

RETIRE READY INDEX.

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INTRODUCTION

The CommBank Retire Ready Index is a comprehensive analysis of the retirement savings and resulting retirement incomes of Australia's working population. It sets out the percentage of the population aged 25–64 who are projected to have sufficient assets, including superannuation, personal wealth and Age Pension entitlements, to meet a comfortable level of retirement.

CommBank has partnered with Rice Warner, one of Australia's leading and most respected actuarial firms, to develop this report.

This report projects the retire readiness of working Australians aged 25–64. Using data from over 10 million member superannuation accounts from Rice Warner's *Super Insights** along with personal wealth data from the Australian Bureau of Statistics, we have provided a comprehensive picture of the wealth of the Australian population. The data excludes the family home as this asset is not typically used for retirement income purposes.

Our analysis captures some of the most important factors affecting retirement adequacy, such as couple/single status and personal wealth. It also provides insights into the retire readiness of Australians by demographic split including:

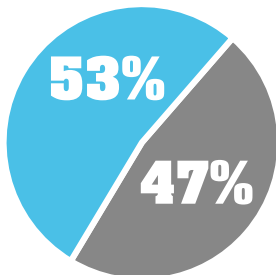
- Age,
- Gender,
- State, and
- Couple/single status

Calculations and projections used in the report look at the anticipated costs of goods and services needed to maintain a comfortable standard of living. These are based on the Association of Superannuation Funds of Australia's (ASFA) comfortable retirement standard which is currently \$43,372 and \$59,619 per annum for singles and couples respectively.

* *Superannuation Market Projection Report 2015*, Rice Warner

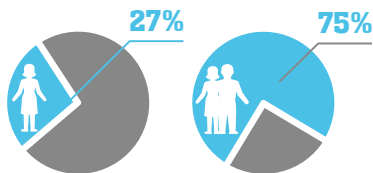
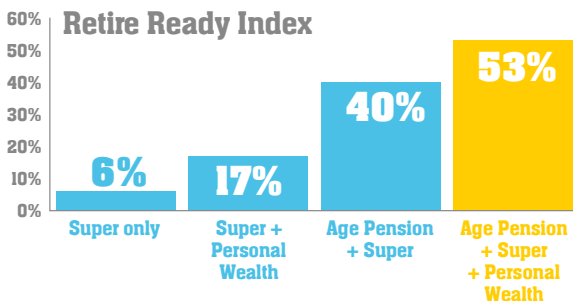
HIGHLIGHTS

1 in 2 Australian households (53%) are expected to be retire ready



7.7 million people aged between 25 and 64 are expected to be retire ready, while 5.1 million Australians are not likely to have enough for a comfortable retirement.

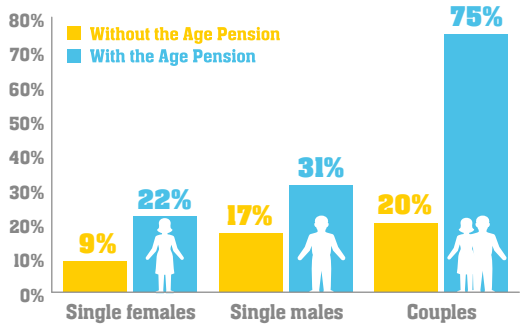
Excluding the Age Pension, only 17% of Australian households are expected to be retire ready. It is anticipated that 40% of Australians households will be retire ready when including the Age Pension and superannuation assets only.



27% of singles are expected to be retire ready compared with 75% of couples. However, 44% of singles and 94% of couples are almost retire ready and projected to have between 80–90% of what is required for a comfortable retirement.

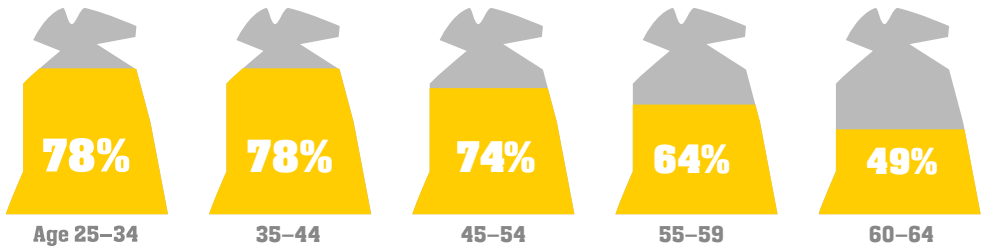
31% of single males are expected to be retire ready compared to...	22% of single females	Women are expected to be less retire ready than men due to lower average incomes and career breaks during child bearing years. And, they have longer life expectancies.
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The Age Pension contributes more significantly to retire readiness for couples than for singles, with 75% of couples expected to be retire ready when the Age Pension is included, compared with only 20% when it is excluded.



The mix of retirement assets is distinct across age groups. Older age groups have a significant amount of assets outside of superannuation, while the younger age groups are expected to accumulate more in superannuation via compulsory contributions.

Percentage of retirement assets held in superannuation



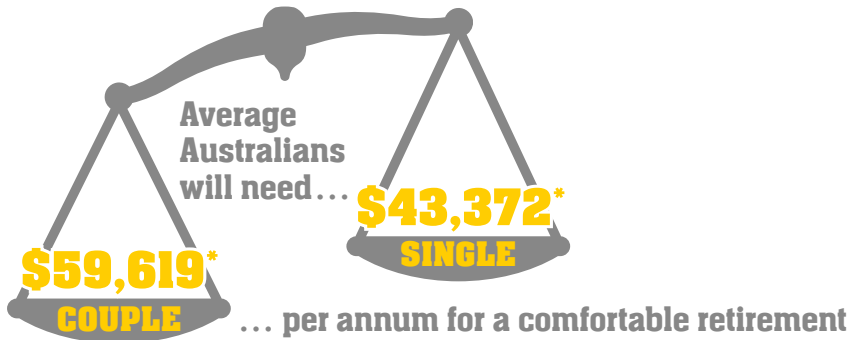
Superannuation is expected to contribute more than 75% of the total wealth for under 50s at retirement outside of the family home. 60–64 year-old singles are expected to be the least retire ready (18% of males and 9% of females) as they have not had access to compulsory Superannuation Guarantee contributions for the duration of their working lives.

ACT has the highest proportion of singles and couples who are expected to be retire ready while TAS and NT have the lowest.



REPORT RESULTS

HOW MUCH?



* Based on the Association of Super Funds of Australia (ASFA) standard for a comfortable retirement, as at the date of publication.

Headline Results

For the population analysed at 31 December 2015, 27% of single Australians are expected to retire with assets and Age Pension entitlements sufficient to meet their retirement needs. 75% of couples will retire with assets and Age Pension entitlements sufficient to cover their needs.

Table 1. Retire Ready Index

	Singles	Couples	Total
RRI – % of Australians	27%	75%	53%
RRI – Without Age Pension	13%	20%	17%

- Only 53% of Australian households are expected to be retire ready.
- If only the Age Pension and superannuation assets are considered, 40% of Australian households are expected to be retire ready.
- Without the Age Pension, 17% of Australian households are expected to be retire ready.

Results by age and gender

Table 2 shows the results of the savings gap by age, marital status and gender. Note that when calculating adequacy for couples we have assumed for simplicity that couples consist of people in the same age cohort. In reality, there is likely to be a wider cohort distribution for couples.

The results show that more males will achieve adequacy than females. Couples experience higher levels of adequacy relative to singles due to the lower per person income required under the ASFA adequacy standard and higher private savings.

The results below have been calculated using the ASFA Comfortable standard and take into account the Age Pension asset test changes, which came into effect on 1 January 2017.

Table 2. Retire Ready Index by age and gender including the Age Pension

Age & Gender	Singles		Couples	Total
	Male	Female		
25–29	34%	29%	73%	46%
30–34	40%	28%	70%	53%
35–39	33%	27%	78%	58%
40–44	32%	25%	72%	55%
45–49	32%	18%	70%	51%
50–54	24%	18%	80%	54%
55–59	20%	15%	83%	55%
60–64	18%	9%	76%	49%
Total	31%	22%	75%	53%

Table 3. Retire Ready Index by age and gender excluding the Age Pension

Age & Gender	Singles		Couples	Total
	Male	Female		
25–29	17%	12%	25%	19%
30–34	24%	12%	25%	22%
35–39	17%	12%	25%	21%
40–44	17%	11%	25%	21%
45–49	17%	8%	15%	14%
50–54	16%	5%	15%	13%
55–59	14%	3%	15%	12%
60–64	10%	6%	15%	12%
Total	17%	9%	20%	17%

Factors that increase the gap for females relative to males include:

- Women are expected to have lower retirement savings due to lower incomes over their working lives and career breaks during child bearing years.
- Women have a longer life expectancy and therefore need to make their income last longer in retirement.

Factors that decrease the gap for females relative to males include:

- The Age Pension acts as a buffer to lower retirement assets. Women are expected to receive higher Age Pensions due to having lower assets. Table 3 shows the assets relative to needs excluding Age Pension payments. By this measure, women are worse off than men in terms of saving for their retirement needs.

Factors that can increase the gap for younger people:

- The main driver of reduced adequacy at younger ages is improved life expectancy. These offset the impact of the planned increase in superannuation guarantee contributions and the longer period of saving with superannuation guarantee contributions.

Results by income and gender

It is worth noting that even when we control the results for income the gender gap is still present. In particular, this is a result of longer female life expectancy which requires women to hold greater assets to maintain the Comfortable level of income for the expected duration of their life despite their lower current balances relative to males.

Table 4. Retire Ready Index by income and gender including Age Pension for singles

Annual Income (\$)	Singles		Total
	Male	Female	
nil	0%	0%	0%
under 46,800	0%	0%	0%
46,800–58,500	0%	0%	0%
58,500–66,300	47%	25%	38%
66,300–78,000	83%	61%	74%
78,000–93,600	100%	100%	100%
93,600–140,400	100%	100%	100%
over 140,400	100%	99%	100%
Total	31%	22%	27%

Unlike in previous reports, this year we have not assumed that each member of a couple is earning the same income, instead we have used separate income bands to segment couples on a ‘household’ basis. Table 5 shows the retire ready index by income for couples.

Table 5. Retire Ready Index by income including Age Pension for couples

Annual Income (\$)	Couple
nil	1%
under 91,500	48%
91,500–114,300	100%
114,300–129,600	100%
129,600–152,400	100%
152,400–182,900	100%
182,900–274,400	100%
over 274,400	100%
Total	75%

Adequacy distribution

Table 6 reflects the distribution of retirement adequacy for single Australians. As noted above, 27% of singles are projected to meet the benchmark for retirement adequacy for their age, but this figure increases to 44% when considering individuals who are within 20% of achieving adequacy. Further, due to the effects of Age Pension entitlements no individuals fall below the level of wealth in line with 40% of their retirement needs.

Table 6. Adequacy Distribution by Gender (Singles)

Percentiles	Singles		Total
	Male	Female	
0% – 10%	100%	100%	100%
40% – 50%	100%	100%	100%
50% – 60%	96%	96%	96%
60% – 70%	84%	77%	81%
70% – 80%	67%	50%	59%
80% – 90%	51%	36%	44%
90% – 100%	39%	25%	33%
>100%	31%	22%	27%

In contrast to single citizens, 75% of couples meet their forecasted adequacy benchmark. A further 19% will have 80% or more of the required savings.

Table 7. Adequacy Distribution by Gender (Couples)

Percentiles	Couple
0% – 10%	100%
40% – 50%	100%
50% – 60%	100%
60% – 70%	100%
70% – 80%	98%
80% – 90%	94%
90% – 100%	88%
>100%	75%

Required savings today by age and income

Tables 8 through 10 show the savings an Australian would require today in order to consider themselves on track for a comfortable retirement, taking into account future contributions to superannuation and private wealth.

As is expected, this benchmark grows with age and falls with income as people approach retirement and are able to convert more of their income into savings.

Table 8. Required savings today for a male to achieve ASFA adequacy (today's dollars)

	25–29	30–34	35–39	40–44	45–49	50–54	55–59	60–64
nil	345,000	345,000	370,000	395,000	400,000	425,000	430,000	430,000
under 46,800	120,000	145,000	195,000	245,000	275,000	330,000	360,000	395,000
46,800–58,500	75,000	105,000	155,000	210,000	245,000	310,000	345,000	385,000
58,500–66,300	0	15,000	80,000	150,000	195,000	270,000	320,000	370,000
66,300–78,000	0	0	0	55,000	125,000	220,000	285,000	355,000
78,000–93,600	0	0	0	0	25,000	145,000	240,000	325,000
93,600–140,400	0	0	0	0	0	0	135,000	275,000
over 140,400	0	0	0	0	0	0	0	85,000

Table 9. Required savings today for a female to achieve ASFA adequacy (today's dollars)

	25–29	30–34	35–39	40–44	45–49	50–54	55–59	60–64
nil	360,000	385,000	395,000	420,000	450,000	455,000	485,000	490,000
under 46,800	140,000	185,000	215,000	265,000	325,000	355,000	420,000	450,000
46,800–58,500	90,000	140,000	175,000	235,000	295,000	335,000	405,000	445,000
58,500–66,300	0	55,000	100,000	175,000	245,000	295,000	375,000	430,000
66,300–78,000	0	0	0	80,000	175,000	245,000	340,000	410,000
78,000–93,600	0	0	0	0	75,000	170,000	290,000	385,000
93,600–140,400	0	0	0	0	0	20,000	195,000	335,000
over 140,400	0	0	0	0	0	0	0	150,000

Table 10. Required savings today for a couple to achieve ASFA adequacy (today's dollars)

	25–29	30–34	35–39	40–44	45–49	50–54	55–59	60–64
nil	390,000	415,000	420,000	450,000	480,000	485,000	520,000	525,000
under 91,500	215,000	270,000	300,000	350,000	390,000	405,000	445,000	445,000
91,500–114,300	205,000	265,000	295,000	340,000	385,000	400,000	440,000	435,000
114,300–129,600	155,000	210,000	255,000	315,000	345,000	375,000	440,000	435,000
129,600–152,400	0	0	85,000	180,000	270,000	320,000	380,000	380,000
152,400–182,900	0	0	0	0	95,000	210,000	315,000	345,000
182,900–274,400	0	0	0	0	0	0	165,000	290,000
over 274,400	0	0	0	0	0	0	0	0

WHAT THIS COULD MEAN FOR YOU

We have chosen five sample Australian households, to illustrate how this comprehensive picture of retire readiness might play out for households across Australia. For each household, we have considered the person or couple’s wealth today, their projected wealth at retirement, their income, and the average pension that can be expected under the assumptions underlying the results in this report. It is important to note that an individual’s personal wealth assets are exclusive of owner-occupied housing.

Table 11. Persona Results

Persona	Average Super Balance	Today		Projected Retirement Assets	RRI	Expected Retirement Income
		Personal Wealth	Total Assets			
Sarah 37 – ACT	260,000	22,000	282,000	795,000	124%	49,000
Abby 61 – NSW	459,000	1,684,000	2,144,000	2,445,000	362%	129,000
Brad 23 – QLD	36,000	4,000	40,000	615,000	102%	45,000
Jane and John 46 – WA	250,000	97,000	347,000	703,000	107%	65,000
Jeff and Wendy 53 – VIC	444,000	236,000	680,000	857,000	130%	70,000

METHODOLOGY AND ASSUMPTIONS

The approach to this year's Retire Ready Index report differed from the approach in previous years' reports.

The first step was to segment the Australian population by gender, marital status, income and state. This was done primarily using the data available from the 2011 Census, the ABS Survey of Income and Housing, the ATO 2% Sample File and from other Rice Warner research, such as the Superannuation Market Projection Report 2015. Each of these segments formed the basis of a cameo, or an individual scenario, which were then assigned a weight according to the size of the population. Future entrants to the workforce are not considered and the position of those over retirement age is ignored. Couples are identified in the data and flagged, and a couple is represented by a single cameo in the model, rather than the amalgamation of two singles. Additionally, for each scenario we determined the amount of wealth members were expected to hold outside of superannuation. Data on personal wealth was primarily taken from the ABS Survey of Income and Housing and segmented according to gender, marital status, and income. This personal wealth data was then smoothed and scaled for the differences in personal wealth between Australian states. Note that personal wealth is exclusive of the value of owner-occupied housing as these assets are not typically used for retirement income.

Each of these scenarios was then transferred to the Rice Warner retirement projection model. This model is used as the basis for many of Rice Warner's retirement calculators and allows for the projection of an individual's or a couple's retirement balance at retirement, as well as the longevity of that balance for given income requirements. It can also be used to determine superannuation balance requirements for individuals and couples given an income requirement and life expectancy. Each of the scenarios were recreated twice – once to determine the expected retirement balance and a second time to determine the required balance to fund their retirement for each type of adequacy.

The forward projection of members' balances at retirement gives us an estimate of likely total future savings; the 'Assets' of the Australian working population at retirement for this report. Since we also calculate the expected requirement for savings to sustain adequate income to life expectancy, we also have an estimate of the required savings for the population, or the 'Liabilities' in the context of this report. Age 67 is used as a proxy for retirement age, although we note that a number of individuals will formally retire before this age.

There are a number of items for which we have made implicit assumptions. It is impractical to segment the population into every potential outcome that may influence the results and there are a number of items which are significant enough to warrant comment.

The model assumes that females currently working will have a full history of employment, with no breaks in service for maternity leave, career breaks etc. Similarly, it assumes that those women currently off work to bear and raise children will not return. Of course, in practice, some will leave and be replaced by others returning to the workforce. Unfortunately, there are no reliable statistics showing the extent and incidence of broken service so we have not carried out this more complex modelling. As a result, the model will overstate the Retire Ready Index for younger females.

Further details on assumptions used in the model are provided in Appendix A.

Appendix A – Assumptions

Economic:

Appendix A – Assumptions		
	2014	2016
Gross investment returns	7.50%	7.00%
Salary growth	4.50%	4.00%
Price inflation	3.00%	2.50%
Expense rate	1.12%	1.10%
First year insurance cost*	0.53%	0.53%
Contributions tax	15.00%	15.00%
Investment tax on roll-up (allows for franking credits and CGT discounts)	6.00%	6.00%

* After the first year, insurance premiums are indexed to wage growth

Demographic:

- Mortality in accordance with the Australian Life Tables 2010–2012 published by the Australian Government Actuary.
- Future improvement to post-retirement mortality in accordance with the 125 year improvement rates published by the Australian Government Actuary in the Australian Life Tables 2010–2012.

Future contributions–Super:

- Average current employer contribution (including salary sacrifice) of 14.0%.*
- 3.0% gradual increase of employer contribution from 2014 to 2025.
- Average member contribution of 3.2%.

Treatment of Couples:

- Reporting bands for couples' incomes are based on equivalent bands used for singles as a % of AWOTE where the couple's AWOTE is defined as (Male AWOTE + Female AWOTE). Note: The actual incomes of the males and females used in each band differ based on the average salaries of couples who fall within that band using data from the ATO 2% Sample File.

* Estimated with analysis of ABS, APRA and Rice Warner internal data

Personal Wealth:

- Distributions of personal wealth are taken from the ABS Survey of Income and Housing 2013–14 and segmented by state, gender, income and marital status
- 4.27% average personal wealth saving rate (varies by income) in line with Rice Warner's Personal Investments report 2015.
- 6.27% pa investment return on personal wealth.

Appendix B – Changes to method and average savings adequacy

B.1 Change to Methodology

As was noted at the start of this report, due to improvements in methodology and the metrics underlying this report it is no longer possible to compare the retire readiness across previous years' reports. In particular, in earlier editions the modelled results were calculated using a modified version of Rice Warner's savings gap model. The index was calculated as the percentage of Australian members' assets at retirement compared to their needs net of the age pension, as per:

Figure 1. Retirement Ready calculation 2014

$$\text{RRI} = \frac{\text{Balance}}{\text{Needs} - \text{Age Pension}}$$

For the 2015 results, the savings gap model was replaced with an aggregation of the Australian population using our Retirement Projection engine and population data from the ABS.

The Retire Ready Index is calculated as the population weighted proportion of individuals who meet this benchmark.

B.2 Average savings adequacy

The approach to calculating the index also changed slightly; the impact of the age pension was added to the balance at retirement, rather than subtracted from needs. As such the calculation became:

Figure 2. Average Savings Adequacy 2015

$$\text{ASA} = \frac{\text{Balance} + \text{Potential Age Pension}}{\text{Needs}}$$

'Potential age pension' refers to the age pension that a member would receive on the condition that they met the requirements for retirement adequacy. That is, we calculate the assets a member needs to support the income defined by one of the measures of adequacy and base their Age Pension income on this amount of assets. The aggregate Age Pension payments are then discounted to retirement and combined with the member's balance to determine the Average Saving Adequacy (ASA).

Given these changes and in the interest of providing scope for approximate cross-period comparison this section provides a sample of the results pertaining to the Average Savings Adequacy metric.

B.3

Average retirement savings adequacy by age and gender including the Age Pension (ASFA)

Age & Gender	Singles		Couples	Total
	Male	Female		
25–29	103%	91%	140%	112%
30–34	111%	96%	135%	121%
35–39	106%	93%	136%	122%
40–44	101%	86%	131%	116%
45–49	99%	80%	126%	111%
50–54	96%	80%	128%	111%
55–59	95%	76%	126%	108%
60–64	97%	75%	122%	106%
Total	102%	85%	131%	114%

B.4

Average retirement savings adequacy by age and gender excluding the Age Pension (ASFA)

Age & Gender	Singles		Couples	Total
	Male	Female		
25–29	61%	50%	85%	66%
30–34	67%	55%	81%	72%
35–39	62%	51%	80%	71%
40–44	57%	44%	75%	65%
45–49	54%	38%	70%	60%
50–54	51%	37%	72%	59%
55–59	48%	33%	69%	57%
60–64	49%	30%	65%	53%
Total	58%	43%	75%	64%

B.5

Average retirement savings adequacy by income and gender including Age Pension (ASFA)

Annual Income (\$)	Singles		Total
	Male	Female	
nil	50%	50%	50%
under 46,800	67%	63%	65%
46,800–58,500	86%	80%	83%
58,500–66,300	98%	91%	95%
66,300–78,000	114%	106%	110%
78,000–93,600	139%	126%	133%
93,600–140,400	187%	163%	177%
over 140,400	290%	249%	277%
Total	102%	85%	94%

B.6

Average retirement savings adequacy by income and gender 2015 including Age Pension (ASFA)

Annual Income (\$)	Couple
nil	80%
under 91,500	99%
91,500–114,300	116%
114,300–129,600	124%
129,600–152,400	137%
152,400–182,900	161%
182,900–274,400	202%
over 274,400	285%
Total	131%

B.7

Average retirement savings adequacy by State and gender 2015 including Age Pension

Annual Income (\$)	Singles		Couples	Total
	Male	Female		
NSW	103%	87%	131%	114%
VIC	100%	85%	132%	114%
QLD	100%	83%	130%	113%
ACT	133%	117%	141%	134%
WA	114%	87%	129%	117%
SA	92%	79%	129%	109%
TAS	87%	75%	132%	109%
NT	100%	83%	126%	109%
Total	102%	85%	131%	114%

B.8

Required savings at retirement by age and gender to achieve ASFA Comfortable standard (today's dollars)

	Male	Female	Couples
25–29	599,000	625,000	677,000
30–34	560,000	625,000	674,000
35–39	562,000	600,000	637,000
40–44	560,000	596,000	639,000
45–49	531,000	597,000	637,000
50–54	527,000	564,000	602,000
55–59	499,000	562,000	603,000
60–64	466,000	531,000	569,000

Things you should know: About the CommBank Retire Ready Index. The CommBank Retire Ready Index was developed in collaboration with Rice Warner Pty Limited (Rice Warner), and is based on data from more than 10 million Australian superannuation accounts as at 31 December 2015 along with personal wealth data from the Australian Bureau of Statistics. The Index is a measure of the percentage of assets Australians are likely to have at retirement relative to their comfortable retirement needs. This has been defined according to the Association of Superannuation Funds of Australia (ASFA) comfortable standard of living which is currently \$43,372 p.a. for a single and \$59,619 p.a. for a couple. The CommBank Retire Ready Index assumes a retirement age of 67 and includes the Age Pension asset test changes which came into effect on 1 January 2017. The data excludes the family home as this asset is not typically used for retirement income purposes. This document has been prepared without considering your objectives, financial situation or needs. You should, before acting on this advice, consider its appropriateness to your circumstances. Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 Call 13 2221 or visit commbank.com.au

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