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/telecom 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.

September quarter 2021
The updating process for the Budgets

- Budgets updated every quarter by relevant CPI sub-indices for relevant expenditure categories.
- Also special treatment for price adjustment of some items like 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

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
Conclusions

• 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