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PENSIONERS NEED FAIR SHARE

A reluctance to spend super means many retirees die richer than when they retire, writes **Terry Sweetman**

SELF-DESCRIBED "oneeyed Jewish negro" entertainer Sammy Davis Jr used to bring down the house with the very un-PC line: "When I get up in the morning I don't know whether to be shiftless and lazy or smart and stingy."

I sympathise because when I get up in the morning I don't know whether to be spendthrift superannuant or a frugal pensioner.

At various times I have been called both by politicians and financial navel gazers who seem to have an inordinate interest in what I do with my vast fortune.

For a long time they seemed preoccupied with the alleged propensity of retirees to spend their savings or superannuation payouts on fast cars, flash boats and luxury world cruises before holding out their begging bowls for the age pension.

This suspicion has been the driving force behind many of the changes – real or proposed – to income and asset tests for part pensions as government comes to terms with the fact that a welfare fallback is factored in to most responsible retirement plans.

The simple reason is that distressingly few will have enough money tucked aside to remain self-supporting if they live to the fullest of statistical possibilities.

Running out of money before you run out of breath is a little thing called "longevity risk", an extraordinary byproduct of lengthening life expectancies.

But, it seems there are many for whom that risk is very much somebody else's problem.

CSIRO researcher Andrew Reeson tells us that a reluctance to spend superannuation means many Australians are dying richer than when they retire.

Experts say this means Australians are mainly using the super system to build up their wealth rather than to support themselves in retirement.

The Government has found that even in the last five years of their life many pensioners either increase or maintain the value of their assets.

Most super earnings are tax free and the majority of retirees receive at least part of the age pension, which is why government would prefer super be spent rather than stashed away to be left to children.

According to guesstimates by superannuation advisory firm Rice Warner, $8.5 billion was bequeathed by people who died before using up their retirement savings last year.

A Centre of Excellence in Population Ageing Research study using Centrelink data found the median pensioner in a sample group of 10,000 died with 90 per cent of his or her wealth intact.

"Age pensioners, on average, preserve both financial and residential wealth, consuming conservatively and, ultimately, passing on substantial bequests," the study said.

"We find that as a consequence of holding buffers, pensioners on average pass away with almost as much wealth as they had at the beginning of the sample period."

Bizarrely, according to Reeson, this pattern of frugality applies whether the balance of a super account is $100,000 or $1 million.

This sounds like good newsfinancial planners and fund
managers who get their percentage chop whatever happens.

But it seems a pretty rough deal for retirees themselves – particularly those with modest accounts – who never get to fully enjoy the fruits of their labours.

The Federal Government can and does mandate how much you must take out of your super account each year (at least 5 per cent of balance between 65 and 74) but the good times aren't going to roll anytime soon.