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THREE DIMENSIONS OF RETIREMENT – ASPIRATIONS, EXPECTATIONS & OUTCOMES

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THREE DIMENSIONS OF RETIREMENT – ASPIRATIONS, EXPECTATIONS & OUTCOMES

With increasing workforce participation among Senior Australians, higher levels of superannuation coverage and a maturing superannuation system, an increasing number of Australians are reaching age pension age with sufficient income and assets to be self-funded. This trend is expected to continue.

Understanding the aspirations, expectations and outcomes of seniors is important, particularly given the growing proportion of the total population that this group comprises. Understanding (where feasible) changes over time in those characteristics is similarly important.

The release of HILDA wave 3, in particular the Retirement Intentions Module, has allowed these issues to be explored in some detail.

In addition, HILDA wave 2 provides an opportunity to explore the financial circumstances of moderate wealth self-funded Seniors in ways that were not previously feasible, particularly when combined with Centrelink Administrative Data.

Moderate wealth self-funded Seniors are, for the purposes of this paper, characterised as people eligible for the Commonwealth Seniors Health Card (CSHC).

The CSHC is a key incentive, reward and benefit provided by the Australian Government to self-funded retirees. Australians over age pension age are eligible for the CSHC if they do not receive a government pension or benefit (with the accompanying Pensioner Concession Card), have annual incomes of up to $80,000 for couples or $50,000 for singles, and satisfy residency and related eligibility. In practice, CSHC holders comprise Seniors with sufficient wealth not to be eligible for the means tested Age Pension and those who choose not to apply for the pension. (Detail on the circumstances that give Australians eligibility for the CSHC, and some key historical information is attached at Appendix A)

People eligible for the CSHC, now and in the future, make up a key 'swing' group – people who are likely (if they withdraw from the paid workforce as they age, and/or draw down on their savings and other assets in retirement) to become part-rate age pensioners later in life. This group is therefore one where changes in circumstances or behaviour have the potential for significant impacts on the sustainability of Australia's retirement incomes system.

This paper also utilises Centrelink Administrative Data to investigate the extent to which the circumstances of self-funded seniors who hold a CSHC change over time, in particular the extent to which some qualify for Age Pension later in life. This longitudinal analysis of changes in the circumstances of self-funded seniors may provide some clues to long-term trends in the financial situation of Australia's older citizens.

HILDA wave 2 has already shown that older retirees have fewer non-home assets and lower incomes than younger retirees. Drawing on the relevant FaCS Longitudinal Data Sets has allowed analysis of the degree to which this phenomenon is caused by Senior Australians drawing down their savings and assets to fund their retirement and the prevalence and rate of this draw-down.[1]

Analysis of HILDA data also allows us to understand patterns of eligibility against take-up for CSHC and part-rate Age Pension. This work complements another project undertaken in FaCS Seniors & Means Test Branch which focussed on longitudinal characteristics of part-rate age pensioners, the other key 'swing' group in the Retirement Incomes area.

AIMS OF PAPER

This paper sets out to explore behavioural and financial characteristics and trends discernible in the population of Senior Australians relating to retirement.

The paper examines three dimensions of retirement:
- the aspirations of the existing pre-retirement cohort (their desires);
- the expectations of this cohort (their predictions); and
- the outcomes for the existing post retirement cohort (current situation).

At its highest level, this paper seeks to explore, in descriptive terms at this stage, whether the eventual outcomes for the existing pre-retirement cohort seem likely to meet their aspirations or expectations.

Noting that the experiences of the existing pre-retired group, once they reach retirement, are likely to differ from those of the currently retired, the paper explores what is likely to need to change for the currently pre-retired to reach their aspirations and expectations in retirement.

This is in the context that 'retirement' is more fluid and less formal than in the past. Some people still 'retire' in the traditional sense, leaving full-time, paid work one day and never returning to the workforce. Many Seniors, however, combine part-time paid work (sometimes in careers different from those they had in their earlier lives), informal caring responsibilities for elderly parents, partners and/or grandchildren, and formal and informal volunteer work. In some cases, Seniors with similar circumstances have different perceptions of whether they are retired or not.

The three dimensions of retirement, aspirations, expectations and outcomes, are applied to four key themes:
- the age at which people retire;
- the financial position of Seniors in retirement;
- the involvement of Seniors in the workforce; and
- Seniors' overall happiness in retirement.

[1] For further discussion on this point see: Lim-Applegate et al, 2005, *New Age Pensioners – Trends in Wealth*, Department of Family and Community Services, Paper prepared for the Australian Social Policy Conference, Sydney, 20-22 July 2005.

This generates specific questions:

- At what age would people LIKE to retire?
- At what age do people EXPECT to retire?
- At what age have people ACTUALLY been retiring, and is this changing?

- What financial resources and sources do people EXPECT to have in retirement?
- What financial resources and sources do people ACTUALLY have in retirement?

- What participation in paid work would people LIKE beyond age 65?
- What participation in paid work would people EXPECT to have beyond age 65?
- What are the EXISTING participation in paid work beyond 65, and are these changing?

- Are people happy in retirement?

The interaction of the dimensions and the themes is represented graphically at Appendix B.

The paper then focusses in more detail on the circumstances of moderate wealth self-funded Seniors (represented by holders of the CSHC) seeking to answer:

- How strong is the take-up of the CSHC among people who are eligible?
- Do self-funded Seniors stay on the CSHC for long, and what are the patterns of movement to Age Pension or off the CSHC altogether?

The Centrelink Administrative Data also allow us to test an assertion (sometimes reported in the media) that many Seniors structure their financial affairs to qualify for a few dollars of Age Pension (and therefore the Pensioner Concession Card (PCC) that accompanies the pension), even if that results in a loss of net wealth. Doing so would allow these pensioners access to the concessions and benefits that are attached to the PCC (which are more broad than those of the CSHC).

PREVIOUS RESEARCH

The ABS '*Work - Not in the Labour Force: Retirement and Retirement Intentions*' study, a part of the ABS Australian Social Trends 2000 (ABS, 2000) series, reported on the retirement and retirement intentions of Australian people aged 45 years and over at two points in time.

The study used data from the Retirement and Retirement Intentions surveys conducted in 1992 and 1997 as part of the Monthly Labour Force Survey. The retirement intentions component of the surveys gathered demographic and other information about two groups of people: those who had retired, and those who had not.

Retired persons were considered to be those who have left full-time employment and did not intend to work full-time at any time in the future. Retired people could, however, be those who continued to work part-time or look for part-time work. Those people were referred to as partially retired. Those who have left the labour force entirely, that is, were not working or looking for work at all, and did not intend to work at any time in the future, were referred to as fully retired.

As retirement has been a more important milestone for men than for women over much of the 20th century, and participation in full-time employment for women has been lower than for men (although labour force participation of women has been rising over the period), the major focus of the study was on the retirement patterns and retirement intentions of men (ABS, 2000).

The study found that in 1997, there were 2.9 million men aged 45 and over, and of these, 1.3 million (44 per cent) had retired from full-time work, nearly all of whom had left the labour force entirely (ABS, 2000). Although the overall numbers were smaller in 1992, the percentage of those retired was very similar.

Table 1 shows the employment and retirement status among men aged 45 years and over in 1992, and 1997.

Table 1: EMPLOYMENT AND RETIREMENT STATUS AMONG MEN AGED 45 YEARS AND OVER, 1992 AND 1997

	1992				1997				
	45-54 years	55-59 years	60-64 years	65 years and over	45-54 years	55-59 years	60-64 years	65 years and over	Total
	%	%	%	%	%	%	%	%	%
Employment status									
Full-time(a)	84.8	67.0	40.2	5.6	82.4	65.4	38.1	6.4	50.5
Part-time(b)	5.3	9.2	10.1	4.3	6.0	8.3	9.5	5.4	6.6
Not in the labour force	9.9	23.8	49.7	90.1	11.7	26.4	52.4	88.3	43.0
Total(c)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Retirement status									
Fully retired	7.0	20.4	47.0	88.5	8.5	22.3	49.5	86.6	40.2
Partially retired	1.8	5.2	7.1	3.9	2.2	5.2	7.5	4.8	4.1

Not retired	91.3	74.4	45.9	7.6	89.4	72.5	43.0	8.6	55.7
Total(c)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	'000	'000	'000	'000	'000	'000	'000	'000	'000
Total persons(c)	1,022.1	372.6	351.3	807.8	1,210.7	437.1	358.8	922.5	2,929.0
Total number retired	89.3	95.6	190.2	746.2	128.9	120.1	204.6	843.4	1,296.9

(a) Includes those who were working full-time or looking for full-time work.
(b) Includes those who were working part-time or looking for part-time work of more than 10 hours per week.
(c) Includes a small number whose labour force status and retirement status was not determined.
Source: Unpublished data, Survey of Retirement and Retirement Intentions, 1992 and 1997.

The two measures shown in Table 1 (employment status and retirement status) both indicate a similar pattern of increasing withdrawal from full-time work with increasing age. The proportion of men working, or seeking to work, full-time in 1997 decreased from 82 per cent of those aged 45-54 years to 6 per cent of those aged 65 years and over. At the same time, the proportion who had retired from full-time work increased, from 11 per cent of those aged 45-54 years to 91 per cent of those aged 65 years and over (when men may become eligible for the Age Pension) (ABS, 2000).

The study found that, for the most part, withdrawal from full-time work can be linked to retirement. However, the study also found that retirement is not the only reason people do not work full-time. Some may reduce their hours of work or be temporarily out of the labour force for reasons such as disability or sickness; caring for another person; or full-time study. For example, in 1997 12 per cent of men aged 45-54 years were not in the labour force, but only 8 per cent had fully retired. Similarly, 6 per cent of men aged 45-54 years were working, or seeking to work, part-time, but only 2 per cent in this age group had partially retired. These differences imply that withdrawal from full-time work may also be influenced by labour market conditions (ABS, 2000).

Conversely, retirement does not necessarily signal the end of labour force participation: some men opt to work part-time after retiring from full-time employment (are partially retired). Nevertheless, for men in each of the groups aged 45 years and over the number who said they had fully retired made up over half of those not in the labour force (ABS, 2000).

In all age groups (except the 45-54 years group), the number who had partially retired made up most of those working part-time or looking to do so. The proportion of men who had partially retired increased with age up to 65 years, indicating that some men are easing themselves out of full-time work by working part-time, before leaving the labour force altogether: a pattern, the study indicates, that is likely to continue. For those men aged 45-54 years still working full-time in 1997 who said they intended to retire before the age of 55, 46 per cent said they intended to work part-time after retirement (ABS, 2000).

A previous ABS study observed a trend over recent decades to a move towards early retirement (ABS, 1994 cited in ABS, 2000). Using the employment status category ‘not in the labour force’ as a measure of retirement (as was used in the previous study), this study also observed that it would appear that this trend has continued. In both the 45-54 and the 55-59 years age groups, a larger proportion were not in the labour force in 1997 (12 per cent and 26 per cent respectively) than in 1992 (10 per cent and 24 per cent respectively). Using the retirement status category (those who have partially or fully retired) supports this viewpoint. The proportions of the 45-54 and the 55-59 years age groups who had retired from full-time work in 1997 (11 per cent and 27 per cent, respectively) were also slightly higher than in 1992 (9 per cent and 26 per cent) (ABS, 2000).

The ABS (2000) study also found that the reasons for retirement from full-time work vary by age. In 1997, for those aged under 60 years, their retirement was most commonly because of ill health or injury, particularly among those retiring before the age of 55 years, where over half of retirees gave this as the reason. Retrenchment was also given as a common reason for those aged under 60, particularly among those aged between 55 and 59 years (19 per cent). However, most of those who had retired between 65 and 69 years had done so because they felt they had reached an appropriate age for retirement or because they had reached the compulsory age for retirement in their job at the time (82 per cent).

Sources of income

Table 2: MAIN SOURCE OF INCOME AT RETIREMENT AND AT TIME OF SURVEY, 1997

	Retired men				Retired women			
	At retirement	At 1997			At retirement	At 1997		
		Aged under 65 years	Aged 65 years & over	All men		Aged under 61 years	Aged 61 years & over	All women
	%	%	%	%	%	%	%	%
Government pension(a)	22.8	8.3	64.5	47.3	20.2	9.3	72.0	53.1
Unemployment benefits	7.9	8.8	0.1	2.8	3.3	2.8	0.4	1.1
Other government assistance(b)	17.4	37.8	3.6	14.1	9.2	23.6	1.8	8.4
Purchased pension/annuity(c)	17.9	17.6	14.9	15.7	6.6	4.8	8.6	7.4
Business/property investments, savings, sales of assets	22.3	12.6	13.8	13.4	14.4	11.4	9.9	10.4

Part-time work	4.7	7.9	1.0	3.1	7.0	19.7	1.2	6.8
Someone else's income	4.3	4.8	0.7	1.9	37.6	27.1	4.8	11.6
Other/don't know(d)	2.8	2.3	1.5	1.7	1.7	1.3	1.2	1.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

(a) Includes age, service, widow's, war widow's pensions.
(b) Includes disability support; war disability or sickness allowance; or wife's, carer's, special or other benefit.
(c) Pension/annuity purchased with superannuation payment or with money other than superannuation payment.
(d) Includes accumulated leave/compensation; other sources of income; and don't know.
Source: Unpublished data, 1997 Survey of Retirement and Retirement Intentions.

In 1997, the ABS survey showed that men were most likely to have initially funded their retirement from government pensions or benefits (48 per cent), and a further 40 per cent through a purchased pension or annuity or from investments, savings or sales of assets. The study found that for many people the main source of income changes in the years following retirement. For 40 per cent of men aged 45 years or more who were retired in 1997, their source of income had changed since they had first retired. For the most part, there was a marked increased reliance on the Age or Service Pension, and a decrease for most other sources (ABS, 2000).

This was especially so for men who had reached the age of 65 years. Almost two thirds (65 per cent) of retired men aged 65 years and over were relying on a government pension as their main source of income in 1997. This rise was accompanied by a sharp decline in reliance on other government benefits or part-time work (ABS, 2000). However, there was a relatively small drop, after reaching the pension eligibility age, in the proportions of men relying on a purchased pension (from 18 per cent to 15 per cent). This is probably because most of these people had retired after the age of 60 years, having built up their superannuation over a long period (ABS, 2000).

The ABS (2000) study found that among those aged 45 years and over who had retired from full-time work in 1997, some differences in income sources were evident between men and women. It would seem that the income of many women after retirement was largely dependent on that of a spouse or partner, at least initially. For example, retired women in 1997 were less likely than men to have funded their own retirement through a purchased pension or annuity or from investments, savings or sales of assets. They were much more likely to rely on someone else's income (38 per cent, compared with 4 per cent for men), presumably that of their spouse or partner (ABS, 2000). Women were less likely than men to obtain their main source of income at retirement from a government pension or benefit (33 per cent, compared with 48 per cent), and slightly more likely from part-time work (7 per cent, compared with 5 per cent). This may indicate, for some of these women, a continuation of a previous pattern of part-time and casual employment. In 1997, the age at which women could become eligible for the age pension was 61 years. Retired women aged 61 years and over in 1997 (72 per cent) were even more likely than men aged 65 years and over (65 per cent) to derive their main source of income from a government pension (ABS, 2000).

Self-funded retirement patterns

The ABS (2000) study indicated that it is likely that larger proportions of future retirees will derive the main part of their income from a retirement scheme, such as superannuation, life assurance policies or similar schemes that provide financial benefit when a person leaves work. In 1997, 41 per cent of employed men and 28 per cent of employed women aged 45 years and over who intended to retire said they would support themselves from a purchased pension or annuity, and another 13 per cent of men and of women from investments, savings or sales of assets during retirement, while only 21 per cent of men and 23 per cent of women, said their main source of income would be from an aged or other government pension or benefit.

Table 3: RETIREMENT SCHEME MEMBERSHIP OF PERSONS AGED 45 YEARS AND OVER(a) WHO INTEND TO RETIRE, 1992 AND 1997

	1992			1997		
	Men	Women	Total	Men	Women	Total
	%	%	%	%	%	%
Belonged to a retirement scheme	83.1	74.2	80.5	93.2	90.7	92.4
Had superannuation cover	79.1	71.7	76.9	92.1	90.0	91.4
In job at survey date	73.9	66.7	71.8	83.2	82.1	82.9
In some previous job	5.2	4.9	5.1	8.9	7.9	8.6
Had life assurance or other scheme	3.9	2.6	3.5	1.1	*0.7	1.0
Did not belong to a retirement scheme	16.9	25.8	19.5	6.8	9.3	7.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

(a) Persons aged 45 years and over who were working full-time or looking for full-time work.

Source: Retirement and Retirement Intentions, 1992 and 1997 (Cat. no. 6238.0).

The study (ABS, 2000) found that steady increases in retirement scheme membership have been evident since this information was first collected by the ABS in 1983, reflecting changes to superannuation legislation over the last 15 years. In 1997, retirement scheme membership of people aged 45 years and over who had retired was 60 per cent (69 per cent for men and 48 per cent for women). This was a marked increase from 38 per cent in 1983 (50 per cent for men and 19 per cent for women). Moreover, retirement scheme membership has also increased for people aged 45 years and over who intend to retire (from 81 per cent in 1992 to 92 per cent 1997). Most of this increase was for superannuation scheme membership, which rose from 77 per cent to 91 per cent over the period (ABS, 2000).

Knox's (2003) paper, *'Retirement Intentions of Mature Age Workers'*, examined the retirement plans of people aged 45-54 years (people born between 1947 and 1956), using wave 1 data from the HILDA Survey. The paper explored this cohort's intended retirement age and how various factors such as gender, occupation, income, home-ownership and retirement intentions of spouse affect the planned timing of their retirement.

Knox (2003) found that the estimated average intended retirement age of those aged 45 to 54 was 60.5. Factors that extended the time to retirement included:

- gender - on average, males planned to retire at age 61.4, significantly later than females who intended to retire at 59.3;
- marital status – if a person was partnered, and especially if their partner intended to keep working;
- having young children;
- education - the average intended retirement age of university-educated people was 61.3, slightly higher than those without a university education (60.2);
- job satisfaction; and
- expected low retirement lump sum.

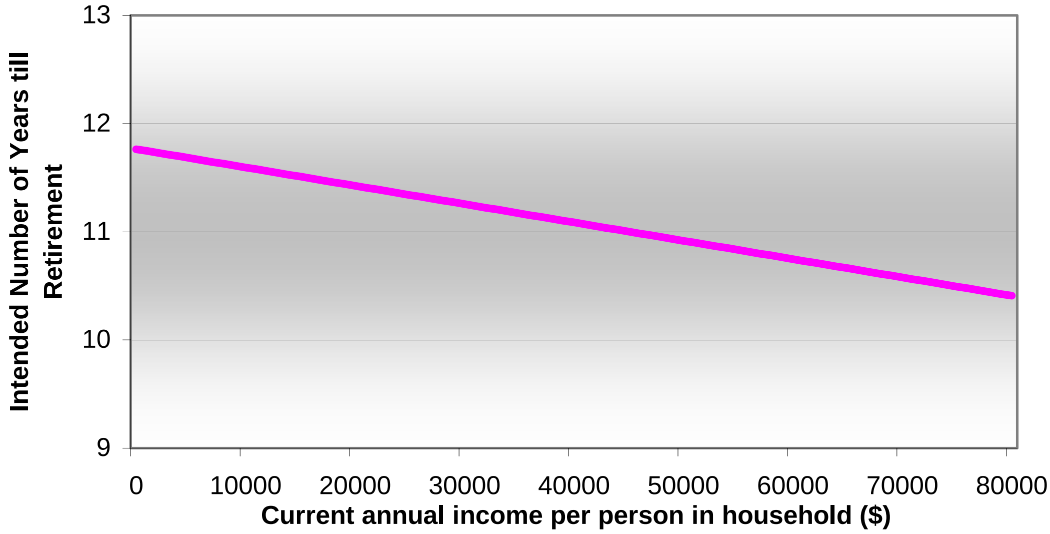
Factors that reduced the time to retirement included:

- home-ownership - on average, those who owned their home (either owning it outright or paying it off), intended to retire at age 60.2 compared to 62.4 for those who either rented or lived free with someone else;
- expectation of more than adequate retirement income; and
- poor health.

Knox (2003) undertook a regression analysis to assess the impact of gender, marital status, age, home-ownership, education, employer type, income and age of youngest child on the intended years to retirement of workers aged 45 to 54 using the HILDA data.

In summary, the first regression looked at the impact of gender, marital status, age, home-ownership, education, employer type and income on workers aged 45 to 54. This regression shows that income has a slight impact on years to retirement. The relationship between income and years to retirement is shown in Chart 1.

Chart 1. How income affects intended years to retirement*

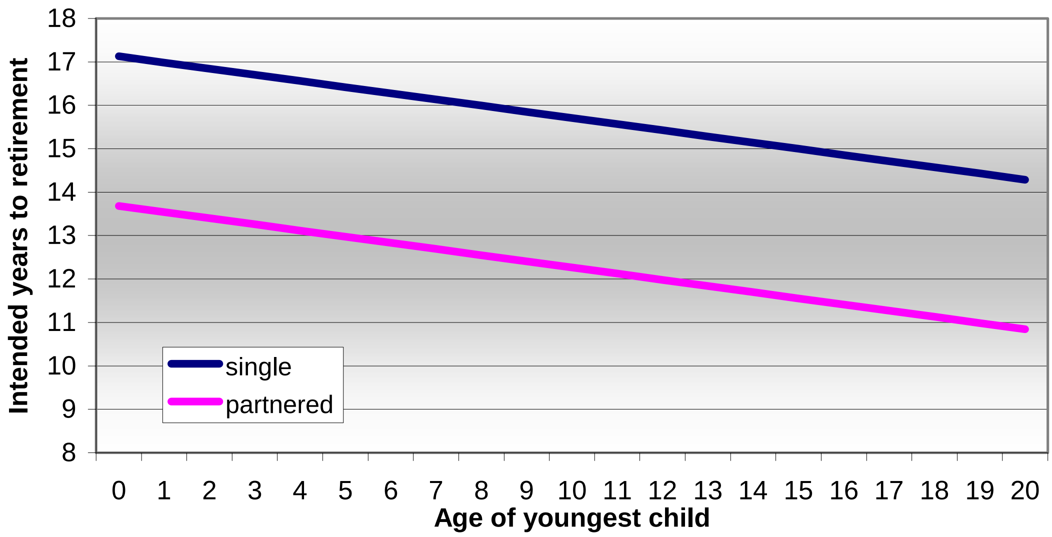


* for a person with average characteristics other than income

A second regression was done for those in the HILDA sample who had children in their household (most likely their own children), using the same variables as the first regression as well as the age of the youngest child. It estimated that on average, for every year younger the youngest child was, 0.142 years can be added to the intended years to retirement.

Also of note, the second regression showed that if you had children, being single had a greater impact (increased your years to retirement) than if there were partnered.

Chart 2. How age of youngest child affects intended year to retirement*



* for a person with average characteristics other age of youngest child

In relation to intended retirement age compared to actual retirement age Knox (2003) found that ABS data from 1997 showed that for those who retired after the age of 45, the average actual retirement age for males and females was 60.0 and 55.9 respectively - compared to the average intended retirement age of 61.4 and 59.3 derived from HILDA. Knox (2003) suggested that the average intended age of retirement for males is reasonably close to that actually occurring, while females retire significantly earlier than they originally expect.

Knox (2003) found that approximately 65 per cent of males and 62 per cent of females who retired before the age of 60 did so involuntarily. Of these, about 24 per cent agreed that they would like to still be working. Knox also found that approximately 35 per cent of males and 38 per cent of females who retired before the age of 60 did so voluntarily. Of these voluntary retirees, about 65 per cent of these males, either strongly agreed or agreed with the statement: “I retired as soon as I could afford to”. Only 44 per cent of females in this age group who chose to retire were in agreement with the statement. This would suggest that for females, other factors are more likely to come in to play when determining their time of retirement.

One quarter of all workers in the 45 to 54 year age group could not say when they would retire or had no plans. In general, the lower their income, the more uncertain they were as to when they would retire (Knox, 2003).

In summary, Knox (2003) says, the majority of retirees were forced into retirement (65 per cent). It is clear that a significant minority wished they were still working, even when asked many years after losing their job. The actual retirement of these people occurs before they originally intended. On the other hand, actual retirement will probably occur after intended retirement age for a minority of workers that have full control over when they retire, as many decide to retire only when they can afford to. For some, access to their lump sum or pension will greatly impact on whether they can afford to retire, and for those who have access, performance of their superannuation fund may dictate how soon they leave the workforce.

Knox (2003) says that while wave 1 of HILDA does not provide information on expected retirement income, the Workforce Circumstance and Retirement Attitudes (WCRA) survey provides some information on expected income and assets at retirement such as expected superannuation payout, expected level of savings and expected size of pension. When asked what means of financial support people expected to receive in retirement,

- 36 per cent indicated a lump sum superannuation pay out;
- 31 per cent indicated a pension from their employer and/or a purchased pension;
- 64 per cent planned to rely partly or completely on government benefits; and
- 38 per cent intended to rely on other savings (WCRA, cited in Knox, 2003, p.9).

Knox (2003) says that obviously, with these percentages adding up to more than 100 per cent, some expected to draw on a combination of income sources.

The 2004 ANOP national survey, conducted in late May/early June 2004, consisted of a telephone survey of 755 Australians aged 30 to 69 comparing the views and expectations of those surveyed who were not retired with the experiences of those surveyed who were retirees. The study extended the 2001 benchmark survey and provided an intergenerational analysis (Generation X vs Baby Boomers) into community attitudes to saving for retirement.

The ANOP (2004) survey found that while the average anticipated retirement age remains under 60, it has increased slightly from a mean of 58 years in 2001 to 59 years in 2004. "This represents an important turnaround, and suggests that *the desire to retire early is being curbed*, especially among Generation X." (ANOP, 2004, p.1)

The survey (ANOP, 2004) also found that although expectations of retirement are reportedly continuing to be "rosy" there has been a decline both in the ratio of those looking forward to retirement (from 6:1 in 2001 to 5:1 in 2004) and the ratio of retirees whose expectations of retirement have been met (from 3:1 in 2001 to 2:1 in 2004). For some, the reality of retirement is not meeting pre-retirement expectations, and the main reasons for this are financial ones. Conversely, *financial security* is emerging as the key determinant in *meeting* retirement expectations (ANOP, 2004, pp.1-2).

The majority of those surveyed (ANOP, 2004) continue to be 'reasonably optimistic' about their financial preparation for retirement, with 'perceived adequacy' of financial plans strongly related to current household income and whether the plan is intended to cover themselves only or themselves and their partners. Single women are more likely to be currently less 'well-off' and feel less well prepared for retirement. Retirees most likely to have unmet expectations are 'singles' and those whose retirement incomes are below $20,000 (ANOP, 2004, p.2).

In 2001, the study found that the most common ways people were preparing for retirement are through home ownership and compulsory superannuation. In 2004, there is 'more realism' about the adequacy of savings and those relying mainly on compulsory superannuation or home ownership are less likely than others to feel well prepared. Fewer also report placing their main reliance on compulsory superannuation (ANOP, 2004, p.3).

In relation to retirement incomes, of those not retired, 70 per cent expected that they would need a minimum retirement income of $30,000 or more; while of those already retired, only 49 per cent thought they would need a minimum retirement income of $30,000 or more per annum (ANOP, 2004, p.4).

A key finding of the 2004 study was that those not retired are less confident about the adequacy of their retirement savings than their 2001 corresponding cohort (ANOP, 2004, p.4). Another important finding is that, as found in 2001, only three in ten are in fact likely to achieve the income they require in retirement (only two in ten for 'singles') (ANOP, 2004, p.5).

The survey revealed that the most preferred option for bridging the 'gap' between actual retirement income and required retirement income was working in retirement. While working in retirement was the preferred option, most surveyed realised that finding work may not be easy – largely due to perceived negative attitudes of both employers and other employees to older workers (ANOP, 2004, p.7).

The survey (ANOP, 2004) also indicated significant gaps between the expectations of working in retirement for those not yet retired, and the actual experiences of retirees. Over five in ten of those not retired say they plan to work in retirement, whereas just under three in ten retirees report that they have a paid job. Those not retired also have higher occupation aspirations than retirees, although with a preference for casual work. The average planned age to stop work completely is around 67 years (ANOP, 2004, p.8).

The 2004 survey also found that more people are now expecting to rely on government to support their retirement than in 2001. Over one third of those not retired expect to receive an Age Pension, compared to less than 30 per cent in 2001. This, according to the ANOP report, reflects greater knowledge and more realism about adequacy of retirement savings in 2004 (ANOP, 2004, p.11).

Borland's (2005) paper, *'Transitions to Retirement: A Review'*, presented a conceptual framework for thinking about issues associated with the transition to retirement by older workers, and reviewed Australian and international empirical evidence and literature on this subject matter. What is of most interest to this paper is his findings on the factors that affect older Australian's employment outcomes.

Borland (2005, p.19) says that empirical evidence suggests a quite wide range of factors are likely to have important effects on supply of, and demand for, mature age workers in Australia. Some of these factors will, according to Borland, be common to all age groups within the mature age population. Borland's findings were very similar to those of Knox.

Borland (2005, p.19) says that certain individual characteristics impact a person's workforce participation. For example, Borland says that the willingness to participate in the labour force will be greater: the better a person's health condition; for persons with higher levels of education attainment; where a person's spouse is employed; and where there is no requirement for a person to act as a carer for a family member. These factors will affect labour supply at all ages, but the relative impact may differ by age – for example, the effect of health on labour supply is likely to increase with age (Borland, 2005, p.19).

Borland (2005, pp.22-26) also says that there are other, external features that may impact negatively on a mature age workers attachment to the workforce, such as: employer and employee attitudes; level of wealth; level and structure of, and eligibility for the Age Pension; availability of social security payments such as Disability Support Pension (DSP) or Age Service Pension to non-employed persons who are not actively seeking work; technological change and the non-availability of part-time jobs, or the capacity for workers to shift between jobs at older ages. For example Borland (2005, p.21) says there is a variety of evidence that employer attitudes may constitute a barrier to employment for older workers in Australia. Older workers appear to be discriminated against, primarily during the hiring process, and primarily because employers believe their skills are outdated (for example, no computer skills), they are harder to train, less adaptable, will not fit into a younger workforce, and have potential health problems (Pickersgill et al.1996, Encel and Studencki, 1996, Encel, 1998, Commonwealth of Australia, 2000, pp.101- 108, and Bittman et al., 2001 cited in Borland, 2005, p.21). According to Borland, over the past 25 years in Australia there appears to have been a significant increase in the demand for high skill workers relative to low skill workers (Borland, 1996, and 1999, cited in Borland, 2005, p.26) and for workers with high levels of education attainment.

Current cohorts of mature age workers (who for the most part had completed their formal education prior to expansion of the higher education system in the 1970s and 1980s) have a lower average education attainment, which acts to reduce demand for their work (Borland, 2005, p.26).

The *Living In Australia Study 2005,* the public persona of the Household, Income and Labour Dynamics (HILDA) in Australia study, also reports on the retirement intentions of employed persons aged 45 years or older (see Table 4 below).

The *Living In Australia Study* (2005) found that approximately 34 per cent of all older employed men and 41 per cent of older employed women nominated a desire to retire (permanently) from the workforce by, or prior to, their 60th birthday. Furthermore, this estimate represented a bottom limit given about one in four workers in the age groups under consideration were unable to nominate a preferred age of retirement. The study found, however, that the most nominated retirement age remains the more conventional 61 to 65 year age range.

Table 4: Intended Retirement Age by Sex (%): Employed Persons Aged 45 Years or Older

Retirement age (years)	Men	Women	Persons
55 years or less	10.9	19.3	14.5
56 – 60	23.2	21.5	22.5
61 – 65	28.5	18.4	24.1
66 - 70	5.0	2.9	4.1
Over 70	2.7	0.9	1.9
Do not intend to retire	9.4	7.5	8.6
Don't know/No plans	20.3	29.6	24.3

(Source: Living In Australia Study 2005)

The *Living In Australia Study* (2005) also found the types of workers who are intending retiring earliest (at or before 60 years of age) tend to be more highly paid, and presumably most highly skilled. This can be seen in Table 5, which reports average current annual earnings by intended retirement age.

Table 5: Intended Retirement Age by Sex and Average Current Annual Earnings ($):

Retirement age (years)	Men	Women	Persons
55 years or less	51100	39700	45800
56 – 60	51700	43700	49200
61 – 65	45600	38100	43900
Over 65	46300	26600	42200
Do not intend to retire	27300	36300	29800
Don't know/No plans	44500	33700	40400

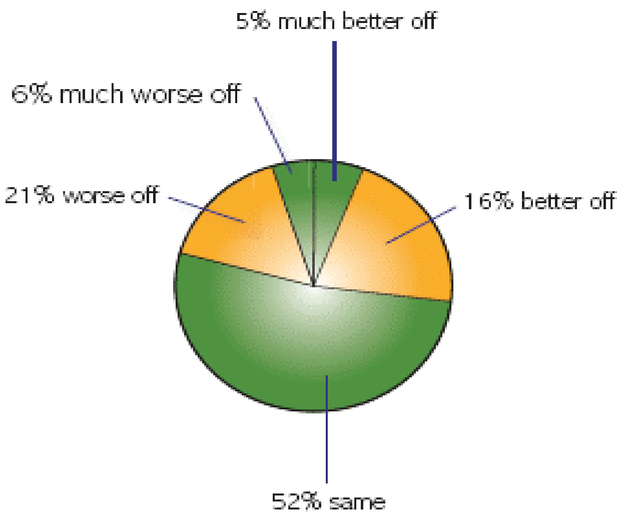
(Source: Living In Australia Study 2005)

Other findings of interest to this paper included:

- Most people in the study aged 45 years and over, and still in the workforce, expected to be retired by age 65 (75 per cent).

- More said they would choose to retire earlier if they could afford to do so – 81 per cent by age 65.
- The large majority of people already retired reported receiving the Age Pension, and in most cases the full pension.
- Relatively few (37 per cent) aged 45 and over, and who were not yet retired, expected to rely on the pension as their main source of retirement income.
- Almost 60 per cent thought their retirement income would be sufficient to maintain their current standard of living. Another 10 per cent thought it would be more than enough, leaving 34 per cent who believed they would be worse off.
- People who were already retired seemed satisfied with their situation. Most said they 'enjoyed being retired' and were 'well adjusted to the changes' following retirement. Once retired, they did not feel that people respected them less than before.
- In terms of their financial situation, 52 per cent said that they had about the same standard of living as when they were working, 21 per cent saw themselves as better off, and 27 per cent said they were worse off (see Chart 3 below).

Chart 3: Standard of living of retirees compared to when they were working
(Source: Living In Australia Study 2005)



FINDINGS, ANALYSIS AND DISCUSSION

AGE – ASPIRATIONS, EXPECTATIONS AND OUTCOMES (A)

The HILDA wave 3 dataset, primarily the Retirement Intentions Module, provides information on the retirement aspirations, expectations and outcomes for Australians over age 45.

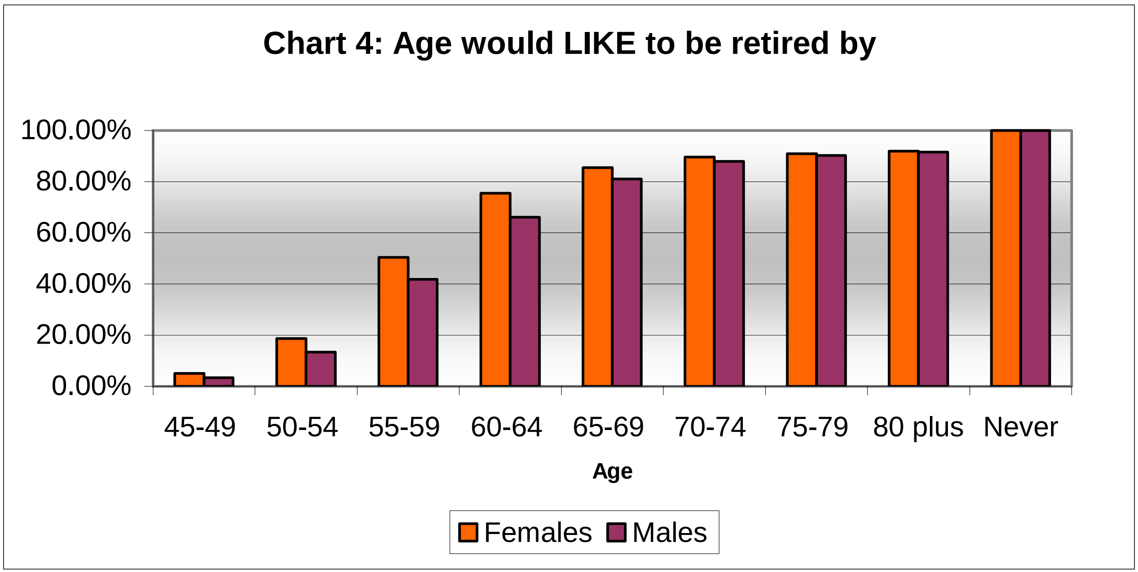
When population weighting is applied to the responding person data in the HILDA wave 3 dataset, it reflects over 7 million Australian persons aged over 45. Of these, more than 3 million consider themselves to be ‘completely retired’, around 500,000 ‘partly retired’, over 3 million are ‘not yet retired’, around 226,000 have ‘never been in the paid workforce and approximately 9,000 didn’t provide a response to this particular survey question.

Analysis of aspirations and expectations for retirement concentrates on the HILDA wave 3 respondents aged over 45 and not yet completely retired. This group, numbering around 2,500, has an average age of 52 years, and expects to retire in (on average) a little over ten years.

<u>ASPIRATIONS (A.1)</u>

At what age would people like to retire?

The ‘Retirement Intentions’ module from HILDA wave 3 posed the question ‘If you had a choice, at what age would you like to retire?’, with responses from those aged over 45 and not yet completely retired summarised at Chart 4.



The responses showed that around 46 per cent of people would like to retire before age 60 and 70 per cent before age 65.

Women indicated a preference for somewhat earlier retirement than men, with 50 per cent of women but 42 per cent of men expressing a desire to be retired by the age of 60.

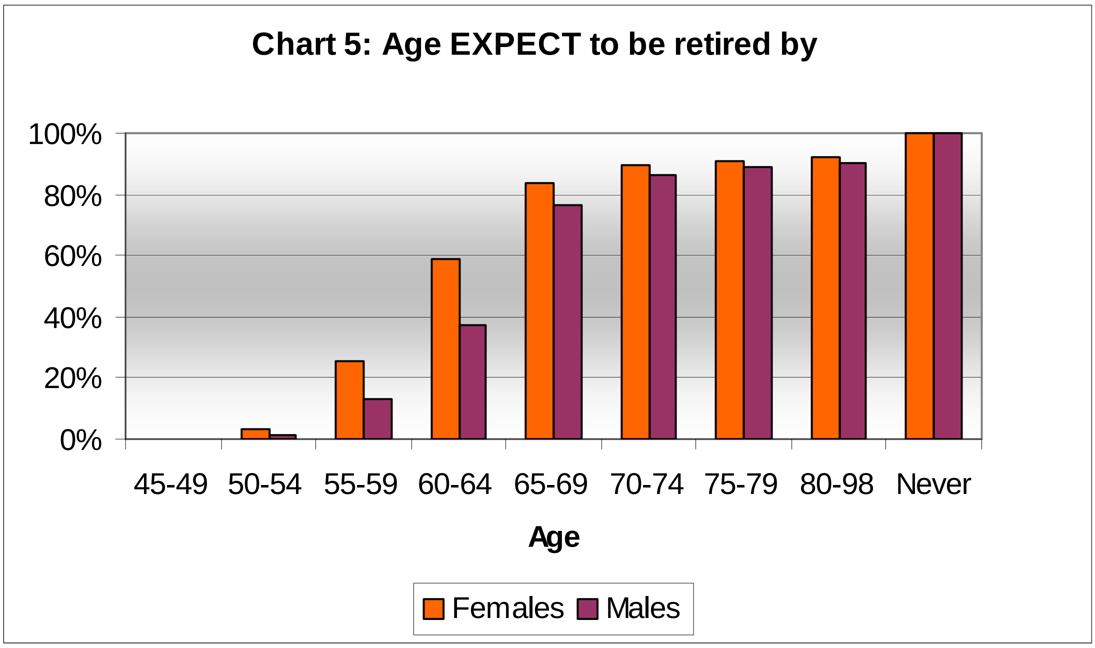
It is important, however, to consider that the respondents may have answered this question on the basis that they would have the best of retirement circumstances and little or no financial constraints.

EXPECTATIONS (A.2)

At what age do people expect to retire?

According to the ANOP (2004) survey, the average anticipated retirement age remains under 60, at 59 years in 2004.

The 'Retirement Intentions' module from HILDA wave 3 posed the question 'At what age do you expect to retire?', with responses from those over 45 and not yet retired summarised at Chart 5.



The average expected retirement age from HILDA is 63, significantly later than the 59 reported by ANOP (2004). However, it is important to note that ANOP surveyed respondents aged over 30, including those aged 30 to 45 who may have very different perceptions of likely retirement to over 45s. (The HILDA average excludes responses from people who indicated that they expected *never* to retire, so the 63 year HILDA average could be conservative.)

The responses showed that 18 per cent expected to retire before age 60 and around 47 per cent before age 65.

There was a significant difference in the responses of males and females in the HILDA responses. Almost 26 per cent of women said they expected to retire before age 60 whereas less than 13 per cent of men fell into this category.

Comparing this expectation to expressed aspiration for early retirement, it can be seen that there is a significantly larger gap between aspirations and expectations for men than for women.

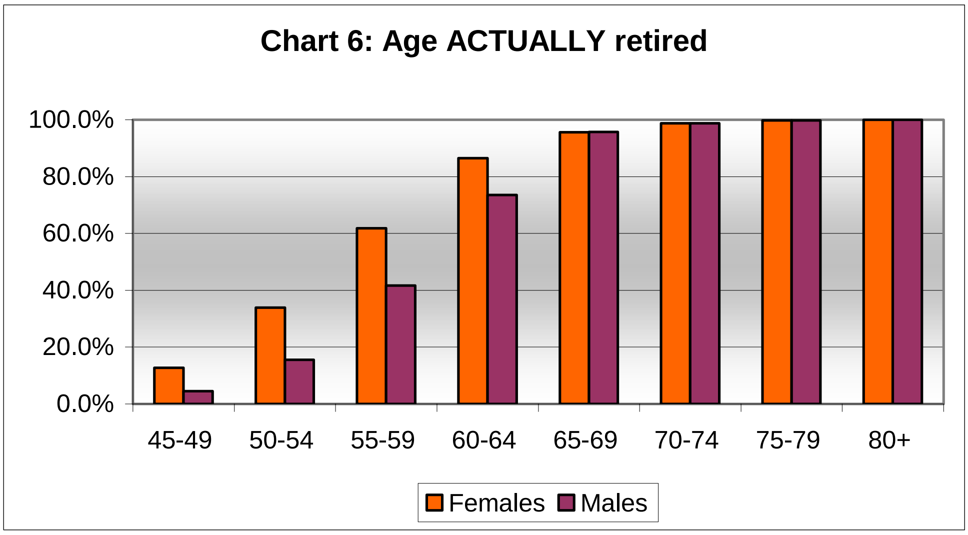
The HILDA wave 3 data was also analysed to examine the difference between the age at which individual respondents said they *wanted* to retire and *expected* to retire. Perhaps reflecting the strength of the employment market, less than one person in 24 expected to retire from the workforce before they wanted to (that is, involuntarily). Forty per cent indicated that they expected to retire at the age they wanted to. Of the group that expected to retire later than they would like, over half of these indicated they expected to retire within 5 years of their preferred age.

In summary, perhaps unsurprisingly, people <u>expect</u> to retire significantly later than they say they would <u>like</u> to retire, and this difference is most pronounced for men.

<u>OUTCOMES (A.3)</u>

What age are people retiring?

The 'Retirement Intentions' module from HILDA wave 3 also posed the question 'At what age did you completely retire?', with responses from those completely retired after age 45 summarised at Chart 6.



According to HILDA wave 3, around 52 per cent of people already retired did so by the age of 60 - around 42 per cent of men and 62 per cent of women. Around 80 per cent similarly indicated that they had retired by age 65.

It should be noted that the above only refers to people who have actually retired. Over four per cent of over 70s in HILDA are not yet retired, and (as indicated in the Age Expectation section above) around 10 per cent expect never to retire. The actual retirement age reflected above is therefore likely to be understated by several per cent.

It is also important to note that a significant proportion of women reported retiring before the age of 50, and had spent much of their working lives in an era before the recent increases in the participation of women in the paid workforce. It is therefore plausible than many of these women may have undertaken family caring roles for much of their lives, spent little time in the paid workforce and been significantly reliant on their partner's income. This could (arguably) cause the tendency for comparatively early retirement among women to be overstated.

AGE SUMMARY

A review of the literature and research to date indicates that there has been a trend over the past two or three decades for most workers, but particularly older men, to retire at an earlier and earlier age; although more recent studies indicate that this trend may slowly be turning around (Ingles, 2000).

A 1997 Australian Bureau of Statistics' (ABS) report showed that for retired people aged over 45 years, the average age of retirement was 59 for males and 54 for females (ABS, 1997, p.3).

The research conducted by ANOP (2004) indicated that while the average anticipated retirement age remains under 60, it has increased slightly from a mean of 58 years in 2001 to 59 years in 2004.

The data from HILDA wave 3 indicates that people generally are intending to retire later in life. HILDA wave 1 data (Commonwealth Department of Family and Community Services, 2002) indicated the estimated average intended retirement age of those aged 45 to 54 was 60.5 (although for those aged from 44 to 49, intended retirement age was 59). HILDA wave 3 survey responses showed that 20 per cent *expected to retire* before age 60 and around 51 per cent before age 65.

Despite the difference in *anticipated* retirement age for males and females, both genders seemed to be in agreement that the age they would *like* to retire is much younger. The HILDA wave 3 responses showed that over 52 per cent of people would *like to retire* before age 60 and 79 per cent before age 65.

The ANOP research suggests that 'the desire to retire early is being curbed', and although the HILDA wave 3 data is in agreement that the age people *expect* to retire is increasing, it certainly <u>does not</u> suggest that the *desire* to retire at an early age is changing.

What is clear, however, is that there is a strong expectation that later retirement will become the norm. This is in line with the ANOP (2004) research showing that Australians seem to be retiring later than in the past.

In short, if the seeming trend to later retirement continues, the eventual outcomes for those still to retire will move closer to their expectation. Noting that there is (on average) ten years until the HILDA pre-retired group expect to retire, there is considerable scope for this to manifest.

If the outcomes for those now retired are compared with the aspirations and expectations of those yet to retire, it is clear that:

- those *yet to retire* would <u>like</u> to retire at around the same age that the *currently retired* did; and
- those *yet to retire* <u>expect</u> to retire considerably later than the *currently retired* did.

FINANCIAL ADEQUACY - ASPIRATIONS, EXPECTATIONS AND OUTCOMES (F)

The HILDA wave 3 dataset, primarily the Retirement Intentions Module, also provides information on the retirement aspirations, expectations and outcomes for Australians over age 45 in relation to their finances.

Some data on wealth, which also represents Australians over 45 (who are retired and not receiving a government pension or allowance), was extracted from the HILDA wave 2 dataset, focussing on variables from the Wealth module.

<u>ASPIRATIONS (F.1)</u>

What price dreams?

How much wealth would people aspire to have in retirement? The answer to this question could assumingly be, for the majority of people, <u>as much as possible</u>.

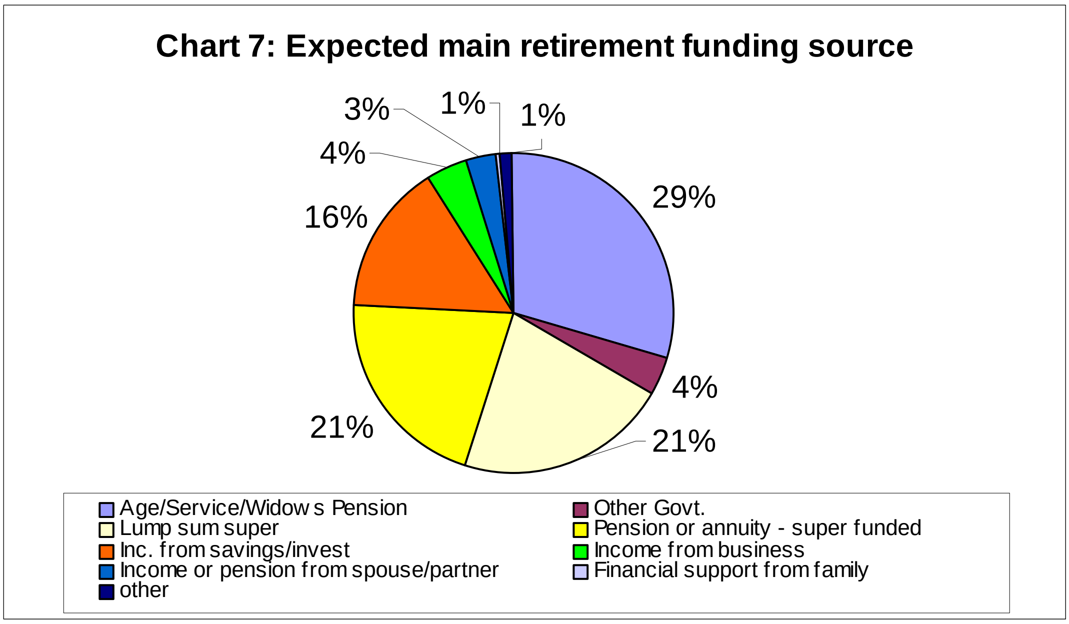
But how much do they need and what are their expectations?

ANOP (2004) research suggests that 'of those not retired, 70 per cent expected that they would need a minimum retirement income of $30,000 or more; while of those already retired, only 49 per cent thought they would need a minimum retirement income of $30,000 or more per annum' (ANOP, 2004, p.4).

<u>EXPECTATIONS (F.2)</u>

Source of Funding

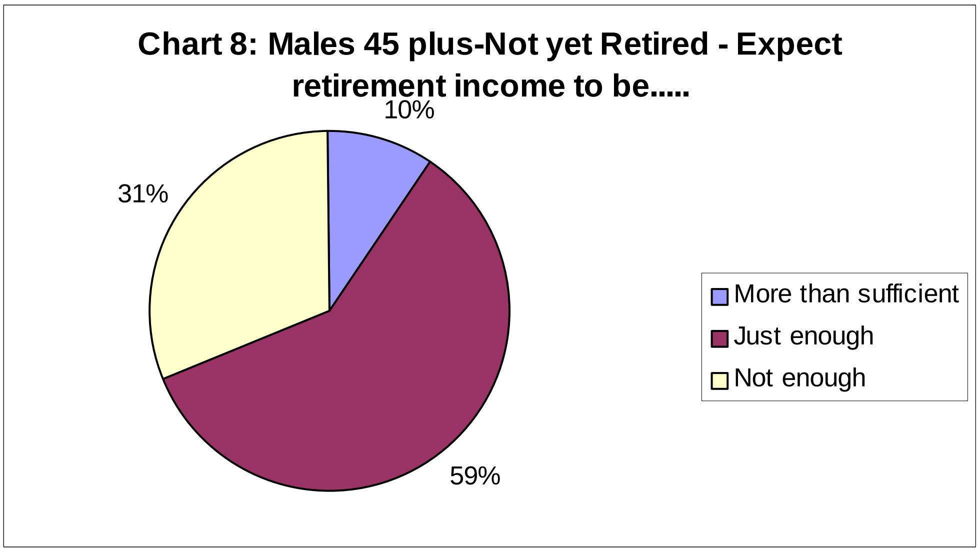
The 'Retirement Intentions' module from HILDA wave 3 asked for the respondents' expected 'main source of funding for retirement', with responses from those over 45 and not yet retired summarised at Chart 7.

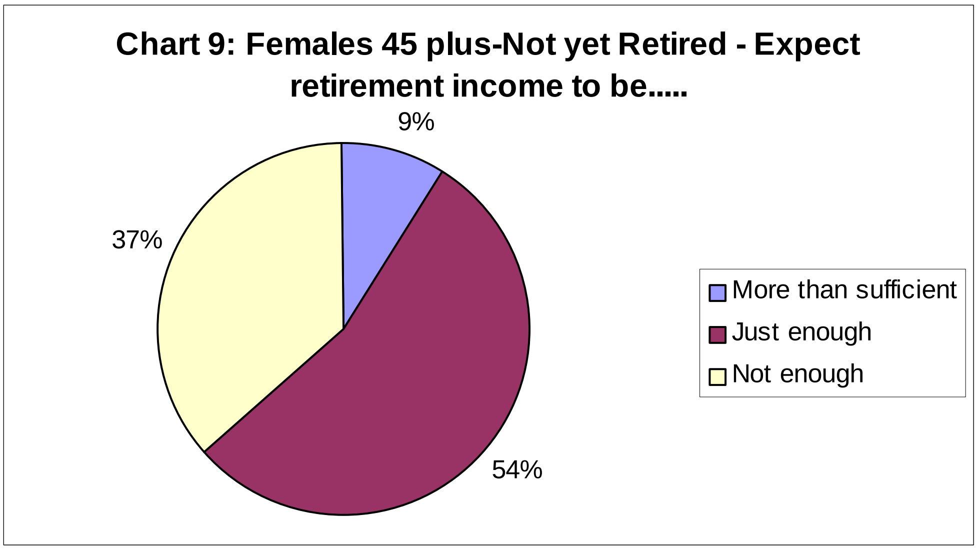


The HILDA wave 3 dataset suggests that around 62 per cent of people (68 per cent of males and 55 per cent of females) are expecting that their main source of retirement funding will be a superannuation annuity, pension, lump sum, savings/investment or business income, in other words, they will be self-funded. Only 29 per cent of men and 38 per cent of women expected that they would need to call on an Age Pension (or another government benefit) as their main source of funding in retirement. This is broadly consistent with the projection in the Australian Government's Intergenerational Report (IGR) (Commonwealth of Australia, 2002) that reliance on the maximum rate of Age Pension will decrease significantly over the coming years.

Standard of Living in Retirement

The 'Retirement Intentions' module from HILDA wave 3 posed the question 'Do you expect your retirement income to be..?' (giving as alternatives 'more than sufficient..', 'just enough..' or 'not enough to maintain your current standard of living'). Responses from those over 45 and not yet retired are summarised at Charts 8 and 9.





This indicates that 66 per cent of those over 45 and not yet retired are *expecting* their retirement income to be either 'more than sufficient' or 'just enough' to maintain their current living standards, with men tending toward slightly more positive expectations than women.

There were minimal differences in the opinions around the expected sufficiency (or not), of their retirement income between those that were in paid work and those that were not. As would be expected, the average income of the respondents in paid work (around $52,000 pa) is considerably higher than that of respondents not in paid work (around $23,000 pa). Those not in paid work, however, seem largely adapted to their circumstances and confident they will be able to maintain their standard of living.

It is clear, however, that a significant minority of respondents do not believe that they will be able to maintain their current standard of living in retirement. If their expectations are accurate, this group may need (prior to retirement) to focus on strategies to accelerate their accumulation of wealth or (once retired) to adapt their lifestyles and their resulting financial needs.

OUTCOMES (F.3)

HILDA wave 3 has given us significant information on the expectations of those not yet retired.

While noting that there are differences in time (some of the relatively younger non retired in HILDA wave 3 will be referring to their expectations of their retirement in 20 years or more), we are seeking to compare the financial outcomes for those people who are already retired with the expectations of those yet to retire.

Source of Funding

From the ABS Household Income and Income Distribution (HIID) 2004 statistics, 69 per cent of persons over 65 years of age relied on government pensions and benefits as their main source of income in 2002-03. Yet, of the responding persons in

HILDA wave 3, only 32 per cent of people *expected* that they would need a pension or benefit from the government as their main source of funding in retirement.

However, from earlier iterations of the ABS HIID (2004), it can be seen that the percentage of over 65s reliant mainly on government pensions (that is, where government pensions make up over half of total income) has fallen rapidly over recent years, from 75 per cent in 1999-2000 to 71 per cent in 2000-01 and 69 per cent in 2002-03.

Among the broader community, there is also a significant increase in the proportion of all Australians over the age of 65 who are fully self-funded (that is, not calling on any form of Age or DVA income support, even at part rate). This proportion has increased from 20.1 per cent in 2001 to 22.3 per cent in 2005 – from nearly one person in every five to almost one person in every four and a half people (Centrelink Superstar Pensions Database, 2001-2005 and ABS, 2003, Population Projections). (The 2002 HILDA wave 2 data lines up broadly with the 2002 Superstar/ABS figures, indicating that around 18 per cent of the over 65 population is self-funded.)

The apparent trend toward financial self-reliance is particularly evident among Australians reaching the age when they would first qualify for an Age Pension. Over recent years, there has been a rapid reduction in the proportion of the Australian population reaching age pension age and calling on the Age Pension – from 57.4 per cent in 1999-2000 to 51.2 per cent in 2003-04 (Lim-Applegate et al, 2005). In addition, the proportion of the population at age pension age receiving a maximum rate of Age Pension dropped from 36.5 per cent in 1999-2000 to 31.4 per cent in 2003-04, with part raters remaining at around 19 to 20 per cent of the population over this period. The reduction in people coming onto pension at maximum rate is seemingly due to recent cohorts of Australians are reaching age pension age with significantly greater real wealth than earlier cohorts (Lim-Applegate et al, 2005).

Over two thirds of all part rate age pensioners (as well as all maximum rate age pensioners) still have the pension providing at least half of their total income – that is, they are mainly reliant on government pensions. Among relatively recent age pensioners, this is considerably lower – with around 55 per cent mainly reliant on government pensions (Centrelink Superstar Pensions Database, 2001-2005).

Standard of Living and Financial Security

HILDA wave 3 asked retired respondents to rate their standard of living compared to that before retirement, using a scale of ‘much better’, ‘better’, ‘about the same’, ‘worse’ or ‘much worse’.

Of those over 45 and already retired, 73 per cent indicated that their standard of living since retirement was ‘about the same’, ‘better’ or ‘much better’ than it was prior to retirement.

The average annual income of all retired over 45s was $18,430, and for those who saw their standard of living since retirement at least ‘about the same’, average annual income was $20,439.

This is interesting to contrast with the ANOP (2004) finding that 70 per cent of people expected that they would need a minimum retirement income of $30,000, and 49 per cent of those already retired indicated that they need a similar income. HILDA shows us that close to three-quarters of those currently retired are maintaining at least the same living standard as before retirement on (on average) a considerably lower income than this.

It is also interesting to contrast the HILDA wave 3 perceptions of *standard of living* with a similar question asking respondents to rate their overall *financial security* compared with that prior to retirement (using the same scale).

Of those over 45 and already retired, only 60 per cent indicated that their *financial security* since retirement was ‘about the same’, ‘better’ or ‘much better’ than it was prior to retirement. While still quite high, this is considerably lower than the 73 per cent who said that they were maintaining or improving their *standard of living*. This may reflect some draw down of accumulated wealth or perceived greater difficulty of using work to address future unforeseen financial demands.

It is also interesting to analyse the HILDA wave 3 questions on standard of living and financial security for retired over 65s only. Of this group, 77 per cent felt that they had maintained at least the same standard of living and 65 per cent that they had maintained at least the same degree of financial security through retirement. With the smaller proportion of early retirees in this older subset, the more positive outcomes may reflect the significant financial benefits of maintaining connection to the workforce later into life.

FINANCIAL ADEQUACY - SUMMARY

From the ANOP (2004) research - although expectations of retirement are reportedly continuing to be “rosy” there has been a decline both in the ratio of those looking forward to retirement (from 6:1 in 2001 to 5:1 in 2004) and the ratio of retirees whose expectations of retirement have been met (from 3:1 in 2001 to 2:1 in 2004). For some, the reality of retirement is not meeting pre-retirement expectations, and the main reasons for this are financial ones. Conversely, *financial security* is emerging as the key determinant in *meeting* retirement expectations (ANOP, 2004, pp.1-2).

The majority of those surveyed (ANOP, 2004) continue to be ‘reasonably optimistic’ about their financial preparation for retirement, with ‘perceived adequacy’ of financial plans strongly related to current household income and whether the plan is intended to cover themselves only or themselves and their partners. Single women are more likely to be currently less ‘well-off’ and feel less well prepared for retirement. Retirees most likely to have unmet expectations are ‘singles’ and those whose retirement incomes are below $20,000 (ANOP, 2004, p.2).

A key finding of the 2004 ANOP study was that those not retired are less confident about the adequacy of their retirement savings than their 2001 corresponding cohort (ANOP, 2004, p.4). Another important finding is that, as found in 2001, only three in ten are in fact likely to achieve the income they require in retirement (only two in ten for ‘singles’) (ANOP, 2004, p.5).

The 2004 ANOP survey found that more people are now expecting to rely on government to support their retirement than in 2001. Over one third of those not retired expect to receive an Age Pension, compared to less than 30 per cent in 2001. This, according to ANOP, reflects greater knowledge and more realism about adequacy of retirement savings in 2004 (ANOP, 2004, p.11).

In 2001 the ANOP study found that the most common ways people were preparing for retirement is through home ownership and compulsory superannuation. In 2004, there is 'more realism' about the adequacy of savings and those relying on compulsory superannuation or home ownership are less likely than others to feel well prepared. Fewer also report placing their main reliance on compulsory superannuation (ANOP, 2004, p.3).

Of those not retired, 70 per cent expected that they would need a minimum retirement income of $30,000 or more; while of those already retired, only 49 per cent thought they would need at least $30,000 per annum (ANOP, 2004, p.4).

HILDA wave 3 data indicates that around 37 per cent of those surveyed thought their retirement income would be more than sufficient to maintain their current living standards, and about 32.5 per cent thought their retirement income would be just enough to maintain their current living standards. The remainder (30.5 per cent) thought their retirement income would not be sufficient to maintain their current living standards.

However, there appears to be a substantial gap between expectations and the likely eventual outcome when it comes to people's financial preparedness for retirement.

Currently, 69 per cent of persons over 65 years of age rely on the Age Pension (or a service pension) as their main source of income (ABS, 2004). Yet, of those over 45 and not yet retired in HILDA wave 3, only 32 per cent *expected* that they would need an Age Pension from the government as their main source of funding in retirement.

This expectation can be contrasted with the circumstances of Australians who have recently turned age pension age – over 30 per cent of this group still receive a maximum rate Age Pension, and over half of the 20 per cent who are on a part rate pension are relying on the Age Pension as their main source of funding in retirement. There are, in addition to this (more than) 40 per cent of the population, a small but significant number of new Service Pensioners who will be similarly reliant.

Possibly, many of those not yet retired may not understand that the Age Pension means testing rules allow Seniors to earn a significant amount of other income and still receive a significant rate of pension. As at August 2005, an age pensioner couple can earn around $16,000 in private income per year, and a single age pensioner close to $10,000 per year, and still have the Age Pension provide half of their total income.

Over time, age pensioners can largely be expected to draw down on their wealth (at least in real terms) (Lim-Applegate et al, 2005) and/or to reduce or discontinue their engagement in the workforce. This will tend to progressively move them to higher part-rates of Age Pension and, for some, to the maximum rate of Age Pension. This factor, particularly with longer average life expectancies, will work in the direction of maintaining a significant proportion of the population as mainly reliant on government pensions.

It is also possible that HILDA respondents may be indicating that they expect to *begin* their retirement without relying on government benefits as their main source of funding in retirement, not taking into account the impacts of gradual draw down of wealth and the Age Pension progressively taking a greater role.

In short, the not yet retired in HILDA will have to build (and maintain through retirement) substantially greater wealth than those who have recently reached age pension age, if they are to achieve their stated expectation of not/never needing to rely on government pensions as their main source of funding in retirement.

There is, however, a clear trend toward greater financial self-reliance into retirement – with marked reductions in the proportion of Australians over 65 relying on government pensions as their main source of funding in retirement; and a decreasing proportion of people calling on the pension when they reach age pension age. In part, this reflects the increasing maturity of the superannuation system, in particular, compulsory superannuation contributions.

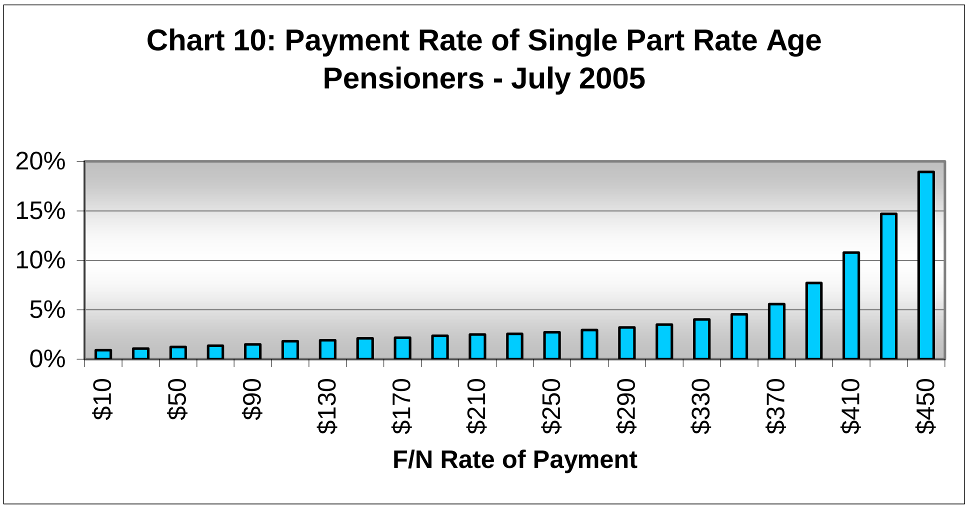
However, in line with the projections in the Intergenerational Report (IGR) (Commonwealth of Australia, 2002), that a large proportion of Seniors will call on a part rate of Age Pension in retirement, it appears unlikely that many of the large proportion of people (72 per cent) who expect to be mainly financially self-reliant in retirement will achieve this.

While people may *aspire* to having as much money as possible in retirement, it would also seem that a 'reasonable lifestyle' in retirement can be achieved with a moderate income, with a large majority of the currently retired having maintained their standard of living into retirement.

Taking this analysis one step further, Centrelink Administrative Data has allowed the testing of the perception, occasionally reported in the media, that some people 'arrange' their retirement finances (sometimes to their own net detriment) so they are eligible for a few dollars of Age Pension and the Pensioner Concession Card. This could be described as seeking a *pension* at the cost of *retirement income*, and would actually make people worse off.

These arrangements would manifest as disproportionate numbers of age pensioners at the lowest part rates of Age Pension. Further "arranging" to increase pension rate once a Senior is on Age Pension costs the pensioner net income, due to the slow and gradual rate at which additional private income reduces Age Pension payments.

Current Age Pension data, summarised at Chart 10, shows no evidence of large numbers of age pensioners receiving small amounts of Age Pension. The distribution of persons amongst rates of Age Pension shows a steadily increasing curve towards the higher rates of Age Pension, with a steeper increase towards the highest rates, and no peak at all in the lower rates. (Rates for partnered pensioners show an almost identical pattern of distribution.)



This indicates strongly that the reported community perception is incorrect, and that few people are artificially arranging their finances to qualify for an Age Pension.

WORKFORCE PARTICIPATION - ASPIRATIONS, EXPECTATIONS AND OUTCOMES (WP*)*

From the above, the current pre-retired cohort may have a significant gap in their retirement wealth between their aspirations, expectations and potential outcomes. The role of continued workforce participation into later life is examined in this context. Australian governments have no requirement or expectation that people should work beyond age 65, and this is not expected to change. Many over 65s will not want to work and others may be unable to for reasons of infirmity, caring responsibilities or the like. However, understanding the aspirations, expectations and outcomes for senior Australians in relation to workforce participation is key to appropriate policy responses.

ASPIRATIONS (WP.1)

The most preferred option for ANOP (2004) survey participants bridging the ‘gap’ between actual retirement income and required (or desired) retirement income was working in retirement. While this was the preferred option, most surveyed realised that finding work may not be easy – largely due to perceived negative attitudes of both employers and other employees to older workers (ANOP, 2004, p.7).

The ANOP (2004) survey also found significant gaps between the expectations of working in retirement among those not yet retired, and the actual experiences of retirees. Over five in ten of those not retired say they plan to work in retirement, whereas just under three in ten retirees report that they have a paid job. Those not retired also have higher occupation aspirations than retirees, although with a preference for casual work. The mean planned age to stop work completely is around 67 years (ANOP, 2004, p.8).

EXPECTATIONS (WP.2)

How many Seniors expect to work?

The 'Retirement Intentions' module from HILDA wave 3 asked respondents over the age of 45 and not yet retired what the chances are that they will still be in paid work beyond the ages of 65 and 75. To allow comparability with other data and to represent the whole population, those who indicated that they are already completely retired were "added back in" as having 'no chance' of being in paid work. This may marginally understate workforce intentions, as there may be a few respondents who have indicated that they are completely retired but expect to return to the workforce in the future. The responses are summarised as Charts 11 and 12.

Chart 11: What chance is there that you will be in paid work after the age of 65?

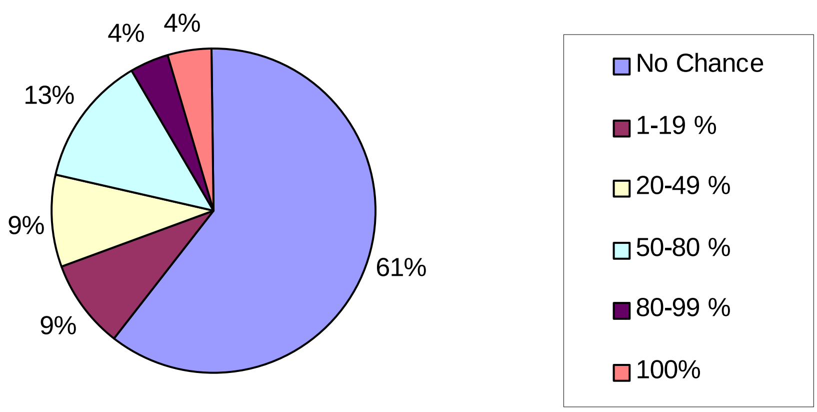
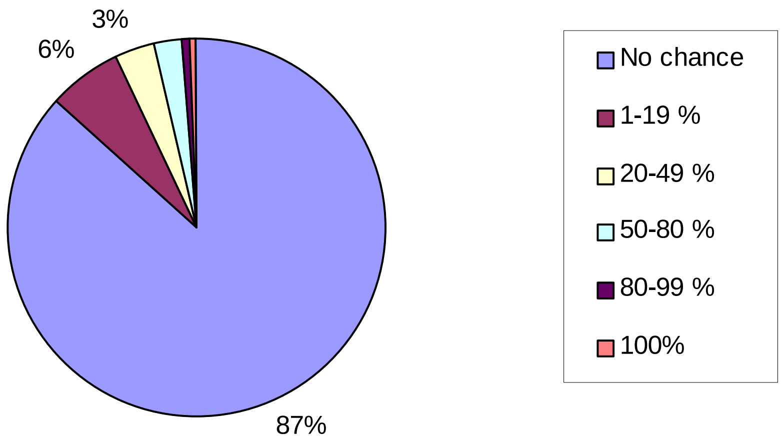


Chart 12: What chance is there that you will be in paid work after the age of 75?



Around 22 per cent of HILDA wave 3 respondents, 15 per cent of women and 28 per cent of men, said there was at least a 50-50 chance that they would still be in paid work after the age of 65. While only four per cent said they would definitely still be in paid work after 65, over 60 per cent said there was no chance at all of this occurring (including all respondents who had indicated that they were already completely retired).

Close to 87 per cent of respondents said there was no chance they would be in paid work after the age of 75, and less than five per cent said there was a greater than 50 per cent chance of this happening.

In summary, a significant minority expect to remain in the workforce beyond 65, but few beyond 75. If all respondents' expectations were to prove accurate (for example, that 30 per cent of the group who have said they have a 30 per cent chance of being in the workforce beyond age 65 actually did so), we would see close to 20 per cent of the Australian population in work beyond 65.

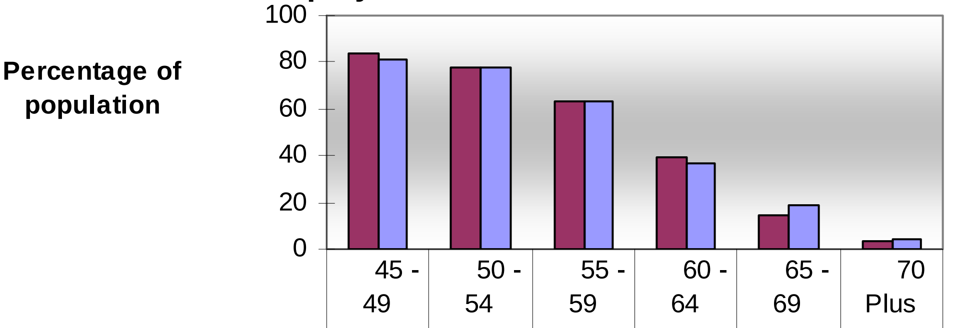
OUTCOMES (WP.3)

The expectations of the not yet retired HILDA respondents can be compared with the outcomes for the current Seniors.

How many Seniors are working and what trends can we see in their activities?

HILDA Wave 3 and ABS findings for employment levels by Age cohort are summarised in Chart 13.

Chart 13: Employment rates 2003 ABS and HILDA



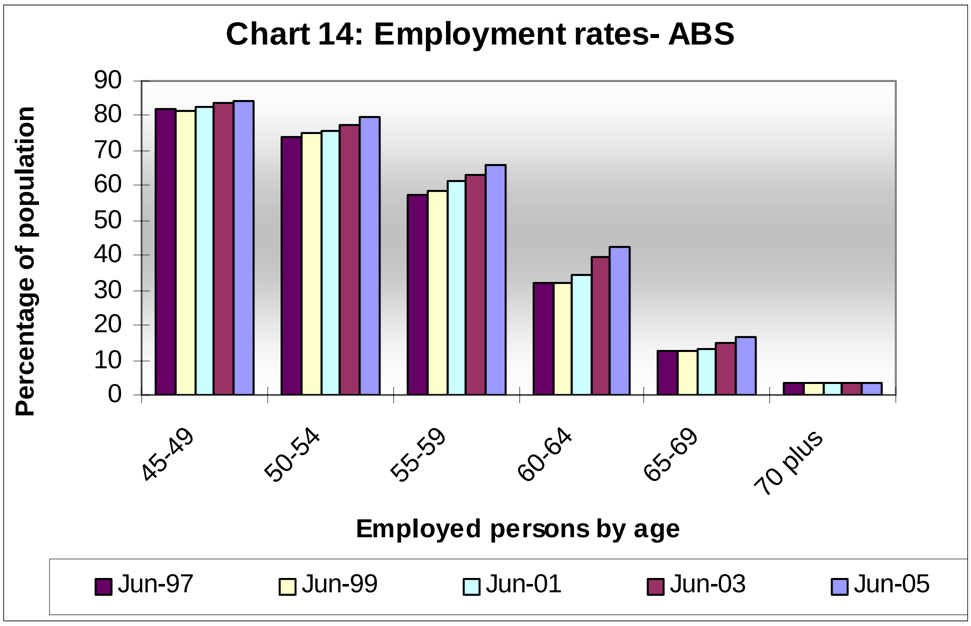
	45 - 49	50 - 54	55 - 59	60 - 64	65 - 69	70 Plus
Australian Civilian Population - Employed - ABS	83.9	77.6	63	39.6	14.7	3.3
HILDA wave3 - Employed full or part time	80.8	78.1	63.1	36.8	19.2	4.1

Age Group

Source: 6291.0.55.001 Labour Force, Australia, Detailed - Electronic Delivery, Monthly. LM2 - Labour Force Status by Sex, Age, Capital City/Balance of State.   HILDA wave 3.

The reported level of employment among all HILDA respondents is broadly comparable with that of the overall Australian population, with the exception of HILDA 65-69s. For this group (a fairly small sample in HILDA) the level of employment, at 19 per cent, is considerably higher than the ABS results.

Trends over recent years in workforce participation among older Australians are summarised in Chart 14.



Source: 6291.0.55.001 Labour Force, Australia, Detailed - Electronic Delivery, Monthly. LM2 - Labour Force Status by Sex, Age, Capital City/Balance of State.

Over the period, there has been a modest increase in workforce participation of over 65s, mirroring a broad increase over all of the over 45 age cohorts.

WORKFORCE PARTICIPATION: SUMMARY

The most preferred option for ANOP survey participants bridging the 'gap' between actual retirement income and required retirement income was working in retirement. While this was the preferred option, most surveyed realised that finding work may not be easy – largely due to perceived negative attitudes of both employers and other employees to older workers (ANOP, 2004, p.7).

The ANOP survey also found significant gaps between the expectations of working in retirement for those not yet retired, and the actual experiences of current retirees. Over five in ten of those not retired say they plan to work in retirement, whereas just under three in ten current retirees report that they have a paid job. Those not retired also have higher occupation aspirations than retirees, although with a preference for casual work. The mean planned age to stop work completely is around 67 years (ANOP, 2004, p.8).

As noted above, HILDA wave 3 data indicates that around 20 per cent of the population expect to still be in the workforce beyond age 65.

This matches the experience of the over 65s in HILDA quite closely, but is considerably higher than the ABS's 14.7 per cent of the 65-69 2003 population and 16.9 per cent of the 65-69 2005 population in work.

However, there would be a significant number of those not yet retired in HILDA wave 3 who indicated that they expect to work beyond 65, but are likely to retire at 66 or 67. This should cause the HILDA numbers working beyond 65 to be somewhat higher than the ABS's totals for participation for the whole 65-69 age cohort.

In short, workforce participation among over 65s may already be going close to matching the expectations of those not yet retired.

It can also be seen that there is a continuing trend toward increasing workforce participation among over 65s in recent years.

It should be noted that the 'not yet retired' HILDA respondents still have (on average) ten years until their expected retirement. So, if the trend to greater workforce participation continues, it seems likely that the opportunities for remaining in the workforce (Seniors preferred approach to bridging any gap between actual and required (or desired) income in retirement) will meet or exceed expectations.

Satisfaction and Happiness in Retirement

Obviously, people aspire to be as happy as possible in retirement. The ANOP (2004) survey indicates that people are generally positive about their expectations for happiness in retirement; with over 80 per cent indicating that they are looking forward to their retirement.

Retired HILDA wave 3 respondents were asked to rate their overall happiness since retiring, compared to before retirement. The responses are summarised as Table 6. Around 58 per cent of respondents rated their happiness as 'better' or 'much better', 34 per cent said it was 'about the same' and only eight per cent rated it as 'worse' or 'much worse'.

Table 6: Overall Happiness in Retirement compared to pre-Retirement

Happiness since Retirement	Respondents (per cent)	Average Fin. year income ($)
much worse	2%	14,265
worse	6%	15,011
About the same	34%	17,343
Better	33%	20,785
much better	25%	17,944
All	100%	18,430

An interesting thing to note about these responses is that there seems to be some correlation between respondents' incomes and their happiness, with the exception of those who indicated that their happiness is 'much better'.

This would seem to reinforce the importance for happiness in retirement of building at least some level of financial resources before retiring. This corresponds with the ANOP (2004) survey finding.

In response to the statement ‘I enjoy being retired’ some 76 per cent of retired HILDA wave 3 respondents agreed. Only 13 per cent responded negatively.

In summary, HILDA wave 3 retirees seem to be generally very happy in retirement, despite having, on average, a level of income considerably lower that the $30,000 that the pre-retired have indicated that they feel they require for their retirement (ANOP, 2004).

SELF-FUNDED RETIREES

This paper so far has drawn what HILDA and other sources can tell us about the full range of pre and post retirees across the community.

However, there is a group for which Centrelink administrative data provides some significant information, but where little is available from other sources – Moderate Wealth Self-Funded Seniors.

To create a picture of these Moderate Wealth Self Funded Seniors, we have drawn from two datasets within the Centrelink Administrative database, current age pensioners and current Commonwealth Seniors Health Card (CSHC) holders.

Detail on the circumstances that give Australians eligibility for the CSHC, and some key historical information is attached at Appendix A.

At what age do people commence on the CSHC?

There is substantial variability in the commencement age for CSHC holders, with the most common time being Age Pension or CSHC qualifying age - currently 65 for men and 63 for women.

Some 37 per cent commence on the CSHC at this time with another 25 per cent between the ages of 66 to 70. Seventeen per cent of cardholders do not take up the card until they are aged 75 plus.

Take-up rate for CSHCs

Currently there are over 300,000 CSHC holders. Recent estimates of eligible populations using both Stinmod[2] and FaCS estimates[3] based on ABS data, reveal that this is a take-up rate of around 70 per cent.

[2] STINMOD is NATSEM’s static microsimulation model that models the impact of the personal income tax and social security systems on Australian families (Lambert et al. 1994). The version used to calculate this information was STINMOD02B.
[3] This estimate was done by Seniors and Means Test Branch (FaCS, unpublished).

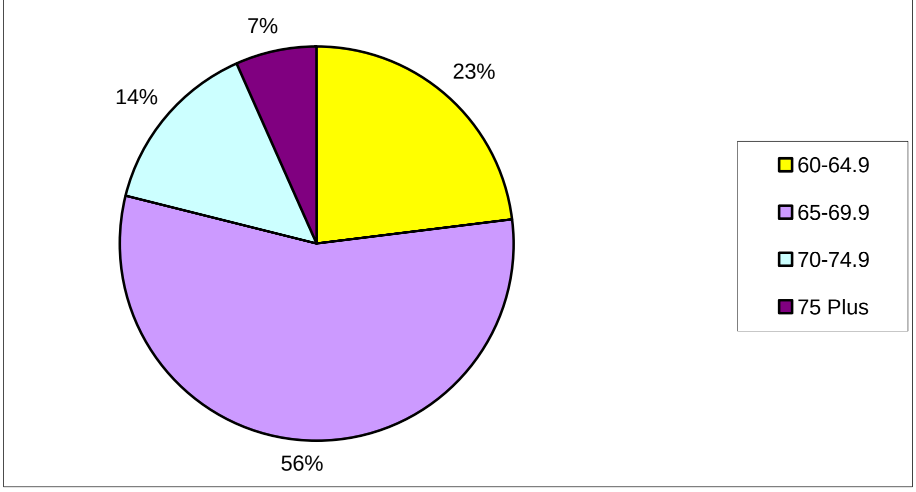
To gain a comparison with HILDA, respondents were selected from the HILDA wave 2 survey that were 'age eligible' for the card and assessed as 'financially eligible' using financial year gross income as a substitute for gross taxable income. The result - 445,000 eligible persons (294,000 of which are retired) - was close to the previously mentioned estimates of around 430,000. This CSHC eligible population is predominantly (58 per cent) female, largely caused by the higher proportion of retired women in the total population (61 per cent). The total proportion of women who would qualify for the CSHC, but who are not yet retired, is not a great deal higher than that of the men.

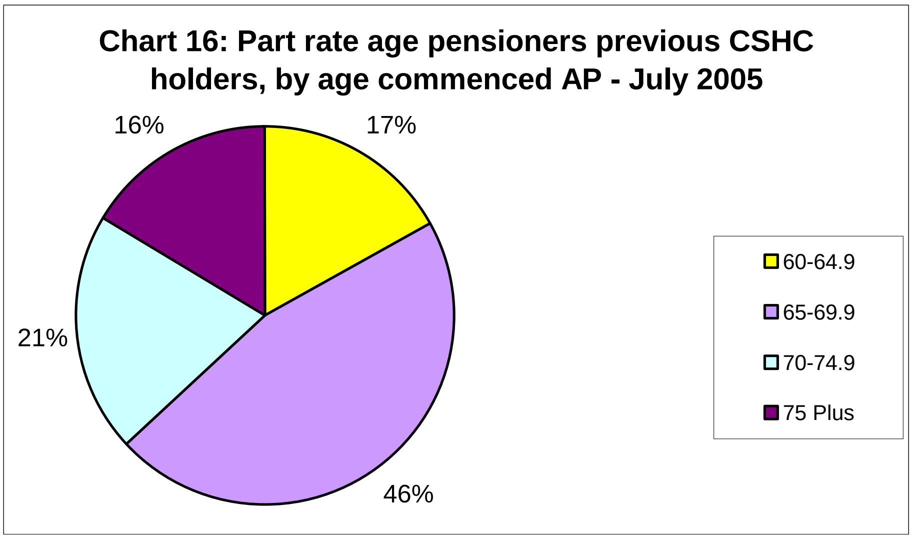
How long do people remain on the CSHC?

Current CSHC holders have been on the card on average around 4 years with 66 per cent taking up the card by age 70. Of the current 1.9 million age pensioners, approximately 100,000 had previously received a CSHC. They remained on the card for an average of around 2 years. Of the previous CSHC holders who are now on Age Pension, approximately 79 per cent are **currently** receiving part rate Age Pension. It should be noted, however, that it is likely that many of the 21 per cent of current max rate age pensioners who previously held a CSHC initially commenced on part rate Age Pension.

Charts 15 and 16 show the Age Pension commencement ages for current full rate and part rate age pensioners, respectively, who previously held a CSHC.

Chart 15: Full rate age pensioners previous CSHC holders, by age commenced AP - July 2005





More than ten per cent of all current CSHC holders have, due to increases in their assessable wealth, moved to the card from the Age Pension. Inheritance (usually from a partner) accounts for about half of this, but the remainder stems from Seniors managing their finances well in retirement and continuing to accumulate additional real wealth.

The CSHC data indicates that many senior Australians are managing their finances well in retirement, despite not necessarily being able to fulfill their *retirement intentions* completely. For current CSHC holders, the average time of holding a card is around 4 years, and the take up rate is quite modest - 66 per cent take up of the card by age 70. Although 4 years may not seem an overly long period, considering that the current higher threshold limits were only introduced in July 2001, an average holding time of 4 years indicates that many CSHC holders are capable of maintaining their self-sufficiency for a considerable time period before going onto Age Pension. Considering that these people have to have incomes below the CSHC thresholds to get a card in the first place only emphasises how well these people must be managing their finances in retirement.

CONCLUSION

What the data from HILDA and a variety of other sources indicates is that, although there may be a desire by senior Australians to retire at an early age, there is an expectation that they will retire later than those who are currently retired. This is perhaps due to an increasing understanding that current savings may not produce a retirement income in line with their aspirations, and that a prolonged attachment to the workforce, even in a wound-down capacity, can provide greater financial security in retirement. It also shows that senior Australians are more aware of the level of income that they will require to have an adequate income in retirement.

It also appears that there is a significant gap between the expectations of those not yet retired, and the experiences of those already retired, in terms of reliance on the Age Pension. There seems to be a great deal of optimism among the ‘pre-retired’ that they will be able to provide most of their own retirement income. This may, in part, reflect their understanding that in general their retirement incomes will be higher because they have made compulsory superannuation contributions over a longer period. However, in line with the Intergenerational Report (Commonwealth of Australia, 2002), it seems likely that a significant majority of the pre-retired will still need to call upon at least a part rate of Age Pension.

There are positive trends in this area - particularly among those just reaching age pension age. Previous Australian Government research (Lim-Applegate et al, 2005) provides evidence that this cohort have significantly greater wealth than earlier cohorts (reaching age pension age) and signs that current pensioners are maintaining a large proportion of their wealth in retirement, that is, drawing down slowly.

Another positive sign is that those who have already retired, in general, seem to have been able to maintain their standard of living on more modest retirement incomes than they originally thought might be needed. The CSHC data reinforces this, showing that moderate wealth self-funded Seniors seem to be managing their finances well in retirement and maintaining self sufficiency.

Therefore, even if increasing wealth and greater and longer attachment to the workforce is unable to completely bridge the gap to the aspirations and expectations for wealth among those yet to retire, the pre-retired may still be able to maintain their standard of living into retirement.

The apparent realisation of the importance of building adequate financial resources for retirement may be prompting increasing intentions among senior Australians to work into later life. While less than one in three (ANOP, 2004) retirees report that they have a paid job, and around 17 per cent of Australians 65-69 are in paid work, around 20 per cent of HILDA respondents expect to still be in paid work after the age of 65. As previously referred to, this realisation may be slightly exaggerated by older Australians' understanding or possible misunderstanding of the role Age Pension will play as a component of retirement incomes in the future.

While previous studies indicate there would seem to be a need for change in the workplace (such as phasing of retirement, flexible working arrangements and ongoing education for older workers), and in society itself (such as promoting the value of senior workers, and encouraging seniors to continue to work); that workforce participation among Seniors is increasing provides evidence that changes are already underway.

In short, in terms of work beyond age pension age, there would seem to be a gap between the aspirations and expectations of the current pre-retirement cohorts and, the outcomes for those already retired. There does, however, seem to be significant change underway toward closing this gap. While there is no requirement or expectation by Australian governments that over 65s should continue to work, it seems likely that those Seniors who aspire and expect to work should increasingly be able to do so, and realise the benefits that come from remaining in work.

Overall, expectations of retirement are reportedly continuing to be “rosy”, with five out of six people surveyed saying they are looking forward to retirement and two out of three saying their expectations of retirement have been met (ANOP, 2004, pp.1-2).

The HILDA wave 3 data indicates an even more positive outlook for retirees, with 57.9 per cent saying their happiness was better or much better overall since retiring, and another 33 per cent saying it was about the same. Very few people indicated that life in retirement was worse than their pre-retirement life. Those that did, however, indicated that they also had comparatively lower levels of retirement income, reinforcing the importance of building at least some financial resources prior to retirement.

As for others, the HILDA data did not indicate there was any significant correlation between their level of happiness and their level of retirement incomes.

Our studies indicate that in the larger retirement picture, it would seem that for many senior Australians, although they may not have the level of retirement incomes they would most desire, they are reasonably satisfied with their standard of retirement living. It would also appear that for many senior Australians they are managing their finances well in retirement and continue to be happy in retirement, late into their retirement years.

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(Note: The authors would like to acknowledge the considerable contribution of Hazel Lim-Applegate to the development of this paper.)

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APPENDIX A

PROFILE OF COMMONWEALTH SENIORS HEALTH CARD HOLDERS

Who gets the card?

Introduced in 1994, the CSHC is available to Australian residents of age pension age (subject to certain income limits) who are not in receipt of a social security pension or benefit, or a Department of Veterans' Affairs (DVA) service pension or income supplement.

The rate of Age Pension payable is calculated under both an income test and assets test (commonly referred to together as the 'means test'). The test that results in the lower (or nil) rate being paid is applicable.[4] People who qualify for the Age Pension receive a pensioner concession card (PCC).

To qualify for a CSHC a person must be an Australian resident, living in Australia and unable to receive Age Pension (or other payments noted previously). The card is subject to a test on a person's adjusted taxable income. From July 2001 the income limit per year for a single person is $50,000 and for couples it is $80,000. For illness separated couples the limit is $50,000 for each member of the couple. An amount of $639.60 per year is added for each dependent child. There is no assets test.

The CSHC entitles the holder to a significant range of concessions, but not as broad a set as those available to PCC holders.

A Brief History

The CSHC income limits were indexed for several years after its introduction, but in January 1999 the link to indexation was removed, a taxable income test was introduced and the income limits were increased from $21,320 to $40,000 for singles, and from $35,620 to $67,000 for couples.

In July 2001, the income limits were again increased as part of the 'Acknowledging Older Australians' initiative to the present limits of $50,000 adjusted taxable income for a single person, and $80,000 for a couple.

Both these measures encouraged a significant increase in the take up rate of the CSHC, achieving the Australian Government's goals of recognising the extra health needs of Seniors (see Figures 1 and 2).

If the CSHC income limits had remained linked to the Consumer Price Index, they would now be $34,144 a year for a single person and $57, 083 a year for a couple, far less than the current limits.

As Figure 1 shows, following an earlier steeper increase as a result of the higher income limits introduced in July 2001, card numbers have risen very gradually from late 2001 to late 2004, with a small upswing in recent quarters.

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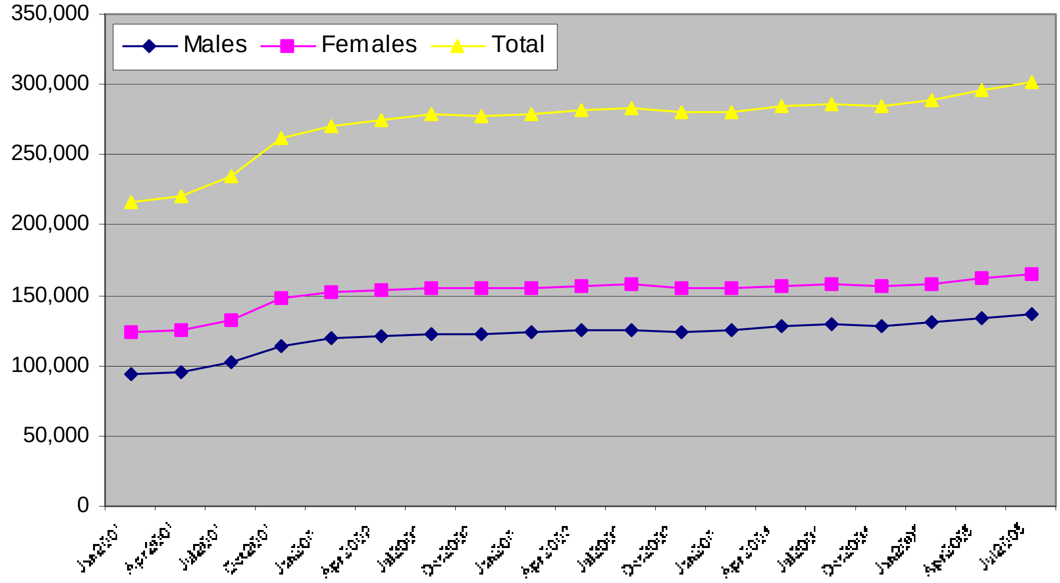
[4] Detailed information on the pensions income and assets tests can be found in Centrelink's: *A guide to Australian Government payments 1July – 19 September 2005.*

Figure 1: Number of Commonwealth Seniors Health Cardholders by Sex, January 2001 to July 2005

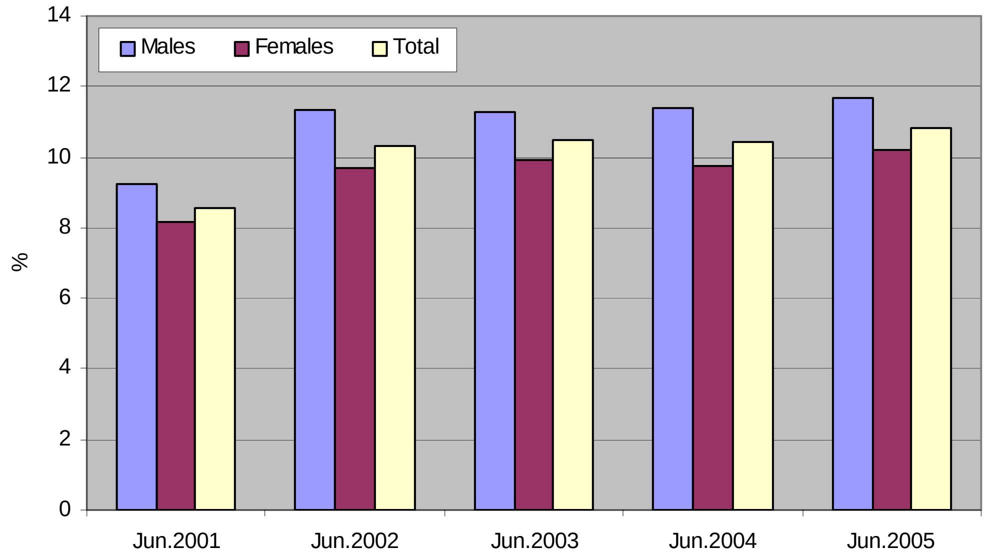


Source: Centrelink Superstar Concession Cards Database 2001-2005.

Take Up

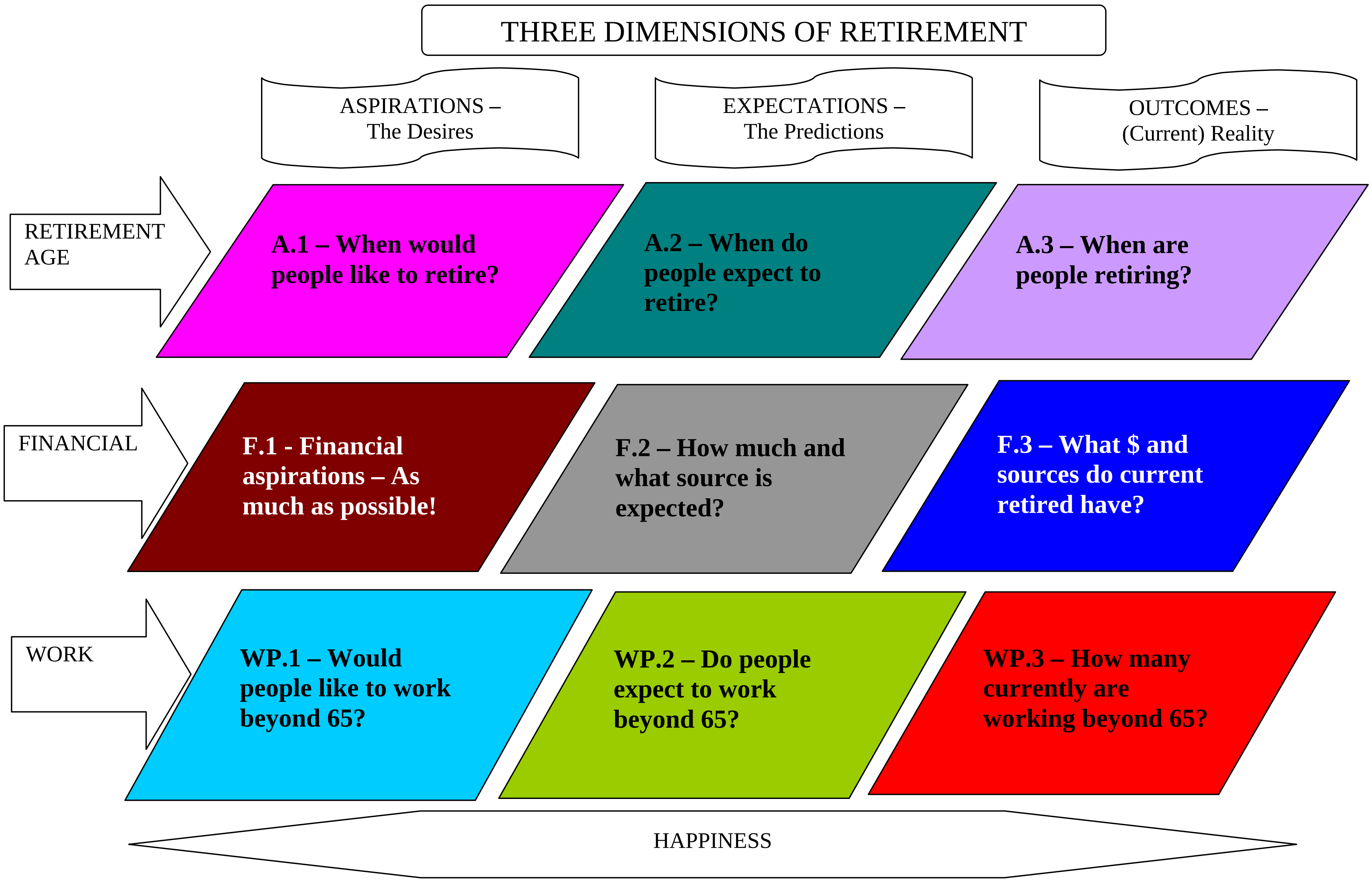
As Figure 2 shows, the proportion of Australians of age pension age with a CSHC shows the same trend as the overall numbers with a CSHC, with a significant increase from 2001 to 2005. Of interest to note is that while the overall number of women with a CSHC is greater than the overall number of men with a CSHC, the proportion of women of eligible age receiving a CSHC is lower than that for men.

Figure 2: Proportion of Australian Population of Age Pension Age with a Commonwealth Seniors Health Card, June 2001 to June 2005



Source: Centrelink Superstar Concession Cards Database 2001-2005. ABS, TABLE 2A, Projections of Population By Age - Australia - Series II (a).

Appendix B


THREE DIMENSIONS OF RETIREMENT
ASPIRATIONS – The Desires
EXPECTATIONS – The Predictions
OUTCOMES – (Current) Reality
RETIREMENT AGE
A.1 – When would people like to retire?
A.2 – When do people expect to retire?
A.3 – When are people retiring?
FINANCIAL
F.1 - Financial aspirations – As much as possible!
F.2 – How much and what source is expected?
F.3 – What $ and sources do current retired have?
WORK
WP.1 – Would people like to work beyond 65?
WP.2 – Do people expect to work beyond 65?
WP.3 – How many currently are working beyond 65?
HAPPINESS