Financial Wellbeing: Concerns and choices among older Australians

June 2012

Productive Ageing Centre
National Seniors Australia

Publisher NSPAC   ABN 81 101 126 587   ISBN 978-0-9872894-0-7

Australian Government
Department of Health and Ageing

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FOREWORD

Older Australians face a range of risks that can impact on their financial security in retirement. How much does a retiree need for future expenditure?; if they live longer than expected will the money set aside be sufficient?; will their funds keep up with costs of living?; and how can one reconcile the need for investment growth with requiring certainty of income and spare funds for emergencies?

To better understand the financial risks and concerns facing older Australians, their wellbeing, and their attitudes and choices, a survey of National Seniors Australia members was conducted in 2010, run jointly by ANU, Rice Warner Actuaries and AMP. The survey examined the influence of demographic factors and financial resources on their needs and preferences.

Among other things, the survey revealed the following:

- Close to 70 per cent of National Seniors retirees surveyed rely, partially or fully, on the Age Pension.
- The greatest concern, particularly amongst women, is that inflation may erode the value of their savings and investments.
- Almost 50 per cent of workers have, or intend to, delay their retirement in order to provide greater financial security.
- It is the youngest (55 year olds) and oldest (85 year olds) members in the survey who tend to least understand the relationship between investment choices and risk.

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June 2012

ACKNOWLEDGEMENTS

The authors of this report are Dr Tim Higgins and Dr Steven Roberts from the College of Business and Economics at the Australian National University.

This report is based on a survey conducted by researchers at the Australian National University in collaboration with AMP, Rice Warner Actuaries and National Seniors Australia. The survey was financed through an Australian Research Council Linkage Grant [1].

The views expressed in this report are those of the authors, and are not necessarily shared by the Australian National University, AMP or Rice Warner Actuaries.

National Seniors Australia and the National Seniors Productive Ageing Centre gratefully acknowledge the financial and other support provided by the Australian Government to the National Seniors Productive Ageing Centre project.

[1] Expenditure needs and drawdown of retirement savings during later life: how important are demographic factors and financial resources? – Australian Research Council Linkage Project (LP0776784)

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Financial Wellbeing: Concerns and choices among older Australians

INTRODUCTION

Three years after the onset of the Global Financial Crisis (GFC), most people who changed to conservative investments have remained there. Those who shifted following the GFC capitalised their losses, and their wealth may never recover to pre-GFC levels. Using conservative assets can protect one's investments during volatile and/or declining equity markets, and may be seen by many as justifiable in light of current global economic circumstances. However, there is a risk that the long term return from conservative investments will be lower than required for many retirees, leading to poor retirement income.

The key challenge facing all of us – superannuation fund members, retirees, benefit providers, fund managers and policy-makers – is encapsulated in the response given by a member when asked about their motivations for changing investment options: *"Preserve capital and provide enough income in retirement"*. While this is a simple statement, it requires more than a simple solution. While we don't propose a solution in this report, we note that the older population is clearly concerned about uncertain markets, inflation, and insufficient savings. Although many are engaged and have sufficient income and wealth for a comfortable retirement, many do not, and those least engaged are likely to be those with the poorest finances. Our tendency to focus on the *here and now* obscures the planning required for sufficient long-term income. Engagement and education need to start well before retirement, but policy changes are also needed. The increase from 9 per cent to 12 per cent Superannuation Guarantee will boost retirement balances, providing scope for the increased use of financial products in retirement. While there are practical and political barriers to compulsory annuitisation, annuities mitigate poor spending behavior by providing longevity protection and peace of mind, and improvements to the tax and social security treatment of such products would help to improve financial wellbeing among retirees.

This report provides insight into the following questions, among others:

- How do National Seniors members rate their own financial wellbeing? What factors besides income and wealth affect perceptions of financial wellbeing?
- What are the financial risks in retirement that are of most concern to members, and what strategies have members taken, or do they intend to take, in order to manage these risks?
- Are members financially literate, and to what extent does the level of financial literacy vary across the membership?
- Have respondents changed their superannuation investments since the GFC. If so, what changes have they made and *why* have they made these changes?

CHARACTERISTICS OF THE SAMPLE

This report is based on a preliminary analysis of the survey responses of 3,485 National Seniors Australia members. The sample of National Seniors members chosen to receive the survey was stratified to help ensure that it was broadly representative of the older Australian population by gender, age and geographic location[2]. The purpose of the survey was to explore the financial wellbeing, concerns and choices made by older Australians.

The survey was sent to 15,000 randomly selected National Seniors members in August 2010. By the end of October 2010 3,485 completed surveys had been received, representing a response rate of close to 23 percent. Table 1 compares the respondent statistics with Australian statistics sourced from the Australian Bureau of Statistics (ABS, 2011).

Table 1 *Proportion of survey respondents within each gender, age group and state/territory (%). Corresponding Australian population proportions are in brackets.*

MALES	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	
age 80+	5 (3)	3 (2)	2 (2)	2 (1)	2 (1)	0 (0)	0 (0)	1 (0)	15 (10)
age 70-79	8 (6)	6(4)	4 (3)	2 (1)	3 (2)	1 (0)	0 (0)	0 (0)	25 (18)
age 60-69	10 (10)	9 (7)	7 (6)	3 (2)	4 (3)	1 (1)	0 (0)	1 (0)	35 (31)
age 50-59	9 (13)	6 (10)	4 (8)	2 (3)	3 (4)	1 (1)	0 (0)	1 (1)	25 (42)
	32 (33)	24 (25)	17 (20)	9 (8)	11 (10)	4 (3)	1 (1)	2 (1)	100

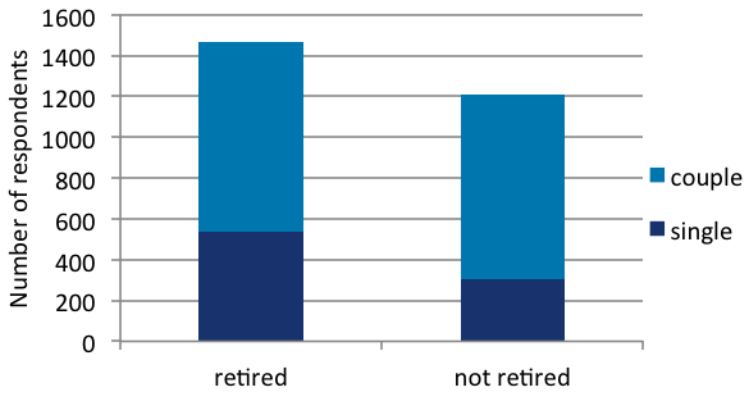
FEMALES	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	
age 80+	4 (5)	3 (4)	1 (2)	1 (1)	1 (1)	1 (0)	0 (0)	0 (0)	10 (14)
age 70-79	7 (6)	5 (5)	2 (3)	2 (2)	2 (2)	1 (0)	0 (0)	0 (0)	19 (18)
age 60-69	11 (9)	8 (7)	7 (6)	3 (2)	3 (3)	1 (1)	1 (0)	1 (0)	35 (29)
age 50-59	11 (13)	7 (10)	7 (8)	4 (3)	3 (4)	1 (1)	0 (0)	1 (1)	35 (39)
	33 (33)	23 (25)	18 (19)	10 (8)	9 (10)	4 (3)	1 (1)	2 (1)	100

May not sum to total due to rounding

[2] Proportions that are reported in this report are based on the raw unadjusted survey data. The statistical models used in the report were weighted by age group and gender based on Australian population statistics (ABS, 2011).

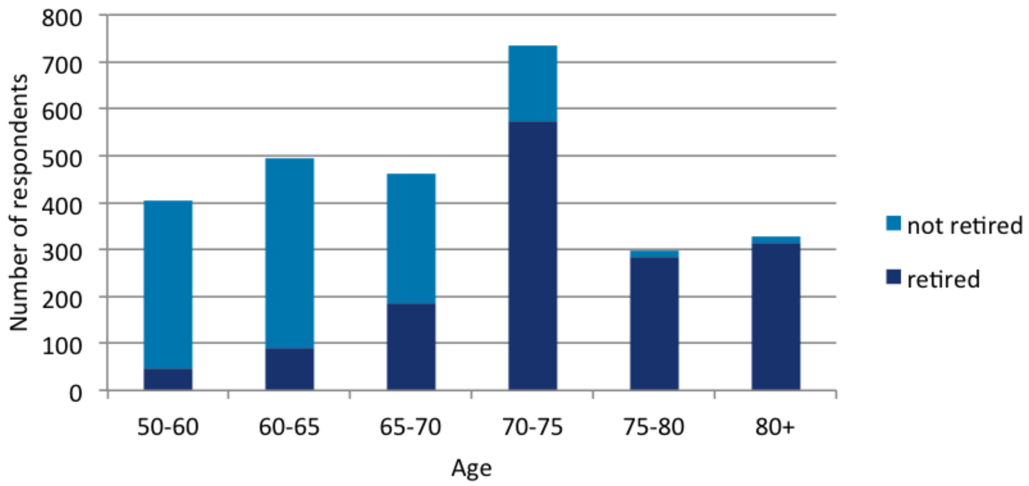
The distribution of some of the key demographic variables for the surveyed members is presented in the figures below. Results are presented separately according to whether the respondent is or is not retired from all paid work[3].

Figure 1 *Retirement status of survey respondents, by living arrangements.*



The average age for respondents who have not retired is 60, while for retirees the age is 73. The variation in ages is shown in Figure 2. The proportion of respondents retired from all paid work increases from approximately 10 per cent for ages 50-60 to 40 per cent by ages 65-70, and to 80 per cent by ages 70-75. The fraction of respondents still in some type of paid work after age 75 is less than 5 per cent.

Figure 2 *Age of survey respondents, by retirement status.*

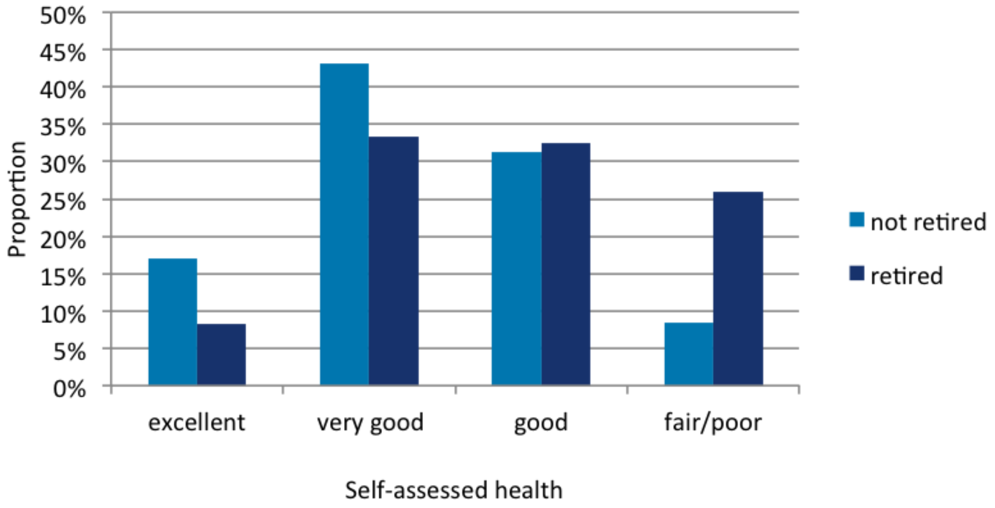


Levels of educational attainment are represented almost evenly across the respondents, with approximately equal proportions having tertiary education, a certificate/trade qualification, or year 12 education or below.

60 per cent of pre-retirees reported very good or excellent health, compared with only 42 per cent of retirees. Even more apparent are the different proportions at the bottom of the scale, with 8 per cent of pre-retirees reporting fair or poor health compared with 26 per cent of retirees. This result is not surprising given the clear association between age and health.

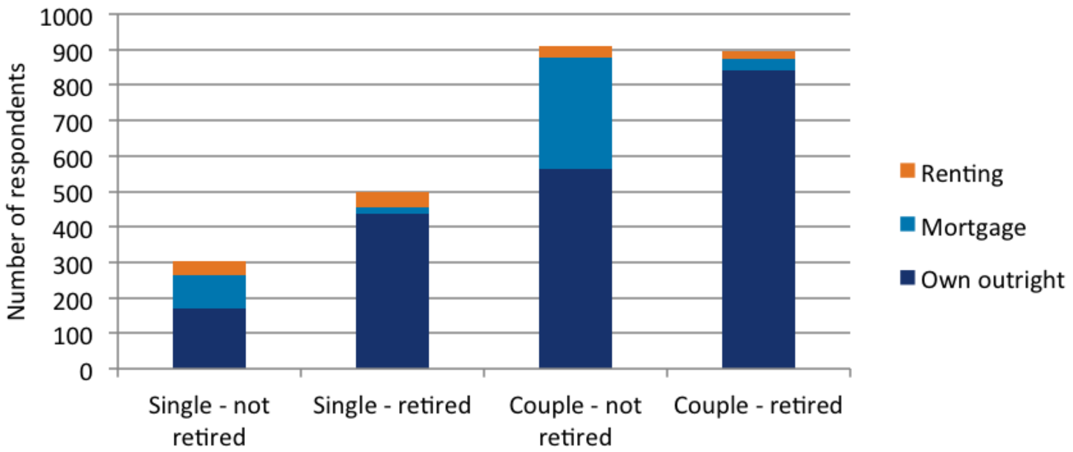
[3] Retired status for couples means that both parties are retired. For this research paper, we have excluded couples where only one person in the couple is retired. This reduces the sample to approximately 3,000 respondents.

Figure 3 *Proportion of survey respondents in each self-assessed health category, by retirement status.*



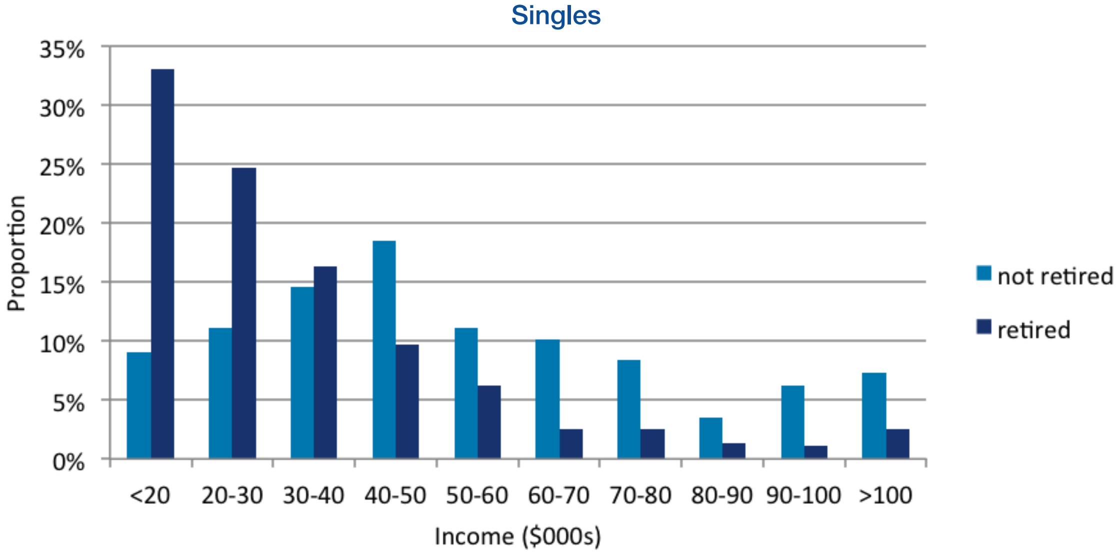
92 per cent of retired respondents own their homes outright, compared with 60 per cent of pre-retirees. The majority of the remaining pre-retirees have mortgages over their property, with only approximately 5 per cent of both retirees and pre-retirees renting.

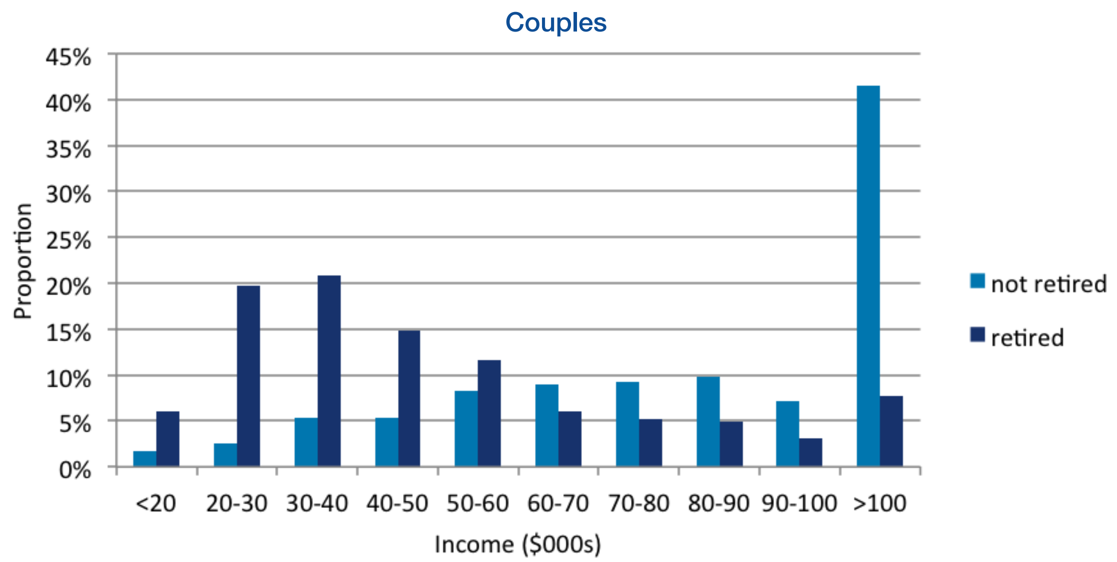
Figure 4 *Housing tenure of survey respondents, by living arrangements and retirement status.*



Household income is decomposed by living arrangements, with singles considered separately to couples. 33 per cent of retired singles receive less than $20,000 per annum and almost 60 per cent receive less than $30,000 per annum. A decomposition of retirees by source of income reveals the extent of reliance on government support, with 46 per cent of retired singles receiving the full Age Pension (or a similar government benefit) as their main source of income.

Figure 5 *Proportion of survey respondents with income falling in a particular range, by retirement status and living arrangements.*





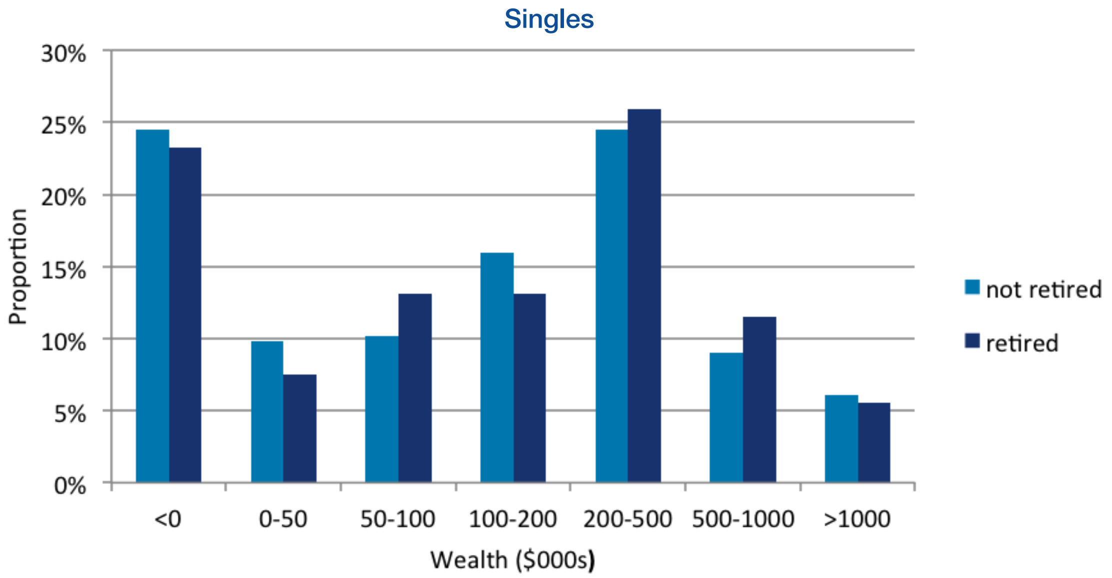
While the majority of non-retired couples earn over $80,000 per annum (60 per cent), as for retired singles, retired couples also appear to survive off relatively little income; 25 per cent report household incomes less than $30,000, and almost 50 per cent have incomes less than $40,000.

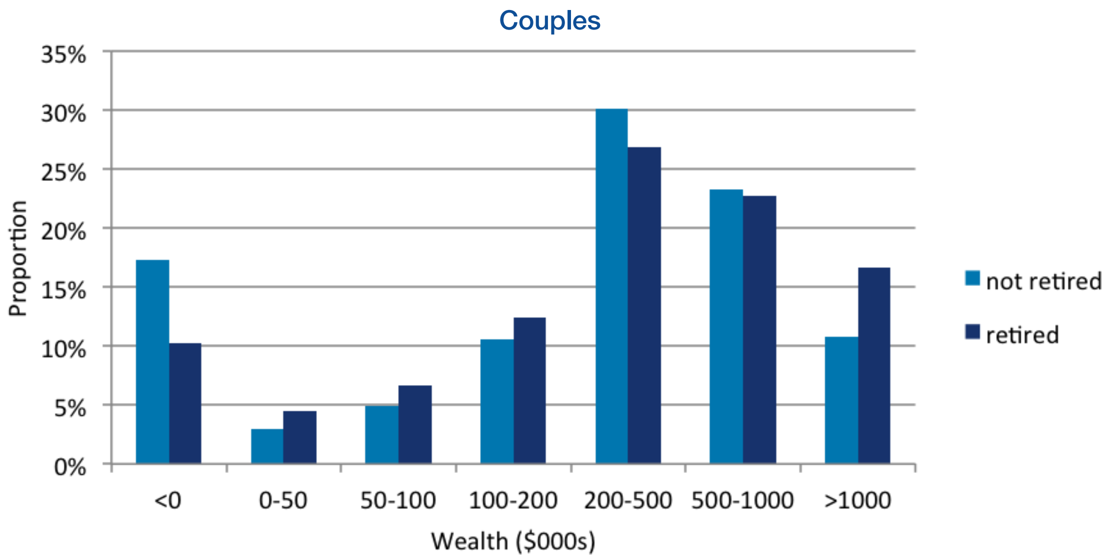
For those who are retired, income can be considered to come from two possible sources: government (e.g. the Age Pension), private sources (e.g. their own superannuation investments), or from a mix of both. Close to 40 per cent of retirees derive the majority of their income from government sources, 28 per cent rely on both sources (e.g. the partial Age Pension plus their own investments), while 33 per cent are self-funded and do not receive any income from government sources.

The income results, taken in isolation of wealth, indicate that many will struggle to maintain modest living standards in retirement, let alone reach a comfortable standard. The Association of Superannuation Funds of Australia (ASFA) budget standard for ‘modest’ retirement for singles at the time of the survey was approximately $21,000, however, somewhere near 30 per cent of retired singles appear to have income less than this level. Further, only 25 per cent of retired singles have income exceeding the ASFA ‘comfortable’ standard of $39,000. For retired couples, 25 per cent of respondents report household income below the ‘modest’ level of $31,000, while only 40 per cent have income above the ‘comfortable’ standard of $54,000.

It is not just current income that determines financial capacity - retirees draw on wealth during retirement. Net wealth (excluding the family home) for single and couple retirees and pre-retirees is given in Figure 6. While almost one quarter of retired singles have either zero or negative wealth (that is, they have greater debts than assets), 55 per cent have over $100,000 and 45 per cent have over $200,000 in net wealth.

Figure 6 *Proportion of survey respondents whose net wealth (excluding home) falls in a particular range, by retirement status and living arrangements.*





Only 10 per cent of retired couples have either zero or negative wealth (compared with 17 per cent of pre-retired couples), and 66 per cent have wealth greater than $200,000.

Despite the poor picture of financial health portrayed above, the vast majority of retirees own their own homes and most have substantial equity. 78 per cent of single retirees have over $200,000 of home equity, while this increases to 94 per cent for retired couples. While the 'asset rich and income poor' circumstance of retirees point to home equity as a means of meeting income needs, financial products that provide access to home equity are unpopular in the Australian market – according to data collected in this survey, only 6 per cent of retirees have used, or intend to use, home refinancing or reverse mortgage products.

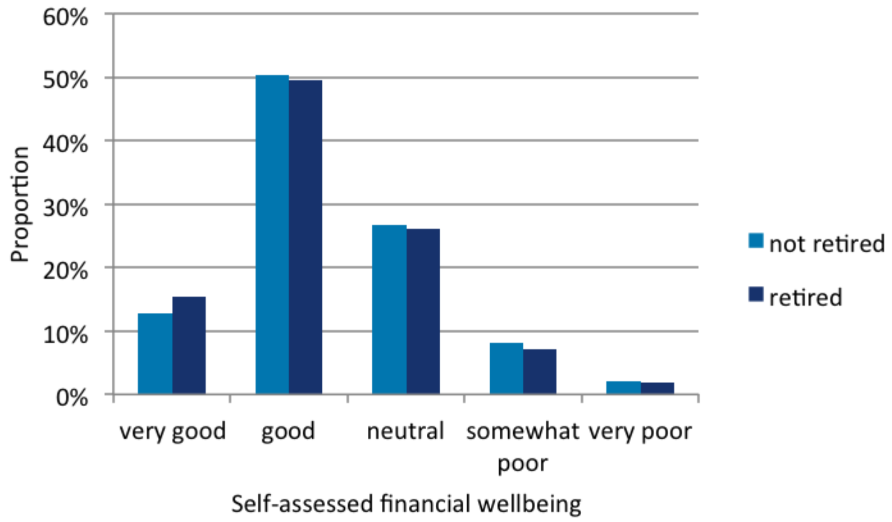
FINANCIAL WELLBEING

The first question in the survey asked respondents to assess their financial wellbeing via the following question:

How would you rate your current state of financial wellbeing (ranging from very good to very poor)?

Despite the relatively poor picture of financial health depicted in Figure 5, approximately 65 per cent of members rate their financial wellbeing as either good or very good, 25 per cent rate it as neither good nor poor, while only 10 per cent of members believe that their finances are either somewhat poor or very poor.

Figure 7 *Proportion of survey respondents whose self-assessed financial wellbeing fall in one of five catergories, by retirement status.*



Clearly, one would expect that an individual's assessment of their financial wellbeing would be determined by their level of savings and/or income. Singles and couples who report 'very good' financial wellbeing have higher income and net wealth than those with lower reported financial wellbeing. However, it is also the case that there is considerable overlap – that is, some households with the same level of financial resources report very different levels of financial wellbeing. This suggests that other factors, such as financial expectations and peer comparison, may affect one's perceptions of adequacy[4].

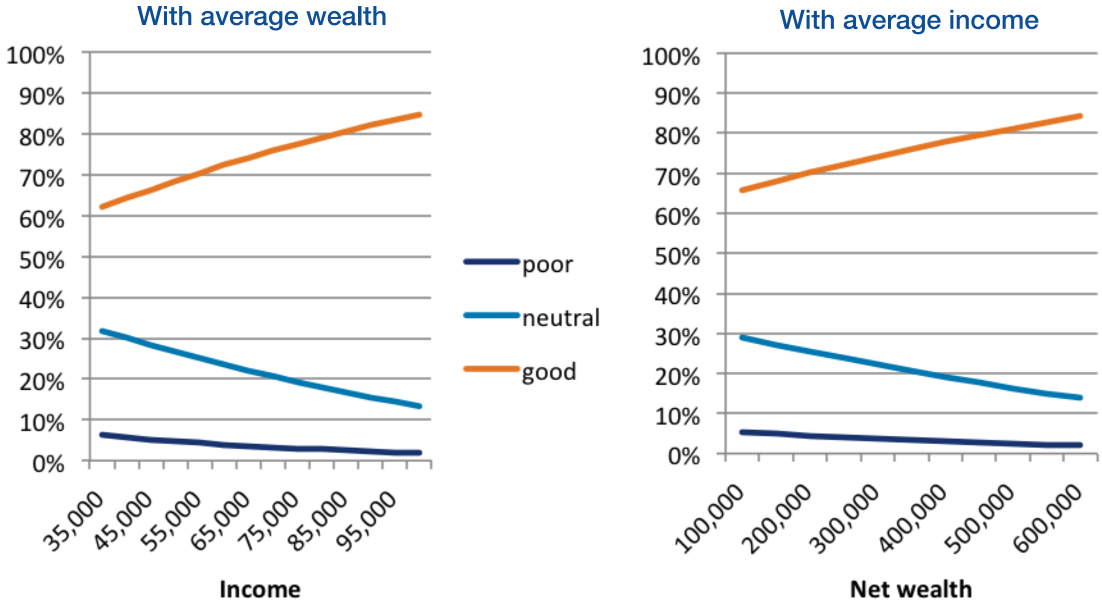
To explore how self-assessed financial wellbeing differs among older Australians, statistical modelling methods were used. Plots of model results are presented below for a number of different scenarios.

Income and wealth

For all members, income and wealth are by far the strongest determinants of self-assessed financial wellbeing. For example, a couple household with average net liquid wealth ($300,000) and housing wealth ($450,000) have a 60 per cent chance of rating their financial wellbeing as 'very good' or 'good' if on a combined income of $35,000. In contrast, for those with a combined income of $95,000, and holding other characteristics constant, the chance increases to 85 per cent. Similarly, a couple household with average income ($65,000) and average housing wealth who own their own home outright, have a 65 per cent chance of rating their financial wellbeing as 'very good' or 'good' if they have net liquid wealth of $100,000, while for those with net liquid wealth of $600,000 the chance increases to 85 per cent.

[4] This section presents a snapshot of the relationship between self-assessed financial wellbeing and the characteristics of older Australians. For a comprehensive report on this topic, see Preston (2011).

Figure 8 Estimated probability of a 65 year old, retired and coupled survey respondent who owns their home outright having a particular self-assessed financial wellbeing as a function of income and net wealth.



It is households with both high net wealth and high income that are more likely to claim very good or good financial wellbeing, compared to those with just high savings, or just high income. The combination of the stability and liquidity provided by income, and the security provided by high savings, together give financial confidence. For example, a couple with lower quartile income and net wealth ($35,000 and $100,000, respectively) have only a 50 per cent chance of reporting good or very good financial wellbeing (and a 10 per cent chance of reporting a poor outcome), whereas a couple with both upper quartile income and wealth ($95,000 and $600,000) have a 90 per cent chance of a positive response and only a 1 per cent chance of reporting poor wellbeing. The relationship between financial resources and self-assessed financial wellbeing is very similar for singles and couples, and so the values are not reported here. It is also apparent that higher levels of debt have a negative effect on self-assessed financial wellbeing, for individuals with a given level of savings and income.

Retirement status

It was also found that retirement status has an effect for couples, such that those who aren't retired report lower levels of financial wellbeing than retirees who are otherwise in the same financial position and of the same age. For example, retired couples aged 65 with average wealth and income are between 5 and 10 per cent more likely to report very good or good financial wellbeing when compared to non-retirees with similar characteristics. This finding is not unexpected – for members over the age of 55 who are working, 60 per cent reported that their decision to continue working is partly due to the need for additional funds, brought on by a belief that their current savings are insufficient for a comfortable retirement.

Age

As age increases, the remaining lifetime for which funds are needed declines; hence one would expect that wellbeing will increase for older retirees with the same wealth and income as younger retirees. This is borne out in the analysis - the oldest ages (80+) are associated with close to a 10 per cent greater chance of rating their financial wellbeing as good or very good when compared with 60 year old retirees.

Other factors

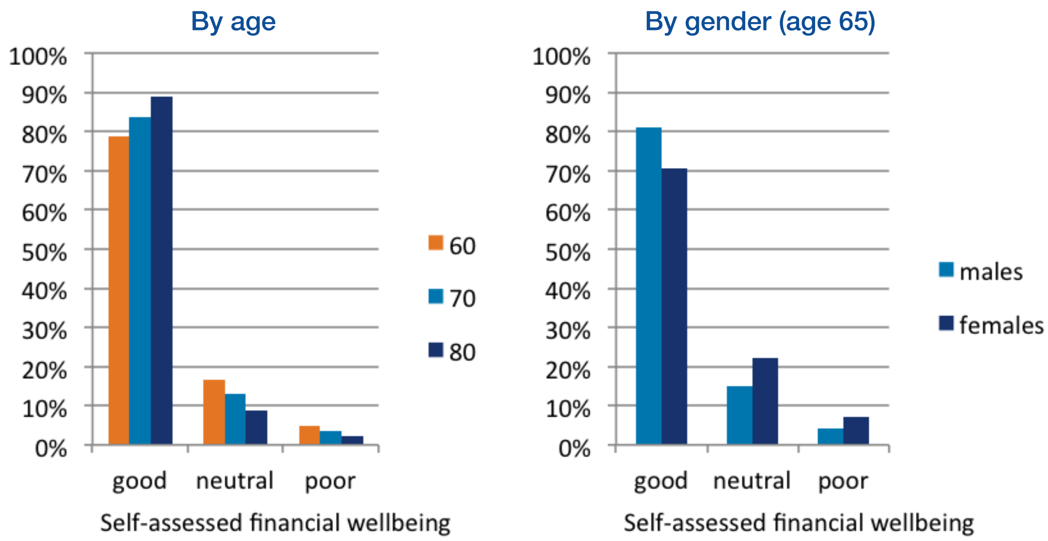
What other factors might affect financial wellbeing? While $100,000 of income or savings to one person may seem a large amount, to another person with different consumption habits, risk preferences, and expectations, this amount may be modest. Further, consumption habits and expectations may be coloured by how the individual sees themselves relative to their peers. That is, the perception of their financial wellbeing will depend on the standard against which they judge this measure.

Gender

For single person households, men report slightly higher rates of positive financial wellbeing than women, even after allowing for differences due to wealth and income. While this may reflect differences in life expectancies to some extent, it may also reflect differences in risk preferences between the genders, with men perhaps having a more optimistic (naive?) and women a more pessimistic (cautious?) attitude to their financial security.

If peer group, or reference group, effects are indeed significant, then we might expect to see financial wellbeing differ by member characteristics such as education, area of residence, and occupation (after allowing for differences due to wealth and income). Studies have shown that individual satisfaction is indeed determined by what others are receiving (e.g. Clark et al., 2008). In international research, the most common reference group studied is the neighbourhood in which people live, and some studies have found that happiness is lower if neighbour earnings are higher (e.g. Ravallion and Lokshin, 1999; Stutzer and Lalive, 2004). Similarly, greater satisfaction is derived from income if comparison wage rates are low (e.g. Card et al., 2010).

Figure 9 *Estimated probability of an average retired, single person survey respondent reporting a particular self-assessed financial wellbeing, by age and gender.*



Education

Holding a university degree compared to someone with qualifications at, or below, year 12 certificate, decreases the probability of an average 65 year old retired couple rating their financial wellbeing as 'good' or 'very good' by approximately 10 per cent. This might be explained by recognising that greater education may lead, partly through association with persons with similar education levels and higher paid employment opportunities, to different consumption preferences and higher expectations of wealth. In addition, upon retirement, those with higher education may suffer a larger fall in income than those without, with the relative change impacting negatively on their wellbeing. Further, education may help to inform a member as to what constitutes financial adequacy, and may have a bearing on self-assessed financial wellbeing. This offers an alternative explanation as to why higher education is associated with lower financial wellbeing – that is, greater knowledge may lead to recognition that current savings and income may be inadequate to meet future expenditure needs.

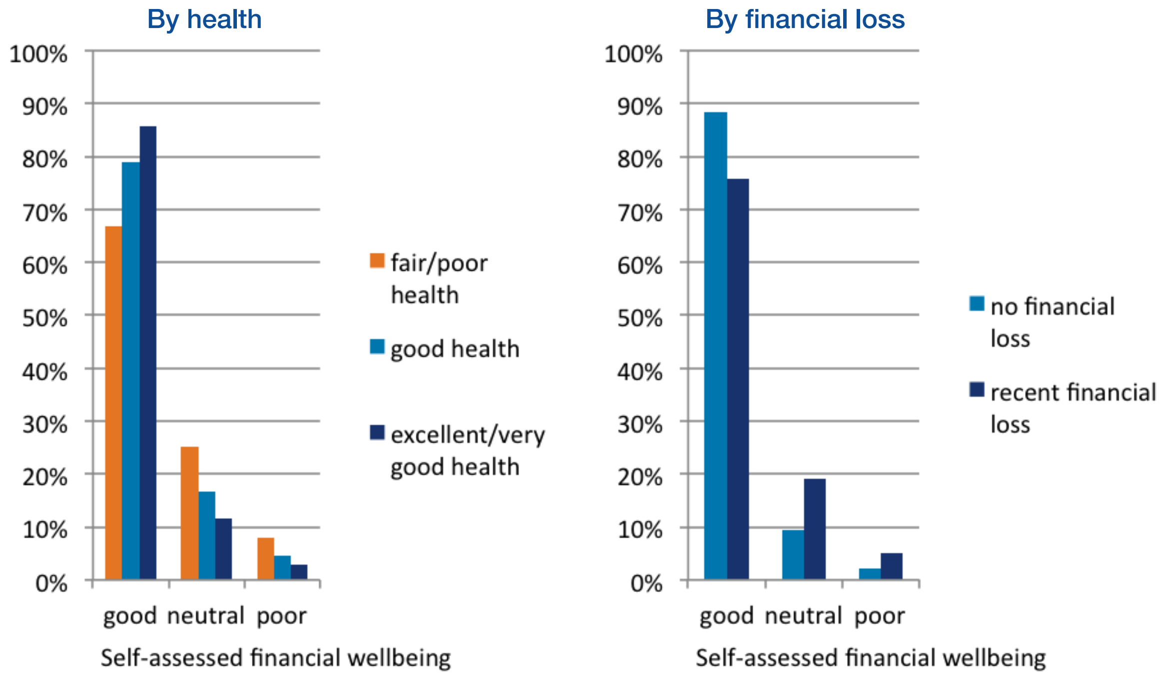
Health

After controlling for differences in wealth and income, respondents who report better health are more likely to report a higher level of self-assessed financial wellbeing, despite the prospect of greater life expectancy. This is consistent with the later findings in this report that those in better health are less concerned about the risks of inflation or of having insufficient funds.

Wealth shocks

In addition to the opportunities and financial position of one's peers, one might also expect that self-assessed wellbeing will be affected by whether the individual has recently experienced a change in their financial circumstances. For example, two individuals with the same income and wealth might report different levels of financial wellbeing if one had recently incurred a substantial investment loss or forced retirement. A wealth shock can mean that previous expenditure choices may no longer be affordable, and the standard of living to which an individual was accustomed may no longer be sustainable. As expected, it was found that respondents who suffered forced retirement (see Preston, 2011), and those who suffered significant financial loss in the last five years, suffer from relative deprivation. That is, they report poorer levels of financial wellbeing than individuals with similar financial means who had not suffered recent such shocks.

Figure 10 *Estimated probability of an average retired single person survey respondent reporting a particular self-assessed financial wellbeing, by health status and history of financial loss.*



Summary

For a single retired man, aged 65 with average financial resources, excellent or very good health, and who had not experienced a recent wealth shock, the likelihood of reporting very good or good financial wellbeing is 88 per cent. To illustrate the significant effect of non-financial variables on financial wellbeing we compare this with an individual with the same financial resources, but with otherwise different characteristics; for a female with the same income and wealth, but with fair or poor health who had recently experienced a financial loss, the likelihood of reporting very good or good financial wellbeing is only 37 per cent. These percentages may vary further when different levels of education, area of residence, and occupation, are allowed for.

While 25 to 30 per cent of households have incomes lower than that recommended for a modest retirement, only 10 per cent classify their financial wellbeing as 'poor'. As shown above, there are clearly important considerations beyond the level of income and wealth – namely, peer group comparisons, and relative deprivation from adverse wealth shocks – that need to be appreciated when gauging the financial wellbeing of older Australians. As shown by Preston (2011), an implication is that '...an improvement to the wealth of some households creates a negative externality for other households'. Benefits to society of wealth increases or wealth redistribution should be considered in light of these externalities.

FINANCIAL CONCERNS

Respondents were asked to report on their level of concern about the financial consequences of specific risks:

Please indicate how concerned you are about each of the following (ranging from very concerned to not at all concerned). How concerned are you that …

- *You might not have enough money to pay for a long stay in a nursing home or a long period of nursing care at home.*
- *You might not have enough money if your spouse or partner requires a nursing home or long term care at home.*
- *Your spouse/partner may not be able to maintain the same standard of living after your death, if you should die first.*
- *You might not be able to keep the value of your savings and investments up with inflation.*
- *You might not be able to maintain a reasonable standard of living for the rest of your life.*
- *You might not be able to afford to stay in your current home for the rest of your life.*
- *You might not be able to leave money to your children or other heirs.*
- *You might outlive your savings.*

The results separated by retirement status are given in Table 2. Of the eight concerns, the greatest concern among both retired and not retired respondents, was that *inflation may erode the value of their savings and investments*. Two-thirds of respondents are concerned about this risk, and this was also of most concern when a similar question was asked to US respondents in a 2009 survey (Society of Actuaries, 2010). Notably, the bequest motive is low, with only 23 per cent and 26 per cent of retired and working respondents respectively expressing concern.

There are some clear differences depending on retirement status (Table 2). Retirees express far less concern about outliving their savings or maintaining a reasonable standard of living for life than pre-retirees, presumably due to the shorter remaining period over which funds need to last for retirees. This is supported when the results are examined by age; as remaining life expectancy declines, these concerns decline. In contrast, concerns about unaffordable nursing care, or care for the respondent's spouse, are unchanged by age of the respondent or retirement status.

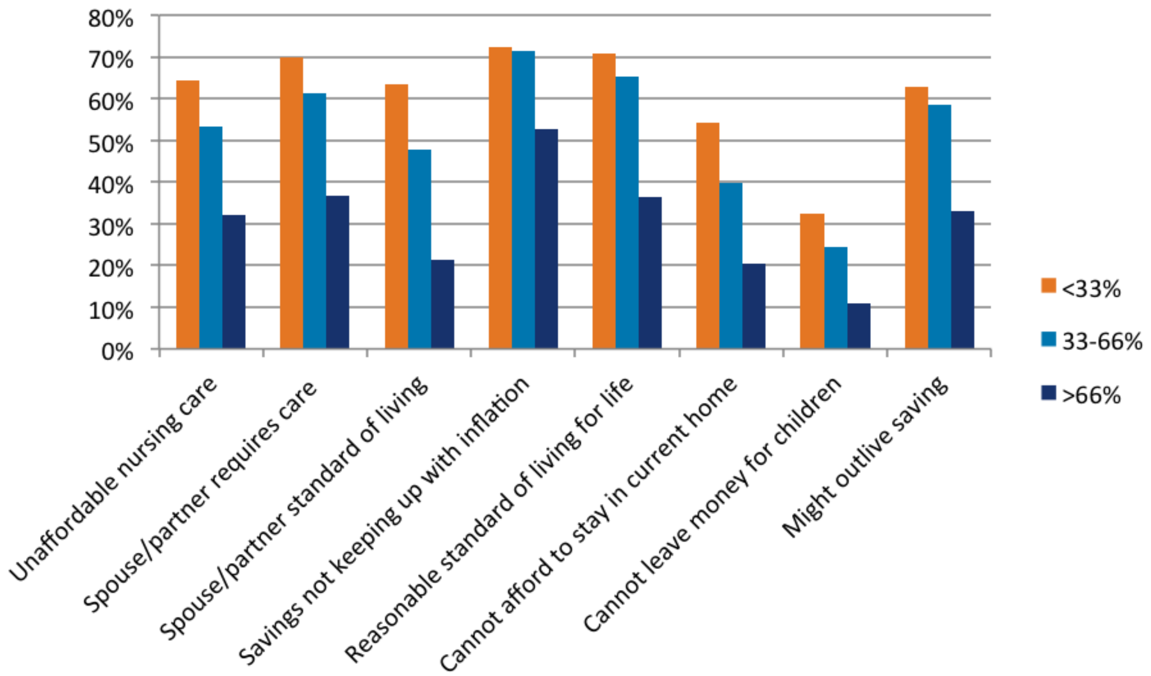
Table 2 Proportion of survey respondents reporting particular levels of financial concerns, by retirement status

	Retired		Not retired	
	Very / somewhat concerned	Not concerned	Very / somewhat concerned	Not concerned
Unaffordable nursing care	53%	47%	51%	49%
Spouse/partner requires care[5]	56%	44%	54%	46%
Spouse/partner standard of living[5]	44%	56%	43%	57%
Savings not keeping up with inflation	64%	36%	68%	32%
Reasonable standard of living for life	51%	49%	65%	35%
Cannot afford to stay in current home	38%	62%	41%	59%
Cannot leave money for children	23%	77%	26%	74%
Might outlive saving	46%	54%	58%	42%

Wealth

As is to be expected, income and net wealth have a significant impact on the level of concern for all categories, such that those with greater net wealth and/or income have less concern than poorer respondents. Figure 11 gives the probability of being very or somewhat concerned for couples with household wealth at the lower third, middle third, and upper third of the distribution of wealth of respondents. Similar results hold for wealth for singles, and for income for both singles and couples.

Figure 11 Proportion of coupled survey respondents reporting particular financial concern, by net wealth (excluding home).

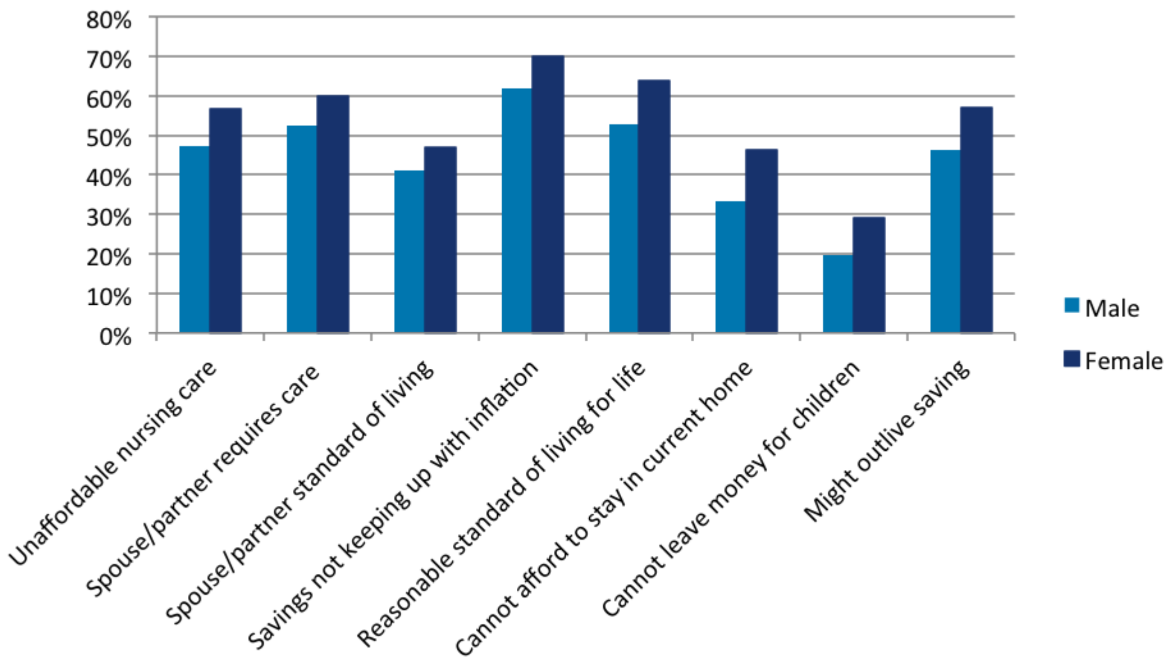


[5] The percentages here are just based on couple households.

Gender

For all categories of potential concern considered, women express significantly greater concern than men. The difference in concern ranges from 6 per cent (for concern that the spouse/partner may not maintain the same standard of living after the death of the respondent), to 13 per cent (for concern that the respondent might not afford to remain in their current home).

Figure 12 *Proportion of survey respondents reporting particular financial concerns, by gender.*



One may be suspicious that these differences may be because men in the sample tend to have greater financial resources than women. Statistical modelling techniques were used to determine whether the level of concern varied by member characteristics after allowing for pecuniary differences.

The results suggest that it is more than finances that affect concern – after allowing for financial means, single women express much greater concern than single men for the majority of concerns listed. Furthermore, it is found that among retired couples, greater concern over many of the categories (such as lack of affordability of being able to stay in current home, or unaffordable care) is expressed if the respondent is a woman rather than a man.

Health

For retired and not retired singles and couples, respondents who reported their state of health as excellent or very good are substantially less concerned about inflation risk, or about outliving their savings, than those with fair/poor health. For example, a retired respondent in a couple with average income and wealth who reports excellent health has a 23 per cent likelihood of concern about outliving their savings compared with 51 per cent for an average member reporting good health, and 64 per cent for someone with fair/poor health.
This difference in concern persists even for respondents with the same level of financial resources. While individuals in poorer health may have lower life expectancies, they may also face greater medical and health expenditure (through gap payments and pharmaceuticals), and thus reduce savings more quickly compared to persons in excellent health. However, it may also be the case that persons reporting better self-assessed health are generally more optimistic, and conversely those less healthy are more pessimistic, when it comes to the adequacy of their future finances.

Superannuation investments

There is also evidence that superannuation asset allocation has a bearing on concern about outliving savings. Retired couples with their superannuation invested in growth assets are less likely to be worried about outliving their savings than those with balanced or conservative investments. This may be partly due to the general belief that growth assets will produce higher returns than other asset classes, but may also reflect greater optimism generally among risk takers. Further, those who 'don't know' how their superannuation is allocated are substantially less concerned about outliving their savings.

Professional advice

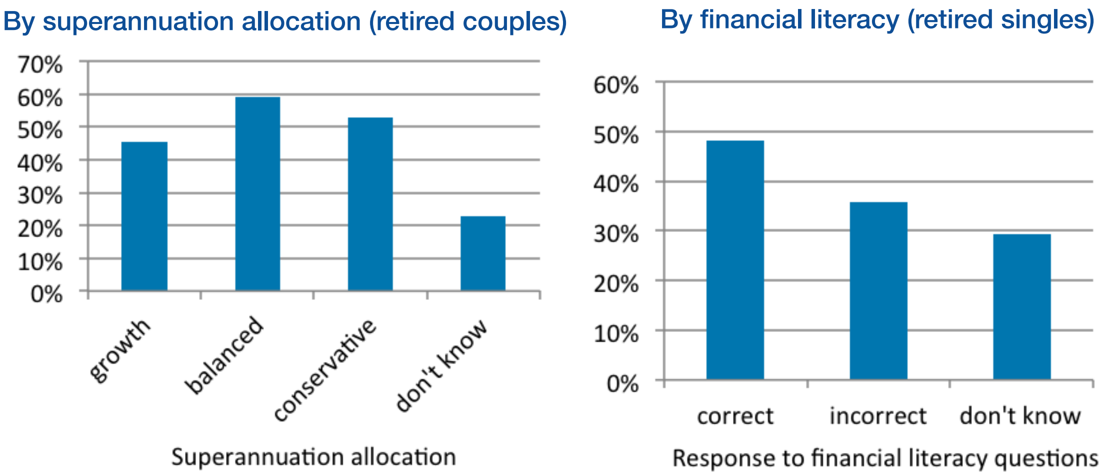
It was also found that single retirees who rarely or never consult with professionals for help with financial decision making are much less concerned about outliving their savings, or having their savings eroded with inflation, than those who more regularly seek advice. For example, the probability of being concerned about inflation decreases by 26 per cent (from 87 per cent to 61 per cent) and concern about outliving savings decreases by 36 per cent (from 69 per cent to 33 per cent) for average retired singles who rarely or never seek advice compared with those who seek advice more frequently[6]. While the data does not inform us as to the direction of this relationship, one might expect that higher concern leads to greater contact with finance professionals in order to seek reassurance and direction, rather than the professional contact leading to concern (for example, by generating greater anxiety through increased awareness of the deficiencies with one's finances - although this may be the case for some respondents!). Either way, clearly the increased professional contact doesn't appear to reduce concern.

Financial literacy

Single retirees who admit financial illiteracy pertaining to asset risks (see section on Financial Literacy for a description of the question), are 20 per cent less concerned about outliving their savings, and 25 per cent less concerned about inflation, than those who understand the relationship between asset returns and risk. Does a lack of understanding of the relationship between risk and return, which may be indicative of general financial unawareness, lead to a lack of concern, or does a lack of concern discourage development of financial knowledge? Both are likely to be true to some extent.

Either way, it would appear that these results, together with the observation that respondents who are unaware of their superannuation asset allocation are substantially less concerned, support the adage that 'ignorance is bliss'.

Figure 13 *Estimated probability of a survey respondent having concern about outliving their savings, by superannuation allocation and financial literacy.*



[6] Interestingly, there appears to be no evidence of a similar relationship between concern and financial engagement among couples.

FINANCIAL ACTIONS

Respondents were asked to report on whether they undertook, or planned to undertake, certain actions in order to protect themselves financially.

Below is a list of things that some people do to protect themselves financially after they retire, or as they get older. For each, please indicate whether you have done that, plan to do that in the future, or have no plans to do that. To protect yourself financially, have you or do you plan to…

- *Cut back on spending.*
- *Work longer.*
- *Obtain professional financial advice.*
- *Buy a life annuity or other product to provide guaranteed income for life.*
- *Increase contributions to superannuation.*
- *Increase savings outside superannuation.*
- *Move assets to more conservative asset classes.*
- *Completely pay off mortgage.*
- *Pay off all credit cards and personal loans.*
- *Buy real estate or invest in property (including upsizing or renovations).*
- *Move to a smaller home/less expensive area.*
- *Sell household goods, investment property, or other material assets.*
- *Increase insurance cover (life, disability, trauma, accident or private health).*

Response options: Already done, Plan to do in future, No plans, Don't know or unsure.

In addition to the actions listed above, respondents were asked whether they had used, or intended to use, reverse mortgages or home refinancing. The proportion who had used, or who had intended to use such facilities, was less than 10 per cent for both retirees and pre-retirees. Moreover, a very small proportion of respondents (approximately 5 per cent) indicated that they had, or intend to, increase debt more generally (through credit cards and personal loans) and likewise, a similarly small proportion approached others for financial support.

Figure 14 Proportion of survey respondents taking particular financial actions – pre-retirees.

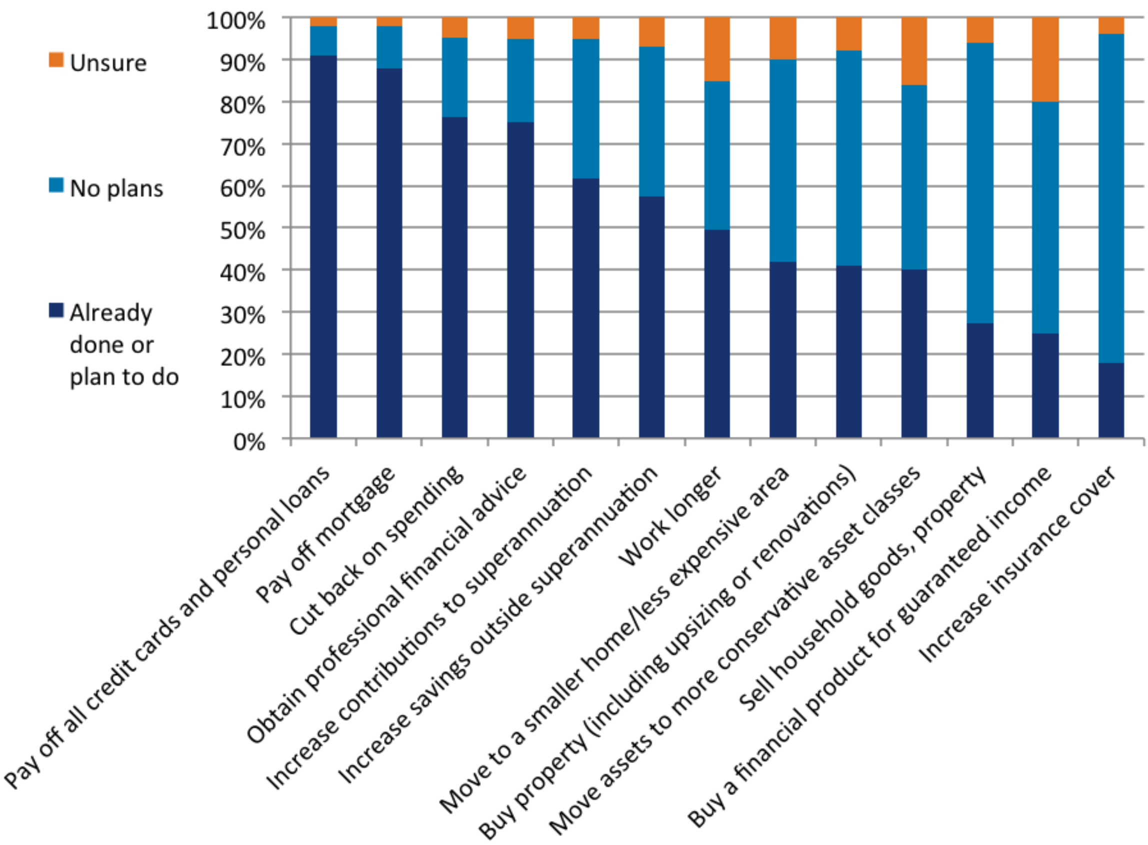
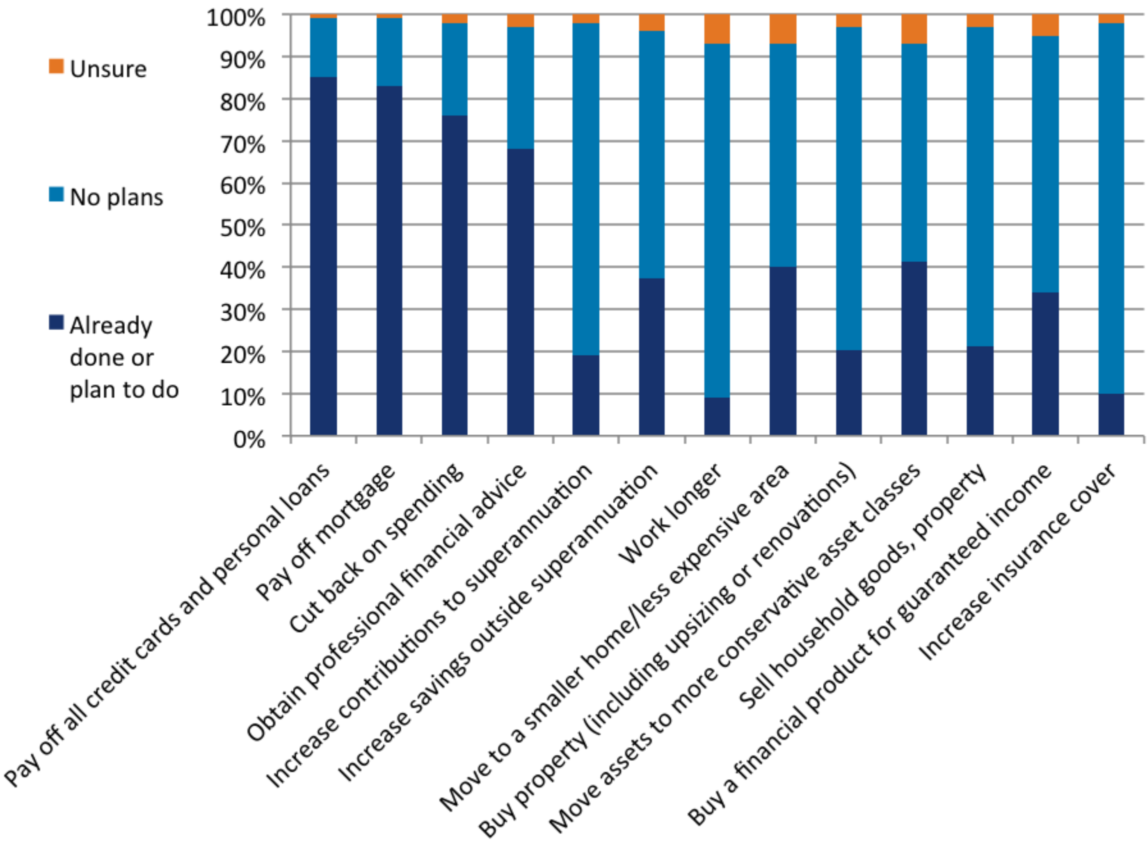


Figure 15 Proportion of survey respondents taking particular financial actions – retirees.



There are a number of rational actions that the majority of both retirees and pre-retirees have taken, or intend to take, for financial security. These include:

- paying off debt (including their mortgage);
- cutting back on spending;
- obtaining professional financial advice.

The relationships between some of the actions and household characteristics are discussed below.

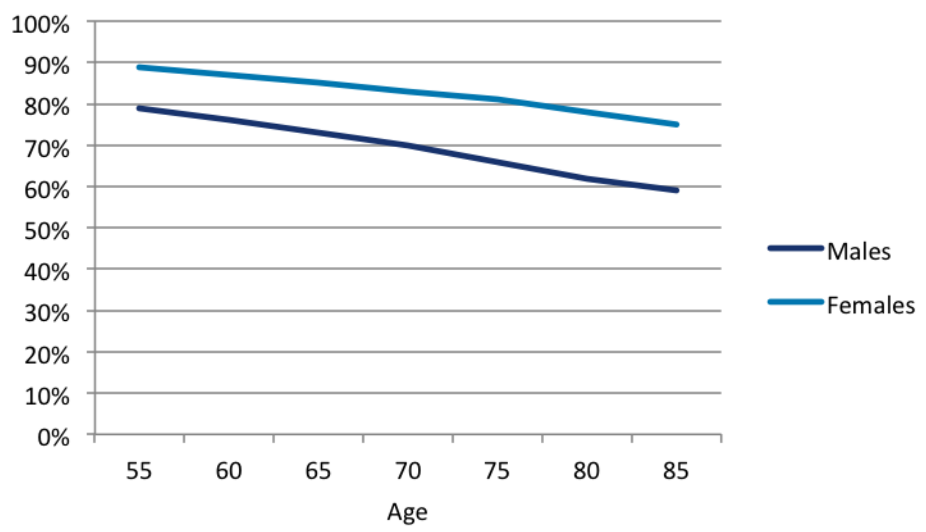
Cutting back spending

Three quarters of retirees and pre-retirees have already *cut back spending*, or intend to in the future. As expected, the likelihood of cutting spending increases markedly as self-assessed financial wellbeing declines. That is, those who believe they have better financial circumstances are less likely to cut their spending.

The probability of cutting spending varies by both sex and age. Women are more likely than men to have reported that they have cut back or intend to cut spending (the difference varies between 10 and 15 per cent, after allowing for differences in financial resources and other factors). Interestingly, this is apparent for female respondents who are married as well as single. For example, within a couple, the probability of cutting spending for an average 65 year old women is 84 per cent versus 77 per cent for men. Women are more likely than men to have stated that they have *already* cut back spending, while the probability of intending to cut back in the future is similar for both sexes.

Older respondents are more likely to report that they haven't reduced spending when compared with younger respondents. This is the case for both singles and couples. While it is possible that older cohorts have lower consumption habits and expectations, and have learned to smooth consumption and live within their means more successfully than younger retirees, it is also possible that the lower probability of cutting spending is partly due to mistaken recollection of past financial actions rather than a real effect.

Figure 16 *Estimated probability of a survey respondent cutting spending, by age and sex for an average single respondent.*

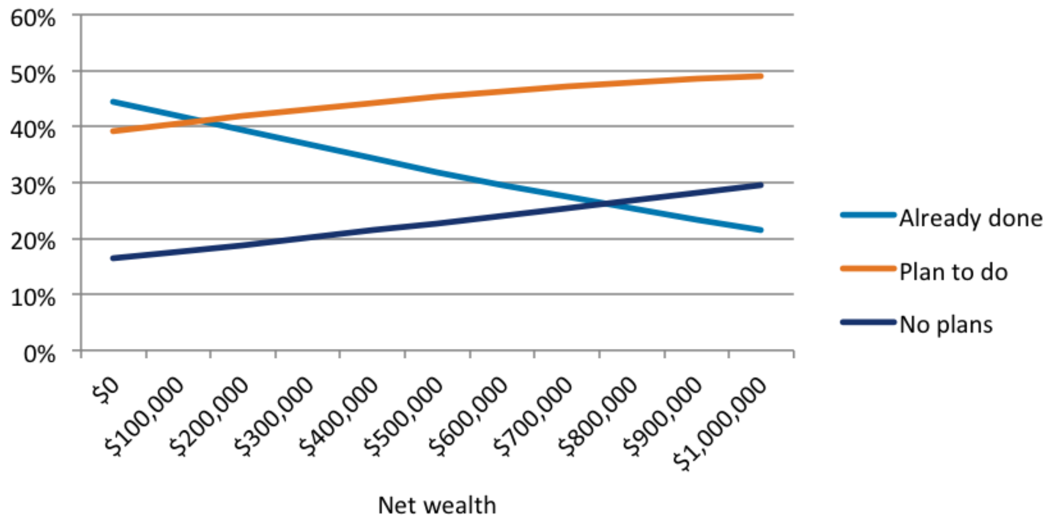


As noted above for financial concerns, those who never or infrequently track their finances appear to be overconfident or optimistic about their financial position, and are considerably more likely to have not reduced, nor planned to reduce their savings, when compared with those who regularly track their finances. For example, for couples, those who rarely or never track their finances have a probability of reducing spending of only 34 per cent as compared with 73 per cent for those who regularly track their financial circumstances.

It is also apparent that couples who have invested their superannuation in growth assets are close to 15 per cent less likely to have reduced, or intend to reduce, spending, than those with a balanced asset allocation. This may reflect expectation of high returns and an optimistic outlook among investors in growth assets, or higher awareness of the relationship between growth and returns. Further, those in conservative investments are more likely to have reduced spending than those in balanced – financial prudence is clearly seen through a number of actions.

Net wealth has a substantial effect on whether a person has reduced, or intends to reduce, their spending. Expenditure falls as a person ages and it has been shown that a decline occurs regardless of the financial circumstances of the household (see Higgins and Roberts, 2011). That is, there is a net fall in expenditure with age due to reduced needs and preferences for certain goods and services. The results in Figure 17 suggest that even the most wealthy households expect to cut back - although higher wealth is associated with a lower chance of cutting spending, even for those with wealth exceeding $1m, 50 per cent intend to reduce spending in the future.

Figure 17 *Estimated probability of a survey respondent cutting spending, by net wealth (excluding home) for an average couple.*



Obtaining professional financial advice

Approximately 75% of pre-retirees and retirees have already obtained professional financial advice, or intend to obtain such advice in the future. As expected, net wealth and income are both strongly associated with seeking advice, with single persons with $1m being nearly 15 per cent more likely to seek advice than those with only $100,000.

While retirement status itself isn't significant in explaining variation in responses, age is. For the average older person in a couple, the probability of obtaining advice falls by approximately 20 per cent between age 65 and 85. While one would expect the probability of obtaining advice in the future to fall with age (because uncertainty about future needs falls as life expectancy declines), it is somewhat surprising that the proportion who have already obtained advice is considerably lower for those aged over 80. It is possible that this is partly because many in this age group would have retired prior to the introduction of the Superannuation Guarantee, and the complexity of financial decision making in the absence of compulsory superannuation is reduced.

Mirroring the findings reported in previous sections, older Australians who are financially disengaged and who arguably need the most direction on managing their finances, are those who are least likely to seek professional advice. Single persons who are ignorant as to their superannuation investments (i.e. those who select 'don't know' when asked about their superannuation) are nearly 40 per cent less likely to seek professional financial advice than those who know how their super is invested.

Working longer

Almost 50 percent of workers have delayed, or intend to delay, their retirement to protect themselves financially. As to be expected, couples with greater wealth and who own their home outright are considerably more likely to not delay retirement. Having a mortgage increases the likelihood of delaying retirement for a couple by close to 20 per cent, while an increase in wealth from $100,000 to $1m reduces the likelihood by approximately 15 per cent. Further, those who had experienced a substantial financial loss in the last five years are over 10 per cent more likely to delay retirement.

Contributions to superannuation

For pre-retirees approaching retirement, income is by far the strongest determinant of whether voluntary superannuation contributions are made. As couple household income rises from $20,000 to $100,000, the probability of voluntary contributions being made increases by nearly 30 per cent. Consistent with the emerging theme in this report that a lack of financial engagement is correlated with a lack of concern and preparedness, it is found that those who don't know how their superannuation is invested are 15 per cent less likely to make voluntary contributions. Furthermore, those who rarely if ever use sources such as newspapers and the internet to inform their financial decision making, are 10 per cent less likely to make contributions than those who more regularly use such sources. Finally, general education also plays a part, with respondents with education at or below year 12 certificate level being 10 per cent less likely to make voluntary contributions when compared to those with a tertiary education (after allowing for differences in income and wealth).

FINANCIAL LITERACY

Two questions were asked in the context of superannuation investments that tested understanding of the relationship between asset classes and risk.

*Which of the following investment options do you think is **most** likely to lead to a loss of money over a one year period?*

*Which of the following investment options do you think is **least** likely to lead to a loss of money over a one year period?*

Response options for both questions: Conservative/Cash, Growth/High Growth, Balanced, Don't know

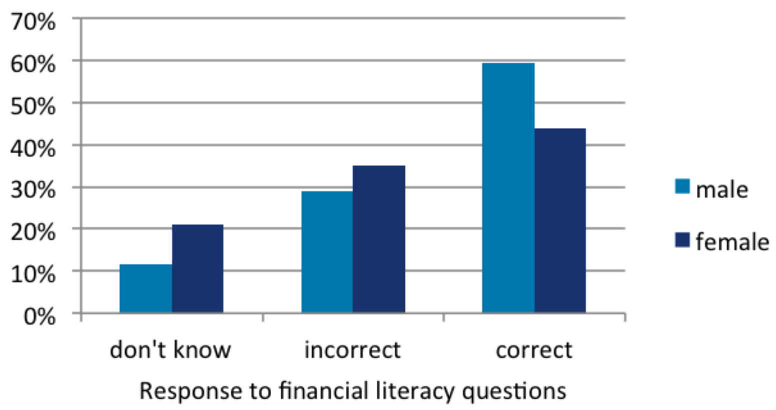
The correct answer for the first question is *Growth/High Growth*, while the correct answer for the second question is *Conservative/Cash*. 48 percent of respondents who answered these questions did so correctly, while 30 per cent answered incorrectly, and 21 percent responded that they didn't know the answer to one or both questions[7].

In order to evaluate the extent to which financial literacy differs by living arrangements, gender, financial resources, and other respondent characteristics, statistical modelling techniques were used[8].

Gender

Responses do not differ by gender among singles. However, for an average respondent couple, the probability of answering correctly was approximately 60 per cent for male respondents and 45 per cent for female respondents. Being in a couple substantially increases the likelihood of responding correctly compared to singles (single persons are unable to gain from the knowledge of a partner), but gender also has a large effect, with women approximately 15 per cent less likely than men to answer correctly. Notably, this effect is observed even after allowing for differences in age, household income and wealth.

Figure 18 *Estimated probability of different responses to the two financial literacy questions for an average respondent in a couple, by gender.*



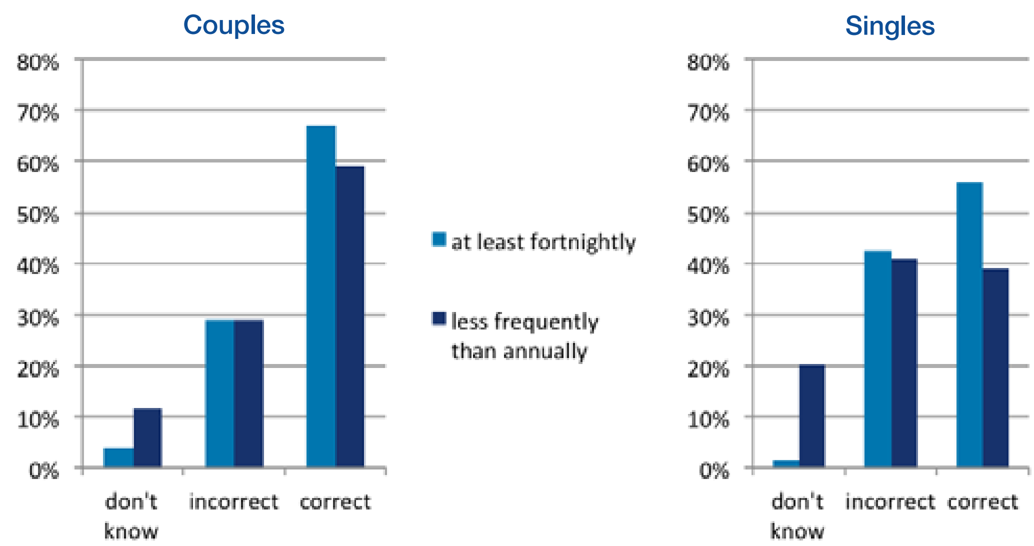
[7] For the purpose of this section, 'Correct' corresponds to a respondent who answered both questions correctly, 'Incorrect' corresponds to a respondent who answered either one or both questions incorrectly, and 'Don't know' corresponds with a respondent who answered don't know to both questions or one question (where the other response was 'correct').

[8] Specifically, multinomial logistic regression was applied to the singles and couples separately.

Use of financial sources

One would expect that financial literacy would be increased by regular exposure to sources, such as financial newspapers, magazines, books, internet sites, etc. This was confirmed through the modelling for both singles and couples, such that those regularly using these sources for decision making are 10 per cent more likely to answer correctly than those who infrequently use financial sources.

Figure 19 *Estimated probability of different responses to the two financial literacy questions for an average survey respondent, by frequency of use of financial sources.*



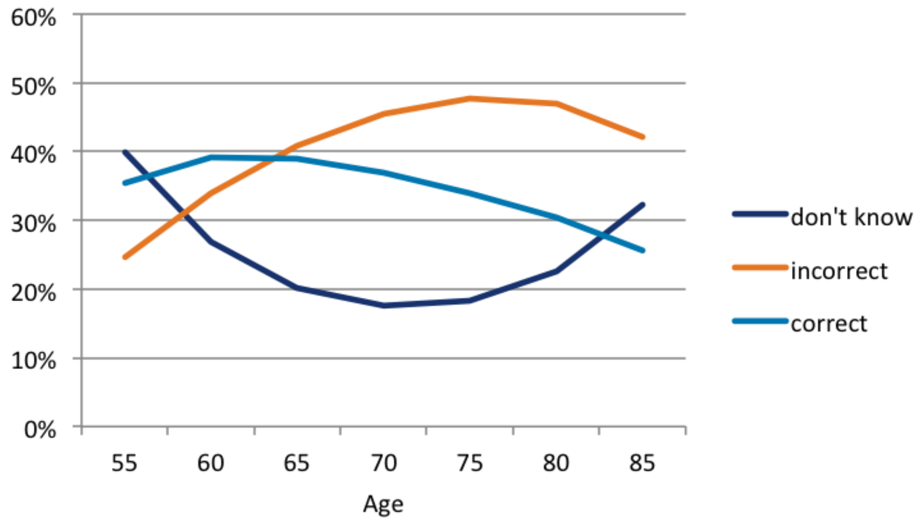
Income

In addition, financial resources (income and net wealth) help to explain financial literacy among singles and couples. For example, the probability of answering correctly for an average single respondent with income in the bottom quartlie is 35 per cent, as compared to 46 per cent for a person with income in the upper quartile (and the probability of not knowing the answer drops from 26 per cent to 11 per cent).

Age

While retirement status is not correlated with financial literacy, age is. It is respondents (aged 80+) who are the least financially literate in this context. However, the youngest respondents also have a high chance of admitting lack of knowledge. This may be a consequence of short-sightedness regarding the need for financial engagement prior to accessing superannuation.

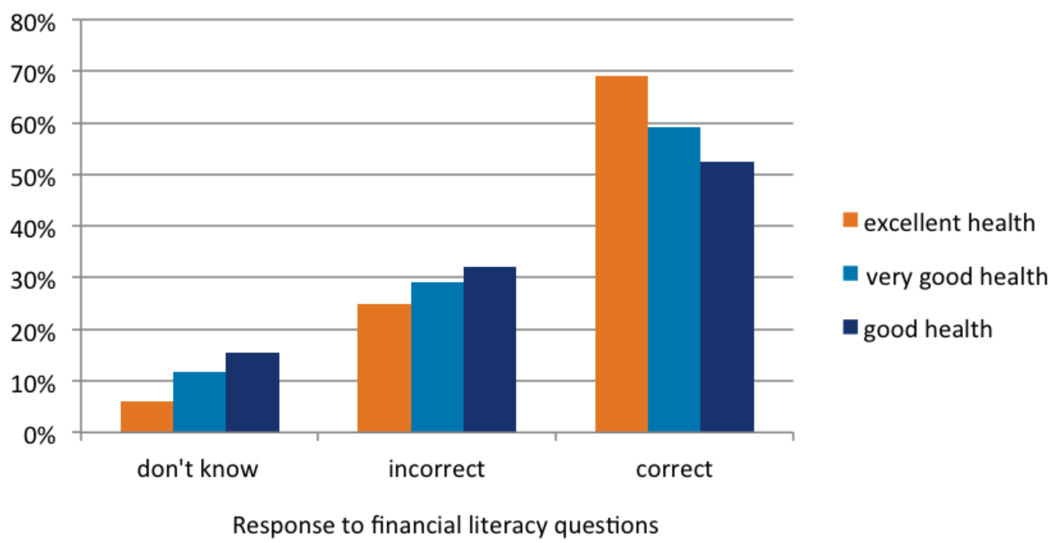
Figure 20 *Estimated probability of different responses to the two financial literacy questions for an average respondent, by age.*



Health

It is also the case that couple respondents with excellent health have a higher chance of answering correctly than those with simply 'good' health (15 per cent higher for the average couple). Perhaps health is reflective of superior lifestyle and habits developed through an individual's acquisition of information? It is plausible that an individual's ability to acquire and utilise information may be partly responsible for maintaining excellent health, and it is this same ability that leads to greater financial literacy.

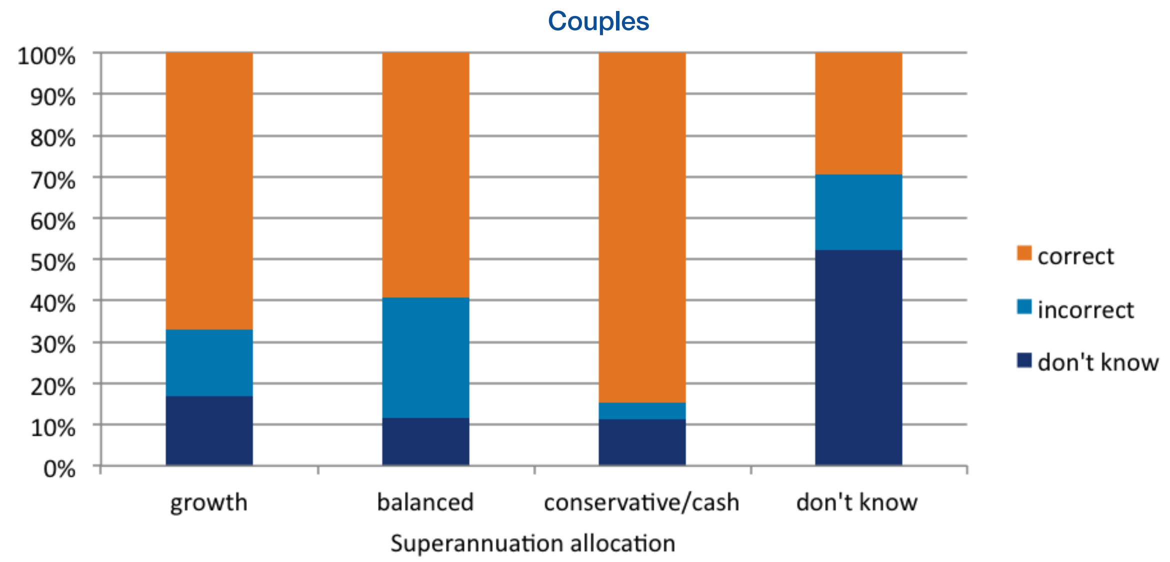
Figure 21 *Estimated probability of different responses to the two financial literacy questions for an average respondent in a couple, by health status.*

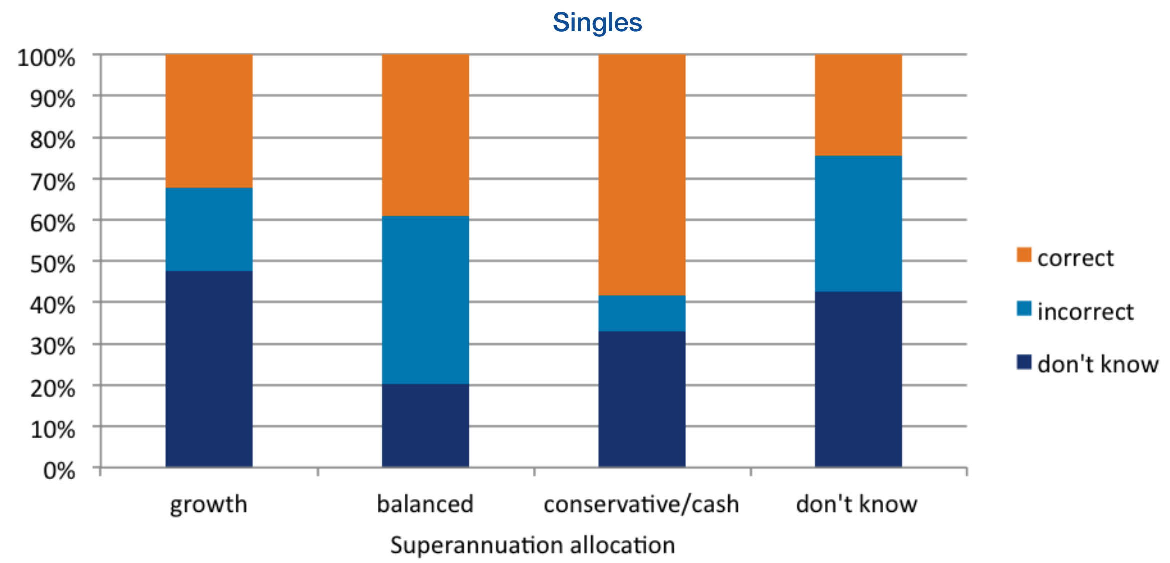


Superannuation investments

Singles and couples with conservative and cash superannuation investments have a greater understanding of the relationship between asset classes and risk compared to individuals making other asset class selections. This is not surprising - the decision to invest conservatively, and knowingly accept an expected modest return, is likely one that is taken after reflecting on the risks associated with the alternatives. It is also the case that individuals who choose balanced are more likely to answer the question incorrectly compared to those who invest in growth. As expected, respondents who don't know how their superannuation is invested demonstrate little knowledge about the relationship between asset classes and risk.

Figure 22 *Estimated probability of different responses to the two financial literacy questions for an average survey respondent, by superannuation allocation.*

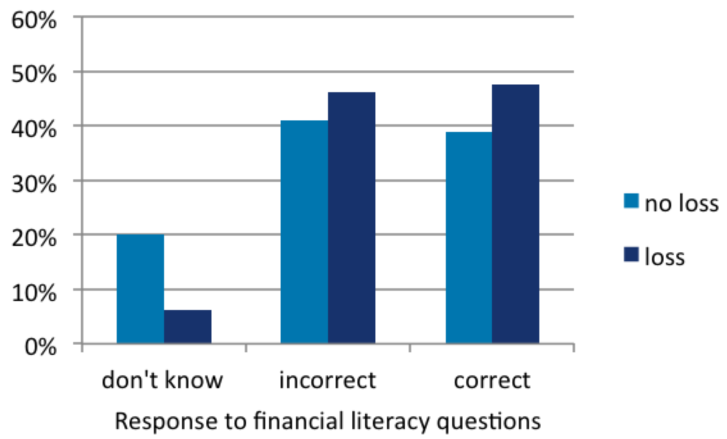




Financial loss

One might expect that individuals who suffered losses as a consequence of the GFC should have a better understanding of the relationship between risk and return – i.e. the first-hand experience, while painful, may have been an effective educational tool. Having suffered a recent financial loss does not explain the variation in responses among couples, but for singles the effect is noticeable, as seen in Figure 23.

Figure 23 *Estimated probability of different responses to the two financial literacy questions for an average survey respondent, by whether they had suffered a recent financial loss.*



Those who suffered a loss are of course more likely to have been exposed to loss, and one might expect this greater exposure to higher risk asset classes would lead to greater financial engagement and hence financial literacy. However, while having had a loss is associated with more certainty in one's financial judgement, the probability of answering the financial literacy question correctly increases only marginally, and in fact the chance of making an incorrect response also increases. That is, there is little evidence that the experience of a negative return improves one's understanding of the relationship between risk and return!

FINANCIAL PREFERENCES

A question was asked, indirectly linked to financial literacy, to examine how respondents value an amount of money received today compared to the future.

If you had a choice between receiving $10,000 now, or a greater amount of money one year from now, what is the minimum amount you would need to receive in one year in order for you to choose this option instead of $10,000 now?

Another way of saying this is ‘what are the individual discount rates for members?[9].

A basis of comparison is the rate of investment earnings that one might receive from a bank or a managed fund. For example, if someone was to invest $10,000 today in a generous fixed term deposit, they might receive a 5 per cent or 6 per cent return over one year.

While there is evidence from other studies that individual discount rates vary over different time intervals and with different amounts, the current question can nevertheless provide some insight into the drivers behind financial decision making.

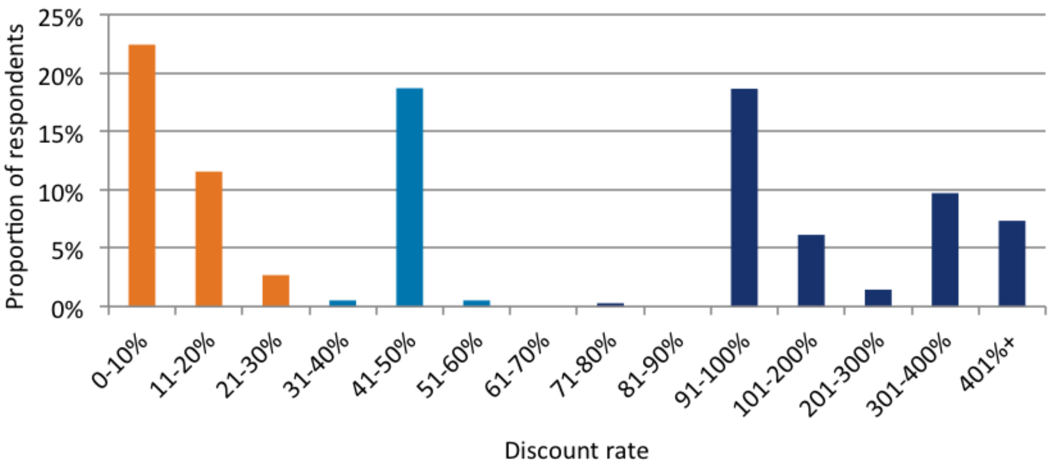
The median response to the question is $15,000, which is equivalent to a discount rate of 50 per cent, a far cry from the 5 to 6 per cent offered in financial markets. That is, an amount 50 per cent greater than the original promised amount would be required for the typical member to choose to delay receiving the funds for one year. The excessively large discount rate may reflect a number of things:

- some of those surveyed may not have understood the question;
- a lack of recognition of market interest rates;
- the urgency of financial needs among certain members;
- the extreme preference for immediate funds over future funds.

This highlights the difficulty faced by policy makers and researchers when conceiving of policy and products to encourage deferred income (annuitisation) over the immediate gratification of a lump sum payment.

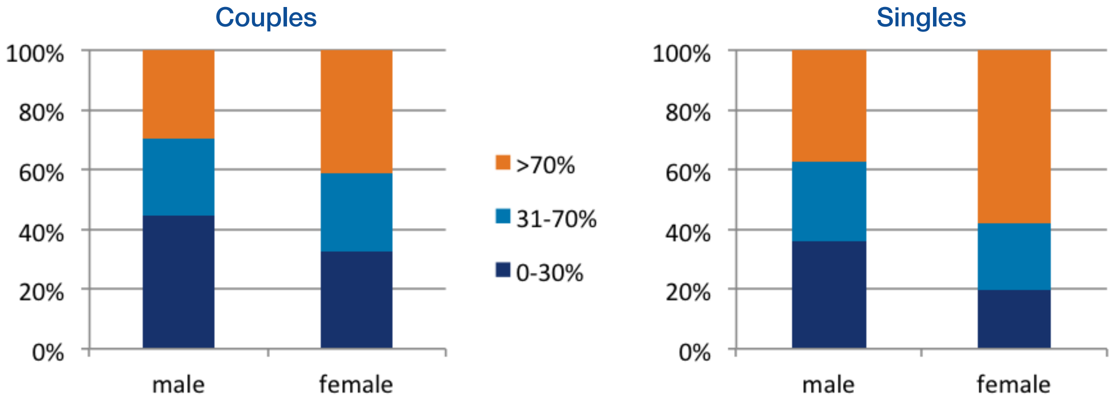
[9] It should be noted that the question posed is clearly hypothetical, and the discount rate that an individual would settle for in reality may differ if faced with an actual financial choice. Further the question posed only tests simple financial discounting preferences, and only in the context of one time period (a single year) and one sum of money ($10,000).

Figure 24 *Implied discount rates for all survey respondents. Orange bars are for 0-30% (i.e. $10,000 to $13,000); light blue bars indicate proportion who select 31-70% (i.e. on average 50%, or $15,000); dark blue bars are for those >70% (i.e. greater than $17,000).*



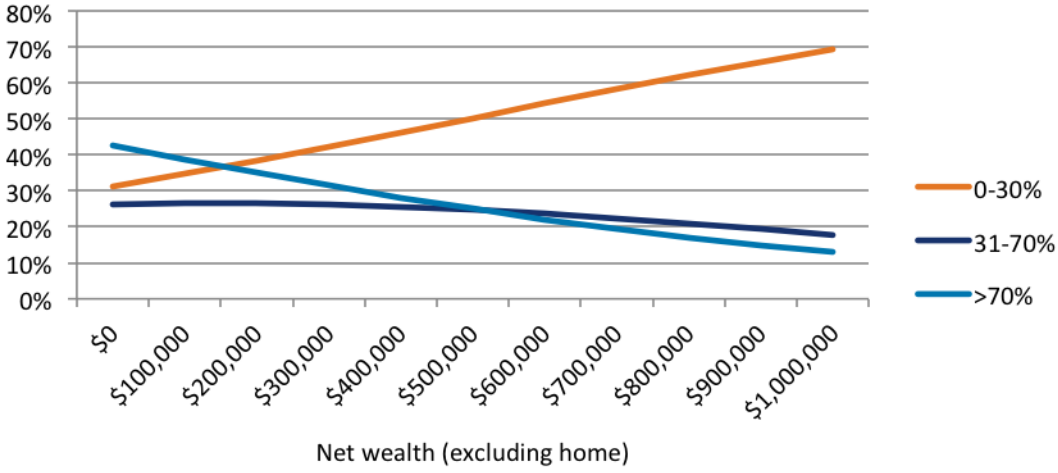
When the results are explored in detail it is found that the discount rate differs by gender and net wealth for both singles and couples. Single persons tend to select higher discount rates than respondents within a couple. This may be due to the worse financial position of singles relative to couples in the sample (e.g. see section on Financial Wellbeing). Women choose greater amounts than men for both singles and couples, which may be indicative of lower financial literacy and/or greater concern and perception of financial hardship among women.

Figure 25 *Implied discount rates, by gender and living arrangements.*



That net wealth is significant is expected - the lower an individual's net wealth, the less likely they choose a small discount rate. Those with poor wealth would be more in need of immediate funds for current consumption, would place a higher value on $10,000, and would, therefore, be less willing to forgo funds now for a modest return.

Figure 26 *Estimated proportion of single survey respondents selecting particular discount rates, by net wealth (excluding home).*



For couples, tenure is very strongly related to the discount rate preference. After allowing for differences in net wealth, those with greater expenditure requirements – i.e. those with mortgage or rental payments – are less likely to forgo immediate funds for future funds. This is particularly the case for couples who are renting.

Figure 27 *Implied discount rates for couple survey respondents, by tenure.*

Finally, it should be noted that age is not significant in explaining variability in the discount rates. While this may at first appear unexpected – one might expect that the older the individual, the less willing they would be to forgo current funds for a larger future amount, and consequently they will have greater discount rates. This is likely to be the case for longer durations (e.g. 5 or 10 years) where the chance of survival for longer periods at advanced ages is reduced. It is not surprising that a one year period is insufficiently long for there to be a significant age effect.

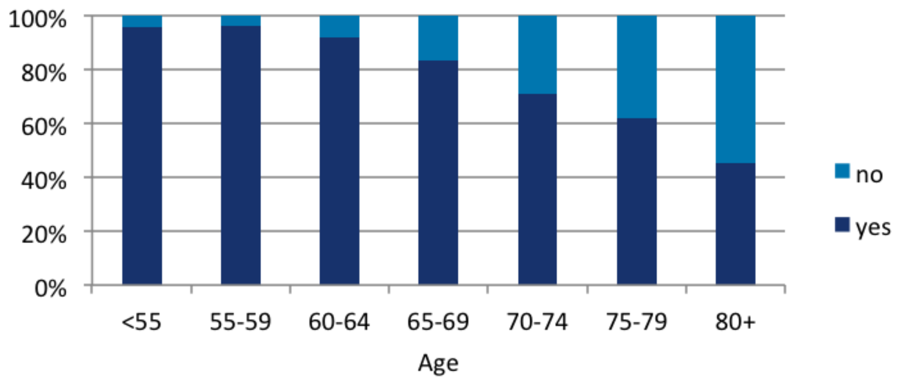
SUPERANNUATION

A series of questions about superannuation was posed to respondents. This section summarises the responses to the key questions.

Do you have superannuation?

81 per cent of respondents have superannuation, though as expected, this varies by age, with the proportion dropping steadily following retirement as funds are spent.

Figure 28 *Proportion of survey respondents stating that they have superannuation.*

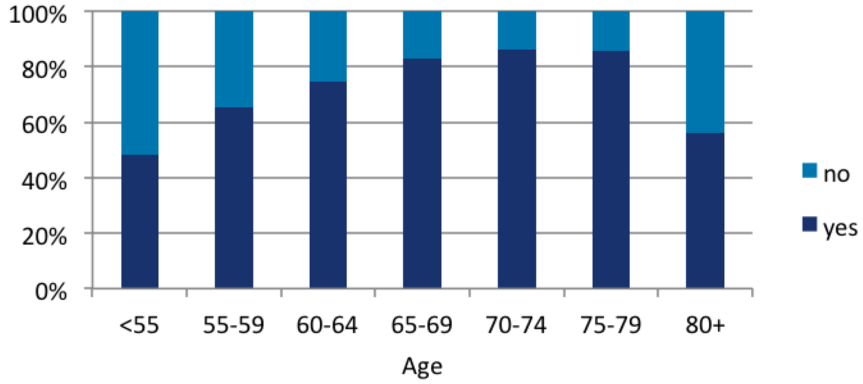


While it is well known that superannuation balances for women are generally lower than men, partly due to periods of interrupted and part-time employment, the proportion of women with superannuation among National Seniors members is only marginally less than men (79 per cent versus 82 per cent).

Have you obtained professional advice on how you should invest your superannuation?

71 per cent of respondents with superannuation have obtained professional advice on how to invest their superannuation. Retired couples are the most likely to have obtained advice (85 per cent), followed by retired singles (72 per cent), not retired couples (63 per cent), and not retired singles (56 per cent). More people seek advice as their age increases and they enter retirement. For those aged 80+ the proportion is much lower, possibly due to these individuals having lower superannuation balances, being less financially engaged, and the reduced awareness of financial advice at the time they retired 15 or more years ago.

Figure 29 *Proportion of survey respondents reporting that they have obtained professional advice on how they should invest their superannuation.*



There is little difference in seeking advice between male and female respondents.

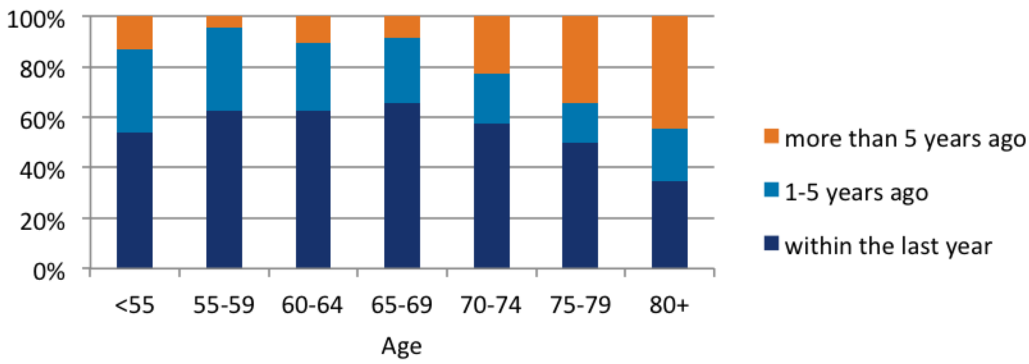
If you obtained professional financial advice, when did you most recently receive advice?

If you obtained professional financial advice, did you act on the advice?

58 per cent of respondents who have obtained advice received their advice within the last year, while 26 per cent received advice within the last one to five years, and 15 per cent more than five years ago. The large proportion recently receiving advice may be partly as a consequence of the GFC. This is explored further in the following section on Reactions to Financial Losses.

As is to be expected, of those who had obtained advice, from age 70 onwards, the older the group the more likely they were to have acted on advice more than 5 years ago. It is these older cohorts who stand to benefit less from changing investment allocations due to shorter remaining life expectancies.

Figure 30 *Proportion of survey respondents reporting particular lengths of time since they most recently acted on the professional advice that they received, by age.*

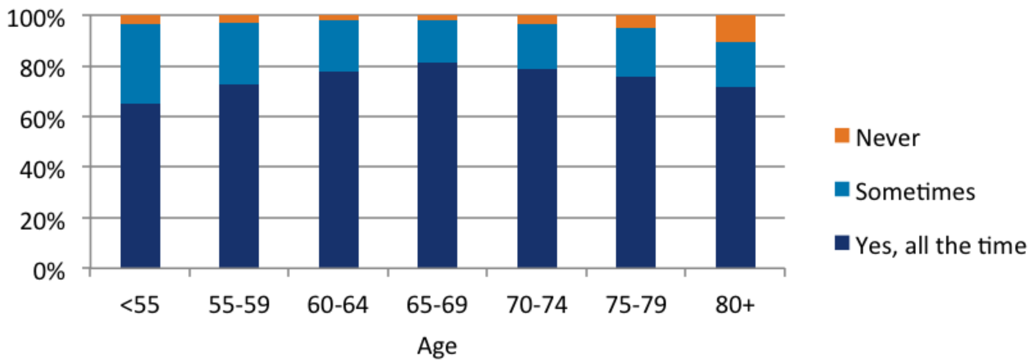


The vast majority who obtained advice either acted on the advice (81 per cent), or intend to act on the advice (9 per cent). The aggregate proportion (90 per cent) does not differ significantly by age or sex.

Do you read your superannuation member statements?

The proportion of respondents with superannuation who report that they always read their member statements is close to 75 per cent, with 22 per cent reading their statement 'sometimes', and only 3 per cent saying that they never read their statement. As expected, the proportions reading their statement increases as members enter retirement and start drawing on their superannuation, though declines at the oldest ages.

Figure 31 *Proportion of survey respondents who read their superannuation member statements, by age.*



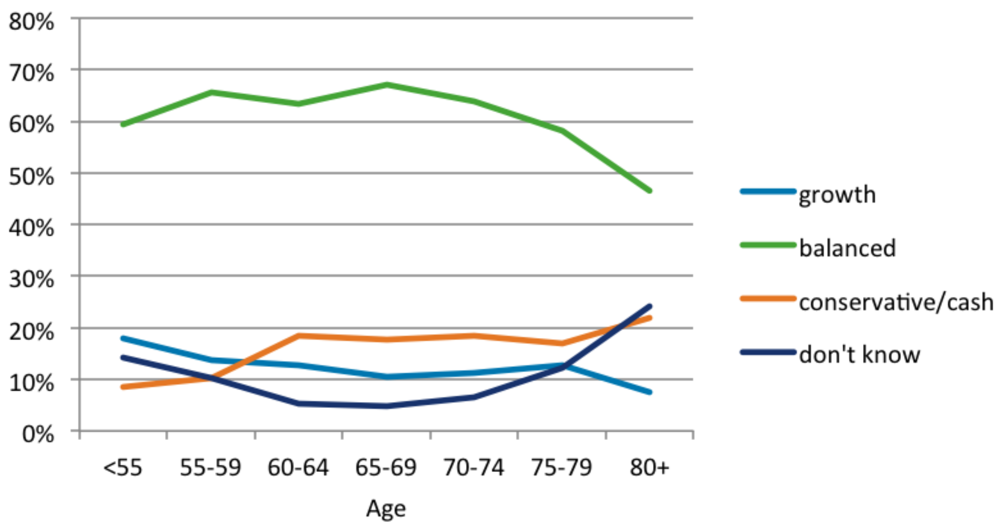
There is no clear difference in behaviour between single men and women, however, within a couple, men are more likely than women to always read their member statements (84 per cent versus 76 per cent). This is consistent with the apparent greater level of financial engagement/literacy displayed by men which was reported on in the section on Financial Literacy.

How is your superannuation balance currently invested?

62 per cent of respondents have their superannuation invested in balanced assets, while approximately 15 per cent are in growth, 13 per cent in conservative/cash, with the remaining 9 per cent not knowing how their balance is invested. The numbers are generally similar for men and women, with some evidence of lower exposure to growth assets (15 per cent versus 11 per cent for males and females respectively) and a slightly higher proportion of women not knowing.

When the results are displayed by age it is seen that the proportion in balanced and growth assests declines while conservative investments increase. Ignorance of one's superannuation investment reaches a low at the typical retirement age band between 60 and 69, and remains low until the high 70s.

Figure 32 *Estimated probability of a survey respondent having a particular superannuation asset allocation.*

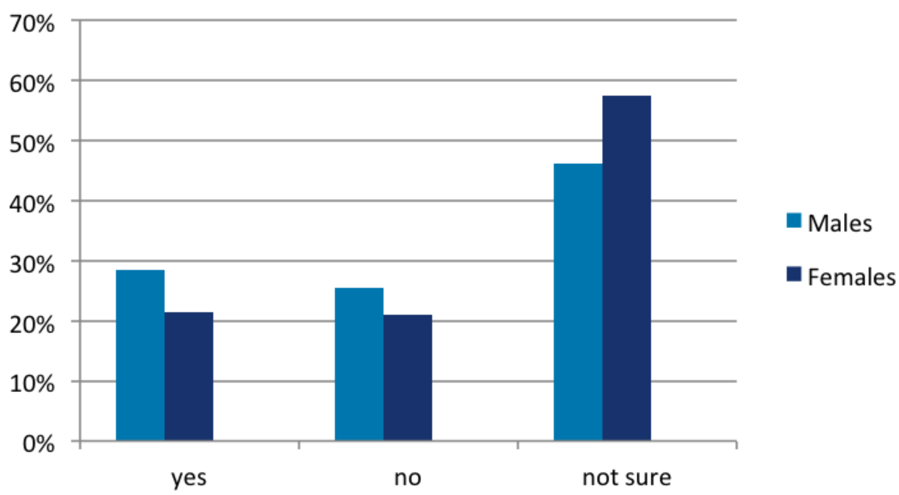


If you have retired from paid employment, did you change how your superannuation was invested as a consequence of retirement?

If you haven't retired from paid employment, do you intend to change how your superannuation is invested after retirement?

56 per cent of retirees with superannuation changed their superannuation investments when they retired, with a similar result for both men and women. While information on these changes was collected, this will be analysed and reported on in future research. Approximately one quarter of respondents who are currently working expect to change their superannuation investments following retirement, one quarter expect to make no change, while half are not sure. The proportion uncertain is greater for women than men.

Figure 33 *Proportion of survey respondents that intend to change how their superannuation is invested after retirement (single and couple respondents).*



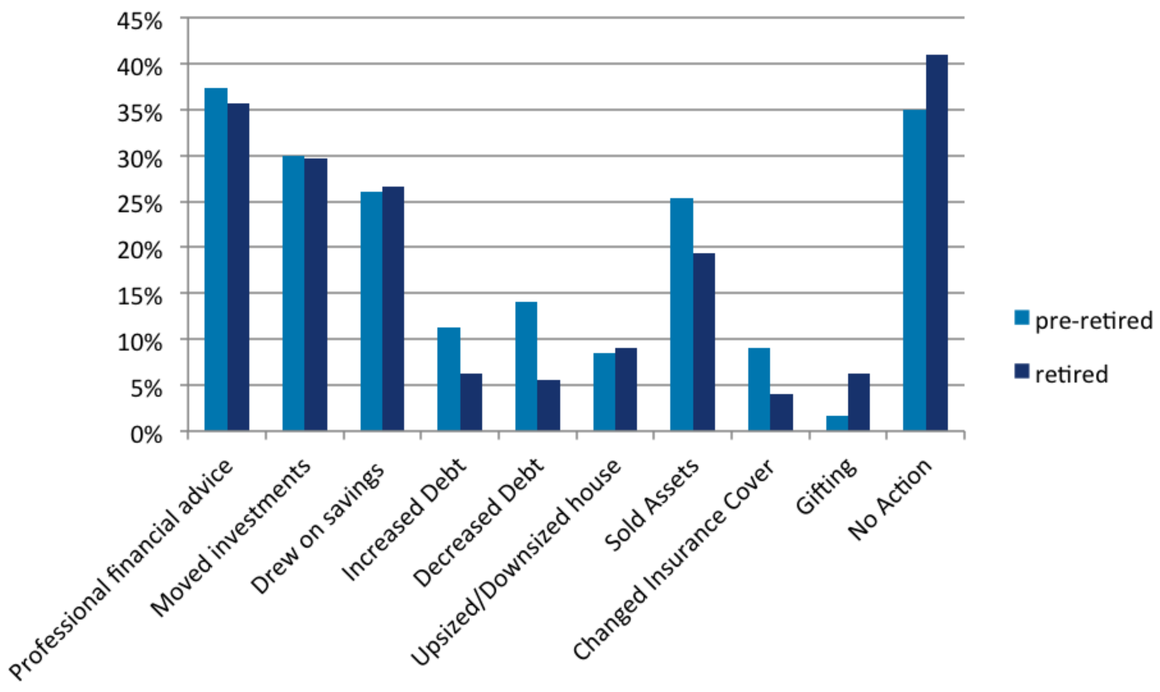
REACTIONS TO FINANCIAL LOSSES

Respondents were asked the following question:

In the last 5 years did your household suffer major financial losses from poor performing investments?

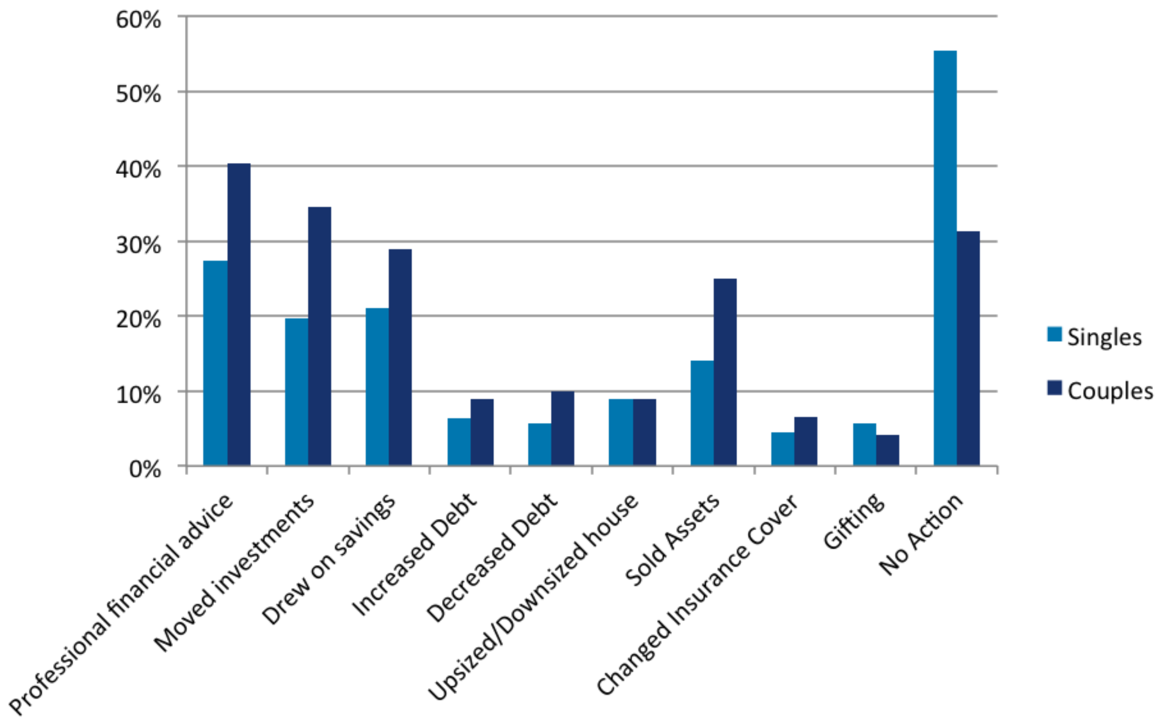
For those who answered 'yes', they were subsequently asked what actions they took as a consequence of suffering this loss. While respondents were able to select nineteen separate actions, some of these actions have been combined in the figures below. Figure 34 presents the results by retirement status. Over 35 per cent of those who suffered a major loss sought professional financial advice as a consequence, while 30 per cent moved their investments to different asset classes, and close to 25 per cent drew on savings or sold assets. A relatively small proportion changed their debt arrangements or insurance cover, with pre-retirees being more likely to do so than retirees. Close to 40 per cent of respondents took no action.

Figure 34 *Actions of survey respondents taken as a consequence of suffering a financial loss in the last five years. Proportions given are the proportion of persons who suffered a loss who took that action, by retirement status.*



When the responses are broken down by living arrangements, couples are almost twice as likely to have taken some sort of financial action as a consequence of the loss compared to singles.

Figure 35 *Actions taken as a consequence of suffering a financial loss in the last five years. Proportions given are the proportion of persons who suffered a loss who took that action, by living arrangements.*



In related work, O'Loughlin et al. (2010) investigated the impact of the GFC on Australian baby boomers. The authors found that the GFC was affecting the retirement plans of baby boomers including: postponement of retirement and increasing voluntary superannuation payments. It was also reported that significantly more females, compared to men, stated that they were worse off after the GFC[10].

In this National Seniors member survey, respondents were given background information on the GFC prior to being asked a series of questions about changes to their superannuation. The information was as follows:

> *'Between November 2007 and March 2009, during the Global Financial Crisis, the All Ordinaries Index (a major price index for Australian shares) fell over 50%. This fall had a large negative impact on superannuation balances, and financial investments more generally. The All Ordinaries Index has increased since its low point in March 2009'.*

After presenting this information, the following question was asked:

Have you changed your superannuation provider since November 2007?

12 per cent of respondents with superannuation changed their superannuation provider, while 88 per cent did not. Neither sex nor living arrangements (single or couple) appear to affect this result, though the proportion that changed falls steadily with advancing age (from about 15 per cent at age 60-64 to 3 per cent by age 80+).

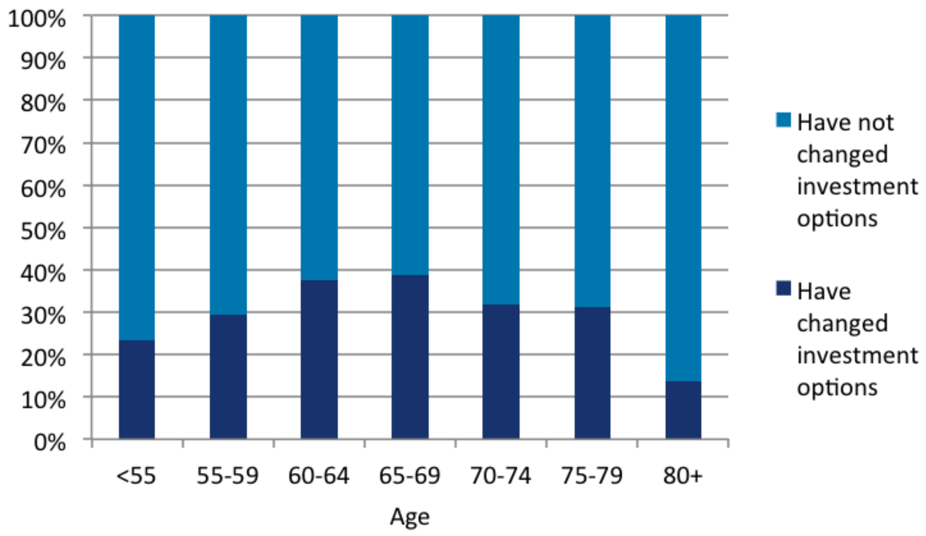
[10] There were insufficient observations collected in the National Seniors member survey to establish whether different actions were taken between the sexes among single person households.

Respondents were then asked whether they made changes to their investment options:

Have you changed your superannuation investment options since November 2007?

Close to one third of all respondents with superannuation indicated that they had changed their superannuation investment allocation since the start of the GFC[11]. This result does not differ significantly by sex, but there is a clear pattern with age, such that recent retirees or those soon to be retired (aged between 60 and 69) have the highest rate of change at close to 40 per cent.

Figure 36 *Proportion of survey respondents who have changed their superannuation investment options since November 2007.*



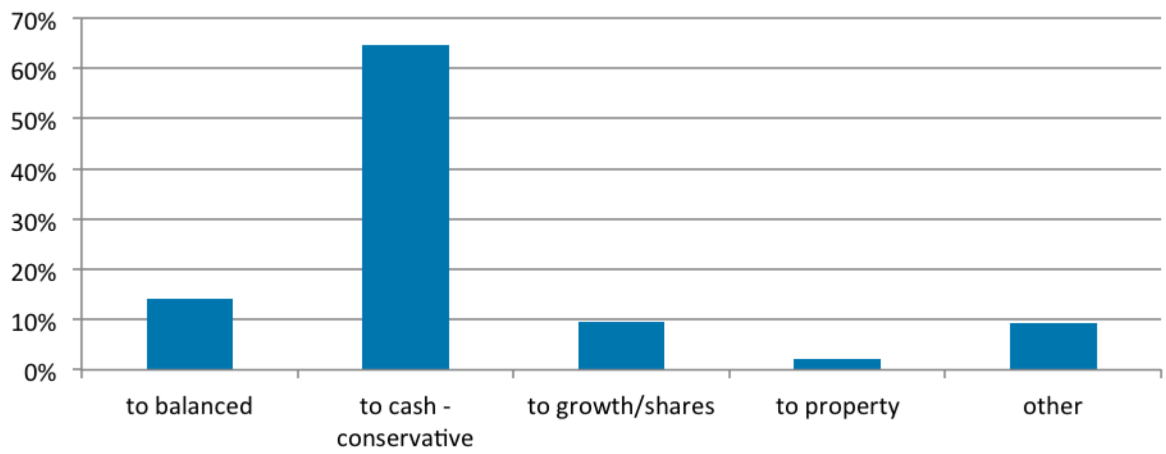
Information was gathered from those who changed their investment allocation, in their own words, about what changes were made, and critically *why* they made these changes.

The results of the above two questions should be contextualized by a 2010 survey that showed that one in three people were too scared to look at the balance in their superannuation fund following the GFC (Cratchley, 2010). In contrast to the findings reported here, a 2009 report for the Australian Institute of Superannuation found that more than 90 per cent of members did not elect to make a change in investment choice following the GFC (Gerrans, 2009) – the difference with our finding may be attributable to the older age range of our analysis.

For those who changed their superannuation investments, the asset classes to which they moved are given in Figure 37. The vast majority of those who changed investments shifted to cash or conservative asset classes (over 60 per cent). 14 per cent moved to balanced; of these, 12 per cent moved from growth, while the remaining 2 per cent moved from cash. The 'other' category includes those who stated that they shifted between asset classes multiple times.

[11] This result is consistent with the response from the question reported at the start of the section, which stated that 30 per cent of respondents moved their investments to different asset classes as a reaction to financial loss.

Figure 37 *Superannuation investment changes, by investment option.*



While many of the reasons that respondents gave for the changes are unique and specific to their circumstances, the vast majority of responses can be categorised into common themes.

Of those who reported that they changed to cash or conservative investments, as a reason for the change 60 per cent listed the GFC or volatile/uncertain markets, and/or the need to preserve capital against the losses of the GFC. Examples of typical responses were:

> *"Lost big time during Global Financial Crisis"*
>
> *"To reduce risk"*
>
> *"To cap losses"*
>
> *"Losing too much money"*
>
> *"To prevent loss of capital"*
>
> *"Had lost many thousands of dollars due to GFC. Cannot replace this loss."*
>
> *"Getting closer to retirement - don't want stress or losing any more."*

The next most common reason, shared by only 8 per cent of those who changed to cash or conservative investments, was that the change was made on the advice of their financial advisor. In some of these cases it is likely that the GFC, uncertainty and preservation of capital, were the main reasons for the advice given.

Close to 5 per cent reported that the change was made due to recent or imminent retirement, or ageing more generally. This included responses that simply stated "retirement" as the reason, while others gave greater detail:

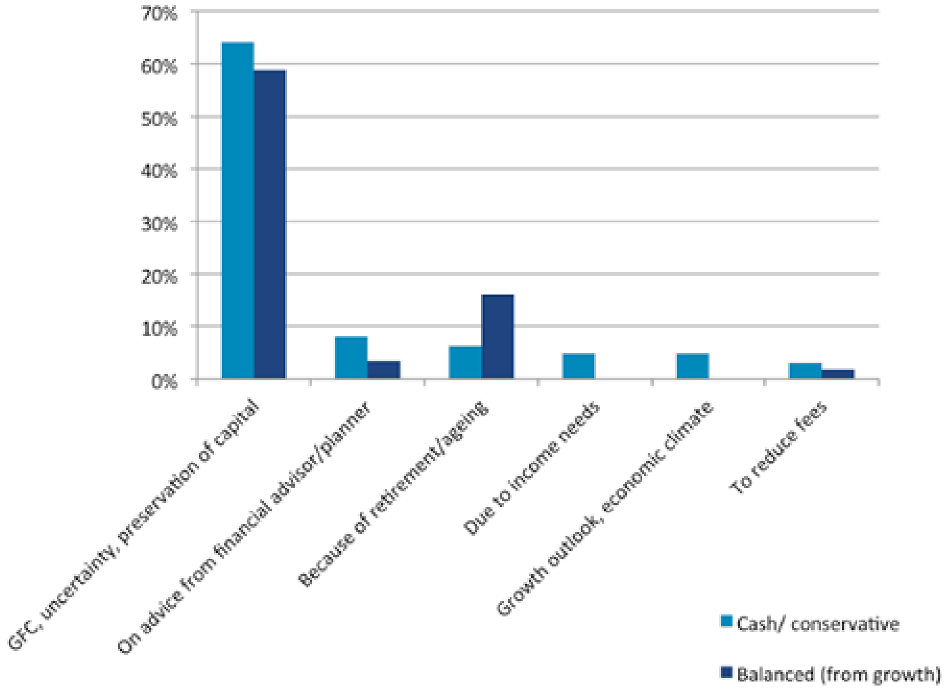
> *"Being retired, I no longer want a long term horizon for superannuation investments."*

A similar proportion reported the need for steady income as a reason.

Approximately 3 per cent reported that a desire to reduce servicing or investment fees was a motivation for the change to conservative investments. Finally, approximately 5 per cent motivated the change to conservative investments on the grounds of the economic climate and their perception of the global growth outlook. These responses could arguably be grouped with the first category (GFC/uncertainty etc.).

While relatively few respondents shifted to balanced investments as a conservative measure (only 12 per cent of those who changed investments), as expected, the predominant reason given was the GFC and associated uncertainty.

Figure 38 *Proportion of survey respondents changing their superannuation investment option to conservative/cash or balanced for particular reasons.*



Notably, in only very few cases have respondents who intentionally switched to conservative investments indicated that they have since switched back to their pre-GFC investment choices. That is, almost three years after the onset of the GFC, the majority of those who changed to conservative investments have remained there. In light of the recent volatility brought on by European financial instability, remaining conservative may indeed be a sensible choice, however, only time will tell. While a change to conservative investments may protect one's investments during declining markets, and while preservation of capital is critical, there is a risk that the long term net return from conservative investments will be lower than required for many retirees, leading to poor retirement income. Future research will explore whether or not those who have switched to conservative investments have lower net savings – if so, then remaining in conservative investments for the long term may exacerbate their financial circumstances.

Some members have considered their circumstances and conclude that they are able to fund their retirement without taking unnecessary risk:

> *"Term deposit investment will provide sufficient dollars for our needs without risk"*

Many others are clearly disappointed at the circumstances that they find themselves in due to the market downturn, and have lost confidence in institutional and personal financial advice:

> *"Disappointing with losing so much of my investments for retirement - at my age with retirement coming up in the next 12 months I will never receive enough gains for what I have lost in super - extremely disappointing."*

> *"Once you stop contributing to a Super fund and start drawing down on it, it is near impossible to recover from a serious down turn in the market. Most investment advisors I have talked to do not understand (or do not want to understand) this"*

> *"Because I have lost too much of my super due to GFC I no longer trust super companies. I can manage MY money better"*

As shown in Figure 37, only 10 per cent of respondents who changed their superannuation investments since November 2007, did so with a move into growth assets.

As is to be expected, the reason given by the majority (over 50 per cent) was their outlook and hopes for the market, and the prospects for gains during or following the market downturn:

> *"What goes down must go up"*
>
> *"Aust shares good value"*
>
> *"Because I think the market will improve in the next 12 months - 2 years."*
>
> *"Hoping for an upward trend"*

However, some admittedly moved to growth too soon:

> *"As the GFC had just started I didn't have any idea what the future held nor did I know it would affect super as I presumed the government would protect it. Silly me!"*

And some (only 5 per cent) chose the risky strategy of investing in growth to make up for lost funds:

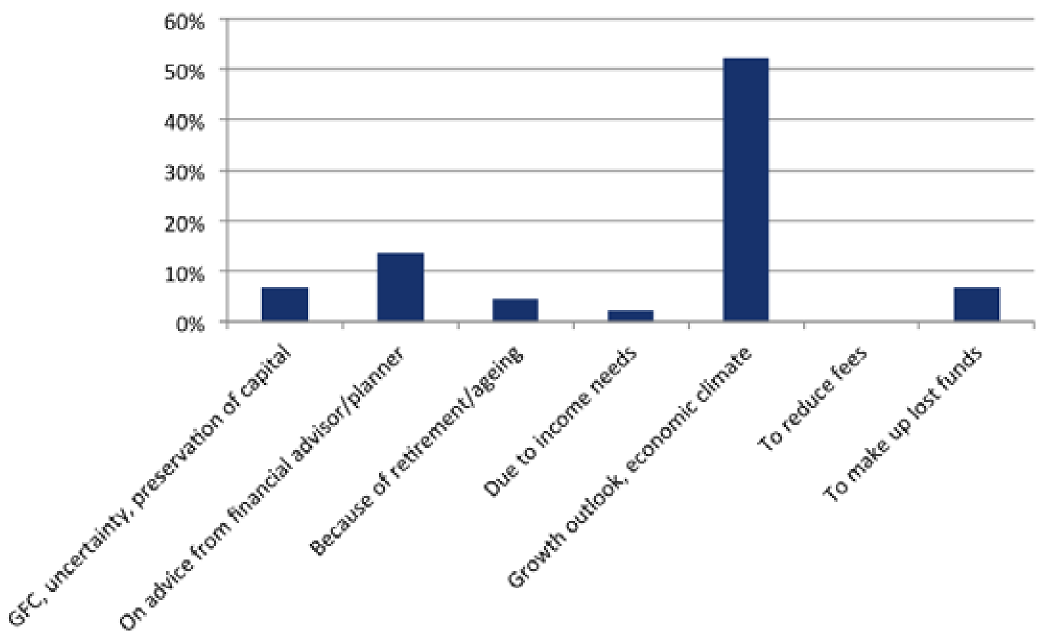
> *"To recover losses during GFC"*
>
> *"Lost a lot in 2007-09 trying to get it back."*

In a small number of cases, growth investments were chosen due to imminent retirement and the need to increase retirement savings. For example,

> *"Judge market opportunities to get growth in short time, with little investment time left, to max pre-retirement pool."*

Close to 14 per cent of those who moved to growth investments, did so based on advice from a financial planner.

Figure 39 *Proportion of survey respondents changing their superannuation investment option to growth for particular reasons.*



For those who moved investments multiple times, the typical reason matches the modal responses for conservative and growth investors. That is, the GFC initially caused a shift to conservative investments, and growth opportunities were turned to in the hope that the market would 'pick up'.

The challenge is encapsulated by a respondent who moved initially into cash and then transitioned back into shares. The reason given for the choices they made sounds simple, but it remains the key challenge we all face, whether we are superannuation fund members, retirees, benefit providers, fund managers or policy-makers: *"Preserve capital and provide enough income in retirement"*

CONCLUSION

In this report we have summarised and undertaken a preliminary analysis of the survey responses of approximately 3,500 National Seniors members. The sample of National Seniors members chosen to receive the survey were stratified to help ensure that the members sampled were broadly representative of the Australian older population, on important demographic factors such as age and gender. The purpose of the survey was to explore the financial wellbeing, concerns and choices made by older Australians.

Some key findings, based on the analysis presented in this report, include:

- The greatest concern expressed by both retired and working National Seniors members is that inflation may erode the value of their savings and investments. A majority of workers are also concerned that they won't maintain a reasonable standard of living for life or that they might outlive their savings.
- Almost 50 per cent of working National Seniors members have, or intend to, delay their retirement in order to provide greater financial security.
- Substantially less concern about financial circumstances is expressed by National Seniors members who are unaware of their superannuation investment allocation and who have poor financial literacy.
- Approximately 70 per cent of National Seniors members with superannuation have obtained professional financial advice on how to invest their superannuation.
- Nearly one third of National Seniors members with superannuation changed their superannuation investment option since the start of the global financial crisis.
- Despite the low income of many retired National Seniors members, only 10 per cent believe that their finances are poor.
- National Seniors members may place a very high value on funds received now compared to funds received in the future.

Perhaps not surprisingly, the results of the survey clearly show that the older Australian population is concerned about having sufficient savings to fund their retirement. Worryingly, those with poor financial literacy and who are unaware of their superannuation asset allocation are less likely to be concerned about their financial circumstances.

We stress that the primary purpose of this report was to summarise the results of survey respondents. In future work we will endeavour to undertake a more sophisticated analysis that will hopefully enable us to further disentangle, and quantify, the effects of National Seniors member characteristics on their financial literacy, attitudes to risk, and their self-rated financial wellbeing.

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The National Seniors Productive Ageing Centre is an initiative of National Seniors Australia and the Department of Health and Ageing to advance research into issues of productive ageing. The Centre's aim is to advance knowledge and understanding of all aspects of productive ageing to improve the quality of life of people aged 50 and over.

The Centre's key objectives are to:

- Support quality consumer oriented research informed by the experience of people aged 50 and over;
- Inform Government, business and the community on productive ageing across the life course;
- Raise awareness of research findings which are useful for older people; and
- Be a leading centre for research, education and information on productive ageing in Australia.

For more information about the Productive Ageing Centre visit www.productiveageing.com.au or call 02 6230 4588.

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