MLC Wealth Submission

Retirement Income Review

February 2020

About MLC Wealth[1]

MLC Wealth[2] provides investments, superannuation, and financial advice to retail, corporate and institutional clients, supported by several brands including MLC, Plum and investment brands under MLC Asset Management.

MLC Wealth manages funds under management and administration (FUM/A) of over $120 billion, including management of Australia's largest retail superannuation fund with FUM/A of $82 billion; more than $200 billion of assets under management (AUM); and a large, national team of employed and self-employed financial advisers.[3]

[1] MLC Wealth refers to the MLC Group of Companies, which is all companies offering services within the wealth management division of the NAB Group of Companies. NAB has notified the ASX of its intention to divest the MLC Wealth management business. MLC Limited (the life insurance company) uses the MLC brand under licence from NAB. MLC Limited is part of the Nippon Life Insurance Group and not a part of the NAB Group of Companies.

[2] For this paper, 'MLC' and 'MLC Wealth' have been used interchangeably.

[3] FUM/A and AUM numbers are as at 30 September 2019, retail superannuation fund statistics as at 30 June 2019.

Contents

Executive summary

Australia's retirement income system is showing positive momentum

- Our retirement system is relatively young and international comparisons suggest its foundations are strong.
- The system has been delivering positive outcomes – household savings are increasing, more people are self-funding their retirement, and the reliance on the Age Pension is reducing. The scheduled increase of the Superannuation Guarantee to 12% will provide a further increase in an individual's retirement savings including through the power of compounding returns.
- Expanding from the individual to the collective, the system has also facilitated benefits for the nation, enabling access to capital, reducing reliance on overseas capital and allowing stable sources of investment in domestic infrastructure. This secondary but important outcome should not be ignored or understated.
- Yet there is still under-provision in retirement (a retirement savings 'gap') and this is widening. There are challenges for some Australians including women, and those who have non-standard patterns of permanent employment, for example those in the 'gig' economy.

The world is shifting, and we need to ensure the system is fit-for-purpose and robust enough to support future generations

- It is timely and prudent to analyse the system in the context of what can collectively be described as seismic changes. These include demographic shifts, industry disruption, and changing consumer attitudes such as perceptions of 'retirement' and their resultant needs. Australians are living longer, have increasingly complex needs, and their requirements for retirement are varied, and continuing to evolve.
- These dynamics will test the fairness, efficiency and sustainability of the system over the longer term. A review is in the national interest.

People are worried about retirement and their ability to 'live well' yet action to resolve this worry is lacking

- Our research demonstrates Australians are thinking about retirement differently, in the context of ever-more complex lives and needs. There is no 'one size fits all' approach.
- Our research also shows people continue to be concerned about retirement and their ability to 'live well' over time. This is understandable given it is a significant life event and is categorised by much uncertainty – how long it will last, what needs might arise, and what 'living well' means through various life stages. Yet most people, despite this anxiety, do not actively engage in proactive retirement planning for any extended period. Increased worrying is not necessarily leading to increased action.

Access to help, stability and simplification, combined with greater engagement and integration, will help strengthen the system for the future

- It is a priority to investigate ways to facilitate and incentivise greater participation and engagement in saving for retirement, recognising that individuals, industry participants and Government all have an important role to play.
- Predictability, particularly in a system that requires long-term engagement and planning, is key to confidence. Short-term changes should be minimised, and recent measures to improve retirement outcomes should be implemented and allowed to settle.
- Research also shows there continues to be significant unmet needs around financial advice, with people requiring help to navigate complexity.
- Good quality advice that considers people's circumstances can make a meaningful difference to both financial and non-financial outcomes. In an environment where access to advice is becoming more difficult, a second priority should be to consider the existing models of advice (including Intra-Fund) and continue to evolve them, to facilitate greater access to quality, affordable advice, across the spectrum of needs.

Industry has a key role and important obligation to assist Australians to meet their goals in retirement

- A strong and competitive industry is required to foster innovation to meet the retirement needs of Australians in an increasingly complex environment.
- People are seeking new and improved products and services provided across different mediums which take their varied needs into account. Investment in innovation is important to fulfil this need.
- Industry must work to provide Australians with more certainty and confidence to save, plan for, transition to, and live well in retirement.

Introduction

MLC Wealth welcomes the Retirement Income Review and we strongly support its intention to establish a fact base for all Australians to better understand our three-pillar retirement income system. The existing pillars of the Age Pension, compulsory superannuation and voluntary savings are all integral to ensuring Australians can plan for and live well in their older years, and have choices around work, lifestyle and care.

The system encourages individuals to make provisions during their working lives through superannuation and non-superannuation savings to support them in retirement. This assists not only the individual but relieves pressure on public safety nets such as the Age Pension and healthcare systems.

There is strong merit in continuing to test the system as it matures to ensure it is meeting its intended purpose, can cater for diverse needs, and is set up for success into the future. This is even more important in the context of an ageing population that is living longer, evolving community expectations of retirement, and structural pressures on public finances. There are already signs the system will be significantly tested by these emerging trends, and some gaps and challenges are starting to surface which are affecting equity, efficiency and sustainability.

People are navigating ever-more complex lives and needs and the system will require increased flexibility and support to address this. Changing workforce patterns and demographics should be better understood and catered for, to deliver on the needs and expectations of the community. The retirement system must also incorporate a 'whole of life' view to consider accumulation, draw down, and to appropriately manage for a longer life expectancy including the potential for increased costs and support in later life stages.

The review is timely to assess the system, begin working towards solutions to some of the challenges, and ensure the retirement income system is fit for purpose for current and future generations.

In addition to briefly addressing the themes covered by the consultation questions, our submission shares insights on how Australians are thinking and feeling about retirement, using MLC Wealth behavioural research.

The submission also puts forward some learnings from this research for the Panel to consider, focused on issues of increasing confidence, engagement, and coverage of the system as well as encouraging greater access to advice for individuals as they plan, save and make decisions for their retirement.

MLC Wealth has also partnered with the Financial Services Council (FSC) to commission "Australia's National Saving Updated: 2020 and Beyond" which is referred to briefly where relevant. This report will assist the Panel in its consideration of household savings and adequacy of retirement savings.

MLC Wealth is pleased to provide this submission to the Panel to help shape the future.

Managing changing trends

We acknowledge, as does the Consultation Paper, several important macro trends that will place additional pressure on the system and its overall sustainability in the long-term. These include (but are not limited to):

- An ageing population: with increasingly large cohorts living to extended ages and presenting longevity risks. This poses a greater risk for women who may not have accumulated as much superannuation as their male counterparts due to child rearing related career breaks and part-time work. People are also working longer and retiring later. For the first time in history, an entire generation of parents are entering their 60s while still providing financial and personal support to their children,[4] and who may also be managing the retirement planning arrangements for their own parents. We note the next Intergeneration Report is due to be released in July 2020 which will have important insights into the intensity of these trends.
- The changing nature of work: the nature of work continues to evolve and there are higher rates of casualisation, self-employment and part-time work, with shorter tenures of employment and more jobs over a full working lifetime. In addition, research shows Australians are increasingly engaging in more independent and activity-based work. The changing nature of work is covered in more detail in 'Australia's National Saving Updated: 2020 and Beyond'. People are studying longer (and at multiple stages of their career) and delaying full time work, marriage, children and home purchases until on average five to ten years later than previous generations. As noted by the Panel this may delay the start of the accumulation phase of superannuation, which may mean a greater reliance on the Age Pension.
- Changing patterns of home ownership: a higher proportion of people are retiring with a mortgage.[5] A reasonable expectation is that increasing amounts of Australians will use their accumulated super to extinguish housing debt at retirement, instead of providing retirement income to substitute or supplement the Age Pension.

[4] McCrindle, *'Q and A: The Sandwich Generation'* https://mccrindle.com.au/insights/blogarchive/q-and-a-the-sandwich-generation/

[5] CEPAR (2019), *Housing in an ageing Australia: Nest and nest egg*?

- A changing industry landscape: the industry has been undergoing a significant period of structural, policy and regulatory change, with some private sector participants exiting the industry and the number of superannuation funds in the sector consolidating. The financial advice industry is also in a period of significant transition with some research suggesting a reduction of up to 42% in adviser numbers in the next five years.[6] These changes present both potential opportunities, through greater competition and innovation as a result, and challenges, via a reduction in choice and access as well as increased risk if not managed carefully by industry, government and regulatory bodies.

Context and observations

Notwithstanding its relative infancy, Australia's retirement income system is considered one of the best in the world as measured by Mercer Global Pension Index[7].

In our view, comparisons with other systems internationally show it has strong foundations characterised by:

- A means-tested social safety net (Age Pension) that is higher than many other nations relative to average wages (at around 28%).[8]
- A well-regulated, compulsory superannuation savings system with high historical workforce coverage and preservation of savings until retirement.
- A well-diversified and scaled pool of investible assets with long-term investment focus delivering excellent investment outcomes net of fees since inception. Significantly, Australia's superannuation system has had the highest real rate of investment returns of all OECD countries over the five years to 2018 with a real return of 6.7% per annum. In addition, the overall rate of pension assets growth (including contributions and investment returns) has been the highest in the world over the last 20 years, at 10.2% net growth every year over that period.[9]

Australia's 'pay as you go' and incentivisation approach to self-provision in retirement has a significant advantage over unfunded systems globally. This is because it reduces the future burden on the decreasing proportion of working taxpayers and encourages sustainability as well as inter-generational equity.

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[6] CoreData (2019), *Future of Advice Report*
[7] Mercer (2019), *'Melbourne Mercer Global Pension Index'*, Monash Centre of Financial Studies, Melbourne
[8] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview201415/Indexation
[9] OECD (2019), *'Pension Markets in Focus 2019'*, OECD Publications, Paris

Whilst the system has strong foundations, there are opportunities for improvement. Australia's overall ranking in the Mercer Global Pension Index was a B+, demonstrating a system that has a sound structure, with some good features, but a system that has areas for improvement preventing it from being an A-grade system. For example, whilst Australia ranked relatively well on sustainability (3rd) and integrity (5th), it is much lower on adequacy (11th).

Adequacy

It is difficult to envisage we are anywhere close to over-providing for the future retirement of our population in an adequacy context – the aspirations and living standards of Australians are high and increasing, Australians are living much longer lives and remaining healthier for longer, and both health and aged care costs are expected to increase.

As shown in Australia's National Saving Updated: 2020 and Beyond[10] there is still a retirement saving gap, a national under-provision of retirement, which has increased over recent years and is expected to continue. We believe the system should aspire to enable more people to become self-sufficient in retirement and thereby lessen reliance on current and future generations of taxpayers, the current Superannuation Guarantee level of 9.5% does not achieve this.

A Superannuation Guarantee rate of 12%, over a full working lifetime, will enable the Age Pension, in the future, to be more targeted to those who need government support. It will allow for a higher proportion of Australians to become self-funded through their superannuation savings alone, and wealthier Australians to save additional amounts to support a higher level of retirement income through voluntary superannuation (noting caps in place to restrict benefits) and non-superannuation savings.

Equity

When all Government support is considered we believe the retirement income system and its current settings is largely equitable across both generations and income levels.

We note there are trade-offs in the system between perfect equity across all members and income levels, having a simple system with a set of stable rules, and providing for a range of easy-to-understand incentives members can understand, actively engage with and benefit from over time. A number of significant changes have also been made to improve equity in the system that have not yet matured, including:

- A $25,000 annual concessional contribution cap for higher income earners and annual non-concessional contribution caps for people with balances below certain thresholds.
- An additional 15% contributions tax for people earning more than $250,000 per year.

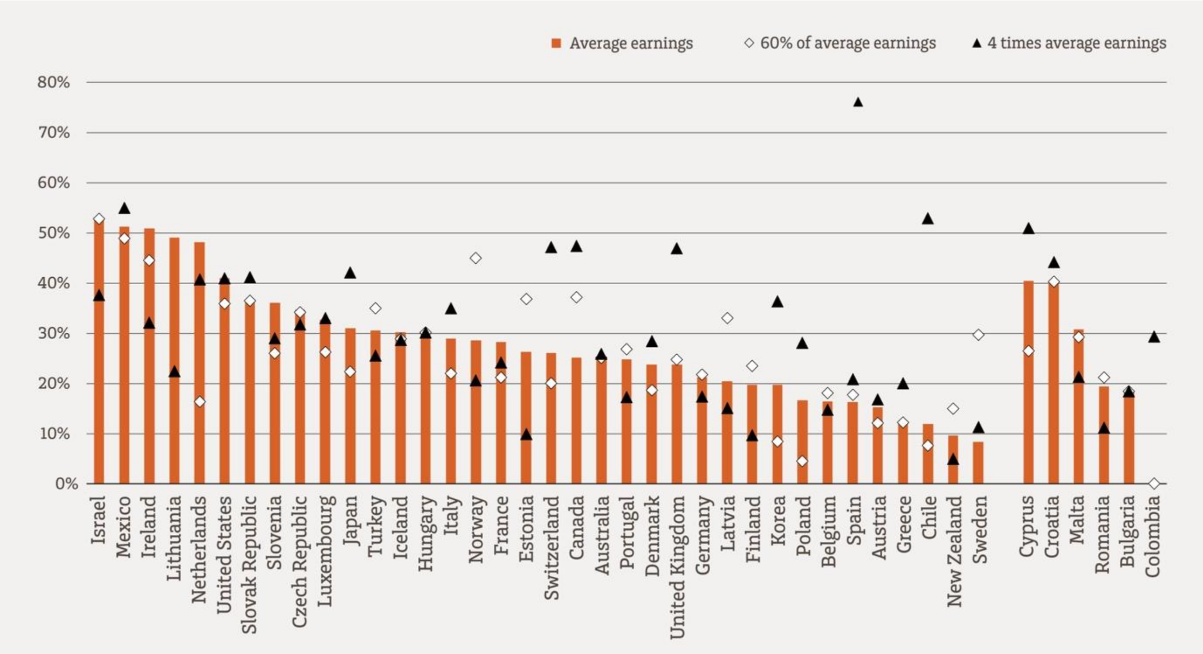
[10] Advisory Street (2020), *Australia's National Saving Updated:2020 and Beyond*

- A $1.6 million transfer balance cap to pensions.
- The Low-Income Superannuation Tax Offset (LISTO) for lower income earners.
- Government superannuation co-contributions.
- Measures in Protecting Your Superannuation (PYS) and Putting Members Interests First (PMIF) legislation to cap fees for smaller balances, encourage consolidation and protect balances from erosion.

In the assessment of the equity of the system, the Panel should consider these reforms which are underway but not yet fully embedded.

Independent analysis by the OECD shows, when compared internationally, Australia is in the middle of the pack for the absolute value of lifetime tax incentives provided. Additionally, the value of tax concessions is approximately the same for somebody on 4 times average earnings as somebody on 0.6 times average earnings.

Graph 1: Overall tax advantage provided to individuals in OECD and selected non-OECD countries, by income level. Present value of taxes saved over a lifetime, as a percentage of the present value of contributions



Source: OECD (2018), *'OECD Pensions Outlook 2018'*, OECD Publications, Paris

Notwithstanding these outcomes, research shows there are some outcomes not equitable across the system and are at risk of becoming more inequitable over time.

The Australia's National Saving Updated:2020 and Beyond[11] report highlights the retirement savings gap is larger for certain cohorts of workers, in particular for women, low income earners and those facing changes in the nature of work, such as the self-employed and those in the gig economy. The report shows:

- Women currently have a smaller pool of superannuation balances compared to men and are forecasted to retire with less.
- The self-employed labour force are also vulnerable in their ability to accrue superannuation as they are not necessarily covered by the Superannuation Guarantee. They would also typically invest much of their equity in their business and may therefore rely on its sale to fund their retirement life.

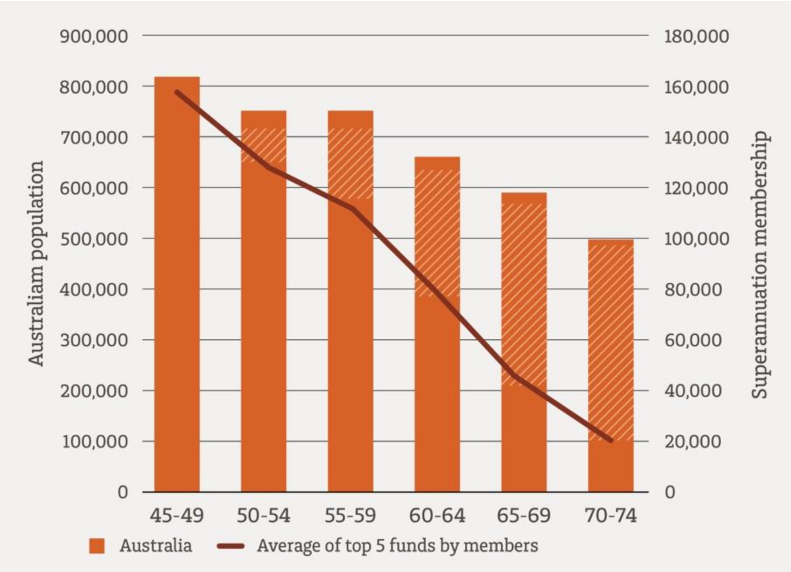
Cohesion

When assessing whether all elements of the retirement income system are working together we recommend the Panel consider what can be done to further incentivise the use of the system to provide retirement incomes to Australians.

Too many Australians are not using the superannuation system for its purpose, that is providing an income in retirement. The following chart based on MLC Wealth's analysis of APRA's 30 June 2019 data illustrates the loss of members to the superannuation system through the retirement years, based on an analysis of member activity of the top five largest superannuation funds. This illustrates most people, some 80%, are lost to the superannuation system by age 70-74, well short of life expectancy. The shaded parts of each column represent the growing proportion of the Australian population lost from the superannuation system in the retirement years following the 45-49 age bracket.

[11] Advisory Street (2020), *Australia's National Saving Updated:2020 and Beyond*

Graph 2: Loss of members from the superannuation system through the retirement years



Source: MLC Wealth Internal Analysis using June 2019 APRA Quarterly Superannuation Performance Statistics, *ABS Australian population statistics as at 31 March 2019*

Drivers of this behaviour include:

- Complexity in the system leading to a lack of awareness of post-retirement products within superannuation that can help meet retirement income needs.
- Changing rules around superannuation leading some people to conclude it is just as easy for them to hold their money in assets outside of the system.
- Limited or no obvious incentive, and some disincentives, for most Australians to use the superannuation system to provide retirement income.

Investment Trends' Retirement Income Report 2019[12] suggests 30% of pre-retirees surveyed intend to withdraw their money from superannuation as a lump sum when they retire, up from 22% in 2018. This lack of conversion of accumulated superannuation assets to retirement income ultimately lowers living standards, increases reliance on the Age Pension, and reduces economic growth benefits where retirees can sustain greater consumption in retirement for longer periods.

[12] Investment Trends (2019), *'October 2019 Retirement Income Report: Industry Analysis'*

Sustainability

On current settings the system is showing clear signs of sustainability, despite the underlying population ageing and a reduced working-age population relative to over 65's over time:

- There is a significant and ongoing decline in the proportion of Australians receiving both a full or part pension, and a corresponding increase in Australians receiving no pension. Modelling released in August 2019,[13] shows more than 50% of eligible Australians are currently in receipt of the full rate of the Age Pension, and this will fall to below 30% by 2038. Overall, 70% of eligible Australians currently receive some Age Pension and this is projected to fall to below 60% by 2038, with the remainder becoming self-funded retirees.
- On average public pension expenditure in OECD countries is projected to increase from 8.8% of GDP in 2015-16 to 9.4% of GDP in 2050. However, Australia's public pension expenditure, which was 4.05% in 2015-2016, is projected to decline slightly to 3.7% of GDP by 2050; which represents a relatively small proportion of total GDP.[14]
- The budgetary cost of financial incentives to promote retirement savings via tax concessions in Australia is currently in the 2-3% of GDP range and this is projected to remain below 3% of GDP through to 2060, after allowance for the legislated increase to the Superannuation Guarantee to 12%.[15]

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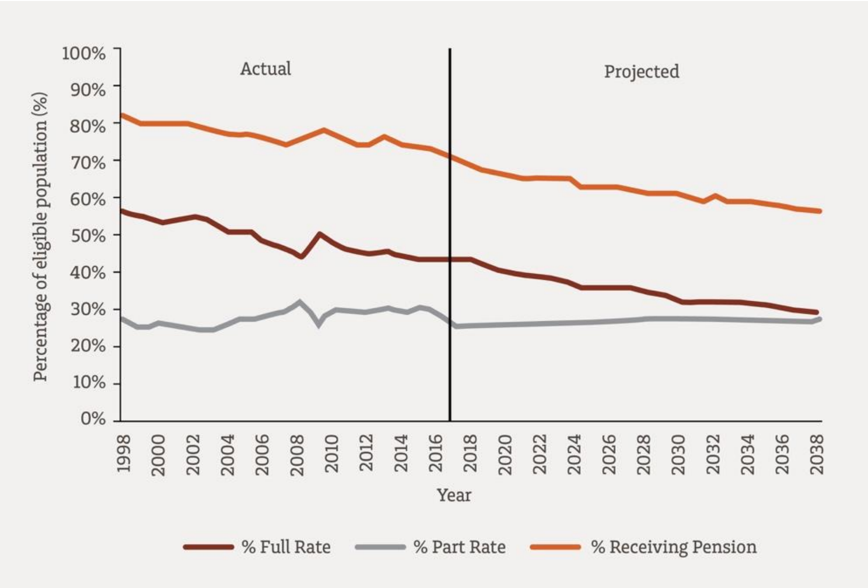
[13] Rice Warner (2019), *'Reviewing Retirement'* https://www.ricewarner.com/reviewing-retirement/

[14] OECD (2019), '*Pensions at a Glance 2019: OECD and G20 Indicators*', OECD Publishing, Paris

[15] OECD (2019), *'OECD Pension Outlook 2018',* OECD Publications, Paris

Graph 3: Proportion of eligible population receiving the Age Pension (historic and projected)



Source: Rice Warner (2019), *'Reviewing Retirement'* [website] ricewarner.com/reviewing-retirement/

Broader benefits

In assessing fiscal sustainability, we encourage the Panel to also consider the broader benefit provided by superannuation savings and the positive impact on financial markets and the Australian economy at a macro level.

Indeed, when the compulsory system was first introduced in 1992 these forecasted benefits were called out by the then Treasurer,[16] who noted *"Over the longer term, our measures will also generate a larger pool of investible funds – Australian funds for investing in Australia. It will diminish our need for foreign borrowings and enhance Australia's capacity to develop industry and create employment*".

Research shows these benefits are eventuating, and the retirement income system has contributed positively to the wider economy, including through periods of potential volatility such as that experienced in the Global Financial Crisis:

- Over the past thirty years the average superannuation balance of Australians has grown sharply, creating a significant pool of assets at $2.9 trillion.[17]

[16] Australia. Treasury, John Dawkins (1992), *'Security in Retirement: Planning for tomorrow today'*

[17] APRA (2019), *'Quarterly Superannuation Performance Statistics: September 2019 (released 26 November 2019')*

- This has enabled access to a considerable pool of capital, and reduced reliance on foreign capital borrowing at higher rates,[18] including through periods of volatility. As noted in the Murray Report "*As the second largest sector of the financial system, superannuation provides a significant and growing source of funding for the economy and long-term capital formation. Superannuation's large pool of relatively stable and unleveraged assets adds depth and liquidity to financial markets and contributes positively to financial system stability*".[19]
- During the Global Financial Crisis, the Australian Superannuation 'pool' of assets played a role in stabilising the national financial system, with the Australian Bureau of Statistics[20] estimating that during this time bank equity raisings of $62 billion were funded mainly from pension funds ($21bn), investment funds ($18bn) and from overseas ($13bn).
- Similarly, the Australian Securities Exchange opined *"The ability of companies to rapidly and flexibly tap public equity capital markets (largely from institutional funding sources) during the works of the GFC, when equity values were sharply reducing, also played an important role, particularly for large companies in some of the most vulnerable sectors. A failure of an equity capital raising by a large Australian bank, for example, could have had some serious systemic consequences".*[21]
- The flow of funds has also diversified household balance sheets, as members of superannuation funds gain exposure to assets they may not have had access to.[22]
- Finally, it has also facilitated significant and long-term investment into national infrastructure,[23] with Australian superannuation funds investing significantly in assets including airports, roads, tunnels, other utilities and social infrastructure such as hospitals and housing. Recent OECD data shows the Australian superannuation system has a higher allocation to infrastructure, equities and property than most other retirement income systems in the world.[24]

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[18] ASFA (2015), *'Superannuation and the economy'*
[19] Commonwealth of Australia, (2014), *Financial Services Inquiry (*Murray*): Final Report*, Canberra
[20] ABS, (2018), Cat. No. 5232, Australian National Accounts, Finance and Wealth
[21] ASX (2010) *'Capital Raising in Australia: Experiences and Lessons from the Global Financial Crisis'*
[22] ASFA (2015) *'Superannuation and the economy'*
[23] APRA (2019), "*Quarterly Superannuation Performance Statistics September 2019 (issued 26 November 2019)*", Table 1d
[24] OECD (2019) *'Pension Markets in Focus 2019'*, OECD Publications, Paris

Australians’ views of retirement

The insights from MLC’s Wealth behavioural research, shared below, may assist the Panel in its consideration of how to ensure the settings of the retirement income system help individuals to achieve better retirement outcomes.

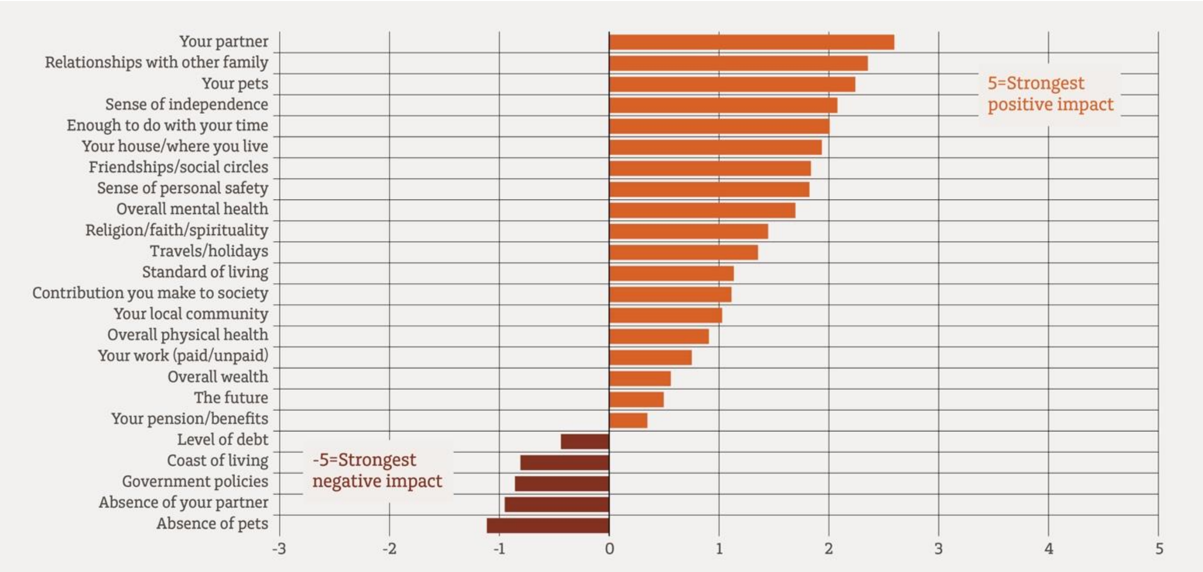
How are Australians approaching retirement?

As people live longer, work for longer, and manage the complexity of children and ageing parents, MLC’s Wealth research shows retirement expectations are fundamentally changing. Today there is substantial variation in family structures; lifestyle goals and objectives; and household consumption patterns and needs. Our research suggests there is no such thing as ‘average’ anymore when considering retirement planning and incomes.

Drivers behind life satisfaction

People are now thinking much more holistically about retirement, with money just one factor of many. The MLC Wealth Insights, Australian Wealth and Retirement Behaviour Survey Q3 2019, (MLC Wealth Insights Survey Q3 2019 – see Appendix A), shows retirees identifying their key drivers of life satisfaction in retirement as: their partners, relationships with other family, pets, their sense of independence, and having enough to do with their time. Mental health is also a factor to consider with key detractors including changes to Government policy, cost of living and debt.

Graph 4: Drivers of life satisfaction in retirement



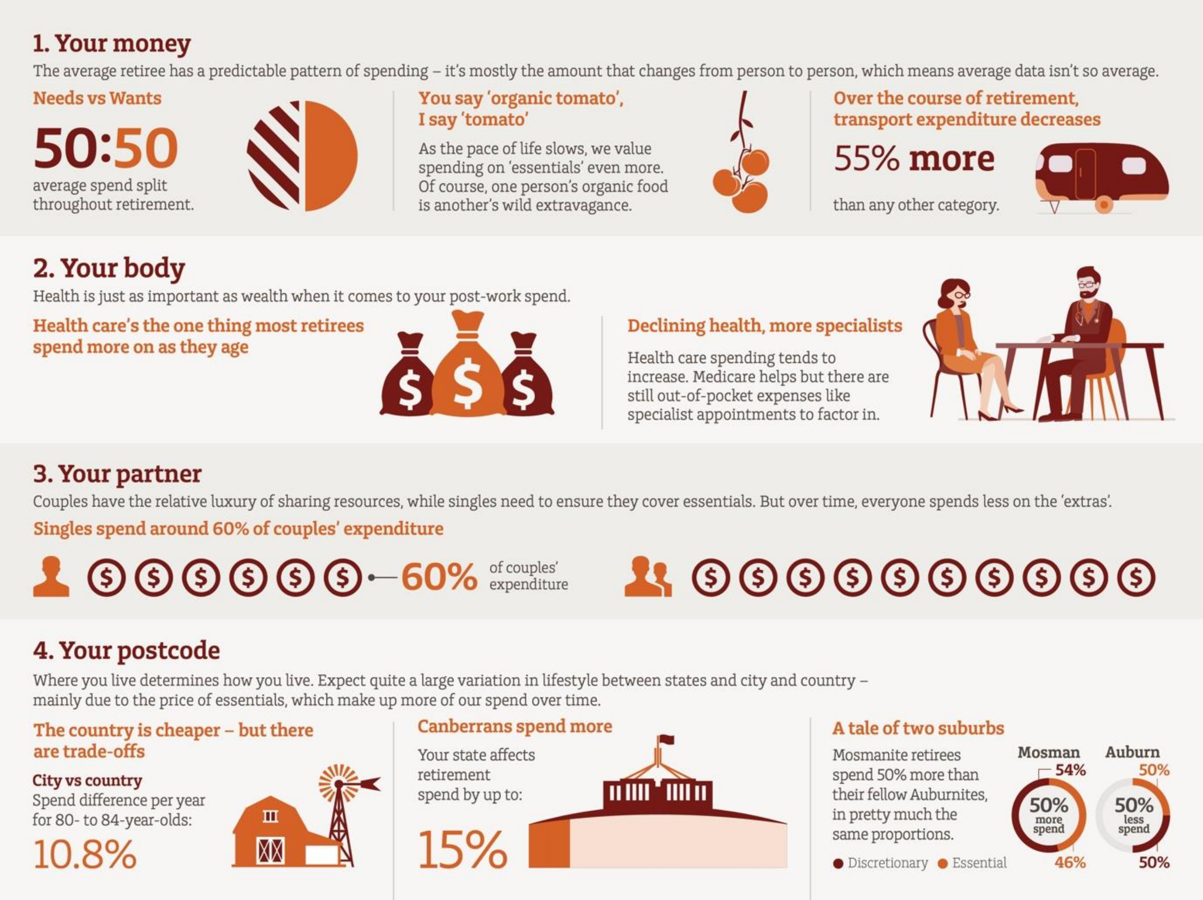
Source: MLC (2019), *'MLC Wealth Insights, Australian Wealth and Retirement Behaviour Survey Q3 2019'*

The Panel asked what measures should be used to assess whether the retirement income system allows Australians to achieve an adequate retirement income? Should the system be measured against whether it delivers a minimum income level in retirement; reflect a proportion of pre-retirement income (and if so, what period of pre-retirement income); or match a certain level of expenses?

While the use of averages has been commonly used for pre-retirement planning, the MLC 20:20 Retirement Report '(MLC 20:20 Report' – see Appendix B), prepared by Milliman after reviewing the spending patterns and trends of Australian retirees over the past 20 years, concludes averages do not adequately capture the diversity of lifestyles Australians live and hope to achieve once they finally transition to retirement.

According to the MLC 20:20 Report the four biggest things that can make a difference to an individual's retirement are money, your body or health, your household composition, and where you live. Each of these factors may result in significantly different outcomes to what is needed in retirement.

Image 1: Four things that can make the biggest difference to your retirement



Source: MLC (2019), *'MLC 20:20 Retirement Report'*

Consumption needs and expenditure in retirement

The MLC 20:20 Report also shows consumption needs and expenditure in retirement will vary between households influenced by location, health, affluence and household composition. Planning for retirement based on an average may not adequately capture these factors and cannot capture an individual's personal goals or objectives.

Retirement expenditure can be broken down into essential needs (housing, clothing, food) versus needs that may be more discretionary in nature (travel, and other leisure activities). A key insight from the MLC 20:20 Report is that while the proportion of expenditure between essential and discretionary items throughout the course of retirement remains roughly split, as retirees age and/or their health declines the level of discretionary spending decreases with essential spending remaining constant. A person's individual choices will obviously influence what is classed as essential versus discretionary as will their pre-retirement lifestyle and income.

There is significant variation between expenditure needed when living in the country versus living in the city, with cities being more expensive. The data also indicates expenditure varies significantly between city locations, for example expenditure of those living in Canberra can be as much as 15% higher than the Australian average.

As the population ages, health care and aged care have become more important with expenditure on these sectors increasing significantly from age 65. The costs of both aged and health care are also predicted to grow. Not surprisingly, health is the biggest concern for Australians over age 65 when thinking about retirement.[25]

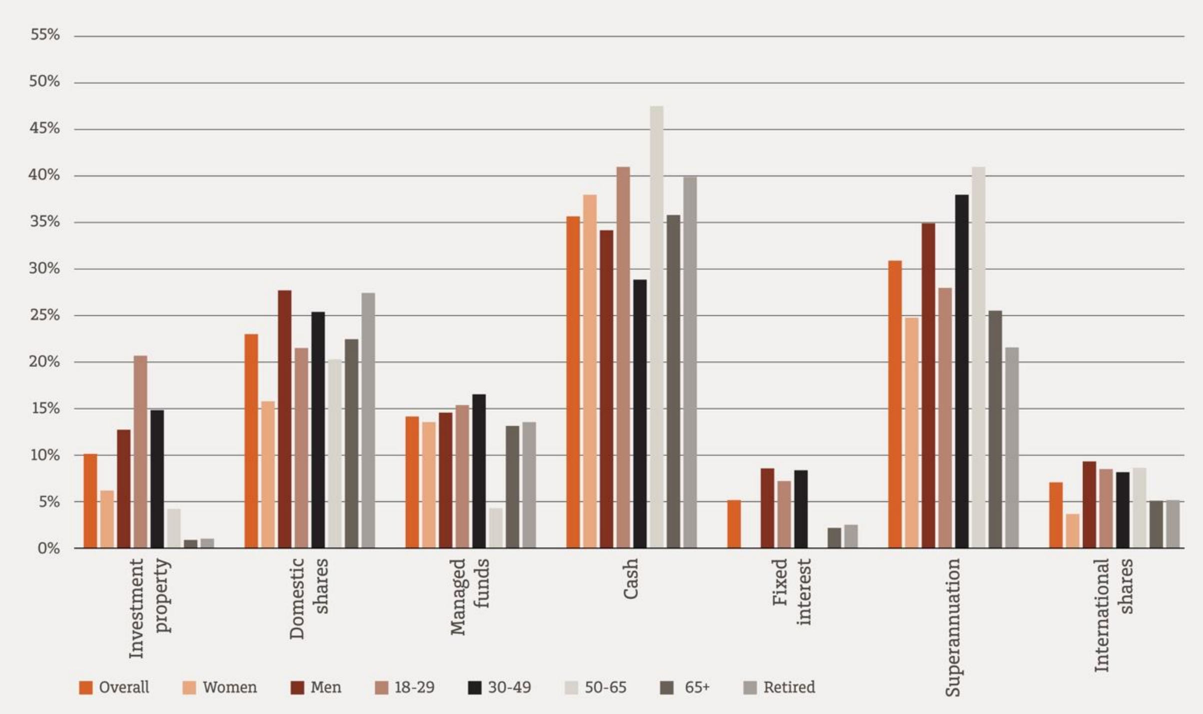
There are also differences between expenditure of a couple in retirement versus a single. As a general rule singles spend approximately 60% of couples' expenditure.

The assets and wealth people are retiring with has also changed over the decades with people retiring with assets inside and outside of super.

The MLC Wealth Insights Survey Q3 2019 shows cash remains the preferred vehicle for those investing outside of superannuation. On balance, men invested more than women in all asset classes except for cash (38% women vs. 34% men). Men were also noticeably more active investing in domestic shares (28% vs. 16%), investment property (13% vs. 6%), super (35% vs. 25%) and fixed interest (9% vs. 0%).

[25] MLC (2019), *'MLC Wealth Insights, Australian Wealth and Retirement Behaviour Survey Q3 2019'*

Graph 5: Areas where you invested additional money: last 3 months



Source: MLC (2019), *'MLC Wealth Insights, Australian Wealth and Retirement Behaviour Survey Q3 2019'*

How are Australians feeling about health and wealth in retirement?

Our research shows despite having a strong system helping Australians to save more, people are still worried about retirement, and their ability to 'live well'.

The 'MLC Household Wealth Anxiety Index'[26] is based on Australians' concerns about their households' overall wealth position in relation to their home, investment property, other investments, super, pensions and other benefits, savings and deposits and inheritances.

This index shows that on average, Australians remain concerned about their overall household wealth. Significantly, the highest levels of anxiety among households is tied to the three pillars of the retirement income system – the level of savings/deposits (voluntary savings), the level of pensions/benefits (Age Pension) and the value of superannuation (compulsory system). This is over and above other financial assets like the home, investment properties and inheritances.

[26] MLC (2019), *'MLC Wealth Insights, Australian Wealth and Retirement Behaviour Survey Q3 2019'*

It is particularly the case for women, who had noticeably higher anxiety than men over the value of their superannuation (56.9 vs. 52.3 points), their level of savings and deposits (61.2 vs. 56.7 points) and level of pensions and other benefits (58.5 vs. 54.2 points). The heightened anxiety around the level of pensions and other benefits (63.7 points) and the value of superannuation (62.4 points) was noticeably more prevalent in the 50-65 age group.

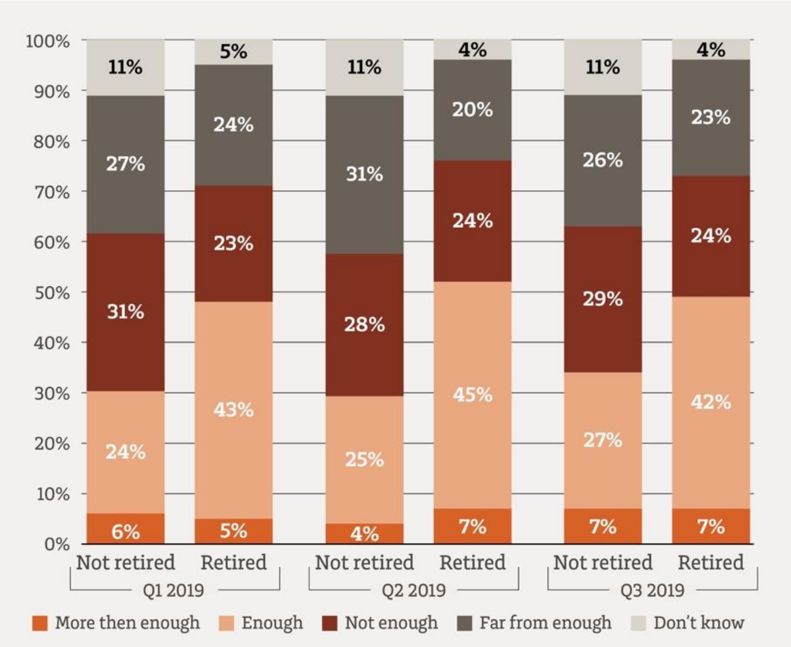
To understand the drivers of this, those with high levels of anxiety were asked what impacted their current wealth position more. The biggest factor was cost of living, with more women (25%) impacted by cost of living than men (21%).

Insufficient savings (10%) had the next biggest impact, followed by pensions or other benefits that were too low (9%). The state of the Australian economy (7%) and low interest rates (7%) were also important.

Our research shows that whilst households are becoming wealthier, Australians continue to be worried they won't have enough wealth to live their desired lifestyle in retirement.

55% of Australians who have not yet retired don't think they'll have enough wealth to live to their desired standard of living for the rest of their lives when they do retire - and women more so than men. Around 6 in 10 (59%) women are not expecting to have enough, compared to around 5 in 10 men (51%). Moreover, 30% of women expect to have 'far from enough' compared to just 22% of men.

Graph 6: Retirement self-sufficiency



Source: MLC (2019), *'MLC Wealth Insights, Australian Wealth and Retirement Behaviour Survey Q3 2019'*

This is consistent with the NAB Australian Wellbeing Survey Q3 2019[27] that shows not having enough money in retirement is still the biggest financial concern for the population.

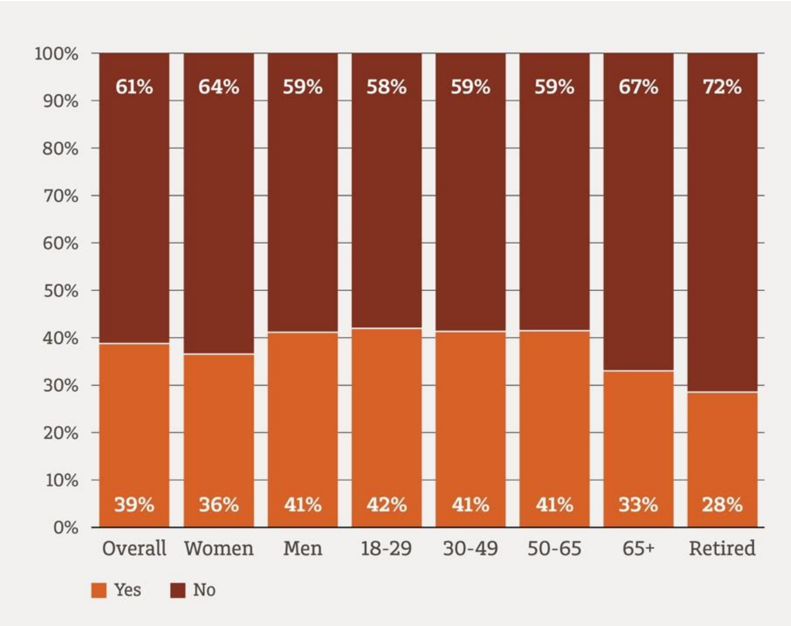
How Australians are engaging with the retirement income system

Despite this concern, the MLC Wealth Insights Survey also suggests most non-retirees aren't acting to address their lack of savings for retirement.

When Australians were asked if they were currently doing anything to improve their financial situation, 61% of the population were not. And although 1 in 2 retired Australians told us they didn't have enough wealth to live their desired lifestyle, only 28% were actively doing anything about it.[28]

[27] NAB (2019), *'NAB Australia Wellbeing Survey Q3 2019'*
[28] MLC (2019), *'MLC Wealth Insights, Australian Wealth and Retirement Behaviour Survey Q3 2019'*

Graph 7: Are you doing anything more to improve your financial situation in retirement?



Source: MLC (2019), *'MLC Wealth Insights, Australian Wealth and Retirement Behaviour Survey Q3 2019'*

Given the high levels of concern about whether their retirement savings are enough, the lack of action to address this is a worrying indicator for engagement with the retirement income system. This is particularly important as the MLC Wealth Insights Survey also indicates very few non-retired homeowners (6%) or retirees (16%) plan to use their homes to fund retirement.[29] These results are in line with other MLC Wealth research which found most Australians don't want to move or sell when they retire and most retirees haven't moved.[30] This suggests most Australians like where they live and their homes are an important part of that. It also means they may need to rely on other income and savings in retirement.

[29] MLC (2019), *'MLC Wealth Insights, Australian Wealth and Retirement Behaviour Survey Q3 2019'*

[30] MLC (2017), 'MLC Insights, *Australian Wealth and Retirement Behaviour Survey Q4 2017'*

Assisting Australians to achieve better retirement outcomes

The value of advice

Whilst the retirement income system should be simple, our research shows people's lives are not, and indeed are becoming ever more complex. Individual attitudes to retirement are shifting. Household structures are changing with the noticeable rise of the multi-generational household. Australians must consider a wide array of needs, wants and preferences (and significant uncertainty) when planning for their retirement. As the research shows, this is a cause of significant concern for the population, across all generations.

Good quality advice can help manage through this complexity and make a real difference to people's anxiety, and their financial situation overall.

This is backed by recent CoreData research[31] undertaken in partnership with MLC Wealth which assessed a number of typical scenarios to investigate the degree to which advice could have an impact on Australians with complex needs leading up to retirement.

This indicated that across the scenarios, advice had a positive impact on net financial assets. While the amount of the increase depended on the client circumstances, the advice provided, and the length of time between the provision of advice, retirement and life expectancy; in the common client scenarios advice increased net financial assets by over 20%; while in the more complex client scenarios, involving the sale of a business, advice delivered an uplift of over 35%.

In addition, the CoreData work references previous research that reinforced the positive difference that advice can make to people's non-financial outcomes, with clear emotional and behavioural benefits to accessing advice.

Whilst advised clients are typically wealthier, able to spend more, and are less likely to run out of money to fund their retirement, advice also reduces anxiety and promotes feelings of wellness.

This found that for advised clients:

- 79.4% are instilled with peace of mind:
- 81.5% felt financial advice has left them more confident about making decisions.

[31] Internal analysis undertaken by CoreData for MLC Wealth

Advised clients typically have better financial structures and behaviours in place to better deal with life's unexpected events. They feel more prepared for retirement, are more equipped to deal with sudden, one-off costs and generally save more money.

According to the 2016 MLC Australia Today Report[32] only 54% of the general population believe their superannuation will be enough to see them through their post-work lives. However, those with financial advisers (76%) and those with accountants (63%) were more confident, being much more likely to agree they would rely on their superannuation in retirement.

People seeking access to advice

Decisions concerning retirement are complex, and must factor in a whole range of personal preferences, needs and wants, and risk trade-offs. As a result, most individuals find self-managing their retirement savings effectively difficult. As Australians approach retirement, the financial decisions they need to make are substantial and life-changing.

As Australia's population ages, the necessity for access to affordable advice services will only increase:

- 2019 research from Investment Trends[33] shows a growing proportion of adult Australians have unmet advice needs (54% or 10.4 million people, up from 51% in 2018), particularly in areas pertaining to retirement planning and investment strategies.
- This is supported by a 2019 Australian Securities and Investment Commission (ASIC) report,[34] that also records 41% of Australians intending to seek financial advice in the future.
- Investment Trends estimates that there will be 2.1m Australians that intend to seek out a financial adviser in the next 2 years.[35]
- And whilst financial advisers continue to be Australian's preferred method of advice (54%), Australians are increasingly seeking other forms of advice, education and support services.[36] This includes an increased ask of their superannuation providers, as noted further in this section.

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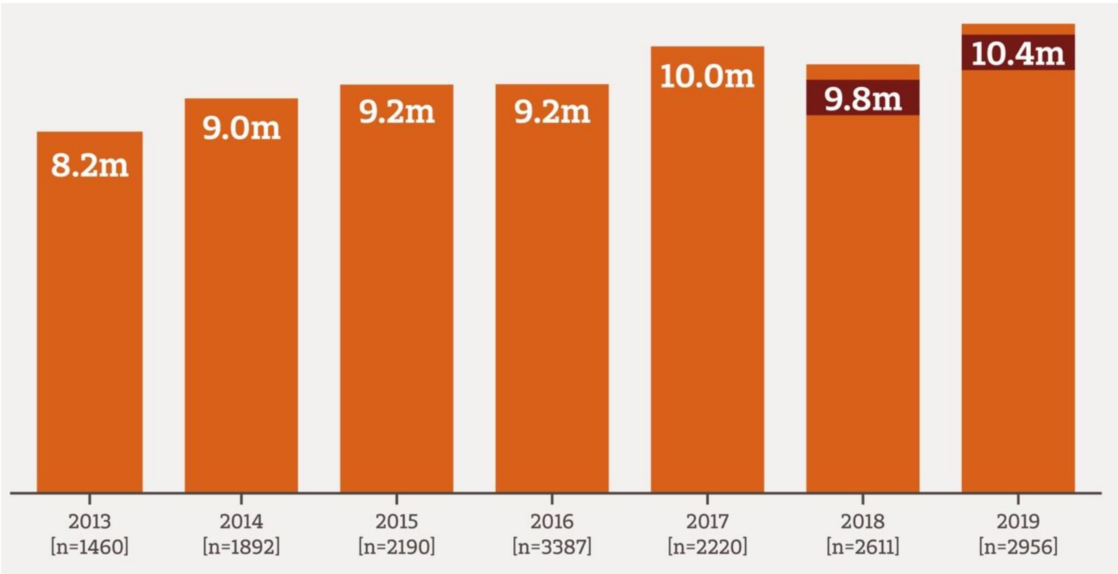
32 MLC (2016), *'MLC Australia today – Part 3: A look at lifestyle, financial security and retirement in Australia'*
33 Investment Trends (2019), *'June 2019 Financial Advice Report Industry Analysis'*
34 ASIC (2019), *'Report 627 Financial Advice: What consumers really think'*
35 Investment Trends (2019), *'October 2019 Retirement Income Report Industry Analysis'*
36 Investment Trends (2019), *'June 2019 Financial Advice Report Industry Analysis'*

Graph 8: Number of Australian adults who have unmet advice needs



Source: Investment Trends (2019), *'June 2019 Financial Advice Report Industry Analysis'*

Barriers to Australians accessing advice

We know the right advice, at the right time can make a meaningful difference to individuals achieving their desired outcomes. And yet, despite the benefits of financial advice to retirement outcomes, Australians continue to face barriers to seeking advice.

Research from Investment Trends indicates these barriers are increasing, with Australians facing a wider range of hurdles to seeking advice.[37]

Significant challenges to accessing advice include:

- Price: There is a range of research indicating cost is a barrier to advice.
  - Investment Trends reports a growing disparity between the price people are willing to pay for advice and the actual cost of delivering advice, recognising that costs have gone up to incorporate increasing compliance and education requirements.[38]

[37] Investment Trends (2019), *'June 2019 Financial Advice Report Industry Analysis'*
[38] Investment Trends (2019), *June 2019 Financial Advice Report Industry Analysis*

    - The ASIC Report 627 – Financial advice: What consumers really think (August 2019) also showed the cost of financial advice as the biggest barrier.[39] Further, this Report showed that only 1% of survey participants had used digital advice, but 19% of participants would be open to digital advice once it was explained to them. This suggests that there is therefore a strong consumer appetite for limited (low cost) and episodic advice across all life stages with different delivery options of online, phone and face to face.
- Reduction in adviser numbers: Access to face-to-face advice will become more challenged as more advisers leave the industry. CoreData estimates up to 42% of existing financial advisers will leave the industry in the next five years due to combinations of increased regulatory burden, enhanced standards and increased cost.
- Reputation: The reputation of the advice sector has been impacted over recent years by poor practice and widespread reporting of case studies revealing inappropriate outcomes for clients. In addition to the significant changes underway throughout the advice industry to lift professional standards, it will take time and investment to restore the reputation of professional financial advice in this country.

Facilitating greater access to advice

MLC Wealth believes the provision of quality advice plays a critical role in managing key risks and supporting improved retirement outcomes for Australians. Efforts to solidify and expand advice models to make advice easier to access, to be understood and available for as many Australians as possible should be encouraged.

There are a range of targeted initiatives the Panel may investigate to increase the availability of advice to Australians.

Currently the practical application of advice by super funds is unclear. By way of simple example, a superannuation fund client may call their superannuation fund for phone-based help on retirement. That superannuation fund could provide limited intra-fund advice which recommends the account-based pension of that fund, but in the process that fund:

- has not been able to advise in any way on their non-superannuation assets, including home ownership, as these assets do not fall within the scope of Intra-Fund advice (despite these potentially forming a substantial part of retirement income or the member's retirement income approach for many people);

[39] ASIC (2019), '*Report 627*: *Financial advice: What consumers really think*'

- cannot consider or recommend another provider's pension product under this type of advice as it would then fall outside the bounds of Intra-Fund advice; and
- has not been able to provide advice on whether the person is planning on retiring as part of a couple, or the circumstances of the member and their spouse as a whole.

Research shows more Australians are looking for support from their Superannuation funds in the provision of advice, and this support is on more complex matters (e.g. aged care and health care) and relates to assets both inside and outside of super. Association of Superannuation Funds of Australia (ASFA) found that close to half of respondents considered their superannuation fund should play a greater role in helping organise and pay for aged care. There is considerable interest in financial advice and educational tools and materials on aged care if offered by superannuation funds, with 60% of survey respondents very likely to take these up.[40]

Similarly, the Investment Trends Advice Report 2019[41] found almost half (44%) of Australians aged over 40 without an estate plan want their super fund to assist them with estate planning. A perceived lack of expertise and desire to navigate the process independently are cited as barriers to seeking out super funds for this advice. In addition, 50% of those who are not currently in aged care would like aged care information or assistance from their super fund.

As more Australians are looking for their superannuation funds to play a greater role in providing advice the Panel should consider initiatives that enable complying superannuation funds to broaden the scope of the current advice they can deliver to members ('Intra-Fund' advice) as a solution to addressing some of the unmet demand for advice at different costs and across a range of channels.

This would include:

- **Requesting ASIC provide greater guidance and clarity** to ensure superannuation funds can provide safe and compliant Intra-Fund advice in the client's best interest. This could be done by:
    a. Better defining the scope of Intra-Fund advice with a clear distinction between general advice and comprehensive personal advice, noting that whilst there are a range of examples of Scaled Advice in RG 244, the scenarios are practically difficult to emulate as the examples are based on clients staying within a defined 'script'.

[40] ASFA (2015), *'Discussion Paper: the future interaction of superannuation with aged care and health care'*
[41] Investment Trends (2019), *'June 2019 Financial Advice Report Industry Analysis'*

b. Providing more ‘compliant’ and ‘non-compliant’ examples of Intra-Fund Advice and Scaled Personal Advice via phone and digital channels. This would also include the level of client enquiries when providing limited advice and appropriate approaches to triaging clients through different advice offers. Funds with a more expansive interpretation of advice to members would assist more individuals but run the risk of providing inappropriate advice and potentially operating outside the permitted boundaries of the scaled Intra-Fund advice model. By contrast a more conservative approach to triage would ensure lower risks of inappropriate advice but lead to large numbers of members being ‘triaged out’ of the process without gaining access to limited advice and therefore resulting in a negative client experience and/or unmet advice needs.

c. Providing clarity on the application of the ‘Best Interest Duty’ as set out in Section 961 of the Corporation Act 2001 and how it applies to various types of personal advice, including all scaled and Intra-Fund offerings. As per the above, this would include sufficiently detailed examples relating to the provision of Intra-Fund Advice where the Best Interest Duty has been met and not met.

- Enabling superannuation funds to **expand the scope of the advice** they can provide under the existing Intra-Fund model, which also means they can deliver cheaper advice, and therefore make it more accessible. This can be achieved by:

  a. Allowing for both the provision of advice to the member’s spouse and limited advice in relation to non-superannuation assets. Both factors drive potential Age Pension entitlements and significant elements of the overall retirement income strategy for most people. Noting however the Financial Adviser Standards and Ethics Authority (FASEA) changes may impact the ability to deliver Intra-Fund advice under current legislation with the current code of ethics requiring advisers to consider the circumstances of a client’s partner and wider family in providing advice, and;

  b. Expressly allowing for the provision of advice in relation to Retirement Income Streams.

More guidance should also be provided to enable existing ‘face-to-face’ advisers to provide limited scope personal advice, which can facilitate affordable and more accessible advice to the population and increase competition in the market.

To further improve access to advice the Panel should consider whether the different types of advice offers available under the existing law (including basic information, general advice, limited/scaled intra-fund advice, and comprehensive advice) are servicing the needs of Australians today. Specifically, the Panel should consider if the existing law adequately considers the evolving mediums in which advice is now being provided by different market participants including, face to face, phone, digital and hybrid models.

Observations and learnings

Our research shows people continue to be concerned about retirement, and more specifically, their ability to 'live well' over time.

We believe the lack of engagement is exacerbated by anxiety and increasing complexity, and as a result people are opting not to engage rather than proactively seeking help or support.

We have included below four key observations to assist the Panel with their analysis and areas of focus.

1. More can be done to improve engagement, access and coverage

Knowledge and understanding of our retirement income system makes a significant difference to Australians' level of confidence in, and engagement with, the system and their ability to self-fund retirement.

Engagement is key and Australia's ageing population creates a clear imperative for all parties to increase education efforts and improve understanding to assist in managing longevity risk, as well as increased aged care and health care expenditure.

We believe employers, industry associations, trustees, wealth organisations, advisers, regulators and Government all have a role to play in assisting people to better understand and prepare for retirement, and to be more engaged with the retirement income system in the savings and accumulations phases of their working lives.

With diverse personal circumstances playing a key role in planning and saving for retirement, the use of average accumulation targets should be seen only as a starting point rather than an accurate guide for retirement savings needs. Any use of averages should be supplemented by mechanisms including education, literacy, and advice, that recognise individual circumstances and help people navigate the complexity of the retirement income system to work towards an outcome more reflective of their lifestyle.

Superannuation is, and should remain, a key pillar of Australia's retirement income system. However, there are gaps which are causing disparities in superannuation coverage in some sections of the workforce. This is impacting retirement outcomes which in turn further decreases engagement with the system. Opportunities to increase access and coverage for more Australians could include:

- Clarifying the scope of the contractor/employee distinction for the purposes of the Superannuation Guarantee legislation to ensure the super coverage is operating as intended.
- Reducing or abolishing the $450 per month income threshold for entitlement to the Superannuation Guarantee. This has become outdated with many enhancements to the system in recent decades including: Superstream, Single Touch Payroll, and measures in Protecting Your Super and Putting Members Interests First legislation to encourage account consolidation and protect erosion of small superannuation account balances from fees and premiums. Low income earners holding multiple, casual jobs currently miss out on superannuation even if their combined income is above $450 a month. ASFA estimated in July 2017 that there were 220,000 Australian women and 145,000 Australian men missing out on around $125 million of Superannuation Guarantee contributions each year due to the $450 threshold.[42] This primarily includes more disadvantaged workers and sectors covering labourers, retail, aged care, child care community service and clerical roles.
- The Panel should also consider measures to promote higher labour force participation at all ages, and incentives for retaining mature aged workers who are willing and able to remain in the workforce for longer.

2. Confidence can come from simplification and stability

The Consultation Paper raises the complexity of the system and we encourage the Panel to consider the impact on public confidence of the number of changes, both major and incremental, to policy settings since the introduction of compulsory superannuation.

Decades of substantial policy and rule changes have significantly eroded and undermined the confidence of Australians and impacted engagement in the system overall. So, whilst we know the foundations of the system are robust, the MLC Wealth Insights Q3 2019 referenced earlier shows changes to Government policies are a key detractor from wellness in retirement.

[42] ASFA (2017), *'Who's missing out on Super? Wage threshold creates an underclass of biggest losers'* https://www.superannuation.asn.au/media/media-releases/2017/media-release-30-july-2017

Each Federal Budget since the system was introduced has included changes to superannuation, and there have been 26 reviews in ten years.[43] The industry is also currently managing a comprehensive pipeline of reform including the Government's response to the Banking, Superannuation and Financial Services Royal Commission, the Productivity Commission (super), Protecting Your Super (PYS), Putting Members' Interests First (PMIF), Design and Distribution Obligations and Product Intervention Powers (DDO/PIP), Improving Accountability and Member Outcomes in Super, Australian Prudential Regulation Authority (APRA) data transformation, and this Retirement Income Review.

We support measures to make the system simpler, though it is essential any further changes are introduced in a way that allows Australians enough time to plan for and adjust to these changes, and recently implemented measures should be allowed to be embedded.

For many Australians the complexity of the retirement income system and the lack of cohesion between the pillars, as well as the health and aged care systems, has resulted in disengagement with superannuation as a savings vehicle for their retirement.

We believe further simplification and integration is required, albeit done in a gradual and non-retrospective way.

The Panel could consider the following with the aim of simplifying the system:

- Overall lifetime limit for superannuation contributions rather than a complex system of annual caps.
- Removal or amendment to 'work test' for 65-74-year-olds to better reflect type and patterns of work of older Australians to enable further contributions.
- Remove the difference in tax treatment of superannuation versus non-superannuation assets on the death of a member. At present there is an incentive for people to remove assets from the superannuation system prior to their death that would otherwise provide retirement income right up until the date of their death, where they intend to leave their benefit to non-financial dependents such as adult children.

[43] Professional Planner (2019), *'ASFA boss defends super against contagious false narrative'* https://www.professionalplanner.com.au/2019/11/asfa-boss-defends-super-against-contagious-false-narrative/

- Simplify eligibility requirements for both the Government Age Pension and the Commonwealth Seniors Health Card to encourage self-funding and better enable superannuation to achieve its purpose of providing retirement income. We note the introduction of income deeming for superannuation Account-Based Pensions in 2015 along with significantly higher tax-free thresholds has meant there is now limited advantage for many people to use the superannuation system for retirement income.

3. Broadening access to advice can make a meaningful impact to outcomes

Our research shows Australians who can access advice not only feel more prepared, but are more prepared for retirement.

Retirement is a cause of significant concern for the population, across all generations and good quality advice can help make a meaningful difference to people's anxiety, and their financial situation overall.

Advice is an important element of a strong and sustainable retirement system, and integral to improving retirement outcomes for Australians.

Advice must become more accessible and affordable. We strongly encourage the introduction of measures to expand advice models so they are more easily understood, easier to access, and available for as many Australians as possible. The Panel should consider if the existing law adequately considers the evolving mediums in which advice is now being provided by different market participants including, face to face, phone, digital and hybrid models.

As more Australians are looking for their superannuation funds to play a greater role in providing advice, the Panel should consider initiatives that enable complying superannuation funds to broaden the scope of the current advice they can deliver to members ('Intra-Fund' Advice).

4. Industry has a key role and important obligation to assist Australians to meet their goals in retirement

A strong and competitive industry is required to ensure we are meeting the needs of Australians who are living in a rapidly changing world.

With the broad range of issues surrounding retirement, and the complexities and lack of cohesion between pillars and the aged and health care systems, it is important we help Australians plan for, transition to, and live well in retirement.

Fostering innovation within the retirement system, with an emphasis on service rather than product solutions, is integral to improving the experience, engagement and ultimately retirement outcomes for Australians.

It is incumbent on the industry to invest in innovation and member focused solutions. The industry and Government should also be providing Australians with more certainty and confidence to save for their retirement, and when they retire the confidence to spend their savings knowing they will be able to provide for their health and aged care needs.

Conclusion

We have a relatively young retirement income system with solid foundations on which to build a stronger and more sustainable system able to remain fit for purpose for future generations.

We acknowledge the system has been delivering positive outcomes at the individual and national levels to an extent, though there is more to be done to truly leverage the power of the system as a vehicle for successfully supporting Australians in retirement.

As the Panel gathers facts on the known challenges of adequacy, sustainability, equity and cohesion across the retirement, aged and health care systems, we strongly encourage this is done taking a holistic view of the system.

Through research and information gathering we have highlighted the need for considerable opportunities in the areas of education, engagement, access and system coverage to solve for some of the complex situations we are facing.

We have observed confidence in the system can be increased through simplification, better cohesion and stability to provide Australians with clarity on the path to the type of retirement they desire, as well as knowledge and comfort in the support available to them across interacting systems.

We firmly believe finding new avenues to provide quality advice across a broad spectrum of needs can make a meaningful impact to retirement outcomes. Improving accessibility and affordability of advice will have positive impacts for individuals and the industry, and importantly reduce the burden on public safety nets.

As a leading figure in wealth management, MLC Wealth recognises the important role of industry participants in taking a customer focused approach to compete, think progressively, innovate and assist Australians to meet their varied goals in retirement.

We look forward to working with Government, Industry, Employers, Associations. and Regulators to continue the dialogue and ensure we build a more integrated, agile and flexible system.

Our shared aim should be to improve our retirement income system so we can enable Australians to better plan for and live well in retirement. That is certainly a focus MLC Wealth is committed to.

Registered office
Ground Floor, MLC Building
105-153 Miller Street
North Sydney NSW 2060

mlc.com.au

Appendix A

MLC WEALTH INSIGHTS - Q3 2019

AUSTRALIAN WEALTH & RETIREMENT BEHAVIOUR SURVEY A

MLC's Wealth & Retirement Behaviour Survey provides unique insights into the relationships between household wealth, retirement anxiety, and life satisfaction. It explores concerns about our wealth and desired lifestyle in retirement, and the actions we're taking to achieve our wealth goals. The report highlights clearly that there's much more to retirement than wealth, but also that our financial concerns can shape our view of the future.

The sense of caution prevailing among Australian investors endured in Q3 as the domestic economy continued to slow, income growth remained weak and interest rates fell. Consequently, very few Australians (13%) said they increased their level of investments in the past 3 months, while almost 1 in 5 scaled back their investments.

Looking ahead, the domestic economy is expected to remain subdued into 2020, and we're likely to see interest rates move lower. In addition, the global economic environment will remain challenging. These factors are likely to continue weighing on investor sentiment, and probably explains why investment intentions for the next 12 months remain weak - fewer than 1 in 5 Australians expect to increase their level of investments in the next 12 months, and a further 1 in 5 expect them to fall.

The MLC Household Wealth Anxiety Index also increased in Q3, with Australians still most anxious about their level of savings, pensions and superannuation (particularly women). For the most highly anxious, these concerns were mainly driven by high cost of living pressures.

Australians continue to derive the greatest 'sense' of financial security from their homes, and the uptick in local housing market activity in recent months and improving outlook for house prices appears to have supported a higher sense of security tied to property - both our homes and investment properties in Q3.

But there are longer-term fears and challenges. Almost 6 in 10 Australians who have not yet retired don't think they'll have enough wealth to live to their desired standard of living for the rest of their lives when they do retire - and women more so than men. These concerns may not be far off the mark, with almost 1 in 2 Australians already in retirement also indicating they don't expect to be able to afford to live the life they wanted in retirement because of a lack of wealth.

Despite these shortcomings, 6 in 10 Australians of non-retirees aren't doing anything about it, and even more surprising over 7 in 10 retirees aren't doing anything to improve their situation either. Not having enough spare money, income or funds were main things stopping most people from acting. Those that are trying, are mostly making additional savings, paying off their debts faster and contributing more to their super.

But maybe we're worrying too much. Non-retirees expect to have $744,000 (net of their homes) in savings and investments at retirement but think they'll need $1.04 million, leaving a shortfall of just under $300,000. When retirees were asked how much they actually needed (net of their homes) they said $772,000. So, the average Australian could be over-estimating how much they may need by around $270,000.

Many Australians (6 in 10) also have equity tied up in their homes ($631,000 on average), which could further help alleviate any savings shortfall in retirement. If they unlock this equity, they would be $335,000 ahead of their projected retirement shortfall - but men ($459,000) much better off than women ($204,000). The challenge however is very few non-retired homeowners (6%) or retirees (16%) plan to use their homes to fund retirement.

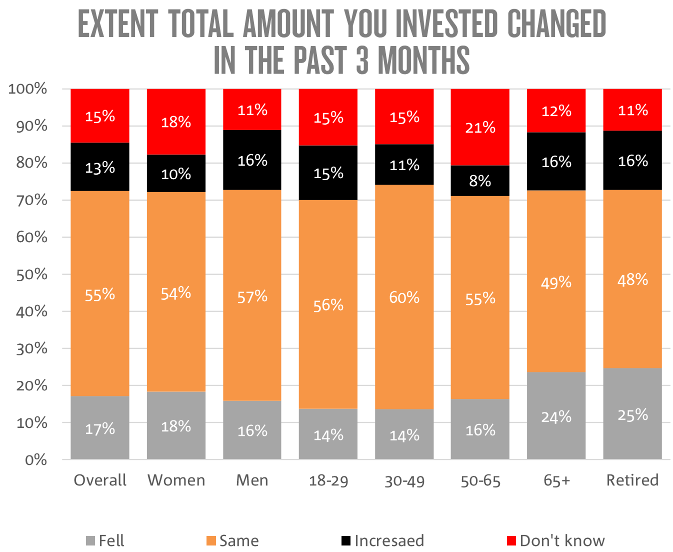
MLC's Life in Retirement Index - derived from how anxious Australians are about their life in retirement (actual if retired and expected if not yet retired) and their life satisfaction - improved in Q3, led by the over 65s. However, our greatest fears about life in retirement continue to stem from the high cost of living and our health.

Importantly, life satisfaction improves dramatically when we retire. When retirees were asked to identify what they key drivers of life satisfaction were, they highlighted their partners, relationships with other family, pets, their sense of independence, having enough to do with their time, their homes, friendships and social circles and personal security. But cost of living and debt, were among the key detractors.

Does retirement cause our expectations or attitudes to life to change? On average, only 'moderately'. But for those that experienced a bigger change there were many reasons, but for most they revolved around 'financial worries', 'their health or that of their partner', 'ageing' and 'freedom to do what they want'.

So, it's not surprising that if they could go back in time, most would tell themselves to 'save and invest more' and 'look after their health'.

PART 1: HOUSEHOLD INVESTMENT BEHAVIOURS



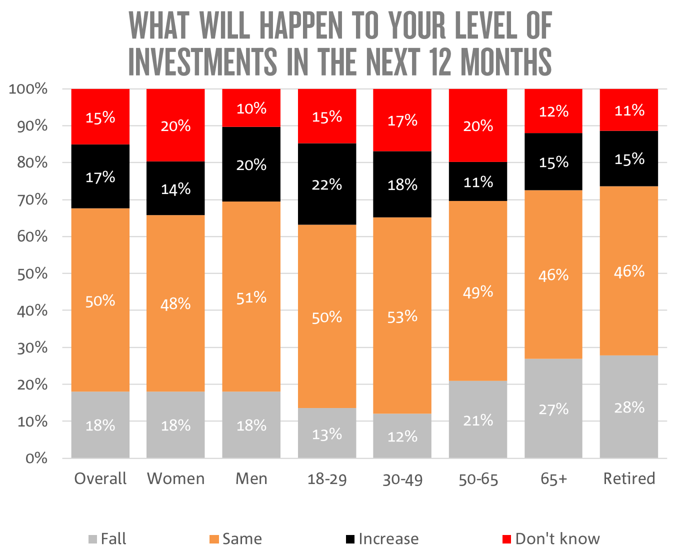
The sense of caution prevailing among Australian investors has continued through Q3 against a backdrop of a slowing domestic economy, heightened global uncertainties, weak income growth and falling interest rates.

Overall, only 13% of Australians said they had increased their level of investments in the past 3 months, down slightly from 14% in the previous survey.

In contrast, 17% said they scaled back their investments (unchanged from Q2). Almost 6 in 10 (55%) said their level of investments had remained the same (53% in Q2).

Men were more active than women with 16% investing more compared to 10% of women. But a broadly similar number of men (16%) and women (18%) reduced their investments during the quarter.

By age, the number of people who invested more ranged from 16% for the over 65s to just 8% in the 60-65 age group. The number of people who invested less ranged from 24% for the over 65s to 14% in the 18-29 and 30-49 age group.



Looking ahead, the domestic economic growth momentum is unlikely to accelerate much through the rest of this year, with growth expected to remain below trend. Alongside below-trend growth, we expect the labour market to deteriorate slightly, with unemployment edging higher. It is likely we will also see a further reduction in interest rates.

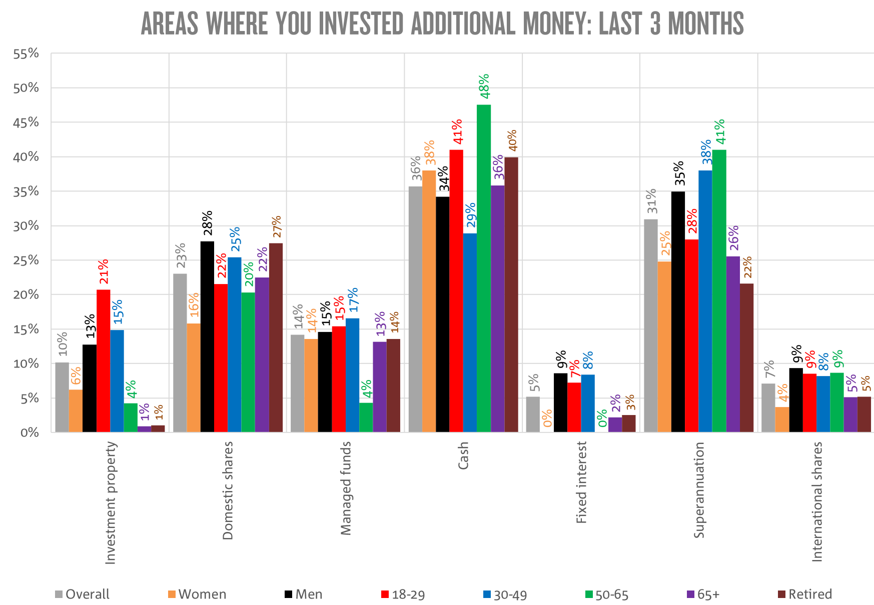
In addition, the global economic environment will remain challenging, with global economic growth expected to remain below trend through 2020.

These factors are likely to continue weighing on investor sentiment and we suspect are being reflected in weaker investment intentions for the next 12 months.

Overall, 17% expect to increase their level of investments in the next 12 months, down from 19% in Q2, and 18% expect them to fall, up from 15% in Q2. One in 2 (50%) think they will remain the same (48% in Q2), while those unsure was unchanged at 18%.

By gender, around 20% of men expect their level of investments to increase in the next 12 months, compared to just 14% of women. But the same number of men and women (18%) expect them to fall over the next 12 months.

By age, 22% of 18-29 year olds see their investments increasing, compared to just 11% in the 50-65 age group. Almost 3 in 10 (27%) over-65s expect their investments to fall in the next 12 months, compared to just 12% in the 30-49 age group.



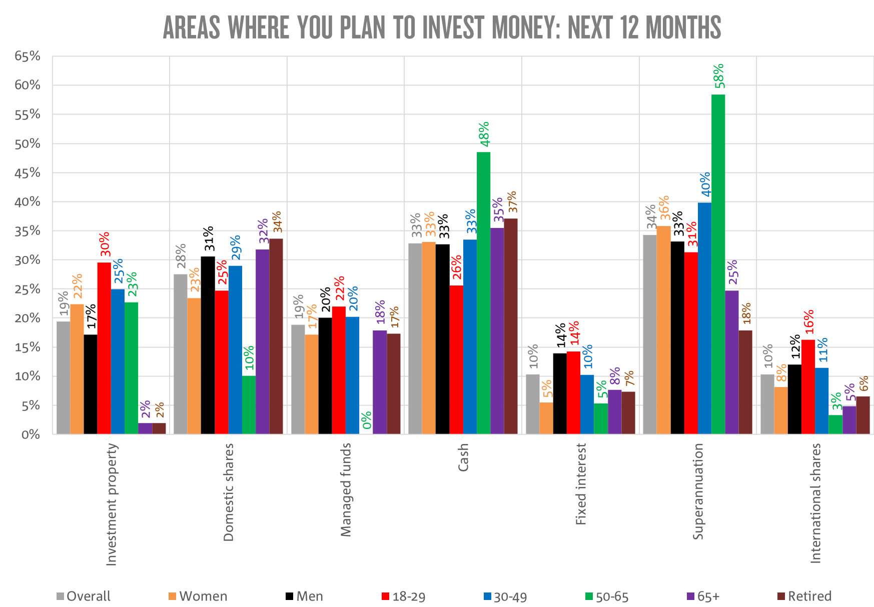
For Australians that invested more over the past 3 months, cash remained the preferred vehicle for 36% (unchanged from Q2), despite further rate cuts during the quarter.

Super was the next most popular choice for 31% of Australians, and noticeably more so than in Q2 (24%), followed by domestic shares (23% vs. 24% in Q2).

By gender, more men invested in all asset classes than women, except for cash (38% women vs. 34% men). Men were noticeably more active investing in domestic shares (28% vs. 16%), investment property (13% vs. 6%), super (35% vs. 25%) and fixed interest (9% vs. 0%).

Relative to the previous quarter, we also noted a sizeable increase in the number of women who invested in managed funds (14% vs. 7%) and the number of men investing in super (35% vs. 26%).

Among other key observations, there was a very large increase in the number of 50-65 year olds who invested in cash over the last 3 months (48% vs. 35%), and 30-49 year olds investing in super (38% vs. 23%). Noticeably more young people aged 18-29 invested in property (21% vs. 12%) and super (28% vs. 20%), but noticeably more over 65s reduced their exposure to domestic shares (22% vs. 33%).



Among people planning to invest more in the next 12 months, their most popular investment choices remain super (34%), cash (33%) and domestic shares (28%), with these numbers broadly unchanged from the last survey.

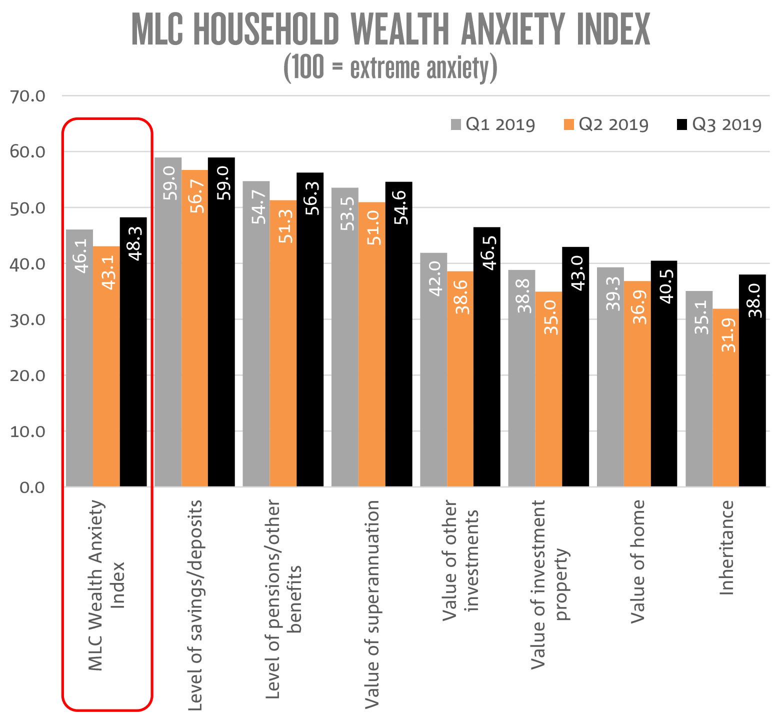
With the housing market showing signs of recovering in key cities, we also noted an increase in the number of people planning to invest in property from the last survey (19% vs. 15% in Q2).

By gender, noticeably more women (22%) plan to invest in property than men (17%). But significantly more men (31%) plan to invest in domestic shares (31% vs. 23%) and fixed interest (14% vs. 5%) than women.

Relative to the previous quarter, more women plan to investment money in property (22% vs. 13%) and super (36% vs. 29%). Investment intentions for men were broadly unchanged in all asset classes.

There were also some interesting movements in intentions by age group. In the 18-29 group, noticeably more people planned to invest in property (30% vs. 15%), but reduce their exposure to cash (26% vs. 36%). In the 30-49 year old group, more planned to invest more in cash (33% vs. 27%). Noticeably more 50-65 year olds planned to invest in property (23% vs. 6%), cash (48% vs. 31%) and super (58% vs. 45%), but cut back on domestic shares (10% vs. 21%). More over 65s also said they plan to invest more in super (25% vs. 15%).

PART 2: HOUSEHOLD WEALTH & RETIREMENT ANXIETY



The MLC Household Wealth Anxiety Index is based on Australians' concerns about their households' overall wealth position in relation to their home, investment property, other investments, super, pensions and other benefits, savings and deposits and inheritances.

On average, Australians remain 'moderately' concerned about their overall household wealth, although the Index climbed 5.2 points to 48.3.

Higher anxiety over the quarter reflected higher concerns over all aspects of the index, particularly the value of investment property (up 8.0 points to 43.0), value of other investments (up 7.9 points to 46.5 points), and inheritances (up 6.1 points to 38.0).

Australians however remain most anxious about their level of savings and deposits (up 2.3 points to 59.0), their level of pensions or other benefits (up 5.0 points to 56.0) and their superannuation (up 3.6 points to 54.6).

Household wealth anxiety increased for both women and men in Q3, but women (up 6.5 points to 48.9) overtook men (up 4.1 points to 47.6) for having higher anxiety.

Women had noticeably higher anxiety than men over the value of their superannuation (56.9 vs. 52.3 points), their level of savings and deposits (61.2 vs. 56.7 points) and level of pensions and other benefits (58.5 vs. 54.2 points). Men (40.2 points) were much more concerned than women (35.8 points) about their inheritances.

By age, 30-49 year olds remain the most anxious group (up 5.1 points to 51.1) and over 65s (up 3.2 points to 41.2 points) and retirees (up 2.2 points to 40.2) the least anxious.

Among other key take-outs, heightened anxiety around the level of pensions and other benefits (63.7 points) and the value of superannuation (62.4 points) was noticeably more prevalent in the 50-65 age group.

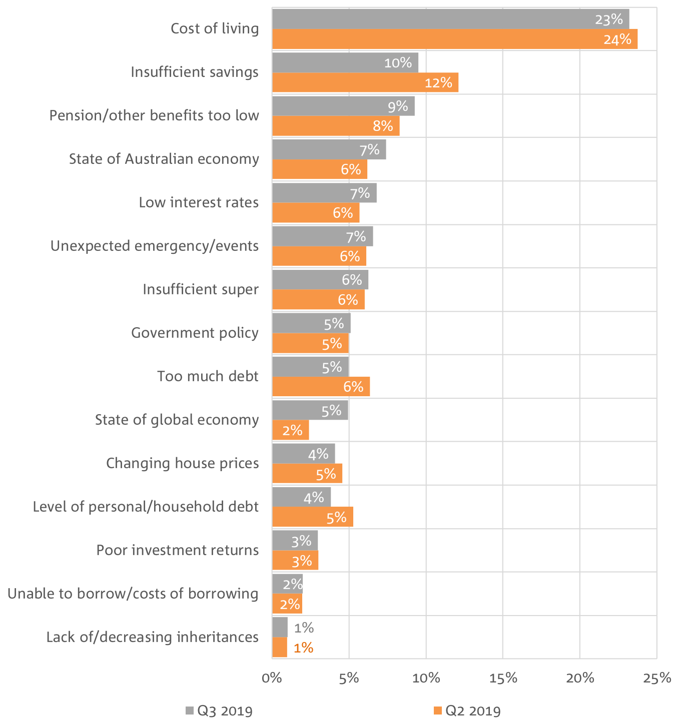
Young people aged 18-29 worried more about their inheritances (43.5 points). They were (46.8 points) along with 30-49 years olds (46.6 points) also much more concerned about the value of their investment properties than were older Australians - see table below

HOUSEHOLD WEALTH ANXIETY INDEX: GENDER & AGE

	Overall	Women	Men	18-29	30-49	50-65	65+	Retired
MLC Wealth Anxiety Index	**48.3**	**48.9**	**47.6**	**50.2**	**51.1**	**49.1**	**41.2**	**40.2**
Level of savings/deposits	59.0	61.2	56.7	62.1	62.8	62.6	51.7	51.8
Level of pensions/other benefits	56.3	58.5	54.2	52.8	58.9	63.7	53.9	52.8
Value of superannuation	54.6	56.9	52.3	52.8	58.3	62.4	46.8	44.5
Value of other investments	46.5	45.9	47.0	46.6	46.2	46.5	46.8	46.4
Value of investment property	43.0	41.8	43.9	46.8	46.6	35.1	32.5	31.3
Value of home	40.5	42.0	39.1	46.7	44.3	43.3	33.0	32.3
Inheritance	38.0	35.8	40.0	43.5	40.4	30.1	23.5	22.2

To understand the key triggers of Household Wealth Anxiety, we asked Australians who had high levels of anxiety over any component of the Household Wealth Anxiety Index (i.e. those scoring 70 points or higher) what most impacted their current wealth position.

WHAT IMPACTS THE CURRENT WEALTH POSITION OF PEOPLE WITH 'HIGH' HOUSEHOLD WEALTH ANXIETY



The biggest factor (by some margin) remains cost of living according to almost 1 in 4 (23%) highly anxious people. This is not surprising with NAB's Q3 2019 Consumer Anxiety Survey also highlighting cost of living as the single biggest driver of overall consumer anxiety with almost 1 in 4 consumers rating their anxiety over their living costs 'very high'.

Insufficient savings (10%) had the next biggest impact, followed by pensions or other benefits that were too low (9%). The state of the Australian economy (7%) and low interest rates (7%) were also important.

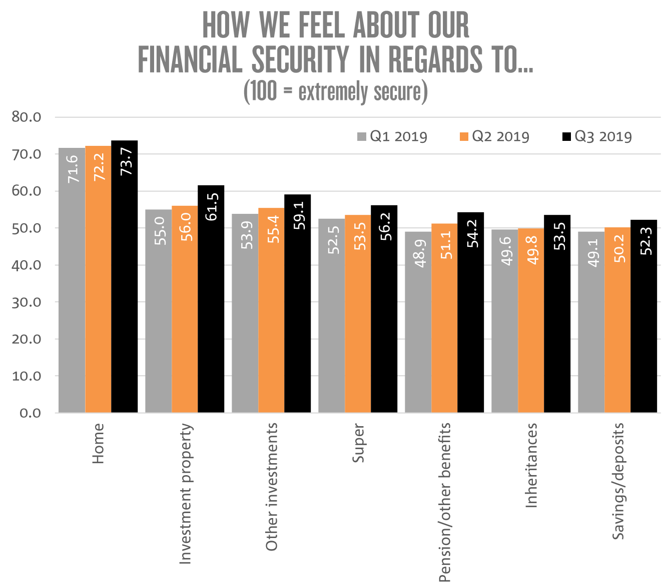
Things that impact highly anxious Australians typically transcend gender with some exceptions. We did however note that somewhat more women (25%) were impacted by cost of living than men (21%).

By age, it's not surprising that more Australians aged over 65 (17%) or retired (18%) were impacted by low pensions or other benefits. Noticeably more over 65s (11%) and retired Australians (12%) also said they were impacted by low interest rates.

In contrast, more 50-65 year olds (10%) were impacted by insufficient super, with 18-29 year olds (8%) and 30-49 years olds (7%) also somewhat more impacted by having too much debt than any other age group - see table below.

WHAT IMPACTS THE CURRENT WEALTH POSITION OF PEOPLE WITH 'HIGH' HOUSEHOLD WEALTH ANXIETY: GENDER & AGE

	Overall	Women	Men	18-29	30-49	50-65	65+	Retired
Cost of living	23%	25%	21%	26%	24%	23%	20%	20%
Insufficient savings	10%	9%	10%	12%	11%	8%	6%	6%
Pension/other benefits too low	9%	10%	8%	3%	6%	10%	17%	18%
State of Australian economy	7%	7%	8%	7%	6%	6%	10%	10%
Low interest rates	7%	7%	7%	5%	4%	8%	11%	12%
Unexpected emergency/events	7%	7%	6%	6%	8%	7%	5%	5%
Insufficient super	6%	7%	6%	4%	7%	10%	6%	6%
Government policy	5%	4%	6%	4%	5%	6%	6%	5%
Too much debt	5%	5%	5%	8%	7%	3%	1%	2%
State of global economy	5%	4%	5%	3%	4%	5%	7%	7%
Changing house prices	4%	3%	5%	8%	5%	2%	1%	1%
Level of personal/household debt	4%	4%	4%	4%	5%	4%	2%	2%
Poor investment returns	3%	3%	3%	3%	2%	3%	4%	5%
Unable to borrow/borrowing costs	2%	2%	2%	2%	3%	1%	1%	1%
Lack of/decreasing inheritances	1%	1%	1%	1%	1%	1%	0%	0%



Having established above what aspects of their household wealth were causing Australians the most anxiety over their total household wealth position, we wanted to know how these things made them feel about their 'sense' of financial security.

Clearly, our homes give us the greatest sense of financial security and it continues to add significantly more it than any other factor. Moreover, on average, Australians scored their sense of financial security over their homes higher (up 1.5 points to 73.7. Investment property added next most to our sense of financial security (up 5.5 points to 61.5).

We suspect this higher sense of security from these factors could be reflecting the uptick in housing market activity in recent months and improving outlook for house prices.

Interestingly, women and men now rate their sense of financial security from their homes and investment property the same. Property - our both homes and investment - also contributed most positively to our sense of financial security in all age groups, particularly in older age groups and for retirees - see table below.

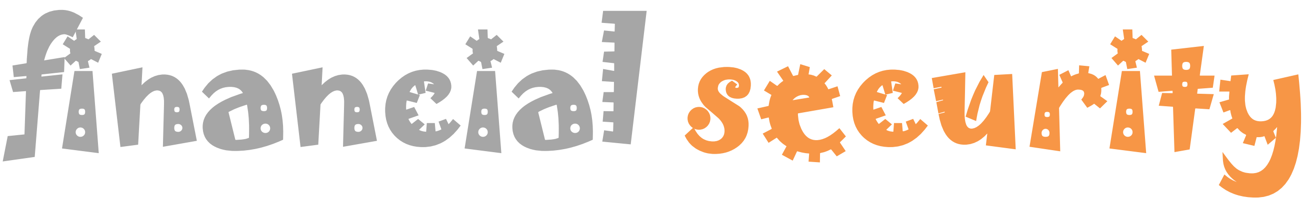
Australians rated their sense of financial security next highest for other investments (59.1 points and their super (56.2 points), and lowest for savings and deposits and (52.3 points) and their inheritances (53.5 points).

Men derived a higher sense financial security for all factors (other than property) higher than women, particularly superannuation (59.1 vs. 53.2 points), savings and deposits (55.1 vs. 49.5 points) and pensions and other benefits (56.7 vs. 51.6 points).

By age, over 65s and retires derived a higher sense of financial security from all components of their financial wealth than any other age group. Australians in the 30-49 age group were the least secure about their super, pensions and other benefits, inheritances and savings and deposits, 18-29 year olds for property and 50-65 year olds for other investments.

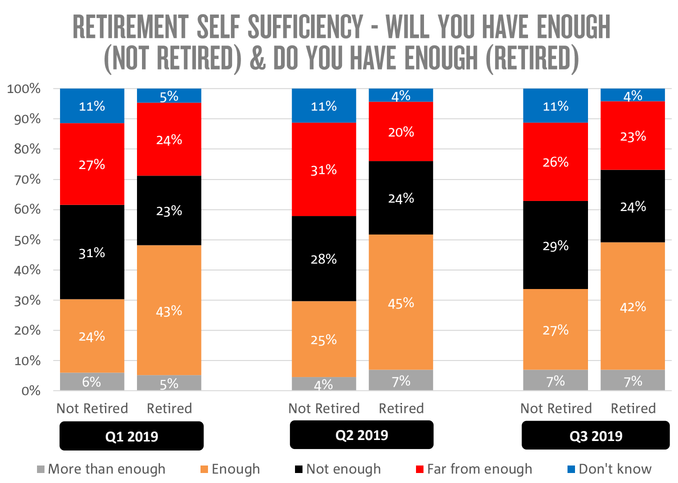
HOW WE FEEL ABOUT OUR FINANCIAL SECURITY IN REGARD TO THE FOLLOWING: GENDER & AGE

	Overall	Women	Men	18-29	30-49	50-65	65+	Retired
Home	73.7	73.7	73.7	61.8	68.2	75.3	84.2	84.4
Investment property	61.5	61.5	61.5	55.0	61.8	63.7	70.5	72.2
Other investments	59.1	57.7	60.2	55.0	58.8	54.3	63.1	62.5
Super	56.2	53.2	59.1	52.4	51.7	53.2	69.1	70.1
Pension/other benefits	54.2	51.6	56.7	50.8	47.5	47.6	62.7	63.8
Inheritances	53.5	51.7	55.2	53.1	52.8	55.0	56.9	57.3
Savings/deposits	52.3	49.5	55.1	52.0	47.7	46.8	59.3	59.5



PART 3: RETIREMENT SUFFICIENCY

Australians who have not yet retired were asked to think about their retirement and whether they thought they will have enough wealth (e.g. cash, shares, investment property, super etc.) to live their desired standard of living for the rest of their lives.



It remains of particular concern that 55% don't believe they will have enough, although this was down slightly from 59% in Q2. Even more concerning is the fact that over 1 in 4 (26%) will have 'far from enough.'

Just over 1 in 3 (34%) believe they will have 'enough' (27%) or 'more than enough' (7%)

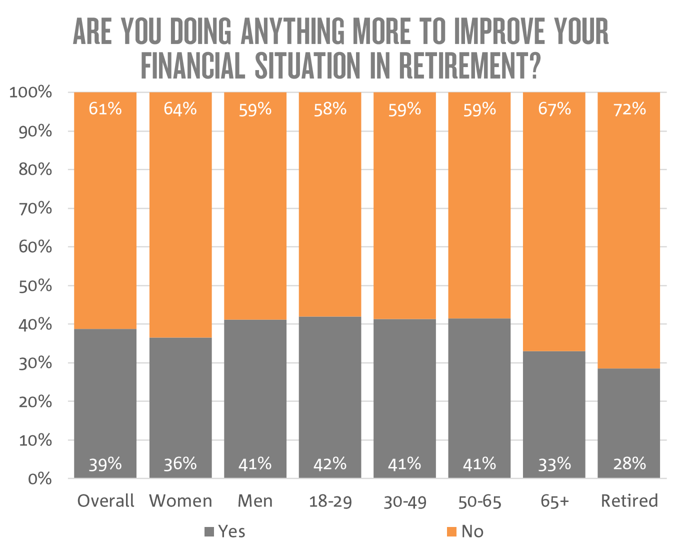
The long-standing gap in gender perceptions re-opened in Q3 after having levelled out in the previous quarter. Around 6 in 10 (59%) women do not expect to have enough, compared to around 5 in 10 men (51%). Moreover, 30% of women expect to have 'far from enough' compared to just 22% of men.

Noticeably more men (41%) than women (27%) also expect to have enough. And more than twice as many men (10%) expect to have 'more than enough' than women (4%).

We are also more pessimistic as we age. Only 49% of 18-29 year olds don't expect to have enough in retirement. This number stepped up to 64% in the 50-65 age group, but fell back to 57% for the over 65s.

What about those Australians already in retirement? Do they think they have enough wealth to live their desired standard of living for the rest of their life? Overall, just 45% said they had 'enough' and 7% 'more than enough'. This means almost 1 in 2 (47%) retirees overall don't expect to be able to afford to live the life they wanted in retirement because of a lack of wealth.

More retired men indicated they were better placed than women, with 55% indicating they had 'enough' or 'more than enough', compared to just 42% of women. Alarmingly, around 25% of women and 21% of men have 'far from enough'.



Despite the fact many non-retired and retired Australians don't think they will have enough wealth in retirement to live their desired life, most are still not trying to improve their financial situation.

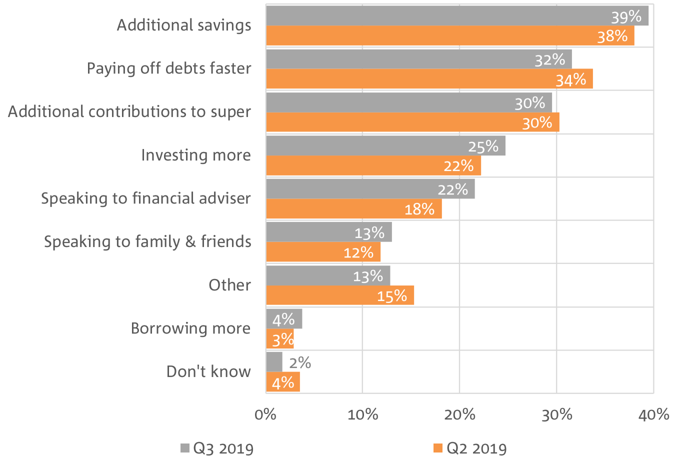
Our latest Survey results found around 6 in 10 (61%) Australians were not currently doing anything more to improve their financial situation in retirement.

More women (64%) were not doing more than men (59%).

By age, the over 65s were the least proactive group (67%), even though almost 6 in 10 (57%) didn't think they would have enough to retire with.

Even more surprising was the finding that even more retirees (72%) weren't doing anything, despite almost 1 in 2 also telling us they didn't have enough wealth to live their desired lifestyle in retirement.

WHAT ARE YOU CURRENTLY DOING TO IMPROVE YOUR FINANCIAL SITUATION IN RETIREMENT?



What are people who are trying to improve their financial situation doing?

Around 4 in 10 (39%) are making additional savings, and around 3 in 10 (32%) are paying off their debts faster and making additional contributions to their superannuation (30%).

Slightly more people also said they were investing more (25%) and speaking to a financial advisor (22%) than in Q2.

By gender, noticeably more women (42%) were making additional savings than men (37%). More women (32%) were also adding to their super than men (27%), but a lot more men (30%) were investing more compared to women (19%).

By age, almost 1 in 2 (48%) 18-29 year olds were making additional savings, by far the highest of any age group. They were also by far the most likely to be talking to family and friends (23%). Australians aged 30-49 (45%) were the most focussed on paying off debts faster, and 50-65 year olds making additional contributions to superannuation. More over 65s were speaking to a financial advisor (26%) or doing ‘other’ things (29%) like looking for part time or casual work, managing their super, spending less, downsizing etc. - see table below.

WHAT ARE YOU DOING TO IMPROVE YOUR FINANCIAL SITUATION IN RETIREMENT: GENDER & AGE

	Overall	Women	Men	18-29	30-49	50-65	65+	Retired
Additional savings	39%	42%	37%	48%	36%	38%	37%	39%
Paying off debts faster	32%	32%	31%	31%	45%	32%	13%	14%
Additional contributions to super	30%	32%	27%	32%	36%	42%	14%	5%
Investing more	25%	19%	30%	27%	29%	14%	21%	21%
Speaking to financial adviser	22%	20%	23%	17%	22%	20%	26%	25%
Speaking to family & friends	13%	13%	13%	23%	13%	8%	6%	5%
Other	13%	13%	12%	5%	6%	12%	29%	32%
Borrowing more	4%	2%	5%	6%	6%	1%	0%	0%

WHAT’S THE ONE THING STOPPING YOU FROM ACTING TO IMROVE YOUR FINANCIAL SITUATION?

“A family that depends on me to take care of them.”

“Balancing family and work. I believe one parent should always be active in kids’ lives and this stops me from working full time. It’s the guilt of being away from my kids too much.”

“Being injured and not being able to work.”

“Busy paying off mortgage and other debts first.”

“Cost of living expenses including, vehicle operating costs, private health insurance costs.”

“I don’t want to make any unsafe investments now I’m retired.”

“Economic conditions and the fact no one wants to employ anyone over 60.”

“High interest rate on mortgage and high interest rate on 5 credit cards.”

“I’m currently focusing on my studies, which stops me from working full-time.”

“Interest rates now are so low that it’s not worth trying to chase anything higher. I have no desire to take on riskier investments in the present economy.”

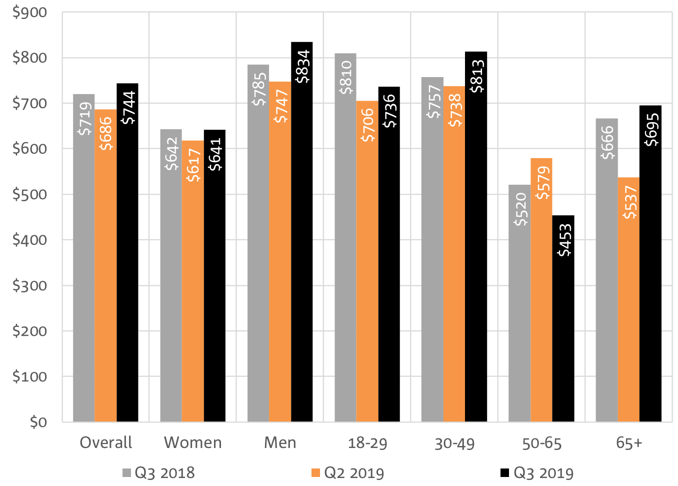
“No money to invest for personal and career development or to make any type of financial investment.”

“Very low interest rates mean that it is hard to improve my financial situation at the current time. The only other way I can see to improve my situation is to return to the workforce, but I really don’t want to do that.”

“Lack of knowledge about how to improve my situation.”

PART 4: RETIREMENT WEALTH POSITION

EXPECTED SAVINGS & INVESTMENTS AT RETIREMENT (EXCLUDING HOME) $'000s

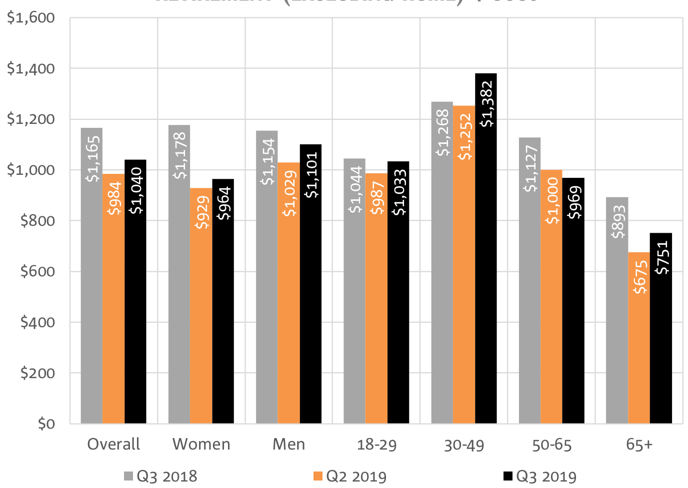


Australians yet to retire on average expect to have $744,000 (net of their homes) in savings and investments at retirement. This has risen from $686,000 in Q2 2019 and $719,000 at the same time last year.

Expectations improved for both men to $834,000 ($747,000 in Q2), and women to $641,000 ($617,000 in Q2). But with men revising up their expectations more, they now expect to have $193,000 more at retirement than women (compared to $130,000 more in Q2).

By age, savings expectations remain highest for 30-49 year olds, and they were revised up to $813,000 ($738,000 in Q2). Expectations were lowest in the 50-65 age group and fell to $453,000 ($579,000 in Q2). This was the only age group to revise down their expectations.

EXPECTED SAVINGS & INVESTMENTS NEEDED AT RETIREMENT (EXCLUDING HOME) $'000s



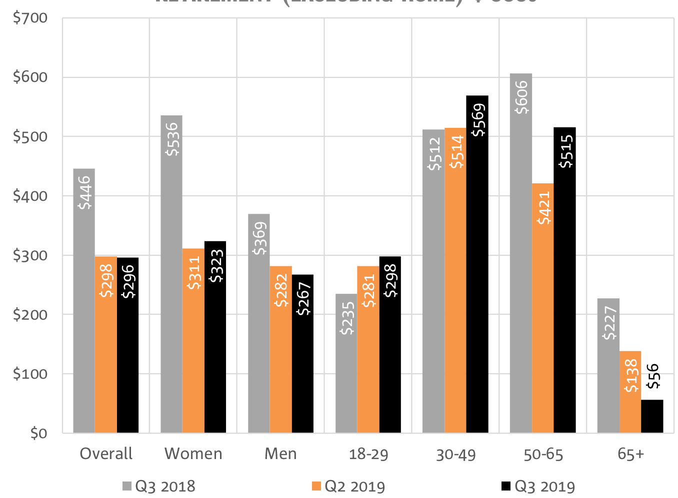
But Australians who have not yet retired also think they will now need more in retirement - around $1.04 million, compared to $984,000 in Q2, but down from $1.165 million at the same time last year.

Both women ($964,000) and men ($1,101 million) think they will need more.

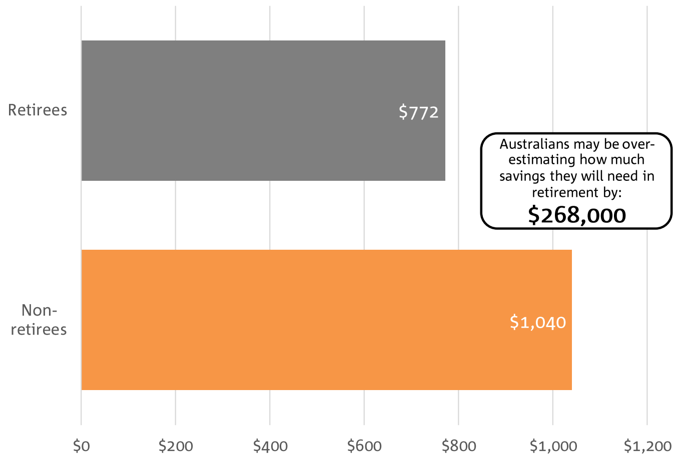
By age, 30-49 year olds believe they will need the most at $1.382 million - and noticeably more than they estimated in Q2 ($1.252 million). Australians aged 65+ expected to need the least ($751,000) but this has also risen from $675,000 in Q2.

Australians aged 50-65 ($969,000) were the only group to lower their expectations, albeit marginally from $1 million in Q2.

EXPECTED SAVINGS & INVESTMENT SHORTFALL AT RETIREMENT (EXCLUDING HOME) $'000s



EXPECTED SAVINGS & INVESTMENTS NEEDED AT RETIREMENT (NON-RETIREES) & HOW MUCH DID YOU NEED (RETIREES) $000s

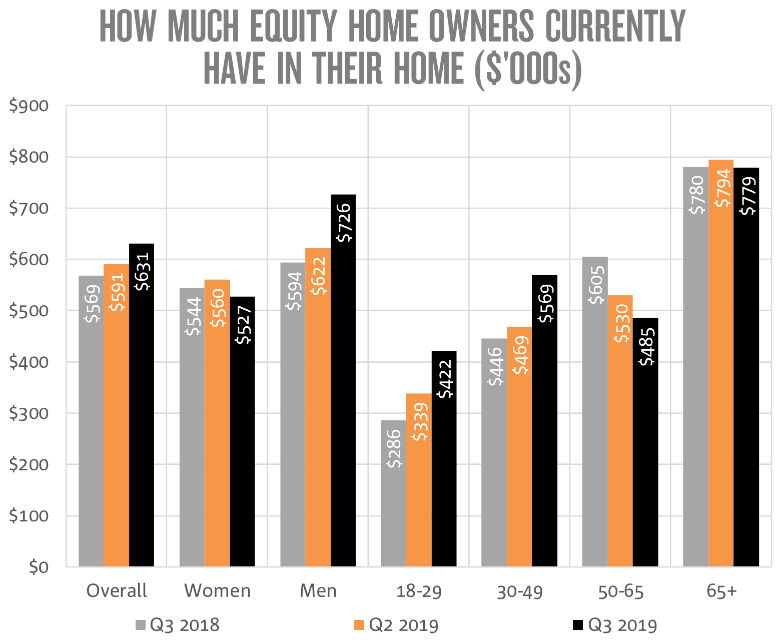


The chart above on the left shows the difference in how much Australians think they will have in savings and investments at retirement (net of their homes) and how much they expect to need in retirement. Australians on average still think they will be short just under $300,000 (unchanged from the previous quarter)

The shortfall has increased a little for women ($323,000 vs. 311,000 in Q2) but fell slightly for men ($267,000 vs. $282,000 in Q2). It was higher in all age groups, except the over 65s where the projected shortfall is now just $56,000 ($138,000 in Q2). The savings shortfall is biggest and has grown considerably for Australians aged 30-49 ($569,000 vs. 514,000 in Q2), followed by 50-65 year olds ($515,000 vs. $421,000 in Q2).

The chart above on the right however shows what retired Australians think. When retirees were asked how much did they need in savings and investments net of their homes (given what they know now they have retired) on average they said they needed $772,000 ($678,000 in Q2). This suggests that the average Australian who has not yet retired may be over-estimating how much they need by around $270,000.

And when we line up the savings expectations of non-retired Australians ($744,000) with what retirees said they needed ($772,000), non-retired Australians have a deficit of just $28,000.

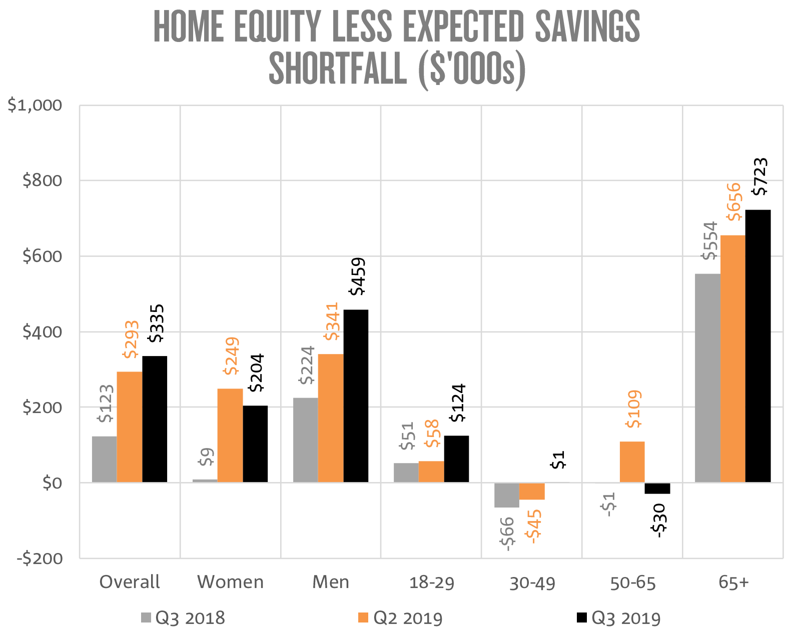


Many Australians - around 6 in 10 (61%) - also own their homes outright (33%) or with a mortgage (28%), and they have considerable amounts of equity tied up in this asset. This could help alleviate any savings shortfall they may have in retirement.

On average, home owners said they had $631,000 in home equity in Q3 2019, up from $591,000 in Q2.

Men ($726,000) said they had significantly more equity in their homes than women ($527,000).

Not surprisingly the value of home equity was lowest for 18-29 year olds ($422,000) and highest for the over 65s ($779,000).

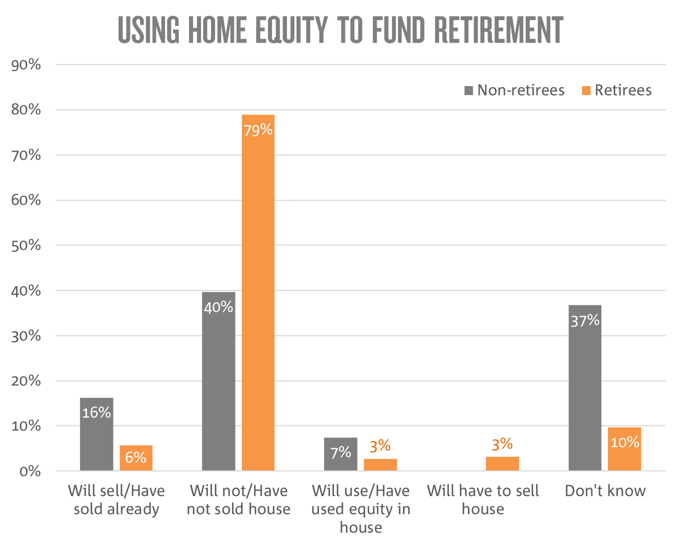


With average home equity of $631,000 in Q3 2019, this is more than enough to cover the $296,000 difference between the average Australian's expectations for their savings and investments at retirement ($744,000) and what they think they'll need in retirement ($1.04 million).

In fact, if Australians were to unlock this equity, they would be $335,000 ahead.

Men ($459,000) would however be much better off than women ($204,000).

By age, the over 65s would be $723,000 ahead, but 50-65 year olds would be a little behind ($30,000) and 30-49 year olds will just about break even ($1,000 ahead).



But very few non-retired homeowners or retirees are planning to use their homes to help fund their retirements.

In fact, just 16% of non-retirees said they planned to sell their homes and only 6% of retired people have already done so.

Around 7% of non-retirees said they will unlock equity in their homes, but only 3% of retired people have used equity in their home to fund their retirement.

Four in 10 non-retirees (40%) said they will not sell their home, and nearly twice as many retirees (79%) said they have not sold their home.

Only 3% of retirees indicated that they will have to sell their home.

There is however much greater uncertainty among non-retired Australians with 37% unsure what they will do, compared to just 10% of retired people.

PART 5: RETIREMENT LIFE SATISFACTION & ANXIETY

Overall, Australians who have not yet retired were more anxious about their expected life in retirement, with anxiety levels rising 1.3 points to 51.9, indicating they are 'moderately' anxious.

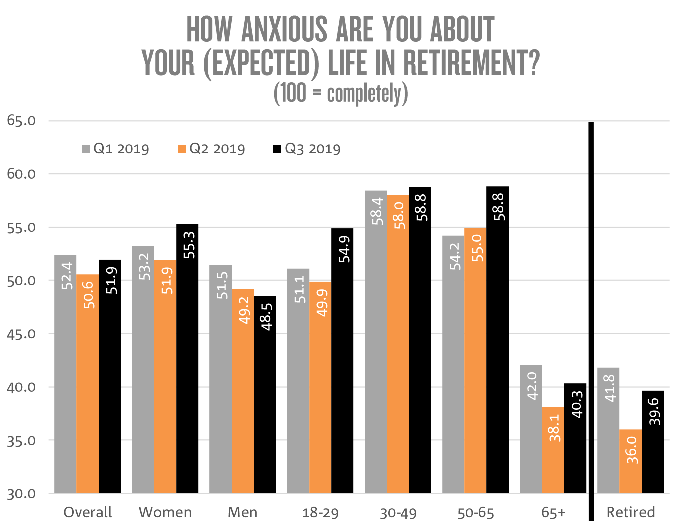
Anxiety rose sharply for women, rising 3.4 points to 55.3, but moderated for men, down 0.6 points to 48.5. Anxiety increased in all age groups, and was highest for 30-49 year olds (up 0.8 points to 58.8) and 50-65 year olds (up 3.8 points to 58.8 points).

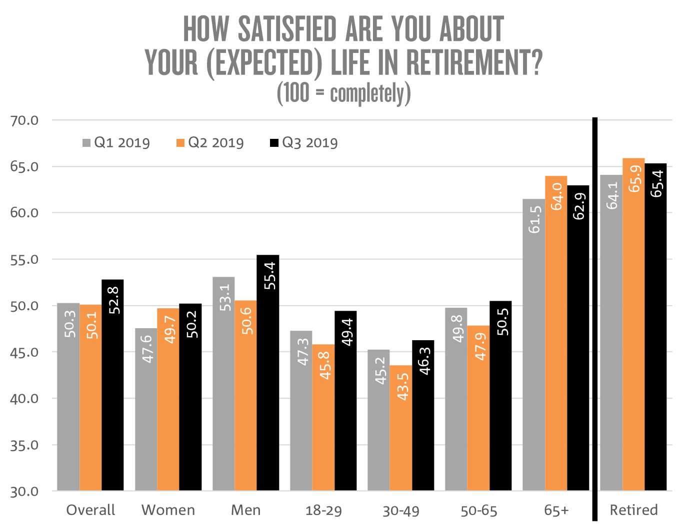
It increased most in the 18-29 age group (up 5.0 points to 54.9 points), and was lowest among the over 65s (up 2.2 points to 40.3). It was even lower for retirees (up 3.6 points to 39.6).

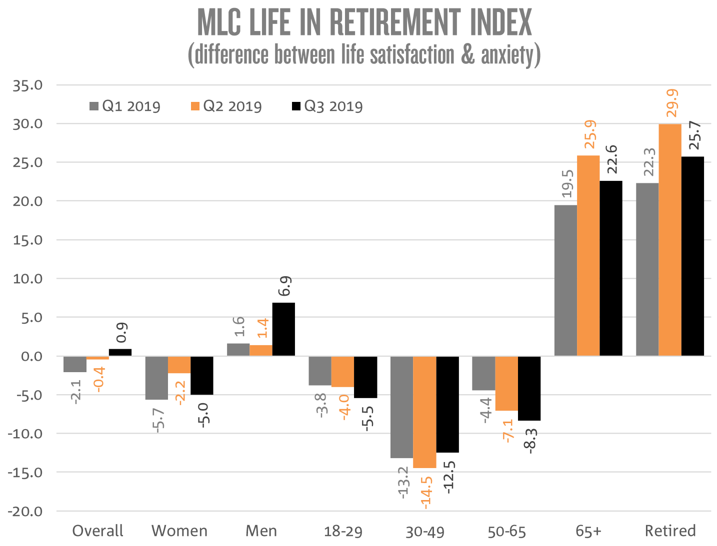
Life satisfaction has however improved, on average increasing 2.7 points to 52.8 points. Expected life satisfaction improved for women (up 0.5 points to 50.2), but increased more and was somewhat higher for men (up 4.9 points to 55.4 points).

By age, expected life satisfaction in retirement improved in all age groups except the over 65s (down 1.1 points to 62.9), although it continues to be much higher than in any other age group.

Life satisfaction was lowest for 30-49 year olds (up 2.7 points to 46.3). Life satisfaction among retirees was down 0.5 points to a relatively high 65.4.







MLC's Life in Retirement Index is derived from how anxious Australians are about their life in retirement (both actual if retired and expected if not yet retired) and their life satisfaction in retirement (both actual if retired and expected if not yet retired).

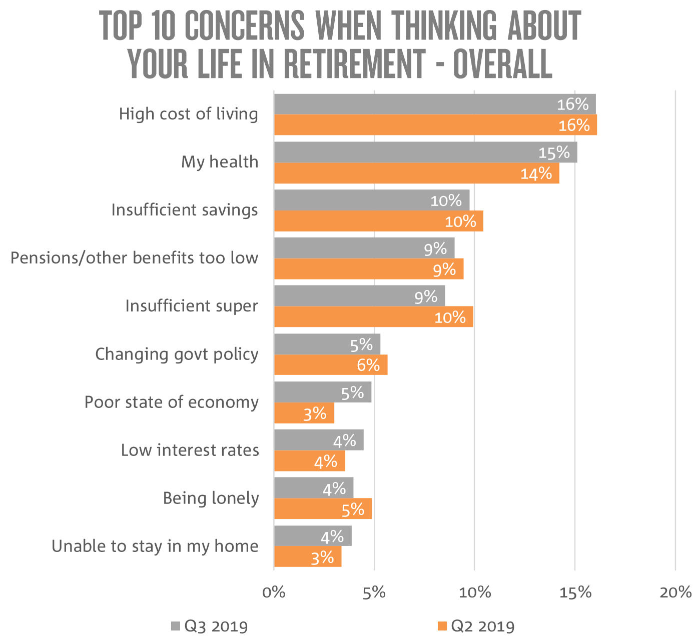
Overall, the index rose to +0.9 points in Q3 (-0.4 points in Q2).

Clearly, life gets better as we get older and particularly in retirement - anxiety falls and life satisfaction climbs. It's also clear middle age (30-49) is a time of heightened anxiety and lower levels of life satisfaction.

In Q3, the MLC Life in Retirement Index rose for men (6.9 points), but deteriorated for women (-5.0 points) as anxiety levels continued to out-weigh life satisfaction.

By age, the Index was noticeably higher for over 65s (+25.7 points, albeit down from 29.9 in Q2) and retirees (+22.6 points, but also down from +25.9 in Q2).

MLCs Life in Retirement Index was negative in all other age groups. It lowest for 30-49 year olds (-12.5 points but up from -14.6 in Q2), and deteriorated for 50-65 year olds (-8.3 points vs. -7.1 in Q2) and for 18-29 year olds (-5.5 points vs. -4.0 in Q2).



So, what are Australians greatest fears when they think about their life in retirement and what concerns them most.

Cost of living was the key cause of Household Wealth Anxiety for highly anxious Australians (see above).

The chart on the left also shows it is also the key concern for most Australian (16%) when they think about their life in retirement, followed by their health (15%).

The cost of living was also the biggest concern for most people in all key demographic groups, except for the over 65s (where health is the biggest issue) and for men (where it ranked equally with their health) - see table below.

While there was broad consensus by gender, somewhat more women (10%) were concerned about their supper than men (7%).

By age group, it was particularly noticeably that more over 65s were concerned about their health (19%), low interest rates (9%) and the poor state of the economy (7%) than any other age group.

Young Australians aged 18-29 however were much more concerned about being lonely (7%) than any other age group.

BIGGEST CONCERNS WHEN THINKING ABOUT YOUR LIFE IN RETIREMENT - GENDER & AGE

	Overall	Women	Men	18-29	30-49	50-65	65+	Retired
High cost of living	16%	17%	15%	16%	18%	18%	13%	13%
My health	15%	15%	15%	12%	13%	16%	19%	20%
Insufficient savings	10%	10%	9%	12%	13%	9%	6%	5%
Pensions/other benefits too low	9%	10%	8%	6%	7%	10%	12%	12%
Insufficient super	9%	10%	7%	9%	12%	11%	4%	3%
Changing govt policy	5%	5%	6%	4%	4%	6%	8%	8%
Poor state of economy	5%	4%	6%	4%	3%	4%	7%	7%
Low interest rates	4%	4%	5%	3%	2%	3%	9%	9%
Being lonely	4%	4%	4%	7%	4%	4%	2%	2%
Unable to stay in my home	4%	4%	3%	3%	2%	4%	6%	6%
No longer working	4%	4%	3%	4%	4%	3%	3%	2%
Poor investment returns	3%	2%	4%	2%	3%	1%	5%	5%
Having too much debt	3%	3%	3%	4%	4%	2%	1%	1%
Being bored	3%	2%	4%	5%	3%	2%	2%	2%
Level of personal/household debts	2%	2%	2%	3%	3%	2%	1%	1%
Unable to borrow/borrowing costs	1%	1%	1%	1%	1%	1%	0%	0%
Lack of/decreasing inheritances	1%	1%	1%	2%	1%	1%	0%	0%

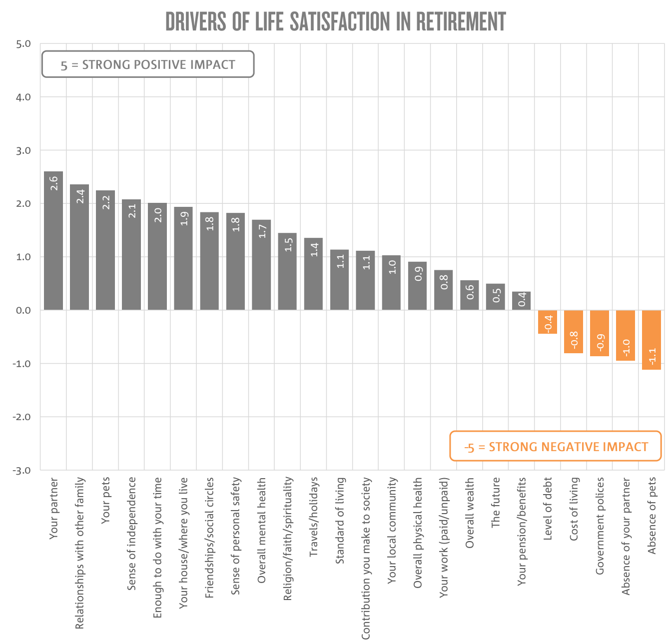
Retirees were asked to identify the key drivers of their life satisfaction, and tell us what factors added or detracted from their sense of life satisfaction. The results are based on an average score on a scale of -5 (strong negative impact) to + 5 (strong positive impact).

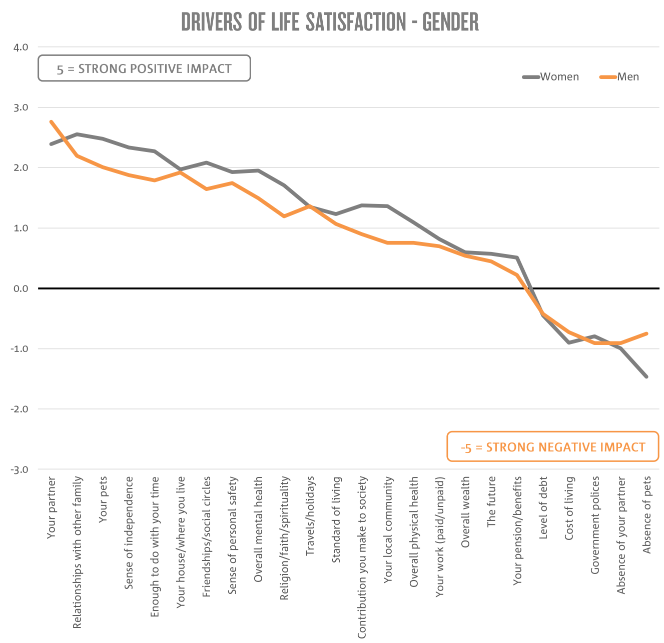
In Q3, the factors that contributed most positively to retirees' sense of live satisfaction were their partners (2.6), relationships with other family (2.4), pets (2.2), their sense of independence (2.3), having enough to do with their time (2.0), their homes (1.9), friendships/social circles (1.8) and personal security (1.8).

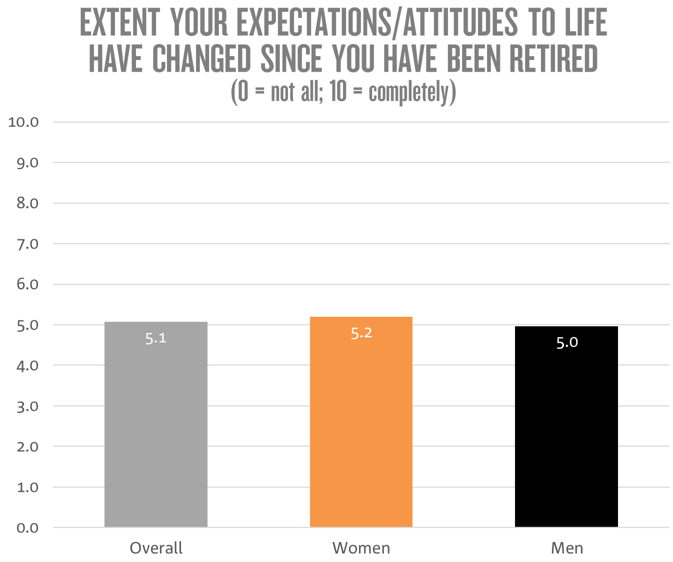
The key detractors were absence of pets (-1.1), absence of partners (-1.0), government polices (-0.9), cost of living (-0.8) and level of debt (-0.4).

Interestingly, women said they derived greater benefits from all positive drivers than did men, except when it came to their partners where men (2.8) derived greater benefit than did women (2.4). Women benefitted noticeably more from their local community (1.4 women vs. 0.8 men), their pets (2.5 vs. 2.0), having enough to do with their time (2.3 vs. 1.8), overall mental health (2.0 vs. 1.5) and religion, faith and spirituality (1.7 vs. 1.2).

But women also experience a much bigger negative impact from the absence of their pets (-1.5) than men (-0.8).







Finally, we asked retirees to rate the extent to which their expectations or attitudes to life had changed since they've been retired.

Overall, there has been a 'moderate' change, with retirees on average self-scoring 5.0 points out of 10 (where 10 = completely changed). There was very little difference between women (5.2 points) and men (5.0 points).

Among those retirees who had experienced a bigger change (i.e. those who scored 7.0 points or higher), the among the key reasons for change were 'financial worries', 'their health or that of their partner', 'ageing' and 'freedom to do what they want'.

Not surprisingly, when they were also asked if they could go back in time knowing what they do now, what's the one thing they would tell themselves to do, the most common themes were around 'saving and investing more' and 'looking after their health'. See below for some detailed responses.

WHAT'S BEEN THE SINGLE BIGGEST CHANGE IN YOUR EXPECTATIONS TO LIFE IN RETIREMENT?

"A sense of freedom and being able to really fulfil my potential as a person. I have grown more in the last 3 years and developed a greater sense of security, independence and well-being."

"Able to spend quality time with my partner both at home, involved in our community and in taking extended low-cost holidays together."

"Amount of stress has reduced substantially since retiring from a senior managerial position in workforce."

"Being able to do things I really want to do, especially volunteer work, and to socialise more."

"Being responsible for the way I spend my time and the limitations that are starting to become apparent as I get older."

"Boredom, missing work and workmates."

"Continual concern about finances."

"Death of husband, therefore all plans for the future have changed."

"Feeling useless and lonely."

"Finding out that there are a lot of things no longer needed in my life."

"Freedom to do the things we want to do when we want."

"Having less disposable income."

"Health issues making it essential to be more active in health, diet and exercise."

"I'm coping better in retirement than I imagined, both financially (at present) and emotionally."

"I gave up smoking and now I can easily live on 70% of the old age pension, so savings are accumulating and are mostly spent on holidays and fun things."

"It's not quite what I expected, and I think the death of spouse has caused that. I would be enjoying it more if that hadn't happened."

"My mental health. I'm no longer job-stressed."

"Not having as much income as when I was working."

"Not having that daily challenge to achieve success in my working life."

"Quality of living has been hit very heard. Not what I expected at all. Just enough funds to live a very meagre life."

"Realisation that I am not defined by my work. There's a good life after employment."

"Realising that duties and responsibilities have diminished and realising that this is not a lessening of self-worth."

"Spending time at home and with my partner."

KNOWING WHAT YOU KNOW NOW ABOUT RETIREMENT, IF YOU COULD GO BACK IN TIME, WHAT IS THE ONE THING YOU WOULD TELL YOUR YOUNGER SELF TO START OR STOP DOING?

START DOING...

"Adopt a healthier lifestyle earlier in life."

"Always clear any debt before going into retirement."

"Appreciate every moment life gives you."

"As a married woman who did not have to pay superannuation, I would start to pay much earlier."

"Be more considerate to my partner and spend more time with my children."

"Become more active in clubs or social communities."

"Buy investment property earlier in life."

"Buy a home as soon as you can."

"Contribute as much as possible to superannuation."

"Build in safeguards against things such as GFC, downturns in the economy, poor government decisions and policies, because it will happen sometime in your lifetime."

"Find out where you would be happiest living and the lifestyle you want e.g. country or city."

"Have a long-term perspective on your savings".

"Go on more holidays. The older you get the harder it is to climb mountains."

"If you can't pay cash, you can't afford it!"

"Keep working for as long as possible."

"Learn about investing."

"Learn to adjust to the ever-changing circumstance beyond your control."

"See more of my family and cultivate more friends."

"Seek early advice from a reputable financial advisor."

"Seek professional advice before entering any business or commercial venture."

"Think more about what retirement will be like and trying to plan ahead for it."

STOP DOING...

"Avoid the share market and other forms of gambling."

"Beating myself up over things I cannot change."

"Being generous with family and friends."

"Being so obsessive about work."

"Being too careful in investing in property."

"Believing what you are told. Observe and form your own world view."

"Buying lunch and take away, coffees etc."

"Buying new cars so often."

"Buying things that are not needed."

"Credit card debt. Interest will kill you."

"Cut back on entertainment and nights out etc."

"Cut down pending on things that are not necessary."

"Don't waste money on buying the latest fads and gadgets."

"Managing your money as though managing a small business."

"Putting career ahead of family."

"Stop doing heavy labour by 40 to save bone and joint problems in later life."

"Doing things on the spur of the moment and think deeper about what you are doing."

"Trying to be a hero and call for help when things become too heavy."

"Trying to guess what the world will be like in the next twenty years."

"Stop putting so much emphasis on having everything in the home perfect."

"Putting off vital opportunities that will influence the future i.e. education. Rarely do you get the second chance to do it again so make the most of it first time around."

CONTACT THE AUTHORS

Dean Pearson
Head of Behavioural & Industry Economics
Dean.Pearson@nab.com.au
+613 8634 2331

Robert De Iure
Associate Director Economics
Robert.De.Iure@nab.com.au
+613 8634 4611

MLC 20:20 Retirement Report

A clear view on factors influencing Australian experience

Contents

Prologue

What really shapes Australian retirement? Does the lump sum make the biggest difference? Can we anticipate what we'll spend during life after work?

MLC Wealth has been examining some of the accepted wisdom about the average retirement and how much money you need. As a result, MLC Wealth commissioned research from actuarial firm Milliman – and found some surprising things we want to share with Australians planning for life after work, and the advisers who help them.

Milliman reviewed the spending patterns, behavior and trends of Australian retirees over the past 20 years, using innovative analytics to develop the kind of real insights that will help our ageing population make meaningful plans for retirement with greater knowledge and confidence.

It's time for a new discussion

The **MLC 20:20 Retirement Report** is the first paper in a series of four that focuses on lifestyle spending. While there are industry standards used to determine what savings people need in retirement, we want to provoke deeper discussion on one of Australia's most pressing generational issues. That's why Milliman has used extensive research expertise to drive insight about individual needs beyond the default averages most people are aware of.

So let's get real about what matters in retirement, what it might look like and what it might cost.

Introduction

In many parts of life, averages are used to rationalise the unknown. But our experience also teaches us that averages don't always tell the whole story – there is the well-known joke about the statistician who drowned in a river because it was three feet deep, on average.

When it comes to retirement, averages are commonly used, when referring to the amount of income or superannuation that people should target. However, they don't adequately capture the diversity of lifestyles that Australians live and hope to achieve once they finally transition from decades of full-time work.

We are all different, and there is substantial variation in our lifestyle goals and objectives.

An in-depth understanding of how retirees spend their hard-earned savings and the changes that occur throughout retirement becomes more important than ever, and can provide additional insight and guidance when combined with more traditional statistics and averages for each person staring down the confusing path of retirement planning.

This white paper discusses some practical insights into how the financial behaviour of retirees can have a direct impact on the kind of retirement that people can expect, and consequently the sort of planning they will need to do in conjunction with their financial adviser for the retirement they want to have.

Four things that can make the biggest difference to your retirement

Money is just one of them

1. Your money

The average retiree has a predictable pattern of spending – it's mostly the amount that changes from person to person, which means average data isn't so average.

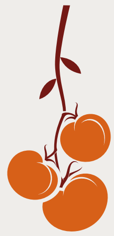
Needs vs Wants

50:50

average spend split throughout retirement.

You say 'organic tomato', I say 'tomato'

As the pace of life slows, we value spending on 'essentials' even more. Of course, one person's organic food is another's wild extravagance.



Over the course of retirement, transport expenditure decreases

55% more

than any other category.

2. Your body

Health is just as important as wealth when it comes to your post-work spend.

Health care's the one thing most retirees spend more on as they age

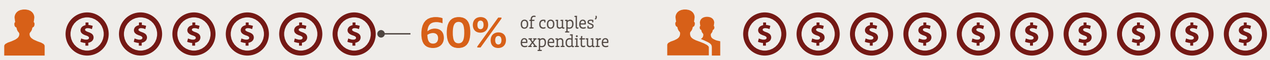
Declining health, more specialists

Health care spending tends to increase. Medicare helps but there are still out-of-pocket expenses like specialist appointments to factor in.

3. Your partner

Couples have the relative luxury of sharing resources, while singles need to ensure they cover essentials. But over time, everyone spends less on the 'extras'.

Singles spend around 60% of couples' expenditure

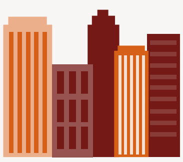


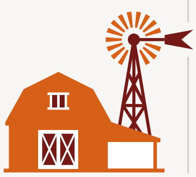
4. Your postcode

Where you live determines how you live. Expect quite a large variation in lifestyle between states and city and country – mainly due to the price of essentials, which make up more of our spend over time.

The country is cheaper – but there are trade-offs

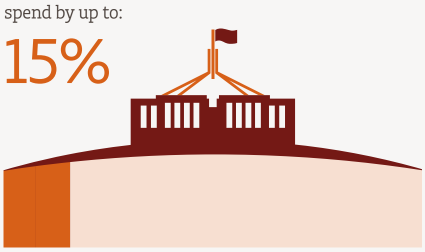
City vs country
Spend difference per year for 80- to 84-year-olds: **10.8%**





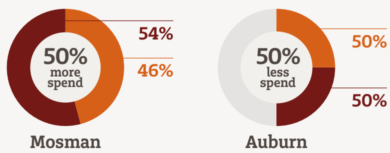
Canberrans spend more

Your state affects retirement spend by up to: **15%**



A tale of two suburbs

Mosmanite retirees spend 50% more than their fellow Auburnites, in pretty much the same proportions.



What we already know

There has been extensive research conducted across the globe to explore and develop retirement planning concepts, in areas such as saving and wealth creation, portfolio construction and drawdown strategies. This has led to an evolution in retirement theory, from assuming financial needs are constant in retirement, to accepting that it is difficult to plan for such a long and unknown period of time without a deep understanding of how retirees actually use their hard-earned – and saved – money after they stop working.

When it specifically comes to lifestyles and spending trajectories in retirement, we start with two major research works. The first was developed by Michael Stein, in his 1998 book *The Prosperous Retirement*[1], where he coined the popular "Go-Go, Slow-Go and No-Go" description of the three phases of retirement. These phases are characterised as follows:

- **Go-Go:** the stage which most closely resembles the working years, but with more free time. Retirees typically experience this stage, maintaining their pre-retirement interests and initiating new hobbies. These are also the years when retirees travel the most.
- **Go-Slow:** retirees begin reducing their activity levels. This may be a result of declining health or physical ability, but may also simply be the result of a larger sense of contentment and changing family dynamics. For example, retirees may choose to remain closer to home and focus on things like spending time with grandchildren.
- **No-Go:** changes to health, physical and mental, that are associated with ageing increasingly become a priority and area of focus to maintain retirement lifestyles and wellbeing. Hence, aged care and health care become the primary focus for spending over leisure activities.

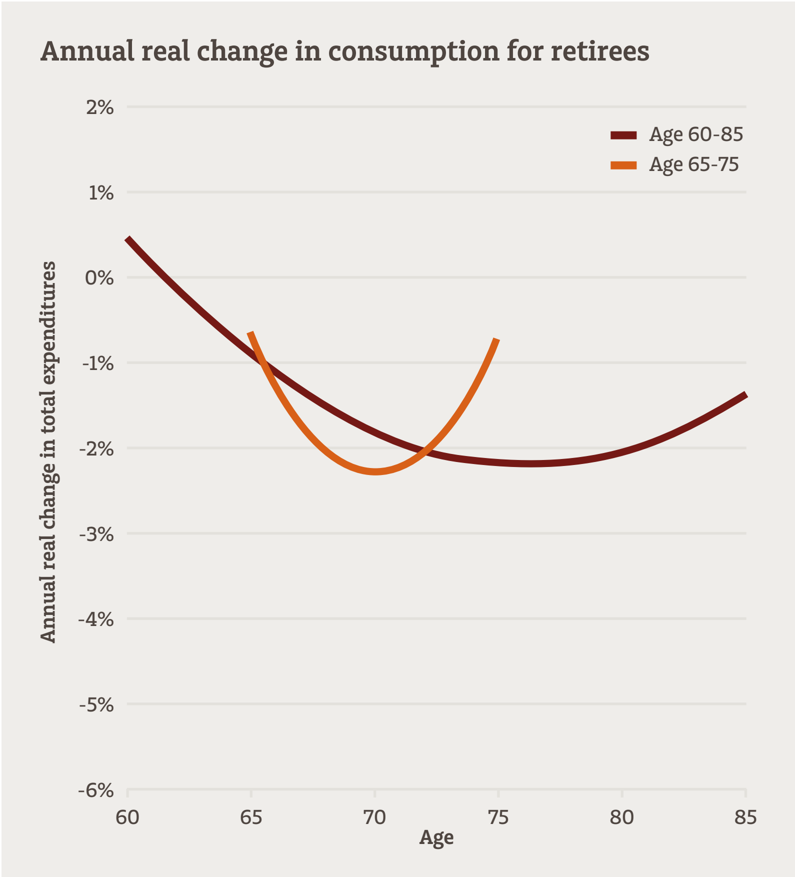
What we already know

The second is a paper for the *Journal of Financial Planning* by David Blanchett at Morningstar[2], which details the decline and subsequent rise in retirement expenditure for American retirees. In his research, Blanchett demonstrated that the traditional wisdom, of spending that remains constant over time, is not actually what retirees experience. In real terms, spending declined at a rate of one percent per annum during retirement, until later in life when rising health care costs kicked in. Blanchett coined the notion of the "retirement spending smile" that describes the shape of the curve of spending for retirees. This is illustrated in the figure at right.

Blanchett's research concepts are strong examples of the evolution of retirement planning in places like the United Kingdom and the United States, and they mirror the experience of Australian retirees.

The power and insight created by observing how retirees deploy their savings, either to fulfil their lifestyle goals or respond to the natural changes that occur as they age, reinforce the intuitive understanding that there is no such thing as an average retirement.

This paper explains that while a retiree's financial needs are not constant, they are predictable. This is highlighted through the presence of a consistent trajectory of, and pattern of expenditure across, retirees; it's mostly the magnitude that changes from person to person.



Source: Blanchett, David. "Exploring the Retirement Consumption Puzzle". 2014. *Journal of Financial Planning*. 2014; 27 (5): 34-42.

Beyond average consumption figures

As we've highlighted in the previous section, every retiree household is different and their consumption needs vary. Delving further into some of the causes for this variation, we are able to identify four critical factors that influence retirement expenditure.

Affluence

Relative wealth is the clear and dominant factor influencing lifestyles in retirement, and is closely tied to traditional notions of retirement adequacy. How much wealth a retiree has heading into retirement enables them to have more flexibility, and they spend in line with their level of affluence at the point of retirement. However, it is important to remember that affluence does not operate as a standalone factor when determining lifestyle choices in retirement.

While earlier retirement theory has focused on observations about the whole population, or honed in on less-affluent cohorts, in this paper we focus on the patterns of the mass affluent population of retirees, given that they generally seek advice and have more opportunity for discretionary expenditure.

Location

Where a retiree lives will also influence their outgoings. Anecdotally we already understand that living in rural areas is cheaper than living in the city, and data backs this up. In addition, postcodes within cities can be a factor when considering a retiree's level of spending. But there are also broader social issues at play when determining location factors.

Health

Health is usually not considered to have the same impact on retiree lifestyles as their level of wealth. However, the data shows that once spending on health increases, all other discretionary spending tends to decrease. There is truth in the proverb: "good health is above wealth". In addition to the impact of health on spending generally, spending on health-related items also goes up, even though in Australia it is tempered by the public health care system, Medicare.

Household composition

Single-person households will generally have different financial needs, particularly with respect to the basic and essential costs of retirement, relative to those households where spending is shared among more than one person.

Solving for adequacy myths

In the past several years we have seen extensive commentary on "how much is enough". Much of this commentary homes in on a single magic number that retirees need to have saved, leading into their retirement years.

The reality is that there is no single number that Australians need to have in mind when preparing for retirement.

Not only are the most commonly stated numbers accumulation focused – with a lump sum amount rather than how that would be derived into an income during retirement – but they also do not take into account the variations in expenditure that occur as a result of the factors described in the previous section. For example, $1 million in the hands of one healthy retiree living in the country will be spent completely differently than the same amount will by an unhealthy retiree living in the city.

The chart below outlines the expenditure pattern across wealth bands and ages for current Australian retirees.

We can see that the overall national averages are skewed by the top percentiles. Put plainly, the people who spend a lot in retirement, really spend a lot. Their expenditure, when counted in overall averages, suggests that more money is "required" in retirement. But as we can see, the median – or the 50th percentile – spend is less than the average, reflecting the greater weight and impact the wealthiest retirees have on these statistics.

This chart also reinforces and corroborates the retirement theory we outlined earlier, and how overall expenditure decreases as we progress through the three phases of retirement.

Categorisation of expenditure

Essential vs discretionary expenditure

When considering the nature of retirement expenditure, it is important to understand the distinction between fundamental and essential needs (housing, clothing, food) versus needs that may be more lifestyle oriented and, consequently, discretionary in nature (e.g. travel, hobbies, other leisure activities). Intuitively, as levels of retirement wealth increase, there is a higher allocation in dollar terms to discretionary expenditure. Most extra spending we see in top retiree deciles is in discretionary spending and that contributes to overall averages being skewed.

This is driven through the simple reality that as people have more to spend, they do; and also make wider choices from a broad opportunity set about how their expenditure is allocated.

A key insight from the data is that the overall proportion of expenditure between essential and discretionary items doesn't change: it's roughly 50:50 throughout the course of retirement, across cohorts of wealth and age. But a deeper analysis also offers a number of additional insights:

- Wealthier retirees have a larger pool of savings to divide between the two types of spending, which affects their quality of lifestyle. Not only is their discretionary spending higher in absolute terms, but the level of expenditure and the quality of essential items goes up – for instance, more organic food, higher electricity usage to power larger houses, etc.
- As retirement savings dwindle over time, and as retirees age and/or their health declines, the level of expenditure on essentials remains constant, and discretionary expenditure decreases.

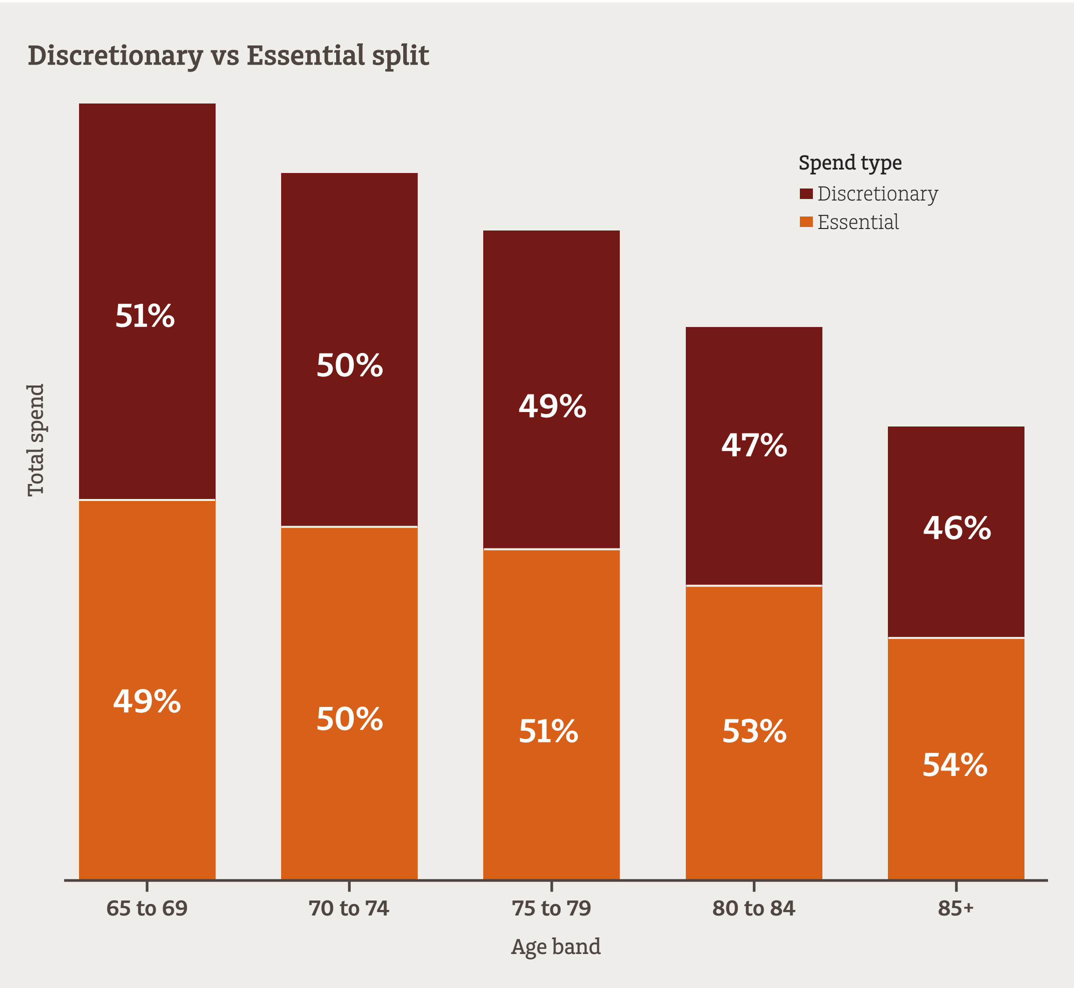
Categorisation of expenditure

For couples in the 70th percentile (top spenders), the proportion of their essential spending rises from 48 percent to 54 percent. However, their total overall expenditure is only two thirds of what it was at the beginning of retirement and, as a result, the dollar amount of discretionary spending halves.

In the later years, this decrease is a social phenomenon as much as it is a picture of how much a retiree has left to spend, particularly in the upper deciles. As we age, we value the essential items more, and as the pace of life slows down we place less emphasis on things such as hobbies and diverse activities.

As we can see, every marginal dollar available to a retiree will be allocated to essential spending first, then to discretionary spending. This makes sense to the average person; however, what's important to note is that the personal choices of every retiree will also dictate this split, over it being a simple mathematical formula to calculate adequacy, or a one-size-fits-all economic-style "basket of goods". After all, to some people organic tomatoes are an essential item, and to others they are a luxury.

For couples in the 70th percentile, the proportion of essential spending rises from 48% to 54%



Source: Milliman Retirement ESP 2019

Categorisation of expenditure

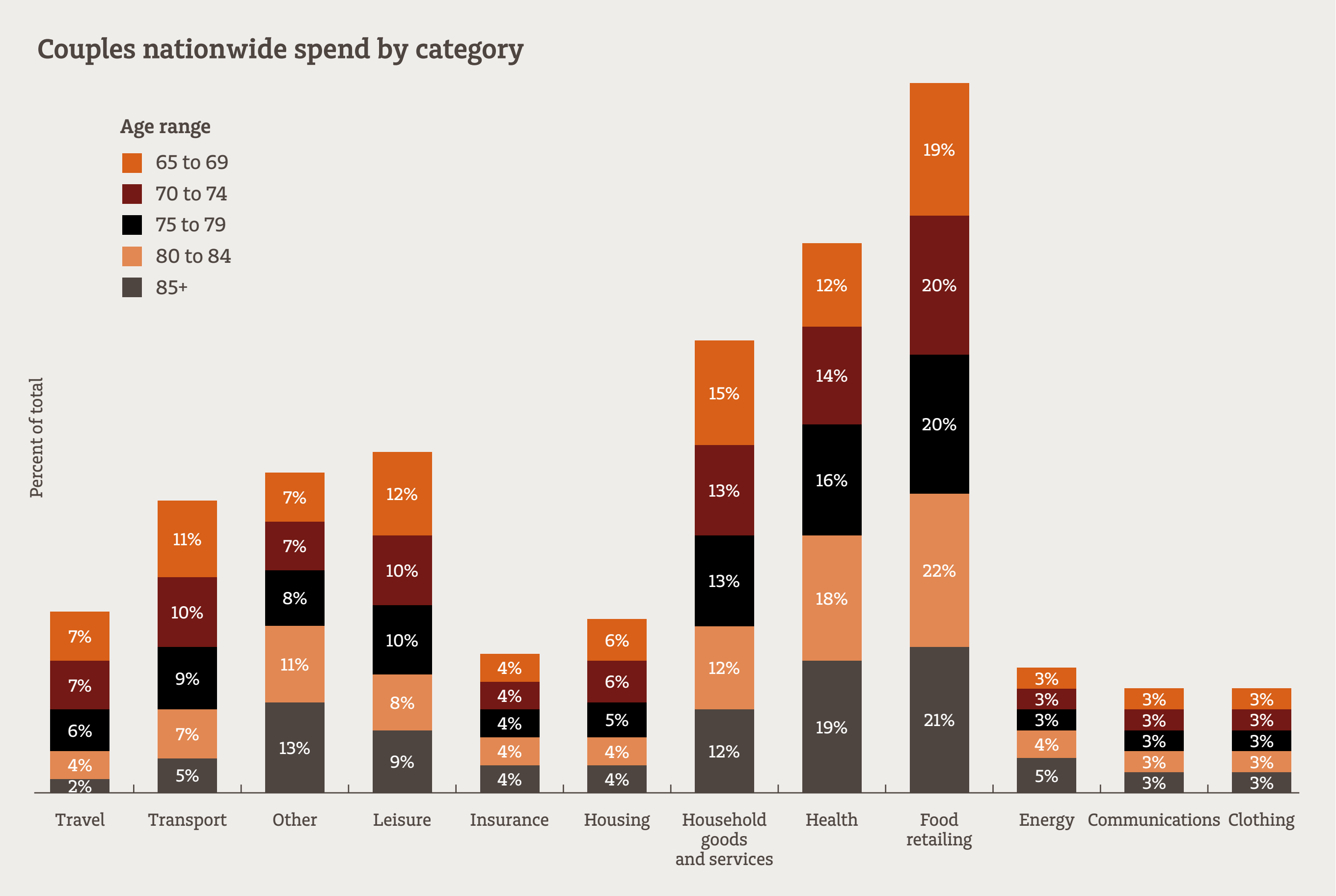
Major areas of retirement expenditure

Not only can we see that expenditure changes over time, or that affluence and ageing can affect the areas that drive the financial needs of retirees, but we are also able to drill down beyond the absolute magnitude of expenditure to understand the underlying categories and components from which these aggregate figures are comprised. Insight at the category level enables us to better understand, identify and plan lifestyles and specific goals in retirement.

The chart below illustrates how retiree couples in the 70th percentile (top spenders) allocate their money as they move through retirement.

It can be observed that some spending – the essentials – remains similar (and consequently contributes towards a higher proportion of overall expenditure over time).

Food and household goods and services are areas where spending doesn't change as much as other categories. Any sharp declines in food retailing typically happen in the areas of major supermarket spending, while other smaller places to shop, such as delis and greengrocers, remain constant. In the area of household expenditure, furniture tends to be purchased up front in the early years, and is the only noticeable decline in latter years of retirement.



Source: Milliman Retirement ESP 2019

Categorisation of expenditure

Over the course of retirement, clothing, communication and energy expenditure all remain fairly constant.

Other types of major expenditure categories show fairly obvious declines. Travel in particular, as would be expected, declines through the course of retirement. The sharpest declines occur in the areas of third-party providers such as travel agencies, accommodation and flights, which all take a major hit.

Leisure spending of all varieties show remarkable decreases, where total expenditure amounts halve. Cafes, restaurants and pubs; liquor purchases; and gambling all show significant declines over time. Spending on sports clubs, golf courses and country clubs only decrease minimally though, indicating that retirees prioritise certain leisure activities – hobbies – over eating out.

Different types of insurance, including major items of home and car insurance, all decline throughout retirement. This can be attributed to a variety of reasons, such as downsizing, moving into aged care facilities, and subsequent reduced motor vehicle usage. In line with this decreased usage, transport – noticeably anything relating to expenditure on cars – decreases equivalently, as the requirement, ability and desire for physical mobility decreases.

As we explore later in this paper, health care spending is the only major item that increases over time.

This level of expenditure analysis highlights another reason why it is important to help retirees understand where their money goes, as it's not as simple as the overall total averages would suggest. For instance, those who are not interested in travel, where their expenditure could be redirected towards other lifestyle areas, such as leisure spending. And for some people, insurance may become more important due to their individual circumstances.

Whichever way a retiree needs to direct their funds, helping them understand spending categories will subsequently help them plan their retirement spending in a more practical and relatable way.

Needs vs Wants

50:50

average spend split throughout retirement.

Location

City pace vs country living

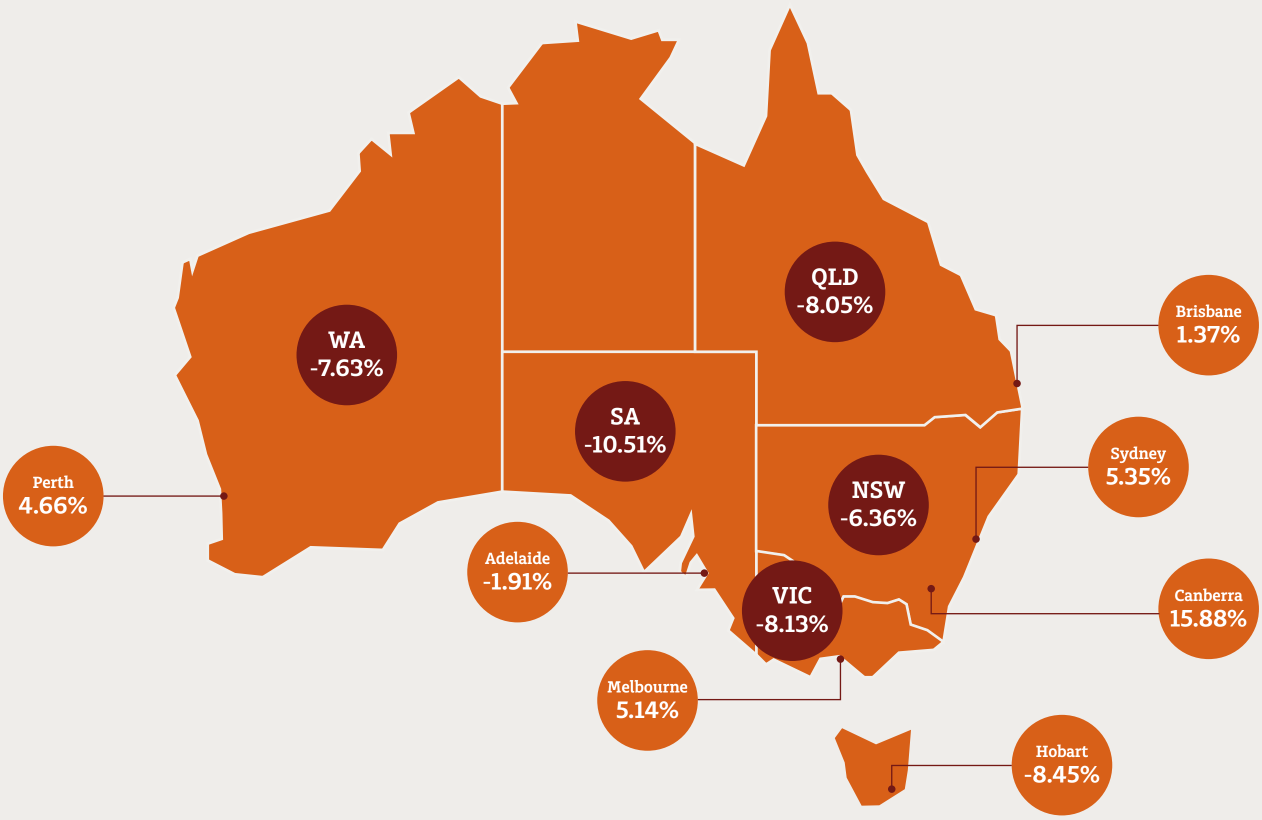
Statistics found in the Household, Income and Labour Dynamics in Australia (HILDA) survey, and retirement spending research undertaken in some of Australia's universities, all indicate that where you live determines how you live, and this is especially true in retirement.

Further to this, the data indicates that expenditure of retirees in some locations varies significantly from nationwide averages; some, like those who live in Canberra, by as much as 15 percent higher than the Australian average.

The map shows the variance between the nationwide average and each state, as well as capital city averages. We observe that retirement living in cities really is more expensive than living in rural areas. For retirees living in rural South Australia, their lifestyle will be very different from someone living in Sydney.

When the location statistics are further analysed by age, we observe a significant variance between living in the city and living in the country. By the time you are in the later years of retirement, it is almost an 11 percent difference per year.

Average state vs nationwide spend



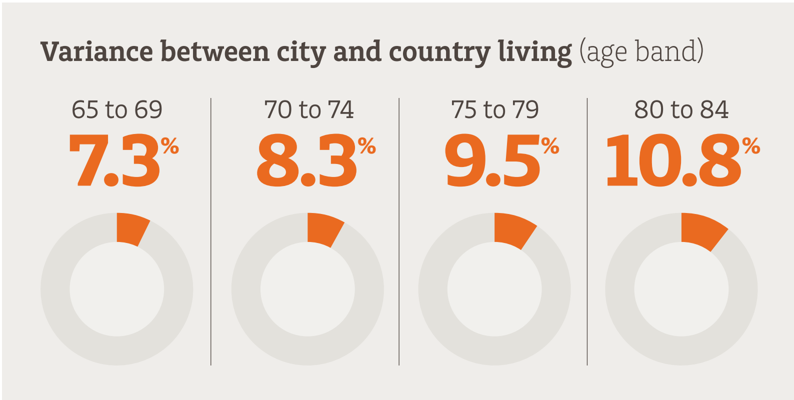
Source: Milliman Retirement ESP 2019

Location

This pattern is also explained in part by the fact that during the later years essential items make up a larger percentage of overall spending. Essentials' pricing varies more acutely between city and rural areas and this variance is more meaningful as a result.

So what does this mean for location choices that people make in retirement?

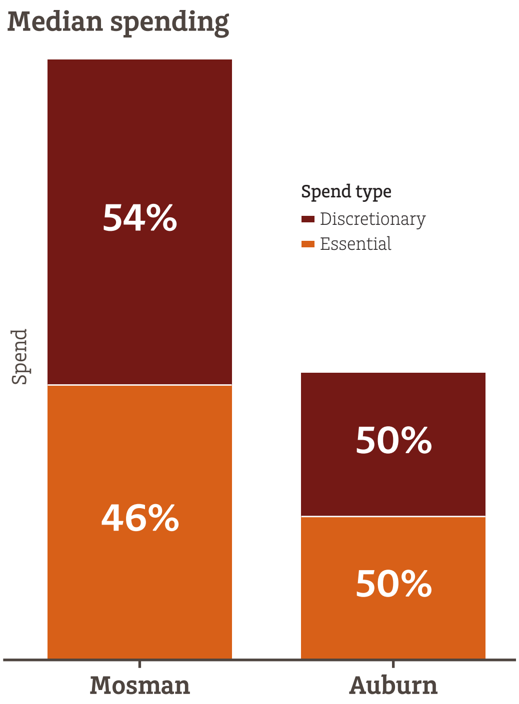
The concept of a sea change is a common one, and the figures certainly support the rationale and attractiveness of relocating for an improvement in retirement lifestyle. According to the Australian Bureau of Statistics (ABS), while 67 percent of Australians live in capital cities (and this is expected to increase over the next 20 years to 70 percent), only 63 percent of Australians aged 45 and over live in capital cities. Not only are overall retirement lifestyle factors more favourable in rural areas, but we can glean that moving for expenditure reasons might be as good a reason as wanting to be closer to the beach.



Source: Milliman Retirement ESP 2019

A tale of two suburbs

The location factor is not simply between city and country either. Individual suburb variances can play a significant part in expenditure analysis. As we can see in the chart at right, the figures from two suburbs in Sydney show quite a different picture when assessing the behaviour of the retirees who reside in different locations in the same city. While the overall proportions of discretionary and essential spending remain about the same between suburbs, the actual spending in Mosman is double in its entirety than in Auburn. In fact, the total spending in Auburn is only slightly more than the spending on essentials only in Mosman, leading to some interesting conclusions about lifestyle differences between wealth bands that play out on a location basis.



Source: Milliman Retirement ESP 2019

Mosmanite retirees spend 50% more than their fellow Auburnites, in pretty much the same proportions.

Health

While affluence may be the dominant lifestyle factor when it comes to retirement, it doesn't paint the entire picture. A retiree's health in the early years means that lifestyles are not that different to just before retirement, and with their newfound free time, retirees have the means to do more if they can afford it.

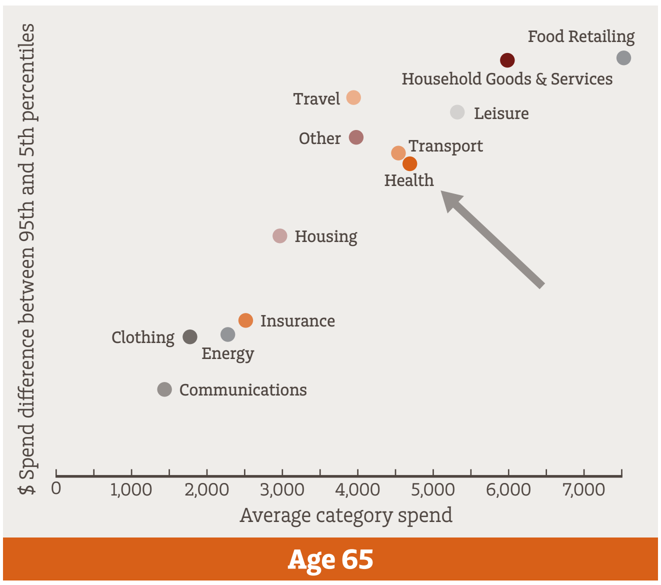
As highlighted earlier, one area of spending that markedly doesn't follow the overall trend is health care spending, which goes up as other areas decrease. In fact, declining health can be a serious handbrake on these other spending categories; in particular areas such as leisure, transport and travel.

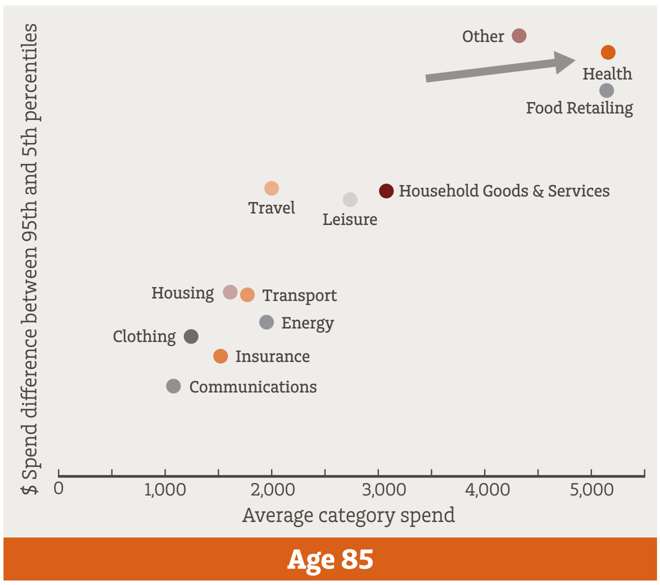
The rise in health spending corroborates David Blanchett's paper on retirement expenditure patterns, indicating that these costs rise towards the end of retirement. The important distinction is that when it comes to the "retirement smile", the experience across different countries, such as between the US and Australia, can play out differently. This is largely a function of the role that government can have with respect to the support and financial costs associated with both public and private health care. Australia's public health system (Medicare) takes an increasing role and offers substantial financial benefits as retirees age, reducing out-of-pocket expenses seen in other countries with lower levels of government support.

In the US, the rise is larger and can be more transparently attributed to rising health insurance costs. However, in Australia retirees take advantage of Medicare, so the difference isn't as stark.

Notwithstanding the unique aspect of Australia's health care system, and even though overall spending shows a decline, Australian health care costs (over and above those borne by Medicare) still increase, and consequently contribute to a higher proportion of spending in the "Go-Slow" and "No-Go" years. This spending includes areas like out-of-pocket expenses for medical specialists, optometry, and expenditure at pharmacies. One area that does go down is dental. This expenditure decrease later in life may be explained by dentures and other longer-term dental solutions.

Health – the only category that goes up





Source: Milliman Retirement ESP 2019

Household composition

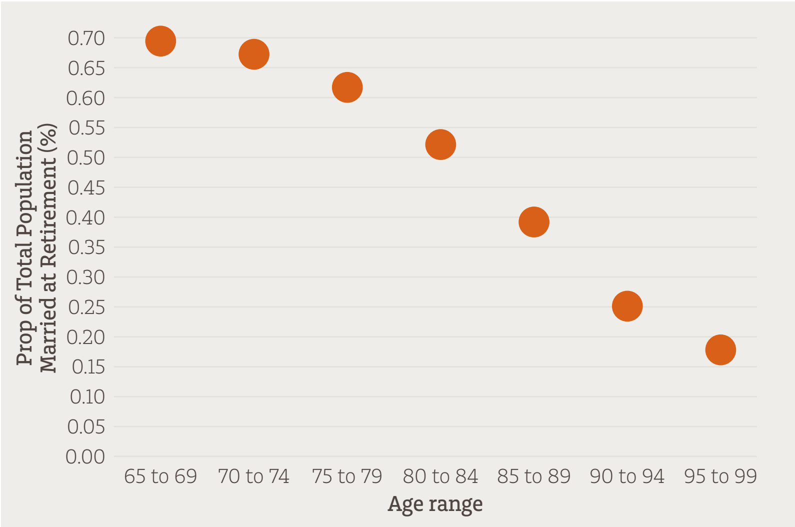
The more people share expenses in a household, the easier it can be to maintain a desired retirement lifestyle. Currently, 70 percent of Australians enter retirement as a couple (ABS). Through retirement, however, the proportion of couples declines as people age: 62 percent of 75-year-olds are still coupled, and the figure drops to 15 percent at 95.

Understanding these statistics is important when distinguishing the planning for couples and planning for singles. As a generally accepted principle, singles spend approximately 60 percent of couples' expenditure; the Age Pension, as an example, currently pays 66 percent of the couples' payment to singles.

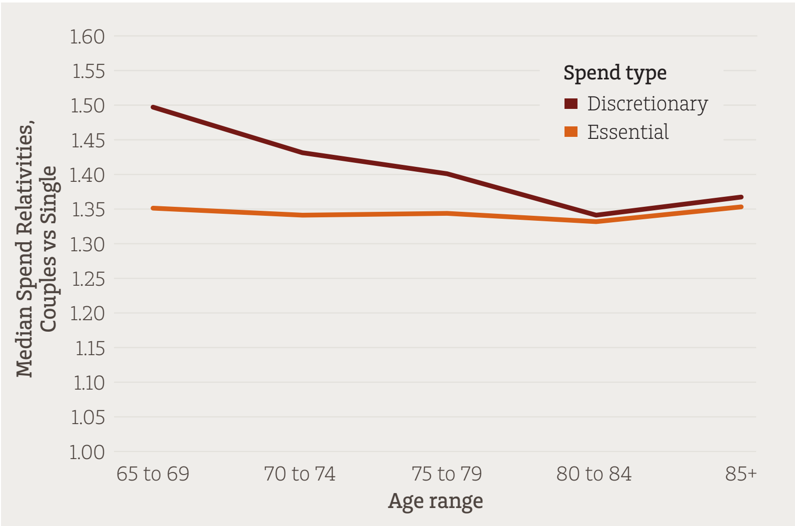
When it comes to essential spending vs discretionary spending, it's also important to note that at the beginning of retirement couples have a higher amount of discretionary spending between them – with more "play" money than singles. However, as we age and are less likely to be in a couple, the differences in expenditure converge, as discretionary expenditure decreases regardless of household composition.

So how do singles plan for retirement differently than couples? The simple fact of the matter is singles need to ensure they have adequate plans for covering their essential expenditure, while couples have the relative luxury of shared resources to be able to enjoy their "Go-Go" years a little bit more.

As a general principle, singles spend approximately 60% of couples' expenditure



Source: Australian Bureau of Statistics 2016



Source: Milliman Retirement ESP 2019

Navigating complexity: the need for advice

As superannuation balances grow and retirement planning becomes more sophisticated, the industry has developed a much greater understanding of the fact that accumulation targets are overly simplistic. Instead, we must look through a lens that understands the nuances that exist across the country. We must look beyond averages, which, as we've demonstrated, do not reflect the personal goals and objectives of individual retirees.

Without an understanding of their financial needs as well as their overall lifestyle goals, retirees cannot plan to either pay themselves an income during retirement, or allocate funds elsewhere, such as for bequests or helping the next generation within their families.

Armed with additional detail and insight when it comes to their personal retirement journey, retirees can draw comfort that they can move away from simplistic and unrealistic lump sum numbers and a one-size-fits-all approach, and can instead plan for the kind of lifestyle they really want in retirement.

Personalising retirement goals and implementing them to provide both an income during retirement as well as other financial outcomes, however, requires the help of a professional who is experienced in navigating the complex nature of financial markets and risk management as well as tax and estate planning.

In order to obtain better outcomes, people heading into retirement will benefit from discussing these issues with a financial adviser.

We must look beyond averages, which, as we've demonstrated, do not reflect the personal goals and objectives of individual retirees

About this paper

This paper has been provided by Milliman Pty Ltd ABN 51 093 828 418 AFSL 340679 (Milliman). The research was conducted and finalised for this paper in June 2019. For its research, Milliman has used the Milliman Retirement Expectations and Spending Profiles (Retirement ESP) and the Australian Bureau of Statistics, as well as other data sources.

Milliman, established in 1947, is a global independent actuarial management consulting firm. In Australia, it specialises in the retirement sector, where it partners with a range of organisations providing consulting, data analysis, and risk management services and solutions to financial industry participants. Milliman provides products and solutions that create better outcomes, designed to help people have a better retirement. For further information, visit **au.milliman.com**

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3. Australian Bureau of Statistics 2016

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For more information call MLC from anywhere in Australia on 132 652

Postal address

PO Box 200
North Sydney NSW 2059

Registered office

Ground Floor, MLC Building
105–153 Miller Street
North Sydney NSW 2060

mlc.com.au

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