After the ball is over: what happens to "Choice" after retirement?

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Background

Research and policy on financing old age in Australia has focused very heavily upon superannuation as a major income source. The focus of policy, marketing and interest in superannuation has been on the worker during the accumulation phase of superannuation scheme membership. This is exemplified by the papers delivered at this symposium over the years, the articles in the popular media providing advice on personal investment and retirement planning. With the possible exception of financial planners there has been little corresponding interest in members after they claim their superannuation, and purchase their pension or annuity. This however is where, for most Australians the purpose of superannuation, namely supporting themselves through retirement, really begins. Relatively little is known about

- how people manage their income and income streams in retirement
- how prepared people are to manage income in retirement and
- what happens to the capacity to manage multiple income sources and income streams as people enter advanced old age?

This paper focuses on the implications of choice for income management in old age and retirement. "Choice "and decision making for those in the accumulation stage is predominantly about which fund to join and/or investment profile to select. "Choice" for those at retirement is much more complex and multifaceted and the implications of those choices are that active management and monitoring of assets are needed for the rest of their lives –i.e. a possible period of 30+ years, and potentially by their survivors thereafter. The challenges of active management of superannuation in the accumulation stage will be magnified in the de-accumulation stage both at following retirement and thereafter.

There is a considerable body of research around increasing longevity, and its implications for government expenditure on pensions, health and long term care. Concerns about the aging of the population have underpinned the policy agenda in pensions, superannuation, health and long term care which has been focused on encouraging greater individual responsibility for financing living, health and lifestyle choices in old age. There is a lacunae of research or knowledge about the interest in, and capacity of older Australians to make decisions and to manage income and assets at retirement and potentially into advanced old age. This paper is a beginning attempt to apply knowledge about ageing and about superannuation to the issues of choice and the decisional capacity of older people regarding finances and financial management.

Superannuation choice and decisions of older Australians at retirement

Over the past decade major changes have occurred in superannuation policy and practice in addition to the introduction of compulsory superannuation. The shift to defined contribution schemes away from defined benefit, not only introduces a much greater degree of unpredictability about retirement incomes, but also a much greater number and range of decisions have to be made at the time of drawing on superannuation and continuously throughout retirement. Mitchell and Utkus (2003) point out that"………people confront many sources of risk during the retirement period. The most important of these are longevity risk, inflation risk, health risks (leading to unexpected expenses and costs), and capital market risks. ……. So many fundamental uncertainties, further complicated by psychological considerations…. combine to make it quite difficult for retirees to deftly manage the drawdown process for retirement accounts in old age." (p30)

Older people with superannuation savings must make a large number of financial decisions about retirement. In addition to the threshold decision about whether, when and how to retire from income generating employment they include

1. when to begin to draw down their superannuation
2. whether and how to qualify for a full or part age pension
3. in what form to take their superannuation –lump sum or income stream product
4. commute to a lump sum and invest privately or invest in a managed pension
5. which financial institution should they choose for a managed pension
6. What kind of managed pension? Self funded superannuation; Allocated pension; Term allocated; Income guaranteed "complying" pension; Income guaranteed pension with reversionary survivor benefit

These decisions require a set of judgements about likely longevity, possible partner longevity, expectations about health and disability, anticipated living costs and second guessing government policy in terms of eligibility for the age pension, and aged care and health care costs in addition to predictions about financial markets performance over the expected remainder of their lives. Based upon work by the American Society of Actuaries Ward (2003) listed seventeen "risks" that people may face in retirement and presumably should also consider in making decisions about the investment of their superannuation savings. Interestingly the first "risk" listed was lack of investment advice or poor advice.

Once people make decisions about what income stream they should choose, they are likely to have to continue to monitor and make decisions about their income streams over the duration of their retirement. In the event that a self managed fund or an allocated pension is chosen decisions may include: Investment strategy; Whether and when to withdraw lump sums; If a term allocated pension what term to choose; What to do if they outlive their pension.

***Policy change and retirement income choices*.**

These choices are taking place in the context of continual changes in government policies in relationship to retirement incomes and funding health care, living and long term care expenses.

Over the past decade a series of government reports and investigations have highlighted the challenges of population aging and the need for policy action. (See e.g. Australian Treasury (2002, 2004) Productivity Commission 2005). Based upon these reports the Australian government has developed a strategy of change and reform in retirement incomes, pension health and long term care policies. The overall policy direction is clear- to encourage people to self provide financially for retirement, health and long term care costs and thereby to reduce the actual or anticipated "burden" of an aging population on age pension, health and long term care expenditures.

Superannuation, age pension and taxation policies have been in constant flux over the past two decades in addition there have been major and significant changes to other major areas of government expenditure largely targeted at the aged. The changes in the tax treatment of superannuation which were announced in the 2006 Budget mean that a whole new set of products and options will be developed for investing superannuation savings, causing consternation to recent retirees who made their superannuation investment decisions under a different set of expectations about tax and complying income stream requirements.

Health and long term care policies have been subject to the development of "user pays" which have led to the introduction of entry fees and co-payments for residential aged care including the requirement for an income and assets assessment by Centre link and the introduction of co-payments for in home care. The long term care sector has also experienced a significant growth in private for profit facilities and private in home care services. There have been increases in health and pharmaceutical benefits co-payments and significant changes to private health insurance.

In the housing area the growth of retirement villages and of home equity conversion schemes such as reverse mortgages is attracting the attention of state and federal governments who are introducing policies aimed at regulating providers and protecting residents and home owners. Furthermore the almost Australia wide increase in home prices over the past two decades and the treatment of the home under the pension assets test means that informed financial decisions need to be made by retirees before relocating to more appropriate and accessible housing. The cost of "choice" for retirees is eternal vigilance- in monitoring not only income streams, financial markets and fund performance but also tax, superannuation, age pension, housing, health and long term care polices. The challenge is the capacity of current and upcoming retirees to actively manage their incomes.

Active financial management and financial management capacity of older Australians

A considerable body of research internationally and in Australia has identified the failure to plan and the difficulty that the average citizen has in planning financially for retirement. (Mitchell and Utkus (2003) Lusardi and Mitchell (2005) Schultz Rosenman and Rix, (1999). While many reasons have been ascribed to this failure to plan amongst pre- retirees the majority of Australians who are currently post retirement are even less likely to have had experience with active management of financial assets for retirement. Compulsory superannuation has been required for most workers for thirteen years, choice of fund for only one year, and the switch from defined benefit to defined contribution schemes has only been occurring over the past decade. For most people who have already retired the expectation of the availability of the Age Pension arguably limited both the incentive and the need to save and manage their assets and income for retirement.

Nevertheless there is evidence that the current generation of older people have accumulated income and assets that they utilise to replace or supplement the age pension over at least a significant part of their retirement lives. (Harding and King 2003) Anderson and Ly(2005) show an increase in Age pensioners purchasing asset test compliant income streams, and Lym -Applegate et al(2005) using both pension data and analysis of the wealth module from HILDA showed quite significant asset holdings amongst older Australians who were also age pension recipients. In addition to home equity this included superannuation, bank accounts, and equities and managed funds. The amounts of non pension income and the proportion holding non pension assets declined with age and they conclude that "….older cohorts of senior Australians have lower levels of wealth, either in the form of income or assets, because during their working lives they had less opportunity or inclination to accumulate wealth and/or had less opportunity to participate in superannuation schemes."(p22). It might be expected therefore that younger cohorts of Australians currently of Age Pension age should have experience with managing assets, income streams and juggling these with changes in government policy. A question however remains of their interest in, and capacity to continue to do this through out their lives post retirement.

Gender and financial management capacity: Despite increases in male life expectancy women are still much more likely to outlive a partner and be left to manage financial matters at the end of life. Research on women's interest and experience with financial planning is limited although there is a considerable body of research around the reasons underpinning women's lower incomes during working life and in old age. Bajtelsmidt and Bernasek (1997) in a review of research on women's investment behaviour concluded that there was evidence that women were more conservative investors than men, but that conclusions that women were more "risk averse" than men were unfounded. They suggested, that women may receive more conservative financial advice than men –and that brokers and financial planners spend less time with women maybe because they are aware that in general they have significantly less net worth.

Assumptions however are usually made that women have less experience with financial management than men and that older women who become widowed are unlikely to be able or willing to take on active management of superannuation or pension accounts. Ward (2005) lists as one of the retirement planning the "risk" that a widow may not be willing or able to continue to manage self managed superannuation funds or allocated pensions after the death of a partner. There is also anecdotal evidence of financial planners recommending that men organise assets in order to minimise financial management expectations upon their widow, including ensuring that she attains eligibility for the full age pension. It is probably not unreasonable to assume that many of the current generation of older women who married young and remained married (and a high number did not) have had limited experience with financial management due to their shorter work and income generation histories and a societal tradition of sex role stereotyping that has assigned the income generation and management roles to men.

***Barriers to financial management in old age*.**

Active management and monitoring of funds requires a range of complex skills and resources. These include: linguistic, financial and information literacy, and high levels of physical and cognitive ability

Literacy

English Literacy levels may be low for older people, especially those from a culturally diverse background (i.e. NESB). It is worth noting that while Centrelink and some other government linked organisations make information available in a range of community languages, the finance and superannuation industries generally do not. Even if English literacy is adequate financial literacy may be limited not only by lack of experience with investment managing investment returns and dealing with interactions between income from pensions tax and super, but also by the linguistic complexity of the superannuation, tax and investment industries which makes their reporting inaccessible to most people regardless of age.

Information literacy is increasingly necessary for accessing banking and financial institutions, financial information and for general communication. The Human Rights Commission (2000) reported on the limited access of older people to the internet as well as other forms of electronic communication including telephone banking, ATM machines and interactive voice response systems. More recent data from the ABS (2005) indicates an increase in use of computers and the internet by people aged over 65 however access still significantly lags behind all other age groups. There is an inverse relationship between computer use and age suggesting that it will take a long time before the majority of retirees is able to effectively use information technology to manage their pension investments or to access the internet for information and assistance with pensions and taxation.

Disability

One of the costs of longevity is the increase in disability as people age. Considerable focus of research and program development has been around ways of assisting people to manage the activities of daily living as they age. Although managing money is one of the significant activities of daily living there has been almost no attention paid to assisting with even the simplest money management, let alone complex financial activities , possibly because most research and service provision arises from a health care framework . The disabilities that are most likely to interfere with capacity to cope with financial management are common amongst the older population and older people i.e. those aged over 65 constitute the vast majority of Australians with severe or profound activity limitation from these disabilities.

Disabilities of older people

Disability	% of 65+	As % of all withcondition
Arthritis	35.8	31.4
Hearing	29.4	33.1
Vision	8.2	56.5
Stroke	10.1	49.9
Dementia	4.0	98
Speech problem	3.1	86.9
Depression	3.9	59.5

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Source: Adapted from AIHW (2006) **Table 4.6:**

Disabilities that are likely to restrict capacity to manage financially include arthritic conditions which can limit mobility, writing capacity and also capacity to use communication devices, restricted visual capacity which restricts ability to read and write, auditory impairments can limit ability to actively manage over the phone(eg telephone banking) and to hear and understand communications. Perhaps the most significant problem comes with diminution in cognitive capacity which limits ability to comprehend organise and manage finances.

Rates of dementia increase rapidly as people age. Eleven percent of 80-84 year olds and 25% of those over 85 are estimated to have dementia (Alzheimer's and other dementias) however the early stages of dementia may present as memory deficits and decline in comprehension and organisational ability years before a diagnosis is made. Depression also increases with age and can impair organisational capability and decision making. It is often associated with other health impairments, disabilities or losses including death of a partner.

So how are financial institutions managing communication and responsible financial decision making by and for retired members as they age and particularly if they lose cognitive or physical capacity? This is a particular issue if people are no longer fully capable of giving direction in terms of the management of a Self Managed Fund or an Allocated pension. How do fund managers become aware of this and what should they do if there are questions about capacity or the appropriateness of decisions? Should they accept instruction or a sign off from a person who is clearly not cognitively capable, and what is their legal position if they are challenged?

Third Party Substitute Decision Making and Financial management

The reality is that as people age they are increasingly likely to need assistance in managing their activities, and a major one of these is managing their money. This will only increase as wealth is invested in a wider range of income producing products.

Third party financial management on behalf of older people is widespread and is a common task of caring. Most money management is carried out by informal helpers: family members, friends and neighbours. The prudent management of assets and astute investment becomes increasingly important for older people to provide for future income, lifestyle choices and care and support needs as they age**.** Cultural expectations exist around exchanges of assets in families and intergenerational transfers. Family members expect to inherit the assets of older people and there are family norms and expectations regarding entitlement and use. Concerns about competing claims on assets to fund retirement or long term care foster strategies such as asset stripping and gifting arrangements to retain assets in families. Such strategies also raise the potential for financial abuse or mismanagement. (Tilse et al 2005b)

In order to identify the extent of asset management on behalf of older people the program on Assets and Aging undertook a national telephone survey of a random sample of 3270 adults which identified 1140 asset managers assisting 1781 people with asset management tasks. The study demonstrates that involvement with asset management is very high in the Australian adult population with 34.8 per cent of the population providing assistance with assets in the previous 12 months either for an older person or a person with a disability. Of the 1781 people being assisted, 70.7 per cent were aged over 65years (1259). The majority of asset managers were providing assistance to family: parents or parents-in-law (54.3%), grandparents (11.9%) other family members (7.9%). Almost one quarter (23.4%) were providing assistance to friends or neighbours.

The major reasons older people were reported to need assistance with financial tasks were a lack of confidence in doing it themselves, disability/ poor health, or being old and frail. The pattern varied with age

Main reasons for needing assistance with financial tasks

	65-79years	80+years	Total
Lacks confidence in doing it themselves	37.1	18.7	28.3
Dementia/confusion	9.6	13.9	11.7
Disability/poor health	26.1	28.5	27.2
Old and frail	9.9	32.1	20.6
English not first language	8.4	3.0	5.8
Literacy difficulties	3.1	1.3	2.2

Source: Tilse et al 2005(a)

Most asset managers assisted with more than one task with the most common assistance being with paperwork, paying bills, accessing money, dealing with superannuation/pension matters and managing property. There was some variation in the patterns with age, with older cohorts more likely to be assisted with paperwork, paying bills, accessing money, and property management than the younger group. Assistance in accessing financial advice was more common with the younger cohort.

Financial tasks which required assistance

Task	Age 65-79 percent	Age 80+ percent	Total Percent
Paperwork	70.5	74.3	72.4
Paying bills	47.5	62.4	54.6
Accessing money/banking	36.5	47.8	41.9
Dealing with Pensions /superannuation	37.6	36.3	36.9
Property management	29.9	31.8	30.8
Accessing financial advice	17.9	13.9	16.0
Managing Investments	11.3	10.9	11.1

**Multiple responses*
Source: Tilse et al 2005(a)

When a person with impaired decisional capacity requires another person to act on their behalf there is a process to protect both parties. Formal arrangements for substitute decision making under Enduring Powers of Attorney (EPA)/Guardianship legislation entail a legal process whereby financial decision making and administration is ceded to another person in the event of future impairment in decision making capacity of an older adult. Semi formal arrangements include arrangements with financial institutions to access accounts through joint signatory or nominee arrangements. Informal processes include exchanges of money, signing cheques or providing pin (identification) numbers or password details so that caregivers can access accounts to pay bills or withdraw or move money between accounts.

Processes used in assisting older people

Mechanisms	Age 65-79	aged 80 years and over	total
FORMAL			
EPA	12.0	19.1	15.4
Guardianship	0.8	2.0	1.4
SEMI FORMAL			
Bank arrangement	14.4	23.3	18.7
INFORMAL			
Use ATM pin number	9.5	10.1	9.8
Electronic Access using password	10.8	10.1	10.5
		20.4	17.0
Fill in signed cheque/withdrawal slip	13.9		
Paid and reimbursed self	45.6	54.2	49.7
N=	655	604	1259

**Multiple responses*.
Source: Tilse et al 2005a

Despite legal requirements informal processes appear to be the most common. Enduring Powers of Attorney were used in assisting 15.4 per cent of people; Guardianship arrangements in assisting 1.4 per cent and formal authorisation to operate on a bank account in 18.7 per cent of cases. Formal and semi formal mechanisms were more likely to be used in assisting the older cohort. This probably reflects the higher rates of cognitive disability in this population and the resulting impaired decision making capacity. The most common arrangement used was for the asset manager to pay accounts with his/her own money. Other informal arrangements were to fill in cheques and withdrawal slips and have the person assisted sign them, to use the older person's identification number to access bank accounts through automatic teller machines (ATM), telephone or internet banking.

While the majority of carers attempt to manage another's finances appropriately , the lack of accountability mechanisms, and of any form of monitoring means that mismanagement of money whether inadvertent or deliberate financial abuse is difficult to detect, and if suspected intervention is usually difficult. While deliberate misuse of assets by family and carers in all likelihood constitutes only a very small minority of cases of third party financial management it is notable that around 40% of elder abuse reports involves financial abuse (Tilse et al 2005b)Asset management on behalf of older people often takes place in the context of competing interests. Family members in particular expect an inheritance and may believe that providing care deserves recognition through an inheritance or justifies using money and assets when needed. Access is relatively easy, is facilitated through electronic access to accounts and even if misuse is suspected older people will generally not complain or take action because they place a higher value on maintaining family relationships. (Tilse et al 2005b)

Third party financial management has implications for financial institutions that manage investments and accounts on behalf of older people (Wilson et al 2005) . Should they be concerned with verifying that third party managers have appropriate legal authorisation to make and enact decisions, and that they are acting according to the wishes of the older person? What should they do if they suspect mismanagement or undue influence? How should they take into account the potential for conflict of interest between using assets vs. the interest of the attorney(s) in inheritance eg in the case of reverse mortgages, or the type of pension selected?

Conclusions:

Managing money and assets in old age is increasingly complex as the wealth and asset holdings of older people increase. Choice in retirement incomes involves more than choice of fund during the accumulation phase of superannuation. It increasingly requires active management and decision making about investments, pensions and assets at and beyond retirement- in fact throughout life. It requires access to timely information and the capacity to constantly review and make decisions about investment profiles, fluctuations in income and changes in policy. People are being asked to do this against a background of constantly changing policies and products.

Capacity to make such decisions is a function of prior knowledge and experience, interest, and physical, mental and cognitive status. As people move from “young” to “old” old age decisional capacity declines. While some of this may be a cohort effect –younger generations of both genders will have more experience than those currently aged over 75 with investment and self provision the onset of disability and cognitive incapacity may be delayed but nevertheless the prevalence increases with extending life spans. While financial institutions and financial planners encourage investment of superannuation in products that allow retirees continuing control of their asset the issue of capacity as people age must be a significant consideration. Appropriate communication, ensuring decision making is informed and appropriate and being aware of the decisional capacity of all beneficiaries will become increasingly important for financial managers as pension beneficiaries live into advanced old age.

As longevity increases and income streams become more diverse, complex and larger it is also more likely that third party managers, usually (but not limited to) family, will need to become involved. Establishing that there is an appropriate legal basis for substitute decision making and recognising and acting if mismanagement or misuse older people’s assets is suspected will become an increasingly important challenge for financial managers. Older people’s assets and wealth is potentially a “contested site” operating at the intersection of the private sector’s interest in marketing and selling products to older people (including financial products), government’s interest in ensuring that assets are used to provide income streams for retirement and pay for health and care services, and families’ interests in safeguarding inheritances. The challenge of “choice” is at least as significant for retirees, their families and financial institutions as it is for the young.

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