



Citibank Retirement Index 2007

Issue 5

Introduction by Suvrat Saigal

Welcome once again to the Citibank Retirement Index.

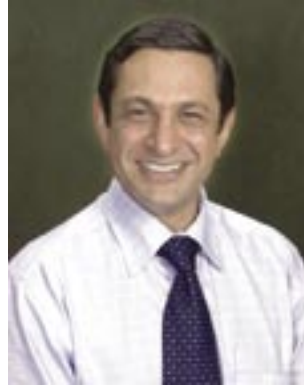
This is our fifth survey of the retirement plans of Australia's over-55s, and as with each of the preceding studies, our seniors reveal a smorgasboard of plans. Retirement is clearly a period in our lives when lifestyle aspirations clash with financial reality, and when we are forced to deal with new concerns - everything from altered social status to the physical changes that come with the passage of time.

Of course, there are apprehensions about money. Yet as we'll see, many of the lifestyle adjustments our over-55s are making are as much a consequence of the ageing process as a result of limited cash.

And it seems part of the ageing process is acknowledging the end of our days as a full-time worker. Many senior Australians may be content to remain in the workforce but a surprising 67% of our respondents cited age 69 or younger as being the final cut-off point for full-time work.

Most importantly perhaps, our fifth Retirement Index demonstrates that retirement is far from a level playing field. Sure, senior Australians share common bonds, but despite best-laid plans, many continue to do it tough when they quit the workforce. Just who these groups are, and why they are destined to battle in the latter years of life, is something we explore more fully in this report.

Australia's baby boomers, together with their more senior counterparts - the veterans - are reformulating retirement. Like so much of life, mature age doesn't come with an instruction manual and adapting to retirement can take time and a generous serve of personal upheaval. But by sharing their experiences with younger generations, our seniors demonstrate how the steps we take today shape our lives tomorrow.



Suvrat Saigal
Director Citigold

Why a Retirement Index?

Over the last half of the 20th century two decades were added to the average lifespan, bringing global life expectancy to its current level of 66 yearsⁱ. And the process of population ageing will continue unabated.

The ageing of the Australian population will touch all aspects of our lives.

The proportion of Australia's population aged 65 and over is growing at a disproportionate rate. Based on current projections, in just 14 years the over-65s could account for one in five of our population.

Already numbering over 3.7 million, our over-55s can tell us a great deal about what retirement means in the new millennium. Their actions, as much as their inertia, provide a blueprint for what to do - and what to avoid - in our own preparations for retirement.

A sociologist's perspective

To help us answer some of the more perplexing issues our respondents raised, we sought the help of Richard Morrison a sociologist with community and health experience spanning 20 years. A baby boomer himself, Richard is currently completing a PHD at Newcastle University focussing on the impact of retirement on men's health.

ⁱ Source: Population Division, Department of Economic and Social Affairs, United Nations Secretariat.

At a glance

- Our over-55s show renewed confidence in their nest egg. 76% are confident their funds will last the distance - up from 68% in November 2006.
- Superannuation reforms could be the key to improved confidence. The biggest rise in confidence has occurred among the 55 to 64 age bracket, 73% of whom are confident, compared to 58% in November 2006.
- 87% of retirees who started saving before age 40 are financially confident. This is the highest response since the research started.
- Zero respondents plan to retire between age 55 and 59 - down from 11% in our previous survey, showing the semi-retired are delaying plans to fully retire.
- 67% of over-55s believe we are no longer capable of full-time work after age 69.
- Only 26% of respondents have no plans at all to work in retirement - our lowest response to date.
- Seniors are more concerned about losing their looks (35%) than having insufficient cash (25%).
- 68% of semi retired respondents want to do something for the community.

Tea and toast or champagne and caviar?

Sure, many older Australians are whooping it up in retirement. But plenty are not. And it's possible our retirement destiny may be mapped out almost as a cradle to grave affair.

3 Key predictors of prosperity in retirement:

- Education
- Marital status
- Gender

Better educated - better retired

Possibly the single biggest predictor of how we will fare financially in retirement is education.

Respondents with a university degree fare far better in retirement than their peers with a college/trade background, and even more so than those with only a secondary education.

Degree holders are likely to:

- Enjoy a higher income
- Be self-funded rather than relying on welfare
- Be confident in their savings
- Have commenced saving for retirement before age 45

Moreover, tertiary educated respondents leave behind a significant bequest - \$607,000 compared to \$388,000 among the least educated - potentially giving subsequent generations a handy head start in life.

How education shapes our retirement

	Very confident in retirement savings	Monthly income	Super as primary source of income	Proportion who started saving below age 45
Secondary education	32%	\$1,646	26%	36%
TAFE/trade	41%	\$1,980	32%	46%
Tertiary educated	50%	\$2,963	54%	51%

Singles struggle

The power of two is a real plus in preparing for retirement. While couples may have to adjust to seeing more of each other, on the financial - and social - fronts, marriage can make for a smoother ride in retirement.

- 59% of singles rely on the age pension compared to 39% of couples. By contrast, 41% of couples cite super as their primary source of income compared to just 25% of singles.
- 39% of singles cannot name a secondary source of income.
- 21% of singles visited a financial planner in the last 12 months, compared to 38% of married respondents.

- Singles are more likely to work because they need the cash (58% versus 43% of couples) or, not surprisingly, because they miss the social scene at work (55% compared to 40%).
- Extreme measures - including gambling - are more likely to be adopted by cash-strapped singles - 6% versus 2% of married respondents.
- Sadly, 32% of singles fear loneliness compared to 9% of couples.

The gender gap

When it comes to building a nest egg men often have an enviable edge over women. A typically uninterrupted career path provides men the option to start saving for retirement earlier - and over a longer career path. Combined with higher average lifetime earnings, this tends to leave men ahead in retirement.

Women on the other hand usually take time out of the workforce to raise children, however our current trend to delay motherhood could reduce this impact in the future. Already women are postponing childbearing until, on average, age 31 - up from age 27 in the mid-1980sⁱⁱ.

Among our respondents, 28% of men started building a retirement pool prior to age 30, compared to just 10% of women. The result is that the fairer sex don't always get a fair deal in retirement.

	Percentage who are confident in their retirement savings	Average monthly income in retirement	Pension as a primary source of income
Men	80%	\$2,455	38%
Women	72%	\$1,653	56%

Other aspects of advancing years also hit women hard:

- 28% fear being a victim of crime, versus 20% of men
- 37% worry about grey hair and wrinkles compared to 33% of men
- 22% of women fear loneliness compared to 16% of men

But while women struggle financially in retirement, men battle demons of their own.

Men often wrestle to make peace with a new identity

Work does more than stave off money shortages and boredom. It can also prevent identity crises.

In contemporary culture, we are what we do. A pay cheque is a reminder of our value. And for men in particular, making the transition to retirement can call for major adjustments to their identity.

Our male respondents report the key motivating factors to stay on at work.

- 32% of semi-retired men want to learn new skills
- 68% want to do something for the community
- 43% miss the work social scene

Sociologist Richard Evans notes:

“Workplace status can be very important to men’s sense of who they are. Choosing to move from full-time to part-time employment may involve a change of both status and identity.

Part-time positions are likely to be less influential, tend to require more sharing of responsibility and may not involve as much, or as consistent, interpersonal interaction as an equivalent full-time position. These factors have a bearing on the perceived status of a workplace position.

Men can find it hard to work part-time and still enjoy the status they may have formerly enjoyed, which can impact significantly on their self-esteem.”

ii Source: ABS Cat 3301.0 Births, Australia 2005

Retirement haven

Where do retirees fare best? You may be surprised.

Queensland's reputation as a retirement haven may be ill-deserved. In addition to sun, sand and surf, the Sunshine state also has the highest proportion of retirees relying on the age pension as their primary source of income (59%) - possibly making it more appropriately described as the 'welfare state'.

Retirement living may be at its best in New South Wales.

- NSW scoops the pool for retirement income - averaging \$2,368 each month compared to just \$1,646 in South Australia. Perhaps this could have something to do with having sought professional planning advice - another area where NSW comes up trumps.
- South Australian residents are most concerned about being victims of crime - 28% compared to just 18% in Queensland.
- South Australians are also most worried about grey hair and wrinkles - 58% compared to 31% of Queenslanders.

Town versus country

Surprisingly, there doesn't seem to be any advantage in spending retirement in the city as opposed to regional areas.

Both have a similar monthly income (\$2,055 for rural dwellers compared to \$2,021 for city dwellers), and both are just as likely to be reliant on the age pension as their primary source of income - 48% for country-based respondents versus 47% of city-based respondents.

	Ave monthly income \$	Confident in retirement savings	Pension as primary source of income	Value of average inheritance \$'000	Visited a financial planner
Overall	2,038	76%	48%	458	30%
City	2,022	77%	47%	467	28%
Country	2,056	74%	48%	448	33%
NSW	2,368	81%	38%	558	38%
Vic	1,956	79%	46%	418	28%
Qld	1,910	73%	59%	391	23%
SA	1,646	65%	54%	330	23%
WA	1,882	78%	51%	517	35%
Tas*	2,413	61%	51%	474	39%

* Very small sample. Not statistically significant

The 'work in retirement' paradox

The antidote to insufficient cash? Find a job.

The majority of our respondents would consider working in retirement. Only 26% had no plans to work at all, down from 38% in November 2006.

Among the semi-retired, almost half (48%) continue to work because they need the money.

Since our last survey in November 2006, there has been an increase in the number of over-55s who would consider working in retirement:

- 30% of respondents are keen to work part-time, compared to 26% in our last survey.
- 18% are considering freelance work, while 15% are thinking about self-employment.
- Men are especially keen on working for themselves: 22% plan freelance work, with a further 20% considering self-employment - up from 13% in November 2006.
- 23% would consider paid charity work, compared to 18% in our previous survey.

Ironically, those who are likely to have a stronger nest egg are more open to working in retirement:

- Men are more likely to look for part-time work than women - 35% compared with 26% of women.
- 35% of early savers would consider part-time work, compared to 26% in November 2006.
- Tertiary educated respondents are highly likely to consider work in retirement - 43% versus 34% in November 2006.

While our over-55s are open to working in retirement, many may confront hurdles when it comes to retaining an existing job or seeking a new one.

Sociologist Richard Morrison explains:

"Finding work at an older age is often harder than people realise.

Perceptions and experiences of age discrimination do adversely affect retirees' attitudes to job hunting. Other factors may include a sense of retirement being busier than retirees initially expect, the financial necessity for additional income not being acute, and diffidence about re-entering the workforce on what is likely to be a lower rate of pay and/or status than their pre-retirement employment.

Older men particularly, who may have enjoyed an active career, often have plans to do some consulting work in retirement. But the reality for many is that when you are no longer in the system your visibility decreases, and finding work proves difficult. This can be especially be the case for those men who make a 'sea change' - shifting from one locality to another further afield."

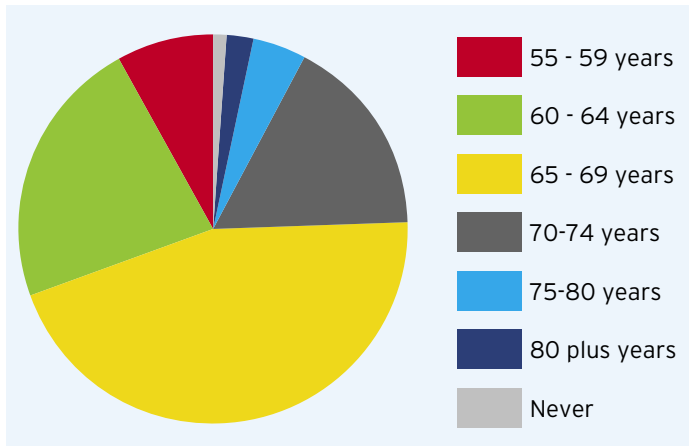
How old is too old?

Holding down a full-time job as a sexagenarian may be fine for some seniors, but judging by the opinions of other respondents, most over-55s are not keen to follow their lead.

When we asked our respondents the cut-off point at which people are no longer capable of working full-time?ⁱⁱⁱ

- 7% said age 55 to 59
- 20% said between 60 and 64
- 40% nominated 65 to 69
- 15% said between 70 and 74
- 4% said 75 to 79
- 2% said 80-plus
- Only 1% said 'never'

Age at which Australians think you should retire



Age at which Australians over 55 years think you are no longer capable of working

Age	Percentage
55 - 59 years	7%
60 - 64 years	20%
65 - 69 years	40%
70 - 74 years	15%
75 - 79 years	4%
80 years plus	2%
Never	1%

Close to 70% of our seniors say it's 'game over' before age 69

This is a surprising comment by seniors' on their own peer group - one that flies in the face of the strategies identified by the Intergenerational Report (Department of Treasury, 2002) and Economic Implications of an Ageing Australia (Productivity Commission, 2005) encouraging greater participation of mature age people in the labour force.

iii Note: 11% of respondents said 'Don't know'

Not retiring - “re-generating”

Adjusting to life in retirement is an active - and ongoing - process. However while close to half (48%) of our over-55s rely on the age pension as their main source of income, limited cash isn't always the key culprit for reduced spending.

In the past, a lack of cash has been the main driver behind the spending cutbacks. Today however, “changing needs” has become a key reason for belt tightening - cited by 26% of respondents compared to 24% who say insufficient money shapes their spending.

That said, 30% of 55 to 64 year olds are cutting back their spending in response to financial restraints compared to 20% of those aged 65-plus. It suggests we become better adapted to our situation as we head further into retirement.

Perception is often different from reality though and while many respondents believe they are trimming their spending, the average amount spent each month on discretionary items has actually risen since November 2006.

On one hand:

- Essential spending has remained unchanged over the last six months - consistently averaging \$574 each month on must-haves like food, clothing, medication, transport and utilities.
- Discretionary spending however fluctuates a little with each survey. On average our over-55s are spending a total of \$183 each month on discretionary items such as holidays, eating out and entertainment - up from \$165 six months ago.

The fact that our respondents believe they are trimming their spending when their actual spending patterns reveal quite the opposite is not entirely surprising. We often fail to realise either our true spending patterns or indeed just how much we are spending.

Richard Morrison attempts to explain the contradiction saying, *“Factors such as length of time since retirement, current age and socio-economic status may all affect spending attitudes and activities.”*

Again though, averages don't always tell the full picture.

We don't all enjoy the luxury of choice when it comes to cutbacks. Those most likely to curb their spending out of necessity include:

- **Late savers:** 30% are tightening their belts compared to 23% of earlier savers.
- **Those who lack confidence:** 40% are slashing spending compared to just 19% of confident respondents.
- **Men:** 30% of men cite reduced income as a reason for spending cuts compared to 20% of women (down from 31% six months ago).

Spend or save

Even day-to-day expenses can take retirees by surprise. Faced with a leaner budget, seniors often find themselves with nowhere to turn, yet those who could benefit most from taking action to improve their income are often the ones most likely to do nothing at all.

Action taken to supplement retirement income	May 2007 %	Nov 2006 %
Rearranged savings and investments	40	41
Sold own home/investment property	14	15
Borrowed against equity in a property	6	6
Borrowed money from friends/family	4	2
Gone back to work part-time	18	14
Gone back to work full-time	1	1
Started self-employment	10	7
Considered breaking the law	3	2
Started or increased gambling	3	3
None/Don't know	37	40

On a positive note, men appear to be increasingly proactive - 25% having returned to work part-time versus 19% six months ago. Retirees aged 65-plus are also more likely to re-enter the labour force - 15% have taken on part-time work, compared to 5% in our last survey.

Despite facing greater financial challenges in retirement, only 12% of women have taken on part-time work in retirement. However there can be valid reasons for this: Some women may be called on to provide day care for grandchildren. Others will be restricted by the need to care for their own aged parents.

Shifts in the behaviour of those lacking confidence in their retirement savings create an interesting picture. Only 26% have rearranged their savings - compared to 37% in November 2006. The number who have gone cap in hand to family and friends (94,000) has almost doubled in the last six months.

Our 'confident' respondents on the other hand appear to have been making good use of the strong sharemarket conditions prevailing in the first half of 2007, with 46% rearranging their investments to boost income.

Personal safety and good looks outrank financial concerns

Fears about personal safety and concerns over the physical ageing process are now on par with financial worries.

25% of our over-55s fear becoming a victim of crime. 28% of 55-plus women fear for their personal safety.

Worries about losing youthful looks also rank high on the agenda.

Worries about grey hair and wrinkles have increased by 8% to 33% among men, and by 6% to 37% among women. That leaves 1.3 million seniors concerned about their appearance, creating a ready market for mature-age 'cosmetic' services.

And in the perpetual hope of attracting a mate, 40% of singles are concerned about looking older, compared to 26% in November 2006.

Richard Morrison is not surprised that men are on par with women when it comes to concerns about the physical side of ageing. He notes,

"Men's capacity to participate in certain leisure activities is often equated with youth. They may go through the process of buying a boat to go sailing or fishing, for instance, but as it becomes too physically demanding, the boat is sold - and for many it's an admission of getting old and that the dream has faded".

On the flipside, fewer over-55s are stressed about their financial well-being - only 25% cited concern about having enough money.

Yet ironically, our Retirement Index suggests the over-55s are actually worse off today than in November 2006 - the Index having fallen from 115 points to 96. Again it may be a clash of perception versus reality - more on this later.

"Advice? Not for me thanks"

Sound financial advice is useful at any stage of our lives - doubly so in retirement when we may have to make our nest egg last two - even three - decades.

Here we find another paradox:

- 25% of our seniors worry about their finances
- 33% fear relying on the age pension
- 16% worry about the financial security of loved ones
- 35% wish they had sought more professional financial planning advice

Yet fewer than one in three (30%) have engaged a professional financial planner in the past 12 months.

Why? A staggering 65% of those who opt to go it alone believe they didn't need financial planning advice.

A further 15% were unaware of how a financial adviser could help with retirement arrangements.

Yet these responses came at a time when key reforms to our superannuation system were being introduced.

Proving what a contrary bunch we can be, those most likely to benefit from financial guidance are often the least likely to seek it.

- 51% of 'not confident' wish they'd done more in the way of financial planning, yet 92% haven't seen a planner in the last 12 months.
- 50% of those who started saving after age 50 wish they had sought more advice. But again, 69% haven't seen a financial adviser in the last year.
- 87% of the 'not confident' don't plan to see an adviser in the foreseeable future - nor do 70% of those who started saving after 50.

On the flipside, those most likely seek financial advice are generally better off to begin with.

- 40% of those confident in their retirement savings plan to see an adviser in the coming year versus just 11% of those who aren't confident.
- 51% of tertiary educated respondents have a trip to an adviser on their agenda compared to 24% of those with a secondary education.
- Retirees on a household income exceeding \$70,000 annually are twice as likely to see a financial planner, than those on less than \$30,000 annually.

It remains to be seen from subsequent surveys if the simplification of our superannuation regime will raise - or lower - the bar when it comes to securing professional advice and whether providers will begin to offer additional solutions for lower income retirees.

The “shoul da, coulda, woulda” generation

Retirement is a major change in life, and as such is often a period of significant adjustment. But it also appears to be a time when perceptions can differ from reality.

Faced with limited income-earning opportunities, many of our respondents believe they are belt tightening - when in fact overall, they are spending more on non-essential items.

And despite intentions of working in retirement, many never quite get around to looking for work.

The paradox of intention versus inaction appears greatest for the 55-64 year olds - the baby boomers - many of whom are semi-retired. It seems that by the time we reach full retirement in our mid-sixties, many people have adjusted to this new stage of life and face fewer of the uncertainties their younger peers grapple with.

That said, our Retirement Index has fallen over the last six months - from 115 in November 2006 to 96 in mid-2007. This is despite a healthy sharemarket, a robust economy and the introduction of significant reforms to superannuation that will boost the retirement incomes of many.

In previous Retirement Index surveys, the onset of milder seasons has bought with it a rise in the Retirement Index. Perhaps this time around, heading into winter, our respondents were not as upbeat in their outlook. As we sail into potentially more turbulent sharemarket waters and the still new super reforms take time to bed in, it remains to be seen if perception still holds the trump card over reality, or if action prevails over inertia.

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