



## Why do older Australians save?

---

David Knox | Mercer | 24 July 2018

Australia has a compulsory superannuation system because, without it, many Australians would not save for their retirement. Such an outcome would place extra pressure on future Government budgets through the age pension and health costs. But what really motivates older Australian to save?

In an important research study, Alonso-Garcia et al<sup>1</sup> wanted to understand the behavioural and psychological motives that may be important for older, but working, Australians, to decide between immediate consumption and saving. This research, which was also replicated in the Netherlands, asked about 1,000 Australians aged between aged 50 and 64 about their motives for saving for the future.

The results are fascinating and give us a better understanding into the decisions made by older Australians who often have the capacity to save in the years preceding retirement.

Perhaps surprisingly, the desire to leave a bequest was not a major motive to save. In fact, it was the least important motive. This lack of motivation to leave a bequest should be distinguished from the desire to leave an intra-household bequest which ranked relatively highly. That is, many older Australians want to make sure their partner can maintain an appropriate lifestyle, should they die early.

However, the two major types of motivation for saving can be grouped into precautionary saving and a focus on themselves.

Precautionary saving is due to older working Australians wanting to be able to finance unforeseen expenditures in the future, whether they are due to health, aged care or other causes. That is, continuing access to capital during retirement remains important and is related to the psychological motivation of remaining financially independent.

But the really interesting finding is that "self-gratification" and "security" are the most important reasons for Australians to continue to save and hold onto their wealth as they approach retirement. This can be translated into a desire to enjoy life, now and in later years, as well as a desire to have enough money to have peace of mind for many years into the future.

That is, as we focus on encouraging saving amongst older working Australians, it makes sense to focus on their future lifestyles and enjoyment, as well as the desire to have peace of mind including a 'rainy day' fund and looking after their partner, if that is appropriate.

The evidence is also that many Australian retirees are conservative in their spending during retirement, meaning that part of their financial assets (such as superannuation) are often passed onto the next generation and not used during retirement.

However, is this the best way forward?

The Federal Government is currently working through the concept of a Comprehensive Income Product for Retirement (or CIPR) which was recommended by the Financial System Inquiry in 2014. In particular, the CIPR is designed to provide regular income, longevity protection and some access to capital. These three features make sense. After all:

- Retirees need regular income;
- Longevity protection (i.e. the provision of additional income for those who live longer than average) will mean retirees have confidence to spend down their assets in the early years, knowing that additional income will be available if they need it; and,
- Some access to capital is needed throughout retirement, as discussed above. This provides retirees with flexibility and security, particularly in their later years.

Currently, the most popular product for retirees with a reasonable retirement benefit is an account-based pension. It certainly provides retirees with regular income, investment flexibility and gives them access to capital throughout their retirement years. These three features help explain its popularity.

However, it does not provide any longevity protection. Hence, many retirees are currently self-insuring and therefore living well within their current means. The proposed changes to the means tests for the age pension from 1 July 2019 are likely to increase the attractiveness of a range of longevity products which should lead to an improved living standard for many retirees, as they include longevity protection in their portfolio.

Of course, there is always the concern that longevity products may not be popular because if there are winners (i.e. those who live longer), there must also be losers (i.e. those who die earlier). However, this understandable concern may be much less important than is often cited, given the above research suggests that retirees are more interested in their own lifestyle rather than leaving a bequest.

## ENDNOTES

1. Alonso-Garcia J., Bateman H., Bonekamp J., van Soest A. and Stevens R. (2017), [Saving Preferences in Retirement: The impact of Mandatory Annuitisation, Flexibility and Health Status](#), 15 August 2017, ARC Centre of Excellence in Population Ageing Research Working Paper.



David Knox, PhD., is a Senior Partner with Mercer (Melbourne).

---