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## **Retirement expectations out of step with retirement savings – 12 per cent SG would increase adequacy significantly**

New research shows that Australians are not saving enough to afford a comfortable retirement yet they are working less and spending more years in retirement than ever before.

According to the 24<sup>th</sup> AMP.NATSEM Income and Wealth Report, *Don't stop thinking about tomorrow*, we now expect to spend around 20 years in retirement after age 65. In 1909 only around half of all Australians lived to age 65.

The report considers how realistic present retirement expectations are given levels of retirement savings. It considers the impact that increasing future superannuation contributions would have and whether increased superannuation will rescue baby boomer women from the poverty that appears likely to await many of them.

To address the critical issue of adequate retirement funding the report considers the benefit of increasing the Superannuation Guarantee (SG) from 9 per cent to 12 per cent. In 30 years time the superannuation balances of men are projected to increase by 25 per cent. For women aged 45 to 54, the projected increase is 7 per cent, for women aged 55 to 64 it will be 22 per cent and for women aged 65 and over the estimated increase is 30 per cent.

Based on NATSEM simulations, increasing the SG to 12 per cent will increase Australia's retirement savings substantially and reduce the Age Pension outlay by 2.3 per cent. In 1909 only 23,000 people received the Age Pension. Today 2.3 million are on the Age Pension or 77 per cent of people aged over 65.

"Australians have very high retirement expectations but we are not saving enough to even afford a comfortable retirement let alone one that meets our expectations," said AMP Financial Services Managing Director Craig Meller.

"Adequate retirement funding is a critical issue that needs to be managed and increasing the SG to 12 per cent would significantly lift the adequacy of future retirement savings.

"Australia is a wealthy nation yet our personal savings, including superannuation, are still reasonably low. By increasing the SG to 12 per cent the average superannuation balance could increase by one-quarter.

"As a nation we need to promote discussion with policy makers and industry to explore ways to achieve adequate retirement funding for all," Mr Meller said.

NATSEM author and University of Canberra Associate Professor Dr Simon Kelly said for women, the time out of the labour force for childbirth and child-raising has a significant impact on their personal savings and superannuation.

“We found a significant gender gap in personal savings and superannuation for women. Women have sixth-tenths the personal savings of men and only have half the super of their male counterparts,” Dr Kelly said.

“The baby boomers have not saved enough for their retirement. There is a significant gap between their retirement expectations and their personal savings.

“Baby boomer women are particularly behind their male counterparts. Men aged 55 to 64 have on average \$130,900 in superannuation, while women of the same age have less than half that amount, an average of \$60,700,” Dr Kelly concluded.

## **Key findings**

### **Happy birthday to the Age Pension**

The Age Pension is 100 years old this year. In 1909 only 28 per cent (or 23,000) of people got the Age Pension and now 77 per cent receive it (2.3 million). The low proportion receiving the pension, 28 per cent, appears to be a combination of strict criteria and the hard-working life resulting in the poor being underrepresented in the over 65s.

### **We are living longer**

In 1909 50 per cent of people died before reaching 65, if they did reach 65 they only lived about another 10 years. Today 85 per cent of men and 92 per cent of women live until age 65 and can expect to live another 20 years. More than 2.9 million people or 13.5 per cent of the Australian population is now aged 65 and over. In 30 years time longer life expectancy could see around 7 million people aged 65 years and over putting greater pressure on the government and a greater need for self-reliance.

### **Work participation rates drop for men**

Work participation rates for men in the last 20 years are down 3.3 percentage points. However, participation rates for men near retirement age, 60 to 64, has gone up, with almost six in 10 men participating in the workforce, up 8.2 percentage points from two decades ago. Four in 10 men leave the workforce before the traditional retirement age of 65 years. The female participation rate has increased over the last 20 years, up 7.3 per cent. The participation rates are even stronger for women aged 45 to 64 – the strongest growth over the last 20 years has been for women aged 55 to 59 years which is up 30.4 percentage points.

### **More Australians are working part-time**

In 1966 only about 10 per cent of people worked part-time. Now, almost 30 per cent of Australians work part-time. The proportion of men working part-time has more than doubled over the last 20 years from 7.6 per cent. As Australians are approaching the pension age, more than one-fifth of men aged 60 to 64 and almost six in 10 women are transitioning to retirement by working part-time – yet those aged 55 to 59 are increasingly going back to full-time work.

### **Male earnings peak at an earlier age than females**

Men have higher average earnings and total incomes than women in all age groups. The overall average earnings of men at \$40,000 per annum is almost double the average for women at \$21,400. Male earnings are reasonably high and constant averaging over \$55,000 from 35 to 54 years old while women peak at a much younger age of 25 to 34 at just \$30,700.

### **Men have greater savings than women**

Australians aged 55 to 64 are the wealthiest with average savings more than 20 times greater than those who arrive into the labour force – \$229,000 for men and \$149,000 for women. The overall personal savings for men is \$132,200 and for women the average is \$79,100. Family responsibilities and motherhood impact on the personal savings for women, women have on average six-tenths the personal savings of men. South Australian men have the highest average level of personal savings at \$152,600 while Tasmanian women have the lowest at \$48,300.

### **Retirement savings only last a few years**

The incomes of those currently aged 65 and over and retired (\$23,200 for men and \$18,900 for women) do not seem to be high enough to finance the retirement expectations being expressed by those approaching retirement. A person needs around 65 per cent of their pre-retirement income for a comfortable retirement; a person who retires on average earnings would need \$40,475 each year. The savings of those currently aged 65 and over and retired (\$107,500 for men and \$81,600 for women) are only enough to last three years for women and four years for men.

### **Retirement in 30 years**

Projecting 30 years forward and changing the SG to 12 per cent – for men the change will increase their super by an estimated 25 per cent while for women, the increase varies with age. For those aged 45-54, the projected increase is only 7 per cent; for those aged 55-64 it is 22 per cent; and for women aged 65 and over, it is 30 per cent but the balance is still very low at \$80,300. Women's superannuation balances are traditionally around half of the level of men at the same age. Increasing the SG to 12 per cent would improve the average superannuation balances of women. Increasing the SG would help Australians save for retirement.

This report is the 24<sup>th</sup> edition of the AMP.NATSEM Income and Wealth Reports. Since 2001, AMP and NATSEM have produced a series of reports that open windows on Australian society, the way we live and work - and our financial and personal aspirations. AMP publishes these reports to help the community make informed financial and lifestyle decisions and to contribute to important social and economic policy debate.

**Note:** for a full copy of the report please contact Emily Ritchie.

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## Appendix

Table 4 - Estimated superannuation balances\* under two scenarios, 2010 and 2040

AGE GROUP	SUPER 2010		SUPER 2040		12% SG SUPER 2040	
	MALES \$	FEMALES \$	MALES \$	FEMALES \$	MALES \$	FEMALES \$
45-54	103,400	61,400	225,400	145,100	284,000	155,900
55-64	113,200	54,500	350,900	200,300	434,600	245,000
65 and over	43,000	42,300	142,400	61,600	176,100	80,300

Note: \*Preliminary estimates from APPSIM, see technical notes.

Source: NATSEM.

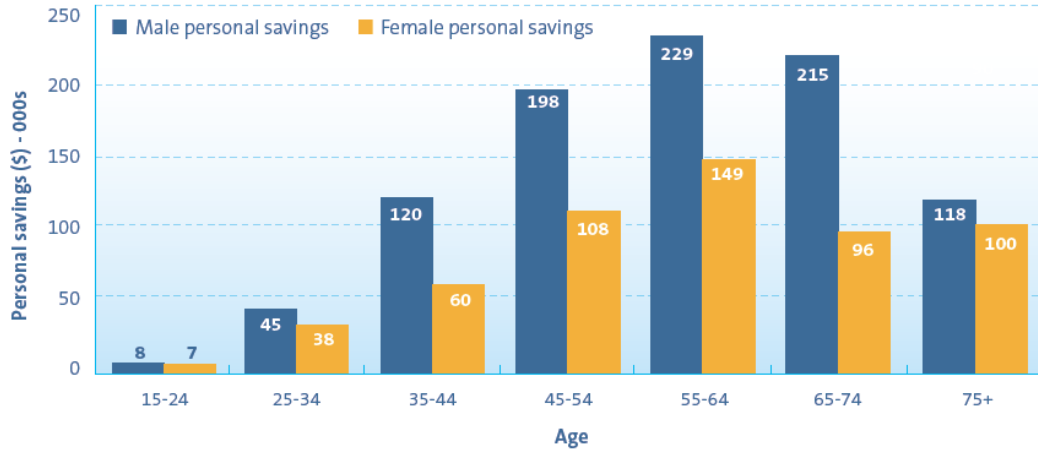
Table 1 - Earned and total personal income by age and sex, 2009

AGE GROUP	MALES		FEMALES	
	EARNED INCOME \$ PA	TOTAL INCOME \$ PA	EARNED INCOME \$ PA	TOTAL INCOME \$ PA
15-24	27,900	31,800	22,200	27,000
25-34	51,000	57,800	30,700	38,000
35-44	56,400	68,300	27,100	37,900
45-54	54,900	68,700	30,000	38,700
55-64	34,400	52,600	15,000	27,100
65-74	3,800	28,000	1,400	19,900
75+	500	25,200	300	20,200
All 15+ Ages	40,000	53,300	21,400	32,200

Note: The averages shown are for all people in this age group with the exception that the 15 to 24 Age Group does not include those who are full-time students. Values have been rounded to the nearest \$100.

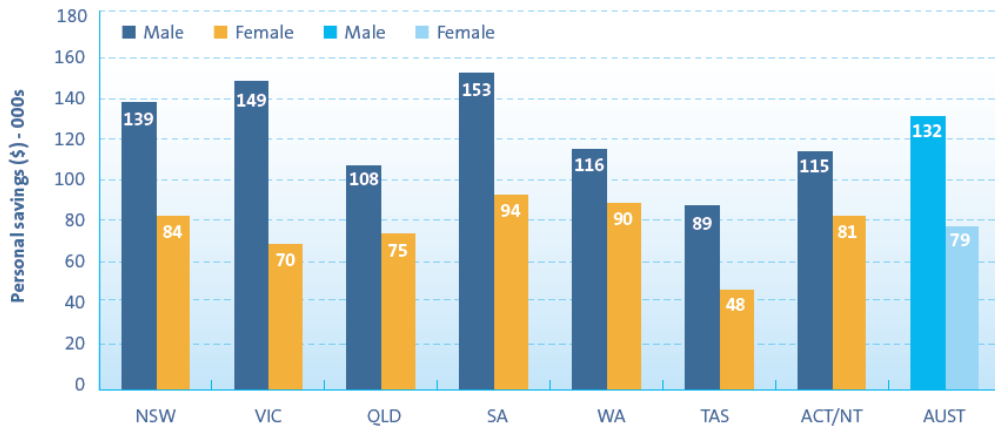
Source: NATSEM calculations, see technical notes.

Figure 5 - Average personal savings by age and sex, 2009



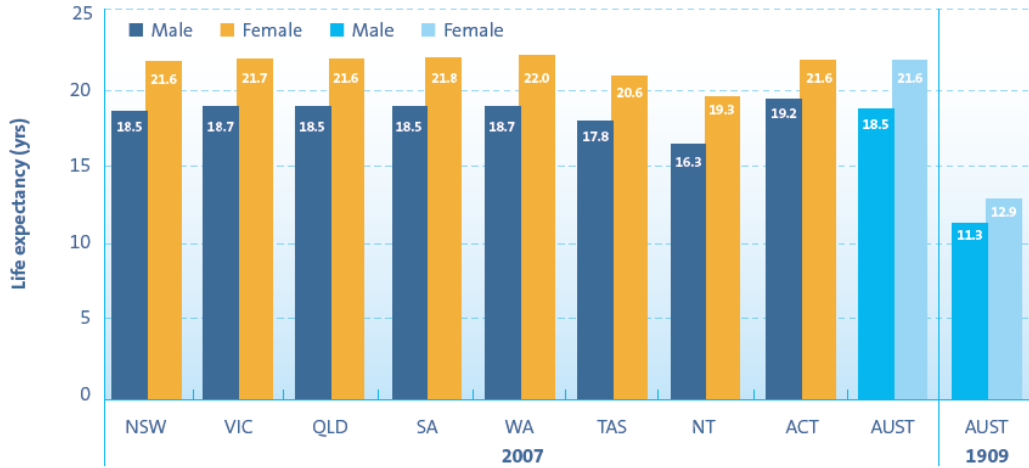
Source: NATSEM calculations see technical notes.

Figure 6 - Average personal savings by sex and state/territory, 2009



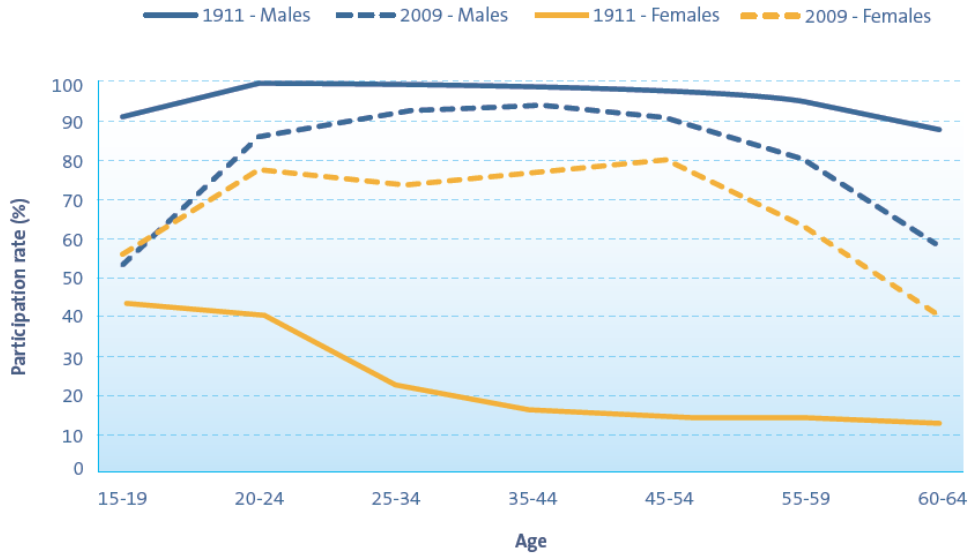
Source: NATSEM calculations, see technical notes.

Figure 7 - Life expectancy at 65 years by sex and state/territory, 2007



Source: ABS 2007 Deaths, Australia, Cat. No.3302.0.

Figure 1 - Labour force participation rates by sex and age, April 1911 and July 2009



Source: ABS, 2000 and 2009c.

1 In the public sector, the “marriage bar” meant that women had to resign as permanent officers of the public service when they got married. Although married women could continue to work as temporary employees, most left the workforce because in these temporary roles their opportunities were limited. Temporary employees were not allowed to supervise other staff and had limited access to superannuation (APSC 2006). This rule remained in place until 1966. Similar rules applied in the private sector.