

ASFA Retirement Standard

ASFA Research and Resource Centre

The Association of Superannuation Funds of Australia

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What is the ASFA Retirement Standard?

One of the most important steps in planning to save for your retirement is figuring how much you will need to spend each year to live a comfortable lifestyle. However, many people struggle when it comes to developing a budget for their future needs, particularly when their retirement is many years away.

The ASFA Retirement Standard has been developed to help solve this problem by objectively outlining the annual budget needed by the average Australian to fund a comfortable standard of living in their post-work years. It provides benchmarks for both a comfortable and modest standard of living, for both singles and couples, and is updated quarterly to reflect changes to the Consumer Price Index (CPI).

First launched in 2004, the Standard has been enhanced over the past 10 years to increasingly provide a more comprehensive picture of retiree's spending requirements. It has also been revised to reflect changes in living standards, retirees' lifestyle expectations and their evolving spending patterns.

In 2015, ASFA launched a new Retirement Standard for older retirees, designed to provide a picture of how spending requirements change as people enter their late 80s and early 90s. Like the original standard, it provides benchmarks for both a comfortable and modest standard of living, for both singles and couples, and is updated quarterly to reflect changes to the CPI.











In April 2018 ASFA revised the modest and comfortable budgets to reflect changes in consumption patterns, the introduction of new goods and services and developments in community living standards. Amongst other things, this led to a substantial increase in the total expenditure for modest budgets.

What is considered a modest and comfortable retirement lifestyle for younger retirees?

A modest retirement lifestyle is considered better than the Age Pension, but still only allows for the basics.

A comfortable retirement lifestyle enables an older, healthy retiree to be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of such things as; household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel.

Both budgets assume that the retirees own their own home outright and are relatively healthy.

| | Comfortable retirement | Modest retirement | Age Pension |
|---|---|--|---|
|  | Replace kitchen and bathroom over 20 years | No budget for home improvements. Can do repairs, but can't replace kitchen or bathroom | No budget to fix home problems like a leaky roof |
|  | Better quality and larger number of household items and appliances and higher cost hairdressing | Limited number of household items and appliances and budget haircuts | Less frequent hair cuts or getting a friend to cut your hair |
|  | Can run air conditioning | Need to watch utility costs | Less heating in winter |
|  | Restaurant dining, good range & quality of food | Take out and occasional cheap restaurants | Only club special meals or inexpensive takeaway |
|  | Fast internet connection, big data allowance and large talk and text allowance | Limited talk and text, modest internet data allowance | Very basic phone and internet package |
|  | Good clothes | Reasonable clothes | Basic clothes |
|  | Domestic and occasional overseas holidays | One holiday in Australia or a few short breaks | Even shorter breaks or day trips in your own city |
|  | Top level private health insurance | Basic private health insurance, limited gap payments | No private health insurance |
|  | Owning a reasonable car | Owning a cheaper more basic car | No car or, if you have a car, it will be a struggle to afford repairs |
|  | Take part in a range of regular leisure activities | One leisure activity infrequently, some trips to the cinema or the like | Only taking part in no cost or very low cost leisure activities. Rare trips to the cinema |

Changes in spending patterns as retirees age

As people age, their spending requirements change as they are often unable to engage in the same types of activities and require a higher level of care and support. This has an impact on their budget and expenditure requirements. For example, older retirees tend to spend more on assistance in the home, including for cleaning services and meals, as well as contributions towards home and community care services. They also tend to have increased out-of-pocket expenses for major medical procedures and ongoing chemist and other medical expenses. On the other hand, they also tend to spend less on holidays and other leisure activities outside the home, most likely reflecting their reduced capacity for activity.

Superannuation balances required to achieve a comfortable retirement

The lump sums required for a comfortable retirement assume that the retiree/s will draw down all their capital, and receive a part Age Pension.

| Category | Savings required at retirement |
|---|--------------------------------|
| Comfortable lifestyle for a couple | \$640,000 |
| Comfortable lifestyle for a single person | \$545,000 |

All figures in today's dollars using 2.75% AWE as a deflator and an assumed investment earning rate of 6 per cent.

Superannuation balances required to achieve a modest retirement

The lump sums needed for a modest lifestyle are relatively low due to the fact that the base rate of the Age Pension (plus various pension supplements) is sufficient to meet much of the expenditure required at this budget level.

| Category | Savings required at retirement |
|--------------------------------------|--------------------------------|
| Modest lifestyle for a couple | \$70,000 |
| Modest lifestyle for a single person | \$70,000 |

All figures in today's dollars using 2.75% AWE as a deflator and an assumed investment earning rate of 6 per cent. The fact that the same savings are required for both couples and singles reflects the impact of receiving the Age Pension.

Super Guru website

www.superguru.com.au

Information on the ASFA Retirement Standard can be found on ASFA's consumer website, Super Guru.

Super Guru is an independent website that helps people understand and maximise their superannuation. Super Guru draws on a large amount of original ASFA research and translates it into easy-to understand, consumer language.

It includes:

- » Calculators
- » Hints and tips to help maximise people's super
- » Frequently asked questions.