Retirement in the 21st Century- Can you afford it?

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Retirement & Pensions: A relative new phenomenon in human history

- Up till the 20th century, poverty (including that due to age and infirmity) was regarded as a semi-criminal condition!
  - ‘Send the lazy blighters to the Workhouse’
- State Aged Pensions date (variously) only to 1889 (Germany) 1911 (UK) and 1910 (Australia)

HOWEVER

Actuarial basis of calculating cost of such pensions was that a worker retiring at 65 would be dead by age of 70!
Public Health and Medical Development and Longevity

- **1945**: 65 year old male life expectancy **12 years**
- **BUT**
- By **2012**: 65 year old male life expectancy is **19.7 years**
- **PLUS**
- ‘Baby Boomer’ demographic ‘bulge’ begin to retire from 2010 onwards
- **RESULT**
- Aged pensions funding model no longer sustainable with the 1945 actuarial figures
Retirement and Pensions: “3 into 2 won’t go”
Solving the Pension Funding Problem

- Shift the cost to Business!
  - 1992 Superannuation Guarantee Levy Introduced by Keating Labour
    - (3% Superannuation instead of National Wage increase)
  - Levy rises from initial 3% to 9% by 2002 ;(Keating argues should have been 15%)
  - National Superannuation fund pool of over $1.3 trillion created by 2007
  - (Subsequent rise in Levy to 12% by 2019 is planned)
Attitudes to Retirement Vary

“Look here Watson, everybody has to retire sometime!”
“Choosing When to Go”

- Having ANY choice depends on:
  - 1) The workplace allows work past normal retirement age
  - 2) There is meaningful work to be done by the worker concerned
  - 3) Worker has adequate health to continue working past 65
  - 4) Worker has adequate funds in superannuation, or other savings, or pension entitlement, to fund the retirement he has planned or envisioned,

- If any one of these four conditions are absent, then retirement will be forced

Worker takes what he can get!
Then Comes the ‘GFC’!

- 2006 US Housing Bubble Bursts
- 2007 French bank (BNP Paribas) suspends payments on its three hedge funds citing loss of liquidity
- Superannuation funds in Australia total nearly $1.3 trillion
  - 60% invested in equities markets
- World equities market fall by up to 50%
- All Australian Super funds show negative growth
  - SuperRatings reports; “…80 per cent of Australia’s $1.3 trillion super industry, averaged just 0.92 per cent a year for each of the years 2007-2012 …the purchasing power of those savings had fallen by 2 per cent a year”
- Average Superannuation; 2007 - Males $88000; Females: $52000.
- But by 2012, Average Superannuation -Males $66000, Females $46800.
You know things are bad in Italy when...
Our First Study

- **Qualitative Study:**
  - 15 Participants responding to public call for submissions in the Adelaide media
  - Semi-structured telephone interview in the participant’s home
  - Mean age 61.4 years; Range 52-74. 8 being female
  - 10 participants were partnered, 8 of whom were working to at least some extent
    - 4 partners’ Superannuation Accounts >$100K; six had Super accounts, <$40k
LIFE Offers No Guarantees
Winners

Only 4 participants (25%) felt themselves to be financially secure for their retirement

- Two of these were in receipt of Government (Defence) pensions
- One married female participant had been planning for retirement most of their life:
- One (divorced) female participant had made a determined point to secure her immediate and future financial security after the divorce (in her 30’s)
-and Losers

- All but one had been significantly affected by the GFC
  - Losses in Super accounts varied from 15%-50%
    - One single lady reported the losses meant she didn’t now know when she could afford to retire
  - Significantly adverse Life Events late in working life had completely compromised the retirement security of three participants
    - Two suffered significant injury, i.e.:
      - One, a 64 year old male, reported his financial condition: “...just in crisis!”
Late Career Tragedy

One 68 year old participant divorced shortly before retirement. His assets (house equity and superannuation) were largely lost.

He was unable to contemplate retirement; forced to seek employment beyond 65.

Work that he did get was poorly paid and had the hallmarks of serious exploitation;

He feels trapped in this inadequate position:

- “...I’m [continuing to lose] $400 a month out of bank savings...”
Online Survey (Study 2)

- Participants recruited from Social Media sites, and ‘snowballing’ including:
- Total of 112 completed responses, 98% Australian participants

Demographics
- Mean Age 63.5 Range 47-93
- 42 (38%) had retired
- 30 (27%) females
- 83(74%) were partnered
- 42 (51%) of partners were working and 29 (70%) said this income was “Very” to ‘Extremely’ important to maintaining lifestyle and financial security
Retirement Planning

"Now, if we stick to our financial plan, I can retire at 55 and you at 87."
Unretired Participants (N=75)

- 20 (27%): Retirement plans contingent on partner’s retirement plans
  
  **Examples**
  - 13 of 24 (55%): Financial (security) i.e. income is crucial to security
  - Only 2 (8%): Relationship based (i.e. travel, spend time together) motives

- 15 of 31 (48%): Retirement plans affected by partner’s or ‘others’ wishes
  
  **Examples**
  - 14 of 40 (35%): Financial security issues
  - 6 of 40 (15%): ‘Personal’ i.e. travel, care for grandchildren, too much time together (personal space issues)
  - 20 of 40 (50%) mentioned continuing need to assist parents, older children, grandkids in various ways i.e. single parents, students, chronic illness, etc.
"I'm just saying, if our income is 'fixed', how come we're 'broke'?"
Only 5 (10%) felt “Perfectly Secure” in their retirement
11 (22%) felt “Uncertain” and a further 11 (22%) felt “Insecure”
23 (47%) said the GFC had affected them “Severely” to “Quite a lot”
18 (36%) said they needed to work part-time “Frequently” or “Occasionally” to preserve their financial security
23 (35%) said that obtaining part-time work was “Somewhat” to “Very Difficult”
What Support are Retirees and Potential Retirees Looking For?

Participants who believed their retirement resources were inadequate

“What are the most valuable factors you need by way of assistance?”

- Of 30 responses:
  - 23 (77%) indicated availability of part-time work (for the older worker)
  - Only 2 (6%) were looking for more Govt. assistance
  - 5 indicated more stable and consistent superannuation policy and practice from Govt.
Thoughts to Ponder

- Funds required for a dignified retirement for workers with life expectancy >85 is much greater than most people realise.

- **In 2012**, Henderson Poverty Line (50% av.wkly earnings) i.e. **$646 per wk net ($34,000 p.a.)**
  
  - [Current Aged Pension = $1200 per fortnight for a couple] = **$ 31200 p.a.**

- Funding a retirement income of Henderson Poverty Line + 10% (i.e. $37500 p.a.) for 20 years costs $ 750,000 ($ 2012)

- Consider, for a worker commencing their work life in 2012:
  
  - By the time they retire in 2079 (at 67) and assuming 3% inflation over the working life; THEN

  - Amount needed to fund the same retirement income = **$3.4 million**
"Carpe Diem: Quam Minimus Credula Postero"
[‘Seize the day; trust the least to the future!’]  
(But does it apply to retirement?)

Any worker ‘blessed’ with an indexed, work-related pension is massively advantaged.  
Accumulating the necessary funds takes a lifetime to achieve and assumes no unfortunate intervening “Life Events”

The superannuation fund pool is a vital national resource to protect workers’ retirement assets.

Regulation of superannuation funds industry to protect against abuse, malfeasance and future GFC event effects is essential

(chasing high returns in risky equities may benefit fund managers but is NOT an appropriate strategy for such important long term fund needs).

Superannuation Levy increase to 12% by 2019 is a positive step but our calculations indicate that on its own will NOT be adequate for the average workers’ retirement.
A cautionary for those of you about to retire
And a final Smile
Thank you for your kind attention

Have a good weekend!