

# 2018 ASFA Retirement Standard Budgets Review

April 2018

## **Updating and extending indicative budget standards for older Australians**

This report presents contemporary budget standards for retirees. It details both modest and comfortable standards of living among older, healthy and active retired Australians.

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## Introduction

This report presents the updated budget standards for older Australians in the segments of comfortable and modest for self-funded retirees for both couples and individuals.

A budget standard indicates how much a particular family living in a particular place at a particular time needs in order to achieve a particular standard of living. It is derived by specifying every item that is needed by the family and each of its members—everything from the clothing worn, to the food consumed, soap used, petrol bought, bus fares paid for, furniture sat on, haircuts and holidays taken—then pricing each item and summing to produce the overall budget (Saunders and Bedford, 2017).

The items included, how much they cost and how long they last will vary according to the standard of living that the budget is designed to support and the characteristics of the individuals that the budget relates to. The standard itself can (in principle at least) be set at any level. ASFA has focused on “modest” and “comfortable” budget standards as target standards of living for retirees. A “basic” standard would be one more attuned to avoidance of poverty, at a level around what could be supported by the Age Pension alone.

The budgets in essence set up normative goals for individuals and couples planning for retirement. Put more simply, they are about what people want to achieve in retirement. They are meant to be a tool to assist individuals plan for their retirement.

In contrast the Household Expenditure Survey conducted by the Australian Bureau of Statistics and other similar surveys of the Australian population tell you what current retirees spend on various goods and services. In many cases, that expenditure is constrained by the income and assets of the retirees rather than being something the retiree planned or wanted.

The Household, Income and Labour Dynamics in Australia (HILDA) longitudinal survey also records some but not all household expenditure for Australian households, including for retiree households. However, the gaps in what is recorded lead it to provide lower figures than what even existing retirees spend.

Some researchers make use of data on payments made out of bank accounts. This methodology forms a major part of the Milliman Retirement Expectations and Spending Profiles report. However, there are major limitations of such an approach in setting retirement goals. Along with expenditure being constrained by the relative immaturity of the compulsory superannuation system and what often is inadequate voluntary saving for retirement.

Another problem with such approaches is that individuals often have more than one bank account with this being even more frequent for retiree couples. As well, various financial assets can be held by retirees which are not well reflected in bank account data.

Banks themselves make very little use of bank account transaction data in assessing the capability of individuals to repay a loan for these very reasons. While bank account transaction data can capture a range of expenses they can miss many other expenses.

Another complication is that some expenses only occur infrequently, as in once in every few years or even every five or ten years. These are not always well captured by surveys of expenditure and even less so by expenditure in a given period out of a specified bank account. The ASFA Retirement Standard captures these amounts by spreading out expenditure over the life of a consumer durable item, such as a car or a household appliance.

Accordingly, the budgets are not put forward as necessarily representing what all or even most retirees are currently achieving in retirement or spending in a particular year. For instance, currently only around 20 per cent of retirees achieve a comfortable or above standard of living in retirement as defined in the ASFA Retirement Standard Budgets. However, with both compulsory superannuation and voluntary retirement savings by 2050 around 50 per cent of retirees might reach comfortable or above.



## Why the need for a review and updating?

The use of CPI data to adjust the budgets for price changes for the various goods and services included in the budgets is standard practice in the budget standards literature. Over the short-term—a period which various researchers have indicated is in the order of around seven years—will not result in any major errors into the estimates in terms of overall required expenditure and the size of various components of the budgets.

However, there is a risk that while adjusting budgets only for movements in applicable consumer price indexes will, over the longer-term, maintain the purchasing power of the budgets it will lead to a cumulative decline in their value relative to community living standards, which increase in line with economic growth and community prosperity.

There is also the issue that the CPI makes use of bundles of goods and services that differ to some extent from the components of the budgets. Over the longer-term this can mean that the CPI adjusted budgets will not exactly reflect actual required expenditures, particularly at the level of individual expenditure items.

This suggests that, beyond the seven-year time horizon, it is preferable to review and revise the entire budgets to ensure that items, quantities and lifetimes, as well as prices, are reviewed and adjusted to reflect changes in community norms and average living standards across Australian society.

Other developments require the Retirement Standards to be revised in order to maintain their relevance. New items become available and popular among consumers; this affects how people run their lives and creates pressure for others to do likewise if they are to function effectively in society as individuals and as consumers. When almost everyone else has a mobile phone or a broadband internet connection, it becomes near impossible for anyone to manage without one. An item that was once seen as a relative 'luxury' quickly becomes an absolute 'necessity'. Technology also changes, with, for instance, subscriptions to streaming services substantially replacing purchase of compact discs or DVDs.

As well, government policies can change in ways that directly affect how much money people need to spend out of their own pockets to meet their needs. At a national level, such changes include the introduction (or extension) of user charges or gap payments required to gain access to basic services such as health care (under the Medicare system).

Another issue is that in past versions of the budgets there were some minor variations between the budgets for single males and single females. These were linked to differences in certain costs and consumption items, such as hairdressing and cosmetics. The assumption was also made that a male retiree was more likely to undertake home repairs. However, most users of the budgets only make use of the single female budgets, as there are more female than male retirees given their longer average life expectancy.

In this iteration of the budgets it was decided to have budgets applicable to both single men and single women.



## Community expectations in regard to retirement spending

The HILDA Survey, referred to earlier in this report, obtained information (about many things and in a number of waves) including from people aged 45 and over and not yet retired, about their expectations for the (after-tax) income they will require in retirement in order to have a standard of living which they regard as satisfactory.

These expectations on average align remarkably closely with the ASFA Comfortable budget standard.

The mean required income reported in 2015 was \$43,128 for single people and \$62,340 for couples (Wilkins, 2017). There was no (significant) systematic difference between men and women in expected income requirements. Unsurprisingly, being partnered increases expected income requirements, since the income needs to support two people.

However, considerable variation in estimated requirements is evident in the survey data. Among single people, the tenth percentile (which has 10 per cent of reported value below it and 90 per cent above it) is only \$20,838, while the 90th percentile is \$60,111. Among partnered people, the 10th percentile is \$30,055, while the 90th percentile is \$100,185.

Respondents to the question on income requirements were also asked how much they had thought about their income needs in retirement, and it seems that giving a lot of thought to the matter results in a higher assessment of income needs in retirement. Those who had thought a lot about income requirements in retirement on average reported needing \$6,162 more per year than those who had not thought about it at all. Those who had given a little thought to the matter do not differ significantly from those who had not thought about it at all.

For both singles and couples, the median required income is, in equivalised terms, below the median household income in 2015. The HILDA researchers conclude that it therefore seems most people do not have unreasonably high expectations of their income requirements in retirement.

Data from the ABS Household Expenditure Survey, 2015-16 also indicate that even when allowance is made for differences in housing costs both the average and median disposable incomes for households with a household head aged 55 to 64 are higher than the levels set by the ASFA comfortable retirement standard. The average disposable income for such households is \$95,160 and the median disposable income is \$76,230 (ABS, 2017c Table 10.2).

These findings are in direct contrast to claims by the Grattan Institute that the ASFA Comfortable standard sets out far too high levels of expenditure and that it involves expenditure in retirement which is higher than most individuals achieve prior to retirement.

These HILDA survey results are consistent with ASFA analysis of likely retirement outcomes for future retirees. With the increasing maturity of the compulsory superannuation system, the proportion of retirees reaching at least the ASFA comfortable standard will increase from the current level of around 20 per cent of retirees to a figure like 50 per cent.

In this context in 2017 the Association of Superannuation Funds of Australia (ASFA) retained consultant **Harvest Strategy** to build on 2009 research and review the current living patterns of older self-funded Australians.

Specifically, the research addressed the following objectives:

- Review the existing standards for single persons and couples to ensure that they properly reflect the price movements in the bundles of goods and services in the various budgets
- Review the bundle of goods and services and adjust the bundle to reflect current consumption patterns
- Using currently published data and market prices for specified goods and services, update modest and comfortable budgets for older Australians who are retirees

This research is used to set the adequacy standards of individuals who are reliant wholly or partially on their savings during their retirement, to fund a standard of living greater than can be achieved by relying on the Age pension alone.



## Budget standards 2009 to 2018

The original modest budget standards were developed and priced in 1997 for the purpose of research into the adequacy of the social security payments. ASFA commissioned the Social Policy Research Centre in 2003 to update and extend them to incorporate a Comfortable budget standard for largely self-funded retirees. Today, 20 years after the initial research and 15 years since the first Retirement Standard budgets were commissioned, this research project revises the standards to reflect baskets of goods and services and average prices in the Australian context in 2018 applicable to retirees at the different budget levels. The Standards accordingly can continue to be used with confidence as a guide in planning for retirement. Indicative budget standards for modest and comfortable older self-funded Australian retirees have informed Australians in planning for their retirement for the nearly 15 years.

The review updates the budgets for retiree households, namely for a single person (aged 70) living on their own and a couple (both aged 70) at modest and comfortable levels. To ensure the ongoing accuracy of the standards, adjustments have been made over time to reflect changing trends in consumption and income. To incorporate the effect of changes to spending in the budget standard it has been necessary for the researchers to revisit the bundle of goods and services, then re-specify each item and re-price them individually. This can be a time consuming and difficult task due to the large range of items that are included in each bundle of goods and services for each standard.

One of the budget standard updates relates to Communication. This focus is driven by the technological advancements and the subsequent changing consumption patterns in the last eight years including; the roll out of the NBN, mobile, streaming services, wearable devices and the ongoing innovations in technology. Digital access forms an important part of contemporary life and access to a communications package with a substantial data allowance is an important part of this.

The growth in digital services also has implications for the Leisure budgets. In 2017 overall expenditure in Australia on digital video entertainment equalled cinema box office takings for the first time. There were 3.6 million subscribers to Netflix with other subscription services also achieving substantial numbers of subscribers or downloads. The share of home entertainment spending on DVDs fell from 93 per cent seven years ago to 38 per cent last year.

The costs associated with Health continue to rise with demand for services also increasing in an ageing population (Tasker, 2016). Healthcare insurance premiums increased by 4.8 per cent on April 1, 2017, and while the rise was the lowest in a decade, it is still three times the rate of inflation (Conifer & Anderson, 2017).

In terms of Housing the 2016 HILDA report found that there was not a decline in expenditure on consumption through the course of retirement. For example, in 2016 the "...annual rises in council rates paid by Australian homeowners are now among the ten fastest-growing items of expenditure faced by Australian consumers" (Lekakis, 2016). The revised budgets now make explicit allowance for water charges rather than including such charges within an overall allowance for property rates and charges. The standard has sought also to account for the changes in energy costs as well as other rising costs of housing.



## Adjusting the Budgets

The Consumer Price Index (CPI) is used by the Australian Bureau of Statistics to measure the quarterly changes in the price of a 'basket' of goods and services that account for a high proportion of expenditure by the CPI population group (that is, metropolitan households) (ABS, 2017a). This provides a useful starting point in updating the 2009 budget standard to 2018 prices and consumption patterns.

It should be noted in terms of data from the Australian Bureau of Statistics, that as of September quarter 2012 (release on 31 October 2012), the statistics on the Analytical Living Cost Indexes for Selected Australian Household Types (cat. no. 6463.0) and the Pensioner and Beneficiary Living Cost Index (cat. no. 6467.0) were amalgamated into a single product Selected Living Cost Indexes, Australia (cat. no. 6467.0). The SLCI has been utilised in the preparation of this report.

However, while the CPI is often referred to as a cost-of-living index, this is not strictly correct. A true cost-of-living index would need to address the changes in standards of living and with the substitutions that individuals make in order to maintain their standard of living in the face of changing market conditions. This report has attempted to address some of these changes through a review of literature, published data, current pricing in various capital cities and regional areas and analysis of the information collated.

The CPI 'basket' covers a wide range of goods and services and is allocated in 11 groups:

- Food
- Alcohol and tobacco
- Clothing and footwear
- Housing
- Household contents and services
- Health
- Transportation
- Communication
- Recreation
- Education
- Financial and insurance services

However, not all of the groups have been used in calculating the retirement standard budgets. Tobacco is not included in the budgets, nor are the groups' education and financial and insurance services given the typical pattern of expenditure by retirees.

Today's retirees spend more than earlier cohorts at a similar age and household spending does not necessarily steadily decline through retirement. Today's retirees are spending more than earlier cohorts and future retiree expenditure could be higher again. However, at more advanced ages, expenditure on leisure (particularly travel) and motor vehicles is likely to decrease while expenditure on health related items is likely to be higher.

The focus for this review is to recalibrate the standards to reflect the major changes in consumption patterns and policy settings in particular Communication, Health, Housing and Recreation. It also particularly addresses the adequacy of the modest budgets which are now not much more than the level of income provided by the full Age Pension.

A broad starting point in regard to overall budget levels is provided by the increases in prices since the last review for the various relevant CPI groups. Table 1 provides details.



**Table 1: Changes in CPI as per Budget Standard and CPI Group**

Budget Standards Component	CPI Commodity Group	Index value in March Quarter 2017 (Index reference period 2011-12 = 100.0)
Food	Food and non-alcoholic drinks	106.0
	Alcohol and tobacco	132.1
Clothing and footwear	Clothing and footwear	96.4
Housing	Housing	116.8
Household goods and services (general)	Furnishings, household equipment and services	104.0
Health	Health	126.9
Transport	Transport	100.9
Communication	Communication	88.3
Leisure	Recreation and culture	103.6
	Education	128.7
	Insurance and financial services	111.9
Personal care	<i>Accounted in household services</i>	
<b>Total budget</b>	<b>All Groups CPI</b>	<b>110.5</b>

The ABS also publishes Selected Living Cost Indexes (SLCIs) which incorporate the Pensioner and Beneficiary Living Cost Index (PBLCI) and the Analytical Living Cost Indexes (ALCIs). The ALCI are prepared for four types of Australian households, the fourth being:

*Self-funded retiree households (that is, those households whose principal source of income is superannuation or property income and where the Household Expenditure Survey (HES) defined reference person is 'retired' (not in the labour force and over 55 years of age)).*

The SLCIs frequently experience increases or falls which differ slightly from the overall CPI. For instance, the Living Cost Index (LCI) for self-funded retiree households rose 0.2 per cent for the March quarter 2017 mainly due to rise in health (+2.2 per cent), driven by pharmaceutical products. The major offsetting falls was Recreation and Culture (-0.8 per cent), which was driven by international Holiday travel and accommodation.

The LCI for self-funded retiree households showed a smaller rise than the CPI for the March Quarter 2017. Self-funded retiree households have a relatively higher proportion of expenditure on recreation and culture for which prices fell this quarter.

The LCI for self-funded retiree households rose 2.0 per cent through the year to the March quarter 2017. This was a marginally smaller rise compared to the CPI rise of 2.1 per cent through the year to the March quarter 2017.



## Developing the updated Budgets

Harvest Marketing used a number of methods to update the budgets.

The starting point was the 1997 budget standards research. The items in the retirement budget standards were itemised drawing substantially but not totally on the 1997 original bundle of goods and services. Some items, such as digital subscriptions, were not in existence in 1997.

Each item listed includes the details of type, price, quality and lifetime of each item. To customise the standard to reflect the contemporary lifestyle of an older Australian, the bundle of goods and services were updated to reflect relevant changes.

The budgets were first reinvigorated by employing the CPI changes to budgets developed in 2009. Two different price indexes were used: the CPI headline index, the weighted average of price movements in eight capital cities, and the CPI Component index, which adjusts each commodity group using the relevant CPI component index. The two standards differ because the CPI Component incorporates the changes in relative prices while the CPI Headline does not. In updating the budget standards, both methods can only produce approximate results even at the aggregate budget level as the inherent assumption is that all the items captured in the original budget have increased by the same amount (either in total or within each category).

Community standards have been increasing since 2009, with average weekly ordinary time earnings up by 25.3 per cent in nominal terms (ABS, 2016a), compared to a 16.8 per cent increase in the CPI changes (ABS, 2017a).

The total change in the budget standard for each group is lower when the CPI Headline Index series is used to update each of the budget areas individually. While both CPI methods produce similar results, the measures estimates differ by 5 per cent.

In light of this result it is apparent that the CPI Component measure should be used for quarterly updates of the budgets.

## Household expenditure data

To ensure that the budget standard in 2018 and beyond reflects the consumption patterns of self-funded older Australians, research was undertaken to identify the items in the budget that require refinement to reflect the bundle of goods and services. Data from the Household Expenditure Survey (HES) are one such source (ABS, 2017c).

The data in the Table 2 below relate to households defined by the age of the household head.

Predominantly such households are made up of couple only families or single persons. For households with a household head aged 65 to 74, 45.5 per cent of household are couple only with a further 35.8 per cent consisting of a lone person. For the age group 75 and above, the respective figures are 34.3 per cent and 51 per cent, reflecting the fact that with increasing age there is a greater likelihood of being a widow or widower with rates of remarriage relatively low.

**Table 2: Household expenditure by age of household head, 2015-16**

<b>65 YEARS AND OVER</b>									
	<b>15-24</b>	<b>25-34</b>	<b>35-44</b>	<b>45-54</b>	<b>55-64</b>	<b>65-74</b>	<b>"75 and over"</b>	<b>Total</b>	<b>All households</b>
<b>AVERAGE WEEKLY EXPENDITURE (\$)</b>									
<b>Goods and services</b>									
Current housing costs (selected dwelling)	303.30	379.19	399.18	306.85	225.18	150.70	107.58	132.12	279.12
Domestic fuel and power	33.81	37.69	45.26	48.29	42.56	35.90	30.02	33.30	40.92
Food and non-alcoholic beverages	198.37	239.53	267.64	286.76	255.33	187.17	127.39	161.48	236.97
Alcoholic beverages	34.27	33.25	30.68	40.86	38.01	26.73	11.85	20.42	31.95
Tobacco products	11.38	10.62	13.80	17.50	13.73	11.32	6.15	9.05	12.84
Clothing and footwear	47.92	44.62	51.33	53.54	49.27	31.44	14.11	23.87	43.75
Household furnishings and equipment	42.49	63.42	63.40	67.53	68.68	43.69	27.49	36.76	57.87
Household services and operation	16.95	49.11	80.54	39.83	32.16	31.30	25.98	29.41	44.90
Medical care and health expenses	29.09	60.89	81.86	92.94	102.04	87.12	73.91	80.94	82.38
Transport	169.08	216.81	227.16	280.71	218.25	146.75	81.85	117.55	206.69
Communication	57.97	49.42	49.18	55.56	49.25	36.26	25.76	31.71	46.62
Recreation	146.09	140.76	192.36	206.59	205.03	162.37	79.27	125.87	171.85
Education	*62.81	35.66	60.79	92.07	23.18	*14.41	*2.84	*9.35	43.86
Personal care	20.41	27.12	29.54	38.36	32.99	21.41	15.54	18.92	28.64
Miscellaneous goods and services	62.69	91.98	113.51	131.59	111.56	71.79	39.29	57.88	97.08
<b>Total goods and services expenditure</b>	<b>1,268.37</b>	<b>1,491.89</b>	<b>1,715.64</b>	<b>1,756.76</b>	<b>1,459.57</b>	<b>1,050.49</b>	<b>671.25</b>	<b>887.62</b>	<b>1,425.03</b>

There are several areas in the new proposed budget that have been adjusted to reflect current consumption patterns.

There were approximately 13.3 million internet subscribers in Australia at the end of June 2016, an increase of 4.2 per cent from the end of June 2015 (ABS, 2016b). In 2016, the four most popular online activities were: (72 per cent); social networking (72 per cent); purchasing goods or services (61 per cent); and entertainment (60 per cent).

For self-funded retirees, most common activities online were banking (50 per cent); and social networking (43 per cent) (ABS 2016c). While internet access in the home is dependent on a range of factors including affordability, the reliability of internet connections and need, in 2014-15, 86 per cent of Australian households had home Internet access.

Most households who accessed the internet did so through a desktop or laptop computer (94 per cent), followed by households who accessed via mobile or smart phones (86 per cent) and households who accessed via tablets (62 per cent) (ABS 2016c). The proposed budget includes the purchase of a computer, tablet, software and printer in both the modest and comfortable budgets. Further a bundle of communication items (NBN access, telephone landline, internet access and a mobile phone) have been included.

Presently, financial rebates are available for health insurance; this appears to have resulted in making health insurance more affordable for many Australians. Currently, the rebate is determined by the age of the oldest person covered by the policy (Table 3).

There are currently around 3.8 million persons aged 65 and over, with 2.04 million or 54 per cent with private health insurance. That suggests that many people on modest incomes have health insurance. Currently only around 20 per cent of retirees are at the comfortable or above level.

Reasons for buying health insurance include the fact that older Australians receive assistance with premiums (through government subsidies) which make it more affordable. The table below sets out the rebates currently available, with most retirees receiving the maximum rebate available due to the income they are receiving being below the cut off threshold for the base tier..

Along with the subsidy, increasing longevity and a greater chance of needing a hospital procedure at some stage, makes private health insurance attractive for many retirees. Along with private hospital cover and choice of doctor, cover for ancillary services (such as dental, optical and physiotherapy) can also make private health insurance desirable.

**Table 3: Rebate for private health insurance premiums by age and income level**

<b>Singles</b>	<b>≤\$90,000</b>	<b>\$90,001-105,000</b>	<b>\$105,001-140,000</b>	<b>≥\$140,001</b>
<b>Families</b>	<b>≤\$180,000</b>	<b>\$180,001-210,000</b>	<b>\$210,001-280,000</b>	<b>≥\$280,001</b>
<b>Rebate</b>				
	<b>Base Tier</b>	<b>Tier 1</b>	<b>Tier 2</b>	<b>Tier 3</b>
< age 65	25.415 per cent	16.943 per cent	8.471 per cent	0 per cent
Age 65-69	29.651 per cent	21.180 per cent	12.707 per cent	0 per cent
Age 70+	33.887 per cent	25.415 per cent	16.943 per cent	0 per cent

In terms of clothing and footwear expenditure, the bundle of items selected by the 2009 study has again been revisited and revised in light of current actual clothing and footwear costs in Australia.



## The budget standards for retirees 2018

The proposed budgets had their genesis in expenditure levels derived from the 2009 budgets adjusted for CPI changes measured from 2009 to 2018. The researchers then sought to explore the budgets and items contained with the Budget Standard to ensure that bundles of goods and services accurately matched that of the consumption of a self-funded retiree in Australia in 2018.

This group of consumers are highly experienced shoppers who have the available time and resources to search for specific items and bargains. They do not succumb to fad purchases.

Several adjustments have been made to the Budget Standard for Modest and Comfortable self-funded retirees. However, an item of gifts to children and grandchildren has not been incorporated into the budget standard due to the varying amounts and types of gifts made; particularly in assisting adult children enter the property market.

### Communication

While the level of online engagement of retirees tends to be lower when compared with other age groups, many older Australians are participating online. For older Australians accessing the internet at home, typically it is via the desktop computer and is the most popular device among older internet users at 41 per cent (in the six months to May 2015), laptop 27 per cent, tablets 18 per cent and mobile phone devices 12 per cent.

The majority of older Australians (76 per cent) used email in the four-week period to June 2015, making this the most popular role for internet access, and compares to 84 per cent of all adult internet users. Undertaking banking transactions (53 per cent) and paying bills (48 per cent) were the other two main reasons older Australians to access the Internet (ABS, 2016c).

As the rollout of the NBN continues, the change in media consumption by Australians has altered older Australians' use of online services. While still the highest age group to consume traditional television broadcasting, older Australians are now changing the 'typical viewing pattern' and TV is losing viewers (Enker, 2017). Today consumers enjoy a dramatically different media experience: one moving away from linear, transient broadcasts to 'on demand' Pay-TV and downloadable online content provided by SVOD services (subscription or streaming video on demand) such as Netflix, Stan and Amazon Prime, as well as free online offerings including YouTube and iView (Enker, 2017). Consumption patterns for older Australian are also changing with over 40 per cent of people 60+ viewing video online.

Facebook remains by far the most dominant player in social platforms, with 70 per cent of online Australians maintaining an active profile on the platform with 42 per cent of 65+ year old Australians reporting as Facebook users. Mobile devices permeate Australians' everyday lives and are increasingly present and connected as older Australians consume other media.

The 2009 budgets provided for only basic internet expenses, particularly at the modest level. The revised budgets allow for full participation in the digital economy by retirees.

## Health

In 2017 the cost of private health insurance rose by 4.8 per cent which is 3 times higher than the then current inflation rate. The 2018 increase was an average 3.95 per cent. As noted above, those aged 65 and over enjoy a tiered rebate for private health insurance, which makes private health insurance more affordable for retirees. The tier applied in the budgets is for individuals aged 65 to 69. Older retirees will attract a higher rebate but are likely to have hospital and medical expenses.

The costs imposed by medical care such as dental, specialist treatments and general practice that no longer bulk bill also place added strain on the budgets of retirees.

The Modest budgets assume private health insurance at a more basic level than the policies in the comfortable budgets. Retirees face a gap between Medicare refunds and medical fees. This area of the budget has been increased to capture the impact of gap fees. Australians are living longer than ever, but with higher rates of chronic disease (AIHW, 2016). Today, as the Australian population ages, chronic diseases are becoming more common; more than 50 per cent of Australians (more than 11 million) have at least one chronic disease. The most common combination of chronic disease for people over 65 years is arthritis with cardiovascular disease (heart disease and stroke), and further, the rise in dementia saw one in ten Australians over the age of 65 suffering from this disease in 2015.

The cost of pharmaceutical prescription items has increased with a pharmaceutical benefit item at a pharmacy charged at \$39.50 in 2018 for general patients. Failing health as a person ages can require the expenditure of quite large sums of money on prescriptions, and other health treatment items. This increased expenditure has been taken into account for this budget category.

## Housing

The cost of utilities particularly energy has seen prices continue to substantially rise over the past ten years and this is reflected in the new Standard. A breakdown of council and water rates (factoring in Age Pension rebates) is also provided in the Appendix. Past iterations of the budgets did not provide this breakdown, including water charges in the overall amount for housing related rates and charges.

The comfortable budgets allow for the costs of running air conditioning, Modest does not.

## Recreation

Self-funded retirees spend a significant portion of their budget on leisure related activities such as travel, sporting pursuits, entertainment and other forms of relaxation. The amount and proportion is higher at the comfortable level. The assumption made in the 2009 budgets was that at the comfortable level retirees travelled domestically two times a year and internationally once every five years. Reflecting feedback in regard to the previous budgets, the assumption has been made that self-funded retirees today are less likely to undertake that amount of travel. That said, overseas travel is relatively common for those aged 65 and over. In 2016, 531,000 persons aged 65 to 69 (out of a total of 1.2 million in that age group) had a short term overseas trip from Australia. For those aged 70 to 74 the figure was 300,000. The current budgets assume a domestic trip once a year at the comfortable level and international travel only once every seven years on a major trip. The international travel budget would allow more frequent travel to lower cost destinations, such as a trip by air or by cruise ship within the Asia-Pacific region. This has impacted on the budgeted expense amounts for recreation.

At the Modest level there is allowance for only an annual domestic trip.

## Revised modest and comfortable budget standard

The adjustments discussed in relation to the proposed budget standard estimate have been taken into account to develop the revised Retirement Budget Standards. While the changes in CPI reflect and map the overall changes within our economy, the changes specific to self-funded retirees have been different and requires alterations to the bundle of goods and services.

The new Comfortable Budget indicates that in April 2018 a single retiree would require \$819.10 a week to enjoy a comfortable standard of living. For a couple, \$1,144.25 per week would be required to enjoy a comfortable standard of living.

In particular, the new budgets reflect the changes in communication technology and the need for self-funded retirees to remain abreast of these changes. The Recreation allocation now includes revised costs for international and domestic travel in response to the research undertaken. Further, for many self-funded retirees the increase in costs from the medical benefits gap for a range of care have required them to spend quite large and unexpected sums of money on dental, optical, prescriptions, other non-prescription pharmaceutical items, and medical care.

**Table 4: Modest and Comfortable Budget Standard estimates for older Australians, \$ per week, April 2018**

Household Type	SINGLE		COUPLE	
	Modest	Comfortable	Modest	Comfortable
Food	\$89.00	\$115.10	\$165.00	\$200.00
Clothing and footwear	\$20.10	\$26.90	\$38.20	\$50.00
Housing	\$97.40	\$114.00	\$109.50	\$119.20
Energy	\$37.80	\$47.90	\$50.80	\$59.40
Household goods and Services	\$33.70	\$73.10	\$39.40	\$89.86
Health	\$47.35	\$97.20	\$91.20	\$181.70
Transport	\$87.00	\$142.00	\$93.00	\$154.10
Recreation	\$92.20	\$178.50	\$144.70	\$268.10
Communication	\$19.80	\$24.70	\$22.30	\$32.15
<b>Total weekly</b>	<b>\$524.30</b>	<b>\$819.20</b>	<b>\$753.90</b>	<b>\$1,154.50</b>
<b>Total annual</b>	<b>\$27,368</b>	<b>\$42,764</b>	<b>\$39,353</b>	<b>\$60,264</b>

*All estimates have been rounded to the nearest ten cents; totals may not add exactly due to rounding.*

*Source: see main text and Appendix.*



## Conclusion

The research undertaken by Harvest Strategy has been used to update the 2009 budget standards to contemporary living standards with prices current in April 2018. The updating has required the detailed manipulation of data as well as a series of judgements on the items captured in the various bundles of goods and services. These judgements have been drawn from available ABS data and other data on the prices and consumption levels for various goods and services at different standards of living for retirees.

The updated comfortable budget was further enhanced by obtaining actual market prices for a range of items in the budget. This has improved the relevance and accuracy of the revised budgets, and ensures they reflect the 2018 consumption and spending patterns of retirees in Australia.

As at April 2018, the modest and comfortable standards of retirement income are defined as follows:

*A modest standard of living in retirement - the estimated cost of this lifestyle is \$39,353 per couple per annum, and \$27,368 for single persons.*

*A comfortable standard of living in retirement - \$60,264 per couple per annum and \$42,764 for single persons.*

Both these standards of living assume that the retirees own their own home aged between 65 and 85 years.





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## Appendix

Housing – Comfortable Couple				
Category	Description	Life time (years)	Unit Price	Weekly Cost
Insurance	Home and contents	1	\$1,653.00	\$31.67
Rates	Council rates	1	\$1,960.00	\$37.55
Water	Water charges	1	\$1,276.00	\$24.44
Home repairs	General maintenance	1	\$1,000.00	\$19.16
Home improvements	New bathroom fittings and tiling	15	\$5,000.00	\$6.39
Utilities	Gas and electricity	1	\$3,100.00	\$59.39

Housing – Modest Single				
Category	Description	Life time (years)	Unit Price	Weekly Cost
Insurance	Home and contents	1	\$1,293.00	\$24.87
Rates	Council rates	1	\$1,680.00	\$32.31
Water	Water charges	1	\$1,094.00	\$21.04
Home repairs	General maintenance	1	\$1,000.00	\$19.16
Utilities	Gas and electricity	1	\$1,966.00	\$37.81

Housing – Modest Couple				
Category	Description	Life time (years)	Unit Price	Weekly Cost
Insurance	Home and contents	1	\$1,650.00	\$31.61
Rates	Council rates	1	\$1,790.00	\$34.29
Water	Water charges	1	\$1,276.00	\$24.44
Home repairs	General maintenance	1	\$1,000.00	\$19.16
Utilities	Gas and electricity	1	\$2,650.00	\$50.77

<b>Communication – Comfortable Single</b>				
<b>Category</b>	<b>Description</b>	<b>Life time (years)</b>	<b>Unit Price</b>	<b>Weekly Cost</b>
Communication bundle	Unlimited local, national, mobile calls \$400 Talk & Text; GB mobile data; 200GB monthly data; 25/5 Mbps included	1	\$1,287.00	\$24.68

<b>Communication – Comfortable Couple</b>				
<b>Category</b>	<b>Description</b>	<b>Life time (years)</b>	<b>Unit Price</b>	<b>Weekly Cost</b>
Communication bundle	Unlimited local, national, mobile calls Unlimited Talk & Text; 2GB mobile data; 1000GB monthly data; 25/5 Mbps included	1	\$1,677.00	\$32.16

<b>Communication – Modest Single</b>				
<b>Category</b>	<b>Description</b>	<b>Life time (years)</b>	<b>Unit Price</b>	<b>Weekly Cost</b>
Communication bundle	Unlimited local, national calls \$100 Talk & Text; 200MB mobile data; 50GB monthly data; 25/5 Mbps included	1	\$1,027.00	\$19.75

<b>Communication – Modest Couple</b>				
<b>Category</b>	<b>Description</b>	<b>Life time (years)</b>	<b>Unit Price</b>	<b>Weekly Cost</b>
Communication bundle	Unlimited local, national calls \$100 Talk & Text; 200MB mobile data; 200GB monthly data; 25/5 Mbps included	1	\$1,157.00	\$22.25

<b>Health – Comfortable Single</b>				
<b>Category</b>	<b>Description</b>	<b>Life time (years)</b>	<b>Unit Price</b>	<b>Weekly Cost</b>
Insurance	Gold Hospital Cover with Gold Extras 75 per cent back, no excess	1	\$2,032.30	\$38.95
Prescriptions	Range of medications for existing conditions 20 scripts per year	1	\$1,390.00	\$26.65
Over-the-counter supplements	Multivitamins etc	1	\$150.00	\$2.87
Co-payments/ out-of-pocket	Visits to GP and other Medicos gap payments	1	\$1,500.00	\$28.74

<b>Health – Comfortable Couple</b>				
<b>Category</b>	<b>Description</b>	<b>Life time (years)</b>	<b>Unit Price</b>	<b>Weekly Cost</b>
Insurance	HBA Hospital Cover with Excess Bonus and Gold Extras 75 per cent back, no excess	1	\$4,064.60	\$77.87
Prescriptions	Range of medications for existing conditions 20 scripts per year	1	\$2,415.00	\$46.26
Over-the-counter supplements	Multivitamins etc	1	\$300.00	\$5.75
Co-payments/ out-of-pocket	Visits to GP and other Medicos gap payments	1	\$2,704	\$51.80

<b>Health – Modest Single</b>				
<b>Category</b>	<b>Description</b>	<b>Life time (years)</b>	<b>Unit Price</b>	<b>Weekly Cost</b>
Insurance	Bronze Hospital Cover with Bronze Extras 55 per cent back no excess	1	\$776.70	\$14.88
Prescriptions	Range of medications for existing conditions 10 scripts per year	1	\$695.00	\$13.32
Co-payments/ out-of-pocket	Visits to GP and other Medicos gap payments	1	\$1,000.00	\$19.16

<b>Health – Modest Couple</b>				
<b>Category</b>	<b>Description</b>	<b>Life time (years)</b>	<b>Unit Price</b>	<b>Weekly Cost</b>
Insurance	Bronze Hospital Cover with Bronze Extras 55 per cent back no excess	1	\$1,553.50	\$29.76
Prescriptions	Range of medications for existing conditions 10 scripts per year	1	\$1207.50	\$23.15
Co-payments/ out-of-pocket	Visits to GP and other Medicos gap payments	1	\$2,000.00	\$38.31

<b>Recreation – Comfortable Single</b>				
<b>Category</b>	<b>Description</b>	<b>Life time (years)</b>	<b>Unit Price</b>	<b>Weekly Cost</b>
Television HD	TCL - 43" 4K ULTRA HD SMART TV	10	\$699.00	\$1.34
Movies/plays	Movies, musicals, plays or concerts	1	\$300.00	\$5.75
Streaming service	Foxtel / Netflix / Stan	1	\$537.00	\$10.29
Social activities	Dinner and lunches out	1	\$3,000.00	\$57.47
Snacks and treats	Coffee, morning tea, etc	1	\$750.00	\$14.37
Plane fare	National trips one per year	1	\$500.00	\$9.58
Plane fare	International trip once every seven years	7	\$2,000.00	\$5.47
Accommodation	National trips one per year	1	\$1,200.00	\$22.99
Accommodation	International trip once every seven years	7	\$2,800.00	\$7.66
Food and beverage	National trips one per year	1	\$600.00	\$11.49
Food and beverage	International trip once every seven years	7	\$1,200.00	\$3.28
Beverages and sundry expenses	Wine with dinner etc	1	\$1,000.00	\$19.16
Takeaway food	Fastfood	1	\$300.00	\$5.77
Memberships	Memberships to social clubs , sporting clubs	1	\$200.00	\$3.85

<b>Recreation – Comfortable Couple</b>				
<b>Category</b>	<b>Description</b>	<b>Life time (years)</b>	<b>Unit Price</b>	<b>Weekly Cost</b>
Television HD	TCL - 43" 4K ULTRA HD SMART TV - 43P20US	10	\$699.00	\$1.34
Movies/plays	Movies, musicals, plays or concerts	1	\$500.00	\$9.58
Streaming service	Foxtel / Netflix / Stan	1	\$537.00	\$10.29
Social activities	Dinner and lunches out	1	\$4,200.00	\$80.46
Snacks and treats	Coffee, morning tea, etc	1	\$1,044.00	\$20.00
Plane fare	National trips one per year	1	\$1,000.00	\$19.16
Plane Fare	International trip once every seven years or more frequent pacific cruise	7	\$4,000.00	\$10.95
Accommodation	National trips one per year	1	\$1,500.00	\$28.74
Accommodation	International trip once every seven years	7	\$3,500.00	\$9.58
Food and beverage	National trips one per year	1	\$1,000.00	\$19.16
Food and beverage	International trip once every seven years	7	\$2,000.00	\$5.47
Beverages and sundry expenses	Wine with dinner etc	1	\$2,088.00	\$40.00
Takeaway food	Fast food	1	\$400.00	\$7.66
Memberships	Club memberships or donations or the like	1	\$300.00	\$5.75