

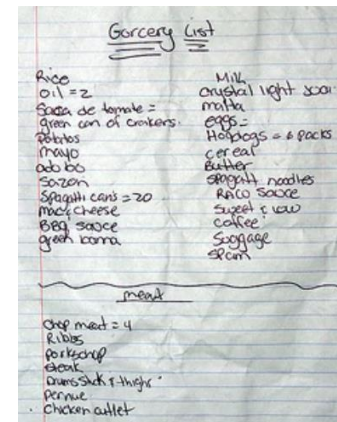
# Nearly 20 Years of the ASFA Retirement Standard – Why it Remains Realistic and Relevant

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# Why budgets rather than replacement rates

- People relate to actual budgets, have trouble dealing with percentages
- Replacement rates have some uses, such as in designing DB promises and in international comparisons
- Not much use to the average person
- Retirement Income Review adopted OECD 65% to 75% replacement range but played a lot with the numerator and denominator to get the result they wanted



# A short history of the Retirement Standard budgets

- First formulated on the basis of an SPRC research report and focus group analysis back in 2004
- Originally known as the Westpac ASFA Retirement Standard
- Many changes made since first formulated but a number of commentators still parse the original SPRC report
- Budgets for 85 and over introduced in 2015



# How the Retirement Standard is constructed

- Has regarded to, but is not solely based on, Household Expenditure Survey data (last conducted in 2015-16)
- Involves identification of specific items of expenditure which are costed
- Budgets have been market tested (and adjusted where appropriate) through focus groups and population surveys
- Retirees have a lot of time on their hands and we get regular feedback from them



# The ASFA Comfortable Standard

health, vitality and connection in retirement

The minimum annual cost of a comfortable retirement.



Singles  
**\$45,239\***



Couples  
**\$63,799\***



## Daily essentials

### Housing

- Council rates
- Water, electricity, gas
- Insurance
- Internet/telco subscription
- Home repairs and maintenance – fix leaking roof/repair plumbing
- Replace broken household appliances
- Run air conditioner or heater

### Groceries

- Fresh food
- Pantry staples
- Toiletries

### Transport

- Bus/train tickets
- Petrol
- Car ownership, insurance and maintenance/repairs

### Clothing and footwear

- Replace worn-out items
- Modest wardrobe updates

## Staying fit and healthy

- Health insurance
- Pharmacy
- Doctor/specialist visits
- Exercise (e.g. aqua aerobics, yoga, bowls, dance class)



## Staying socially engaged

- Movies
- Streaming services
- Day tours – galleries/exhibitions
- Attending sports games
- Visit to local club
- Haircuts



## Connecting with family

- Computer
- Mobile/home phone
- One domestic flight per year
- One international flight every seven years

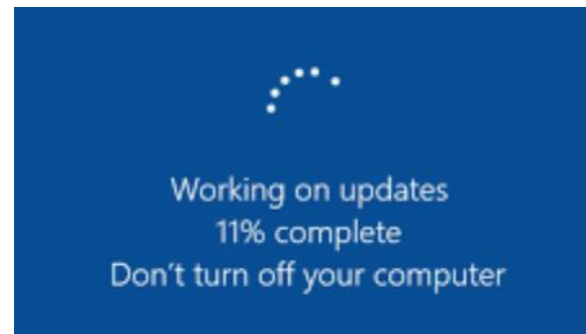


Australia's trusted retirement savings companion since 2004

\*For retirees aged 65-84 who own their own home.

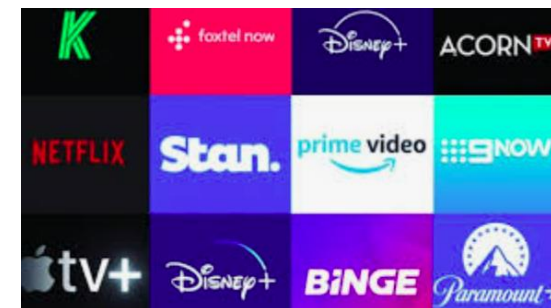
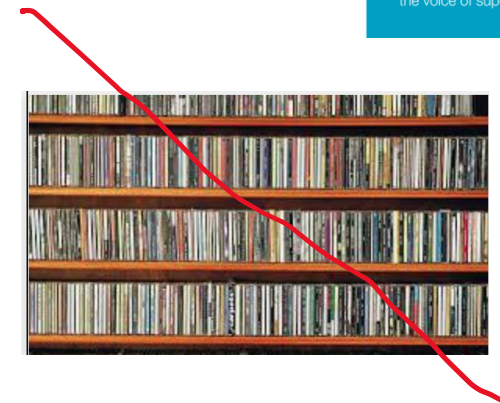
## The updating process for the Budgets

- Budgets updated ever quarter by relevant CPI sub-indices for relevant expenditure categories
- Also special treatment for price adjustment of some items life private health insurance
- Less frequent adjustments for changes in consumption patterns and for changes in community living standards



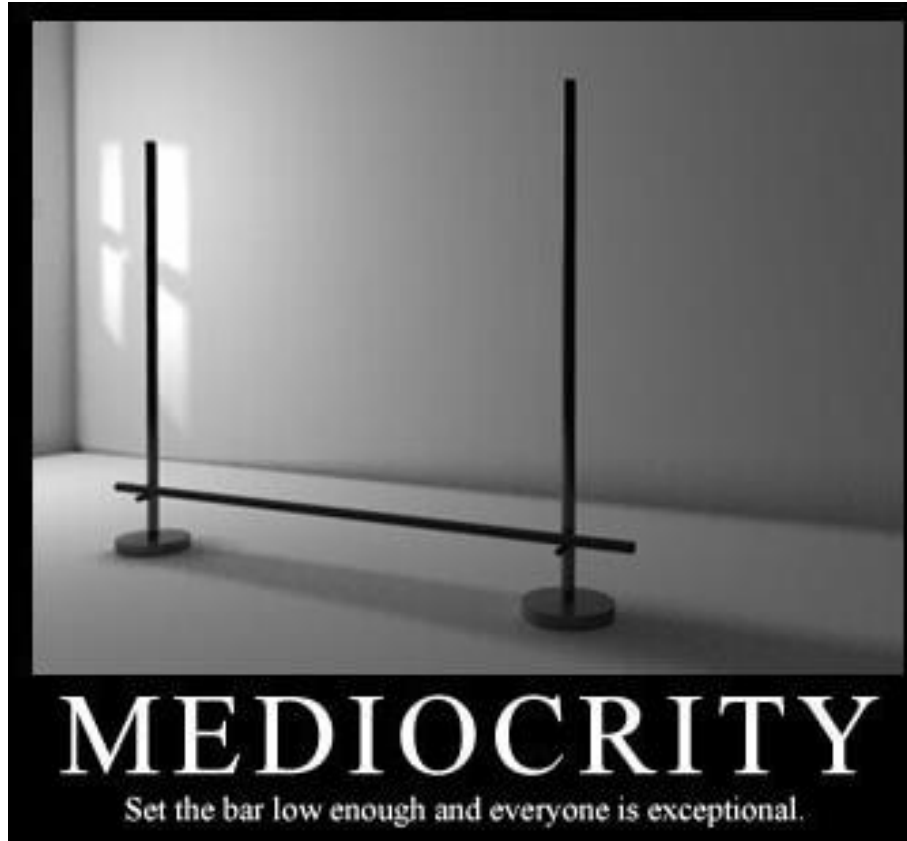
# Changing consumption items over time

- Revisions to budgets driven by data on changed consumption patterns, including introduction of new goods and services
- “50% with” test for inclusion of items
- Out with the CDs and in with digital streaming services and upgraded internet access
- Last such changes made in 2018



<https://www.superannuation.asn.au/ArticleDocuments/269/2018-ASFA-Retirement-Standard-Budgets-Review.pdf.aspx?Embed=Y>

# ASFA Comfortable is an aspiration, not a reflection of past failures of retirement income and savings





## Typical criticisms of ASFA Comfortable budgets

- They allow retirees to have too much fun as in being able to eat out each week, take an international trip and engage in sport and club activities
- Critics more or less say that retirees should be happy to watch free to air television with minimal heating or cooling and with a poor diet as that is what many had during their working life
- Reality is that budgets reflect reasonable expectations and actual retiree activity

**Never allow carping critics to deter you from success. Instead, silence them with it.**

**-Christian Baloga**

## Home ownership assumption for the budgets

- Great bulk of current retirees (around 80%) own their home outright or have very small mortgage
- Remaining 20% spread across public housing, residential aged care, rent free and private rental
- Some decades before private rental might be significantly higher amongst retirees
- Private rental requires around \$500,000 more in retirement savings



- ASFA Retirement Standard budgets reflect the needs and reasonable expectations of the great bulk of retirees
- Budgets validated by surveys, focus groups and retiree feedback
- Replacement rate targets only really work for single full-time workers in Defined Benefit schemes
- Budgets will continue to be updated and refined in line with changing prices and community living standards