Maybe retirees should spend the kids' 'inheritance'

Aaron Minney | Challenger | 05 December 2017

There are plenty of anecdotes that suggest the baby boomer generation is spending all their savings and will leave nothing for the next generation. A recent news article even referred to 70-year-olds with an 'addiction' to cruising.[1] This creates an image of the baby boomers recklessly blowing their life savings as their urge to consume is unstoppable.

However, if you look as the actual data, this conclusion is questionable.

Consider the cruising example. Cruising in Australia is on the rise with more retirees hopping on a cruise ship than ever before. However, they are called 'boomers' not because of any sound they make, but due to the unprecedented numbers of children born after WWII that have been retiring since 2011. Even if average spending is unchanged, then retiree-related consumption, such as cruising, will grow strongly. Growth in spending is simply more evidence that there are a lot of baby boomers walking around.

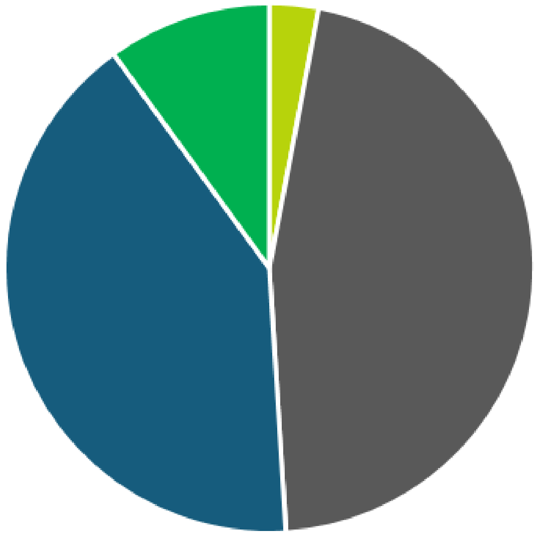
Instead of looking at where spending is rising, there are two other ways to capture the intentions of retirees:

1. We can ask them directly about their intentions.
2. We can observe what is happening to their savings over time.

Asking older Australians directly is exactly what happened earlier this year in the 2017 National Seniors Australia survey.[2] The responses were varied, with roughly half focused on a desire to spend their savings down in retirement and the other half looking to preserve something for the next generation. It was notable that only 3% of older Australians said they intend to preserve their capital and spend only the income that they can generate.

Most respondents (59%) indicated that they had sought information or advice on retirement from a financial adviser, so advised clients might have a slightly different skew. What this suggests is that a substantial proportion of advised clients intend to spend some of their capital on themselves in retirement.

Figure 1: Intentions for savings through retirement



Source: Nationals Seniors Australia (2017)

The second approach is to measure the change in capital over time. Naturally, this won't include a lot of the baby boomers yet. They need to spend more time in retirement before firm conclusions can be made.

Some of the available results are very interesting though.

One study by a group of Australian academics[3] noted that, on average, Age Pensioners preserve both financial and residential wealth. Older households (80+) were even observed to save and increase their wealth. There is little evidence that pensioners are spending their money down too rapidly.

Another set of researchers record the slow drawdown of superannuation savings in retirement, with most retirees only drawing down their superannuation at a modest rate.[4] The pattern is evident across a range of super funds, including self-managed superannuation funds (SMSFs).

The intention and the actions of retirees are varied, but as a group they seem more frugal with spending than reckless.

HOW CAN PRACTITIONERS HELP CLIENTS?

As I discussed in my previous post, setting the right path in retirement depends on knowing the end target for the client's accumulated savings. If you don't know, you should ask. With a dispersion among retiree goals, the client base for most practitioners will include retirees across the saving-spending spectrum. Most, I suspect, are in-between the extremes, but the challenge for the practitioner is to set the right target for each client.

In previous generations, the average retiree relied on the Age Pension and it was only the wealthy who needed and sought financial advice. As the super system matures, more and more ordinary Australians will retire with sizeable savings from super that were deducted from their own wages while they worked. Already, the average balance for a non-SMSF household approaching retirement is $337,100 and it is growing as the system matures.[5] Many households already have large balances and can afford and seek financial advice about retirement. In the coming years, the growing number of retirees with significant savings will keep practitioners busy.

This difference leads to a change in the likely trajectory of retirement savings. Families with inherited wealth are more likely to want to preserve the capital, so as not to be the generation that depleted it. When savings purely reflect the retiree's deferred wages or own contributions, the emerging evidence suggests that they will feel more entitled to spend it. It would be unfair for one generation to work longer and enjoy less in retirement simply to leave more for the next generation. For many of these retirees, super is their hard-earned money. They should spend it however they want.

ENDNOTES

1. Wealth risks amid the rise of big spenders aged in their 70s. www.news.com.au published 2nd December 2017. Accessed 4th December 2017.

2. Seniors more savvy about retirement income, National Seniors Australia, October 2017

3. Wu, S., A. Asher, R. Meyricke, and S. Thorp (2015/17). Age Pensioner Profiles: A Longitudinal Study of Income, Assets and Decumulation. ARC Centre of Excellence in Population Ageing Research Working Paper 2015/17. Available at SSRN: https://ssrn.com/abstract=2850245

4. Sneddon, T., A. Reeson, Z.Zhu, A. Stephenson, E. Hobman, P. Toscas (2016). "Superannuation drawdown behaviour" *JASSA the Finsia Journal of Applied Finance*, Issue 2, 2016 pp42-53.

5. Clare, R. (2017). Superannuation account balances by age and gender. The Association of Superannuation Funds of Australia, October 2017. Available here.

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