Wealth Adviser

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# The when and why of four million Australian retirees


**BY GRAHAM HAND**

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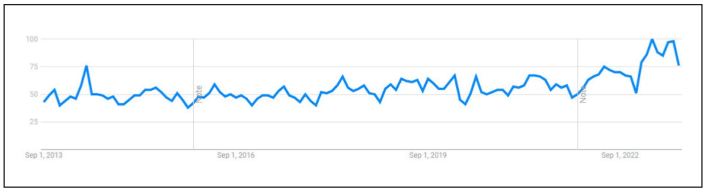
## INSIDE



Older Australians might be feeling their creaky knees, stiff backs and failing eyesight, but one thing they should not feel is neglected by government departments and agencies studying their potential financial futures. The many reports and reviews issued recently are giving greater understanding about retirement and attempting to improve the outcomes for Australians living on their savings.

Over the next five years, according to the Australian Bureau of Statistics (ABS), 670,000 Australian intend to retire, taking the total number retired to almost five million. A check of how often the word 'retirement' is searched for on Google over the last 10 years shows a recent and sustained spike.



Australia is not alone in focussing on its ageing population. The World Health Organisation reports that by 2030, 1 in 6 people in the world will be aged 60 and over, a formidable 1.4 billion people or an increase of 400 million in 10 years. The number will exceed 2 billion by 2050, including 425 million aged 80 and over. We will live in a world where 100th birthdays are common.

## The strong focus on retirement

For most of the time since the introduction of compulsory superannuation for more workers in 1992, and increasingly as retirement has become a major social and political issue, the focus has been on accumulation. The demographic shift underway has forced a rethink towards the retirement phase and decumulation.

In addition to the recent Intergenerational Report and Legislating the Objective of Superannuation, regulators ASIC and APRA completed a joint review of the implementation of the Retirement Income Covenant, issued in 2020. Registerable Superannuation Entities (RSE) need to develop strategies to assist their members to know how much they can spend in retirement, confirming that many people die with the bulk of the wealth they held at retirement intact. The regulators were highly critical:

*"Overall, there was a lack of progress and insufficient urgency from RSE licensees in embracing the retirement income covenant to improve members' retirement outcomes."*

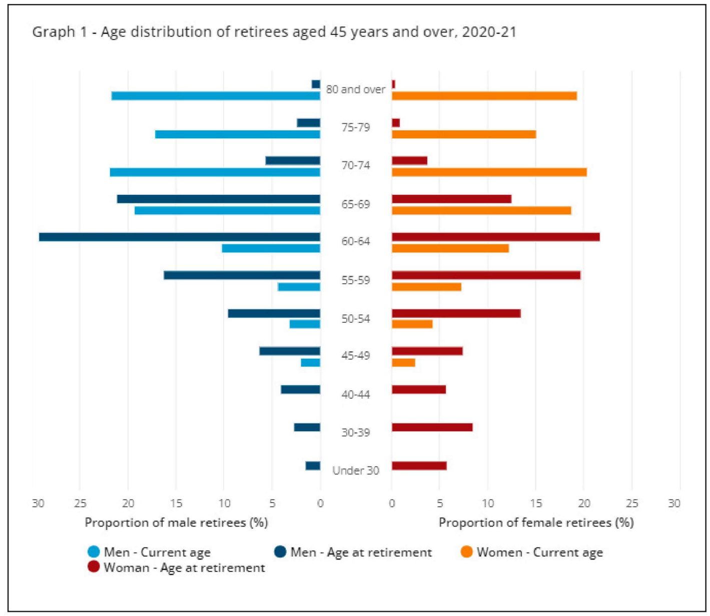
So with this bombardment of insights and guidelines on how governments and the financial sector are supposed to meet the needs of retirees, we should know who they are and why they retired.

For this we turn to the ABS which has issued a new report on Retirement and Retirement Intentions, based on FY21 data.

## When are Australians retiring?

The ABS estimates there are already 4.1 million retirees in Australia. In 2020, 140,000 people retired, with an average age of 64.3 years. The age pension remains the primary source of income for most retirees.

The chart shows the current age versus age at retirement of retirees. For example, there are far more retirees over the age of 70 than people retiring at that age. People are still alive but they retired earlier. But in the age group 60 to 64, there are far more people retiring at that age. The average age at retirement is 65.4 for men and 63.7 for women.




Graph 1 shows the age when people retired from the labour force (that is, ceased working or looking for work).

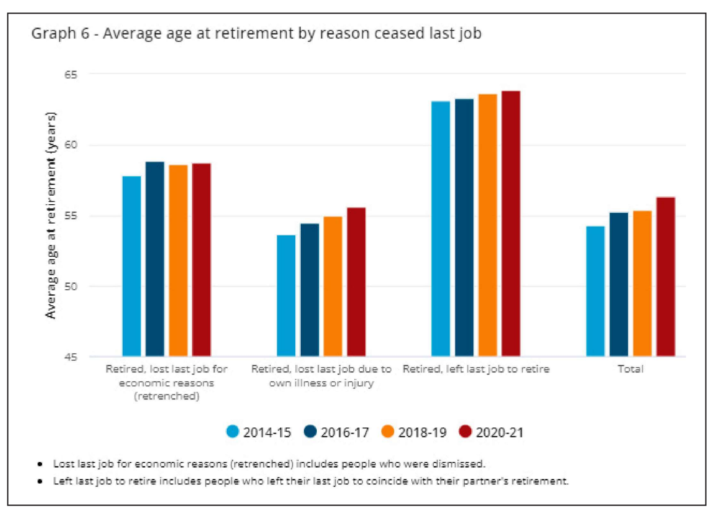
## Why are Australians retiring?

Retirement is a major change, giving up or losing regular income from work and relying on savings or a pension, but about 2,700 Australians a week take this step. The top three reasons for ceasing work are:

- Reached retirement age or eligible for superannuation (28%)
- Own sickness, injury or disability (13%)
- Retrenched, dismissed or no work available (7%).

Women were more likely to retire to care for a person than men (4% versus 2%).

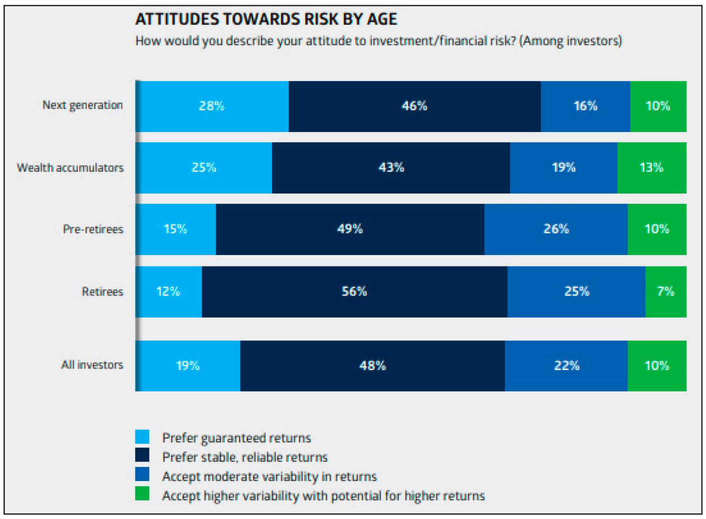
Not surprisingly, the age of retirement of people retrenched, dismissed or injured is much lower than people who voluntarily retire. It shows thousands of people in their 50s 'retire' each year against their own choice. One-third of retired women rely on their partner's income after retirement, compared with only 7% of men.



## Investment risk by generation

Turning to another recent report, the Australian Securities Exchange (ASX) releases an annual Australian Investor Study. The 2023 Report says that 10.2 million people or 51% of the adult population hold investments outside their home and superannuation. Over the years, the ASX has increasingly focussed on generational differences, especially as more younger investors start their journey with listed securities.

As should be expected, the 2023 Report shows retirees are highest for seeking 'stable, reliable returns' and lowest for 'higher variability with potential for higher returns'. Retirees are also more likely than younger generations to hold a diversified portfolio.




## SMSF members by age

A final check on SMSF usage by age from the latest ATO statistics (data for March 2023 is extrapolated from FY21). There were 606,000 SMSFs with 1,136,000 members, holding $890 billion.

Although there is much media coverage about younger generations opening SMSFs, only 3.1% of members are 34 years and under, although a strong 19.2% are aged 35 to 49. Which leaves 77.7% aged 50 and over, with high representation in all older age groups including 17.2% over the age of 75 and 11.9% between 70 and 74. It's clear that SMSFs are a popular superannuation vehicle for older Australians.

**Table 6: Members, by gender and age range**

| Age ranges | Male | Female | Total |
|---|---|---|---|
| < 25 | 0.5% | 0.5% | 0.5% |
| 25–34 | 2.6% | 2.6% | 2.6% |
| 35–44 | 10.1% | 10.7% | 10.4% |
| 45–49 | 8.6% | 9.1% | 8.8% |
| 50–54 | 11.0% | 11.8% | 11.4% |
| 55–59 | 11.7% | 12.3% | 12.0% |
| 60–64 | 12.7% | 13.2% | 12.9% |
| 65–69 | 12.0% | 12.7% | 12.3% |
| 70–74 | 11.9% | 11.9% | 11.9% |
| 75–84 | 15.3% | 13.0% | 14.2% |
| 85+ | 3.7% | 2.3% | 3.0% |
| Total | 100% | 100% | 100% |
| All ages | 52.9% | 47.1% | 100% |

The policy implications of these changes are profound, from the impact on government revenues, the demand for housing, the impending wealth transfer from baby boomers to their children, and the design of financial products for decumulation. Investors should factor demographic changes into assessing the future of any company.

*Graham Hand is Editor-At-Large for Firstlinks.*

# The economics of immigration: The UK vs. Australia and Canada

## EXECUTIVE SUMMARY

- Australia and Canada are experiencing a surge in population growth, while growth rates have slowed substantially in the UK due to post-Brexit frictions.
- The robust population growth is allowing Australia and Canada to generate stronger jobs gains without causing tighter labour markets and strong wage growth.
- The sluggish population growth in the UK is helping make for a tight labour market and persistently high levels of inflation.

**BY ALEX COUSLEY**

*Republished from russellinvestments.com*

The concept of potential growth is a very powerful one in economics, and feeds into a lot of asset class return calculations. For example, it can inform the neutral rate of interest, which feeds into longer term interest rates. Additionally, potential growth can be an anchor for longer-term growth assumptions, which are fed into discounted cash flow models used in equity markets.

Potential growth is made up of two factors: population growth and productivity growth. Basically, an economy's long-term prospects are determined by the growth in potential workers and how much each worker can produce. Productivity growth is notoriously hard to forecast, with demographics being a bit more straightforward using average life expectancies, fertility rates and immigration.

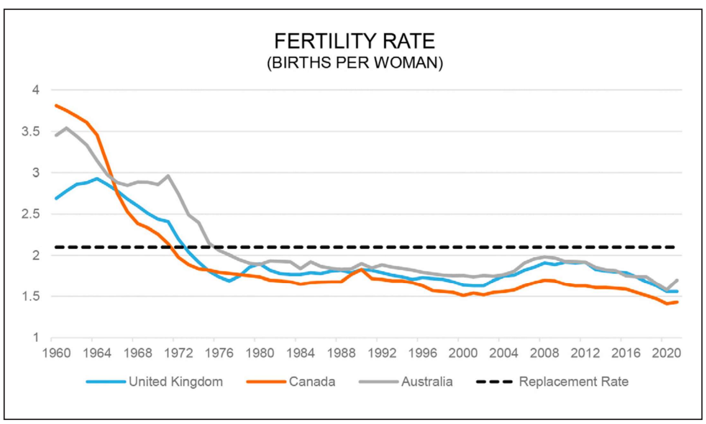
We can see the impact of demographics, and particularly immigration, very clearly right now by comparing the United Kingdom, Canada and Australia. The UK is struggling with a serious labour shortage and inflation problem, while Australia and Canada have been able to adopt slightly less aggressive monetary policy as immigration has provided relief to the labour market.

### Fertility rates in the developed world have been low for a long time

Before jumping into the differences in migration, we should take a step back and look at the broader demographic

> **The fertility rate, or births per woman, is a very important indicator for long-term population growth. For a population to stay at a constant level, a country needs to have roughly 2.1 births per woman (called the replacement rate). It is slightly higher than 2 because of infant mortality (which has declined over time) and some families having less than 2 children (which has grown over time).**

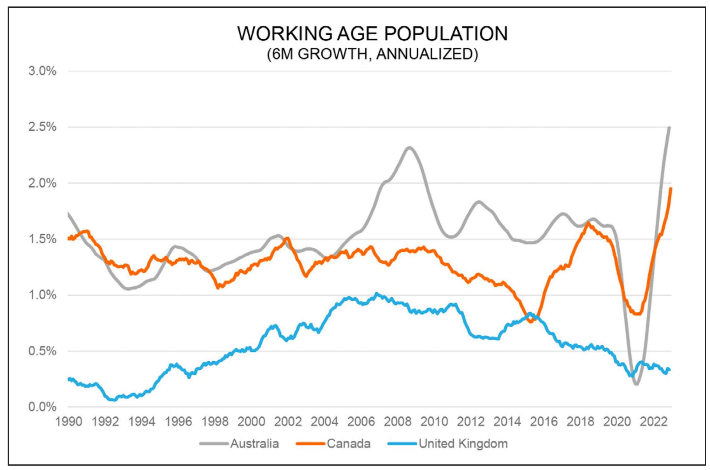
trends across the three countries. The fertility rate, or births per woman, is a very important indicator for long-term population growth. For a population to stay at a constant level, a country needs to have roughly 2.1 births per woman (called the replacement rate). It is slightly higher than 2 because of infant mortality (which has declined over time) and some families having less than 2 children (which has grown over time). As the chart below shows, most of these countries have seen fertility rates below 2.1 for some time now. Hence, for the population to keep growing (which has a follow-on effect on the economy growing), these countries must rely on migration.




Source: Refinitiv Datastream, World Bank, May 12, 2023

## Canada and Australia have seen rapid population growth

Now let's look at recent population growth estimates for each of the countries. Whilst population censuses are only taken every couple of years, labour statistics agencies provide estimates of population each month as part of their labour force report. The chart below shows the six-month change (annualized) in population aged 15 years and older. As you can see, Australia and Canada are experiencing a surge in population as net migration recovers after falling during COVID. In comparison, the United Kingdom has seen a continued slowing in population growth as post-Brexit frictions make the UK a less desirable destination for immigrants.




Source: Macrobond, 11 July 2023

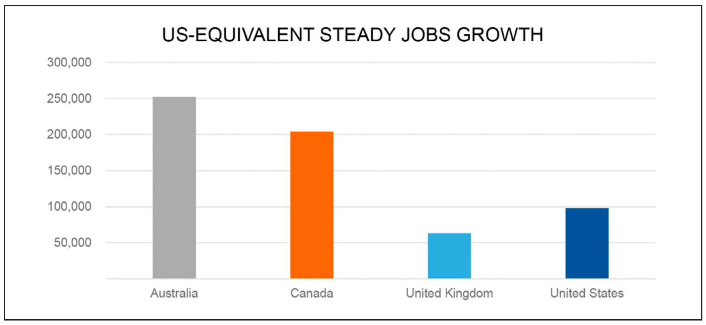
This population growth has two big implications for economies. The first is it provides a boost to demand and provides a buffer against recession. One of the reasons that Australia had been able to avoid recession for so long was in part due to the strong population growth. The second, and related point, is that it allows an economy to delay hitting capacity constraints as quickly. An economy that has a faster population can, all else equal, achieve stronger jobs growth without creating tightness in the labour market.

## Net migration can alleviate labour shortages

The U.S. Federal Reserve Bank of Atlanta (Atlanta Fed) has a measure that looks at the average monthly jobs growth that can be achieved without seeing a decline in the unemployment rate. Currently, this estimate sits at 99,000 jobs per month. We can do some similar calculations for the other countries using some similar assumptions. We assume that participation rates remain unchanged—that is, the proportion of people of working age (15 years and older) who are working or looking for work holds steady. Over the longer term, this is unlikely to be appropriate as older cohorts enter retirement but over a shorter horizon, it is fine. We also take population growth from the respective governments and assume that the working age growth is equal to the overall population growth (given that immigration tends to be skewed toward working age individuals).

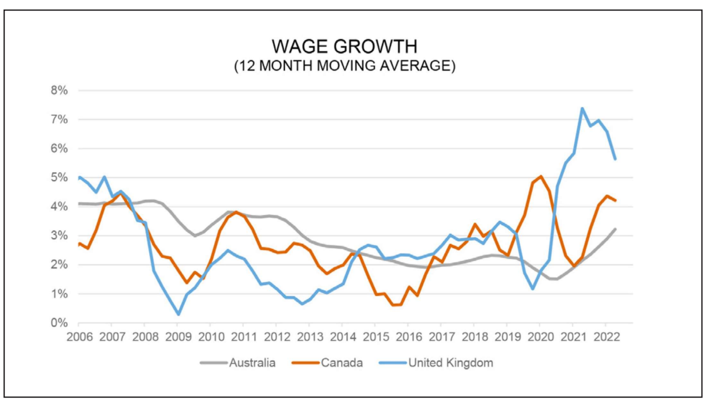
The table below compares the sustainable job growth numbers across the countries, scaled to the size of the United States for ease of comparison.

The strong population growth means that Canada and Australia are able to generate stronger jobs gains without causing tighter labour markets and wage growth.




Source: Refinitiv Datastream, July 10, 2023

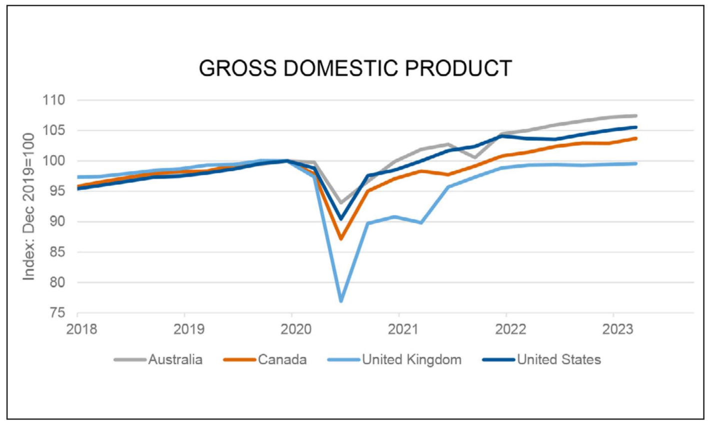
Indeed, we have seen the wage growth in Australia and Canada be notably lower than the U.S. or UK over the last 18 months—a period during which the flow of migration has returned for both countries.




Source: Refinitiv Datastream, July 10, 2023

## United Kingdom is in a difficult place

Of course, not everything can be seen with rose-tinted glasses in Australia and Canada. The former is seeing pretty significant increases in rent prices currently (in part, due to this strong population growth coupled with housing shortages), and both are going through a period of higher interest rates with very elevated levels of household debt. However, both countries are in a much more advantageous position than the United Kingdom. After all, not only is the UK economy suffering from a tight labour market and persistent inflation, but as we noted in our Global Market Outlook, it has yet to surpass pre-pandemic levels of economic activity.




Source: Refinitiv Datastream, July 10, 2023

## The bottom line

In the post-COVID era, a recovery in net migration in both Australia and Canada has boosted population growth, helping to stave off labour shortages in both regions. The situation differs considerably in the UK, where a much-slower pace of net migration has contributed to higher wage growth and a tighter labour market. Ultimately, these differences underscore the vital role that immigration can play in shaping a country's economic growth trajectory.

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# Rising petrol prices squeeze businesses and households across Australia

**BY PETER MILIOS**

*Republished from Sharecafe.com.au*

The ongoing surge in petrol prices is causing significant concerns for businesses and households across Australia, with Sea Legs Brewery's general manager, Declan Roche, highlighting the increasing costs of delivering their beer to customers in Brisbane.

Over the past fortnight, petrol prices have soared to more than $2 a litre in various parts of Australia, straining the budgets of consumers and adding to inflationary pressures. This surge has raised speculation about the Reserve Bank potentially raising interest rates once again.

Initially, when petrol prices spiked last year in the wake of the conflict in Ukraine, many believed the surge would be temporary. However, the sustained high prices, coupled with surges in electricity and gas prices, are now affecting companies like Sea Legs, which operates under the Story Bridge in Brisbane's CBD.

Roche explained that while a third-party operator handles most of their beer deliveries, they have seen a 30 percent increase in supplier costs over the past year, including the cost of petrol for their sales team.

"The price of everything has just gone through the roof," Roche stated, adding, "We now try to pick up our supplies ourselves rather than having them delivered."

According to the weekly report by the National Roads and Motorists' Association (NRMA), the average price for regular unleaded fuel in Sydney stood at $1.95 per litre this week, with expectations of it falling to $1.90 per litre next week. In Sydney, the average diesel price hovers around $2.15 per litre. Meanwhile, Fuel Price Australia reported that average unleaded prices have exceeded $2 a litre in several capital cities, including Brisbane, Perth, and Canberra.

High petrol prices continue to exert inflationary pressure, though perhaps not as intensely as last year when economic growth was more robust. AMP's chief economist, Shane Oliver, noted, "At this stage, we're running at around $2.20

> **The outlook for petrol prices in Australia for the remainder of the year appears bleak. The Australian Institute of Petroleum reported a 5.4 percent increase in petrol prices to $1.79, which is expected to add 0.2 percentage points to headline inflation.**

a litre, and that's where we were a year ago." He added that production cutbacks and expanding refining margins were contributing factors to the high petrol prices.

Global oil prices, despite hitting 10-month highs recently, experienced a slight decline. Benchmark Brent crude futures were down 0.5 percent to $US89.41 a barrel, while lighter-grade US WTI oil futures dipped 0.7 percent to $US86.28 a barrel. The retreat in oil prices followed risk-off movements in the US, including weaker equity markets and declines in US 10-year treasury yields.

However, the selling in oil was offset by stronger-than-expected trade data from China, revealing a 21 percent increase in crude imports in August compared to July. Total crude imports for the year to date are up 14.7 percent compared to 2022, reflecting China's robust recovery from COVID-19 lockdowns.

Unfortunately, the outlook for petrol prices in Australia for the remainder of the year appears bleak. The Australian Institute of Petroleum reported a 5.4 percent increase in petrol prices to $1.79, which is expected to add 0.2 percentage points to headline inflation.

The recent decision by Saudi Arabia and Russia to extend supply cuts by 1 million and 300,000 barrels a day, respectively, until the end of 2023, pushed Brent crude prices above $90 a barrel, further tightening the global crude market.

This continued surge in petrol prices presents a challenge for Prime Minister Anthony Albanese and Treasurer Jim Chalmers, who are already grappling with a cost of living crisis. Commonwealth Bank economist Belinda Allen warned that rising petrol prices could put upward pressure on consumer price inflation data, potentially impacting retail sales in the month.

As Australians brace themselves for more financial strain due to the escalating petrol costs, the impact on businesses and households remains a matter of concern, with a watchful eye on any potential further interest rate hikes by the Reserve Bank.

*Peter Milios is a recent graduate from the University of Technology - majoring in Finance and Accounting. Peter is currently working under equity research analyst Di Brookman for Corporate Connect Research.*

# Q&A: Ask a Question

## Question 1

**I plan on retiring soon however I still want to work a bit as well. I've heard of Transition to retirement (TTR) as an option. How does TTR work?**

Transition to Retirement (TTR) is a financial strategy available to Australians who have reached their preservation age (usually between 55 and 60, depending on birthdate) but are not yet retired. TTR allows you to access your superannuation savings while continuing to work. To begin a TTR strategy, you establish a TTR pension within your superannuation account. This pension enables you to take between 4% - 10% of your superannuation savings in payments per annum.

TTR pensions can provide financial flexibility during your transition into retirement. The income you receive can help supplement your working income, reduce work hours, or improve your work-life balance. If you are aged 60 or over, TTR income is typically tax-free, while those under 60 may face taxation at their marginal tax rate with potential tax offsets. TTR strategies also allows you to continue contributing to super, which can boost your retirement savings. However, the decision to implement a TTR strategy should align with your broader financial plan, considering the impact on superannuation balances, contributions, and eligibility for government benefits. You should consult your financial adviser to make well-informed decisions about your retirement and superannuation approach.

## Question 2

**I have trauma insurance but I'm thinking of cancelling it. Why would it be important for me to keep it?**

Trauma insurance is a valuable component of your financial plan for several compelling reasons. Firstly, it provides critical financial security by offering a lump-sum payment if you're diagnosed with a covered critical illness. This payment serves as a crucial safety net, helping you manage medical expenses, tackle debts, and maintain your daily life during the recovery period.

Additionally, trauma insurance plays a significant role in debt management. Critical illnesses often bring substantial medical bills and time away from work, making it challenging to meet financial commitments. This insurance steps in to assist with existing debts such as mortgages, loans, and credit cards, lessening financial stress during a trying time.

Beyond the financial aspects, trauma insurance can enhance your overall quality of life, as the lump-sum payout can be used to improve your well-being by covering the costs of alternative treatments, home modifications, or lifestyle adjustments tailored to your specific needs.

In sum, trauma insurance offers financial security, debt relief, and an improved quality of life during challenging times, making it a valuable addition to your financial strategy. However, its necessity hinges on your unique circumstances and financial goals. Please consult your financial adviser to help you make an informed decision in regard to your Trauma insurance.

## Question 3

**I have read about contribution splitting as a way to increase my partner's super fund while she's on parental leave. How does it work?**

Contribution splitting allows couples, whether married or in a de facto relationship, to manage their superannuation savings more effectively. To be eligible for contribution splitting, at least one partner must be under age 65. The spouse making the contributions, known as the contributing spouse, can choose to split a portion of their concessional (before-tax) superannuation contributions with their partner's super account, referred to as the receiving spouse.

There are limits on how much can be split, generally allowing up to 85% of concessional contributions for a financial year. These limits are subject to certain conditions and any applicable contribution caps. The timing of contribution splitting is crucial, as it must be requested after the end of the financial year in which the contributions were made but before the end of the following financial year. Not all superannuation funds offer contribution splitting, so it's essential to confirm its availability and understand specific rules and requirements with your fund.

One significant advantage of contribution splitting is its potential to equalise superannuation balances between spouses, which can be advantageous for retirement income planning. It can also help manage tax liabilities and comply with contribution caps. Contribution splitting does not trigger taxation events for either spouse, and the funds in the receiving spouse's account are not taxed upon receipt. However, it's important to note that split contributions remain subject to superannuation preservation rules, meaning they generally cannot be accessed until specific conditions of release are met. Please seek your financial adviser when considering contributions splitting to ensure it aligns with your overall financial and retirement planning objectives.

If you have a question that you would like to see answered in **Wealth Adviser**, please send it through to **centraladvice@wtfglimited.com.**

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