

Does more super buy you more happiness in retirement?

March 2022



1. Introduction

The purpose of superannuation is to provide income for Australians in retirement. Yet, as the recent Retirement Income Review found, there has been insufficient attention put on helping people to optimise their retirement income through the efficient use of their savings. Indeed, many retirees continue to draw the government minimums. This, in part, has led to the introduction of the Retirement Income Covenant which will come into effect from 1 July 2022. This will raise the bar as it highlights the importance of maximising income in retirement whilst managing investment, longevity and inflation risks effectively.

If you think about it, it's not surprising that most Australian retirees stick to the government minimums. Why would they withdraw more? They don't know what a sustainable level of income is and running out of money later in life is a genuine fear. As well as this, myths such as the \$1 million minimum still exist, causing additional angst.

The industry discusses benchmarks such as the ASFA Standards and replacement ratios – yet these don't resonate with the average Australian. This could be down to poor communication and ineffective solutions but perhaps there's more to it. After all, for most retirees, money is not a major consideration. Wealth is just an enabler. It helps them to continue to live their lives which includes maintaining their homes, spending time with family and friends, as well as managing their health.

So perhaps we need to rethink how we're positioning superannuation. Maybe it isn't only about accumulating wealth and providing an income. Perhaps it's more about enabling better and healthier lives in retirement.

For this reason, we wanted to turn this problem on its head and not ask, how much superannuation do you need in retirement, but instead: how can superannuation be used to improve happiness in retirement for all Australians?

Is there a minimum amount of super you need to be happy in retirement?



The HILDA data

This report predominantly uses data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey, which is a household-based panel study that collects information about economic and personal well-being, labour market dynamics and family life. Data has been taken from the 19th release, which was collected in 2019. Data utilised includes:

- **Superannuation balance:** determined by the individual's total lump sum value of their superannuation when they retire
- **Level of Satisfaction:** determined by an individual's self-rated satisfaction on a score of 0-10, with 0 being "Completely Dissatisfied" and 10 being "Completely Satisfied"
- **The individual's wealth allocation:** determined based on their decile of relative socio-economic advantage.

The distribution of superannuation balance, by gender, is highlighted in the table below. Only individuals that disclosed their superannuation balance and were age 40+ were included.

HILDA Survey sample sizes

Superannuation Balance	\$0 - \$50,000	\$50,001 - \$100,000	\$100,001 - \$250,000	\$250,001 - \$500,000	\$500,001 - \$750,000	\$750,001 - \$1M	\$1M+	TOTAL
Male	70	49	70	108	54	48	36	435
Female	94	66	99	73	27	27	13	399



2. Superannuation balance and life satisfaction

In looking at the impact of an individual's superannuation balance on their wellbeing, we first need to look at their subjective wellbeing, which is a self-assessment of wellbeing based on one's own mood, emotions, and satisfaction in a range of domains. One key concept that lies under subjective wellbeing is life satisfaction. We are using life satisfaction as a proxy for happiness because people's happiness tends to be more volatile and dependent on current mood, whereas life satisfaction is more stable and takes into account more long-term considerations.

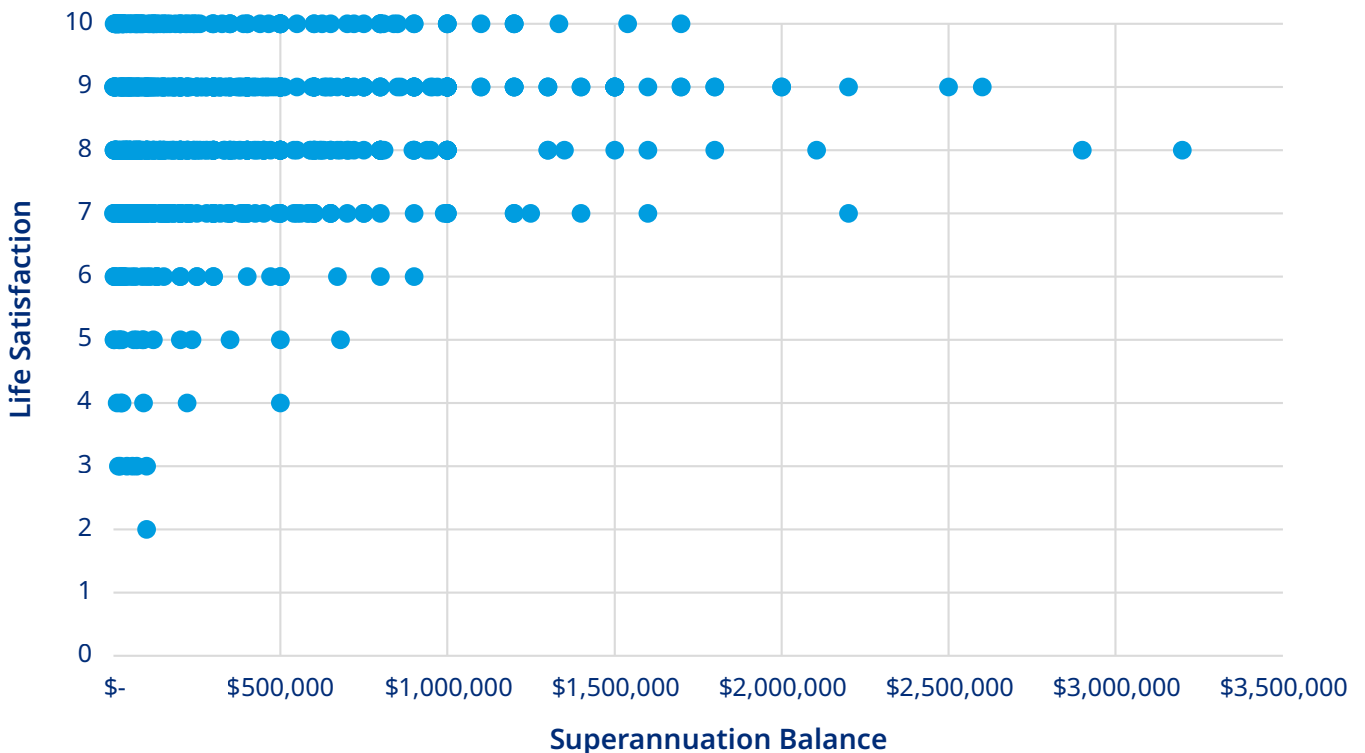
As we look at the relationship between an individual's superannuation balance and their reported life satisfaction, we see there is no explicit linear relationship between the two. High satisfaction scores of 9 and 10 are being reported across all superannuation balances.

What is interesting though, is when we look at the lower end of the life satisfaction scores, we see that for individuals with superannuation balances of less than \$500,000, there are satisfaction scores of 2, 3 and 4. For superannuation balances between \$500,000 and \$1,000,000, the lowest satisfaction scores sit at 5 and 6. For superannuation balances over \$1,000,000, the satisfaction scores are all 7 and above. This is shown in the chart below.



As individuals are reporting extremely high life satisfaction regardless of their superannuation balance, clearly superannuation balances itself does not contribute fully to an individual's life satisfaction and therefore overall happiness. However, it appears higher balances can help mitigate against lower life satisfaction scores.

Superannuation Balance vs Life Satisfaction



3. Expenditure and life satisfaction

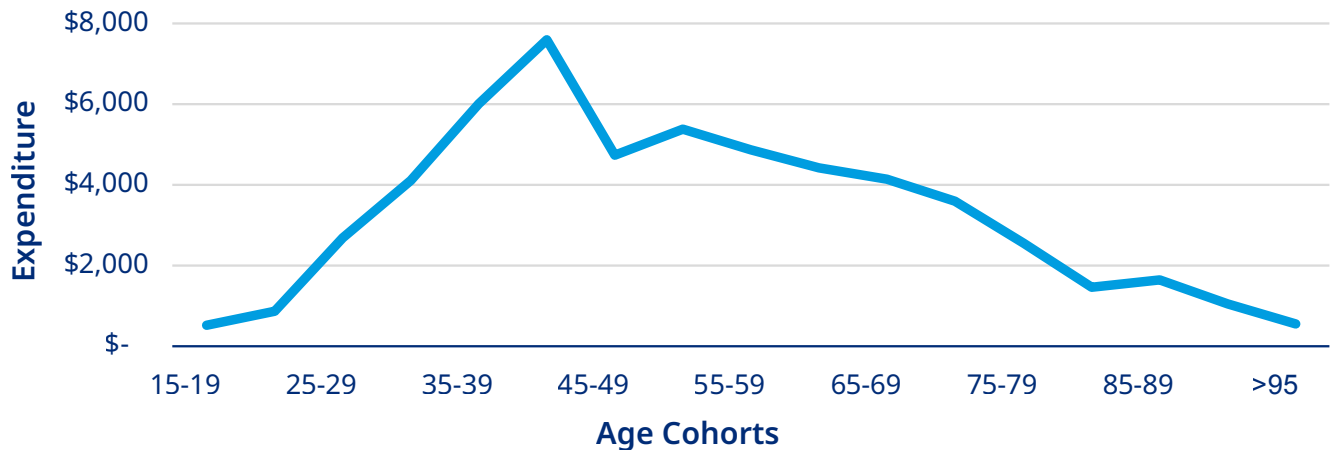
Findings that are reported in the HILDA 2020 Report show that mean life satisfaction is highest for those aged 65 and over, especially when compared to the cohorts between ages 25-54.

These results for age are consistent with the common finding in studies of a 'U-shaped' relationship between life satisfaction and age; where life satisfaction declines with age up to a certain point (usually ranging between 30 and 50), after which life satisfaction starts increasing again.

This could be a result of being relieved of some stressful elements of life such as looking after children and large financial obligations. For example, the average expenditure on home and motor repairs peak for individuals aged 35-50.



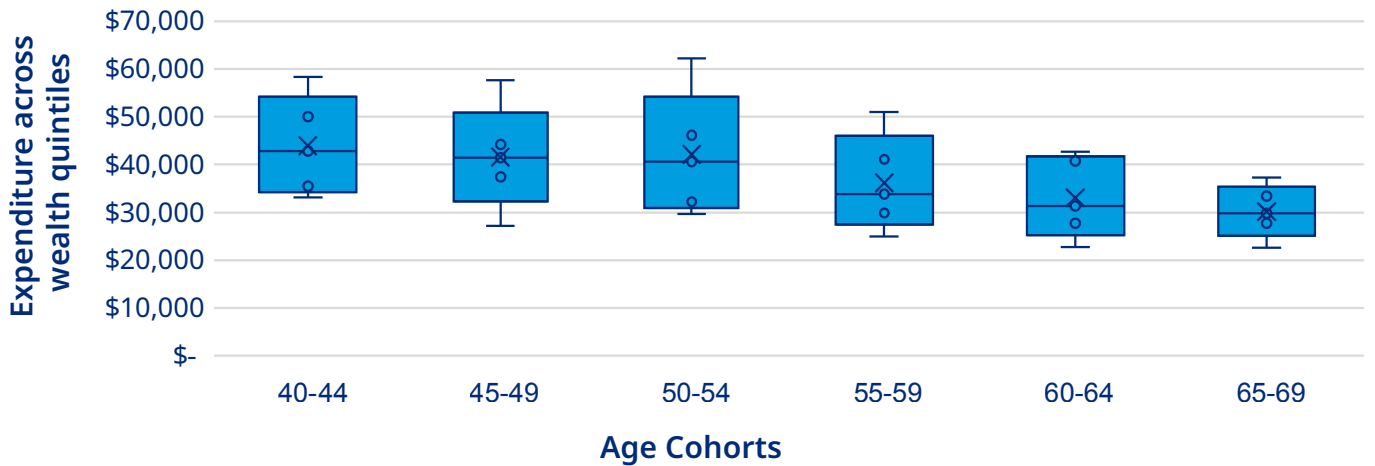
Expenditure on home and motor repairs



This suggestion is supported by findings in the HILDA 2020 report, which found that the experience of financial stress is much lower among retirees than among the rest of the population. This correlation suggests lower financial stress contributes more to life satisfaction than wealth and superannuation.

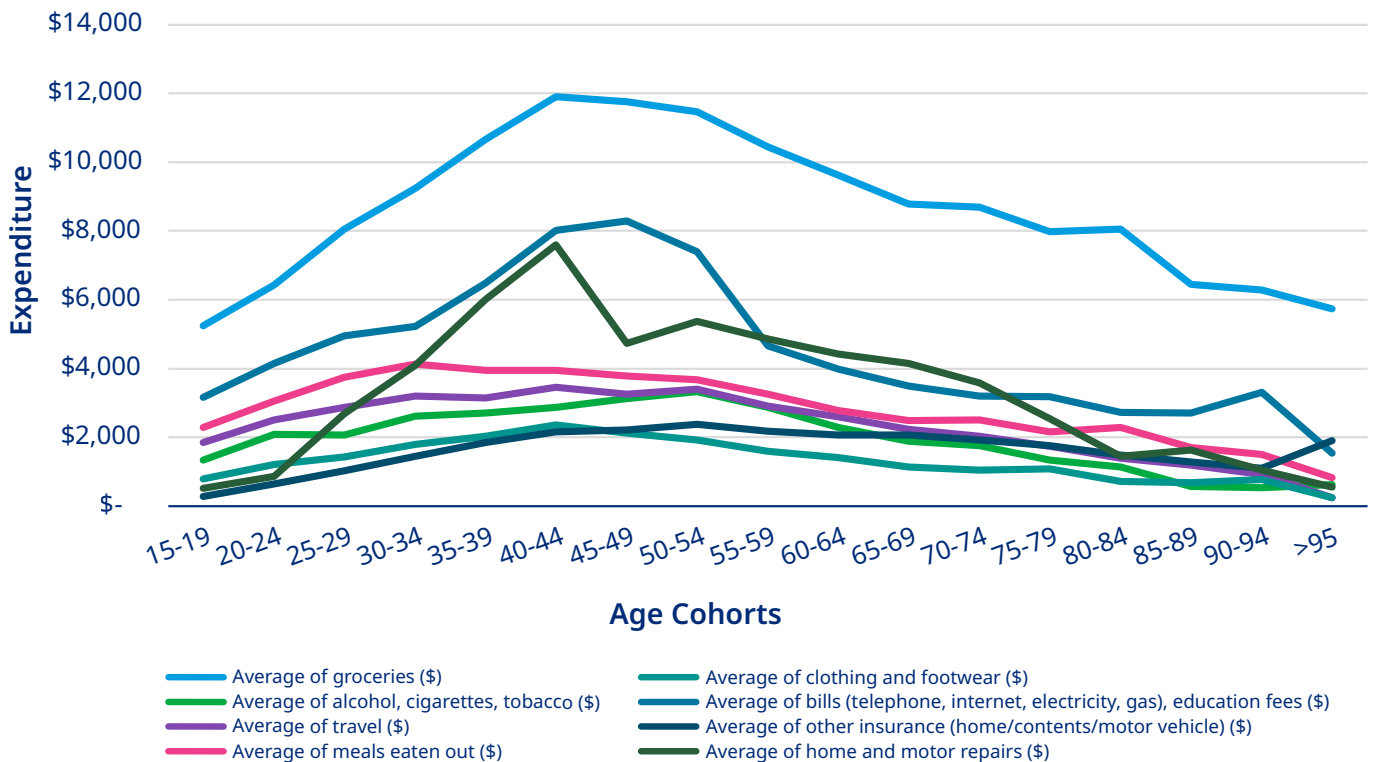
When we compare expenditure across the wealth quintiles, we see that the largest variation of expenditure occurs for those aged 40-60. For individuals age 65+, expenditure decreases and there is less variance when compared across the wealth quintiles.

Variance in expenditure across wealth quintiles by age cohort



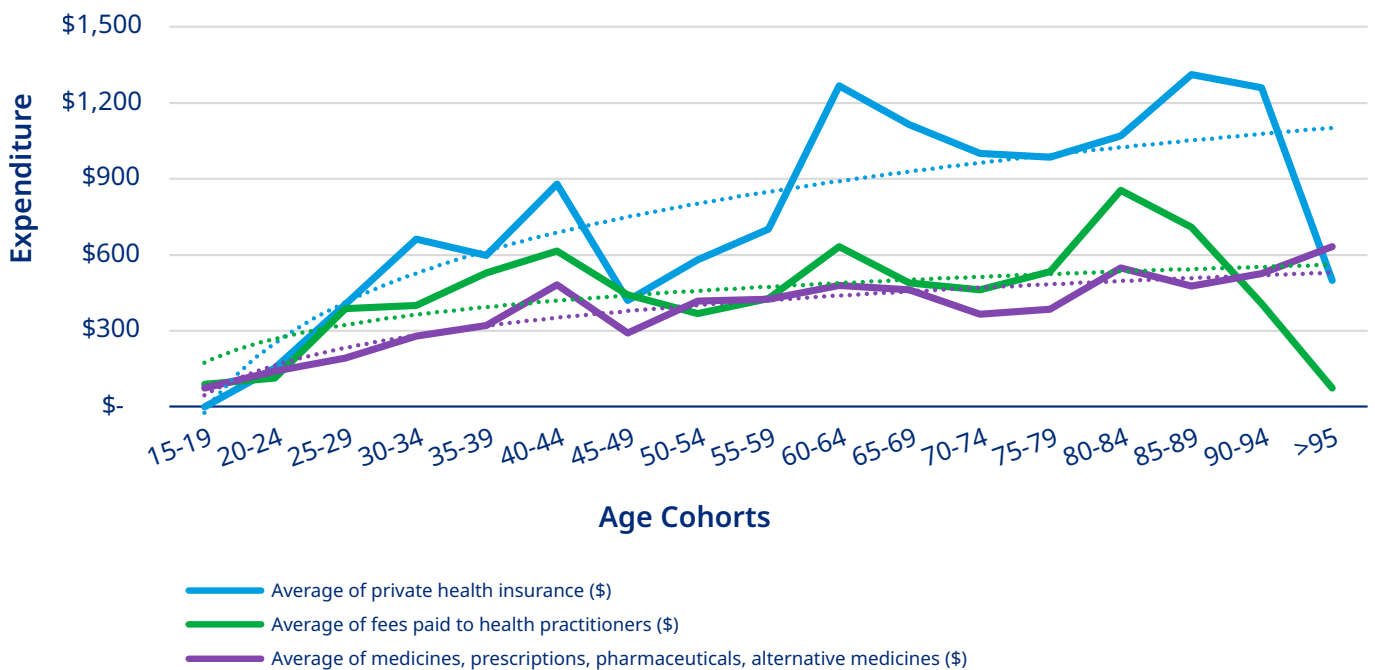
If you split this into components, the distribution of expenditure generally follows a hump-shaped pattern. Spending increases through an individual's working life, rising for those aged 35-54, then declines as they age beyond this point. This is seen in the HILDA expenditure graph below for categories such as groceries, bills, clothing, and meals eaten out.

Average expenditure for non-health related categories



However, on health-related categories, like private health insurance, fees paid to health practitioners, medicines, prescriptions, pharmaceuticals, and alternative medicine, we do see trend lines showing a slight increase in expenditure for those aged over 60, compared to those aged 30-60. This does not come as much of a surprise as health generally deteriorates with age.

Average expenditure for health related categories



This means that expenditure on healthcare increases as a percentage of overall spending as people get older. Those with a higher superannuation balance might be able to access more or better healthcare aged services, compared to those with a low superannuation balance at retirement. The Pensioner Concession Card, which provides a range of health and medical benefits, also becomes increasingly important for retirees. Both these factors could contribute to an individual's level of health satisfaction in retirement. This would therefore connect wealth, health and life satisfaction.

Drawing these observations together, Australian's happiness is materially impacted by financial stress which is heightened between aged 35-54 years. Following this as Australians age further through to retirement their happiness improves when linked to expenditure and its impact on financial security. This connection between wealth, health and life satisfaction provides superannuation funds an opportunity to support members with education and guidance. For instance, enhanced focus could be provided relating to trade-offs between managing shorter term financial stress and longer term superannuation savings with their linked impact on happiness and life satisfaction. Another example could relate to superannuation fund guidance for health and aged care expenses later in life and the linkage with super and wealth balances enabling greater confidence as to the right level of retirement income to draw down year on year and not worry about unknown expenses later in life.

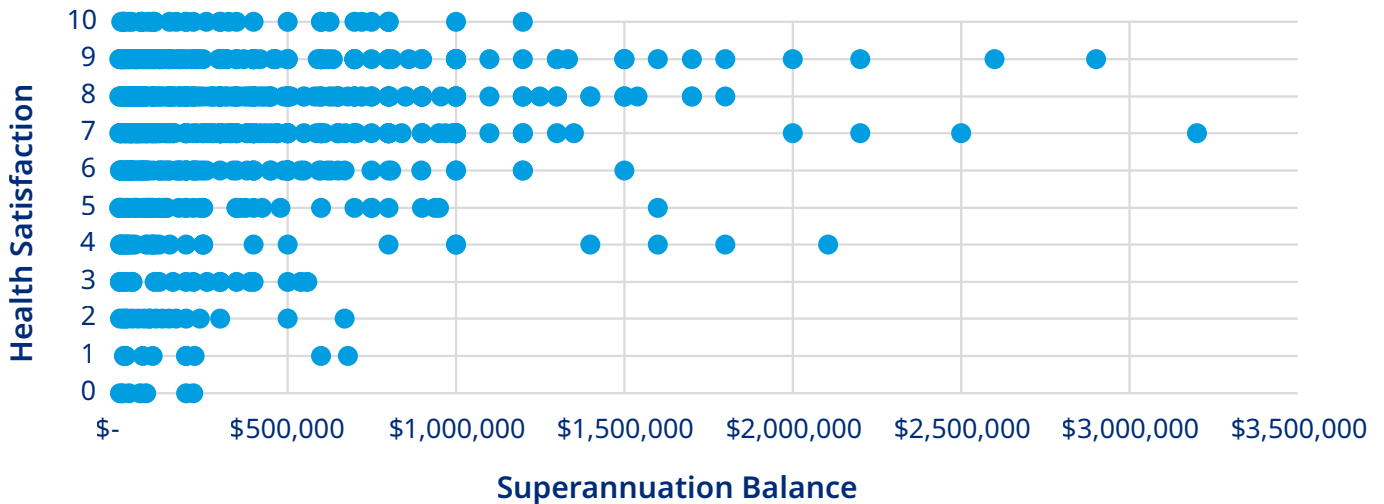
4. Superannuation balance and health satisfaction

The HILDA 2020 report found a strong relationship between subjective wellbeing and health. In fact, differences in health satisfaction are associated with the largest differences in life satisfaction.

We also know that health and wealth are related. A recent study carried out in England and the US¹ found that wealthier people not only live longer, they also get eight to nine more healthy years after age 50. Given these relationships, we wanted to consider whether the HILDA data showed any correlation between superannuation balances and health satisfaction.

As with the balance and life satisfaction data, there was no explicit linear relationship for superannuation balance and health satisfaction. However, while not conclusive we did see a trend suggesting, for the most part, a relationship between higher superannuation balances and reported levels of health satisfaction.

Superannuation balance vs health satisfaction



Looking at the lower end of the health satisfaction scores, we see that for individuals with superannuation balances less than \$500,000, the lowest health satisfaction score is a 0. For superannuation balances between \$500,000 and \$1,000,000, the lowest health satisfaction score sits at 1. For superannuation balances over \$1,000,000, the health satisfaction scores are all 4 and above.

Education and access to information may also be important considerations and therefore guidance and financial advice could play a material role in people achieving higher health satisfaction at all levels of superannuation balance.

¹ Socioeconomic Inequalities in Disability-free Life Expectancy in Older People from England and the United States: A Cross-national Population-Based Study; 15 January 2020

5. Conclusions

Wealth appears to have some impact on life satisfaction but only up to a certain point.

Considering the correlations between superannuation balance, health and happiness, it appears that those with lower wealth and balances are more likely to record lower satisfaction scores. We notice slight increases in life and health satisfaction when superannuation balances at retirement are over \$500,000 and whilst this is an approximate figure, it is similar to the ASFA Comfortable Retirement Standard.

ASFA Retirement Standard category	Savings required at retirement
Comfortable lifestyle for a couple	\$640,000
Comfortable lifestyle for a single person	\$545,000

Source: ASFA Retirement Standard as at 2018

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

We therefore conclude from the HILDA data that an individual's superannuation balance is important for health and happiness in retirement but only up to a certain point. In other words, while more superannuation won't buy happiness, it can help alleviate the financial burdens that can lead to lower life satisfaction levels throughout life.

Reported health satisfaction levels had the strongest correlation to overall life satisfaction and there is also a strong relationship between health and subjective wellbeing. Whilst we didn't see clear linkages between superannuation or wealth and health, other studies have shown there is a connection. We therefore believe that superannuation balance and wealth do play a factor in health and therefore life satisfaction and subjective wellbeing. However, there are also other important factors, such as marital status and frequency of social contact with friends and family.

As highlighted in the introduction, most Australian retirees are withdrawing incomes from their super that are lower than they could be. This is due to limited products and guidance to help them make informed decisions for optimal personal outcomes. It is therefore possible that as retirement income solutions improve, income can be taken with more confidence at a higher level, thereby having the potential to improve scores across both health and wellbeing.

Importantly, in addition to improved retirement solutions, the growing importance of superannuation in Australian's wealth and financial security leads us to strongly advocate for a materially enhanced role in engagement, education and advice. The observations we make in this research paper provide insight that whilst Australian's are encouraged to build their super wealth to enhance their potential for higher income in retirement, it is not a foregone conclusion that Australian's will experience higher levels of happiness, particularly when their super balance is lower. Hence, the potential for the superannuation industry to play a much more important role across all member's lives will be enhanced through linking superannuation and financial security with health, working and other crucial aspects in people's lives which all combine to form a persons' happiness.

Discover how Mercer can assist you

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Appendix A: Data Sources

- The HILDA Survey Wave 19 (19th Release)
- HILDA 2020 Report: The Household, Income and Labour Dynamics in Australia Survey Selected Findings from Waves 1 to 18 https://melbourneinstitute.unimelb.edu.au/_data/assets/pdf_file/0009/3537441/HILDA-Statistical-report-2020.pdf
- Socioeconomic Inequalities in Disability-free Life Expectancy in Older People from England and the United States: A Cross-national Population-Based Study; 15 January 2020
- ASFA Retirement Standard: <https://www.superannuation.asn.au/resources/retirement-standard>



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