



The real cost of retirement

When you're looking at saving and planning for retirement, it's important to know how much you can expect to be spending. The latest retirement standard figures and other data sources can give you an idea of the cost of retirement, but what else do you need to take into account to ensure your financial wellbeing?

Running the numbers – the retirement standard

Since June 2006, the Association of Superannuation Funds of Australia (ASFA) have been monitoring the living costs associated with retirement. Every quarter they research and publish the average annual budget singles and couples aged around 65 can expect to spend when living a modest or comfortable lifestyle in retirement. This is known as the "retirement standard" and for some time it's been a popular yardstick for what it costs to live as a retired person in Australia.

Your definition of comfortable

For a modest way of life, think essential living expenses, taking holidays in Australia only and limited spending on upgrades to cars, appliances and electronic items. Things like international travel, a new car from time to time and eating out on a regular basis are definitely the trappings of the "comfortable" lifestyle category.

Of course your idea of what a comfortable lifestyle looks like – and the money it takes to live it – could be quite different from the retirement standard definition and estimates. The amount you earn and spend in the lead up to retirement is just one of the things that can influence your budget and spending patterns after you've left work. How and where you plan to spend your retirement is also going to affect how much income you'll need.

The big ticket items – health and energy

According to a recent media release from the ASFA, budgets for singles and couples living comfortably have risen 23% and 26% respectively in the decade since the first retirement standard figures were published. The increases for a modest lifestyle are considerably higher, at 33% for a single person and 36% for a couple¹. As the ASFA have identified the rising costs of power, food, rates and health care as the main culprits for these changes², it's not surprising that the impact is greater for those living modestly. In any household budget, these four items would be considered essentials rather than luxuries.

The modest living retirement standard figures are running well ahead of the Consumer Price Index (CPI) increase for the same period which was 28.6%³. But while it might seem retired people living a simple life are worse off than they were 10 years ago, changes in the aged pension tell a different story. In real terms, the aged pension rose by 70% for a single person and 54% for couples⁴ during this time, making it possible for retirees to cover their living costs, in spite of major price hikes for essentials.

Relying on the aged pension?

This is an important reminder of the significance of the Age Pension in supplementing income from your super. In fact, the latest quarterly Milliman Retirement Expectations and Spending report published in June 2017, claims the median annual expenditure of a couple aged 65-69 is just \$34,858, which is only marginally higher than today's full aged pension allowance for couples of \$34,819 per year⁵. But as January 2017 changes in assets and income tests for the age pension demonstrate, it's difficult to have certainty about your future entitlement to government benefits in retirement.

Taking home and health for granted

Something else to bear in mind when calculating your own personal retirement budget is whether you own your own home and how you're doing health wise. Retirement standard figures are based on two important assumptions – you live in a home you own outright and you're in good health. So if you're likely to be renting for the rest of your life or spending on a mortgage or medical bills in the early years of retirement, you'll need to factor this into your budget.

Advice could make a difference

Even with the help of carefully compiled estimates, surveys and reports from the ASFA and Milliman, figuring out how much you should be saving for retirement and how best to invest it for a healthy return can be a challenge. Seeking advice from a financial planner can help you understand the superannuation balance you're going to need to retire in comfort and come up with a strategy for working towards that target.



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[1] ASFA Media Release Retirement cost increases driven by power prices, health care, food and rates 29 May 2017 "Between June 2006 and March 2017, the RS budget at the modest level for a single person increased by 33 per cent, while the single comfortable budget rose by 23 per cent. The budget for a couple at the modest level increased by 36 per cent and at the comfortable level by around 26 per cent." <https://www.superannuation.asn.au/media/media-releases/2017/media-release-29-may-2017>

[2] ASFA Media Release Retirement cost increases driven by power prices, health care, food and rates 29 May 2017 "Over the period, electricity costs increased by 124 per cent, health costs by 60 per cent, property rates and charges by 83 per cent and food costs by 24 per cent." <https://www.superannuation.asn.au/media/media-releases/2017/media-release-29-may-2017>

[3] ASFA Media Release Retirement cost increases driven by power prices, health care, food and rates 29 May 2017 "ASFA CEO Dr Martin Fahy said the figures compared to an overall 28.6 per cent increase in the Consumer Price Index (CPI)." <https://www.superannuation.asn.au/media/media-releases/2017/media-release-29-may-2017>

[4] ASFA Media Release Retirement cost increases driven by power prices, health care, food and rates 29 May 2017 "Over the more than 10 year period, the maximum Age Pension increased in real terms, by 70 per cent for a single person and 54 per cent for a couple." <https://www.superannuation.asn.au/media/media-releases/2017/media-release-29-may-2017>

[5] Milliman Retirement Expectations and Spending report Q2, 2017, 30 June 2017, page 8 "the Age Pension is expected to fund a large portion of household spend for many couples. The observed median annual spend for couples aged 65-69 is \$34,858 which is only slightly higher than the full Age Pension."