

Spending patterns of retirees as they age - the needs of older retirees

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INTRODUCTION

This paper examines the spending requirements and financial needs of the very old, that is, those in their late 80s and early 90s.

Australia's population, like that of many countries, is ageing. This means many more older Australians. Over the next 40 years, the number of Australians aged 85 and over is projected to more than quadruple, from around 400,000 in 2010 to 1.8 million by 2050 (Treasury 2010).

The ageing of our population is largely in response to improvements in life expectancy. In 1983, an Australian female reaching the age of 65 could expect to live on average for another 18 years, while an Australian male could expect to live for a further 14 years. By 2002, these figures had risen to 21 years for females and 18 years for males. The future number of those aged 90 or more also will reflect the impact of the ageing of the cohort of babyboomers. Even without an increase in life expectancy, more older Australians can be expected because of this cohort effect.

The ASFA Retirement Standard focuses on the spending requirements of those aged about 70 who are in relatively good health for their age and are still resident in their owner occupied home.

The prospective increase in the number of retirees aged 90 raises the question whether a retirement standard more suited to them is required. While the majority of retirees would not make it to this age, a significant minority will be alive.

In particular, with an increase in age, the rates of disability increase and the incidence of residing in residential care facilities also increases. This paper quantifies both of these trends and also looks at changes in actual and required spending patterns more generally. The implications for a retirement budget standard for those in their late 80s and 90s is explored.

THE CONCEPTS BEHIND BUDGET STANDARDS

Budget standards can be used to inform judgments of the adequacy of income levels, since they reflect expert assessments of the level of consumption of goods and services and participation in different activities that can be supported by a given level of income. A budget standard is derived from decisions regarding what is needed to attain a specific standard of living by specifying the items required to achieve that standard. These items are then priced to arrive at the expenditure level that would support the necessary level of consumption.

A budget standard represents what is needed, in terms of the consumption of goods and services, by a particular type of household, living in a particular place at a particular time, in order to achieve and maintain a specific standard of living (Saunders, Patulny and Lee, 2004). It thus involves specifying in detail the identity and nature of all of the goods and services that appear in the typical household basket in order for it to be able to attain the specified standard of living.

The expenditure involved in a given budget standard may be more or less than the income of the person who is undertaking the expenditure. In retirement it is not unusual for the retiree to draw down on capital, so expenditure can exceed income over an extended period. A drawdown of capital is inherent in many annuity or lifetime pension products.

A budget standard incorporates both normative and positive factors. The normative elements involve judgements as to what objectively is a sensible level of expenditure on specific items while the positive elements reflect what people actually do.

That said, the normative standards must to some extent reflect the actual behavioural patterns of the population if their relevance is not to be severely circumscribed. It is often necessary to modify budgets derived directly from the existing normative standards (such as in regard to alcohol or tobacco use) by using behavioural data that ground them in the reality of everyday experience and custom.

The challenge is how to achieve this without undermining the role of a budget standard as an adequacy benchmark: clearly, the more the standard relies on existing consumption patterns, the less validity it has as an independent benchmark of consumption (and hence income) adequacy.

Budget standards by their very nature are aspirational rather than descriptive. For the great bulk of the current very old, their expenditures are constrained by their incomes. For those who have not had the benefit of superannuation over an extended period, that income may not be much more than the Age Pension. Putting together a budget standard that directly reflects their average expenditure patterns will do little more than describe what can be achieved on the Age Pension.

In determining which items (goods, services and activities) to include in budgets, an 'ownership rule' is generally applied. For instance, in the modest ASFA Retirement Standard budgets only those items owned, services used or activities undertaken by at least 50 per cent of households were included in the modest budgets.

While selection of the appropriate percentage is to some degree arbitrary, too high a hurdle percentage will reduce the scope and amount of goods and services. At the upper limit there are only relatively few detailed budget items consumed by 100 per cent of the population. Vegetarian, bicycle riding individuals who make their own clothes, want nothing to do with conventional medical services, and live like hermits might, at this percentage requirement, have a very significant impact on what goes into budgets.

On the other end, too low a percentage would mean that an excessive amount of goods and services not typical of the average consumer would be included in the retirement budgets.

Along with selection of an appropriate percentage, the ASFA Retirement Standard was also validated by focus group consideration in regard to both the items included and the overall level of expenditure at both the modest and comfortable levels.

BUDGET STANDARDS FOR THE NOT SO OLD RETIRED

The ASFA Retirement Standard as published is based on budgets that were developed for an older women (aged 70) living on her own and for a couple (both aged 70) at a modest level, and at a comfortable level.

It was assumed that the home was owned outright for these four groups. Further, this standard was developed to:

"...reflect a standard of living among older, healthy and fully active self-funded retired Australians that allows them to engage actively with a broad range of leisure and recreational activities" (Saunders, Patulny and Lee, 2004:20)

To ensure the ongoing accuracy of the Standards, adjustments have been made over time to reflect changing trends in consumption and income. These have involved regular adjustments to the various components over time to reflect changes in prices (as indicated by movements in prices in relevant components of the Consumer Price Index (CPI)).

In 2009 a more comprehensive review was commissioned by ASFA (Howell, 2009). Specifically, the research addressed the following objectives:

- Update the existing standards to reflect the price movements in the bundle of goods and services between 2003 and 2009.
- Review the bundle of goods and services and adjust the bundle to reflect current consumption patterns.
- Develop a provisional budget in terms of both a modest and comfortable budget for older Australians who are self funded retirees.
- Test these budgets using focus groups drawn from this specific demographic and suggest aspects where further improvement in these budgets should be undertaken.

The review also facilitated amendments to the various expenditure groups in the Retirement Standard in order to better align them to the expenditure groups in the current series of the CPI. These groups are slightly different to the groups applying in 2003.

Table 1 below sets out the most recent ASFA Retirement Standard figures. They reflect the review undertaken in 2009 and price changes since then. The budgets will continue to be updated on a quarterly basis after the release of each quarter's CPI figures.

Table 1: Budgets for various households and living standards, 70 year olds (March Quarter 2011)

	Modest lifestyle – single	Modest lifestyle – couple	Comfortable lifestyle – single	Comfortable lifestyle – couple
Housing – ongoing only	\$56.67	\$54.40	\$65.68	\$76.14
Energy	\$32.19	\$42.76	\$32.67	\$44.31
Food	\$74.88	\$155.10	\$106.97	\$192.54
Clothing	\$17.49	\$28.39	\$37.86	\$56.79
Household goods and services	\$25.61	\$34.73	\$72.05	\$84.40
Health	\$34.41	\$66.41	\$68.27	\$120.49
Transport	\$90.98	\$93.56	\$135.58	\$138.16
Leisure	\$72.60	\$108.17	\$220.02	\$301.51
Communications	\$9.17	\$16.05	\$25.19	\$32.06
Total per week	\$414.00	\$599.56	\$764.28	\$1,046.39
Total per year	\$21,587	\$31,263	\$39,852	\$54,562

The figures in each case assume that the retiree(s) own their own home and relate to expenditure by the household. This can be greater than household income after income tax where there is a drawdown on capital over the period of retirement. Single calculations are based on female figures.

BUDGET STANDARDS FOR THOSE IN THEIR LATE 80s AND EARLY 90s

The ASFA Retirement Standard as published is based on budgets that were developed for those aged 70. The question arises which items remain appropriate for older retirees.

Housing

There would appear to be no real grounds for reducing the amount allocated to housing costs, at least for the majority of retirees who remain in their owner occupied housing. If there is a move to institutional accommodation, all expense categories change significantly.

The principal components of this category are home and contents insurance, council and water rates, and home repairs (Table 2). The figures in this and following tables are on a weekly basis unless otherwise specified.

Table 2: Components of housing expenditures

Expenditure items	Comfortable lifestyle - couple	Modest lifestyle - couple	Comfortable lifestyle - single female	Modest lifestyle - single female
Building & contents insurance	\$24.63	\$19.50	\$20.53	\$19.58
Rates	\$28.93	\$24.63	\$24.63	\$24.73
Home improvements	\$8.21	\$0.00	\$8.21	\$0.00
Repairs and maintenance	\$14.37	\$10.26	\$12.31	\$12.36
Total housing	\$76.14	\$54.40	\$65.68	\$56.67

Although the rates of institutional care and housing increase with age, the large majority (certainly more than 50 per cent of retirees) are still in their own home in their late 80s or early 90s.

None of these expenditure items are likely to decrease with age. If anything, there may be a need for increased expenditures on repairs and maintenance as the older retirees will have less physical capacity to carry out repairs and maintenance themselves.

As well, for households that contain individuals who have been in retirement for periods of 25 to 30 years (or even more), there can be a developing deficit in terms of repairs and maintenance and home improvements (kitchen and bathroom remodelling for instance).

The conclusion is that there are not sound grounds for decreasing the expenditures on housing for older retirees in budget standards.

Energy

There are no real objective grounds for decreasing the amount in budget standards in regard to expenditure on energy. As noted above, the majority of retirees remain in their own home in retirement even at relatively advanced ages.

The image of an Age Pensioner huddling in front of a one bar radiator is not one that should form part of either a modest or comfortable budget standard.

Food

There are not strong grounds for reducing the amount of expenditure on food for older retirees.

While some older retirees (particularly single persons) may survive on tea and toast because they are not interested or able to prepare more complex meals, this should not be assumed in the preparation of budget standards. As well, required calorie and nutritional intake for older retirees is not significantly different. If anything, various medical conditions (including avoidance of osteoporosis) will be assisted by a sound diet.

The Dietary Guidelines for Older Australians published by the National Health and Medical Research Council (NHMRC) indicate how older Australians living in the community should meet their nutritional needs.

The guidelines include:

1. Enjoy a wide variety of nutritious foods
2. Eat at least three meals every day
3. Eat plenty of vegetables (including legumes) and fruit
4. Eat plenty of cereals, breads and pastas
5. Eat a diet low in saturated fat
6. Drink adequate amounts of water and/or other fluids
7. If you drink alcohol, limit your intake
8. Include foods high in calcium

While these guidelines are being reviewed by the NHMRC, they are consistent with the food (and alcohol) expenditure in the ASFA Retirement Standard.

Clothing and footwear

Again, there are very few objective grounds for older retirees spending less on clothing as they age. The incidence of various disabilities, including various forms of incontinence, can lead to an objective requirement for replacement of various clothing items on a regular basis for older retirees.

There is no reason why it should be assumed that older retirees do not wish to remain smart and fashionable in their appearance. At the very least they need to remain warm, clean and unstained.

Household goods and services

The level of expenditure on household goods and services is not likely to decrease significantly with increasing age. As shown by Table 3, the items involved will be required by households regardless of age.

With increasing age there also may be an increased need for expenditure on a paid cleaning service or home assistance of some kind. However, for the purposes of this exercise it is not assumed that 50 per cent of households with a modest standard of living pay for such cleaning services.

At the comfortable standard, an allowance for cleaning services of \$40 a week (for an \$80 a fortnight service) might be appropriate.

Other assistance might also be required. The 2006 Census reported that, on Census night, 44 per cent of women and 32 per cent of men over the age of 80 years required assistance with daily living. For those aged over 90 years, the share was 72 per cent for women and 56 per cent for men (Gibson 2010, p. 21). The figures for those aged over 90 are over the 50 per cent threshold for inclusion in budget standards. However, only part of the cost of such assistance is likely to be privately incurred. Public provision and unpaid provision of assistance by family members are very important in this area. This has implications for the preparation of budget standard figures. An admittedly arbitrary allowance of \$10 a week for a single person and \$15 a week for a couple is included in Table 4 below.

Table 3 sets out the use of Home and Community Care (HACC) services and Permanent Residential services by age cohort. For the age group 85+, approximately half the group receive HACC services and will be making a contribution to their cost of

provision. However, only a minority of individuals are in permanent residential care of some type. For this reason, budgets based on 90-years-olds still living in their own home remain appropriate.

Attempting to make allowance for out-of-pocket expenses associated with the diverse range of disabilities in the community is not easy. When this issue was considered in the context of the Harmer Review of the Age and Disability Pension, the conclusion reached was that provision of services was best dealt with by government funding particular services rather than providing all pension recipients with a set amount to cover the entire cost of disability services (Harmer, 2009). For the purposes of this exercise, only out-of-pocket expenses likely to be encountered by a majority of 90-year-olds are considered.

Table 3: Use of formal aged care services (per 1,000 persons in each age cohort)

	65 - 74	75 - 84	85+
HACC (2004-05)	102.5	278.5	474.9
Domestic assistance	27.3	86.9	154.2
Meals	15.1	58.9	136.0
Transport	16.0	50.4	81.7
Nursing	21.1	54.8	109.4
Personal care	6.7	22.5	58.7
Permanent residential	9.1	53.2	235.2

Table 4 sets out proposed components of household goods and services costs based on use of domestic cleaning services at the comfortable level and HACC services for all households.

Table 4: Components of household goods and services

Expenditure items	Comfortable lifestyle - couple	Modest lifestyle - couple	Comfortable lifestyle - single female	Modest lifestyle - single female
Household cleaning and other supplies	\$24.55	\$14.73	\$17.68	\$9.82
Home and community care contribution	\$15.00	\$15.00	\$10.00	\$10.00
Domestic cleaning services	\$40.00	0.00	\$40.00	\$0.00
Cosmetic and personal care items	\$2.93	\$2.82	\$6.58	\$1.89
Barber or hairdressing	\$19.64	\$8.47	\$14.11	\$4.72
Music and CDs	\$2.05	\$0.00	\$0.30	\$0.00
Newspaper and magazines	\$7.87	\$1.83	\$7.68	\$2.30
Computer, printer & software	\$4.03	\$4.03	\$4.03	\$4.03
Household appliances	\$11.27	\$2.86	\$9.60	\$2.86
Pest control, alarm service	\$12.06	\$0.00	\$12.06	\$0.00
Total household goods and services	\$139.40	\$49.73	\$122.05	\$35.61

Health

There has been a gradual reduction in some health risk factors through increased public education (healthy lifestyles and diets) and advancements in disease management (including diagnostic, pharmaceutical, surgical and other technological innovations). For example, the prevalence of cardiovascular diseases, cancers and injuries among people aged 85 years and over has fallen.

However, as survival rates increase, there is an increased risk of the elderly developing other non-fatal, but disabling, conditions including renal failure and vision loss. With improved lifestyle choices and medical interventions, more older people are surviving major diseases that have been previously associated with high mortality, but are left to manage chronic conditions (Productivity Commission, 2011).

This has implications for health expenditures by older households. While many procedures are available through the public system at minimal cost to the patient, such services can in effect be rationed. Many retiree households maintain private health insurance so that they have more options in regard to medical procedures. Accordingly this is allowed for in the ASFA Retirement Standard.

However, there can be considerable gap payments involved in regard to operations such as those for cataract removal or hip or other joint replacement.

While it is unlikely that 50 per cent or another significant proportion of the population cohort will have a major medical procedure each year, the amounts involved can be significant.

A compromise approach in putting together a budget standard might be to treat such expenditures as a capital item and, in effect, amortise them over a number of years. For a major medical incident or procedure involving gap payments totalling \$10,000 it might be appropriate to have a \$2,000 a year payment in the retirement budgets for those aged in their late 80s or early 90s.

With community rating for health insurance it is not appropriate to increase the health insurance premium amount. However, given the increased incidence of health conditions with age there is a case for increasing the amounts for out-of-pocket expenditure on chemist and like supplies and on co-payments to medical practitioners.

Some out-of-pocket expenses might be for relatively low tech items such as incontinence aids, while others might be for the latest drug treatments not yet available from the Pharmaceutical Benefits Scheme. It is difficult to come up with an average for a diverse range of circumstances but in Table 5 the various items reflect an estimate of what might be the additional health expenditures for an average 90-year-old.

Table 5: Components of health expenditures

Expenditure items	Comfortable lifestyle - couple	Modest lifestyle - couple	Comfortable lifestyle - single female	Modest lifestyle - single female
Health insurance	\$66.57	\$53.39	\$33.87	\$26.69
Chemist	\$39.00	\$5.00	\$22.00	\$3.00
Co-payment and out of pocket	\$34.34	\$10.35	\$23.60	\$6.21
Cost of major medical procedure	\$38.35	\$38.35	\$38.35	\$38.35
Total health services	\$178.26	\$107.09	\$117.82	\$74.25

Transport

For those aged 70, the largest component of transport expenditures in the ASFA Retirement Standard budgets by far relate to car transport and running costs (Table 6).

There are still many licensed drivers aged over 80. For example, there are about 88,000 licensed drivers in NSW over the age of 80, with the number expected to grow over the next 30 years, according to the Roads and Traffic Authority (RTA). The current system requires annual medical tests for all NSW drivers once they turn 80 and annual driving tests for car and rider licence holders from age 85.

One of the benefits afforded to individuals by driving is maintaining mobility and independence which are important components of quality of life. However, by age 90 vision and a variety of physical problems severely limit the percentage of retirees who still can safely drive a motor vehicle. The age related incidence of dementia is also a relevant factor.

While some young drivers may not be entirely safe, their behaviours and skills generally improve. For the elderly there is a clear and documented decline in driving skills on average.

Motor vehicle crash rates adjusted for kilometres driven are higher for elderly drivers, with an exponential increase above the age of 75.

Table 7 sets out proposed transport budgets for older retirees. The allowance for car expenses has been removed given the relatively low incidence of motor vehicle drivers aged 90. An item dealing with taxi expenses has been introduced.

Table 6: Components of transport expenditure for those aged over 70

Expenditure items	Comfortable lifestyle - couple	Modest lifestyle - couple	Comfortable lifestyle - single female	Modest lifestyle - single female
Car transport & running costs	\$133.00	\$88.40	\$133.00	\$88.40
Public transport	\$5.16	\$5.16	\$2.58	\$2.58
Total transport	\$138.16	\$93.56	\$135.58	\$90.98

Table 7: Components of transport expenditure for those aged over 90

Expenditure items	Comfortable lifestyle - couple	Modest lifestyle - couple	Comfortable lifestyle - single female	Modest lifestyle - single female
Car transport & running costs	\$45.00	\$40.00	\$40.00	\$35.00
Public transport	\$5.16	\$5.16	\$2.58	\$2.58
Total transport	\$46.16	\$45.16	\$42.58	\$37.58

Communications

In the focus groups conducted in 2009 for the ASFA Retirement Standard based on the needs of 70 year olds, all participants had at least one computer, and all accessed the Internet on a regular basis. The majority had combined their phone requirements on a bundle plan, and most had a prepaid mobile. Many had updated their computers to keep up with the changes in technology. However, many were concerned about how quickly technology is changing and the cost of keeping up to date. Some were downloading programs and music from the Internet. Many used a range of online communication tools such as email, Skype and Facebook to keep in contact with friends and family.

While the current use of such technology by those aged 90 might not be as high as this, the proposed budget standard for those aged 90 similarly encompasses a communications bundle involving a landline and also a prepaid mobile phone.

Table 8: Expenditure on communications

Expenditure items	Comfortable lifestyle - couple	Modest lifestyle - couple	Comfortable lifestyle - single female	Modest lifestyle - single female
Total communications	\$32.06	\$16.05	\$25.19	\$9.17

Leisure

The final expenditure group in the budget standards relates to expenditure on leisure.

For a 70-year-old, a variety of leisure activities are included in the standard budgets (Table 9). While such activities are not strictly necessities of life, they form an important part of what many retirees want to do in retirement – which is to enjoy themselves.

However, this category of expenses is one where the differences between a modest and comfortable lifestyle are particularly large in terms of what is purchased and hence, results in relative large differences in aggregate budgets in this category. A number of these activities require both reasonably good health and mobility.

While some 90-year-olds will continue to travel overseas the incidence of this is not high (and it is hard for them to get travel insurance). In the proposed budgets for 90 year olds this item is removed.

The amounts for both lunches and dinners out and for domestic vacation have also been reduced by 50 per cent.

Table 9: Expenditure on leisure, 70 year olds

Expenditure items	Comfortable lifestyle - couple	Modest lifestyle - couple	Comfortable lifestyle - single female	Modest lifestyle - single female
Membership clubs	\$9.48	\$1.90	\$4.76	\$0.95
TV, DVD, digital camera	\$1.75	\$0.88	\$1.75	\$0.88
Alcohol consumer in home (or equivalent spent)	\$39.59	\$14.85	\$24.75	\$9.90
Lunches and dinners out	\$79.18	\$24.65	\$59.16	\$29.59
Cinema, plays, sports & day trips	\$13.27	\$18.49	\$6.63	\$5.69
Domestic vacation	\$75.86	\$36.03	\$64.48	\$18.01
Overseas vacation	\$53.08	\$0.00	\$36.03	\$0.00
Sundry items	\$29.28	\$11.37	\$22.46	\$7.58
Total Leisure	\$301.51	\$108.17	\$220.02	\$72.60

Table 10: Expenditure on leisure, 90 year olds

Expenditure items	Comfortable lifestyle - couple	Modest lifestyle - couple	Comfortable lifestyle - single female	Modest lifestyle - single female
Membership clubs	\$9.48	\$1.90	\$4.76	\$0.95
TV, DVD, digital camera	\$1.75	\$0.88	\$1.75	\$0.88
Alcohol consumer in home (or equivalent spent)	\$39.59	\$14.85	\$24.75	\$9.90
Lunches and dinners out	\$39.59	\$12.33	\$29.58	\$14.79
Cinema, plays, sports & day trips	\$13.27	\$18.49	\$6.63	\$5.69
Domestic vacation	\$75.86	\$36.03	\$64.48	\$18.01
Sundry items	\$29.28	\$11.37	\$22.46	\$7.58
Total Leisure	\$169.23	\$95.85	\$154.41	\$57.80

Overall expenditures

Table 11 brings together all the various expenditure amounts to provide both weekly and yearly totals.

While the draft budgets for 90-year-olds have additional expenditure items, particularly in household services and health, the overall totals are lower than in the budgets for 70-year-olds.

This is because there is a reduction in transport costs (due to no motor vehicle expenses) and reduced expenditure on leisure (with elimination of an overseas holiday in the comfortable budget and a scaling back of certain other leisure items).

The percentage difference is not marked for the modest lifestyle budget as the various changes to the budget components largely offset each other. However, at the comfortable lifestyle level the impact is more significant, with an 8.4 per cent reduction for a single and 11.6 per cent reduction for a couple.

Table 11: Budgets for various households and living standards, 90 year olds (March Quarter 2011)

	Modest lifestyle – single	Modest lifestyle – couple	Comfortable lifestyle – single	Comfortable lifestyle – couple
Housing – ongoing only	\$56.67	\$54.40	\$65.68	\$76.14
Energy	\$32.19	\$42.76	\$32.67	\$44.31
Food	\$74.88	\$155.10	\$106.97	\$192.54
Clothing	\$17.49	\$28.39	\$37.86	\$56.79
Household goods and services	\$35.61	\$49.73	\$122.05	\$139.40
Health	\$74.25	\$107.09	\$117.82	\$178.26
Transport	\$37.58	\$45.16	\$42.58	\$49.16
Leisure	\$57.80	\$95.85	\$154.41	\$169.23
Communications	\$9.17	\$16.05	\$25.19	\$32.06
Total per week	\$395.64	\$594.53	\$705.23	\$937.89
Total per year for 90 years olds	\$20,630	\$31,000	\$36,770	\$48,900
Total per year for 70 year olds	\$21,587	\$31,263	\$39,852	\$54,562
Percentage difference	4.6%	0.8%	8.4%	11.6%

The figures in each case assume that the retiree(s) own their own home and relate to expenditure by the household. This can be greater than household income after income tax where there is a drawdown on capital over the period of retirement. Single calculations are based on female figures.

CONCLUSION

The analysis presented indicates that budget standards for those aged 90 differ substantially in a number of ways from budget standards prepared in regard to the expenditure needs of retirees aged 70.

However, there are significant commonalities between the budget standards for the different ages given that many basic needs (housing, food, household services and communication) remain much the same for each group.

The main differences arise in regard to the transport and leisure groups. Those aged 90 have relatively low participation rates in motor vehicle use and overseas holidays and that reduces expenditures in these expense categories.

The main areas where those aged 90 have additional expenses are household services and health.

The net impact of these various factors is that Retirement Standard figures for those aged 90 are slightly lower overall at the modest standard. At the comfortable standard, expenditures are about 10 per cent lower in aggregate largely due to the elimination of relatively costly leisure activities for those in that age group and standard of living.

The required expenditures remain in excess of the level of the full Age Pension, with the gap being very substantial in regard to the comfortable standard of living. The Age Pension alone is not sufficient to deal with the financial consequences of longevity. The figures presented in this paper indicate the extent of the gap.

Another implication to be drawn from the figures is that in planning for the future, retirees should not necessarily assume that it is necessary to maintain a constant level of expenditure over retirement.

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