

Spending patterns of older retirees: New ASFA Retirement Standard

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Executive summary

The release of the 2015 Intergenerational Report is likely to shed further light on the significant challenges that Australia will face due to its ageing population. With fewer workers and a growing pool of retirees, governments will need to put sound policies in place to accommodate the cost to public finances of supporting older Australians. Providing accurate information to assist policymakers in making these decisions is crucial to ensuring they produce the best social and fiscal outcomes for individuals and the community.

In order to develop appropriate policy settings in regard to retirement income for older retirees, there is a fundamental question that must be answered; how much do people in this age group need to spend in order to live with comfort and dignity in retirement? The answer to this question forms the basis of this report.

Such information can also help individuals navigate the challenges of planning for retirement in their later years. As average life expectancies continue to increase, most older Australians will require both superannuation savings and financial support from the government to accommodate their spending needs. Knowing how much they are likely to need to spend in retirement as their age advances can assist their planning process.

For the superannuation industry, this information can help turn its focus on the magnitude and type of income streams it needs to deliver to members when they retire.

In this context, this report analyses the spending requirements of Australia's older cohort of retirees, more specifically those in their late 80s to early 90s. This information will help guide policymakers towards better decisions about retirement income policy and give individuals a clearer picture of what their financial needs will be in the later years of their retirement, so they can plan to meet these accordingly.

The report's key findings are as follows:

- 1. An increasing number of Australians will live to age 90 and beyond*
Average life expectancy has continued to increase, with a male aged 65 in 2012 expected to live on average until he is 84, and a female until she is 87. There is also an increasing proportion of retirees living until they're 90, with 26 per cent of males, and 40 per cent for females expected to reach these years. In addition, the number of people who will reach 90 and above will increase in both percentage and absolute terms, as more and more baby boomers reach the later stages of their lives.
- 2. The expenditure patterns for older retirees give rise to a need for a new Retirement Standard*
The existing ASFA Retirement Standard focuses on the spending requirements of those aged around 70 who are in relatively good health for their age and who reside in their owner-occupied home. However, as people age, their spending requirements change as they are often unable to engage in the same types of activities, and often require different types of care and support, which have different cost implications. Therefore, the development of a new standard that takes these changes into account is required.
- 3. Older retirees tend to face increased costs related to care and support arrangements, and medical expenses*
Older retirees tend to spend more on assistance in the home, including for cleaning services and meals, as well as contributions towards Home and Community Care services. They also tend to have increased out-of-pocket expenses for major medical procedures and ongoing chemist and other medical expenses. Therefore, policy changes in these areas can have a major impact on older retirees. Individuals also need to budget for this expenditure.
- 4. Older retirees have reduced expenditure on entertainment and transport*
Older retirees tend to spend less on holidays and other leisure activities outside the home, most likely reflecting their reduced capacity for activity. This means they are less sensitive to price fluctuations for these items.
- 5. These factors result in slightly lower expenditure for older retirees as opposed to those aged 65-80*
The net impact of the various factors identified is that Retirement Standard figures for those aged 90 are slightly lower overall at the 'modest' standard. At the 'comfortable' standard, expenditure is about 10 per cent lower in total, largely due to the elimination of relatively costly leisure activities for those in that age group and at that standard of living. In dollar terms, the budgets at the modest level for older retirees are about \$1,000 a year lower than the budgets for those aged around 70 and are about \$5,000 a year lower at the comfortable level. The reduction is similar for both singles and couples, with the reduction for singles only a few hundred dollars less than for couples.
- 6. The Age Pension alone will not deliver a comfortable standard of living to older retirees*
The required expenditures remain in excess of the level of the full Age Pension, with the gap being very substantial when it comes to the comfortable standard of living.

The pool of older retirees is growing

Australia's population is ageing and living longer in retirement than ever before. This means the proportion of older retirees is growing.

Improvements in average life expectancy over the past few decades mean that a larger proportion of people can expect to live into their 80s. In 1983, a Australian female reaching the age of 65 could expect to live, on average, for another 18 years, while an Australian male could expect to live for a further 14 years. By 2002, these figures had risen to 21 years for females and 18 years for males. Over the next 40 years, the number of Australians aged 85 and over is projected to more than quadruple, from around 400,000 in 2010 to 1.8 million by 2050 (Treasury, 2010).

There has also been an increase in the number of people living into their 90s. The percentage of males currently aged 65 who can expect to live until age 90 is around 26 per cent, and for females 40 per cent. While the 90s are the 'nervous 90s' for many individuals, due to relatively high rates of illness and death, around 9 per cent of males currently aged 65 can expect to live to age 95 on the basis of current life expectancies, while the figure for females is around 17 per cent.

The absolute number of those aged 90 or more also will also increase due to the demographic bulge of ageing baby boomers. Even if average life expectancies remain the same, this cohort will result in a much larger number of older retirees.

The prospective increase in the number of retirees aged 90 gives rise to a need for a Retirement Standard tailored for the different expenditure requirements of this group. This will allow governments to develop policy settings that support people in this age group to live with comfort and dignity in retirement. It will also give retirees a more accurate picture of the spending required for particular lifestyles in the later stages of retirement, so they can budget for this with greater accuracy.

With the delivery of income streams the most important priority for the superannuation industry over the coming years, knowing the level of payments older retirees will require will also assist the development of these products.

The concepts behind budget standards

While no two individuals will have identical expenditure patterns, governments, policymakers and individuals benefit from having a standard measurement on which to base their decisions. In this context, budget standards can be used to inform judgments about the adequacy of retirement savings levels. This is because they provide an expert assessment of the level of consumption of goods and services that can be supported at a given level of income.

Analysing the magnitude of spending on different budget items can also help policymakers, who can use this information to analyse the impact that policy decisions will have on particular population cohorts, who may display increased price sensitivity to some budget items, but not to others.

A budget standard is developed by making decisions about what an individual or couple will need to attain a specific standard of living, selecting the items required to achieve that standard, pricing these items, and then aggregating the total expenditure required to support that standard of living.

Budget standards for younger retirees

The current ASFA Retirement Standard is based on budgets that were developed for a women (aged 70) living on her own and for a couple (both aged 70) at a modest level, and at a comfortable level. Separate, slightly different, budgets are published online by ASFA in relation to single men aged 70.

It was assumed that the home being occupied by the retiree or retirees was owned. Further, this standard was developed to:

“...reflect a standard of living among older, healthy and fully active self-funded retired Australians that allows them to engage actively with a broad range of leisure and recreational activities” (Saunders, Patulny and Lee, 2004:20)

To ensure the ongoing accuracy of the standards, adjustments have been made over time to reflect changing trends in consumption and income. These have involved regular adjustments to the various components to reflect changes in prices (as indicated by movements in prices in relevant components of the Consumer Price Index [CPI]). In 2009, a more comprehensive review was commissioned by ASFA (Howell, 2009) which led to a number of revisions, including an allowance for private health insurance in the budgets at the modest level.

The review also facilitated amendments to the various expenditure groups in the Retirement Standard in order to better align them to the expenditure groups in the current series of the CPI. These ABS expenditure groups are named and defined slightly different to the groups applying in 2003.

Table 1 below sets out the ASFA Retirement Standard figures for the September quarter, 2014. They reflect the review undertaken in 2009 and price changes since then. The budgets will continue to be updated on a quarterly basis after the release of each quarter's CPI figures.

Table 1: Budgets for various households and living standards, 70 year olds (September quarter, 2014)

	Modest lifestyle – single	Modest lifestyle – couple	Comfortable lifestyle – single	Comfortable lifestyle – couple
Housing – ongoing only	\$68.30	\$65.56	\$79.16	\$91.77
Energy	\$41.07	\$54.55	\$41.68	\$56.53
Food	\$77.05	\$159.61	\$110.07	\$198.13
Clothing	\$17.67	\$28.68	\$38.25	\$57.37
Household goods and services	\$26.57	\$36.03	\$74.75	\$87.57
Health	\$40.64	\$78.43	\$80.63	\$142.30
Transport	\$96.05	\$98.78	\$143.14	\$145.86
Leisure	\$73.78	\$109.93	\$223.60	\$306.41
Communications	\$9.33	\$16.33	\$25.64	\$32.64
Total per week	\$450.48	\$647.91	\$816.92	\$1,118.58
Total per year	\$23,489	\$33,784	\$42,597	\$58,326

The figures in each case assume that the retiree(s) own their own home and relate to expenditure by the household. This can be greater than household income after income tax where there is a drawdown on capital over the period of retirement. Single calculations are based on female figures. All calculations are weekly, unless otherwise stated.

Budget standards for those in their late 80s and early 90s

As discussed, the expenditure patterns for older retirees are different to those aged 70. This paper will now go on to analyse these differences.

Housing

The principal components of this category are home and contents insurance, council and water rates, and home repairs (Table 2). The large majority (certainly more than 50 per cent) of retirees in their late 80s or early 90s continue to live in their own home (either freestanding or a strata titled apartment with individual ownership). Therefore, there are no real grounds for reducing the amount in the standard allocated to housing costs. The exception would be for those who move to aged care facilities, however, these are not accounted for in the Standard.

Table 2: Components of housing expenditure, expenditure per week

Expenditure items	Comfortable couple	Modest couple	Comfortable single female	Modest single female
Building & contents insurance	\$27.94	\$22.12	\$23.28	\$22.20
Rates	\$32.81	\$27.94	\$27.94	\$28.05
Home improvements	\$9.31	\$0.00	\$9.31	\$0.00
Repairs & maintenance	\$16.30	\$11.64	\$13.96	\$14.02
Total housing	\$86.35	\$61.70	\$74.49	\$64.27

What's certain is that none of the housing-related expenditure items in the Standard are likely to decrease with age. If anything, there may be a need for increased expenditure on repairs and maintenance as older retirees often have less physical capacity to carry these out themselves. In households where individuals have been in retirement for periods of 25 to 30 years or more, there is also often an increased need for repairs and maintenance, or home improvements (kitchen and bathroom remodelling, for instance).

Overall, these factors mean there are not sound grounds for decreasing the expenditure on housing for older retirees in the budget standards.

Energy

As noted above, the majority of retirees remain in their own home in retirement, even at relatively advanced ages, and, therefore, there are no real objective grounds for decreasing the amount in budget standards in regard to expenditure on energy.

Food

There are not strong grounds for reducing the amount of expenditure on food for older retirees.

The required calorie and nutritional intake for older retirees is not significantly different to that of younger retirees. While some older retirees (particularly single people) may survive on plain or limited meals because they are not able to prepare more complex meals, this should not be assumed in the preparation of budget standards.

The average cost of a Meals on Wheels main meal is in the range of \$5 to \$6. The standard budgets for food at both the modest and comfortable levels are sufficient to support seven such meals and also expenditure on other meals if the retired person or couple receives them. The comfortable budgets are sufficient to support more and better meals, including some prepared meals delivered by providers other than Meals on Wheels.

Clothing and footwear

There are very few objective grounds to assume older retirees will spend less on clothing as they age. There is no reason, for instance, why an older retiree should continue to dress in old clothes or to assume that they do not wish to remain smart-looking and fashionable in their appearance. At the very least, their clothes need to remain warm enough, clean and unstained.

Various disabilities, for example incontinence, can also lead to an objective requirement for the replacement of various clothing items on a regular basis for older retirees. These factors lead to the assumption that expenditure on these items will not alter with age.

Household goods and services

The level of expenditure on household goods and services is not likely to decrease significantly with increasing age. As shown by Table 3, the items involved will be required by households, regardless of age.

However, with increasing age, and decreasing ability, there may be an increased need for expenditure on paid cleaning services or home assistance of some kind. At the comfortable level, an allowance for cleaning services of \$50 a week (for a \$100 a fortnight service) might be appropriate. It is assumed that cleaning services will not be purchased at the modest level.

In addition to cleaning, other living assistance may also be required by older retirees. The 2006 Census reported that 44 per cent of women and 32 per cent of men over the age of 80 years required assistance with daily living, such as bathing or paying bills. For those aged over 90 years, 72 per cent of women and 56 per cent for men required assistance (Gibson 2010, p. 21), which is over the 50 per cent threshold required for inclusion in budget standards.

However, only part of the cost of such assistance is likely to be privately incurred. Public provision and unpaid provision of assistance by family members are very important in this area. This has implications for the preparation of budget standard figures. Taking these factors into account, an admittedly arbitrary allowance of \$20 a week for a single person and \$30 a week for a couple is included in Table 4 below.

Table 3 sets out the use of Home and Community Care (HACC) services and permanent residential services by age cohort. Approximately half of people aged over 85 receive HACC services and make a contribution to the cost of their provision. However, only a minority of individuals are in permanent residential care of some type. For this reason, budgets based on 90 years olds still living in their own home remain appropriate.

Attempting to make allowance for out-of-pocket expenses associated with the diverse range of disabilities in the community is not easy. When this issue was considered in the context of the Harmer Review of the Age and Disability Pension, the conclusion reached was that the provision of services was best dealt with by the government funding particular services, rather than providing all pension recipients with a set amount to cover the entire costs of disability services (Harmer, 2009). For the purposes of this exercise, only out-of-pocket expenses likely to be encountered by a majority of 90 year olds are considered.

Table 3: Use of formal aged care services*Per 1,000 persons in each age cohort*

	65–74	75–84	85+
HACC (2004-05)	102.5	278.5	474.9
Domestic assistance	27.3	86.9	154.2
Meals	15.1	58.9	136.0
Transport	16.0	50.4	81.7
Nursing	21.1	54.8	109.4
Personal care	6.7	22.5	58.7
Permanent residential	9.1	53.2	235.2

Source: Productivity Commission, 2011.

Table 4 sets out proposed components of household goods and services costs based on use of domestic cleaning services at the comfortable level and Home and Community Care services for all households.

Expenditure items	Comfortable couple	Modest couple	Comfortable single female	Modest single female
Household cleaning and other supplies	\$25.37	\$15.22	\$18.27	\$10.15
Home and community care contribution	\$30.00	\$30.00	\$20.00	\$20.00
Domestic cleaning services	\$50.00	\$0.00	\$50.00	\$0.00
Cosmetic and personal care items	\$3.02	\$2.91	\$6.80	\$1.95
Barber or hairdressing	\$20.30	\$8.75	\$14.59	\$4.88
Music and CDs	\$2.12	\$0.00	\$0.31	\$0.00
Newspapers and magazines	\$8.13	\$1.89	\$7.94	\$2.38
Computer, printer and software	\$4.16	\$4.16	\$4.16	\$4.16
Household appliances	\$11.65	\$2.95	\$9.93	\$2.95
Pest control, alarm service	\$12.46	\$0.00	\$12.46	\$0.00
Total	\$167.21	\$65.88	\$144.46	\$46.47

Health

There has been a gradual reduction in some health risk factors through increased public education (healthy lifestyles and diets) and advancements in disease management (including diagnostic, pharmaceutical, surgical and other technological innovations). For example, the prevalence of cardiovascular diseases, cancers and injuries among people aged 85 years and over has fallen.

With improved lifestyle choices and medical interventions, more older people are surviving major diseases that have been previously associated with high mortality, but these people are left to manage chronic conditions (Productivity Commission, 2011). This means, as survival rates increase, there is also an increased risk of the elderly developing other non-fatal, but disabling, conditions including renal failure and vision loss.

This has implications for the health expenditure of older households. While many procedures are available through the public system at minimal cost to the patient, such services can in effect be rationed or are at least subject to substantial waiting lists in the public health system. Many retiree households maintain private health insurance so that they have more options in regard to medical procedures. Accordingly, this is allowed for in the general ASFA Retirement Standard and the Retirement Standard For Older Retirees. However, there can be considerable gap payments involved in regard to operations such as those for cataract removal or hip or other joint replacement. The incidence of such procedures increases with age.

While it is unlikely that 50 per cent or other significant proportion of the population cohort will have a major medical procedure each year, the amounts involved can be significant.

A compromise approach in putting together a budget standard is to treat such expenditures as a capital item and, in effect, amortise them over a number of years. For a major medical incident or procedure involving gap payments totalling \$10,000, it might be appropriate to have a \$2,000 a year payment in the retirement budgets for those aged in their late 80s or early 90s.

With community rating for health insurance, it is not appropriate to increase the health insurance premium amount. However, given the increased incidence of health conditions with age, there is a case for increasing the amounts for out-of-pocket expenditure on chemist and like supplies, and on co-payments to medical practitioners.

Some out-of-pocket expenses might be for relatively 'low-tech' items, such as incontinence aids, while others might be for the latest drug treatments not yet available from the Pharmaceutical Benefits Scheme and/or patient contributions for multiple prescriptions. It is difficult to come up with an average for a diverse range of circumstances, but in Table 5 the various items reflect an estimate of what the additional health expenditures for an average 90 year old might be.

Table 5: Components of health expenditures

Expenditure items	Comfortable couple	Modest couple	Comfortable single female	Modest single female
Health insurance	\$78.76	\$63.16	\$40.07	\$31.58
Chemist	\$40.00	\$20.00	\$22.00	\$10.00
Co-payment and out of pocket	\$35.00	\$15.00	\$20.00	\$8.00
Cost of major medical procedure	\$38.35	\$38.35	\$38.35	\$38.35
Total health services	\$192.11	\$136.51	\$120.42	\$87.93

Transport

For those aged 70, by far the largest component of transport expenditure in the ASFA Retirement Standard budgets relates to car transport and running costs.

There are still many licensed drivers aged over 80. For example, in NSW alone, there are 88,000 licensed drivers in NSW over the age of 80, and this number is expected to grow over the next 30 years.

One of the benefits of driving is that older retirees maintain mobility and independence, which are important components of quality of life. However, by age 90, vision limitations and a plethora of physical problems can severely limit the percentage of retirees who still can safely drive a motor vehicle. The age-related incidence of dementia is also a relevant factor. While some young drivers may not be entirely safe, their behaviours and skills generally improve. For the older elderly, there is a clear and documented decline in driving skills on average.

Motor vehicle crash rates adjusted for kilometres driven are higher for elderly drivers, with an exponential increase above the age of 75.

Table 6 sets out proposed transport budgets for older retirees. The allowance for car expenses has been removed given the relatively low incidence of motor vehicle drivers aged 90. However, given older retirees still have transportation needs, this has been replaced with an item dealing with taxi expenses.

Table 6: Components of transport expenditure for those aged 90

Expenditure items	Comfortable couple	Modest couple	Comfortable single female	Modest single female
Taxi fares	\$45.00	\$40.00	\$40.00	\$35.00
Public transport	\$10.00	\$10.00	\$5.00	\$5.00
Total transport	\$55.00	\$50.00	\$45.00	\$40.00

Communications

In the focus groups conducted in 2009 for the original ASFA Retirement Standard, all participants had at least one computer, and all accessed the internet on a regular basis. The majority had combined their phone requirements on a bundle plan, and most had a prepaid mobile. Many had updated their computers to keep up with the changes in technology. However, many

were concerned about how quickly technology is changing and the cost of keeping up to date. Some were downloading programs and music from the internet. Many used a range of online communication tools such as email, Skype, Facebook to keep in contact with friends and family.

While the current use of such technology by those aged 90 might not be as high as this, the proposed Budget Standard for those aged 90 similarly encompasses a similar communications bundle involving a landline and also a prepaid mobile phone.

Table 7: Expenditure on communications

	Comfortable couple	Modest couple	Comfortable single female	Modest single female
Total communications	\$32.90	\$16.46	\$25.85	\$9.40

Leisure

The final expenditure group in the budget standards relates to expenditure on leisure. This is the area where expenditure is most likely to be different for older retirees.

For a 70 year old, a variety of leisure activities are included in the standard budget. While such activities are not strictly necessities of life, they form an important part of what many retirees want to do in retirement – which is to enjoy themselves. However, this category of expenses is one where the differences between a modest and a comfortable lifestyle are particularly large in terms of what is purchased and, hence, results in relative large differences in aggregate budgets in this category. This is because a number of these activities require both reasonably good health and mobility.

While some 90 year olds will continue to travel overseas, the incidence of this is not high (and it is hard for them to get travel insurance). In the proposed budgets for 90 year olds, this item is removed. The amounts for “lunches and dinners out”, “cinema, plays, sport and days out” and for “domestic vacation” have also been reduced by 50 per cent.

Some 90 year olds might have pay television. Around 35 per cent of Australian households currently have a pay television subscription. Subscription rates vary from around \$12 a week to \$30 a week, depending on the content and package selected. If a retiree chooses to subscribe, in the context of the Retirement Standard budgets that have been set, it would be at the cost of expenditure in one or more of the other leisure expenditure items.

Table 8: Expenditure on leisure, 90 year olds

Expenditure items	Comfortable couple	Modest couple	Comfortable single female	Modest single female
Membership clubs	\$9.64	\$1.93	\$4.84	\$0.97
TV, DVDs, digital camera	\$1.78	\$0.90	\$1.78	\$0.90
Alcohol consumed in home (or equivalent spent)	\$40.24	\$15.09	\$25.15	\$10.06
Lunches and dinners out	\$40.24	\$12.53	\$30.06	\$15.04
Cinema, plays, sport & day trips	\$6.75	\$9.40	\$3.37	\$2.89
Domestic vacation	\$38.55	\$18.31	\$32.77	\$9.16
Sundry items	\$29.76	\$11.56	\$22.82	\$7.71
Total leisure	\$166.96	\$69.72	\$120.79	\$46.73

Overall expenditure

Table 9 brings together all the various expenditure amounts to provide both weekly and yearly totals. It also updates the June quarter 2014 expenditure figures for price increases that occurred in the September 2014 quarter.

While the budgets for 90 year olds have additional expenditure items, particularly in household services and health, the overall totals are lower than in the budgets for 70 year olds.

This is because there is a reduction in transport costs (due to there being no motor vehicle expenses) and reduced expenditure on leisure (with elimination of an overseas holiday in the comfortable budget and a scaling back of certain other leisure items for both comfortable and modest).

The percentage difference is not marked for the modest lifestyle budget as the various changes to the budget components largely offset each other. However, at the comfortable lifestyle level, the impact is more significant, with an 11.1 per cent reduction for a single and 8.9 per cent reduction for a couple.

Table 9: Budgets for various households and living standards, 90 year olds (September Quarter, 2014)

	Modest lifestyle – single	Modest lifestyle – couple	Comfortable lifestyle – single	Comfortable lifestyle – couple
Housing – ongoing only	\$68.30	\$65.56	\$79.16	\$91.77
Energy	\$41.07	\$54.55	\$41.68	\$56.53
Food	\$77.05	\$159.61	\$110.07	\$198.13
Clothing	\$17.67	\$28.69	\$38.25	\$57.37
Household goods and services	\$46.65	\$66.14	\$145.03	\$167.87
Health	\$87.78	\$136.27	\$120.21	\$191.78
Transport	\$39.96	\$49.95	\$44.96	\$54.95
Leisure	\$47.01	\$70.13	\$121.50	\$167.96
Communications	\$9.27	\$16.24	\$25.49	\$32.44
Total per week	\$434.77	\$647.14	\$726.36	\$1,018.79
Total per year	\$22,670	\$33,744	\$37,875	\$53,123
Total per year for a 70 year old	\$23,489	\$33,784	\$42,597	\$58,326
Percentage difference between budgets	3.5%	0.1%	11.1%	8.9%

The figures in each case assume that the retiree(s) own their own home and relate to expenditure by the household. This can be greater than household income after income tax where there is a drawdown on capital over the period of retirement. Single calculations are based on female figures. All calculations are weekly, unless otherwise stated.

Conclusion

The analysis presented indicates that budget standards for those aged 90 differ substantially in a number of ways from budget standards prepared for retirees aged 70.

However, many basic needs, such as housing, food, household services and communication, remain much the same for each group.

The main differences arise in regard to the health, transport and leisure groups. Those aged 90 have relatively low participation rates in motor vehicle use and tend not to take overseas holidays and that reduces expenditures in these expense categories.

The main areas where those aged 90 have additional expenses are household services and health.

The net impact of these various factors is that Retirement Standard figures for those aged 90 are slightly lower overall at the modest level. At the comfortable level, expenditure is about 10 per cent lower in aggregate, largely due to the elimination of relatively costly leisure activities for those in that age group and standard of living.

The required expenditure remain, in excess of the level of the full Age Pension, with the gap being very substantial in regard to the comfortable standard of living. This is important for policymakers and individuals to note as it highlights that the Age Pension alone is not sufficient to deal with the financial consequences of longevity. The figures presented in this paper indicate the extent of the gap.

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