

ME Bank Household Financial Health Dynamics Report.

Findings from research
with Australian households.

December 2011

mebank.com.au

ME Bank Household Financial Health Dynamics Report

Foreword	2
The road from here	3
Key findings	4
Background	5
How are Australian households feeling about their financial situation?	6
What aspects of their finances are Australian households most comfortable about or concerned with?	9
What are the saving dynamics of Australian households?	11
How does household financial comfort relate to the different components of household finances?	13
Is there a gap between how Australians feel about their financial situation and how secure they actually are?	15
How much interest do Australians take in their finances and how do they feel about managing their finances?	18
Appendix	20
Further information	21
Disclaimer	21

About ME Bank

ME Bank is the only bank in Australia which is 100 percent owned by Australia's leading industry super funds. ME Bank provides members of industry super funds, unions and employer associations with a genuinely fairer banking alternative.

Special thanks

ME Bank would like to thank three organisations involved in the design and development of the ME Bank Financial Health Dynamics Study– Baker Group, DBM Consultants and Economics & Beyond.

The ME Bank Household Financial Health Dynamics Report was developed in collaboration with:



Contact us

ME Bank
Level 28, 360 Elizabeth Street
Melbourne VIC 3000 Australia
mebank.com.au

How are Australians feeling about their financial situation?

And what are the drivers of financial comfort?

Is there a gap between perception and reality?

There are currently significant changes in savings and spending patterns of Australian households taking place. On the one hand, Australian households have benefitted from relatively low unemployment and continued income growth; but the re-emergence of softness in property markets and marked declines in equity prices as well as the general nervousness about the financial future – especially from abroad – has the potential to weigh heavily on the financial situation of Australians. Against this economic and financial background, this *ME Bank Household Financial Health Dynamics Report* provides timely and in-depth insights at both a national level and at a micro-level.

By developing the Financial Comfort Index, ME Bank is able to examine how comfortable Australian households feel about their financial situation. By comparing financial comfort levels to actual financial situations across a range of household types, this *ME Bank Household Financial Health Dynamics Report* is able to gauge how 'realistic' Australian households are about their finances. The Study examines both ends of this equation and investigates if there is a 'gap' between them. While previous studies have captured either how Australians *feel* about their finances or their *actual* financial state, we believe this is the first study to focus on the relationship between the two in depth.

ME Bank has collaborated with the Industry Super Network (ISN) to ensure that the focus was not only on the current financial mindset and situation of Australian households, but also their superannuation status and retirement expectations.

As a nation, the Financial Comfort Index found that Australians are 'slightly comfortable' with their overall financial situation, meaning that general comfort levels are akin to experiencing occasional stress or worry. There is, however, considerable variation among the comfort levels of Australians across the states and territories, and even more pronounced variation across household types.

High-to-very-high comfort levels on the ME Bank Financial Comfort Index were observed when household superannuation balances were greater than approximately \$200,000. Income level was nowhere near as strongly related to comfort as superannuation and, to a lesser degree, property value.

The most significant factor driving discomfort is not day-to-day expenditure, but rather concern about the capacity to deal with the unforeseen. Australian households were most worried about their level of cash savings and long-term investments.

In exploring if there was a perception gap, 66% of Australian households had a realistic assessment of their financial situation. Broken down by household type, self-funded retirees were the most realistic about their financial position, with an 80% match between perception and reality. At the other end of the scale, only 50% of middle-aged couples had a realistic view of their financial situation, with 21% of them feeling more comfortable than their situation should warrant.

The road from here

The ME Bank Household Financial Health Dynamics Study is a way to analyse the financial comfort levels of Australians and to assess how that tallies with their financial reality. It reflects ME Bank's mission to understand the financial mindset of Australian households in order to deliver a fairer banking alternative.

Over time, the ME Bank Household Financial Health Dynamics Study will be able to analyse and track the width of the perception 'gap' to gauge whether Australian households are getting closer or further from a realistic view of their financial situation.

The Study will also be able to highlight the ongoing – and potentially shifting – differences between household types in terms of financial health, financial comfort and financial realism.

The ME Bank Household Financial Health Dynamics Study will be a source of ongoing information to public policy makers, financial institutions and social welfare organisations and will hopefully assist in decisions regarding financial advice and education.

INTRODUCING THE ME BANK HOUSEHOLD FINANCIAL HEALTH DYNAMICS STUDY

The *ME Bank Household Financial Health Dynamics Report* is the first in a series to be released using data from an ongoing ME Bank survey of nearly 1,500 Australian households. The aspiration for this research is that over time it may prove useful for policy makers, governments and civil society as a tool to inform decisions regarding taxation, superannuation, banking, financial regulation, welfare reform, financial education and other related matters.

The *ME Bank Household Financial Dynamics Report* highlights:

- The ME Bank Financial Comfort Index quantifies how comfortable Australians feel about their household financial situation as well as their expectations and confidence with respect to their finances. The Index was 5.20 (out of 10) for Australian households overall, although significant differences are apparent across household types. When asked to rate comfort with their household finances overall, ratings were similar to those reported for how they felt when they were experiencing occasional stress or worry.
 - Childless singles and couples had higher financial comfort (mean Index ranged from 5.34 to 5.47) than households with children (mean Index between 4.18 and 5.28). Across household types, self-funded retirees had the highest level of financial comfort (mean Index of 7.30), followed by other retirees (mean Index of 5.85).
- The financial aspects Australian households were most comfortable with were monthly expenses and debt levels.
 - 62% of Australian households were somewhat or very comfortable with managing and paying their monthly expenses.
 - 55% of Australian households were somewhat or very comfortable with their current level of debt from all sources. Debts were thought to be manageable when savings buffers were not eroded.
- The financial aspects causing the greatest household concern were short-term cash savings and investments.
 - 24% of households overall were very uncomfortable with their household's level of cash savings; 24% were also very uncomfortable with their household's level of long-term investments including superannuation.
 - 22% of households reported that they would be unable to raise \$3,000 in an emergency in one week.
- 49% of survey respondents were saving, with an average of \$850 left over per month (or over \$10,000 per annum), while 10% of households were spending, on average, an additional \$541 (almost \$6,500 per annum) more than they earned each month.
- The ME Bank Financial Comfort Index indicates that high household financial comfort was strongly driven by household superannuation balance and to a lesser extent, property value, as opposed to income.
- Across Australia, 66% were realists, with their comfort level matching what was expected for their financial situation. The remaining 17% of households felt overly comfortable with their financial situation relative to their actual finances, while 17% felt less comfortable than their financial situation would warrant.
- Retirees and young couples without children had the highest proportion of realists, while middle-aged couples without children had the lowest proportion.
- Australian households reported taking a strong interest in their finances (40% strongly agreed) but some household types struggled with feelings of helplessness (16% strongly agreed that they felt helpless when managing their finances).

Anyone listening to news reports and the conversations of everyday Australians would recognise that there is a great deal of talk about global economic uncertainty and the effects that this uncertainty is having on Australian households. Recent trends, latest official ABS estimates and other reports have shown:

- Relatively low and stable unemployment rates (around 5.25%).
- Household savings have increased sharply over recent years – the household saving rate is at approximately 10% in the September 2011 quarter – well above the average of the past two decades.
- Net worth has begun to decline due to softness in house prices and significant share price falls, after recovering somewhat during 2009/10.
- Households have become more conservative in their investment preferences directing a larger share of their discretionary savings to deposits, while reducing direct equity and other managed fund investments.
- Financial stress indicators continue to show that the household sector as a whole is coping reasonably well with debt servicing, despite cost of living pressures and higher interest rates.

This greater caution in household attitudes towards spending and borrowing, as well as increased financial vulnerability has often been attributed to the Global Financial Crisis and the ongoing uncertainty in the global economy.

To gain a deeper understanding of how comfortable Australian households feel about their finances compared to their actual financial situation in this current landscape, the ME Bank Financial Comfort Index was developed. The Index quantifies the financial comfort and confidence of Australian households. Key methodological details and considerations are supplied in the Appendix to this report.

SAVING FOR A RAINY DAY

Having a savings buffer increases financial security, and one-half of Australians are able to save in a typical month.



49%

spend less than they earn each month and are able to save \$850 each month (~\$10,000 per year)



41%

spend all of their income



10%

spend more than they earn each month, having to come up with an extra \$541 per month (~\$6,500 per year)

How are Australian households feeling about their financial situation?

Australians are slightly comfortable with their overall financial situation with levels similar to those reported when they felt occasional stress or worry. Significant differences in financial comfort are apparent across household type and State.

The inaugural ME Bank Household Financial Health Dynamics Study shows that Australian households as a whole are slightly comfortable with their overall financial situation – albeit there is significant variation among household type and State.

Across household types, Australians report current financial comfort scores that were closer to those reported when they felt ‘occasional stress or worry’, rather than when ‘financial problems require significant lifestyle change’ (see Figure 1).

The ME Bank Financial Comfort Index indicates that singles and couples without children had higher financial comfort than households with children. Across household types, retirees had the highest level of financial comfort.

The ME Bank Household Financial Health Dynamics Study includes a ‘Financial Comfort Index’ that quantifies the financial comfort and confidence of Australian households. The ME Bank Financial Comfort Index, on average, is 5.20 (out of 10) for Australian households as a whole (see Figure 2).

The Index quantifies how comfortable Australians feel about their household financial situation as well as their expectations and confidence with respect to their finances. Respondents rate household financial comfort, expectations, and confidence on a scale from zero to 10 for 11 measures and the Index is derived from their responses. The 11 components of the Index are:

- Comfort level with the overall financial situation of the household (1).
- Changes in household financial situation over the past year (2) and anticipated in the next year (3).
- Confidence in the household’s ability to handle a financial emergency (4).
- Comfort levels with (5) household income, (6) living expenses, (7) short-term ‘cash’ savings and (8) long-term investments (including superannuation), (9) debt, (10) overall net wealth, and (11) the household’s anticipated standard of living in retirement.

There is an approximately normal distribution across Australian households in comfort levels with the majority of households having a Financial Comfort Index between four to six out of 10 – most Australians are in this moderate comfort level.

Variation exists across segments with Retirees, especially Self-funded retirees (mean score of 7.30) showing the highest level of household financial comfort and parents, especially Single parents with young children (mean score of 4.18) having the lowest household financial comfort (see Figure 3).

Benchmarking household comfort level based on how Australians felt about their overall financial situation

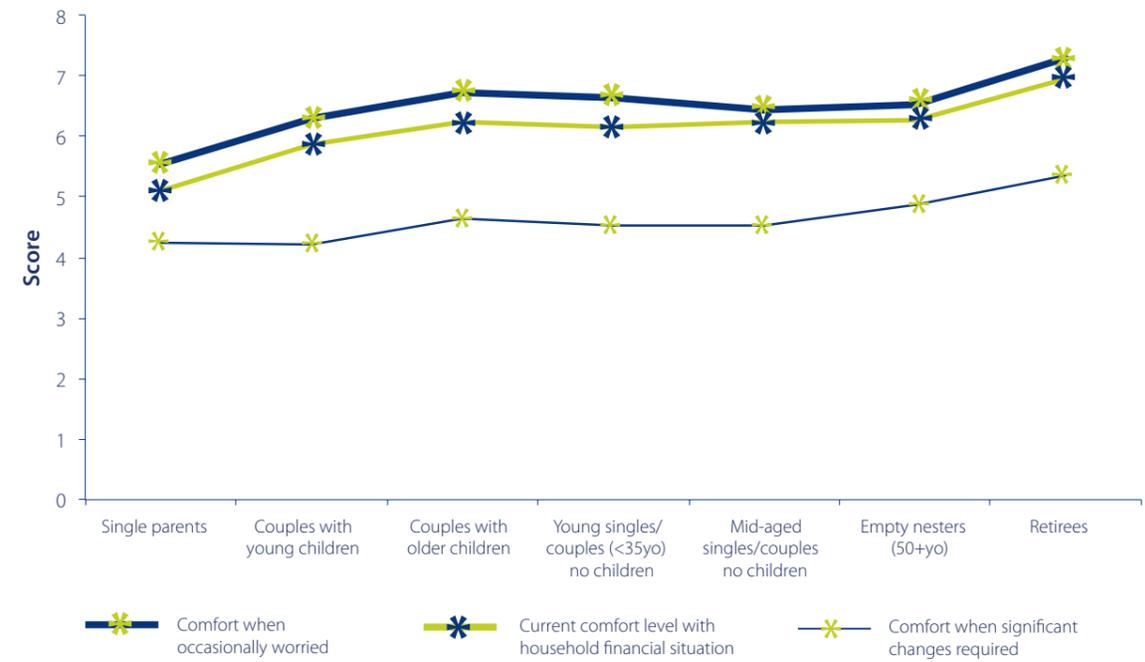


Figure 1: Financial comfort levels of Australian households.

Distribution of ME Bank Financial Comfort Index across Australian households

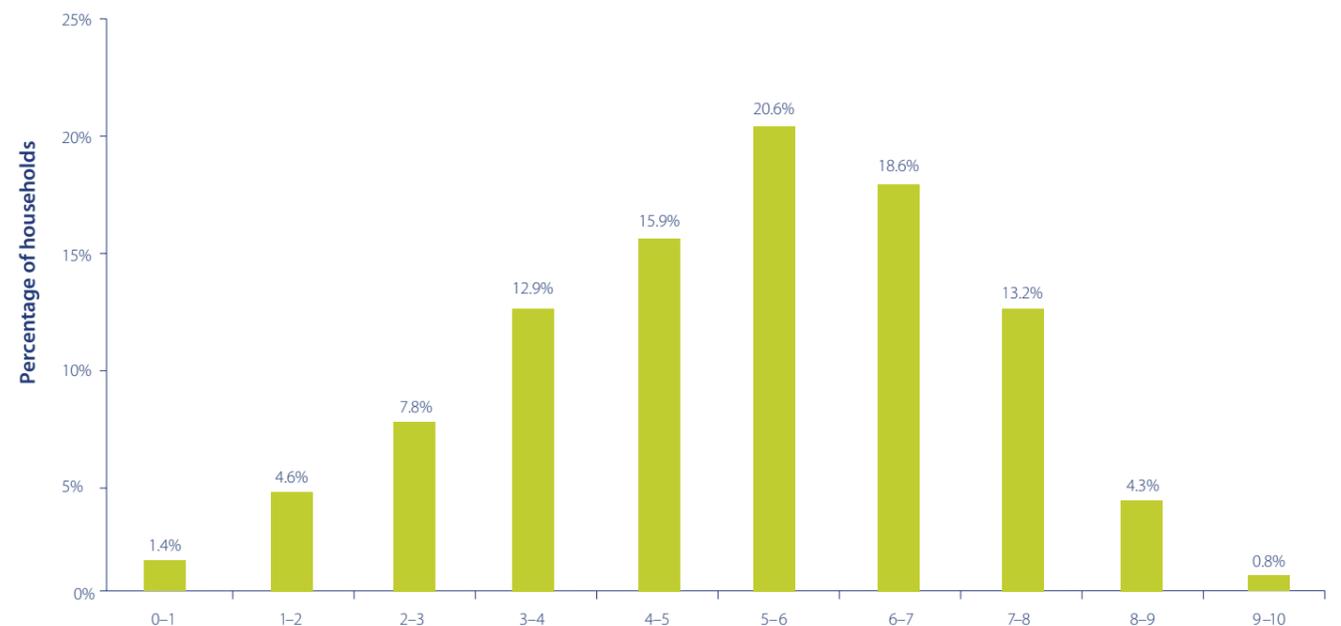


Figure 2: Distribution of ME Bank Financial Comfort Index across Australian households.



“ At the moment things are pretty stable, hopefully it will stay that way. ”

ME Bank Financial Comfort Index by Household type

Australian households overall = 5.20

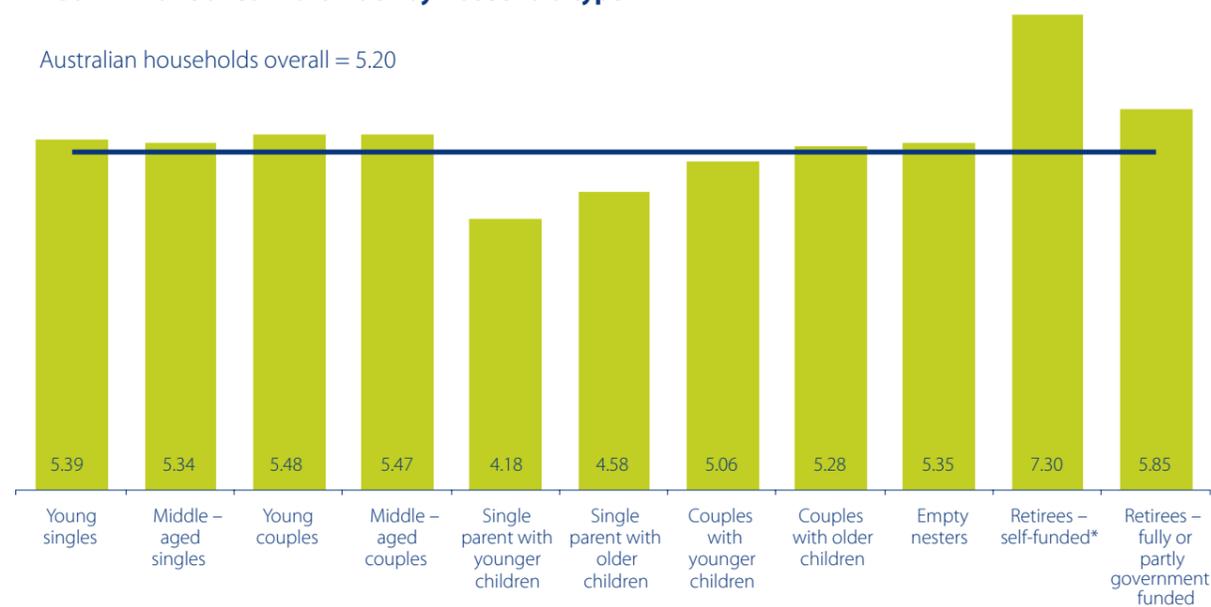


Figure 3: The ME Bank Financial Comfort Index by household.

What aspects of their finances are Australian households most comfortable about or concerned with?

The financial aspects Australian households were most comfortable with were monthly expenses and debt levels. Causing the greatest household concern were short-term cash savings and long-term investments.

Comfort levels were highest with respect to:

- Managing and paying their monthly expenses (62% of Australian households were somewhat or very comfortable) – comments from respondents suggested that there was greater concern on how rising prices would influence their ability to save rather than their ability to manage the expenses per se.
- Their current level of debt from all sources (55% of Australian households were somewhat or very comfortable). Debts were thought to be manageable when savings buffers were not eroded.

Figure 4 shows Australian households had the lowest comfort levels with regards to

- Current cash savings (overall, 24% of respondents were very uncomfortable with their household’s level of cash savings). Retirees and Middle-aged singles / Couples without children felt the most comfortable while Single parents felt the least.
- Current level of investments (including investment property, superannuation, shares, bonds and managed funds) – again 24% of respondents reported being very uncomfortable.



“ Our biggest worry is where the Australian economy will be in the next five to 10 years. Our positive aspect is that I think we are still young and its time now to get serious with finance and try to improve our savings. We need to sort out investments in the next five years. ”

Comfort levels with household financial situation

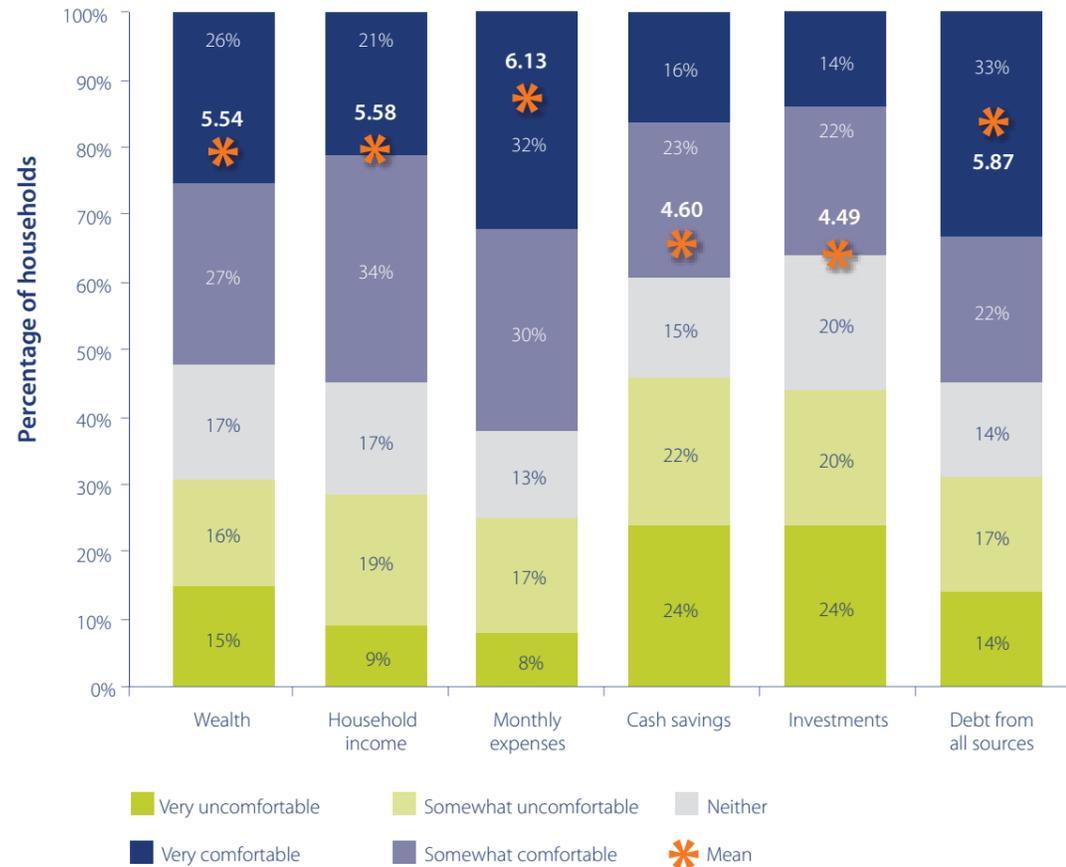


Figure 4: Household comfort levels for different financial aspects.

What are the saving dynamics of Australian households?

One-half of households were saving and the majority of households had some buffer to withstand job loss or a financial emergency; however up to one-quarter of households did not feel that they could withstand a financial emergency.

With regards to the balance of spending and saving of household monthly income:

- 49% of survey respondents indicated that their household spent less than they earned each month, with an average of \$850 left over per month (or over \$10,000 per annum).
- Young singles / couples were most likely to indicate that they had excess cash at the end of the month with 65% saying that they spent less than they earned. Similarly, a higher proportion (54%) of Mid-aged singles / couples compared to overall reported that they spent less than they earned each month.
- 51% of households were not saving – 41% of respondents reported that they ‘broke even’ each month – spending all of their income and no more; and the remaining 10% spent more than they earned by drawing on savings, loans, credit or equity in their home.
 - On average, households that were spending more than they earned each month were spending an additional \$541 (almost \$6,500 per annum) above the household income.
- 24% of households reported that they could only afford the essentials and did not have money left over or couldn’t afford to pay for essential items or services. Over the last year, among these households:
 - 57% did not pay electricity, gas or telephone bills on time.
 - 54% had asked for financial help from friends or family (compared with 27% who asked for help from welfare / community organisations).
 - 37% were unable to heat / air condition their home.
 - 31% could not pay their mortgage or rent on time.
 - 28% went without meals.



“ Biggest worry is not having (the) time to access financial institutions for wealth creation strategies when you work full time. Positive aspect is living debt free outside mortgages. ”

Across household type segments, some Australians were confident that they have enough cash on hand to maintain their lifestyle for three months if they lost their income (see Figure 5):

- 15% of Australian households were highly confident that they could manage to maintain their lifestyle for three months if they lost their income. This ranged from a high of 23% for Empty Nesters, 22% of Retirees to a low of 10% and 11%, respectively, for Single parents and Couples with young children.
- However most frequently, Australian households said that they could manage for one to two months (34% of households) or they didn't know how long they could manage (27%). About 40% of Young singles / Couples without children and Couples with young children reported were most likely to say that they only had savings that would last for one to two months (42% and 41%, respectively).



“ Our biggest worry is what will happen if the s*** hits the fan and we need emergency money. Apart from our savings we have nothing to fall back on. ”

Confident enough cash on hand to maintain lifestyle for three months

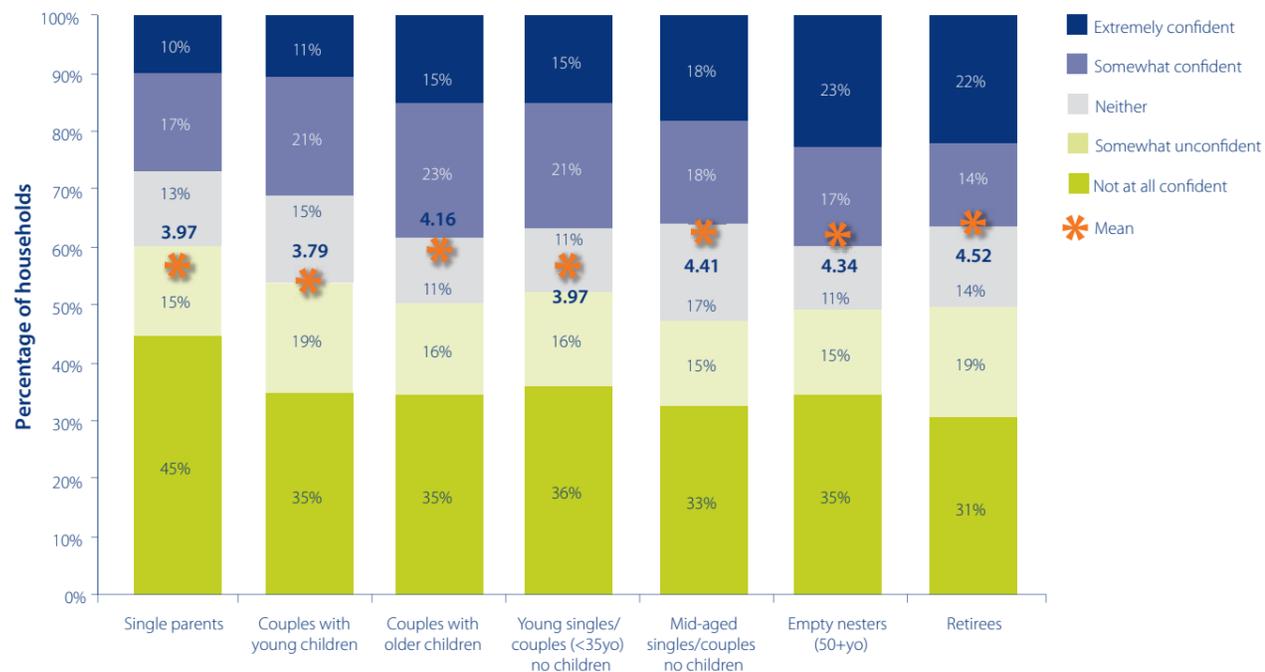


Figure 5: Household confidence regarding cash on hand.

How does household financial comfort relate to the different components of household finances?

The ME Bank Financial Comfort Index indicates that high household financial comfort was strongly driven by household superannuation balance and to a lesser extent, property value.

Household net wealth had a significant impact on financial comfort as measured by the ME Bank Financial Comfort Index – there are steep increases in net wealth at high scores. In contrast, households with very high incomes had only slightly higher financial comfort than households with lower income levels (see Figure 6). A very low comfort index of 1–2 is characterised by households with an average net wealth of about \$20,000, while the corresponding figures for ‘average’ and ‘very high’ financial comfort levels are over \$237,000 and \$1.1m.

Compared to net wealth, household income and cash left over in a typical month show a lesser impact on household financial comfort – average household income for survey respondents was \$74,000 per year. Households with lower than average Index results also had lower than average household income and negative cash left over in a typical month (i.e. they were spending more than their income). Household income and cash left over in a typical month had a moderate effect on household comfort level although this relationship was not as strong as the impact of superannuation holdings (see Figures 6 and 7). Not saving is also a significant at very low comfort levels.

The main components of household wealth are the value of superannuation and of owner-occupied property, and as such, are key underlying assets accounting for above average financial comfort levels. An examination of the individual financial aspects that make up wealth suggests that the value of major household assets (including superannuation savings, and to a lesser degree, property) are key drivers of higher financial comfort (see Figure 7). High-to-very-high comfort levels were observed when household superannuation balances were greater than approximately \$200,000. For other assets, the relationship was flat across comfort levels – i.e. suggesting a much lower impact of these attributes on household comfort.

In terms of household liabilities, relatively low levels of mortgage and non-mortgage debt (especially relative to assets and income) do not have a major negative impact on the financial comfort of the average Australian household.

An average level of household income and a relatively moderate amount of debt supports financial comfort, but a significant amount of wealth provides assets to fall back on and allows a family to cope with sustained financial stress associated with unemployment, poor health or some other unexpected life event.



“ The most positive aspect is owing nothing, owning (our) house and car as well as having approximately \$500,000 in long-term deposits. Biggest worry is the \$200,000 we have in superannuation going backwards, as well as the rapidly rising cost of living. ”

Relationship between ME Bank Financial Comfort Index and financial aspects (\$)

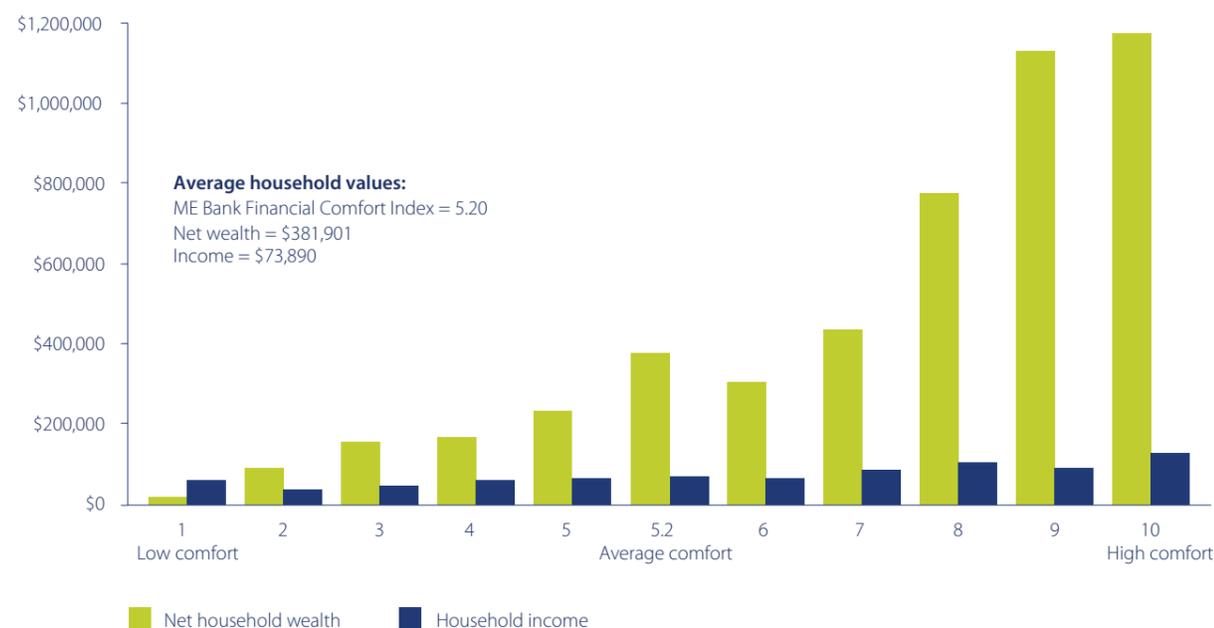


Figure 6: Relationship between ME Bank Financial Comfort Index, net wealth and income.

Relationship between ME Bank Financial Comfort Index and financial aspects (\$)

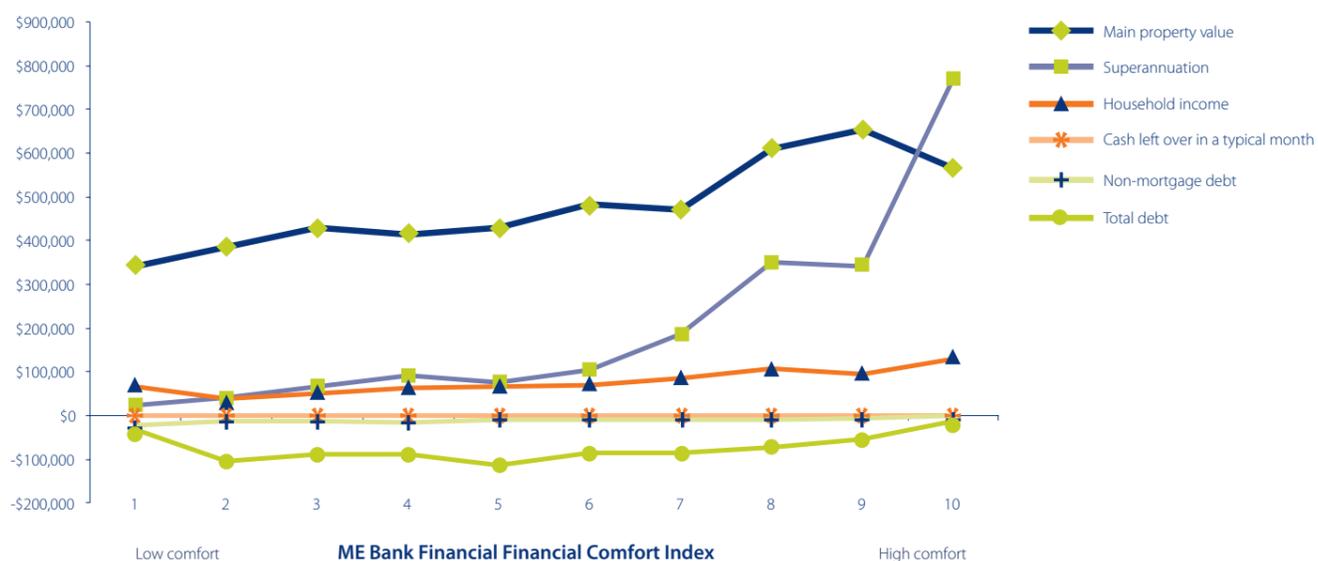


Figure 7: Relationship between ME Bank Financial Comfort Index and finances.

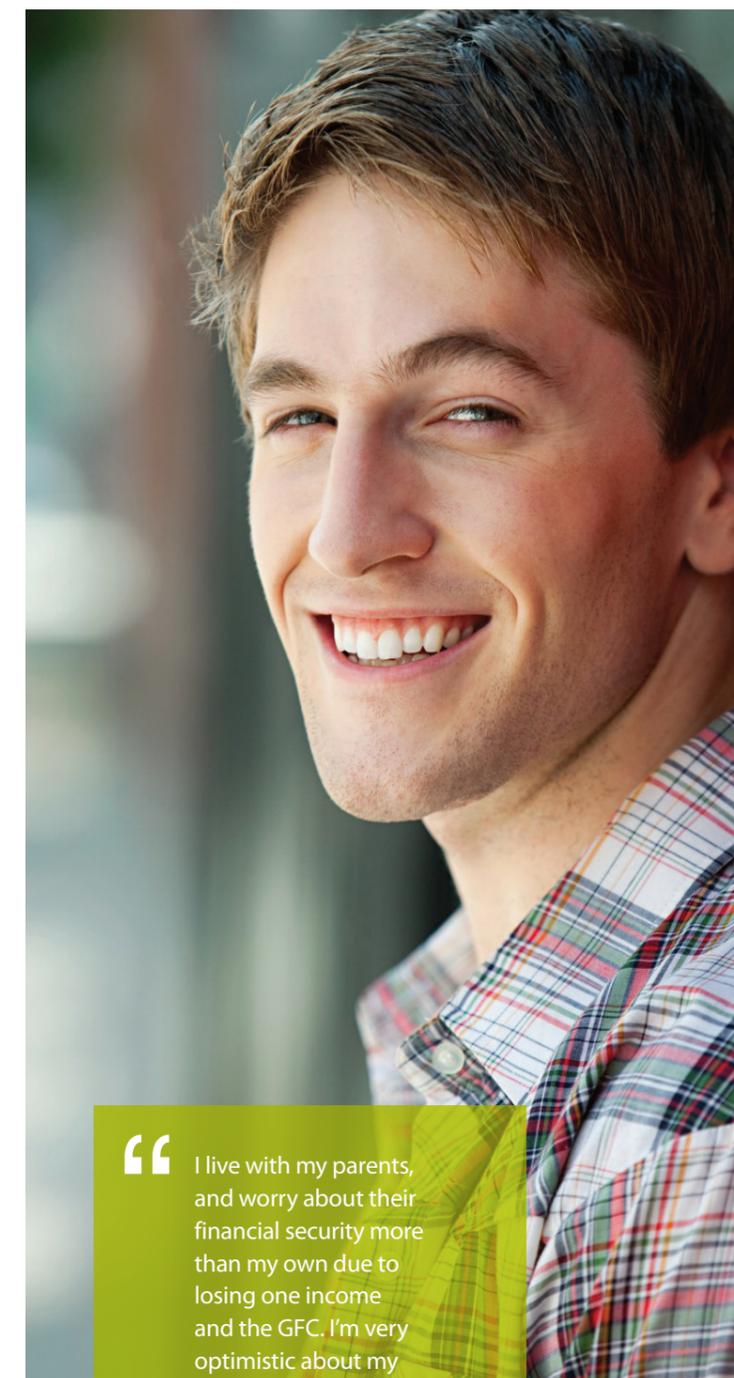
Is there a gap between how Australians feel about their financial situation and how secure they actually are?

Analysis of how comfortable Australian households felt about their financial situation along with their reported financial details (wealth, income and debt) showed that a majority of households were realistic about their financial situation.

Using the data collected from survey respondents about their financial situation, it was possible to predict the ME Bank Financial Comfort Index for households (see Appendix for additional detail). These expected comfort levels were compared to actual (i.e. from the comfort ratings provided by survey respondents to understand which households):

- Overestimated comfort (household's actual comfort level is higher than would be expected from the financial situation of the household).
- Had realistic comfort (household's actual comfort level is the same as would be expected from the financial situation).
- Underestimated comfort (household's actual comfort level is lower than would be expected from the actual financial situation).
 - It is important to note that we have not assessed whether or not the financial situation of a household provides a sustainable and reasonable standard of living. Instead, we have focused on the propensity of household segments to be characterised by an overestimate or underestimate of their financial comfort based on objective measures of their net wealth, income and debt.

Across Australia, 66% of households are realistic about their financial situation – their comfort level matched what was expected for their financial situation. However, at the extremes, 17% of households overestimated comfort with their financial situation relative to their actual finances and 17% underestimated their comfort levels (see Figure 8).



“ I live with my parents, and worry about their financial security more than my own due to losing one income and the GFC. I'm very optimistic about my finances in future, and want to help them as much as I can. ”

Retirees and Young couples had the highest proportion of realists – within these segments, financial comfort levels largely matched what was expected given their financial situation.

Household types were considered relative to their peer group to assess the mindsets of Australian households relative to others in a similar household situation (see Figure 10). When this was taken into account:

- The highest proportion of realists was found for Retirees (self-funded) and Young couples. Both of these segments were more likely to report that they took a strong interest in their finances compared to households overall. Do these results suggest that these household types are more pragmatic and realistic about their financial situation?
- The optimism of youth (e.g. 47% of Young singles overestimated their financial comfort relative to the Australian average financial comfort and financial situation) yields to more pragmatic comfort levels when compared to peers (i.e. other Young singles) – 12% of Young singles overestimate their comfort level relative to their peer group.

- There is greater polarity among Middle-aged couples and Single parents with older children – these segments have the lowest proportion of realists.
- Relative to their peers, underestimates of comfort are highest among Middle-aged couples (28%) and Retirees who are partly or fully funded by the Government (23%).
- Overestimation of financial comfort relative to peers is most common among Single parents with younger children (29%) and Single parents with older children (27%).



“ Being self-funded retirees, we are particularly worried about the GFC and world situation becoming much worse. Whilst Australia is in a good position at present, this will not last when the US and Europe situation worsens – as it surely will. ”

Comparing reported household comfort level with expected comfort

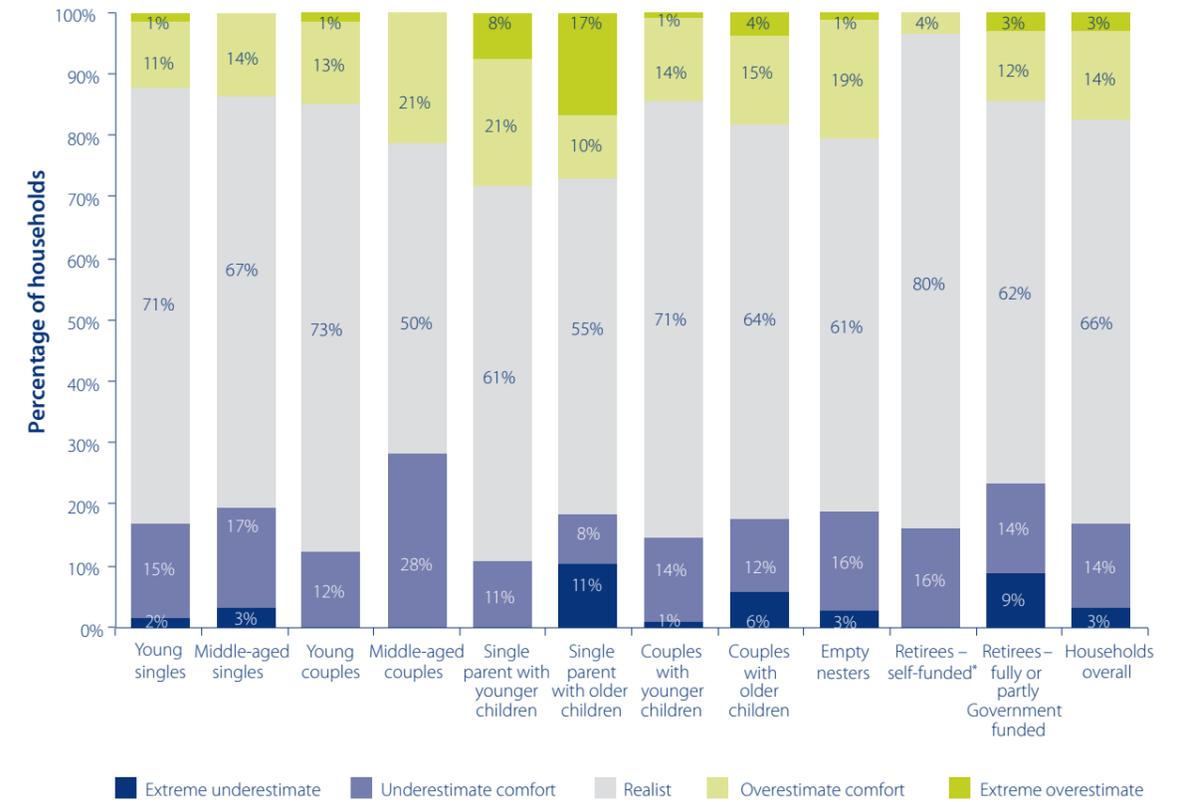


Figure 8: The gap between household-reported comfort level with anticipated comfort level based on actual financial situation.



“ (Our) biggest worry is that the global financial problems of other countries are impacting on this country and that if it gets worse our situation may become even worse. Most positive is that we own our home and do not have a mortgage or loan. ”

How much interest do Australians take in their finances and how do they feel about managing their finances?

Australians report taking a strong interest in their finances which is likely to be contributing to their realistic perceptions of their household financial situation. However some household types struggle with feelings of helplessness.

Australians largely take a strong interest in their finances (59% strongly or somewhat agree; see Figure 9). Many respondents commented on global economic uncertainty and concern over how their household would be affected.

Australians most often **disagreed** that they felt helpless when managing their finances (56% strongly or somewhat disagree – see Figure 10), yet nearly one-third (29%) of Australian households either strongly or somewhat agreed that they felt helpless when it came to managing their finances.

Single parents were twice as likely to strongly agree that they felt helpless when managing their finances (30% of Single parents compared with 16% of Australian households overall).

Take a strong interest in finances, super and investments

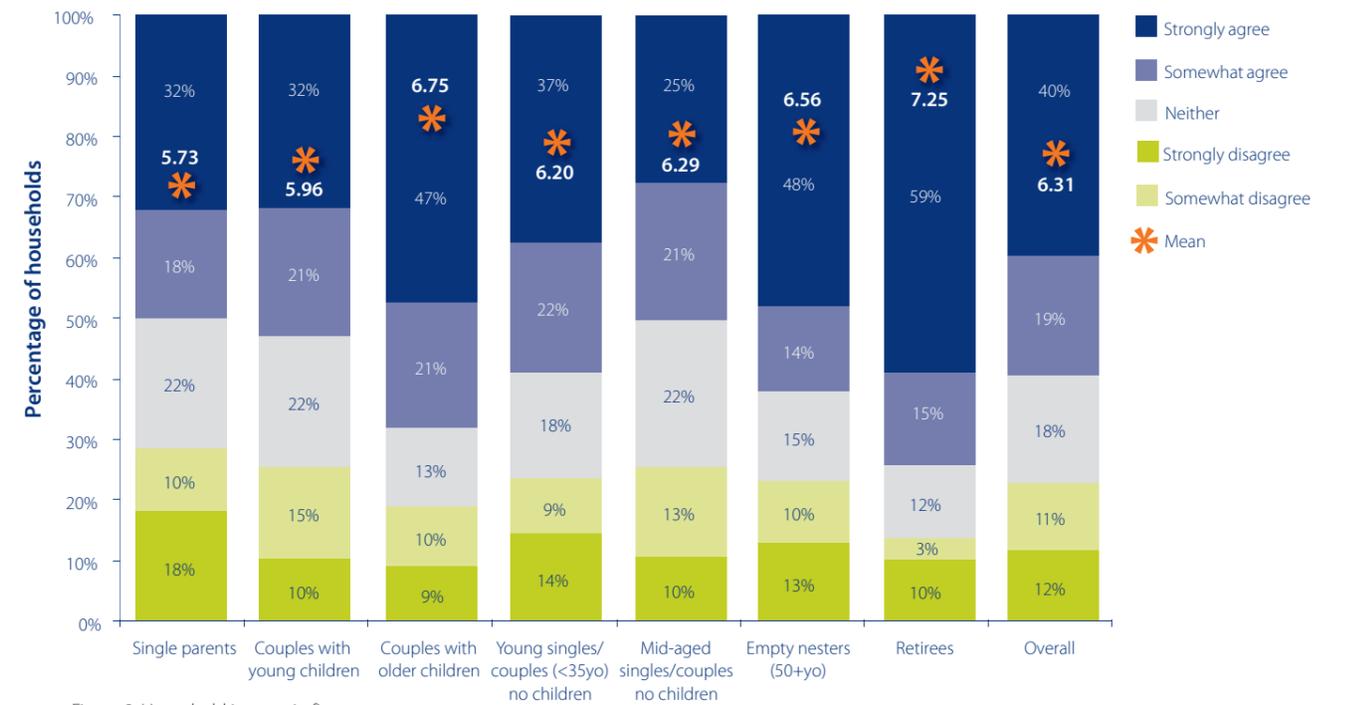


Figure 9: Household interest in finances.

Feel helpless when managing finances

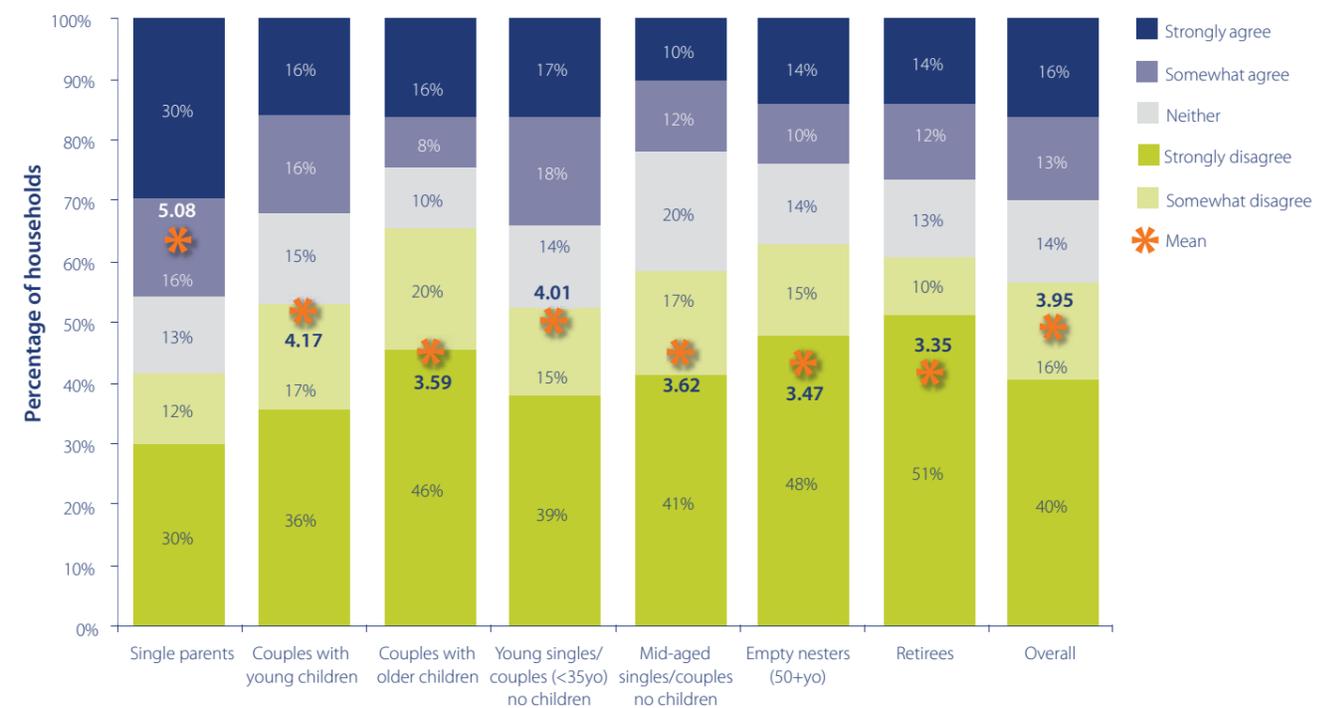


Figure 10: Household helplessness related to financial management.

Household type statistics

	ME Bank Financial Comfort Index	Average net wealth	Average yearly income
Young singles	5.39	\$195,507	\$58,812
Middle-aged singles	5.34	\$248,432	\$61,243
Young couples	5.48	\$187,322	\$98,505
Middle-aged couples	5.47	\$298,307	\$94,342
Single parent with younger children	4.18	\$79,276	\$44,084
Single parent with older children	4.58	\$298,799	\$53,673
Couples with younger children	5.06	\$272,892	\$81,944
Couples with older children	5.28	\$540,844	\$83,269
Empty nesters	5.35	\$612,061	\$62,302
Retirees – self-funded	7.30	\$1,567,820	\$76,562
Retirees – fully or partly Government funded	5.85	\$624,922	\$41,956
Australian households overall	5.20	\$381,901	\$73,890

Appendix: Methodology

ME Bank commissioned DBM Consultants to develop the Household Financial Health Dynamics Study with Economics & Beyond and Baker Group. This first wave of research included an online survey in early October 2011 with 1,486 Australians aged 18 years and older who did not work in the market research or public relations industries. For analysis, the sample was weighted according to ABS statistics on household composition, age, state and employment status to ensure that the results reflected Australian households.

An extensive review of other financial health / comfort indices and the academic literature suggested that a number of factors contribute to self-assessments of financial well-being and comfort. As such the ME Bank Financial Comfort Index incorporates 11 measures of how households feel about their financial situation, these include:

- Comfort level with (1) the overall financial situation of the household.
- Changes in household financial situation (2) over the past year and (3) anticipated in the next year.
- (4) Confidence in the household's ability to handle a financial emergency.
- Comfort levels with (5) household income, (6) living expenses, (7) short-term 'cash' savings and (8) long-term investments, (9) debt, (10) overall net wealth, and (11) the household's anticipated standard of living in retirement.
- To provide contextual insight for the Index for the first wave of research, respondents were asked to rate how comfortable they would be with their current overall household situation if they were feeling 'occasional stress or worry', and also if they were experiencing 'financial problems which require significant lifestyle change' (Figure 1 of this report, page 7).

To collect data on how households felt about their financial situation via household financial comfort, confidence with finances and anticipated change in finances, we used 0–10 scales anchored by descriptive terms 'not at all comfortable' to 'extremely comfortable' (comfort), 'not at all confident' to 'extremely confident' (confidence) and 'worsen a lot to improve a lot, with a mid-point of 'stayed the same' (anticipated change). Questions to collect household actual financial data included those that asked for dollar amounts or dollar range as well as actual behaviour (e.g. whether or not their household was able to save money during a typical month).

Calculating 'the gap': A logistic regression model including the variables net wealth, income, total debt and household type was used to understand the relationship between these variables and their interaction with household financial comfort. This allowed for a determination of the expected financial comfort of individual households based on their situation. Expected comfort levels were compared to actual (i.e. from the comfort and confidence ratings that survey respondents gave us) to understand which households exhibited:

- Overestimated comfort – household's actual comfort level is >1.5 points higher than would be expected from the financial situation of the household;
- Realistic comfort – household's actual comfort level is approximately as would be expected from the financial situation; and
- Underestimated comfort – household's actual comfort level is >1.5 points lower than would be expected from the actual financial situation.

Further information

The ME Bank Household Financial Health Dynamics Study also examined:

- Financial management behaviours.
- Home ownership and the use of home equity.
- Household ability to manage debt over the next 12 months.
- Risk vs. financial comfort profiling.

For additional information, contact Aimee Suchard-Lowe (aimee.suchard-low@mebank.com.au) at ME Bank.

Disclaimer

Members Equity Bank Pty Ltd ABN 56 070 887 679 ("ME Bank") has prepared the *ME Bank Household Financial Health Dynamics Report* ("the Report"). Information in the Report is current as at December 2011 and is subject to change. The Report has been prepared in good faith however we make no representation and give no warranty as to the accuracy, reliability, or completeness of the information contained in the Report. Neither ME Bank nor the Industry Super Network (ISN) accept any responsibility in any way for the report or for your use of the Report for any purpose.