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Retirees feeling the pinch

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According to the academics who study behavioural finance (how people really think about money as opposed to how the economists think we should think), we feel a lot more pain when we lose money than we feel pleasure when we make it.

This is not all that surprising. When investments fall by about 50 per cent as the sharemarket did at its nadir, a mere 50 per cent gain won't come close to restoring your fortunes. Basic mathematics shows you need a 100 per cent gain - double the percentage you've lost - just to get back to where you started.

So despite all the euphoria about the recession that wasn't, many investors are still licking their wounds from the global financial crisis.

Research by Investment Trends shows the financial crisis has hit retirement savings particularly hard. Its *Retirement Income Report* shows a widening gap between Australians' expectations for a comfortable retirement and what their super can support.

According to the report, less than one in 10 people (8 per cent) have enough super to achieve their goal of a \$40,000 minimum retirement income. The average income from personal savings by those already retired was less than half that - \$19,000.

While the gap between retirement dreams and reality is not new, the principal of Investment Trends, Mark Johnston, says it has become noticeably worse due to the financial crisis and is forcing investors to make significant changes to retirement plans. Of 2861 people aged 40 or more surveyed by the company, almost half said they would change their plans - mostly spending less in retirement, working longer, or delaying retirement.

The average delay to retirement plans was 2.9 years, and those nearer to retirement - from five to 10 years - were planning to delay retirement by an average 3.7 years.

The financial crisis has also heightened awareness that compulsory super will not be enough. Almost half (45 per cent) said the 9 per cent Super Guarantee was not enough to retire on and should be higher. Most felt 12 per cent was a more reasonable figure. Only 4 per cent believed the guarantee should be lower or abolished altogether.

The concern about retirement savings is highlighted by the low super balances of many investors. Investment Trends found the median balance for those five to 10 years from retirement was just \$71,000; for those one to three years from retirement it was \$140,000.

This is in line with the latest *AMP.NATSEM Income and Wealth Report*, which found the incomes of current retirees are well below the expectations of those approaching retirement. Using the popular benchmark of needing about 65 per cent of your pre-retirement income for a comfortable retirement, NATSEM says someone on average earnings would need a retirement income of \$40,475 a year.

But the income of retirees 65 years or more is just \$23,200 for men and \$18,900 for women. The savings of this age group are also relatively low - an average \$107,500 for men and \$81,600 for women. The report says this is only enough to fund three years' comfortable retirement for women and four years for men.

Of course, most retirees receive at least a part age pension which allows them to stretch their savings further. But for women in particular there is still a substantial gap.

That presents two main challenges.

The first is the chesnut of how to increase super contributions. This will undoubtedly be part of the current government reviews into tax and super, but NATSEM estimated that increasing compulsory super to 12 per cent would boost men's super balances by 25 per cent over the next 30 years.

For women, the results are more variable because of their lower earnings. One of the limitations of compulsory super for

women is that it is a percentage of salary, and women typically earn less than men and spend less time in the workforce. Nevertheless, their super balances would increase.

NATSEM also concluded that increasing the Super Guarantee would provide only minimal age-pension savings to government - about 2.3 per cent - suggesting that while it may be part of the solution, it is not the whole answer.

The other challenge is how to ensure we make the most of our money in retirement. NATSEM says its simulations show the savings of those in full-time employment can meet their expectations, provided they do not pull back to part-time work or retire before 65. In reality, many retirees are either forced out of the workforce earlier or choose to wind back their level of participation.

Investment Trends also found that while two thirds of "accumulators" knew they did not have enough super, only one in three had a retirement income - and just 10 per cent had a plan that took into account events like falling financial markets.

With 36 per cent concerned they would outlive their retirement savings, there is a growing market for investment products that take away some of the risks.

More than half of those surveyed said they would be interested in the new "longevity" pensions that protect them against the risk of outliving their savings, and almost half expressed interest in capital guaranteed products that would protect their savings in falling markets - though most were not prepared to pay more than 0.5 per cent for that guarantee.

Less than one in five of those interested in a capital guarantee said they would invest in riskier assets if they had one - suggesting that if such products are to help meet the retirement funding gap, more education is needed.

This story was found at: <http://www.smh.com.au/business/retirees-feeling-the-pinch-20091204-ka:0.html>