DOWNSIZER

Downsizer Download
with Michael Blythe

ISSUE 3

Downsizing: push & pull

- The case for downsizing is typically couched in terms of the demographics.
- The population is aging quickly and ways need to be found to fund retirement.

But other forces are at work that only increase the need and attractiveness of the downsizing option.

- A shift to female, lone households on lower incomes; lesser wealth; and needing assistance are some.
- A shift in spending patterns towards more expensive items is another.
- An aging population is straining government finances, adding to pressures to self-fund in retirement.

Housing decisions reflect a complex array of calculations that attempt to balance out a range of competing priorities. To complicate matters further, these calculations and priorities evolve over time. They are quite different for older age groups than for younger age groups.

A survey of housing aspirations and constraints by the Australian Housing & Urban Research Institute (AHURI) makes the point. The survey shows that the dominant housing considerations are a mix of hard-edged financial and softer sentiment/psychological drivers (Chart 1).

So households have to balance the idea of housing as a wealth generator and source of retirement funding with the innate sense of security that owning our own “castle” provides.

It’s small wonder, therefore, that the longer the time spent in a dwelling the more inclined we are to stay put. The house is ours, it has been a fantastic wealth creator, it is available to fund retirement if plans change, or it can be left as a bequest.

For older households, these considerations balance out in a desire to age in place. Some 80-90% of those aged over 55 aspire to remain in their current dwelling. What is a little alarming, however, is that 55-60% of those households have no plan on how they are going to meet that aspiration (Chart 2).

The older population is growing rapidly. But in many cases this older group is ill-prepared for the challenges ahead.

The demographic pressures for downsizing are well understood. They were canvassed in the first edition of the *Downsizer Download*. But there are a range of other drivers pushing in the same direction that are less appreciated.

Older age groups are living longer and need to find a way to finance that longer life and the shift in their spending patterns towards more expensive items. Their need for assistance will rise. A gender wedge is opening up and financial pressures mean the public purse will be difficult to prise open.

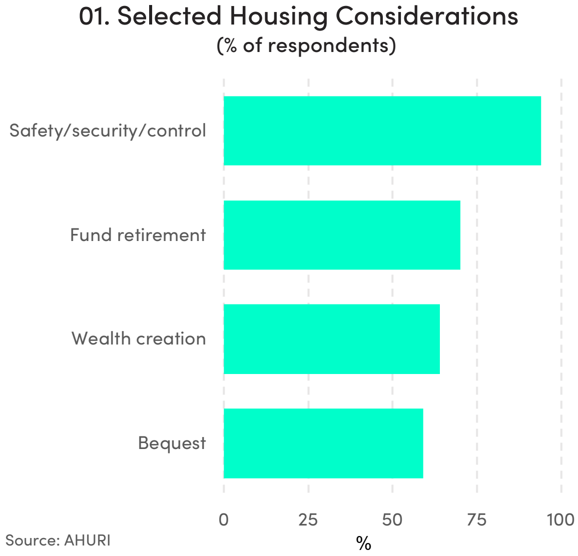
The need for and appetite for downsizing can only increase against that backdrop.

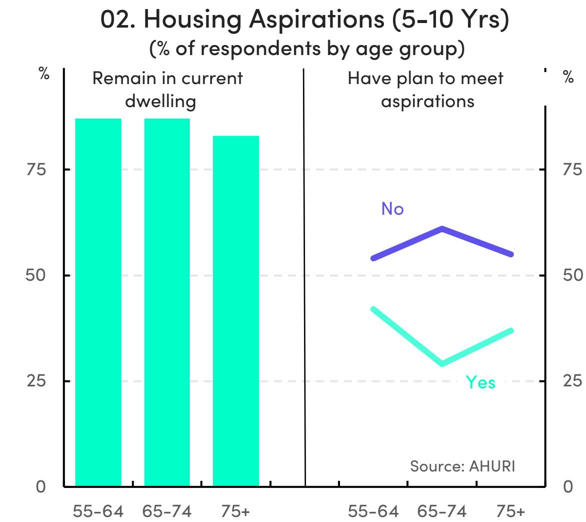
We are all going to live forever!

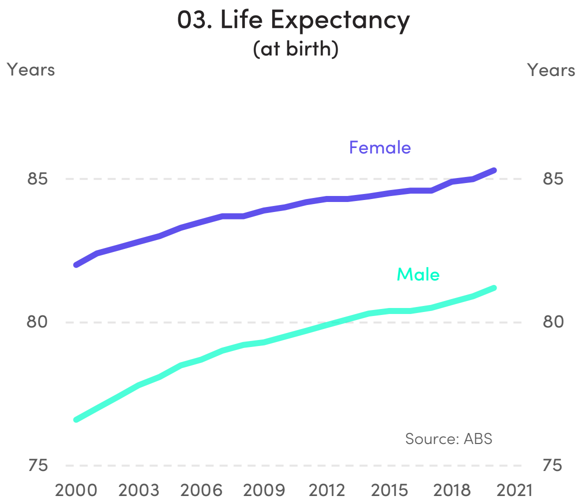
Average life expectancy has steadily increased over the past century. A male born in 1900 could expect to live for 51 years. Females for 55 years. The corresponding numbers today are 81 years and 85 years (Chart 3).

Improvements in health, education and sanitation that reduced mortality drove the increase in life expectancy. They also contributed to a reduction in the birth rate.

When the Commonwealth government introduced the age pension for those 65 and over in 1909, only 4% of the population qualified. Most men didn't make it. Those few that did make it to the ripe old age of 65, and so qualified for the pension, could expect to live for only another 11 years on average.







Today, some 17% of the population are aged over 65 and they can expect to live for up to another 20 years on average.

The point is we are living longer in the retirement years and that longer retirement needs to be funded. What was a suitable retirement nest egg thirty years ago won't last today. Ways of lifting and sustaining retirement incomes will come increasingly into focus. Downsizing will be an important component of this shift.

There are other implications from living longer. In particular, large shifts are occurring in the *type* of households we live in. The proportion of couple families with children will fall as the population ages. The first step will be a rise in couple families with no children. And, as the years roll on, the proportion of lone person households will lift (Chart 4).

This latter transition is important because lone person households typically sit at the lower end of the income range. They tend to have less superannuation assets and are more reliant on government pensions. Their need to find additional sources of funding is higher as a result.

Spending the kids' inheritance

These income/funding issues facing older age groups come through at a time when their spending patterns are changing significantly.

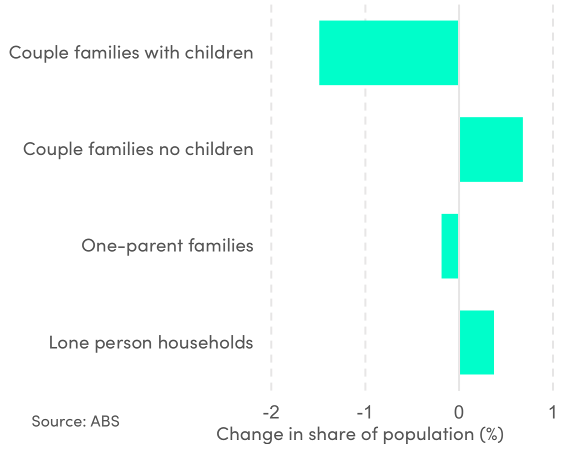
For simplicity, the analysis looks at spending pattern changes between self-funded retiree households and employed households (Charts 5 & 6). The main points are:

i. Top 10 areas where spending rises

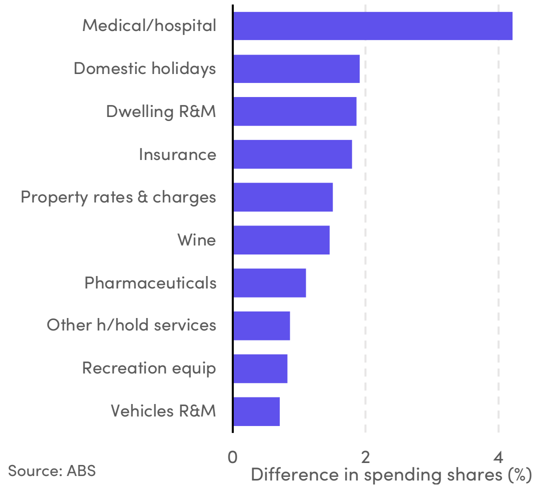
The old cliche about older households spending the kid's inheritance on booze and pharmaceuticals is at least partly true! The share of spending on wine and medicines does rise (Chart 5). The biggest rise, however, is on medical costs in general. Some does go on having a "good time" in areas like holidays and recreational equipment.

The house also becomes a larger drain on spending power. A larger share of spending is

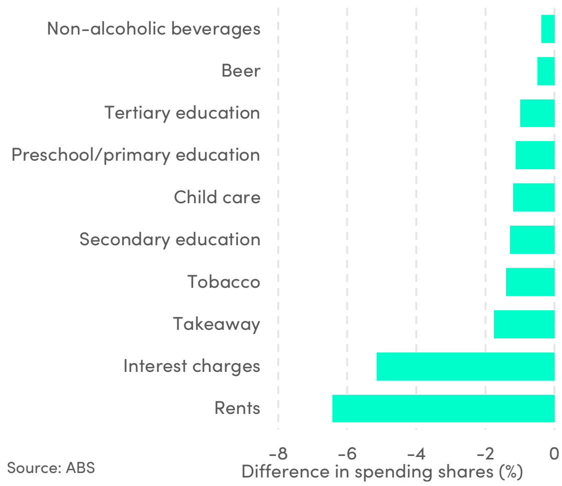
04. Household Population Shares
(change from 2016 to 2041)



05. Spending Differences (More)
(self-funded retiree vs employed households)



06. Spending Differences (Less)
(self-funded retiree vs employed households)



devoted to dwelling repairs & maintenance and property rates & charges. Spending on household services (like gardening and window cleaning) also rises. So there is a significant increase in costs associated with aging in place.

ii. Top 10 areas where spending falls

There are some equally significant reductions in spending for older age groups. These reductions reflect position in the life cycle. So spending on childcare and education is much reduced (Chart 6). The changes also reflect older age groups position in the housing cycle. Being outright owner-occupiers means less spending on interest and rents.

We also seem to adopt a healthier lifestyle at an older age. Our share of spending devoted to beer, tobacco and fast food declines!

The key point about these spending shifts is that they bias the spending of older households towards items that generally grow at a faster rate than the overall CPI. Growth in medical, holiday, dwelling maintenance and other housing-related costs have significantly outpaced CPI growth over the past decade.

The bottom line is that the changes in spending patterns significantly increase the cost of living for older households. The cost of living faced by self-funded retirees and aged pensioner households have run ahead of those faced by employee households in recent years (Chart 7).

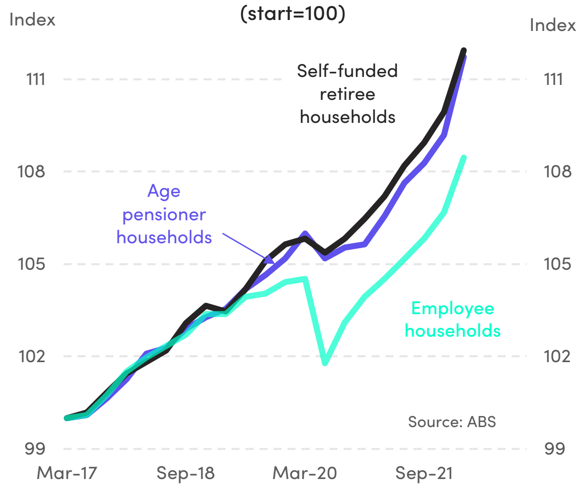
Again, the pressure on older households to fund necessities and lifestyle choices is only going to increase.

Age does weary them

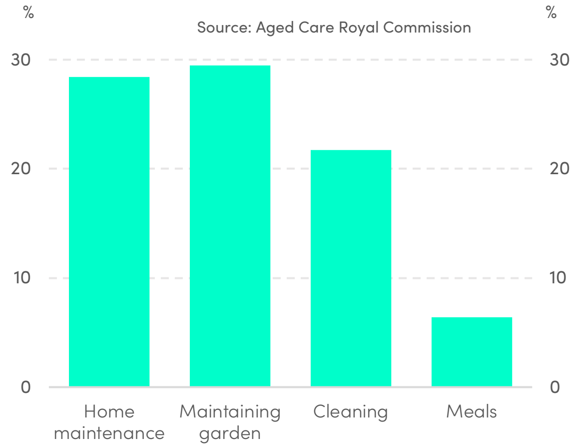
The years do take a toll. Gym workouts, sun lamps and Grecian 2000 can only conceal so much! The reality is that we do need help in many areas as we get older.

The recent Aged Care Royal Commission made some very interesting observations on this need for assistance.

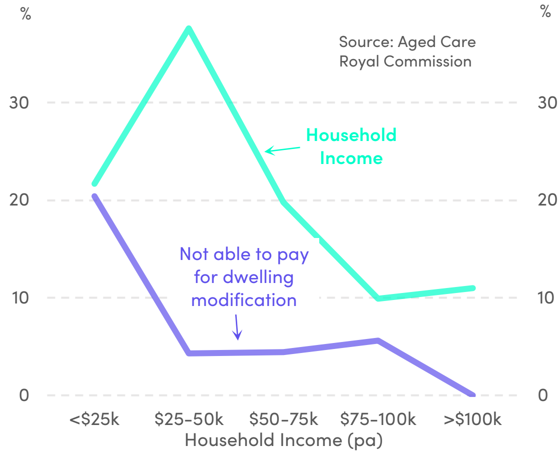
07. Cost of Living by Household
(start=100)



08. Type of Assistance Required
(% of respondents)



09. Dwelling Modification Ability
(% of respondents)



Firstly, the Commission surveys highlighted that the most important type of assistance required by households was in housing-related areas. Particularly, home maintenance, garden maintenance and cleaning (Chart 8).

Secondly, successful aging in place was dependent on appropriate dwelling modification. The ability to deliver these modifications is, not surprisingly, dependent on incomes. And a significant proportion of lower income households are not able to pay for the necessary changes (Chart 9).

The issue is probably intensified by the increasing share of lone person households with lower incomes and lesser assets.

Downsizing into a newer, more appropriate dwelling is one way to deal with the issues identified by the Royal Commission.

It seems Men are from Mars and Women from Venus

A popular book a couple of decades ago was "Men Are from Mars, Women Are from Venus" by John Gray. It was based on the idea that men and women are different because of fundamental psychological differences between the sexes.

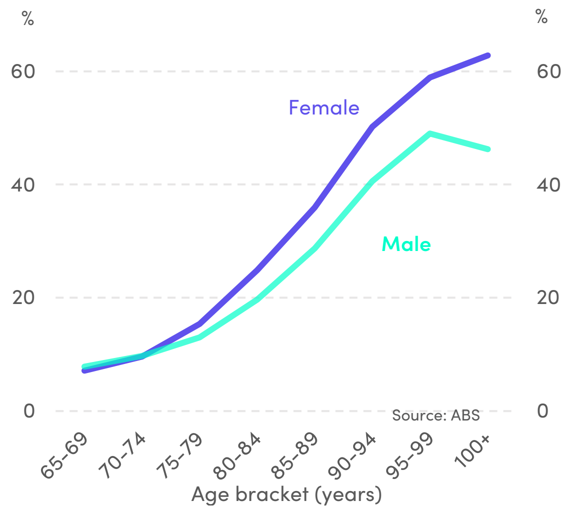
The merits of the arguments have been long debated. But it seems when it comes to demographics, men and women are "different".

We may all be living longer. But death still comes at the end. It comes sooner, however, for men than women (Chart 3).

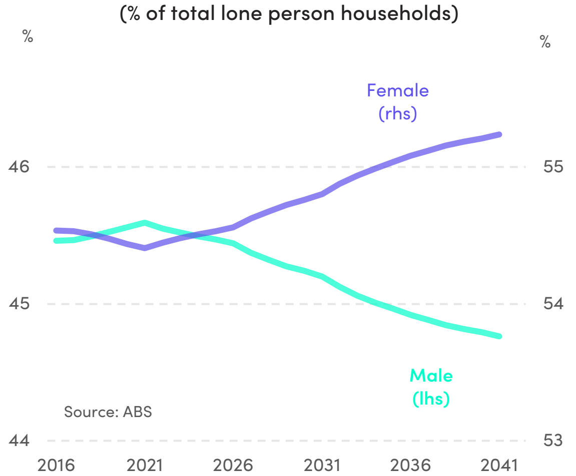
This difference comes with some far-reaching implications. In particular, those lone person households with lower incomes and lesser wealth will be increasingly dominated by women (Chart 11). The projections show that by 2041 more than 55% of lone person households will be female.

This divergence also explains why females report needing more "assistance" than males as they get older (Chart 10).

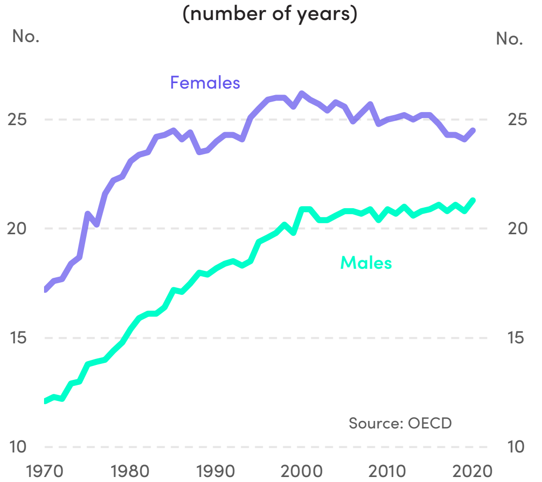
10. Help Needed with Core Activities
(% of age group)



11. Lone Person Households
(% of total lone person households)



12. Expected Retirement
(number of years)



What sits at odds with this divergence, however, is that females, who are living longer, expect to spend *less* time in retirement than males (Chart 12).

The divergence is explained by labour force trends. A much larger proportion of females aged over 55 are still in employment compared with their male counterparts. Females account for some 60% of those working full-time, and 70% of those working part-time (Chart 13).

Those that are living longer are responding by working longer it seems.

But it is not just life expectancy. Women typically reach the older age brackets less well-prepared to meet the challenges ahead. Superannuation is one example. Older people overall have less super coverage. And women have less than men (Chart 14).

Superannuation balances held by females are also lower than for males (Chart 15).

All roads lead to Rome, they say. And in this case, once again, the pressure on older (female) households to fund necessities and lifestyle choices is only going to increase.

The government made me do it

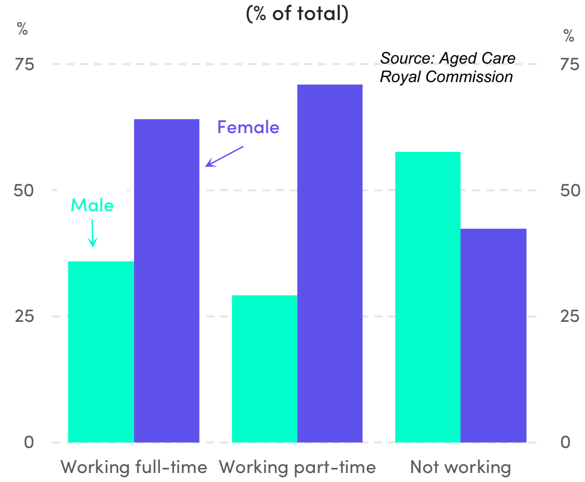
The government's budget is always under pressure. It reflects the classic economist's dilemma: balancing out unlimited wants with limited resources.

These pressures have only intensified in the past few years. The cost of dealing with the pandemic and moderating its economic "shock" was enormous. Net government debt rose from $374bn in 2019 to around $609bn today. The latest projections have debt pushing on towards the $1 trillion mark over the next few years.

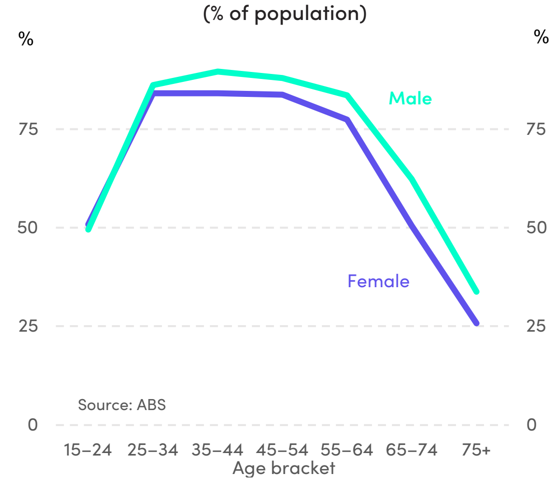
The implication is that governments of all persuasions will need to keep a tight rein on *spending*.

A dissection of that spending based on age throws up some clear warning signs for older age groups. Older age groups receive a larger share of

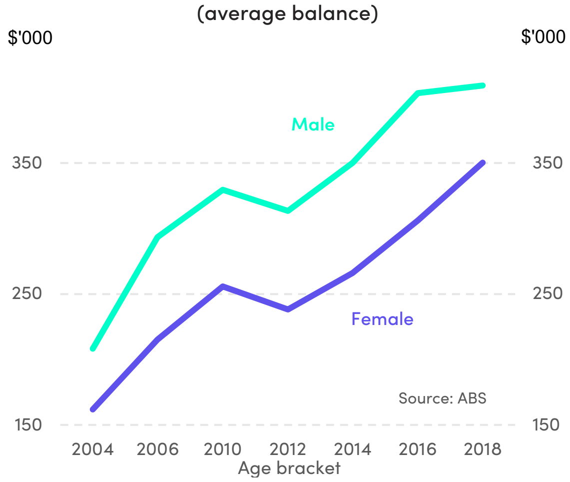
13. Employment Status Age >55
(% of total)



14. Super Coverage by Age and Gender
(% of population)



15. Super Coverage by Gender
(average balance)



government largesse than any other on a per capita basis (Chart 16). This skew reflects spending associated with health, the age pension and aged care. The pressure on older age groups to fund their own retirement will only continue.

There are other age-related forces on the *revenue* side that will push governments in the same direction. An aging population means the dependency ratio is rising and will keep rising. The ratio measures the working-age population relative to those in retirement (Chart 17). Essentially, the number of taxpayers is declining relative to the number of welfare recipients.

This further squeeze on budget finances only increases the pressure for self-funding in retirement.

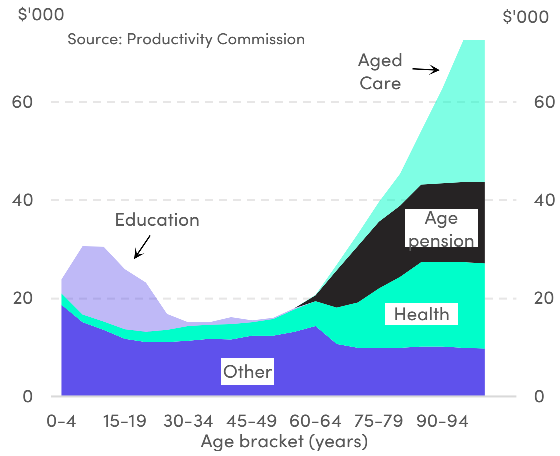
Downsizing is a clear option to deal with these pressures. And, to be fair to policy makers, they have acted to make downsizing more attractive:

- The Commonwealth government has a scheme whereby downsizers can deposit $300,000 of any downsizing sale proceeds ($600,000 for couple households) into their super funds.
- State governments are also helping at the margin. Victoria, Tasmania, the ACT and the NT all provide stamp duty concessions for downsizers.

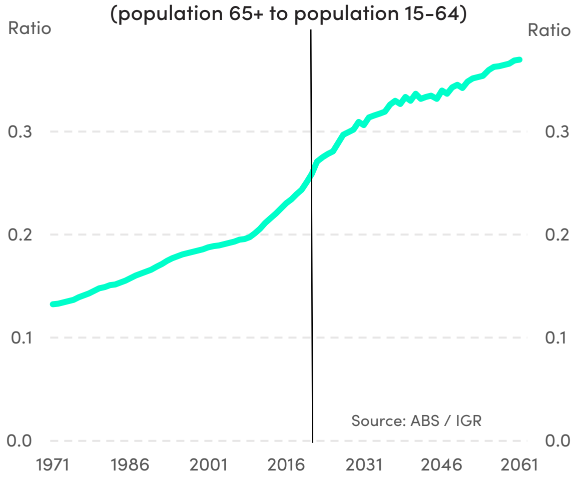
The income potential of downsizing was discussed in the first edition of *Downsizer Download*. An extra $300,000 deposited into superannuation courtesy of downsizing could potentially boost retirement income by $21,000 per annum. Couple households can boost their superannuation pot by $600,000, potentially boosting boost retirement income by $42,000 per annum.

Any remaining equity release is available for investment elsewhere, further adding to income streams.

16. Government Spending by Age
(per person)



17. Dependency Ratio
(population 65+ to population 15-64)



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