

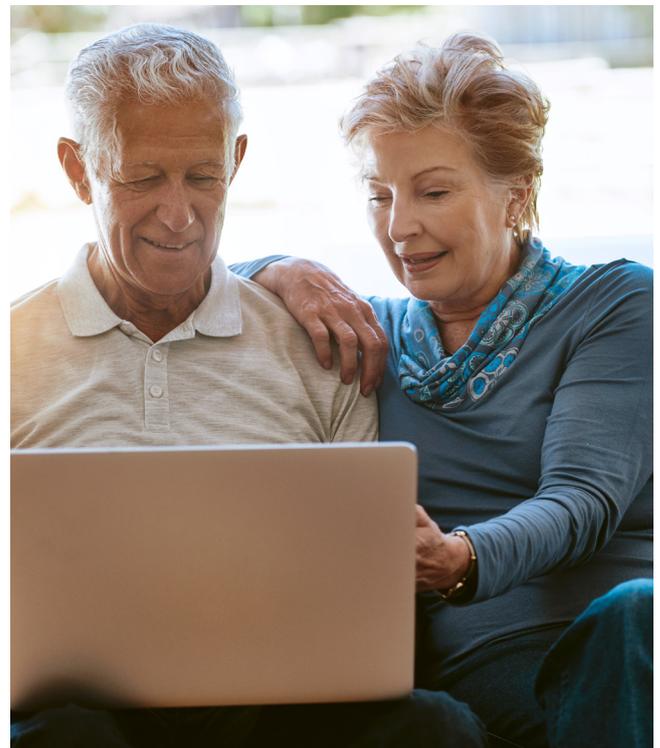
Ensuring financial security in retirement

Financial discomfort in retirement report

Release of the 2019 survey Ensuring financial security in retirement has provided valuable insights into how older Australians are feeling about their financial situation in retirement. Conducted by YourLifeChoices retirement website, the survey attracted 3397 responses to 42 questions about retirement savings, income and attitudes.

Overwhelmingly, the *Ensuring financial security in retirement* survey found that many retirees were worried about running out of money, with very few saying they were confident of maintaining their lifestyle for as long as they lived. Even those with higher incomes in retirement had their worries, with many concerned about how a fall in the share market would affect them.

One of the most interesting findings from the survey was that budgeting and stable spending patterns lead to higher financial confidence, with those who maintained similar levels of spending before and after retirement reporting higher levels of confidence. This finding highlights the importance of making a financial plan to ensure you can spend confidently in retirement and support your desired lifestyle for as long as you live.



Key findings

37% OF RETIREES ARE NOT CONFIDENT THAT THEY CAN MAINTAIN THEIR LIFESTYLE AS LONG AS THEY LIVE



Only 11 per cent of retirees are confident about their future

The survey showed that many older Australians are worried about whether their savings will last in retirement, with only 11% of retirees very confident that they will be able to maintain their lifestyle for as long as they live. While 33% said they were somewhat confident, very few had the peace of mind that most retirees desire.

Are you confident you can maintain your standard of living for life?



59% OF RETIREES SAID AGE PENSION IS VERY IMPORTANT TO STANDARD OF LIVING



The problem with the Age Pension

One source of income that Australian retirees can rely on for life is the Age Pension. In fact, 59% of respondents said that the Age Pension was very important to their standard of living in retirement. This was even higher for those already eligible for at least a part Age Pension, with 63% of those aged over 65 saying the Age Pension was very important.

With a large proportion of respondents saying they are reliant on the Age Pension but few feeling confident of maintaining their lifestyle, it would seem that there is a gap in what the Age Pension can deliver versus the income needed to maintain one's lifestyle in retirement. That is, most people want to maintain a lifestyle that the Age Pension alone cannot deliver.

[Recent research](#) conducted by Challenger shows that most people are not receiving the Age Pension in the early stage of retirement. While this tells us that larger super balances are delaying Age Pension access for some, it does leave many older Australians without access to a secure, lifetime income at the start of retirement, which might increase financial uncertainty and lead to lower confidence.

The six retirement tribes

YourLifeChoices and The Australia Institute have created six retirement tribes. The [YourLifeChoices retirement tribes](#) are based on income, home ownership and relationship status. The **YourLifeChoices** retirement tribes spending is based on actual household spending in retirement, from the Australian Bureau of Statistics. The tribes are adjusted by the Consumer Price Index and reported quarterly in [YourLifeChoices Retirement Affordability Index](#). Spending is current at March 2019.

					
Affluent Couples and Singles		Constrained Couples and Singles		Cash-strapped Couples and Singles	
Homeowners with private income. Estimated annual expenditure \$75,243 and \$42,981 respectively.		Home-owners on full or part Age Pension. Estimated annual expenditure \$43,305 and \$23,980 respectively.		Renters on Age Pension. Estimated annual expenditure \$36,568 and \$22,960 respectively.	

Confidence and concerns vary across tribes

The Confidence Factor

The *Ensuring financial security in retirement* survey shows a clear difference in the level of confidence across the six **YourLifeChoices** retirement tribes.

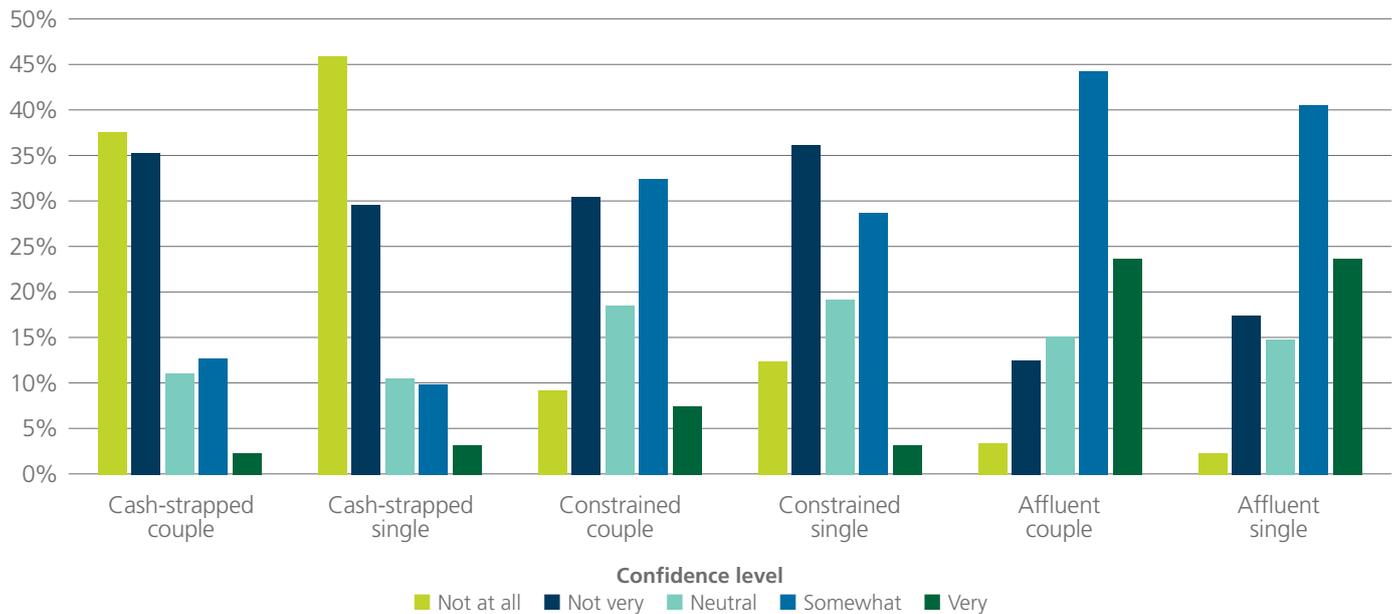
Members of the 'Affluent' tribes (single or couple homeowners, self-funded) were the most confident of maintaining their current lifestyle, which they estimated at \$65,000 a year for couples. This is well short of the \$75,242 annual expenditure (\$45,000 for singles), based on actual expenditure from the Australian Bureau of Statistics (ABS) with current consumer price index (CPI) applied.

Constrained households (single or couple homeowners, on a full or part Age Pension) were more mixed in their confidence with singles estimating they would need \$35,000 a year. This is much higher than the \$24,000-a-year-lifestyle (\$44,000 for couples) evidenced in the ABS data.

The Cash-Strapped tribes (single or couple pensioners who rent) were worried about sustaining their lifestyles which was estimated at close to \$35,000 for singles (although expenditure surveys indicate that they only spend \$23,000), and \$38,000 for couple households.

These findings indicate that the Age Pension alone would not cover all estimated living costs for any of the **YourLifeChoices** tribes, noting that a single on the full Age Pension would receive \$24,081.20 per year and a couple \$36,301.20 per year (rates as at 20 March 2019). However, the actual spending is closer to the Age Pension for the constrained and cash-strapped singles suggesting that these tribes tighten their belts when necessary.

How confident are you of sustaining your lifestyle?



What are you most worried about?

AFFLUENT RETIREES MOST WORRIED ABOUT SHAREMARKET FALLS

CASH-STRAPPED RETIREES WORRY MOST ABOUT HAVING MONEY FOR EMERGENCIES

Retirement concerns also differed across tribes

- The affluent tribes were most worried (46%) about a fall in the share market (compared to 31% of all retirees).
- The constrained tribes were in the middle (or neutral) for most concerns, except for the fear that they could outlive their savings (36%). This compared to 33% of all retirees who said they were worried about outliving their savings.
- The cash-strapped tribes were more worried (54%) about having extra money on hand for an emergency (compared to 30% of all retirees).

For many people, retirement doesn't arrive as planned. Health issues or work availability can push someone into retirement earlier than anticipated. This change can disrupt plans and it can take some time to adjust

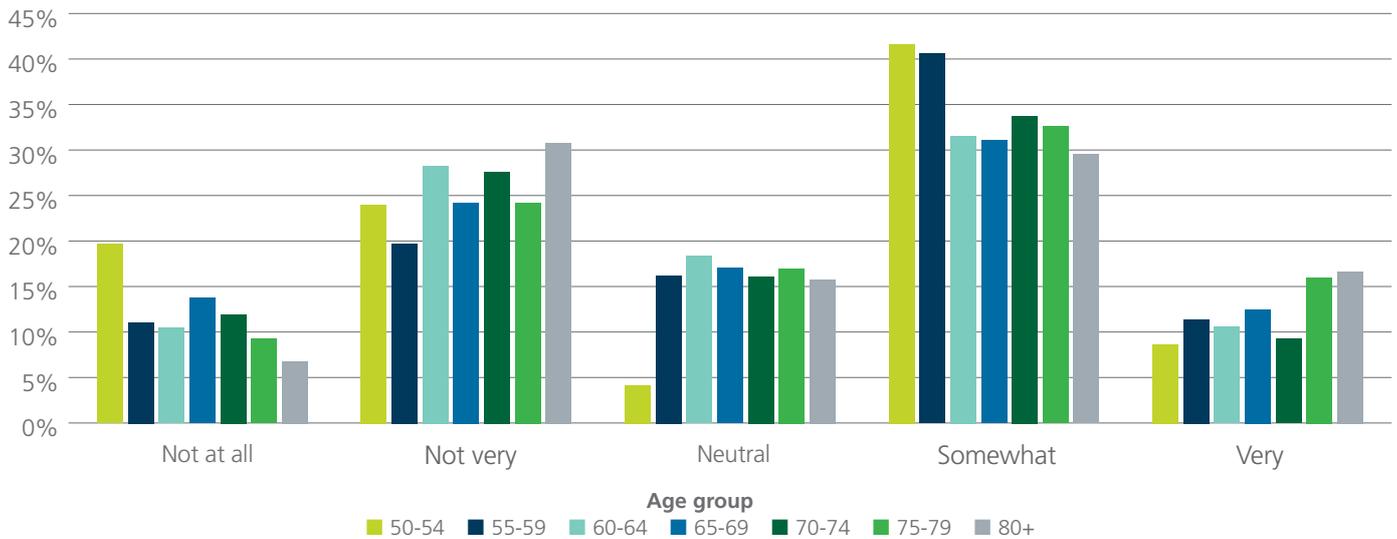
to retirement. Only 7% of those who retired for health reasons were very confident of sustaining their lifestyle, compared to 25% of those who retired when they believed they had enough savings. It is fair to surmise that careful planning can contribute to overall retirement income confidence.

The power of experience

The survey also found that older retirees were more likely to feel very confident about their financial situation compared to younger retirees. Many pre-retiree households were somewhat confident, but surprisingly this doesn't carry into early retirement. Perhaps it is an indication that retirees often adapt their lifestyle and spending through retirement to increase confidence in sustaining that lifestyle.

Confidence improves with age

How confident are you of sustaining your lifestyle?



What is the most important ingredient for financial security in retirement?

What you told us:

“Remembering that retirement lasts almost as long as a career.”

Male, aged 55-59 years, working full time

“Careful and realistic planning as well as having a budget and sticking to it both for expenditure and saving.”

Retired female, aged 65-69 years

“Start saving early and have a diversified approach to assets to spread the risk.”

Retired female, aged 55-59 years

“Multiple income streams; if one income stream fails you have other income coming in.”

Retired male, aged 60-64 years

“Become educated about your options in retirement before it happens.”

Female, aged 60-64 years, working part time

“Financial security in retirement is only available if you have a guaranteed source of income.”

Retired male, aged 70-74 years

“Income from investments, annuities and pensions backed up by a fair government aged pension.”

Retired male, aged 70-74 years

“Peace of mind is extremely important to older people. Having money at hand to be able to pay for your health needs is not only important, it is a must for a peaceful life”

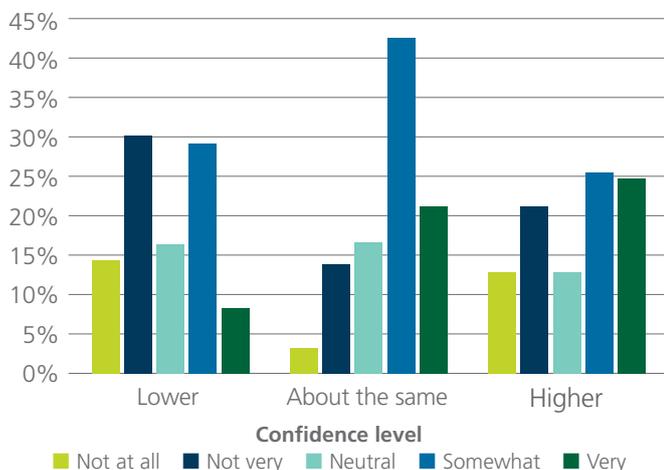
Retired female, aged 80 years

Stable spending patterns contribute to confidence

Consistent spending habits before and after retirement are another indicator of confidence. Those who said they maintained their level of spending before and after retirement also reported a higher level of confidence. Those who said their spending was lower in retirement felt more uncertain about their financial situation.

One potential theory for lower confidence is lack of planning. Having a spending plan for retirement could be one way to improve confidence levels and provide some longer-term peace of mind.

How would you compare your spending just before retirement, to your spending in retirement?



Confidence through judicious spending, not scrimping

RETIREES PREPARED TO SPEND SOME OF THEIR SAVINGS HAD HIGHER CONFIDENCE



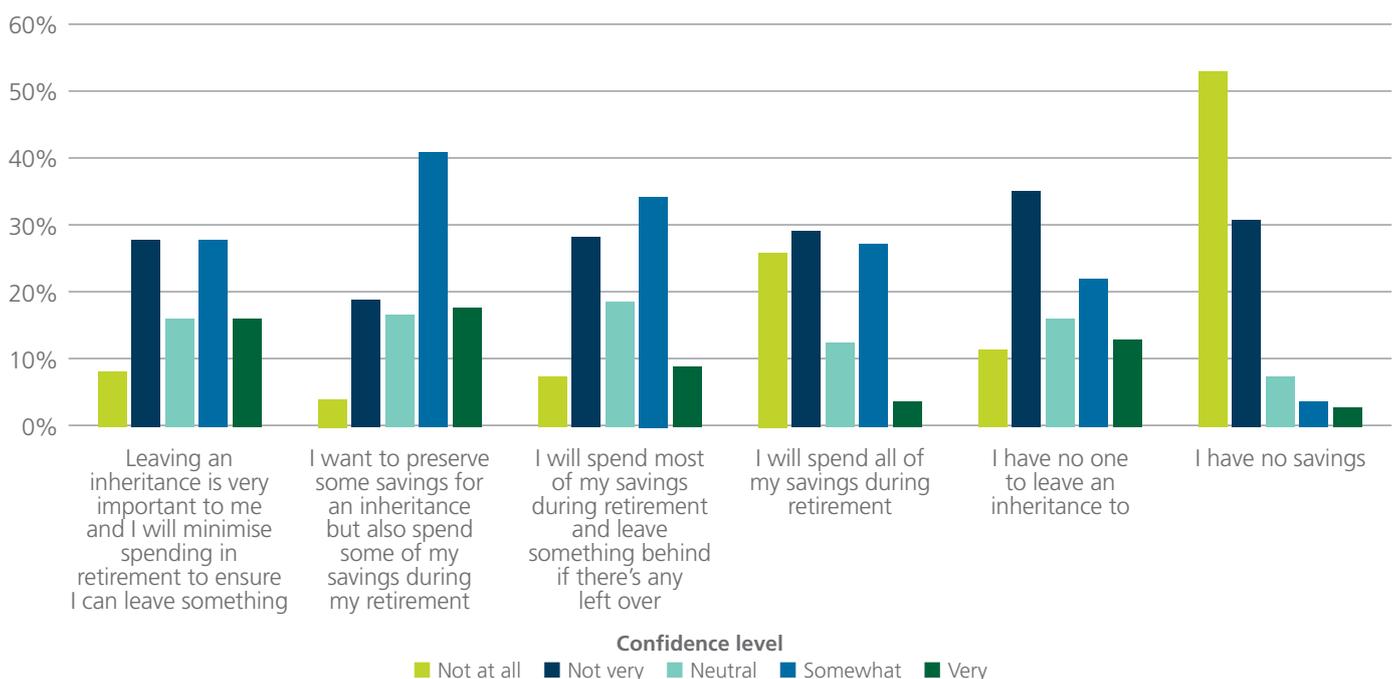
Another interesting finding was that retirees who plan to preserve their capital, rather than being prepared to spend at least some of it, were more worried about sustaining their lifestyle.

More than a third (38%) of those who wanted to preserve all their capital for an inheritance had little or no confidence in sustaining their lifestyle.

People with limited or no savings were understandably the most worried, but those who were prepared to spend down some of their built-up savings were the most confident of sustaining their lifestyle through retirement.

Potentially, if more people were prepared to spend some of their savings throughout retirement, they might have more confidence in sustaining their desired lifestyle through retirement.

How important is leaving an inheritance?



Conclusion

Many retirees are worried about outliving their savings

Many lack confidence that they will be able to sustain their desired lifestyle throughout retirement. While confidence and concerns vary across the six **YourLifeChoices** retirement tribes, a large proportion of retirees are not feeling comfortable with their financial situation.

For those who have built up savings over their lifetime, the survey confirms that being prepared to spend down those savings to support their retirement lifestyle is a confidence booster. Having a retirement spending plan in place is key to achieving this, helping retirees to plan for and adjust spending to changing lifestyles into later life.

Managing your money in retirement is different to other stages of life. Being able to spend confidently knowing your money will last for life is important in achieving financial comfort.

For information about setting up guaranteed income for life to help cover your living costs, visit www.challenger.com.au or speak to your financial adviser about Challenger lifetime annuities.

Methodology

The *Ensuring financial security in retirement* survey was conducted by the **YourLifeChoices** website in partnership with Challenger Limited in February 2019. The survey was conducted using SurveyMonkey and sent to **YourLifeChoices** database of 230,000 Australian members aged 50-75 years. The survey received 3397 responses to 42 quantitative and qualitative questions.

About **YourLifeChoices**

Established in 1999, **YourLifeChoices** is Australia's largest specialist retirement website, with 230,000 members who receive daily newsletters keeping them up to date on retirement income, planning and entitlements.

YourLifeChoices' mission is to deliver authoritative and independent information to all Australians seeking an affordable retirement. Much of the information shared with members and website visitors is based upon regular research and surveys conducted online. Visit www.yourlifechoices.com.au for more information.

Who is Challenger?

Challenger Life is part of Australia's largest provider of annuities and a life company registered under the Life Insurance Act 1995. Challenger provides reliable income to around 60,000 investors through management of more than \$19 billion in assets (as at 30 June 2019)

Challenger Life is regulated by the Australian Prudential Regulation Authority (APRA) and must hold a minimum amount of capital, set by APRA, to ensure that payment promises can be made to investors.

Challenger Limited, an investment management firm managing \$82 billion in assets (as at 30 June 2019). Challenger Limited is focused on providing customers with financial security for retirement.