

**What happens when the baby boomers retire?
Trends in retiree wealth, spending and inheritances**

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Existing retirees don't spend their wealth in retirement. It's unlikely the boomers will either

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 - Concerns the Age Pension will disappear are vastly overblown
 - Minimum drawdown rules anchor drawdown of superannuation

Limited spending means greater inheritances and worsening wealth inequality

- Without change, one in three dollars in super will be paid out as a bequest by 2059
- Inheritances overwhelmingly flow to older, wealthier households, worsening wealth inequality

How should policy adapt?

- Phase out residential aged-care bonds and make clear social safety net is here to stay
- Greater use of pooled products that address longevity & other risks would help high-income earners
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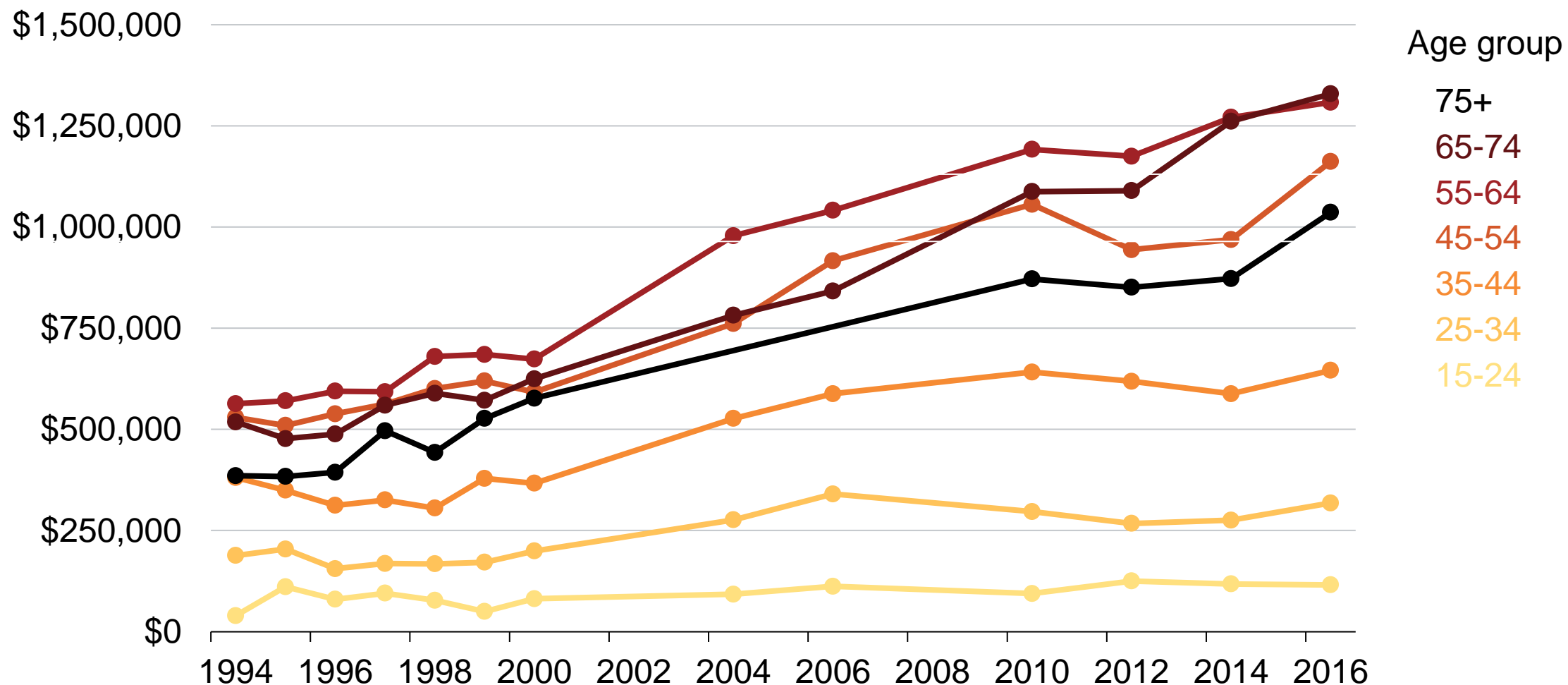
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Baby boomers on average have more than \$1 million in wealth at retirement

Average household net worth by age of head of household, 1994 to 2016, in \$2016

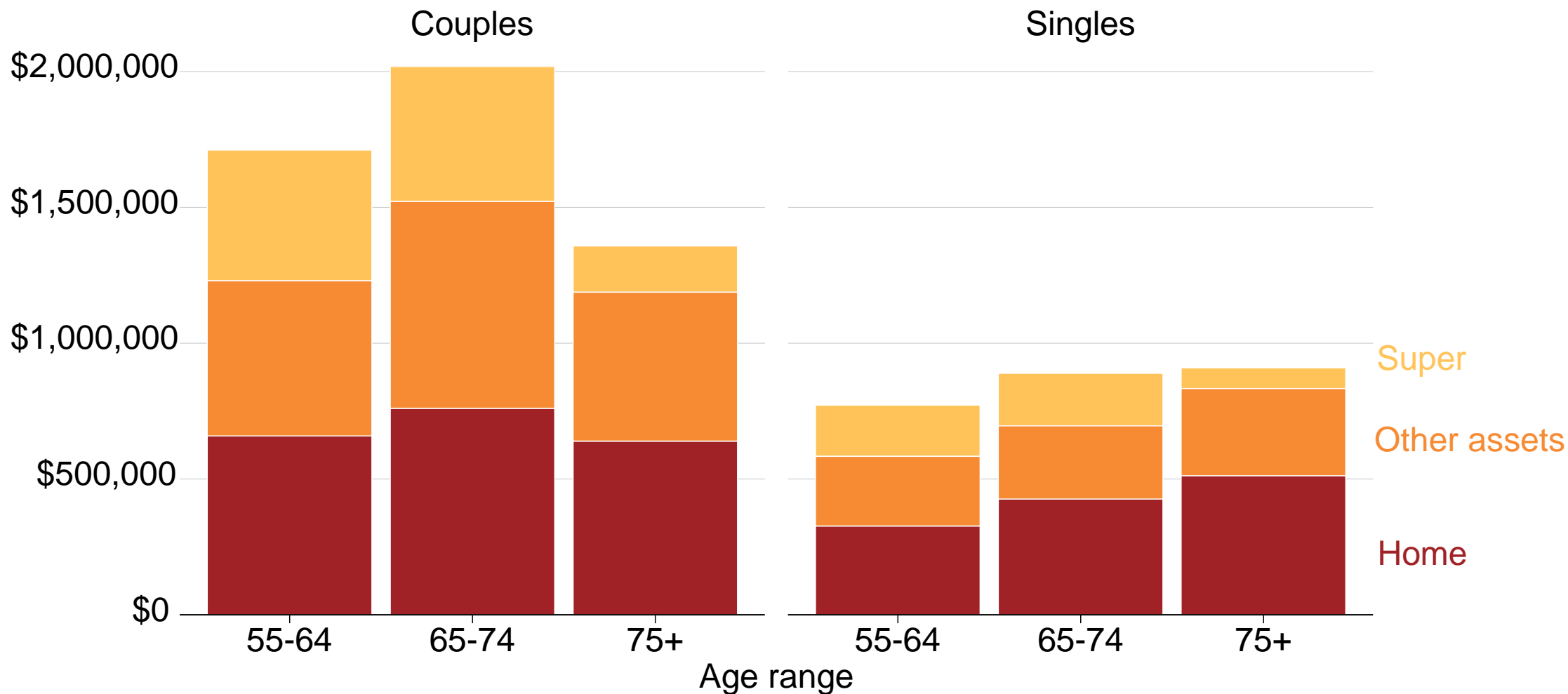


Notes: All years are financial year ending. ABS summary data was not available for 75+ age group in 2004 and 2006.

Sources: ABS Household Income and Wealth, summary data by age of household reference person, various years; ABS working paper: Experimental Estimates of the Distribution of Household Wealth, Australia, 1994–2000.

But Baby Boomers are saving a lot outside of super

Mean net wealth per household by age, singles and couples, \$2017-18



Notes: Age group refers to the age of the survey reference person. Only includes couple and single households without children (i.e. empty-nesters), and therefore is not equivalised.

Source: ABS 2017-18 Survey of Income and Housing microdata.

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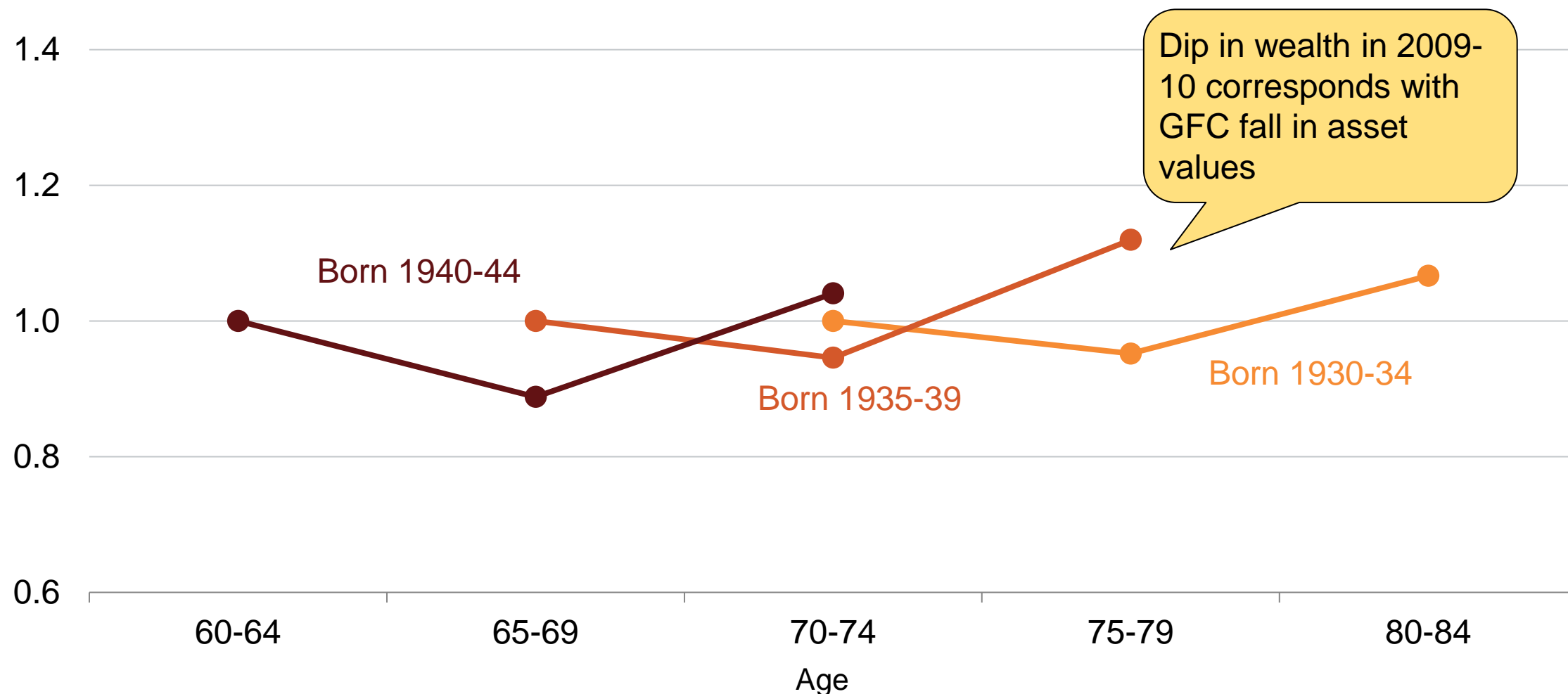
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Retirees generally don't spend their nest eggs in retirement

Household net financial wealth, excluding the family home, relative to 2005, \$2015-16

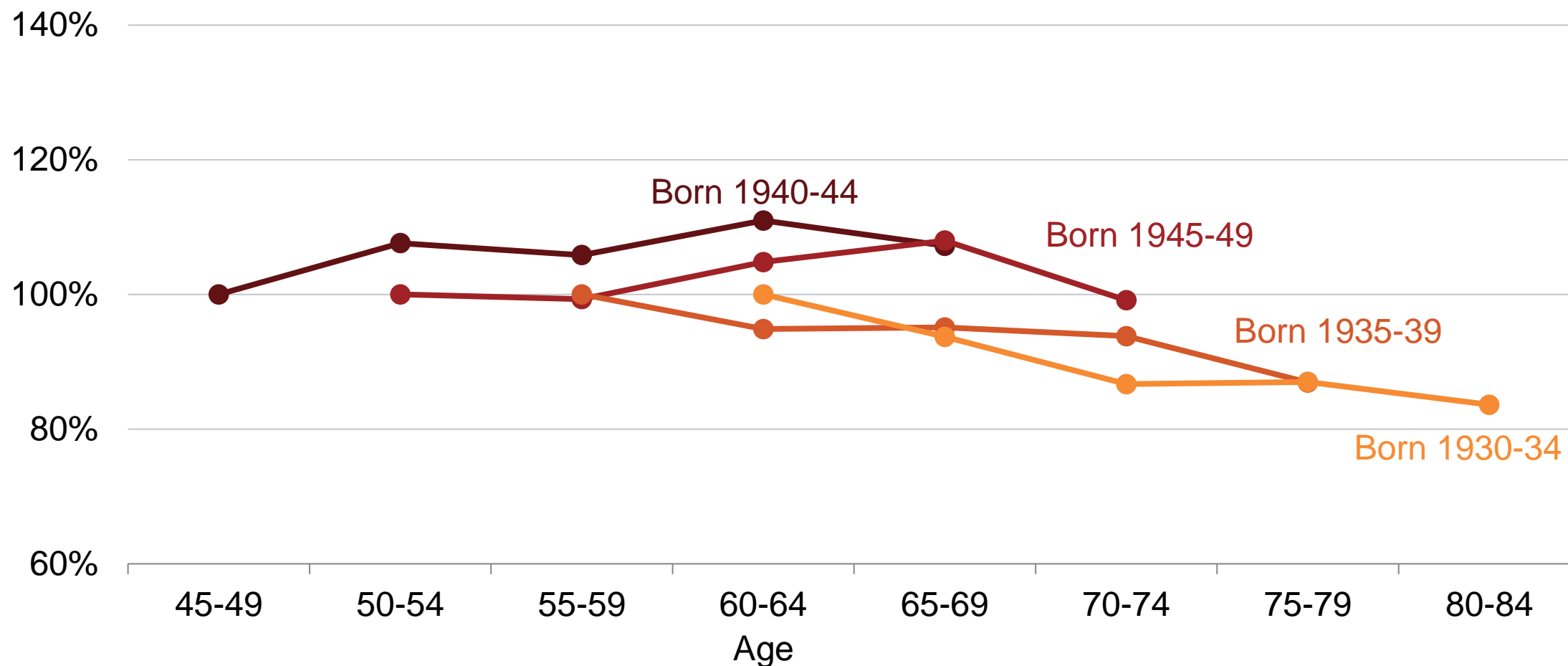


Notes: Based on net financial wealth from the 2005-06, 2009-10 and 2015-16 iterations of the Survey of Income and Housing. Net financial wealth is total net wealth excluding the value of the principal place of residence (and related mortgage liabilities), personal effects and motor vehicles. Net financial wealth across years is deflated by the consumer price index to \$2015-16.

Source: ABS Survey of Income and Housing (various years); Grattan analysis.

Retirees spend less as they age

Household spending relative to 1993-94, by age cohort, equivalised households, \$2015-16

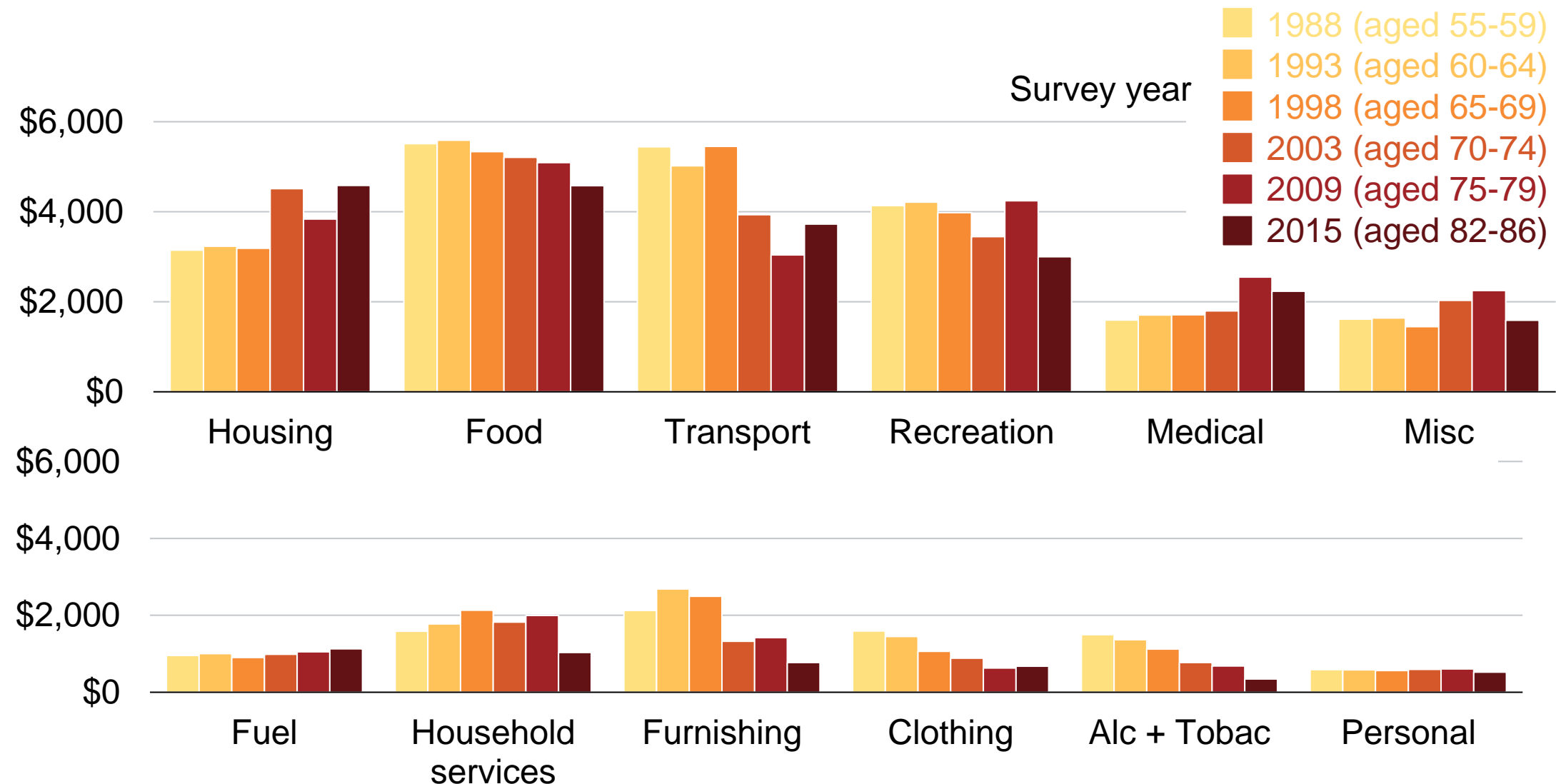


Notes: Spending from 1993-94, 1998-99, 2003-04, 2009-10 and 2015-16 Household Expenditure Survey. Each line represents a single cohort across time as they age. While the age cohorts are 5 years apart, there was a gap of 6 years between the last three HES surveys. Spending deflated by CPI.

Source: ABS Household Expenditure Survey (multiple years); Grattan analysis.

Lower spending in retirement is driven by food, transport, furnishings, clothing and recreation

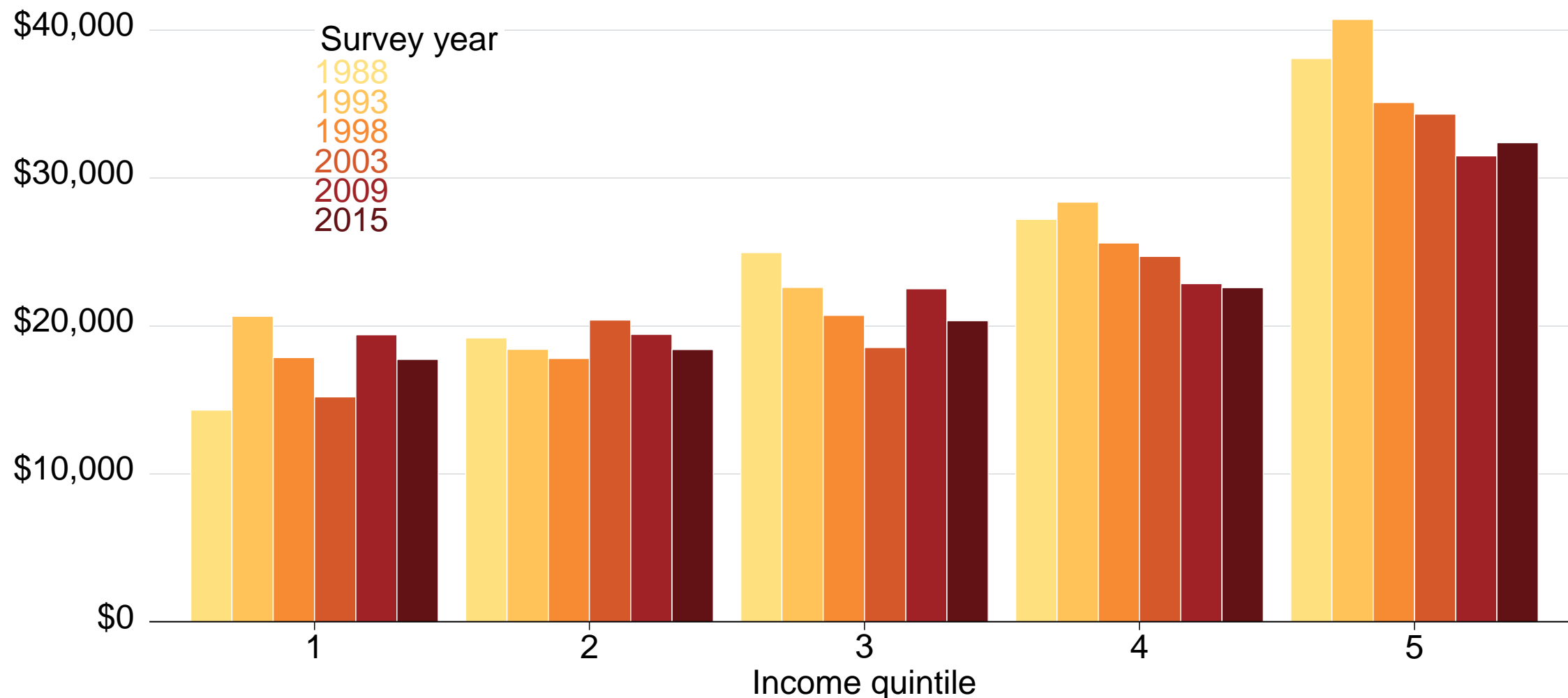
Equivalised household annual expenditures for cohort of retiree households as they age, \$2015-16



Source: ABS Household Expenditure Survey (multiple years); Grattan analysis.

Spending for high-income households falls most in retirement

Median equivalised household annual expenditure for cohort born in 1929-33, 2015-16\$

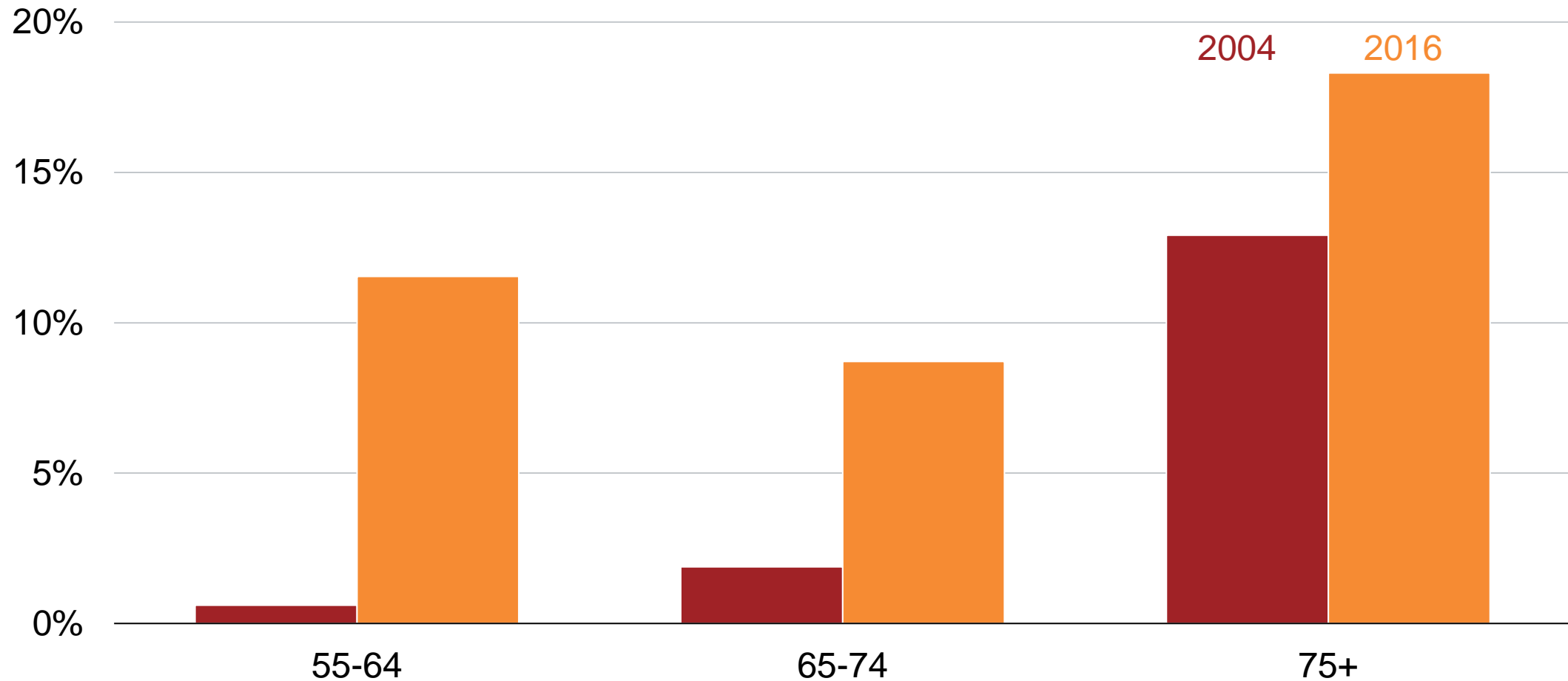


Notes: Uses the 1988-89, 1993-94, 1998-99, 2003-04, 2009-10, and 2015-16 Household Expenditure Surveys. While the age cohorts are five years apart, there was a gap of six years between the past three HES surveys. Spending deflated by CPI.

Source: ABS Household Expenditure Survey (various years).

Boomers are saving more than earlier generations did as they approach retirement

Median household savings rate by age of household head



Notes: Savings = disposable income minus total expenditure on goods and services, divided by household equivalisation factor. Savings rate = savings as a proportion of equivalised disposable income. Where the disposable income or expenditure of a household was negative we have adjusted it to zero, as per the ABS's preferred method (HES2015-16 explanatory notes).

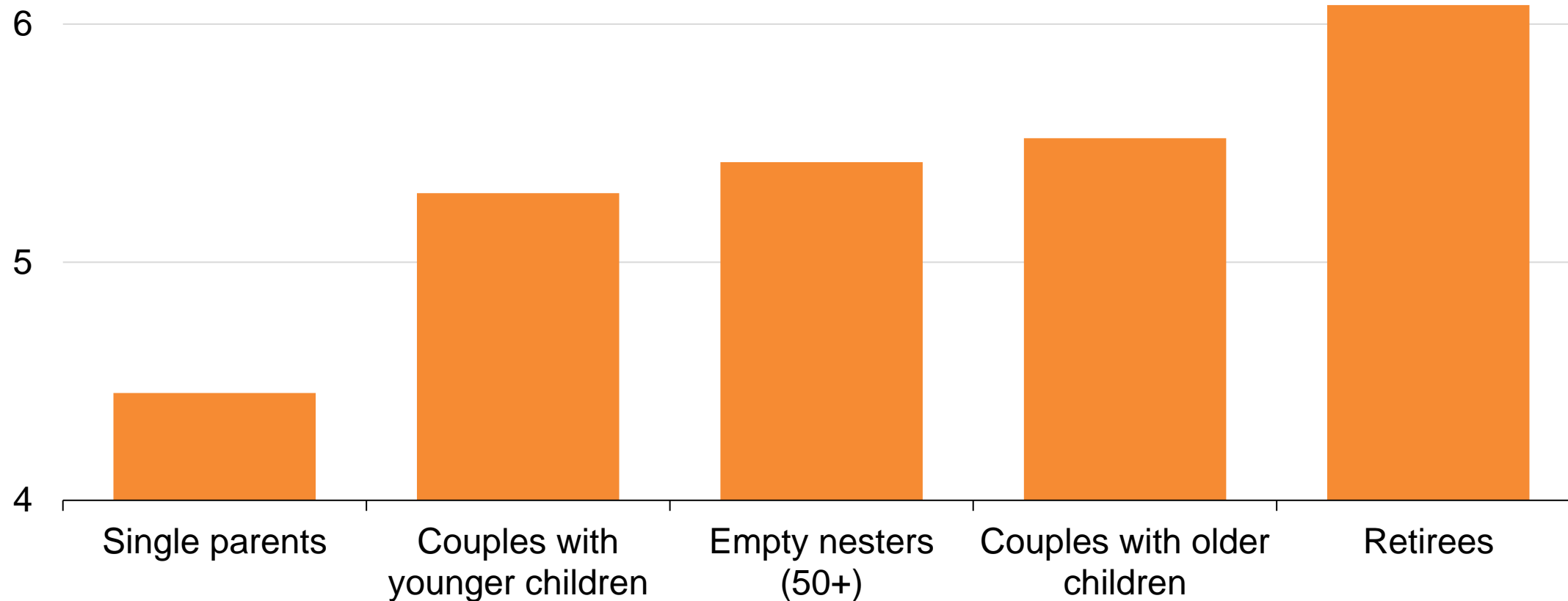
Source: ABS Household Expenditure Survey, various years.

There are many drivers of low retiree spending: few are likely to change anytime soon

Social and economic factors	
Reduced needs	<ul style="list-style-type: none"> Retirees report high levels of financial comfort and low levels of financial stress (with the exception of those in the private rental market)
Bequest motive	<ul style="list-style-type: none"> Retirees may want to leave wealth intact to pass onto children
External policy settings	
Expected costs of ageing	<ul style="list-style-type: none"> Retirees expect to need lots of capital to fund aged care and health costs as they age Literature suggests this is a significant driver Retirees underestimate how much of these costs are covered by the Government
Retirement income policy settings	
Framing	<ul style="list-style-type: none"> The minimum drawdown rates can ‘anchor’ retiree drawdown behaviour. But this may affect what retirees spend, but rather that they choose to draw out of their super vis-à-vis other assets
Investment risks and constraints	<ul style="list-style-type: none"> Fear of future investment losses can lead to precautionary spending (although the Age Pension provides insurance here). Some retirees may also have significant savings tied up in illiquid assets.
Longevity risk	<ul style="list-style-type: none"> Uncertainty over life expectancy can lead to precautionary spending: worry that will ‘outlive’ their savings The magnitude of this effect likely depends on retirees’ access to the Age Pension as insurance against longevity risk

Despite low spending, retirees overall report high levels of financial comfort

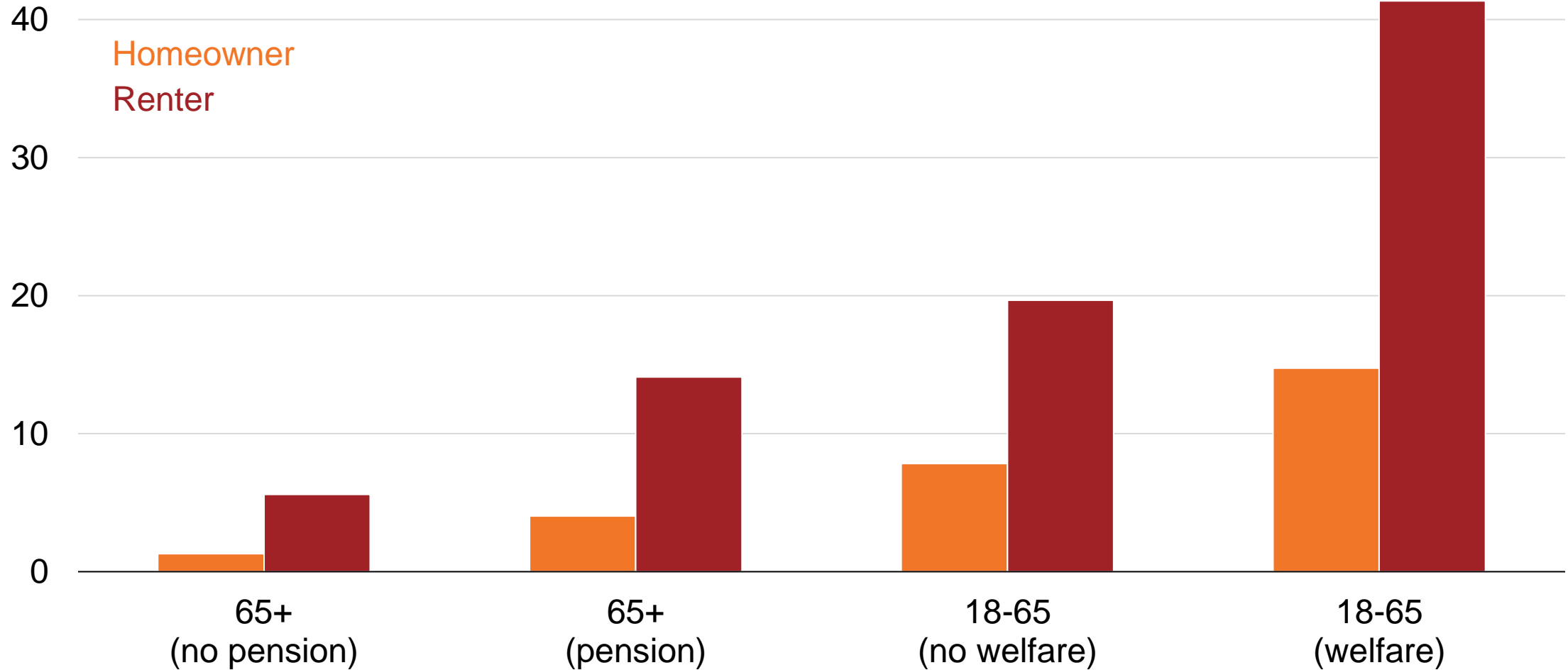
Self-assessed financial comfort, scores out of 10



Notes: Median of survey results from 2011 to 2019. Excludes anomalous December 2014 survey. Middle-aged singles and couples without children, and younger singles and couples without children, have been excluded for readability. Middle-aged households with no children are sometimes imagined to be the most financially secure, but even their self-assessed financial comfort is worse than retirees, having averaged just below 5.5 across the survey period. Source: Daley et al (2018) Money in retirement: more than enough, Figure 3.1) updated using ME Bank (2020) Household financial comfort report - Seventeenth Edition, Figure 15.

Retirees are less financially stressed than working age Australians (especially homeowners)

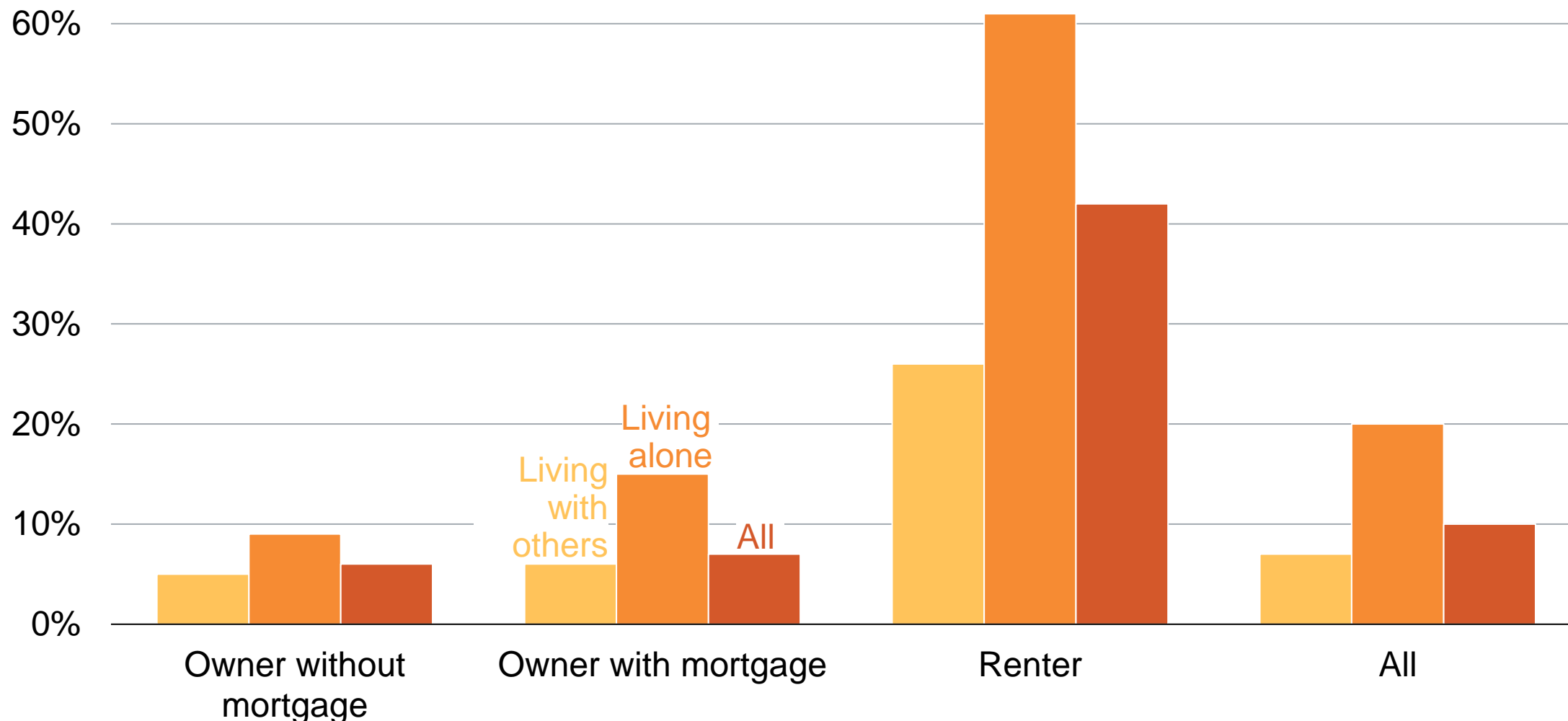
Percentage of households facing at least one financial stress, 2015-16



Notes: Financial stress defined as money shortage leading to 1) skipped meals; 2) not heating home; 3) failing to pay gas, electricity or telephone bills on time; or 4) failing to pay registration insurance on time. 'Pension' and 'welfare' includes all those receiving cash benefits of more than \$100 per week
Sources: ABS Household Expenditure Survey 2015-16, Grattan analysis.

Very few retirees experience poverty, unless they rent

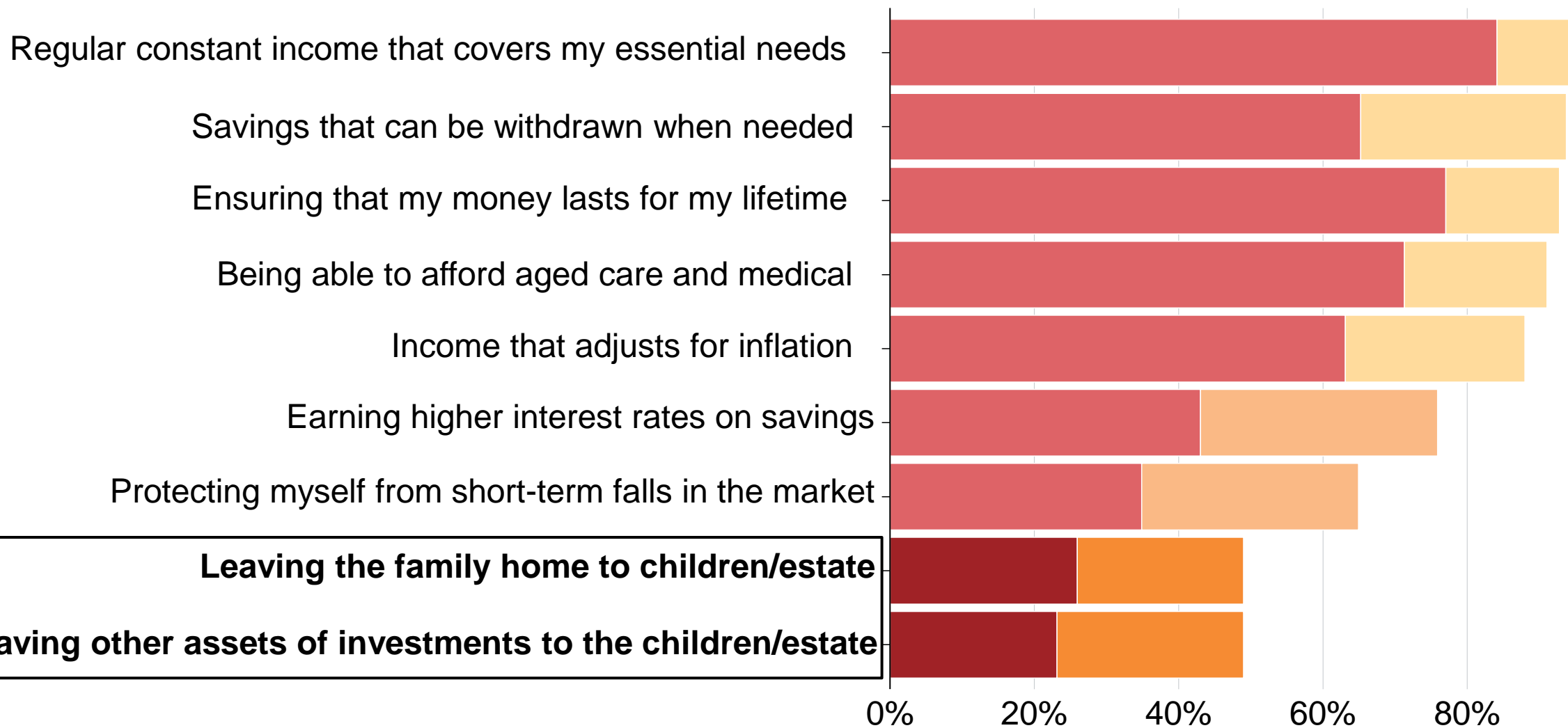
Old-age poverty rate after including imputed rent, ages 65+



Note: Poverty rate is the proportion of people aged 65+ who have equivalised disposable household income (plus imputed rent) below 50% of population-wide median.
Source: CEPAR (2019) calculations based ABS SIH data.

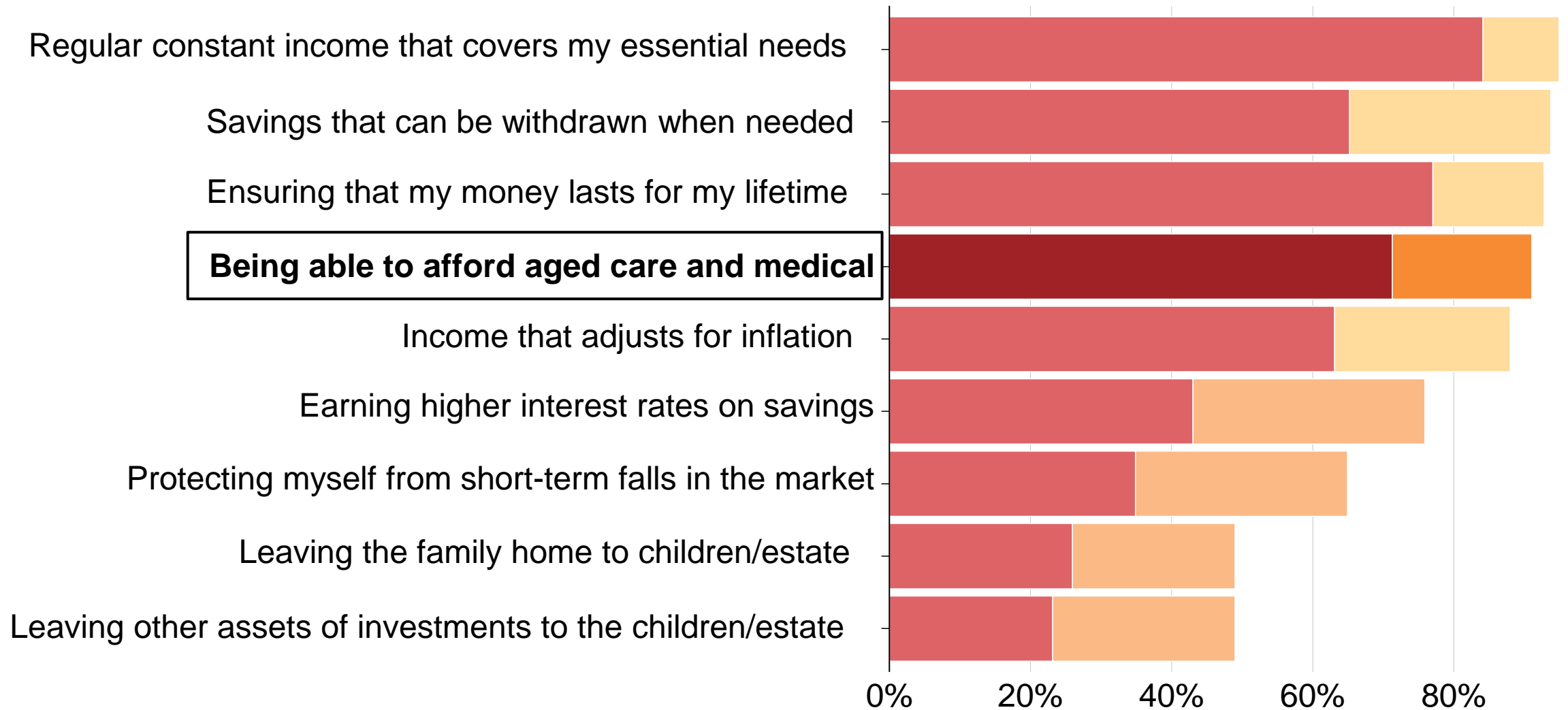
Only a minority of retirees think leaving a bequest is important

Per cent responding **very** or **somewhat** important



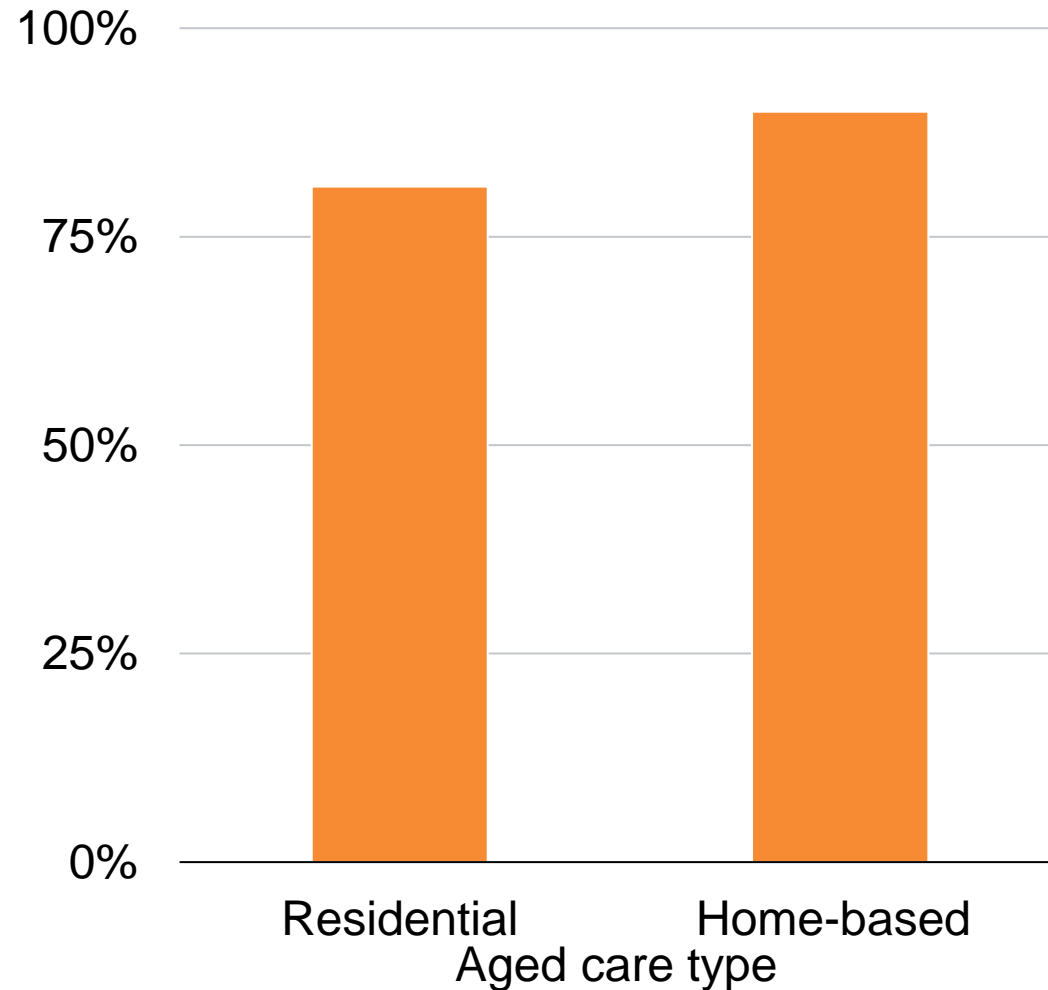
But the vast majority retirees are concerned about meeting future aged care and medical costs

Per cent responding **very** or **somewhat** important



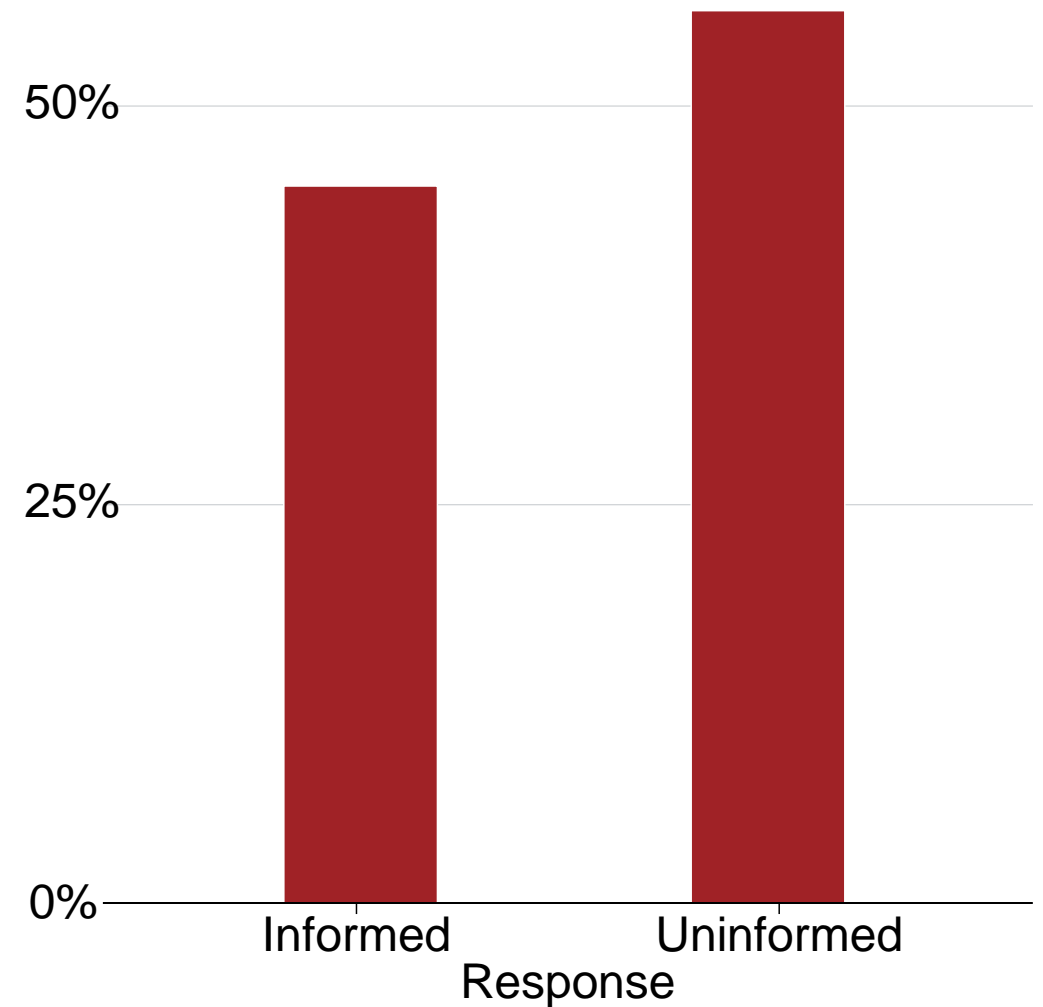
Precautionary savings for aged care costs is mostly based on a lack of understanding that the Government foots the bill

Share of total cost covered by the government



Source: 2021 Intergenerational Report

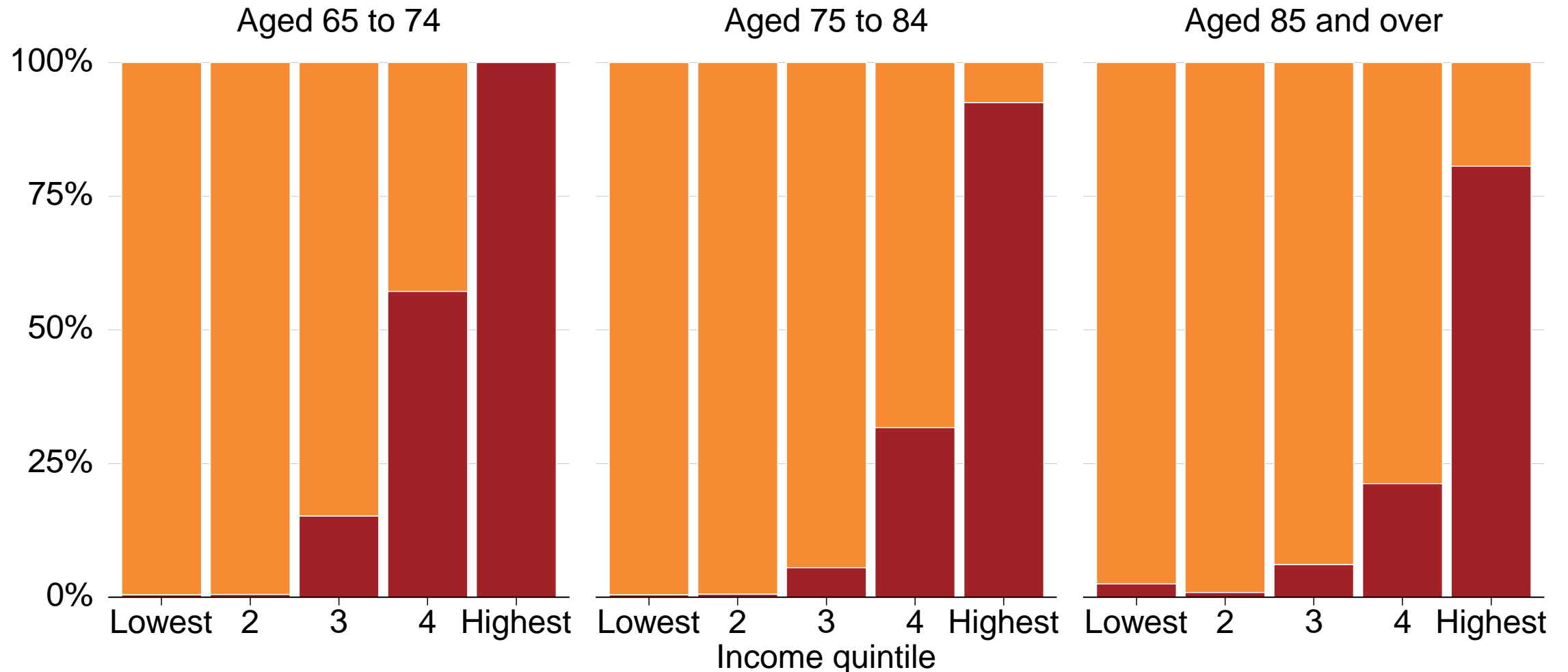
How informed people over 40 feel about aged care costs and the steps involved



Source: Retirement Income Review (Chart 5A-16)

Longevity and investment risk are unlikely to major drivers because most current retirees draw a guaranteed income stream via the Age Pension

Share of household retirement income by source (**pension** and **private**), age and income

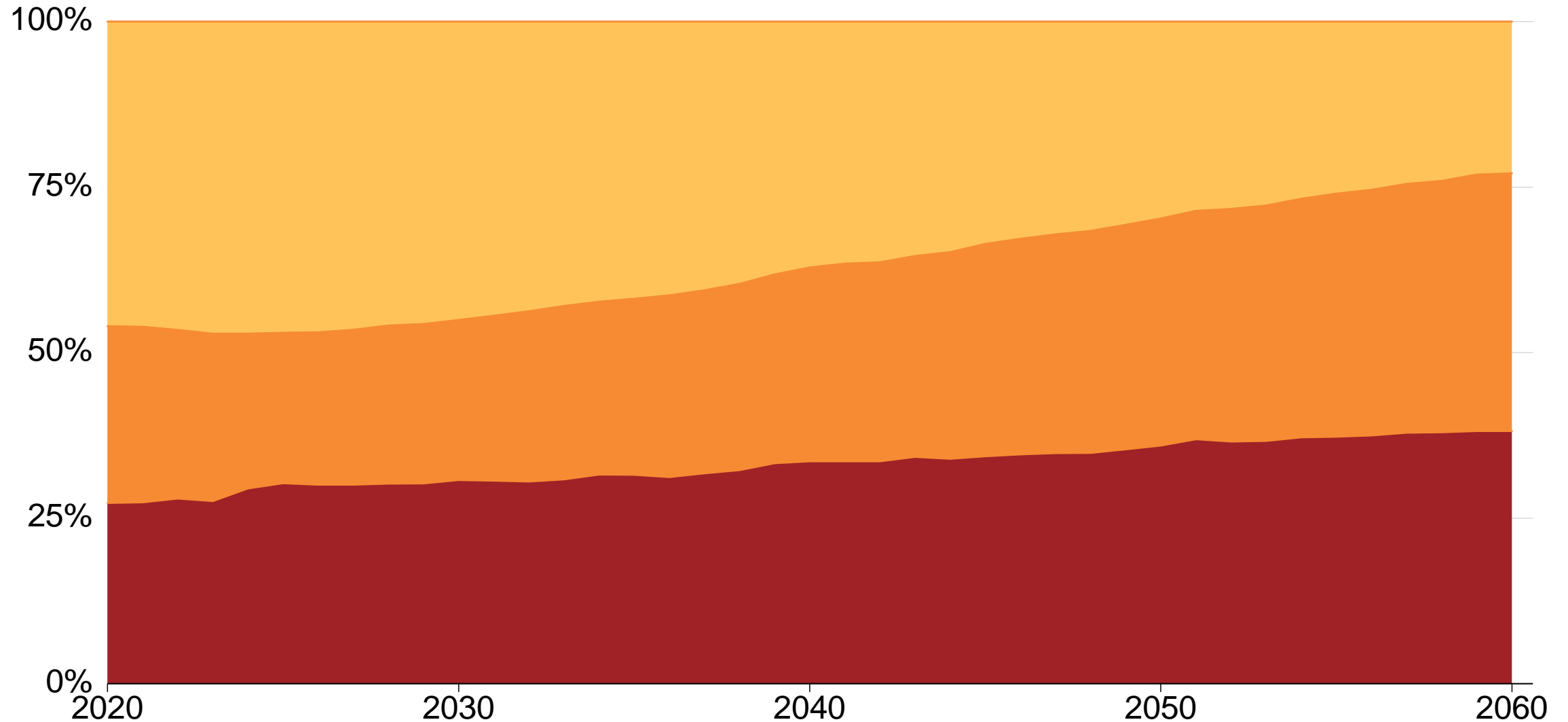


Notes: Includes households with a reference person aged over 65 and not in the labour force. Income is total income (including imputed rents) and is equivalised for household size. Quintiles are calculated separately for each age group using the SIH household weights.

Source: ABS 2017-18 Survey of Income and Housing microdata.

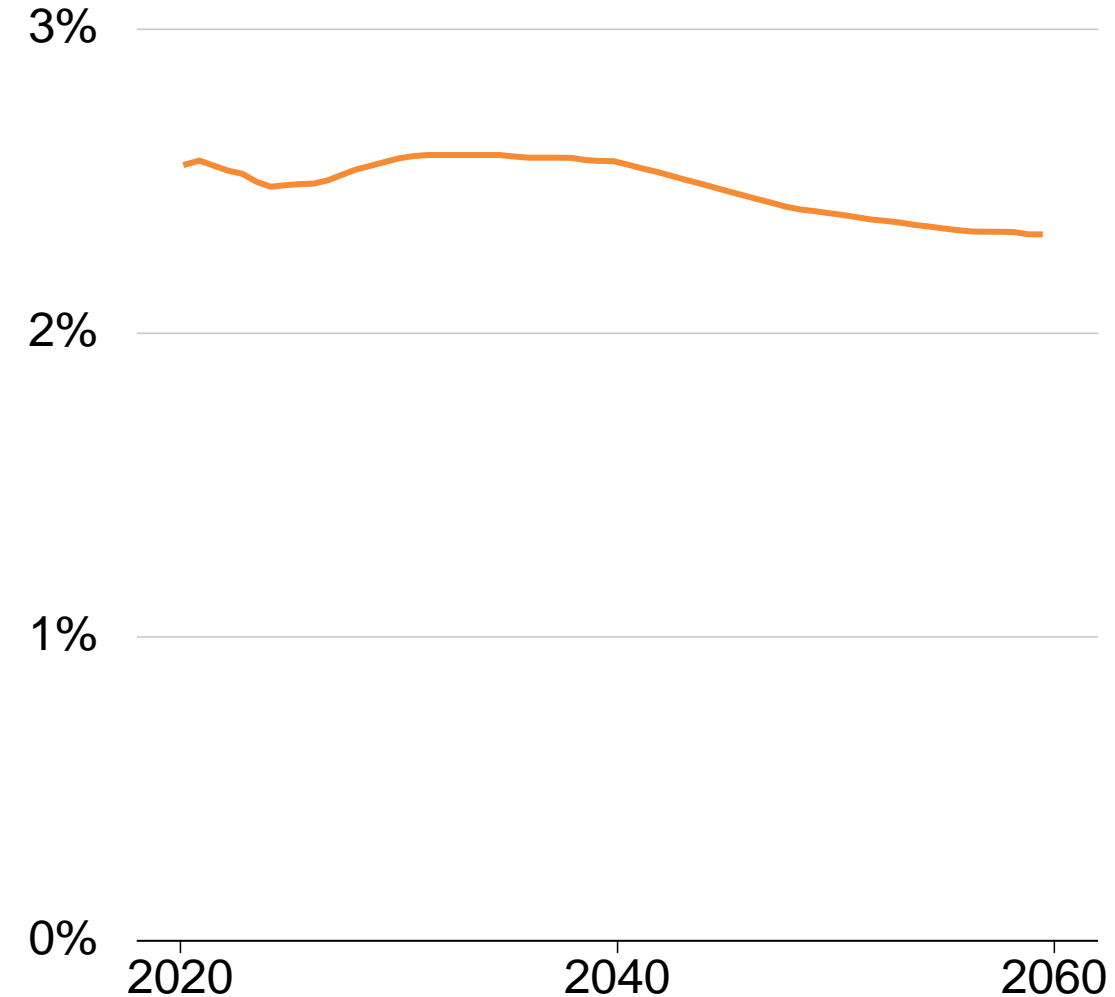
....And the majority of retirees will draw on the Age Pension for at least some guaranteed income well into the future

Projected shares of the Age Pension age population; **full pension**, **part pension** and **no pension**

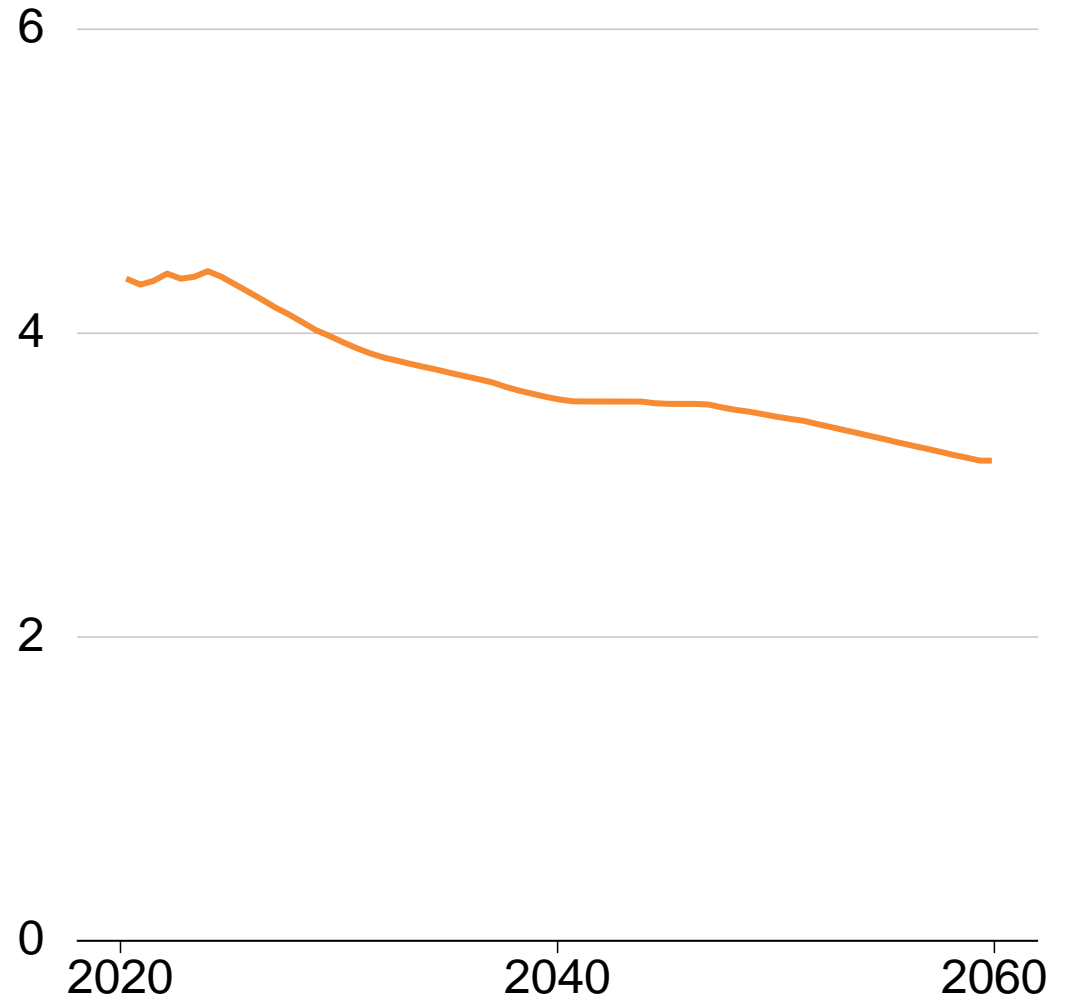


The death of the Age Pension has been greatly exaggerated: spending is projected to fall as a share of the economy even with an ageing population

Age pension expenditure as a percentage of GDP



Number of working-age people for every person of age pension age



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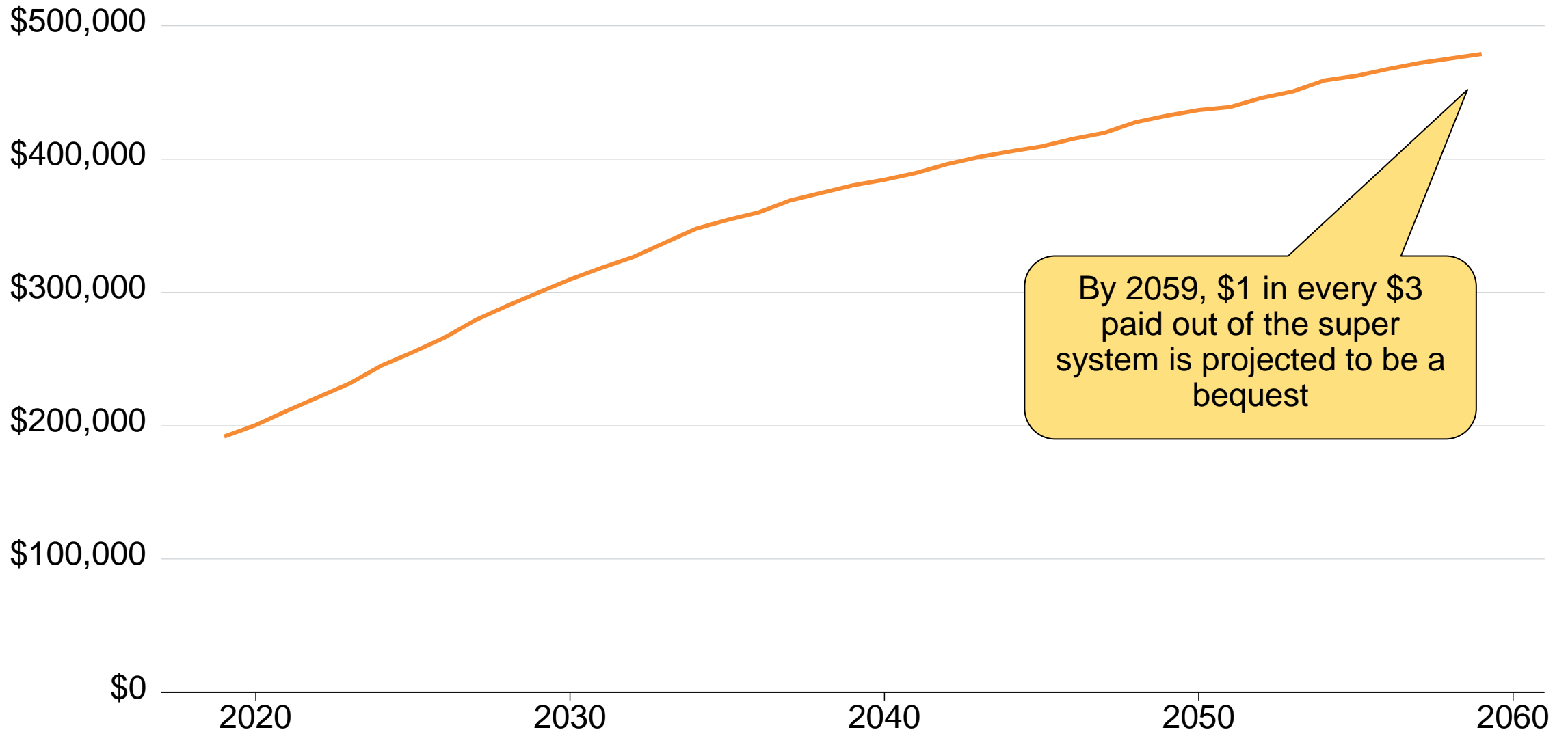
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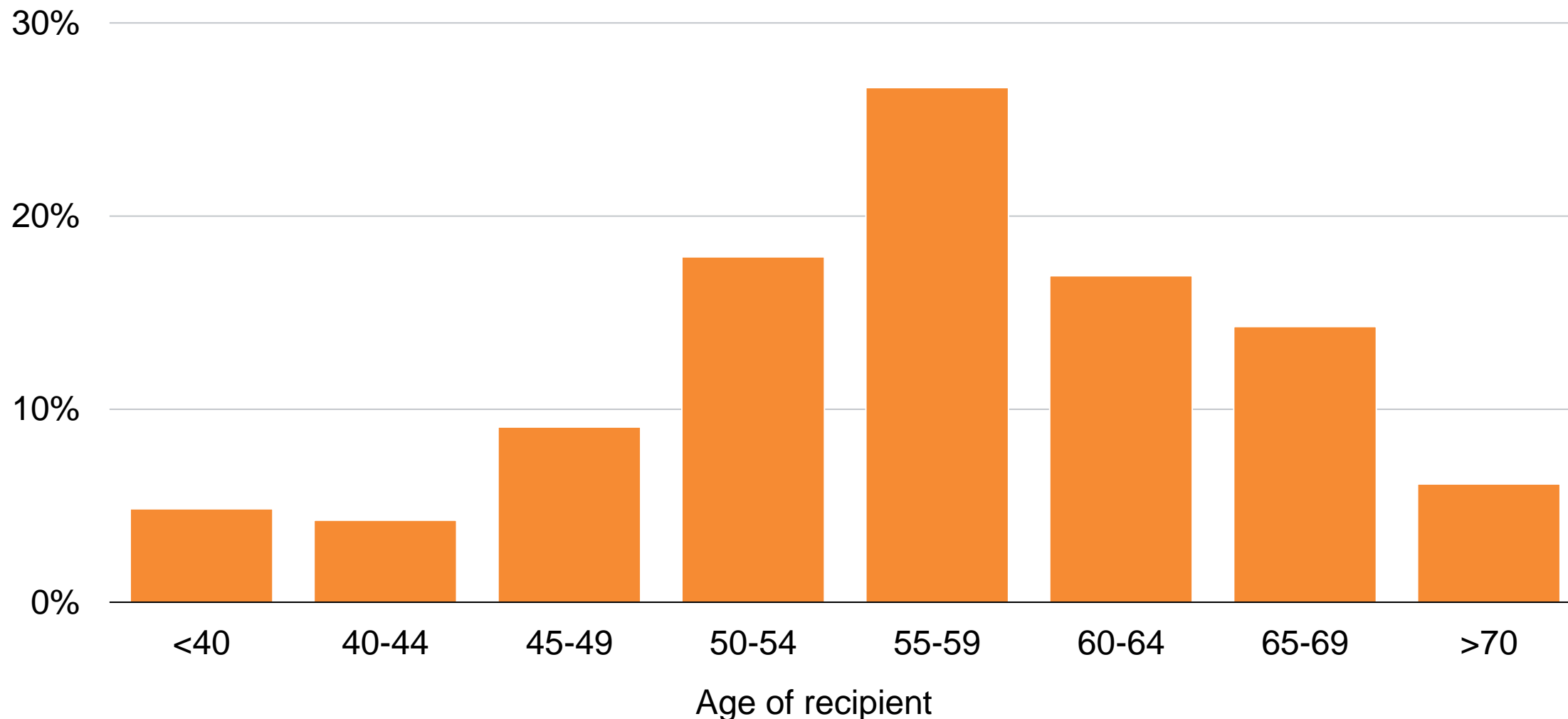
Without a change in spending patterns, bequests from superannuation will grow

Projected average superannuation balance at death if observed drawdown rates continue



Inheritance money largely flows to people aged 50 or older

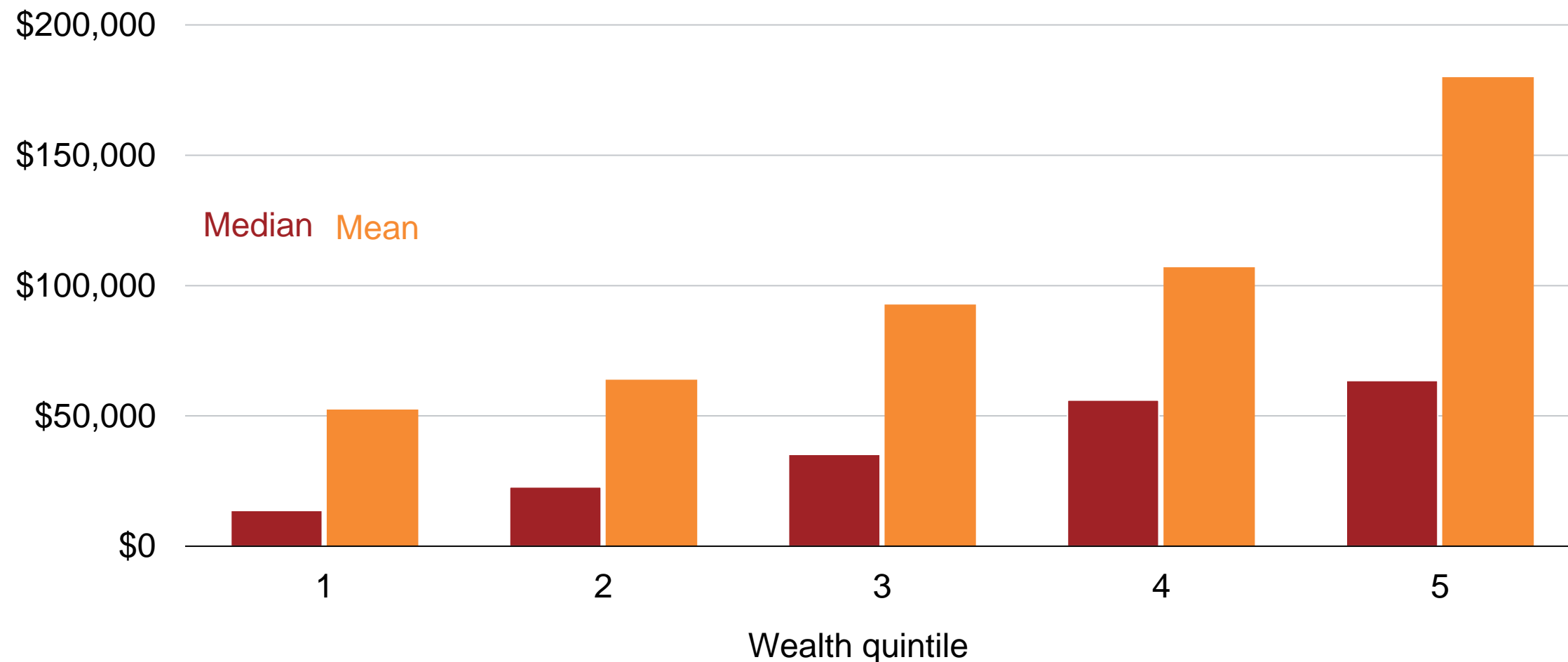
Proportion of inheritance money received by children of the deceased, by age band of recipient



Notes: In probate data, the age of the recipient is only identifiable for children of the deceased, which represents three quarters of final estate money. Includes only estates where no bequest was made to a spouse. This will almost always correspond to 'final estates'; that is, estates of people without a surviving spouse. Source: Grattan analysis of probate files, Victoria, 2016.

Wealthier people tend to get much larger inheritances

Size of inheritance where one was received, by prior wealth quintile, \$2017-18



Note: Data on inheritances by wealth of recipient is not available from the probate records, so we use data from HILDA on self-reported inheritances. We observe significantly lower average inheritances in HILDA than in the probate data, for reasons set out in Appendix B. Wealth captured only in 2002, 2006, 2010 and 2014 surveys. Wealth quintile based on most recently-captured wealth information for an individual. Individuals are allotted to a wealth quintile across all respondents.

Source: HILDA surveys, 2003 to 2017.

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