

Retirement Realities

By Claire Matthews

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Retirement is a time that is long anticipated by the working population, and arrives with substantial expectations of what it will be like. A survey was undertaken to explore the actual experiences of New Zealanders aged 65 and older. Key messages to emerge were: most respondents were satisfied with their life in retirement; the importance of saving for retirement; concerns around financial resources related in part to the faster rate of increase of basic living costs relative to income; and, the risk of the unexpected.

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1. Introduction

A key message for New Zealanders in recent years has been the importance of saving for their retirement and not relying solely on New Zealand superannuation for income. The introduction of KiwiSaver in 2007 was a practical step taken by the government to assist New Zealanders to do this, and New Zealanders have been quick to take advantage of the opportunity KiwiSaver provides them. However, saving for retirement is only part of the retirement planning process, and will be less effective without related planning being done, and is likely to be inadequate in that case.

It is argued that retirement planning provides a barometer for measuring financial literacy (Mitchell & Utkus 2003; Lusardi & Mitchell 2007) due to the requirement for a sound understanding of key financial concepts, including consumption today versus consumption tomorrow, paying yourself first, the time value of money, and the risk return trade-off. Retirement planning also implies that a degree of action has occurred, which is key to financial literacy being effective (Mitchell & Utkus 2003).

The importance of retirement planning is seen in its contribution to an individual's level of savings, with Martin & Finke (2012) finding higher retirement wealth for those who have estimated the quantity of retirement savings they need. While KiwiSaver is popular it is not evident that its

uptake is part of formal retirement planning, rather it is an ad hoc response to an opportunity that arose. However, it is expected that as New Zealanders' KiwiSaver balances grow, their level of engagement will increase and this should lead to an interest in more formal retirement planning.

Once an individual begins retirement planning, the key question that is likely to be the focus of the process is "How much do I need to save for my retirement?" However, the answer to that question depends on how much income is needed, which in turn depends on what level of expenditure will be incurred in retirement. So how does an individual know how much they are likely to want and/or need to spend in retirement?

One rule of thumb that has developed to assist in determining the level of income required is that an individual will require 70-80% of his/her pre-retirement income. This assumes that some pre-retirement expenses will no longer be incurred, such as commuting to work and buying lunch. A problem is that it takes no account of an individual's actual pre-retirement income and expenditure; for example, if a person is saving 35% of their income prior to retirement what proportion of their pre-retirement income do they actually require in retirement? More importantly, it does not explicitly consider what items of expenditure a person may have in retirement.

A more robust option is to prepare a post-retirement budget, but that presents its own problems. What items are needed in the budget? What level of expenditure is required in respect of those items? There are some commonly held views about what to expect in retirement; however, research has found a mismatch between the expectations of pre-retirees and the reality of retirement (Agnew et al, 2012). For example, conventional wisdom, and health insurance premiums, suggests that the elderly have higher levels of medical expenditure, but what does that mean in practice? Retirement is also often seen as a time of increasing travel, both domestically and internationally, as found in a survey of pre-retirement Australians (Agnew et al, 2012), but how frequently do the retired actually travel, and where?

In 2012, the Fin-Ed Centre¹ and Workplace Savings New Zealand published the New Zealand Retirement Expenditure Guidelines (Matthews, 2012) to assist in the preparation of retirement budgets by providing information about actual expenditure levels of retirees. There are eight guidelines for singles and couples based on geographic location and expenditure levels.² While these budgets are useful, it is desirable to understand what these numbers mean in reality. This paper reports the results of a survey that explored the experiences of New Zealanders aged 65 years and older.

2. Data and Methodology

An online survey was undertaken in August 2012, to collect data from people aged 65 years or older. The sample for the survey was drawn from two panels: firstly, Westpac's Customer Voice panel comprising the bank's customers who have signed up to provide regular feedback to the bank via online surveys; and, secondly, a panel from Camorra Research, a company that provides personalised research for its clients. The survey was designed to elicit information to understand what life after the age of 65 is like, particularly in relation to expenditure.

A total of 517 responses were received, with the key demographic characteristics of the respondents shown in Table 1. The sample is unusually male-dominated, but it has a reasonable spread across the age groups and across New Zealand. The data has been weighted in the analysis to reflect population, based on census data.

Table 1: Respondents' demographic characteristics

		Westpac Customer Voice Panel	Camorra Research Panel	Total
Responses (number)		309	208	517
Age	65-69 years	42%	33%	38%
	70-75 years	35%	25%	31%
	Over 75 years	23%	42%	31%
Gender	Male	64%	46%	57%
	Female	36%	54%	44%
	Auckland region	14%	26%	19%
	Wellington region	13%	13%	13%
	Rest of North Island	37%	34%	36%
	Canterbury region	20%	15%	17%
	Rest of South Island	17%	12%	15%

3. Results

While 65 is often described as the retirement age, because it is the age at which New Zealanders become eligible for the universal pension (New Zealand Superannuation), there is no official age at which New Zealanders must retire. In fact, having a compulsory retirement age is illegal under human rights legislation on the grounds of discrimination. As a result, the survey began by simply asking whether respondents describe themselves as retired, and 86% did. Unsurprisingly, the proportion of retirees increased with age, with only 73% of the 65-69 age group describing themselves as retired compared with 86% for the 70-74 age group and 96% of the 75+ age group.

Irrespective of whether a person describes him/herself as retired, s/he may be in some form of employment, and 26% of respondents indicated they had some form of paid employment. In most cases the employment is part-time for no more than 20 hours per week. While the income generated is important to a substantial minority (38%), non-financial reasons for working were more common, and included job enjoyment (36%) and a preference for keeping busy (21%). Respondents' comments indicated the income earned from employment was useful for extras, such as maintenance and travel, rather than basic living expenses. However, it is important to recognise that for some, the income from employment is important to make ends meet, such as one respondent who commented, "Only concern is how I would cope if I was to become ill and unable to work in my part-time job".

Table 2: Current financial situation

	Total	65-69	70-74	75+
I struggle to find sufficient income to meet my basic living requirements	6%	11%	6%	3%
I have enough to provide a basic standard of living, with few, if any, treats or luxuries	31%	25%	32%	34%
I have a comfortable standard of living, that includes some treats or luxuries	53%	50%	47%	59%
I have a very comfortable standard of living and don't have any concerns about my financial situation	10%	14%	16%	4%

A key issue was to establish how respondents felt about life after 65, particularly in relation to their expectations. More than two-thirds (68%) agreed³ that they were satisfied with their lifestyle, but only 54% agreed that retirement was meeting their expectations. The higher level of satisfaction may indicate that expectations had been too high, but that the reality is still acceptable. Of concern was the finding that only 52% agreed that their financial resources were adequate for their retirement needs, providing support for the existence of KiwiSaver to boost individuals' financial resources for retirement. Many of the respondents' comments reflected concerns about the adequacy of their financial resources

In a related question, respondents were asked how they would describe their current financial situation. As Table 2 shows, only a small proportion reports struggling to meet their basic living requirements, but of interest is the difference in this proportion between the age groups. It is unclear whether this change reflects lower requirements as one ages, or whether one lowers one's requirements over time in response to the reduced income; it is unlikely that the change is due to an increased income. At the other end of the scale, only a slightly greater proportion reports being very comfortable, and this also decreases with age, which is possibly due to a reduction in financial resources over time as capital is spent.

A related issue that was not included in the survey questions, but which appeared frequently in the comments, is the relative increases in expenditure and income. Respondents made it clear that their experience is that the rate of increase for basic expenditure, such as power, rates and insurance, is greater than the rate of increase in New Zealand Superannuation, with a typical comment being "Food costs, insurances, fuel, etc etc keep increasing but [superannuation] never keeps up". The difference in rates of increase between expenses and superannuation generated concerns regarding the ability of respondents' retirement funds to be sufficient to see them through to the end of retirement, clearly illustrated in the comment "Hope we don't live past 80 or we will run out of money".

A high proportion (79%) of those over 65 have at least one source of income in addition to New Zealand Superannuation, although it is important to recognise that eligibility requirements mean not everyone over 65 is eligible to receive New Zealand Superannuation. The proportion of respondents ineligible for New Zealand Superannuation was small (3%), but it was a concern for those affected. Interest earnings of more than \$500 p.a. was the most common source of other income (46%), but share investment dividends (28%), and employment earnings (25%) were also important. Other relatively substantial sources of income included earnings from managed funds (15%), a life partner's paid employment (11%) and rental income (9%). Other less common sources of additional income included financial support from family, overseas pensions, family trusts, and employment-related pensions.

The other side of the equation is expenditure, which is an important part of retirement planning, and arguably subject to greater discretion. The extent of discretion available with expenditure depends on the proportion required to meet basic living costs, and more than half (57%) of respondents indicated that 60% or more of their annual after tax income goes on basic living costs.

One form of expenditure that may be seen as either a basic living cost or a discretionary luxury if it is affordable is insurance, and the allocation of insurance between these two categories appears to depend on the type of insurance. The standard fire and general types of insurance were widely held with 93% having car and contents insurance and 86% having house insurance, the latter reflecting home ownership rates. Life insurance was held by only 27% of respondents, but at this age is less needed. Medical/health insurance was also relatively uncommon, being held by just 35%, and comments indicated that the steep increases in premiums after the age of 65 put it into the luxury category despite a higher need for it. The increase in premiums can be justified by claims history as explained by Southern Cross

Healthcare Group: "Health insurance premiums generally increase with age because older people tend to require more healthcare and therefore claim more. For example, those aged over 65 make up 11.6% of the Southern Cross membership, but accounted for 33% of claims for the 2011 financial year."⁴

A number of respondents noted they had found it necessary to cancel their medical/health insurance due to the cost, with some regretting the need to do so. However, the value of medical/health insurance was recognized, by others. Questions were asked about respondents' health to better understand the importance of health insurance, and also in response to a commonly held view that retirement is a time of increasing health problems. Only a small proportion (7%) described their health as poor with regular visits to the doctor, but a similarly small proportion (8%) described their health as excellent with visits to the doctor being rare. The remainder described their health as good (35%) or okay (50%). In relation to the need for insurance, a more important question is the need for surgery given it is the larger costs associated with surgery for which insurance is more important. More than half (58%) of respondents reported having had some form of surgery since the age of 65, ranging from minor surgery not requiring a stay in hospital (15%) to major surgery such as a heart bypass (8%). Lack of insurance means one is reliant on the public health system, which can result in unwanted delays in surgery, which was made clear by one respondent who commented that having cancelled his/her medical insurance s/he was now waiting for knee replacements in pain.

As noted earlier, another common expectation with retirement is for travel, whether domestically or internationally. Travel is certainly a discretionary item of expenditure that will only occur if the retiree has the funds available. In fact, domestic travel is relatively common with most respondents (79%) travelling within New Zealand at least annually, with nearly half (46%) doing so at least every six months. International travel is less common, but half (51%) travel overseas at least once every two years. Domestic travel is generally within the same island, probably due in part to cost, while Australia is the most common overseas destination. Holidaying or visiting family are the most popular reasons for travelling.

In terms of other items of expenditure that may be seen as luxuries, takeaways are eaten only a few times a year by most (64%) respondents, while restaurant meals are also an infrequent event for most (67%) respondents.

One theme that came through in the comments was an expressed view that respondents wished they had been better prepared, generally in terms of having saved

more. For example, one comment was "I realise now I did not have sufficient funds when I retired". Another theme in the comments was the difficulties created by unexpected events, such as the Christchurch earthquakes and the finance company collapses; for example, "Until the Canterbury earthquake we had a very comfortable lifestyle". Such events are unexpected and difficult to plan for, but a sound retirement plan should have the ability to provide resilience in the event of the unexpected.

4. Conclusion

From the information obtained from the survey, what does it mean one should allow for when planning for retirement, and ignoring any possible changes to eligibility for New Zealand superannuation. By age 65, a person is likely to be working only part-time, if at all, although there is a widely held perception this is likely to increase due to the aging population. While there is only a small minority that reported struggling to meet their basic living requirements, concerns expressed about the adequacy of financial resources reinforce the need for individuals to be saving for their retirement to supplement their New Zealand Superannuation. Retirees' health may be better than

It is important to recognise that for some people retirement is great, reflected in a typical comment of "I have never felt as financially secure as I do at the moment".

generally expected, but high health insurance premiums may mean retirees are forced to rely on the public health sector more than they would like.

Retirement planning is important, both in terms of helping to provide sufficient savings for retirement, and also to assist in coping with the unexpected events that can occur. While most 65+ year olds are satisfied with their life, little more than half agreed retirement was meeting their expectations. One respondent summed up the value of better understanding the realities of retirement for pre-retirees in commenting, "Would be wiser re savings prior to retirement, if I had known what I now know!"

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Note

1. The Fin-Ed Centre is a joint initiative between Massey University and Westpac New Zealand, and aims to help New Zealanders become more financially savvy by improving their knowledge, attitudes and behaviour towards money. (see http://www.massey.ac.nz/massey/learning/departments/school-of-economics-and-finance/fin-ed_centre/fin-ed_centre_home.cfm)
2. The New Zealand Retirement Guidelines report is available online at www.massey.ac.nz/massey/fms/Colleges/College%20of%20Business/School%20of%20Economics%20&%20Finance/FinEd/Research/139174NZRetirement.pdf
3. Agreed refers to a response of Agree or Strongly Agree, while disagreed refers to a response of Disagree or Strongly Disagree.
4. Source: <https://www.southerncross.co.nz/AboutTheGroup/MediaReleases/2011/tabid/413/vw/1/ItemID/409/Premium-relief-a-focus-at-Southern-Cross-AGM.aspx>. More information about increasing health insurance premiums at age 65 is available at <http://www.southerncross.co.nz/society/for-members/faqs/premiums.aspx#65>

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