Income, superannuation and debt **pre and post retirement**

AMP.NATSEM Income and Wealth Report Issue 7. March 2004

The lump sum: here today, **gone** tomorrow

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Foreword

Since the publication of the second AMP.NATSEM Income and Wealth Report in July 2002 'Live long and prosper?: the income and assets of those about to retire' AMP has argued for reform in retirement incomes.

In February 2004, Treasurer Peter Costello announced a package of reforms that introduced greater flexibility in retirement incomes, simplified the work test rules for most Australian workers and made super more accessible for Australians who had reached preservation age.

In addition, the Treasurer announced proposals to introduce market-linked, complying income streams – so-called growth pensions (which AMP called for in 2002) – while reducing the asset test exemption by 50%.

In this the seventh Income and Wealth Report, AMP and the National Centre for Social and Economic Modelling (NATSEM) provide more data to support the arguments behind the Government's announced reform package – and may even fuel debate about the need for more reform.

Tough transition

The report shows clearly that Australia's developing retirement incomes system is starting to show some real benefits for those who have had the opportunity to be inside it. However, there are others who, for one reason or another, are outside the system and may not enjoy these benefits.

This is one of the big contributors to what the report calls the 'two worlds of retirement':

- one for those who have the means, opportunity and discipline to accumulate enough assets to support their lifestyles in retirement; and
- another for those who, for a variety of good reasons, have not been able to save enough and so live in very modest circumstances.

It is also tangible proof that the gap between people's expectations of a comfortable retirement, and the reality for most retirees, is brutally real.

Income shortfalls

The report shows that the average personal income of an Australian aged between 50-69 years in full-time employment is $52,500. This compares with the average personal income of $16,600 for an Australian of the same age who is not in the workforce – around one-third of the income of an employed person.

On this comparison, we still have a long way to go before most retired Australians achieve the income range of 60-65% of final average salary recommended by Senate Select Committee on Superannuation in 2002.

What happened to the lump sum?

In households where at least one 50-69 year old is working, the average household super balance is $170,000. But in households where all the 50-69 year olds retired in the last year, the average super balance is just $93,000.

So the big question is: what happened to the lump sum?

The answer seems to partly lie in the family home. The proportion of employed Australians aged 50-69 years who own their home outright is 63.3%, compared with 70.7% of retired Australians in this age group.

The level of household debt among employed 50-69 year olds is $85,500, compared with just $22,700 for retired 50-69 year olds. Of this, around $12,100 in employed households is in car loans, hire purchase and personal loans. In retired households, the debt in this category is just $3,800.

It seems a probable explanation for the increased level of home equity and lower debt levels among retired Australians is that superannuation is being used to retire debt.

While retiring debt is usually a very good financial planning strategy, it is perplexing that more people in this age group are not actively managing down their debt levels before they reach retirement.

More 50-69 year olds are approaching retirement carrying higher levels of debt than the previous generation. In 1986, for instance, the average household with at least one member still employed owned 94% of their home, compared with 85% in 2001. Retired families, on average, owned 98% of their homes in 1986, compared with 95% in 2001.

Savings go home

Australians' love affair with their family homes continues into retirement and arguably absorbs a good chunk of the big difference between a 50-69 year old employed person's super balance and a 50-69 year old retired person's super balance.

The evidence suggests that Australians may not have as much as they require in liquid assets to fund their lifestyle, but at least they can sit around in the comfort of familiar surroundings.

In Australia the family home is also a tax haven. And while family homes continue to receive such favourable tax treatment, people will continue to drive cash into them – even when that cash could be invested in other assets that provide real income in retirement.

While the introduction of growth pensions with complying status is welcome, the tax environment (that is, 50% asset test exemption for the Age Pension) is still less favourable than the tax-free status enjoyed by the family home (that is, a 100% asset test exemption for the Age Pension).

However, the importance the family home plays in Australian lives means it is unlikely the community will accept changes to its tax status.

Instead, AMP believes that:

- Better education and access to quality advice is vital. Australians must better understand basic financial concepts, like the relative benefits of retiring debt earlier and leaving superannuation savings available for their correct purpose – funding more of the lifestyle Australians expect to achieve in retirement.
- Superannuation balances among older Australians remain too low. People with average incomes of $52,500 should be aiming for a retirement benefit of $252,000 to achieve the kind of income to fund a lifestyle that potentially matches their expectations. But the report shows a 50-69 year old's average super balance is just $83,000.
- Voluntary savings are probably the most effective and simple way to increase these balances. Removing the work test rules is a positive initiative. Other existing incentives for voluntary contributions (such as co-contributions, spouse contributions and self employed incentives) are useful but could be extended to more of the population. Removing maximum limits on contributions would also help many people fast track their super accumulation, especially the baby boomers who have not had the opportunity to participate in compulsory super for their entire working lives.
- Reducing some of the tax liability in the retirement savings environment, or transferring it from the front end to the back end, would also increase incentives for voluntary contributions and boost the power of investment earnings within the funds. It would also encourage more people to take private pensions, rather than lump sums, when they retire.
- Australians should have access to more choice around who manages their super account, or who manages their investment options within their super account. As people become more aware of how much super they will need in retirement, of how investment markets work, of what their fees and charges pay for, and of how financial planners add value to the process of accumulating super, they will demand greater choice over their superannuation. Broader choice will promote greater freedom for consumers to select a super account that best meets their needs, and encourages the most competitive market possible.

The Treasurer's recent statement on retirement incomes policy was a positive step toward achieving a good retirement incomes policy for this nation. But this report shows that more is required – as a nation, we need to take a giant leap forward.

Craig Dunn

Managing Director, AMP Financial Services

Introduction

Research by NATSEM shows that, in 2001, 70% of people aged 65 and over had a weekly income of less than $300 per week. It seems the majority of this income came from the Government, as the single rate of Age Pension was $201 per week in the same year. This indicates the majority of Australians are contributing very little to the cost of their retirement.

Since 1992 almost every employee has had superannuation put aside for them under the Superannuation Guarantee. So where does this superannuation go?

In this issue of the AMP.NATSEM Income and Wealth Report, we look at the savings and debts of people aged 50-69 – those about to retire and those just retired – to try and identify what happens to their superannuation and why it is not providing them with more income in retirement.

There is a popular misconception that, on average, Australian retirees enjoy 'the good life'. The findings of this report do not support this view.

The report addresses the issue by examining the following areas:

- Age and household type
- Employment status
- Income
- Superannuation and other assets
- Debt

Things are not always what they seem for the typical 50-69 year old household.

1. What happens **between** 50 and 69?

One quarter of the 15 million adult Australians are aged between 50 and 69. Most people think this group of Australians are living the good life – they are married, the kids have left home, they own their house, work until age 60-65 and earn high incomes, giving them considerable discretionary spending. In their spare time they are planning where to go and what to do in their retirement. But is this picture anything like reality? In short – no.

The first misconception about the typical 50-69 year old household is that the children have already left home. Half of the younger members still have dependent children (in the 50-54 year range, 43.5% are couples with children and an additional 8.6% are lone parents). Table 1 shows, even at age 65-69, 13% of households still have dependent children, and as AMP.NATSEM Report No.3 – 'The costs of raising children in Australia today' showed clearly, children are expensive! The financial freedom associated with not having dependent children is not necessarily felt by this age group, especially the younger members.

Another misconception is that people in this group work until age 60-65. In fact, according to a 1997 estimate by the Australian Bureau of Statistics, the average age of retirement for males is 58 years and 41 years for females, giving an average retirement age of only 48 years old – considerably less than the traditional retirement age of 65 years for males and 60+ years for females. This early retirement age is also apparent in more recent survey data. For example in the 2002-03 Household Income and Labour Dynamics in Australia (HILDA) Survey (see technical notes for brief description), almost three-quarters of males aged 50-54 are employed full-time, but this proportion drops to one-quarter within 10 years. Only one in four males remains in full-time employment until the traditional retirement age of 65 years. For females, retirement starts earlier – only 36% are employed full-time at age 50-54 and this proportion drops to less than a quarter by the time they become eligible for the Age Pension in their sixties (see Table 2).

Table 1 Household type of 50-69 year olds, 2002-03

Type of household	Age of the person			
	50-54	55-59	60-64	65-69
	%	%	%	%
Couple only	35.6	50.7	62.6	68.9
Couple with children	43.5	26.4	16.9	10.2
One parent with children	8.6	5.7	3.4	2.6
Person living alone	11.0	15.9	16.3	18.0
Other/mixed households	1.3	1.3	0.8	0.3

Note: Children refer to children under 15 years and unpartnered children 15 years and over without children.
Source: Household Income and Labour Dynamics in Australia (HILDA) Survey, wave 2 confidentialised dataset.

Table 2 Labour force status of 50-69 year olds, 2002-03

Labour force status	Age of the person			
	50-54	55-59	60-64	65-69
	%	%	%	%
Males				
Employed full-time	74.8	55.4	27.1	11.1
Employed part-time	7.2	10.8	15.5	7.7
Unemployed	2.3	4.1	1.8	–
Not in the labour force	15.6	29.7	55.6	81.2
Females				
Employed full-time	36.4	23.5	9.2	2.4
Employed part-time	28.7	21.5	14.4	7.2
Unemployed	2.8	1.5	0.5	0.5
Not in the labour force	32.1	53.5	75.9	89.8

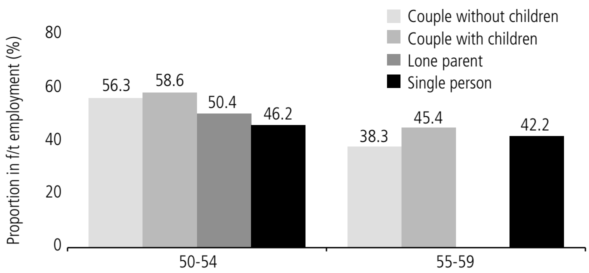
Source: HILDA Survey, wave 2 confidentialised dataset.

Another interesting aspect of Table 2 is the apparent popularity of a gradual or incremental approach to retirement for males. The proportion working part-time rises from 7.2% at age 50-54 to 15.5% at age 60-64. After the retirement age milestone of 65 is reached, the proportion drops back – but not by as much as full-time employment does. Part-time work reduces to 7.7% for those aged 65-69, while full-time drops from 27.1% to 11.1%. Part-time employment is more popular for women, with 29% of 50-54 year olds selecting this option. Given this high proportion, it is no surprise to see that the fraction does not grow with age, in contrast to the profile for men.

Using longitudinal data available from HILDA Surveys (which track people over time), we can calculate that of the 1.15 million people in this 50-69 age group who were working full-time in the 2002 survey, 16% had changed their employment status by the 2003 survey. Of these, 9% had changed to part-time work and a further 7% had retired from the labour force. In other words, the majority of people are taking the steps to retirement through a gradual reduction in their working hours.

While working part-time helps strike a better balance between lifestyle and income requirements, not everyone in this age group is able to enjoy this phased approach to full retirement. In Figure 1 the proportions in full-time employment are shown by household type.

Figure 1 Proportion of people working full-time, by age and household type, 2002-03



Note: The survey sample of lone parents aged 55-59 was too small to be reliable and the result for that group has been omitted.

Source: HILDA Survey, wave 2 confidentialised dataset.

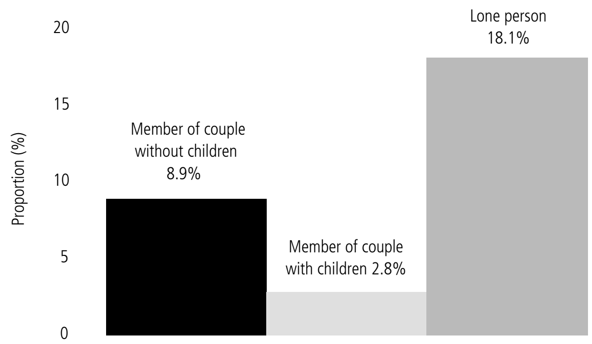
The graph shows that those most likely to be in full-time employment are members of a couple. Couples with children at home are more likely than other household types to continue working full-time. It is obviously easier for a couple without children to bear the loss of income associated with the reduction in labour force hours.

This view is reinforced by looking at those that left full-time employment in the last year.

Only one quarter of males and far fewer females are working full-time at the traditional retirement age.

Figure 2 shows the proportion of 50-69 year olds who were working full-time when last surveyed in 2002 but were no longer in the labour force by the 2003 survey. For those that are a member of a couple with children household, less than 3% left the labour force, while those without children and working full-time were three times (8.9%) more likely to leave the workforce. The high costs associated with raising children (discussed in AMP.NATSEM Report No.3) would seem to influence the decision to remain in full-time employment.

Figure 2 Proportion of people working full-time in the previous year who are currently retired and aged 50-69, by household type, 2002-03



Note: The survey sample of lone parents was too small to be reliable and the result for that group has been omitted.

Source: HILDA Survey, wave 1 and wave 2 confidentialised datasets.

Another view of those choosing to retire can be gained by looking at their socio-economic status. In Figure 3 those who were employed full-time in the last HILDA Survey have been assigned a socio-economic ranking and then sorted into five equal groups (quintiles) based on this ranking. The figure shows those in lowest socio-economic group (Q1) and those in the relatively high socio-economic group (Q4) were more likely to have left the labour force.

It is possible those in the lowest socio-economic group did not 'choose' to retire but were forced into retirement due to retrenchment, disability or inability to find further employment. As we will see later, these two groups appear to live in quite different 'retirement worlds'.

Figure 3 Proportions of 50-69 year olds employed and retired by socio-economic status, 2002-03

Note: The graph shows the proportions of people by current employment status (employed or retired) who were employed full-time in the previous survey. The people have been ranked and grouped according to their socio-economic status. The socio-economic rankings are based on the SEIFA 2001 Index of education and occupation.

Source: HILDA Survey, wave 1 and wave 2 confidentialised datasets.

In summary, people in this age range are choosing to retire or at least reduce their hours before they reach the Age Pension eligibility age – only one-quarter of males and considerably fewer females are working full-time at the traditional retirement age.

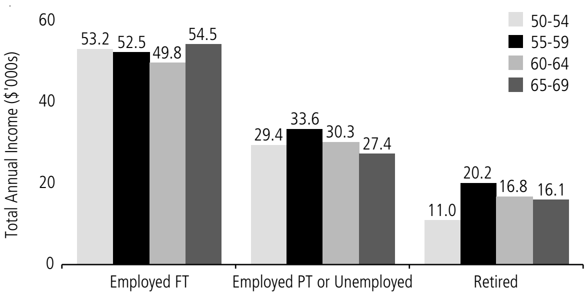
Those households where a couple and children exist are slightly less likely to reduce their hours or to retire.

Well over half of all retirees aged 50-54 have incomes of less than $10,000 a year.

2. Income

If not everyone in the 50-69 age range is in full-time employment and some still have children at home, is the image of high incomes and high assets correct?

Figure 4 Average personal income from all sources by employment status, people aged 50-69, 2002-03



Source: HILDA Survey, wave 2 confidentialised dataset.

Figure 4 shows the average income from all sources (that is, from earnings, investments and government cash benefits) by employment status and age group for people aged 50-69. The financial benefits of full-time employment over part-time employment and non-participation are clear. The average total income of those employed full-time is $52,500, while those employed part-time average $30,800 and those not in the labour force have an average income of $16,600.

Most financial planners suggest an income equal to 65% of final full-time income is required for a comfortable retirement. This equates to a retirement income of $34,000 per year. Figure 4 suggests most retirees have an income of less than half this amount.

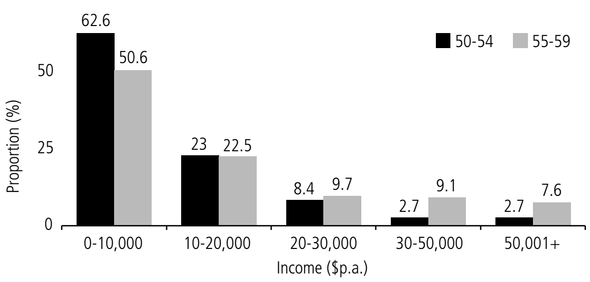
The situation for the youngest group of retirees is even worse. As Figure 4 shows, the income of those retiring before age 55 is even lower than the retirement norm – an average of just $11,000 per year for those aged 50-54. While low income is the norm, it is not the case for all. In Figure 5 the distribution of personal income is shown for young retirees.

One of the most striking findings shown in Figure 5 is that well over half of all younger retirees have personal incomes of between zero and $10,000 a year. This suggests a very austere standard of living for a substantial proportion of 50 to 59 year old retirees. These low incomes also reinforce the view that many may not have chosen to retire but rather have been forced into retirement.

While the distribution is dominated by the high proportion on very low incomes, the proportion with high incomes increases dramatically for the 55-59 age group. Since the preservation age for superannuation is currently 55 years, this suggests the increased incomes relate to gaining access to superannuation.

Access to superannuation may be the reason for the increase in retirement incomes for those aged 55-59 but it should be noted that the average personal income of retirees drops back after the age of 60 (Figure 4). The questions then arise – have their superannuation funds been exhausted? Are the retirement incomes they are living on in the first few years unsustainable in the longer term?

Figure 5 Distribution of personal income of young retirees, 2002-03



Note: All of these individuals have retired.

Source: HILDA Survey, wave 2 confidentialised dataset.

So far, this discussion has considered only personal income and suggests that about half of all retirees have little or no income of their own. But is it the case that many of these early retirees still enjoy a comfortable standard of living, because they are part of a couple where their partner is still working?

Table 3 shows the distribution of the joint total income of couples where one member has retired early (aged 50-59) by the employment status of the other member. Over 60% of those retired members of a couple had a partner who had also retired or was currently unemployed. The two worlds of retirement are evident again in this group.

Almost half of these 'both retired' couples have a combined income of less than $20,000 per year – while, at the other end of the income spectrum, 14% have an income of $50,000-$100,000 and 6% have a joint income over $100,000.

An early retiree member of a couple with a partner still working part-time was most likely to have an annual combined income in the $20,000-$50,000 range, while those with a partner working full-time (one-quarter of those retired) were most frequently in the three highest income ranges.

Table 3 shows that households that maintain at least one member in employment have an income considerably higher than those with both in retirement. The proportion of couples with an income over $100,000 was four times higher for those with one member in employment than for those with both in retirement. While only half of those with both retired had an income over $20,000, 94% of those with a partner employed full-time and 89% of those with a partner working part-time enjoyed this level of income.

Table 3 Distribution of joint income of couples where one member is aged 50-59 and has retired, by labour force status of the other member, 2002-03

Partner's employment status	Share of retiree couples	Income distribution					
		Less than $10,000	$10,000-$20,000	$20,000-$30,000	$30,000-$50,000	$50,000-$100,000	Above $100,000
	%	%	%	%	%	%	%
Employed FT	26.9	5.2	1.0	4.4	31.3	31.4	26.7
Employed PT	1.9	2.8	8.0	26.1	27.7	11.9	23.5
Unemployed or retired	61.2	5.5	43.1	16.2	15.2	14.0	6.0

Note: The joint income is the sum of the total personal incomes of the two members of the couple.
Source: HILDA Survey, wave 2 confidentialised dataset.

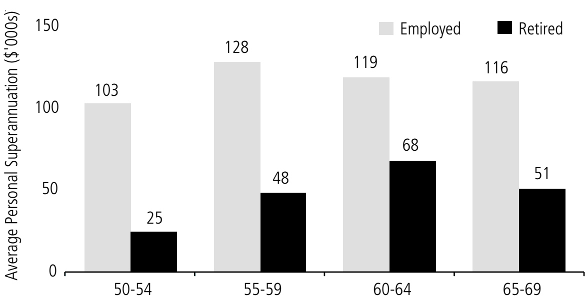
The average super balance held by people retired at 50-54 is only $24,000 – just a quarter of the balance held by those still employed.

3. Superannuation

Figure 6 shows average accumulated personal superannuation balances. The average superannuation balance for those aged 50 to 69 is $83,000. However, those in employment have considerably more in superannuation than those who have retired.

The good news for those in employment is that this balance will increase even further over time, as compulsory and voluntary contributions continue to be made from their wages and salaries. The average superannuation for those retired at age 50-54 is only $24,500 – one-quarter of the employed level at this age. As superannuation is preserved until age 55 and the average amount is so low, it would seem that only a member of a couple with the partner still working, or someone forced from employment, would choose to retire at this age. A third option is someone who is anticipating an inheritance, but as AMP.NATSEM Report No.4 on Wealth and Inheritance showed, this is most unlikely.

Figure 6 Average personal superannuation balance by employment status and age, 2002-03

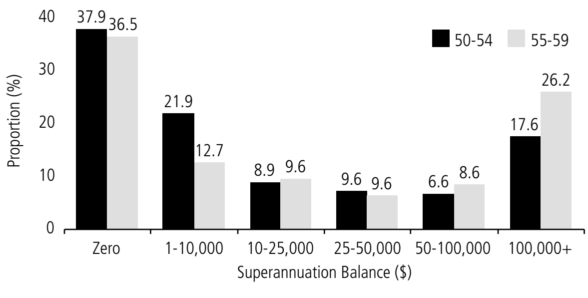


Source: HILDA Survey, wave 2 confidentialised dataset.

In Figure 5 we saw the majority of early retirees had very low incomes. Figure 7 shows most of this age group also have very little, if any, superannuation. 60% of people aged 50-54 who retired in the last year have less than $10,000 in superannuation and half of those aged 55-59 have only this amount. At the other end of the spectrum, around 20% are retiring with superannuation assets in excess of $100,000.

The picture we have of two large groups at either end highlights the two worlds of young retirees. One small group is retiring with significant assets and continuing to enjoy a high income, while a larger group is leaving the labour force (perhaps involuntarily) with very little, if any, income or superannuation.

Figure 7 Distribution of personal superannuation balances of young retirees, 2002-03



Source: HILDA Survey, wave 2 confidentialised dataset.

The family home is the most significant asset for Australians.

4. **Other** assets

In an earlier section we saw that most people do not wait until age 65 to retire – in fact only a very small proportion remained employed until this age. Yet the majority seem to have zero or very low income and superannuation. So why are they leaving the labour force? Do they have assets other than superannuation?

Figure 8 shows the average net values for significant household assets where a person was in the labour force in the previous year. The average asset values are shown for the household by the person's current employment status. The graph shows the significance of the family home in the wealth portfolio of Australian households.

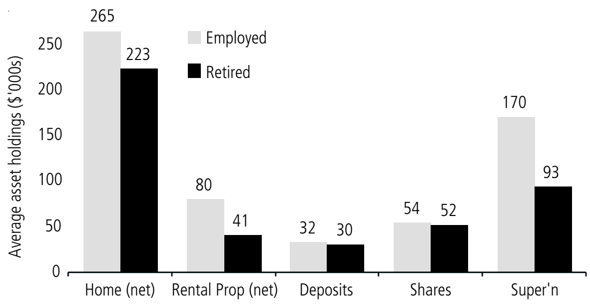
For those who are working, the equity in their home (value of the house less any outstanding mortgage) is $265,000 while a household with a retired person has an average of slightly less at $223,000. This seems strange as we might expect retirees to use some of their payout to reduce their mortgage and increase the equity in their home. They should then have a higher equity value than those in retirement. The reason is that retirees appear to have homes worth less than those in employment. On average a retiree owns 95% of their home, with their mortgage accounting for only 5% of the total value. An employed household owns 85%.

To sum up: retirees' houses are valued at slightly less but their mortgages are lower too.

The proportion of the family home owned by people in this age group has changed considerably over the last 15 years. In 1986 the average family with a head in this age group who was still in the labour force owned 94% of their home, while a retired family owned 98%. In 2001 these figures were reduced to the 85% and 95% presented above. People today are approaching retirement with higher levels of housing debt than they did 15 years ago.

Figure 8 shows the average cash deposits and share holdings of retirees and employed households to be similar, at $30,000 and $53,000 respectively. The lower retired equity in rental properties of retiree households corresponds with the lesser importance of taxation advantages for those no longer earning an income. The significant difference in superannuation is apparent.

Figure 8 Average household value of assets by current employment status, 2002-03, where a person was employed one year previously



Source: HILDA Survey, wave 1 and wave 2 confidentialised datasets.

Overall it does not seem that retirees have a hidden source of assets. They do have significant wealth in their home and own slightly more of it than their employed friends – but overall they have the same or slightly less assets.

Debt levels decrease with age and retirees have less debt than employed people.

5. Debts

In this section we consider the debt levels of those employed and those retired. Household debts are divided into three categories – housing, credit card and other personal loans.

The total average household debt is shown in Table 4. It is clear debt levels decrease with age and retired households have considerably less debt than employed households. The average employed household debt is $85,500, while the debt level in retired households is only one-quarter of this, at $22,700. Superannuation would appear to be used to reduce debt levels. In the following sections we look at the type of debt being reduced.

Housing

Home ownership is extremely high for this age group, with 63.3% of employed households and 70.7% of retired households owning their home. It would seem some of the superannuation is being used by this age group to own their home outright.

Figure 9 shows the proportion of the home owned by the household (as opposed to the proportion that is mortgaged) by State/Territory and the employment status of the household. On average, those in retirement own more of their home than those in employment. The level of equity is calculated as the equity in the home divided by the value of the home.

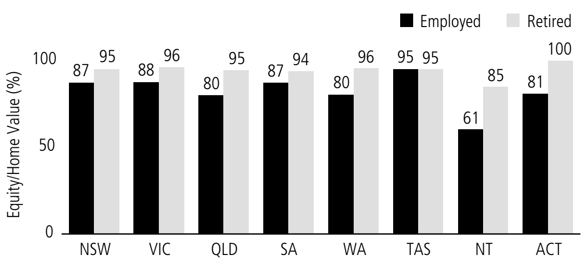
Table 4 Total household debt by age and household type, 2002-03

	Couple household	Lone parent/single person household	All households
Age of responding person	$	$	$
50-54	95,700	48,400	86,000
55-59	80,200	32,400	69,300
60-64	33,700	11,700	29,200
65-69	16,200	4,600	13,800
All 50-69 households			
Employed	95,400	45,700	85,500
Retired	26,600	9,600	22,700

Note: 'Employed' means at least one member of the household is employed part-time or full-time. 'Retired' means all members of the household are either unemployed or not in the labour force.

Source: HILDA Survey, wave 2 confidentialised dataset.

Figure 9 Average equity proportion for homeowners by State/Territory, 2002-03



Source: HILDA Survey, wave 2 confidentialised dataset.

Greater levels of home ownership and reduced mortgages suggest superannuation funds are being used to reduce the level of debt owed on the family home.

Credit Cards

People aged 50-69 are more likely to use credit cards than younger Australians. As shown in Table 5, those aged 50-54 are the highest users, with 70.5% using a credit card or store card at least monthly.

However, they are also the people who pay off their accounts at the end of each month. As shown in Table 6, the proportion paying off their credit card debt each month is 60% for 50-54 year olds and increases with age from this very high level. The average household credit card debt for an employed 50-69 household was $1,300 while a retired household owes less than half this, with an average of $600.

Car and other personal loans

The average values of vehicles owned by a 50-69 year old retiree household ($18,400) are slightly less than those owed by employed households ($25,700) but the associated loans are significantly less.

There are no specific data available for car loans, but we do know car loans, hire purchase, and personal loans average $12,100 for employed households and $3,800 for those in retired households. This significant difference would again suggest superannuation is being used to reduce debts.

Table 5 Proportion of Australians using credit cards by age, 2002-03

	15-49	50-54	55-59	60-64	65-69	70+
	%	%	%	%	%	%
Owns credit card and uses it at least monthly	57.0	70.5	64.6	61.5	58.0	46.0
No credit card	43.0	29.5	35.4	38.5	42.0	54.0

Source: HILDA Survey, wave 2 confidentialised dataset.

Table 6 Proportion of Australians using credit cards by age, 2002-03

How often do you pay off the entire balance on your credit card?	15-49	50-54	55-59	60-64	65-69	70+
	%	%	%	%	%	%
Hardly ever or never	19.8	14.0	15.0	9.7	9.6	7.5
Not very often	13.0	11.2	8.1	5.9	4.1	4.2
About half the time	7.9	6.1	5.2	5.5	2.2	1.1
Most months	11.7	8.9	9.7	6.0	5.1	4.7
Always or almost always	47.6	59.8	62.0	72.9	79.0	82.6

Source: HILDA Survey, wave 2 confidentialised dataset.

At present most Australians do not work up to traditional retirement ages. Government incentives to remain in employment are timely.

6. Conclusions

Our report suggests the recent Government incentives to encourage people to remain in employment are timely. At present most Australians do not work up to the traditional retirement age of 65 for males and around 60 for females. In fact, less than a quarter of the population remains in full-time employment up to these ages.

While people with children are less likely to retire early, members of all household types are choosing to leave the labour force before the traditional retirement age. Some even leave before they reach the preservation age for superannuation (currently 55 years).

It seems there are two worlds for retirees, especially early retirees:

- One is a world in which there is high income and high ownership of assets including superannuation. Most of us hope to be in this group and this is what we expect when we do decide to retire. But the reality is most of us will be in the second group.
- In the second group, superannuation is often negligible and will probably be consumed paying off debts and leaving the retiree with an income which is often less than $10,000 per year.

Far too many Australians are looking at the world of retirement through rose-tinted glasses. They have not come to grips with the fact that, with longer life expectancies, they won't have enough superannuation to provide them with the life they expect in retirement. Australians must now accept that they need to work longer, save more and reduce major debt before they will be ready to settle back and enjoy the good life.

Technical notes

Definition of a household?

A household is defined as a group of people living under the same roof who share meals.

The HILDA Survey

The Household, Income and Labour Dynamics in Australia (or HILDA) Survey is a household-based panel survey conducted by the Melbourne Institute at the University of Melbourne for the Department of Family and Community Services. The survey tracks all members of an initial sample of households over an indefinite life. It is intended that the HILDA Survey will collect data in three main areas: economic and subjective wellbeing, labour market dynamics and family dynamics. The first wave of the survey was conducted in 2001-02 and the second wave in 2002-03. More details are available from www.melbourneinstitute.com

1. Percival, R and Harding, A, 'All They Need is Love ….And Around $450,000: The Costs of Children in Australia Today', AMP.NATSEM Report No.3, October 2002.
2. Australian Bureau of Statistics, 'Retirement and Retirement Intentions, Australia', Catalogue No. 6238.0, ABS, Canberra, November 1997.
3. The average full-time income of those aged 50-69 is $52,500 (before tax). Most financial planners recommend that 65% of this gross amount will provide a comfortable standard of living. 65% of $52,500 is $34,000.
4. For those aged 50-54, 13.1% had zero income and 62.6% had income between 0 and $10,000. For those aged 55-59, 8.3% had zero income and 50.6% had income between 0 and $10,000.
5. This average balance is higher than the $56,000 value estimated in AMP.NATSEM Report No.2, May 2002. The reasons for this include a different age range; alignment of the new estimates to aggregate benchmarks; uprating of the estimates to June 2003; the new estimates are based on survey responses; and more accurate responses due to greater awareness of superannuation entitlements.
6. These are NATSEM calculations based on the unit record data from the ABS 1986 Income Distribution Survey and the 2000-01 Survey of Income and Housing Costs.

AMP.NATSEM Income and Wealth Reports:

- Trends in taxable income (February 2002)
- Live long and prosper? – The income and wealth of those about to retire (May 2002)
- All they need is love…and about $450,000 – The costs of children in Australia today (October 2002)
- Does your wealth depend on good health? – Health and income in Australia (March 2003)
- You can't rely on the old folks' money – Wealth and Inheritance (June 2003)
- Generation Xcluded – Income and wealth of Generation X (November 2003)

All the above reports are available from www.amp.com.au/ampnatsemreports

The full report was written by Simon Kelly, Carol Farbotko and Ann Harding from the National Centre for Social and Economic Modelling Pty Limited ('NATSEM') and published by AMP Life Limited ABN 84 079 300 379, AFSL 233671. Any advice in this document is provided by AMP Life Limited ('we/us'). We can be contacted by telephoning 02 9257 5000 or you may send us an e-mail askamp.com.au. The advice is not based on your personal objectives, financial situation or needs. Accordingly you should consider how appropriate the advice is to those objectives, financial situation and needs before acting on the advice and, before buying any financial product, you should read the current product disclosure statement. We are part of the AMP Group of companies. However no remuneration or financial benefits are paid to us or our related companies or associates in relation to the advice provided on this page. Although the information in this report was obtained from sources considered to be reliable, the authors, NATSEM and the AMP Group do not guarantee that it is accurate or complete. Therefore, readers should not rely upon this information for any purpose including when making any investment decision. Except where liability under any statute cannot be excluded, NATSEM, AMP Group and their advisers, employees and officers do not accept any liability (where under contract, tort or otherwise) for any resulting loss or damage suffered by the reader or by any other person.

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