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Paul Cahill, chief executive officer, Club Plus Super

Paul Cahill has been the inaugural chief executive officer of Club Plus Superannuation since November 2007, and is also the responsible officer for the fund. He holds qualifications in both finance and commerce, in addition to an Executive MBA, and was previously the CEO of the Australian Meat Industry Superannuation Trust (AMIST) for 16 years.

WILL YOU LIVE TOO LONG?

Paul Cahill

Australians are living longer than ever before. Medical advancements and behavioural changes have acted in tandem with public health reform by successive Australian Governments to heighten the awareness of health considerations and improve the health outlook of many Australians.

As a result of these changes, Australia currently enjoys one of the highest life expectancy rates (at birth) of any country in the world.

While this obviously has positive implications for the quality of life of many Australians enjoying elevated levels of health and longevity, the reality is that many Australians may not have the means to enjoy this improved wellbeing in their later stages of life. This is because many Australians may not be taking an extended retirement into account during their earlier years, resulting in a superannuation savings shortfall at retirement.

The following white paper explores this growing disparity between life expectancy and the superannuation balance of an average Australian. It outlines the specific costs associated with meeting living costs at retirement while leading a modest or a comfortable lifestyle, as defined by the Association of Superannuation Funds of Australia (ASFA) retirement standards. The point where an average Australian will become reliant on the age pension is identified, and the difference between the yearly costs of these different lifestyles and the age pension is calculated.

Finally a range of proposed solutions conclude the report, in the form of specific steps which may help Australians avoid such a shortfall at retirement.

The current state of play

According to recent ABS data, a boy and girl born in 2012 can expect to live to 80 and 84 years respectively. However average life expectancy at birth may underestimate the length of time of the average Australian's retirement, as life expectancy increases with age. Thus a man and woman reaching 65 years of age in 2012 can actually expect to live to 84 and 87 years respectively.

Table 1: Life Expectancy (expected age at death in years)

Age (years)	Males			Females		
	1901–10	1960–62	2010–12	1901–10	1960–62	2010–12
0 (birth)	55.2	67.9	79.9	58.8	74.2	84.3
1	61.0	69.5	80.3	63.9	75.5	84.5
15	64.0	70.1	80.4	66.9	76.0	84.7
25	65.6	70.8	80.7	68.4	76.3	84.8
45	69.8	72.4	81.7	72.6	77.4	85.4
65	76.3	77.5	84.1	77.9	80.7	87.0
85	88.7	89.1	91.1	89.2	89.8	92.2

Sources: ABS 2008; ABS 2013a

According to a 2011 report 'Developments in the Level and Distribution of Retirement Savings' issued by ASFA, the average super fund balance for males and females in 2010 was $198,325 and $112,632 respectively. So just how far will these balances take someone upon entering retirement?

According to additional figures supplied by ASFA, these levels of savings may not provide much support in retirement at all. The 'ASFA Retirement Standard' benchmarks the annual budget re-

quired by Australians to fund two different types of lifestyle in retirement – 'moderate' and 'comfortable'.

The Standard defines a moderate lifestyle as "better than the age pension, but still only able to afford fairly basic activities". A comfortable lifestyle, conversely, is one "enabling an older, healthy retiree to be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of such things as household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel".

The standard is indexed for inflation and takes into consideration changing patterns of spending. In this instance it has meant accounting for additional expenditure in the areas of communications, private health insurance, energy, clothing, household goods and services, recreation and transport.

Table 2: Budgets for various households and living standards (December Quarter 2013)

	Modest Lifestyle (single)	Modest Lifestyle (couple)	Confortable Lifestyle (single)	Confortable Lifestyle (couple)
Housing - ongoing only	$63.40	$60.86	$73.48	$85.18
Energy	$42.98	$57.09	$43.62	$59.16
Food	$75.64	$156.69	$108.06	$194.51
Clothing	$17.96	$29.15	$38.87	$58.30
Household goods and services	$26.57	$36.03	$74.75	$87.57
Health	$38.59	$74.48	$76.56	$135.12
Transport	$95.78	$98.49	$142.73	$145.44
Leisure	$73.93	$110.14	$224.03	$307.01
Communications	$9.61	$16.82	$26.41	$33.61
Total per week	$444.46	$639.74	$808.51	$1,105.91
Total per year	$23,175	$33,358	$42,158	$57,665

The figures in each case assume that the retiree(s) own their own home and relate to expenditure by the household. This can be greater than household income after income tax where there is a drawdown on capital over the period of retirement. Single calculations are based on female figures. All calculations are weekly.
Source: The Association of Superannuation Funds of Australia, ASFA Retirement Standard 2014: http://www.superannuation.asn.au/resources/retirement-standard (viewed 13/2/2104)

Using the totals sourced from Table 2, the average Australian man seeking a comfortable lifestyle and who has saved $198,325 at the point of retirement will find his savings eroded into after approximately eight years. The average woman will find her savings disappear even faster – after only four years if she too seeks a comfortable lifestyle.

Short of coming across alternate cash flows, such as an inheritance or insurance payout of some sort, a person finding themselves in such a position will be forced to turn to the age pension for sustenance. Introduced in June 1908 the age pension was formulated at a point where life expectancy for Australian men and women was 55 and 59 years respectively. In this regard, its initial intention would not have been to support retirees for upwards of 15 years, rather as a 'helping hand' in their final few years. The current provision of the pension sits at $21,505 a year for a single person and $32,417 for a couple.

As is evident by the below figures, the disparity is most apparent for those Australians seeking a lifestyle on the more comfortable end of the spectrum, and reinforces the need for substantial savings to support such a lifestyle.

Table 3: Shortfall after savings dry out

	Modest Lifestyle (single)	Modest Lifestyle (couple)	Confortable Lifestyle (single)	Confortable Lifestyle (couple)
Total cost per year	$23,175	$33,358	$42,158	$57,665
Age Pension	$21,505	$32,417	$21,505	$32,417
Shortfall (annually)	-$1,670	-$941	-$20,653	-$25,248

Avoiding shortfall

The short-answer solution to avoiding any type of shortfall is to ensure adequate superannuation savings by the point of retirement. But determining exactly how much needs to be put away regularly isn't always completely clear-cut. While online retirement calculators or reports such as the ASFA Retirement Standard certainly serve as a starting point for Australians seeking to become better prepared for their golden years, they are by no means tailored to the unique needs of each individual.

Spending priorities differ from person to person, as do the right investment options for money saved, which can be a factor of many different variables including investment timeframe, attitude to risk, and desired retirement age, to name a few. While some super funds offer a basic level of automatic insurance and income protection cover, it may not be sufficient to meet the needs of all. In fact establishing the level of insurance required to cover the costs of being unable to work due to unexpected accident or illness is similarly a very personal decision, and one which can't be estimated in any report or defined by simple online calculators.

The following steps may be of assistance to advisers and industry professionals in helping clients avoid a retirement shortfall:

1. Demonstrate the power of compound interest

It can be easy to put off worrying about superannuation, as for many Australians retirement can feel a very long way off. Furthermore, many clients are unaware of the beneficial impact contributions made earlier in life can have on compounding interest and, ultimately, their super balances at retirement. Using simple real-life examples to demonstrate the power of compound interest is an effective way to illustrate this impact. For example, basic forecasting by Club Plus Super has found that if a 30-year-old were to invest just half of their tax refund into the average default fund as a one-off payment, it could be worth approximately $12,791 when the contributor turns 65. If using the same strategy for a decade, this figure could come out closer to $100,000. Putting a future value on current contributions could provide the motivation clients need to act.

2. Stress the importance of consolidation

In today's society it's not uncommon for Australians to change jobs fairly frequently, especially young Australians transitioning from high school to university and through to the workforce. Unfortunately many still forget - particularly the young - to consolidate their super when changing jobs. For this reason, it's common for the average worker to be a member of several funds simultaneously over their

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lifetime. As a result, these workers waste their savings on multiple fees and insurance premiums, reducing the potential of their super to benefit from compound interest.

It's also commonly believed that resolving this issue - consolidating super accounts - is difficult. However most super funds make consolidating super, or 'rolling over', easy. Thanks to recent developments, users can spend only a few minutes entering the required information and the tool will consolidate their super into one account in just a matter of days. Encouraging clients to consolidate may be as simple as telling clients about such tools. Many Australians may also be unaware that losing contact with their super fund by not providing new address details when moving house can result in their super being registered as 'lost', and transferred to the Australian Taxation Office. Educating clients about the impact of this - not just on their super savings, but the insurance and other benefits forfeited when their super is declared 'lost' - is paramount.

3. Pay a professional.

Finally, determining exactly how much money to put away each week to achieve a desired lifestyle in retirement isn't simple. A common issue here is that the people who would benefit the most from financial advice often believe that the cost of advice is prohibitive. Club Plus Super tries to address this issue by offering both single issue (investment strategy, insurance etc) and holistic advice to its members through Club Plus Financial Planning, which members can opt to pay for from their super account. The Fund is additionally looking to work more closely with independent advisers in making this type of approach possible, with the objective again being to help people who lack the immediate cash flow to engage with professional advice. Over time Club Plus Super believes that the value in receiving regular professional advice far outweighs the cost of meeting with a planner when it comes to establishing the right **FS**