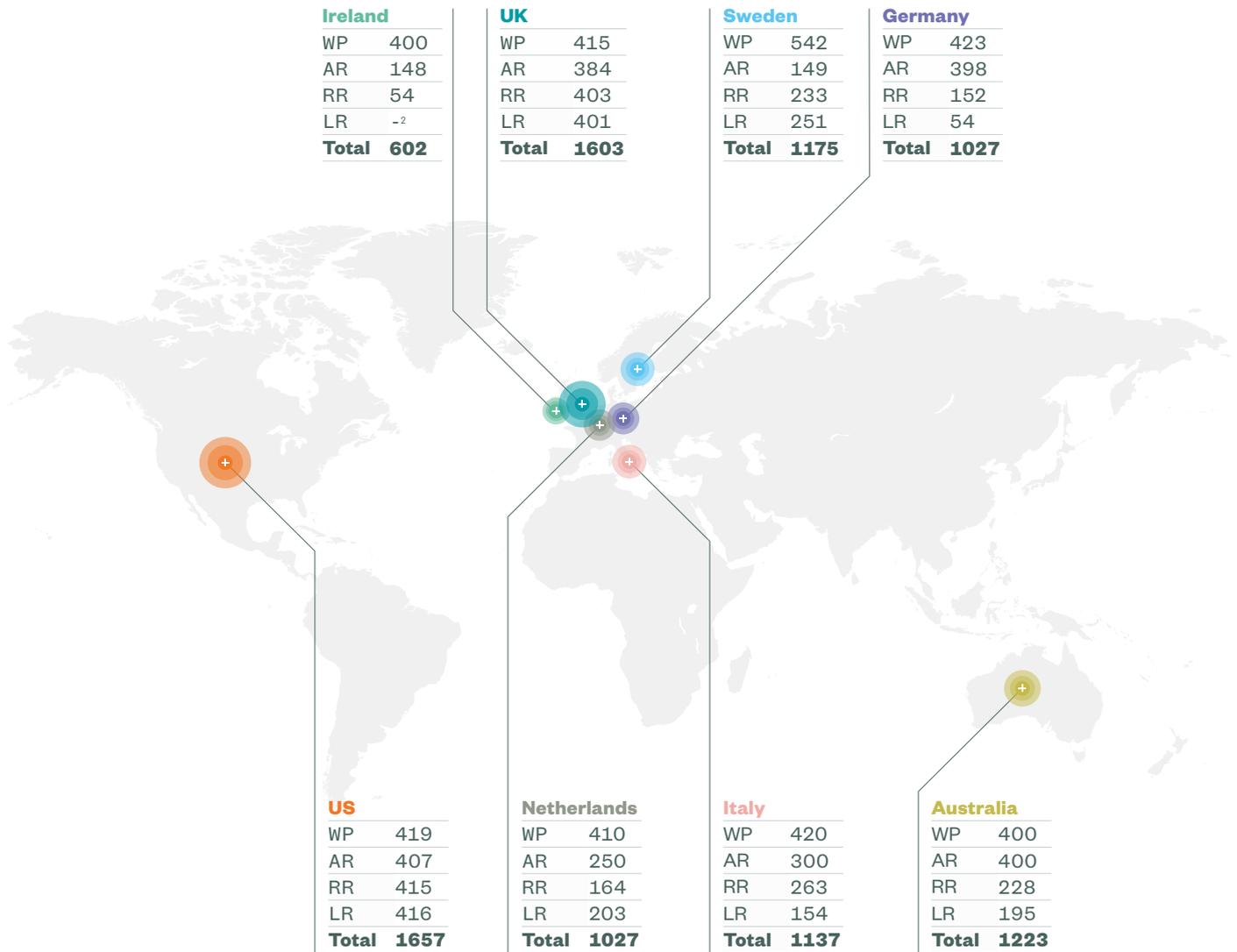
¹ Source: Australian Bureau of Statistics (ABS), Household Income and Wealth, Australia, 2015-16

² Source: APRA Quarterly Superannuation Performance March 2018

Survey Methodology

During the first quarter of 2018¹, State Street conducted an online survey, in conjunction with YouGov, across eight countries representing a range of retirement systems.

We asked 9,451 people at every stage of the retirement savings spectrum, from those new to the workforce to those later in retirement, to better understand the milestones and inflection points across the retirement savings journey.



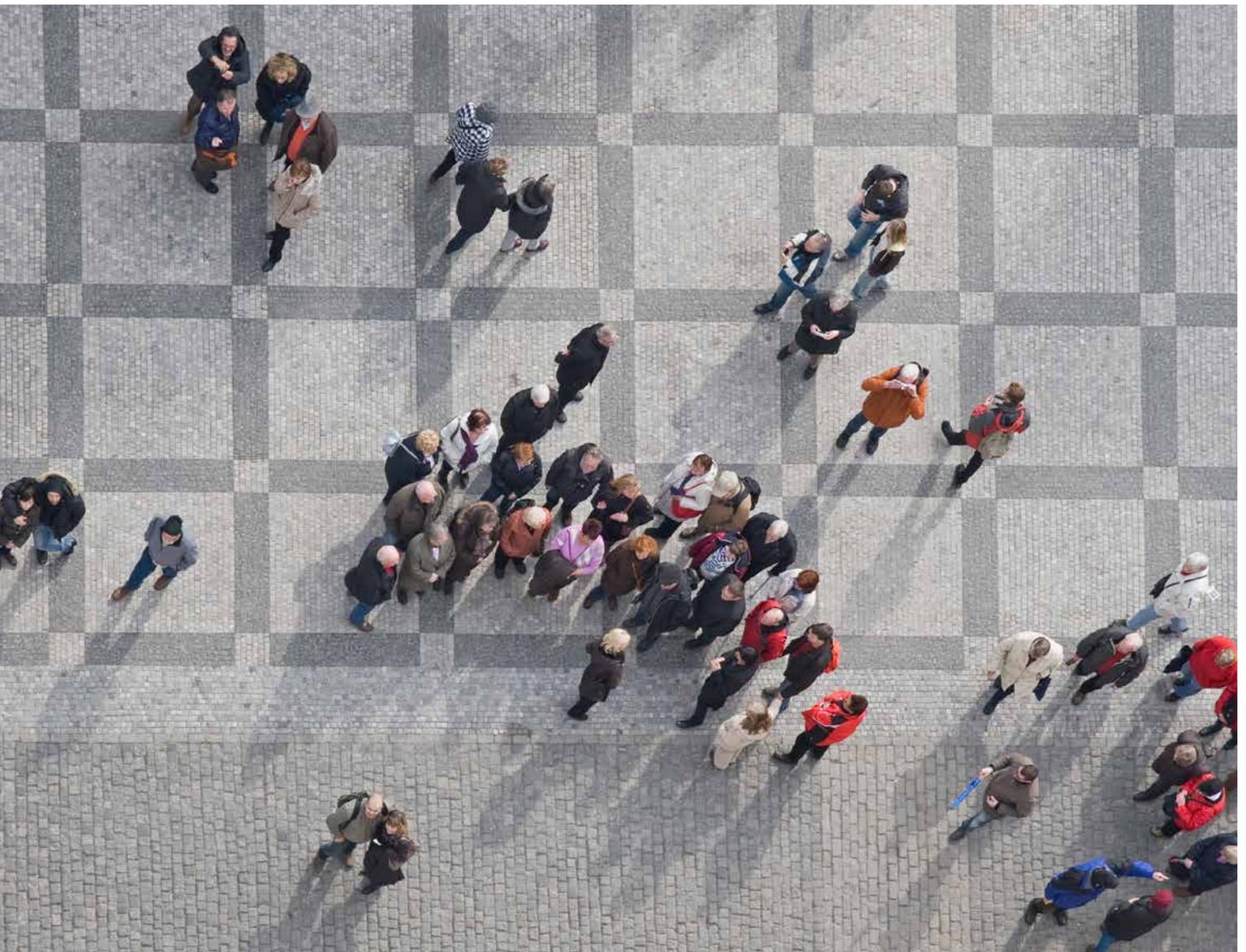
Sample Groups:

- (WP) Working population – Working and not planning to retire in next 5 years
- (AR) Approaching retirement – Working and planning to retire in the next 5 years
- (RR) Recently retired – Recently retired within the last 5 years
- (LR) Later in retirement – Retired more than 5 years ago

¹ Survey data fielded between 8 February and 3 April 2018.

² A significant sample of respondents in later retirement could not be formed for Ireland.

Key Findings from Australia



Finding 1

You need to save for retirement?! The message has got through

One of the striking findings of the survey was that Australians of all ages accept personal responsibility for ensuring their income in retirement is adequate. This is despite the seemingly endless array of ‘helpful hands’, let alone the dubious title given to employer contributions of “superannuation guarantee”.

The shift from defined benefit to accumulation and the sense that superannuation is ‘deferred pay’ has doubtless helped this conviction, particularly compared to some European countries in our survey, where expectations of the state were much higher.

Who is most responsible for making sure that you have adequate income in retirement?

% of people who said they were personally responsible



Finding 2

The majority of working Australians are not optimistic about their retirement

But, while the message has got through about personal responsibility, it doesn't mean Australians are particularly happy about it. After years of discussing the challenges of an aging population and the stress on government finances, only one in five people in the workforce have a sense of optimism or happiness about their financial situation in retirement.

Not that Australia is alone in that sense of unease; the proportion of those feeling optimistic or happy was lower in every country we surveyed, other than the US.

Are you optimistic about your financial situation in retirement?

% of Working Population

45%

No

34%

Somewhat

19%

Yes

2%

Don't Know



"(I'm) worried and anxious that I will be able to support myself in retirement."

Male, 60 years old

Digging a little deeper, 38% of the workforce thought they would not even get close to what they will need in retirement. Things improved when we asked people who were within 5 years of retirement, but even then, 26% thought they would not get close and a further 20% thought they would only get slightly close.

Part of the problem here may be the fractured nature of the system. The Productivity Commission report highlighted the impact of account proliferation, which starts at the youngest ages. Our survey found that 35% of the workforce were either not aware, or only somewhat aware, of how much they had saved, and only 43% were aware of how their savings were invested. These awareness levels improve once our survey switched to people approaching retirement.

38%

of Australia's working population respondents believe their expected savings will be 'not at all close' to what they need when they retire.

26%

of people who were within 5 years of retirement thought they would not get close.

20%

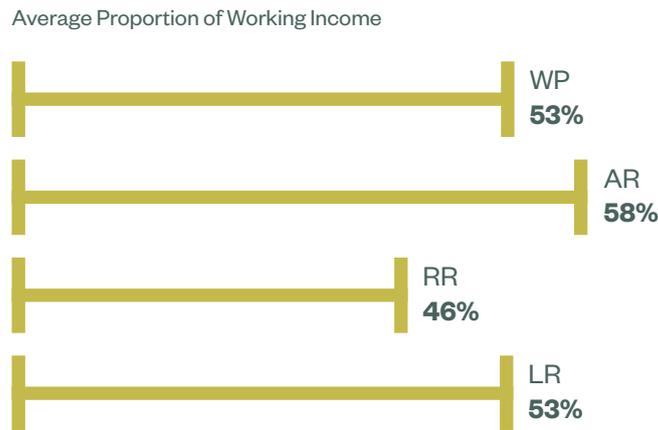
thought they would only get slightly close.

Finding 3

People are preparing to adapt to retirement realities

So how bad are workers expecting the pain to be? Most expect their income to roughly halve once they reach retirement. And that proved to be quite accurate when we asked current retirees how their income in retirement compares to when they were working. On average current retirees assessed their income as being roughly half that of when they were working. Only 8% of new retirees now have an income level that is higher than what they were expecting before they retired.

What level of income do you expect you will need/are you receiving in retirement?



8%

of new retirees now have an income level that is higher than what they were expecting before they retired



There is more than one way of coping with the pain. Firstly, we asked where people would be willing to cut back. It appears Australians are expecting to spend less on clothes, less on entertainment and less on technology when they retire. Many appear to want to use their home equity to fund retirement, with 46% of the working population expecting to live in a smaller house.

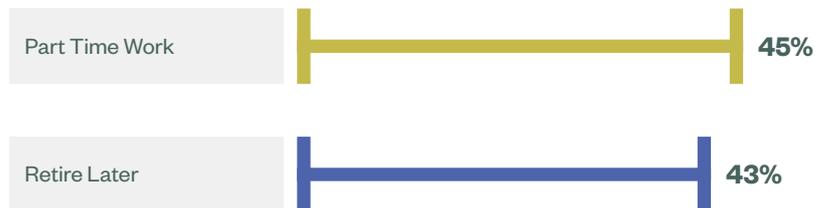
Next, we asked what other steps people would be willing to take. Close to a half of the workforce is gearing up to work part time with many also planning to retire later. This largely parallels research from the Australian Bureau of Statistics that shows retirement ages shifting up, and a substantial portion of the workforce intending to take up part-time work before retirement. Interestingly, while we saw similar patterns in the US, there seems to be less appetite to these two options in a number of the European countries we surveyed.

What do you intend to do to make up the difference between your retirement savings and what you wanted to have saved by that time?

Working Population



Approaching Retirement



"I feel like I will have to work till about 80 years of age as life expectancy is now higher."
Female, 44 years old

This awareness of the challenges of an aging population and a willingness to take personal responsibility for the solution are encouraging. If people are willing to take responsibility and save more, then we need to make it as easy as possible for them. That means better advice, and smart "nudges" in the way we communicate and engage.

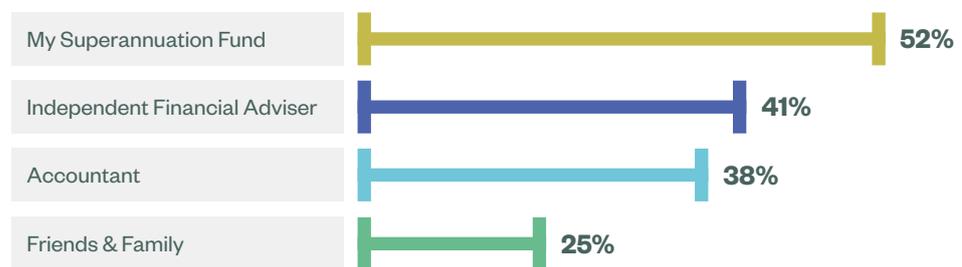
Finding 4

People want help

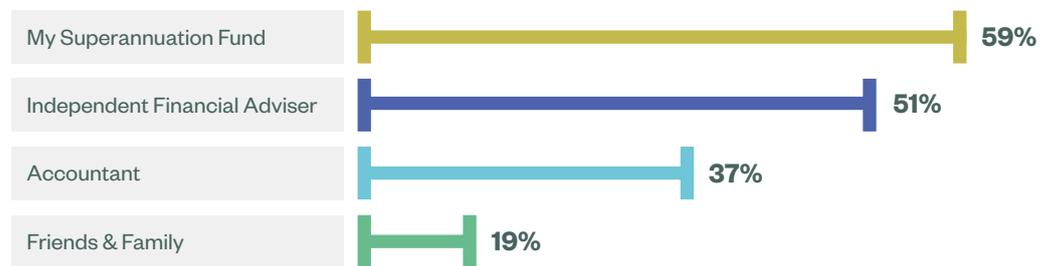
The perception in parts of our industry is that a war needs to be fought between independent financial advisers and profit-for-member superannuation funds. But we don't see the need for a war — we just see the need for advice in whatever form it takes. We are seeing an almost equal willingness to seek advice from superannuation funds and from independent financial advisers; both have important roles to play. And the closer to retirement people get, the more they gravitate to both financial advisers and superannuation funds.

Where will you look for help in deciding what to do regarding your pension and retirement?

Working Population



Approaching Retirement



In other countries people often look to their employer or the government for advice on retirement income, but we see much less of that in Australia. After their superannuation fund or an independent financial adviser, the next place Australians look for superannuation advice is your humble local accountant. The complexity of our taxation and age pension requirements, combined with the dramatic growth in self-managed super funds, both play a part here.

Only 23% of the workforce in our sample had actively begun seeking help. This increased to 51% once we focussed on people approaching retirement — which may sound encouraging until you realise it means 49% of people within 5 years of retirement have not yet started to seek any advice about such a significant life event.

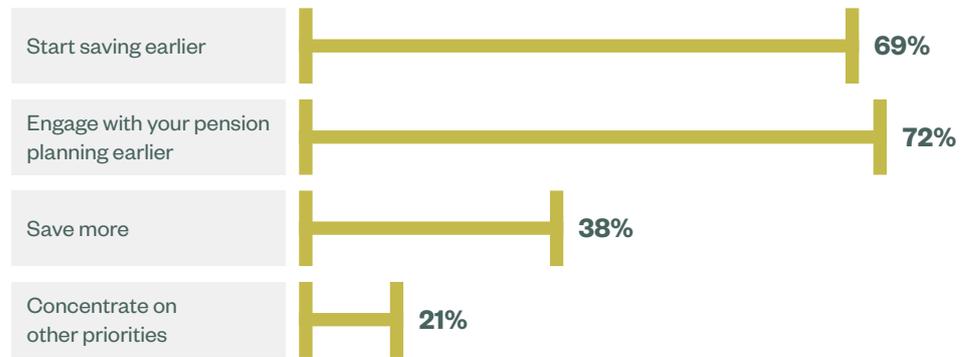
Perhaps contrary to conventional wisdom, our survey found that over half of the workplace is actually willing to pay for advice about retirement income. Less surprisingly, only one in seven were willing to pay more than \$1,000. Given the impact financial decisions at retirement can have on the next 20 to 30 years of life, it seems to us that the industry needs to create, and communicate better, value propositions.

What can we learn from retirees?

It is interesting to compare responses from retirees with the expectations of those in the workforce. What wisdom can the generation ahead pass to the generation behind?

What advice would you give to people that are currently working and planning for retirement?

% of Recently Retired



You might think that the first piece of advice would be simple; just save more. But retirees are suggesting something a little more nuanced; start saving *earlier*, and speak to your superannuation fund or financial planner *earlier*. After all, the substantial majority of younger workers currently only have the superannuation guarantee. It is only as people approach retirement that we start to see savings increase. A smaller increase early can be more effective than a large increase later.



"Engage early and often plus salary sacrifice." **Female, 68 years old**

Nearly a third of us are expecting to use part-time work to supplement our income in retirement. The actual experience of retirees is at odds with this; very few retirees we interviewed nominated part-time work as a significant source of income.

We see a similar pattern with down-sizing the family home, using equity release products, or even using investment properties. More than a few in the working population expect to use property somehow, but, at least to date, it doesn't rank highly as a source of income for retirees. Actually, around 40% of the retirees we interviewed nominated spending on house renovation and redecoration as one use of their retirement savings.

Top 3 expected sources of income (% of respondents)

Income Source	Recently Retired (%)	Later in Retirement (%)
Superannuation fund	100	100
Age Pension	44	50
Other investments	39	45
Other Government Pension	4	4
Investment Property	4	8
Part-time work	4	4
Inheritance	3	2
Downsize from main home	2	-
Equity release from main home	1	1



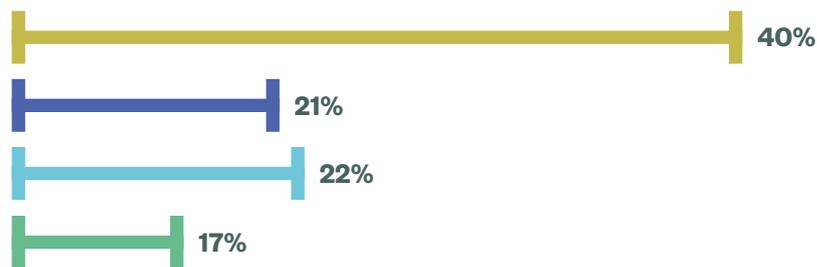
Stability and Flexibility?

With the release of the Retirement Income Covenant Position Paper by Treasury in May 2018, there is more change forecast on the horizon. The Comprehensive Income Product for Retirement (“CIPR”) is an important feature of the proposal. Key features of the CIPR include “efficient, broadly constant income”, “longevity risk management” and “some access to capital”.

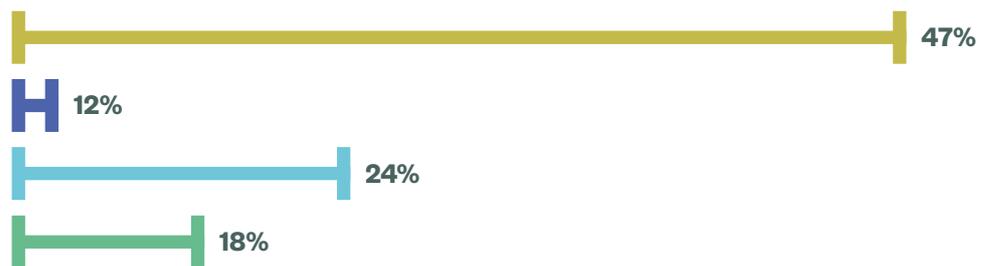
We were encouraged in our survey to see broader community expectations align with these key tenants. The wording used in the survey hinted at (without naming) both immediate annuities and unallocated pensions which might run out. Among the working population and those approaching retirement, the most popular choice was one that combined early flexibility with some measure of certainty in later life.

From the following options on accessing your retirement savings, which would you choose?

Working Population



Approaching Retirement



- Flexible access in the early years, and use the remaining part for a stable income
- Stable income that lasts for all of my life, even if i lose flexibility
- Flexible access even if that means the savings might run out
- Don't understand/Not sure

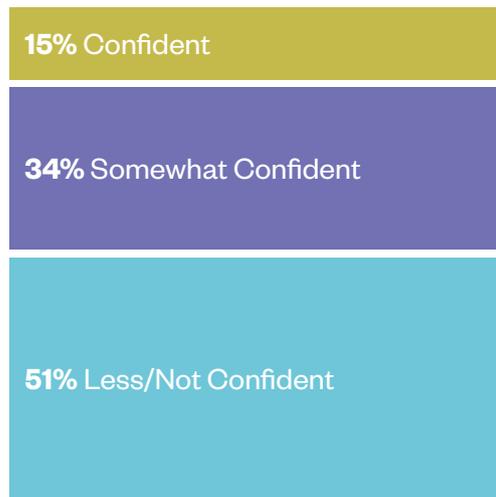
When we asked retirees, only 1 in 7 were genuinely unhappy with the options they took in retirement and only 1 in 5 would have taken a different option in retirement. We also asked those who were unhappy what they would have preferred and 63% wanted more security than they got, while only 26% wanted greater flexibility.

One of the great challenges in our current system is the difficulty translating an accumulating capital sum into a retirement income stream that won't start until many years in the future. The low levels of confidence in the workforce around retirement are probably in part due to this difficulty in translation.

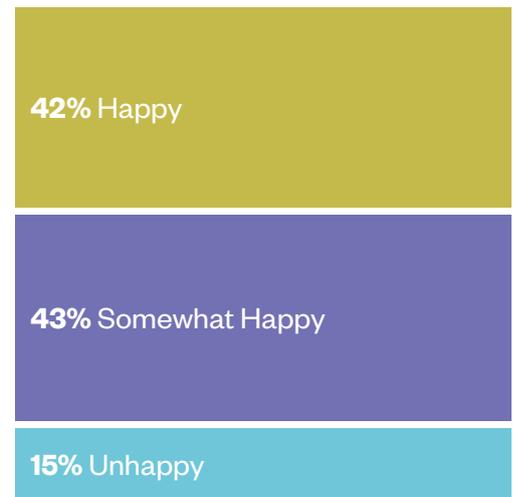
Consider, for example, around half the workforce have little or no confidence they will be able to afford the lifestyle they want. Yet most of the retirees we interviewed were reasonably happy with their ability to afford a suitable retirement lifestyle.

Affording a retirement lifestyle

Working population confidence in affording lifestyle



Recent Retiree happiness with affording lifestyle



Of course, some of this may be due to recalibration of expectations at retirement, but we don't believe this is a big contributor. After all, we didn't see a large difference between what today's workforce sees as an appropriate retirement savings goal (\$400,000 to \$450,000) and the total saved by recently retired (\$500,000).

\$400–450,000

Today's workforce sees as an appropriate retirement savings goal

\$500,000

Total saved by recently retired



"Given the financial climate stays calm, I feel confident that we will be ok."
Female, 65 years old

Rather we suspect the lack of confidence is in part due to weak communication of likely retirement income to those in the workforce today. Giving younger contributors a sense of the retirement income their hard earned contributions are funding may go a long way to not only improving confidence, but also increasing contribution levels earlier.



Conclusion

Australia is rightly proud of its retirement savings system. The growth in assets, the expansion in population coverage and the widespread acceptance of personal responsibility are notable achievements after three decades of work.

However there is still more to do, particularly around retirement incomes and communicating goals. The good news is that other countries around the globe are grappling with similar problems. That means we have the opportunity to import great ideas from overseas in much the same way that Australia has exported hard won experience since 1992.

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