THE FINANCIAL PSYCHOLOGY OF AUSTRALIAN HOUSEHOLDS.

INSIGHTS FROM NATIONAL RESEARCH.

HOUSEHOLD FINANCIAL COMFORT REPORT.

FIFTH SURVEY - DECEMBER 2013.

me Bank

BANK FAIRER.

ABOUT THIS REPORT.

The ME Bank *Household Financial Comfort Report* provides in-depth and critical insights into the financial situation of Australians based on a survey of about 1,500 households.

This Report presents the findings from the fifth survey conducted in December 2013.

The Report includes but is not limited to, the Household Financial Comfort Index, which measures ongoing changes to households' perceptions of their own financial comfort, by asking respondents to estimate their financial comfort as well as their expectations and confidence across 11 measures. The Index provides important insights into the changing financial and economic psychology of Australian households.

The *Household Financial Comfort Report* reflects ME Bank's mission to understand the financial mindset of Australian households in order to deliver a fairer banking alternative. Over time, the Report will track changes in comfort and in doing so, highlight the ongoing – and potentially shifting – differences between household types, in terms of financial comfort and behaviours in managing finances.

ABOUT ME BANK:

ME Bank is 100 per cent owned by Australia's leading industry super funds. It provides members of eligible 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 *Household Financial Comfort Report* – Baker Group, DBM Consultants and Economics & Beyond.

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ONE: EXECUTIVE SUMMARY.

Rising job insecurity and continued financial caution with investments and debt are two standout findings in this latest *Household Financial Comfort Report*.

Job insecurity is now a 'top three' concern among households, rising 5% to 31% of households in the past six months to December 2013, while concern about 'finding a new job within two months if unemployed' also rose 1% to 55% of the working population, over the same period.

The rise in job insecurity, a result of increasing unemployed persons and increasing casual/part-time jobs, is exacerbated by a relatively low level of household comfort with emergency cash buffers and more generally, current savings and investments.

The number of households struggling to save each month increased 2% to 51% in the past six months, while 46% have less than $5000 in savings for an emergency. Only 26% are building up 'rainy day' savings, 11% are spending more than they earn and 5% are using equity in their own home to make ends meet month to month.

Households are still relatively cautious when it comes to their finances and, in particular, are avoiding risks with their investments, with overall risk-avoiders outnumbering risk-takers 37% to 18% (45% neutral). 'Self-funded retirees' had the highest number of risk-takers to risk-avoiders (32% to 19%), compared to Gen Y (21% to 37%) and Gen X (21% to 33%), Baby Boomers (17% to 37%) and 'government-funded retirees' (10% to 58%).

In another sign of caution, of those households with savings, 34% continue to pay off their debts as fast as they can.

Overall, household financial comfort was 5.52 out of 10 in December 2013, a moderate level of comfort and largely unchanged in the past six months, although at its highest level since the Index was established in October 2011.

During the past six months, an improvement in household comfort with income was largely offset by small declines in most other key drivers of household finances. In December 2013, households continued to be least comfortable with their ability to maintain their lifestyle if they lost their income for three months (unchanged at 4.52 out of 10), and to a lesser extent, their amounts of investments (up 2% to 4.9 out of 10), cash savings (small fall to 4.97 out of 10), and their anticipated standard of living in retirement (small fall to 5.06 out of 10). In contrast, households continued to be significantly more comfortable with their ability to manage their current living expenses (small fall to 6.49 out of 10), amount of debt (small fall to 6.01 out of 10), and household income (up 3% to an index of 5.86 out of 10).

In terms of households, significant rises in financial comfort among 'retirees' (up 5% to 5.4 out of 10), especially 'self-funded retirees' (to 7.2), as well as 'couples with older children' (up 6% to 5.7), were offset by a sharp fall in financial comfort among 'single parents' (down 5% to 4.7), notably single parents dependent on government payments (to 3.4).

While 'retirees' and 'couples with older children' are benefitting from rising equity and to a lesser extent housing markets, single parent households are concerned by the announcement to tighten government assistance and parenting payments from 1 January 2014.

At a state level, there are also disparate and rebalancing trends, with household financial comfort down significantly in the mining and energy resource intensive states, including Western Australia (to 5.7 out of 10), Queensland (5.2), and Northern Territory (4.4) as well as South Australia (5.2), while comfort has improved in New South Wales (5.7) and Victoria (5.6).

TWO:
ECONOMIC CONTEXT.

Overall, Australian households have continued a more prudent approach to finances during the second half of 2013. On a positive note, there has been a further strong boost to net wealth at the aggregate level from higher equity prices and house price rises in some major cities as well as easing debt burdens from lower borrowing rates and prepayment of loans. In contrast, real incomes gains (after rising consumer prices) have remained modest; gearing is still relatively high; and the labour market has remained weak.

Recent trends in official estimates and other private sector reports are:

- **Consumer confidence fell sharply in December**, to return to levels reported in July and slightly above its long-run average level.
- **Labour market conditions remained weak** with subdued forward-looking indicators. In trend terms, there have been no job gains in the past half-year, with continued job shedding in full-time employment largely offset by part-time job gains. The broader measure of labour under-utilisation rate (both unemployed and under-employed) or the unused labour supply was 13.4% in November, compared with 13% in May and 12.5% in November 2012.
- **Household labour income gains have remained slow**, reflecting the fall in full-time employment, a continued lift in part-time job gains and subdued average wages growth. Household consumption spending has kept broadly in line with slower income growth. There has been a continued shift from spending on discretionary to essential items. As a result, savings have remained relatively high, at about 11% of disposable income in the September quarter, largely unchanged over the past couple of years and well above the long-term average.
- **Consumer inflation has remained moderate** – in both 'total' and 'underlying' terms at about 2.6% during 2013 – albeit with some marked variations across items.
- **The housing sector has strengthened further.** While spending on new dwelling investment has risen modestly, housing sales have picked up, and house prices, across capital cities, on average, are up 10% during 2013 - boosted by a very strong performance in Sydney and to a lesser extent Melbourne and Perth and modest gains elsewhere.
- **Growth in household debt has remained subdued**, largely due to a high pace of mortgage repayments. The amount of housing credit increased at an annual rate of about 5% in the second half of 2013. In contrast, there has been a very strong pickup in housing approvals for repeat owner-occupiers and investors, responding to relatively low interest rates and rising house prices. Demand by first-home buyers remains subdued, following changes to grants in most states during the past year. Other personal loans have stabilised in the past six months, after falling since mid-2011.
- **The value of household assets, on average, has increased significantly** mainly reflecting a significant rise in share prices during the second half of 2013 and to a lesser extent, an increase in residential property prices. Long-term retirement savings in superannuation have also recorded a significant rise largely due to a pickup in asset returns and continued compulsory contributions, rather than voluntary savings.
- **Household investment preferences have remained relatively conservative** – arguably reflecting ongoing high gearing (debt to assets) and risk aversion. Households with debt have continued to make larger than minimum loan repayments, and build cash savings in bank deposits, rather than investments such as equities, bonds and managed funds.
- Despite the soft labour market and subdued income gains, stress indicators continue to show **households as a whole are coping reasonably well with debt** due to relatively low borrowing costs. This masks a great deal of variation among Australians. A small majority (typically older with higher incomes in owner-occupied housing) are well ahead of scheduled mortgage repayments and have little, if any, credit card debt. But there is a small share of highly geared households with high debt servicing costs.

THREE:
HOUSEHOLD FINANCIAL COMFORT.

3.1 HOUSEHOLD FINANCIAL COMFORT INDEX.

Australian households had a medium level of financial comfort in December 2013.

As measured by the Household Financial Comfort Index, household financial comfort was 5.52 (out of 10) in December 2013, unchanged from the corresponding figure of 5.50 in June 2013, but significantly higher than readings of 5.29 a year earlier and 5.20 over two years ago (Fig 1). Put another way, household financial comfort plateaued in the second half of 2013, at its highest level since the Index was established in October 2011.

The current financial comfort score of 5.52 is consistent with those reported when Australian households feel 'occasional stress or worry', rather than when 'financial problems require significant lifestyle change'.

HOUSEHOLD FINANCIAL COMFORT INDEX.

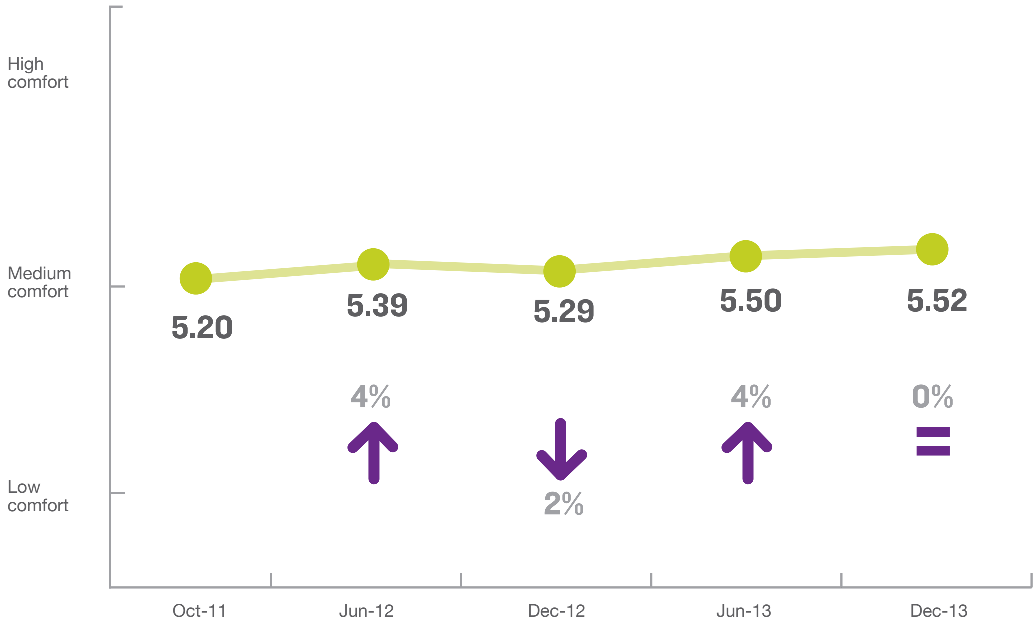


Figure 1 - Financial comfort levels of Australian households over time showing % change from the previous survey.

HOW IS THE INDEX CALCULATED?

The *Household 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. Respondents rate their household financial comfort, expectations, and confidence on a scale from 0 to 10 for eleven measures and the Index is derived from their responses. The eleven measures 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), and
- 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.

INSIGHTS.

During the past six months, an improvement in household comfort with income was largely offset by small declines in most other key drivers of household finances, noting that the index is comprised of 11 measures – see 'How the index is calculated?' above.

In December 2013, households continued to be least comfortable with their ability to maintain their lifestyle if they lost their income for three months (unchanged at 4.52), and to a lesser extent, their amounts of investments (up 2% to 4.9), cash savings (small fall to 4.97), and their anticipated standard of living in retirement (small fall to 5.06).

In contrast, households continued to be significantly more comfortable with their ability to manage their current living expenses (small fall to 6.49), amount of debt (small fall to 6.01), and household income (up 3% to an index of 5.86) – see Fig 2.

COMFORT LEVELS ACROSS KEY ASPECTS OF HOUSEHOLD FINANCES

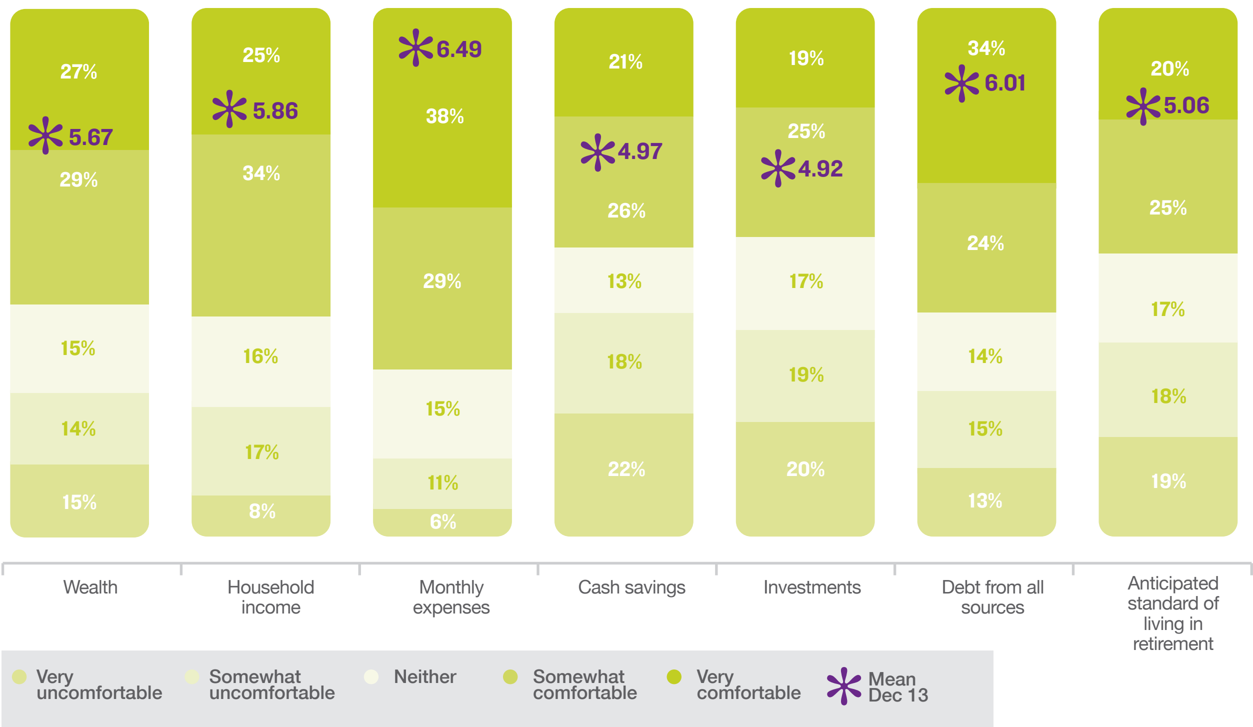


Figure 2 - Comfort levels across key drivers of household finances.

BIGGEST WORRIES

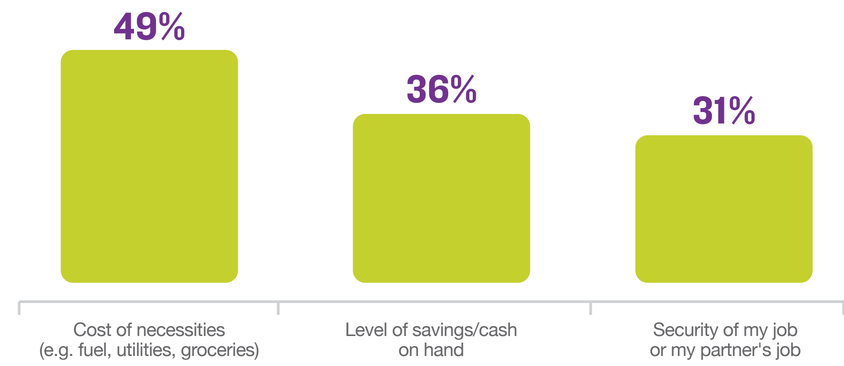


Figure 3 - Thinking more generally about your household finances, which aspects cause you the greatest worry?

BIGGEST POSITIVES

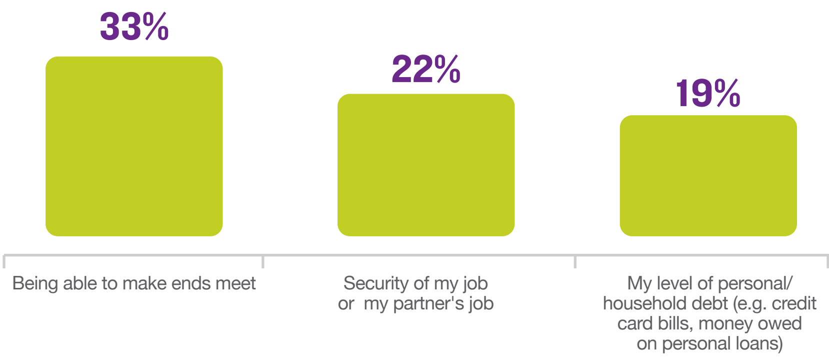


Figure 4 - Thinking more generally about your household finances, which aspects do you feel most positive about?

- **During the past six months, a lack of job security has emerged as a 'top three' worry for households** (up 2% to 31% of households). The other main worries remained the cost of necessities (down 2% to 49%) and cash savings (down 4% to 36%) - see Fig 3.
- To a lesser extent, job security is also among the biggest financial positives (down 2% to 22%), while being able to make ends meet remains the most cited biggest positive (down 3% to 33%) - see Fig 4.
- For households on low comfort levels, 40% cite job security, while only 23% of households with high comfort cite job security as a biggest worry.

JOB SECURITY

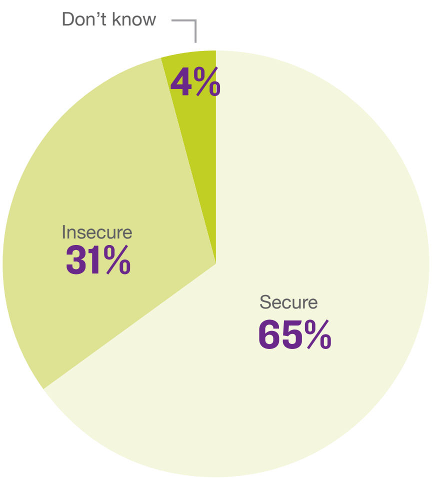


Figure 5- How secure have you felt about your job in the last month?

- **Job insecurity is widespread across the population** with 31% reportedly insecure in their job in the last month. About 25% of Gen Y, 31% of Gen X and 33% of Baby Boomers were insecure about their job in the last month - see Fig 5.
- Women were more secure in employment than men: 67% were secure in their job compared to 64% of men.

3.2 VARIATION IN FINANCIAL COMFORT ACROSS HOUSEHOLD SEGMENTS.

Significant variation in financial comfort exists across households - see Fig 6. In December 2013:

- 'Retirees' had the highest level of financial comfort (6.11), an increase of 5% from June 2013. Within the 'retirees' cohort, there is also a marked dichotomy, with very high comfort amongst 'self-funded retirees' (up 5% to 7.20), while 'government-funded aged retirees' had comfort similar to the "average" household (unchanged at about 5.5)
- 'Couples with older children' was the only other household type that had a significant improvement in comfort: up almost 6% to 5.86 to have the second highest comfort level after 'retirees'.
- 'Single parents' continued to have the lowest level of financial comfort (4.66), after falling nearly 5% from June 2013. However, within single parent households, 'single parents' who mainly rely on government assistance had a very low comfort level of 3.4, while 'single parents' with full-time work had a much higher level of comfort at 5.2 – similar to 'couples with young children'.

	Oct-11	Jun-12	Dec-12	Jun-13	Dec-13	% chg^
Single parents	4.45	4.75	4.52	4.89	4.66	-4.6
Couples with young children	5.06	5.49	5.15	5.34	5.28	-1.1
Couples with older children	5.29	5.62	5.50	5.54	5.86	5.7
Young singles/couples (<35yo) no children	5.44	5.40	5.51	5.83	5.72	-1.9
Mid-aged singles/couples no children	5.42	5.07	5.26	5.55	5.52	-0.5
Empty nesters (50+yo)	5.35	5.22	5.31	5.96	5.81	-2.4
Retirees	5.85	5.82	6.08	5.79	6.11	5.4
Overall average (out of 10)	**5.20**	**5.39**	**5.29**	**5.50**	**5.52**	**0.4**

Figure 6 - Financial comfort by households over time.
(^) Percentage change six months ended December 2013

INSIGHTS.

Comfort levels of retirees (especially self-funded retirees) have been buoyed by the increased comfort with their wealth and incomes driven by the pickup in equity and housing markets and this has also been reflected in their increased confidence about their financial position during the next year and, more generally their standard of living in retirement.

Comfort of 'Couples with older children' has also reached a new high – driven by significant improvements in most aspects of their finances and in particular, their income, savings and investments as well as their anticipated standard of living in retirement. This is also mainly reflects the recent gains in equity and housing markets. Empty nesters also reported significant gains in their savings and investments but continued to lack confidence in their financial situation in the next year and to some extent in their anticipated standard of living in retirement.

The large fall in the comfort of single parents was evident in all key drivers – especially income and savings – and arguably reflects the announcement of the tightening of government assistance/parenting payments to be introduced from 1 January 2014.

3.3 VARIATION IN FINANCIAL COMFORT ACROSS STATES AND TERRITORIES.

Some variation in financial comfort was evident across states and territories - see Fig 7. In December 2013:

- Financial comfort across New South Wales continued to improve for the fourth consecutive survey – up 2.2% to 5.71, or about the same as financial comfort in Western Australia (down 2.3% to 5.71).
- A trend in rising financial comfort in Victoria extended to a full year, increasing 3% to 5.56.
- South Australia and Queensland both fell by 8.7% and 1.9% respectively.

	Oct-11	Jun-12	Dec-12	Jun-13	Dec-13	% chg^
Australian Capital Territory*	5.10	6.22	5.65	6.13	6.66	8.6
New South Wales	5.15	5.24	5.35	5.59	5.71	2.2
Western Australia	5.56	5.64	5.52	5.84	5.71	-2.3
Victoria	5.41	5.62	5.33	5.40	5.56	3.0
Tasmania*	5.16	5.60	4.75	5.01	5.32	6.1
South Australia	5.29	4.84	5.14	5.70	5.20	-8.7
Queensland	4.81	5.37	5.11	5.29	5.19	-1.9
Northern Territory*	5.45	5.30	5.03	5.07	4.43	-12.6
Overall average (out of 10)	**5.20**	**5.39**	**5.29**	**5.50**	**5.52**	**0.4**

Figure 7 - Financial comfort by state, over time.
(^) Percentage change six months ended December 2013. (*) Indicates small sample size.

INSIGHTS.

Similar to broader measures of economic activity, there has been some increased rebalancing of financial comfort of households at a state level over the past six months. Household financial comfort has fallen significantly in the mining and energy resource intensive states/regions, including Western Australia, Queensland and Northern Territory, while on the other hand comfort has improved in New South Wales and Victoria - a positive indicator as Australia's economy transitions from mining to non-mining activity and aims to return overall levels of activity towards potential and eventually lower unemployment.

After a very marked deterioration, South Australia (and Queensland) has the lowest comfort level of any mainland State. Most drivers of financial comfort fell in South Australia – including confidence in their financial comfort in the next year, their ability to maintain living standards in the event of losing their income, comfort with their current income and savings, as well as their anticipated standard of living in retirement. The recent announcements about production and eventual closure in the car industry may have weighed on financial comfort of households in South Australia in December 2013 when the closure was conducted. More generally, households in South Australia (and Northern Territory) were most concerned about their job, with 40% saying it would be 'very difficult' to find work within two months, if they were to become unemployed compared to nationally.

3.4 VARIATION IN FINANCIAL COMFORT ACROSS LABOUR FORCE.

Very significant variation in financial comfort also exist across the labour force - see Fig 8. In December:

- Casual workers had the lowest levels of comfort for people with jobs (down 11% to 4.59 during the six months to December 2013), only slightly above unemployed (down 8% to an index of 4.53).
- In stark contrast, after a large rise, self-employed workers reported relatively high financial comfort (up 11% to an index of 6.02), while full-time paid employees and part-time paid employees were both unchanged at relatively high levels of financial comfort (indexes of 5.83 and 5.33 respectively).

	Oct-11	Jun-12	Dec-12	Jun-13	Dec-13	% chg^
Full-time Self-employed	5.37	5.36	5.48	5.42	6.02	11.0
Full-time paid employment	5.47	5.65	5.46	5.78	5.83	0.9
Part-time Self-employed	5.26	4.87	5.90	5.56	5.45	-2.1
Part-time paid employment	5.01	5.37	5.35	5.42	5.33	-1.6
Casual	4.06	5.07	5.16	5.15	4.59	-11.0
Unemployed	3.98	4.40	4.08	4.95	4.53	-8.3
Overall average (out of 10)	**5.20**	**5.39**	**5.29**	**5.50**	**5.52**	**0.4**

Figure 8 - Financial comfort by workforce status over time
(^) Percentage change six months ended December 2013

INSIGHTS.

In terms of employed persons, casuals had consistently lower levels across all key drivers of financial comfort – in particular, confidence they have enough savings to maintain their lifestyle for three months if they lost their job (down more than 30% to only 2.6), as well as comfort in both current savings and investments (both down 20% to 3.9 and 3.6 respectively).

There is also a very strong link between levels of financial comfort and job security - see Fig 9. In terms of workforce status (employed persons), casual workers report the highest levels of job insecurity and in turn significantly lower financial comfort financial comfort.

THE CORRELATION BETWEEN FINANCIAL COMFORT AND JOB INSECURITY.

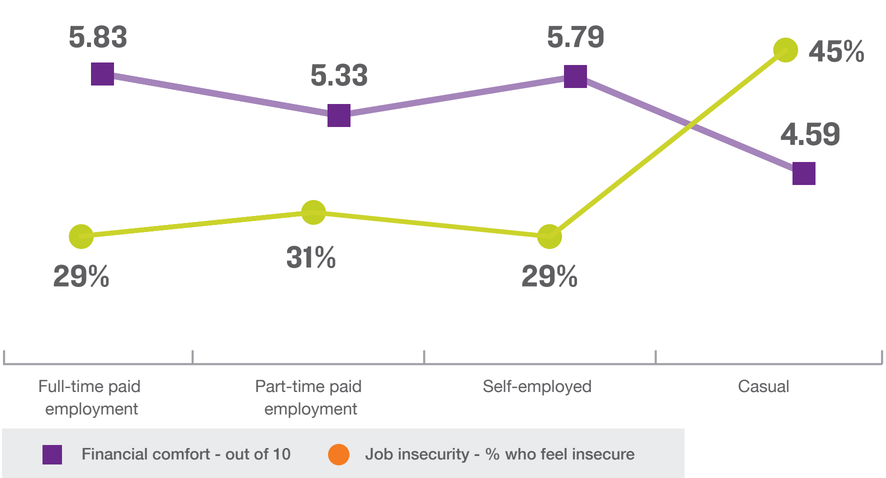


Figure 9 - Financial comfort of working Australians is linked with job insecurity.

- About 20% of casual workers felt very insecure in their jobs with a further 25% feeling somewhat insecure in their jobs. This contrasts with 11% of part-time workers, 7% of full-time workers and to a lesser extent, with 5% self-employed feeling very insecure about their job.
- Over 40% of casual workers reported that if they were to become unemployed it would be very difficult to find another job within 2 months, compared with 33% for part-time employees, 26% for self-employed and 18% for part-time employees.

FOUR:
DRIVERS OF FINANCIAL COMFORT – SOME KEY FEATURES.

4.1 INCOME.

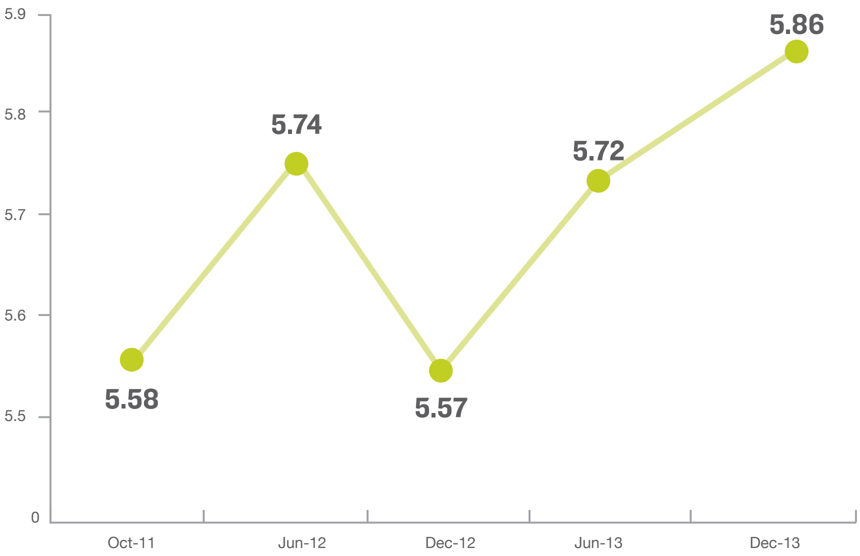


Figure 10 - Comfort with level of income over time.

INSIGHTS

- Overall comfort with level of income was 5.86 out of 10.
- **'Retirees' (6.32) and 'couples with older children' (6.30) had the highest levels of comfort with income.** Both experienced the biggest rises in comfort from June 2013: 9% and 8% respectively.
- **'Single parents' (4.73) recorded the lowest level of comfort with income,** falling 7% from June 2013, the largest decrease of any household.

CHANGES TO INCOME OVER THE LAST YEAR

Figure 11 – Has your household income increased or decreased over the last year?

INSIGHTS

- **More Australians reported an increased income over the past six months (40%) than decreased (25%)**, with the remaining unchanged (35%).
- Across households, 50% of 'young singles/couples no children' reported an increased income, more than any other household.
- **More men than women reported increased income:** 44% compared to 37%

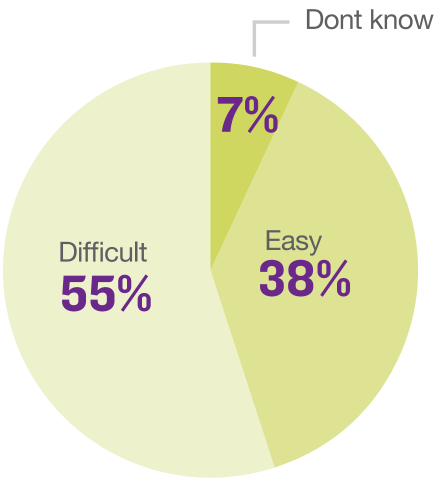
ADEQUACY OF INCOME

Figure 12 – How adequate is your income?

INSIGHTS

- **25% of households said they could not afford essentials or could just afford essentials.**
- **'Single parents' report the least adequate income:** 39% can't afford essentials or can just afford the essentials. Also, in the last six months, 42% could not pay utility bills on time (cf. a 23% average) and 40% said they had relied on financial support from family or friends (cf. a 22% average).
- **Gen Y also are struggling with income adequacy**: in the last six months 30% could not pay utility bills on time (cf. with a 23% average), 37% asked for financial help from friends or family (cf. a 22% average), 22% were unable to heat or air-condition their home (cf. a 15% average), and 22% pawned or sold something to buy necessities (cf a 14% average).

EASE OF FINDING EMPLOYMENT WITHIN 2 MONTHS IF UNEMPLOYED



INSIGHTS

- **A majority (55%) of households said it would be difficult to find a job within 2 months if they became unemployed.**
- Older Australians were more likely to say it would be difficult to find a job within 2 months if they became unemployed: 39% of Gen Y said it would be difficult to find employment within 2 months if they became unemployed compared to 49% of Gen X and 68% of Baby Boomers.
- 78% of casual workers reported it would be difficult to find a job in 2 months if they were to become unemployed, compared with 64% for part-time employees, 52% for self-employed and 50% for full-time employees.

Figure 13 - How easy/difficult would it be to find a job in 2 months if unemployed?

4.2 SAVINGS

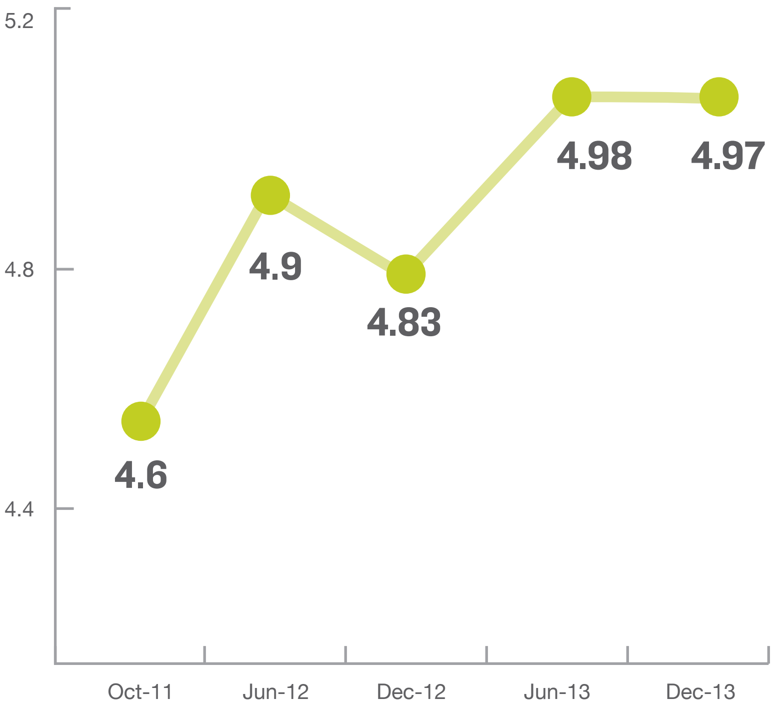


Figure 14 - Comfort with savings over time.

INSIGHTS

- Overall comfort with level of savings was 4.97 out of 10.
- **'Retirees' (5.61) and couples with children (5.43) enjoyed the highest levels of comfort with savings** and both enjoyed the biggest increases in comfort from June 2013 – 3% and 8% respectively.
- **'Single parents' (4.02) had the lowest level of comfort with savings** and had the largest fall with a drop of 12% from June 2013.
- 5% of Australians are using equity in their home to purchase larger discretionary items like a car or fund a holiday.

SAVINGS LEVELS

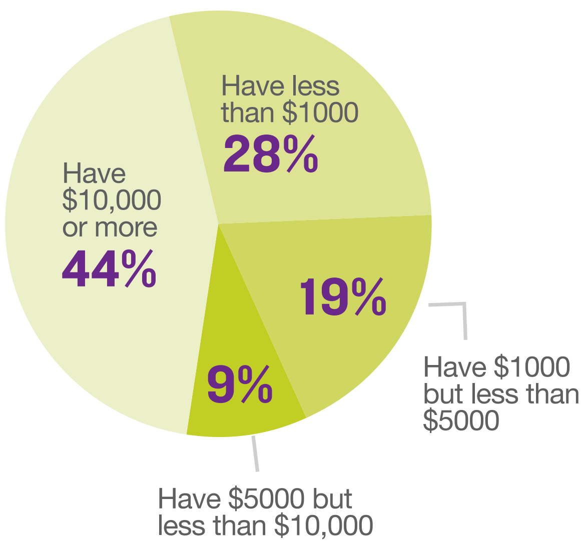


Figure 15 - How much cash savings do households currently hold?

INSIGHTS

- While household savings out of current income is reported at a two-decade high, most **Australian households have a relatively low stock of cash savings –** ie a cash buffer for a 'rainy day' or an emergency.
- 28% of households have less than $1000, 47% have less than $5000 and 56% have less than $10000.

CURRENT ACTIVE SAVINGS PLANS

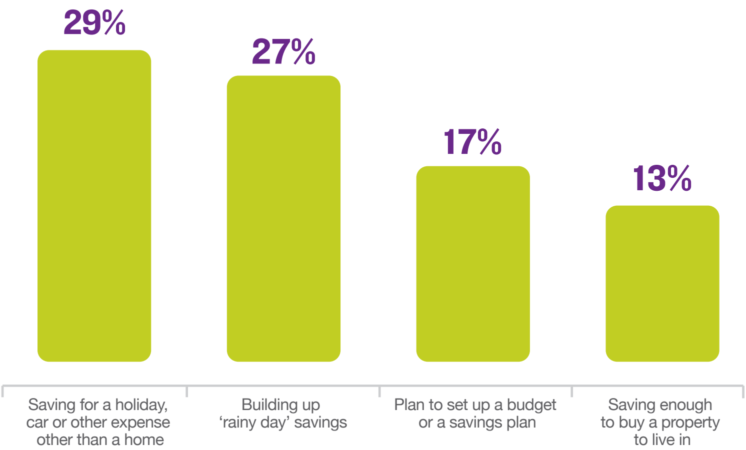


Figure 16 - What are you saving for?

INSIGHTS

- **More Australians are saving for 'a major expense other than a home' (29%) than they are for rainy day savings (27%),** while only 17% are planning on a budget or savings plan.
- Overall 13% are saving for a first home compared to 25% of 'young singles/ couples no children'. 'Young singles/ couples no children' are also more likely to be saving for a holiday, car or other expense with 42% reporting this activity.
- **More women are saving for a rainy day than men:** 31% compared to 22%.
- 'Couples with young children' and Gen Y are the most likely to be setting up a budget or savings plan with 25% of both groups reporting they are engaged in this activity.

OVERSPENDING – BREAKING EVEN – SAVING

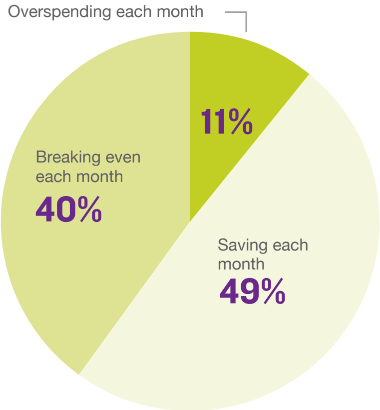


Figure 17 - Do you overspend or underspend?

INSIGHTS

- **The majority of households continue to struggle to save in a typical month.** Only 49% of households typically spend less than they earn each month - a similar proportion set a monthly budget (47%) and stay within their budget (48%).
- A further 40% break even and spend all their income, while 11% spend more than they earn each month (by drawing on savings, loans or equity in their home).

AMOUNT OVERSPENT OR SAVED EACH MONTH

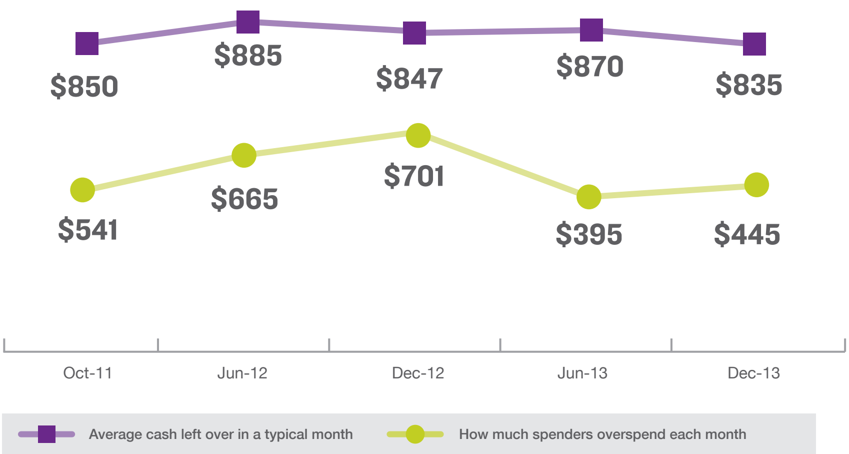


Figure 18 - Amount overspent or saved each month, over time.

INSIGHTS

- **Of those saving each month, the amount saved each month decreased 4%, and of those overspending each month, the amount overspent each month increased 13%.**
- As the proportion of households saving has fallen slightly in the past six months, the dollar amount, on average, has also fallen by about 4% to $835 per month (or slightly over $10000 pa) – slightly less than a year ago.
- In contrast, while overspending increased significantly to $445 per month (or $5340 pa), it remains much lower than a year ago (about $700 per month or $8400 pa).

4.3 DEBT.

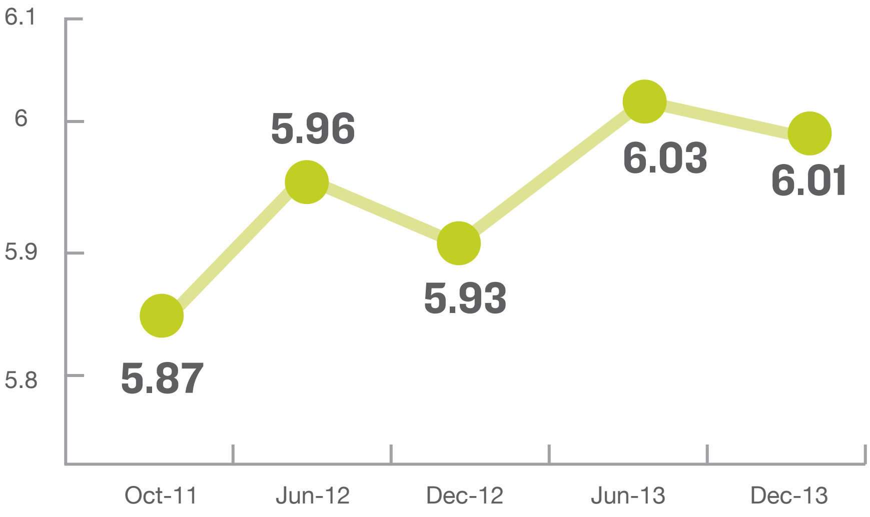


Figure 19 - Comfort with debt over time.

INSIGHTS

- Overall comfort with debt was 6.01 out of 10.
- **'Retirees' (7.64), 'empty nesters' (6.49) and 'couples with older children' (6.37) are the most comfortable with debt**, while 'single parents' (5.21) are the least comfortable.
- 'Couples with young children' (48%) were the most likely to worry about household debt in the last six months, followed by 'young singles/couples no children' (46%).

CHANGES TO TOTAL DEBT OVER THE LAST YEAR

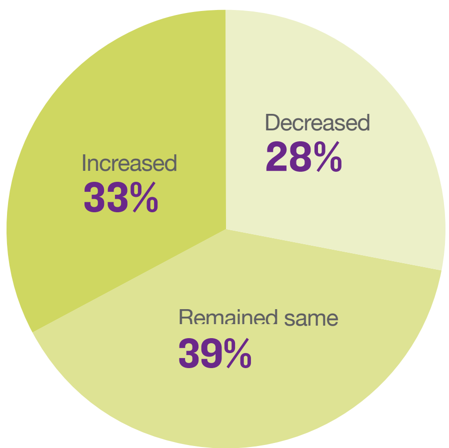


Figure 20 - changes in total debt over last year.

INSIGHTS

- **Household demand for credit remains subdued**, with a relatively small difference between households that increased debt over the past year (33%) and those that decreased debt (28%)
- **A higher propensity to increase debt over the past year was found among 'young singles'** (46%) and 'couples with young children' (37%).
- **The highest propensity to decrease debt over the past year was found among 'single parents'** (32%), while young singles had the lowest propensity to repay debt (21%).

DEBT HABITS – LAST SIX MONTHS

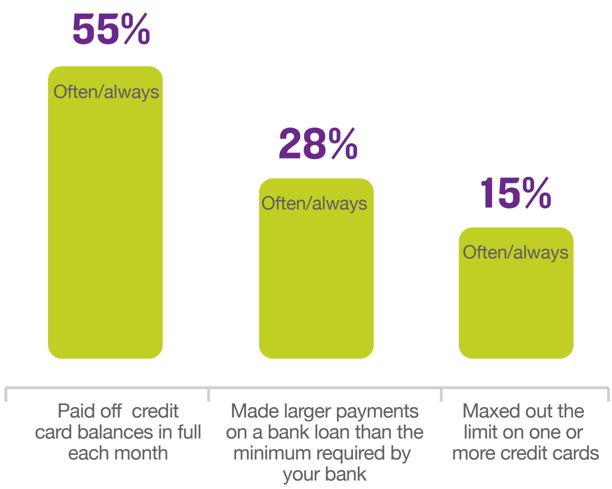


Figure 21 - Debt habits over the last six months.

INSIGHTS

- **Households are looking to pay off debt** and are making larger debt payments than required on their mortgages and typically pay off their credit card each month.
- 35% of middle aged singles/couples reported often or always paying extra into their home loan, the highest of any cohort.

- out of 10

4.4 MONTHLY EXPENSES AND BUDGETING.

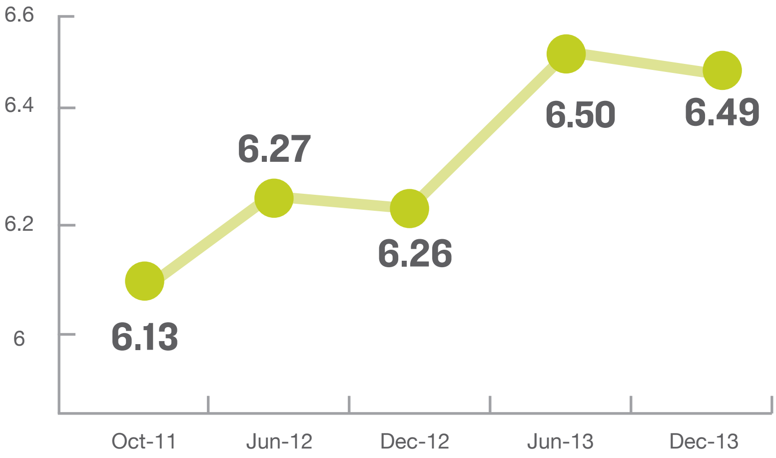


Figure 22 - Comfort with ability to pay regular expenses over time.

INSIGHTS

- Overall comfort with ability to pay regular expenses was 6.49 out of 10.
- **'Retirees' (7.22) and 'couples with older children' (6.92) are the most comfortable with their ability to pay for regular expenses.** 'Single parents' (5.47) reported the least comfort.
- **5% of Australians are currently using equity in their homes to make ends meet from month to month,** including 15% of 'young singles/couples no children' compared to only 2% of 'empty nesters'.

ACTIVITIES TO HELP MANAGE EXPENSES

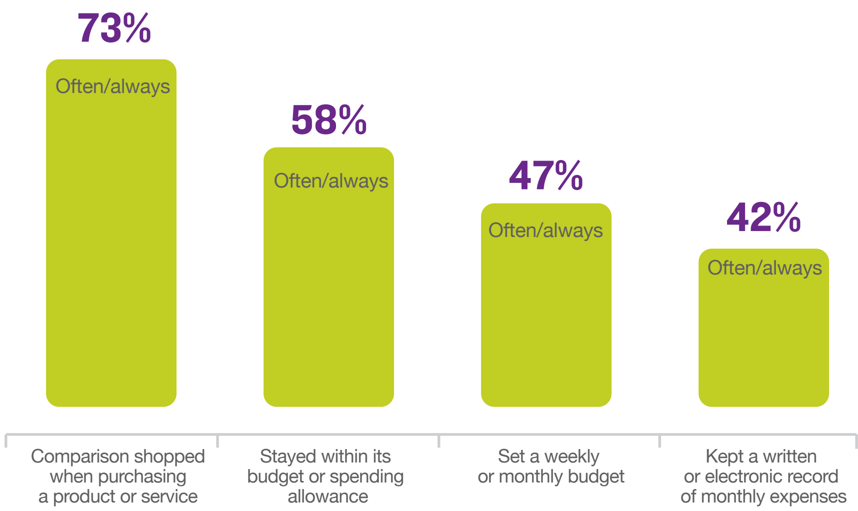


Figure 23 - Planned activities to help manage expenses.

INSIGHTS

- Activities often or always employed by households to manage expenses included comparison shopping (73%), staying within their budget (58%), setting a budget (47%) and keeping an electronic record of monthly expenses (42%).

4.5 INVESTMENTS.

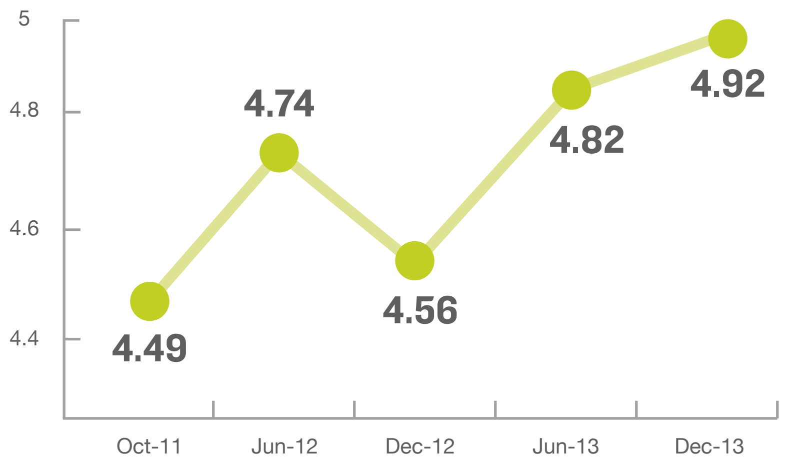


Figure 24 - Comfort with investments over time.

INSIGHTS

- Overall level of comfort in investments was 4.92 out of 10.
- 'Empty nesters' (5.50) and 'couples with older children' (5.36) were the most comfortable with investments. 'Couples with older children' reported the biggest jump in comfort with investments of any household type, by 10%.
- 'Single parents' at 4.10 are the least comfortable.

RISK APPETITE

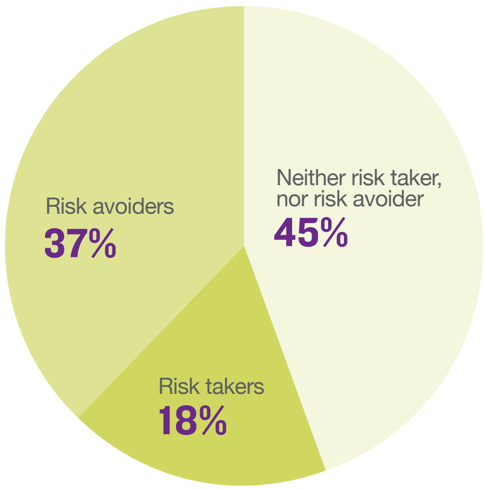


Figure 25 - Australians' appetite for investment risk.

INSIGHTS

- **Overall, Australians are still relatively cautious when it comes to taking risks with their investments.**
- Only 18% of households would take above-average risks to earn extra returns: self-funded retirees have the highest propensity for risk taking at 32% compared to Gen Y and X (both 21%), Baby Boomers (17%) and government funded retirees (10%).
- Men are bigger risk takers than women: 24% of men would take above average risks with their investments compared to 13% of women.

RECENT LEVEL OF INVESTMENT ACTIVITY

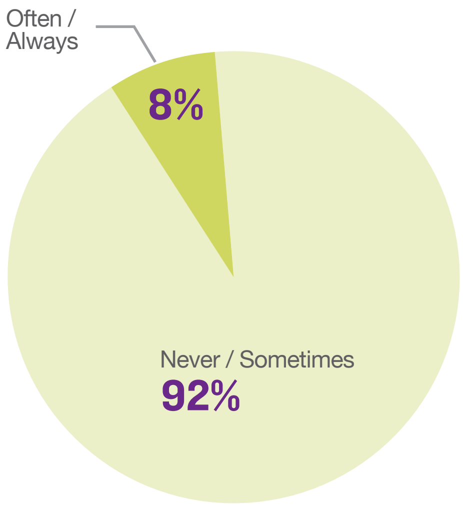


Figure 26 – Australians' investment activity in the last 6 months (buying bonds, stocks or managed funds).

INSIGHTS

- **Only 8% of households reported often/always engaging in investment activity in the last six months.**
- 14% of 'middle-aged singles/ couples with no children' and 12% of 'young singles/couples no children' often/always engaged in investment activity in the last six months, the most likely households to do so.
- **10% of Australians are currently using equity in their home to purchase other investments –** 'young singles/ couples with no children' are the biggest group reporting this activity (16%).

INVESTMENT PLANS

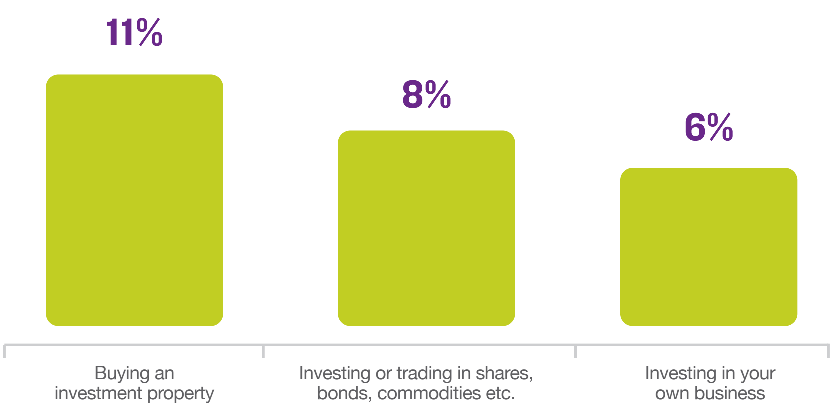


Figure 27 - Australians' investment plans.

INSIGHTS

- **While 11% of households reported buying an investment property as a financial goal, young singles/ couples were the most likely to report this goal (15%)**
- While overall 8% report investing as a financial goal, young singles/couples (12%), 'empty nesters' (13%) and retirees (13%) were the most likely to report this goal.
- More men than women are planning to invest or trade in shares, bonds, commodities (11% men versus 5% women).

4.6 RETIREMENT AND SUPERANNUATION.

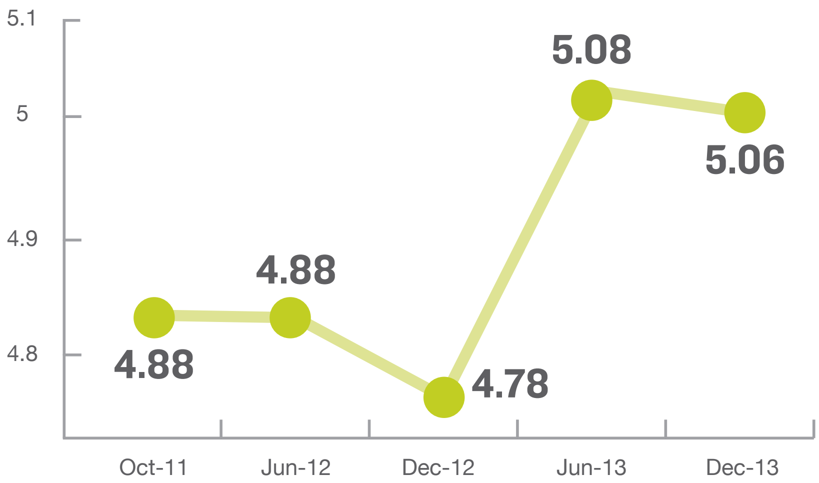


Figure 28 - Confidence with ability to maintain comfort in retirement, over time.

INSIGHTS

- Overall confidence in ability to maintain comfort in retirement was 5.06 out of 10.
- **'Retirees' (5.36) and 'empty nesters' (5.14) are the most confident in their ability to maintain comfort in retirement.** 'Retirees' reported a 14% increase in confidence, while 'empty nesters' reported at 5% fall from June 2013. 'Middle-aged singles/couples with no children' and 'couples with older children' both reported significant increases of 7% each, from June 2013
- **2% of 'retirees' are currently using equity in their own home to fund retirement.**

ADDITION PAYMENTS TO SUPER IN LAST SIX MONTHS

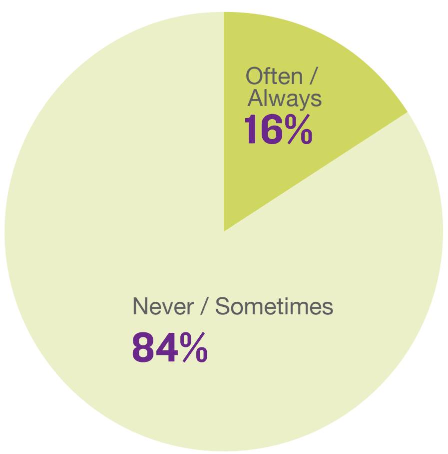


Figure 29 - Have you made additional payments into super?

INSIGHTS

- **Only 16% of households have often/always made additional payments into their super in the last six months.**
- 'Middle-aged singles/couples with no children' were the most likely to contribute additional amounts to super (23%) followed by 'empty nesters' (18%).
- More men contributed additional amounts to super than women: 19% compared to 12%

SELF-RELIANCE IN RETIREMENT

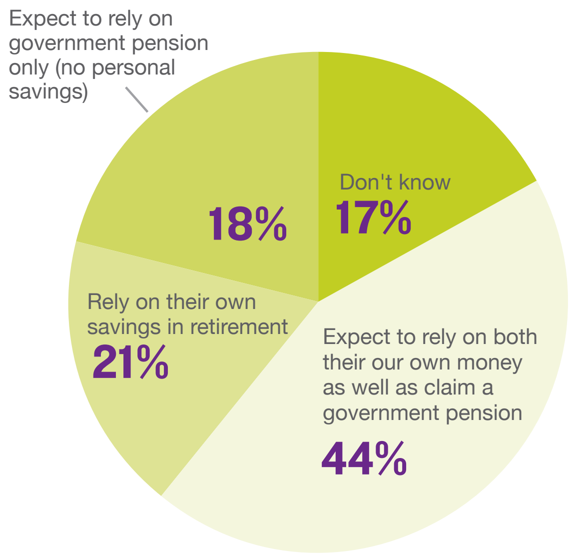


Figure 30 - How self-reliant will you be in retirement?

INSIGHTS

- **Overall only 21% expect to rely on their own savings in retirement, 18% expect to rely on the government pension only, and 17% don't know what they'll rely on.**
- Young singles/couples are the most likely to expect to fund their own retirement (28%).
- More men than women expect to fund their own retirement: 25% compared to 16%

EXPECTED ADEQUACY OF INCOME IN RETIREMENT

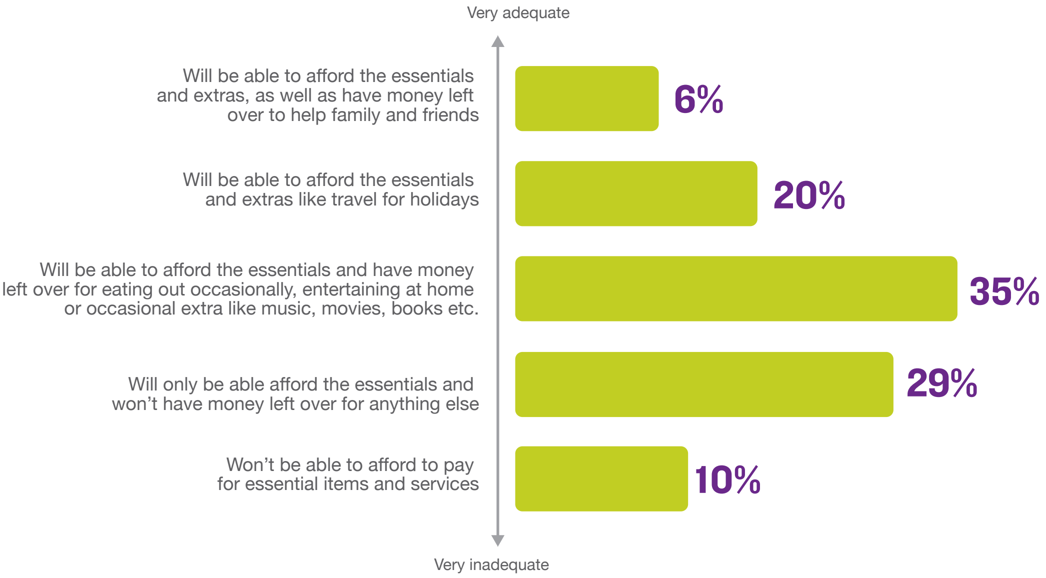


Figure 31 - Expectations for adequacy of income in retirement.

- **Overall 10% expect not to be able to afford to pay for essential items and services in retirement.**
- 'Single parents' are the most likely to believe they won't be able to afford to pay for essential items and services in retirement (24%).
- More men expect a comfortable retirement with 30% expecting they'll be able to afford essentials as well as extras like travel for holidays or essentials and extras and some left over to help family and friends, compared to 21% of women.

SUPERANNUATION QUICK FACTS

- 11% don't have superannuation
- 14% of 'couples with older children' have a self-managed super fund, the largest group to do so
- Men are more likely to have an SMSF than women: 12% compared to 7%
- 21% of Australians reported 'building wealth for retirement' is a financial goal they're currently actively working towards

4.7 OVERALL LEVEL OF (NET) WEALTH.

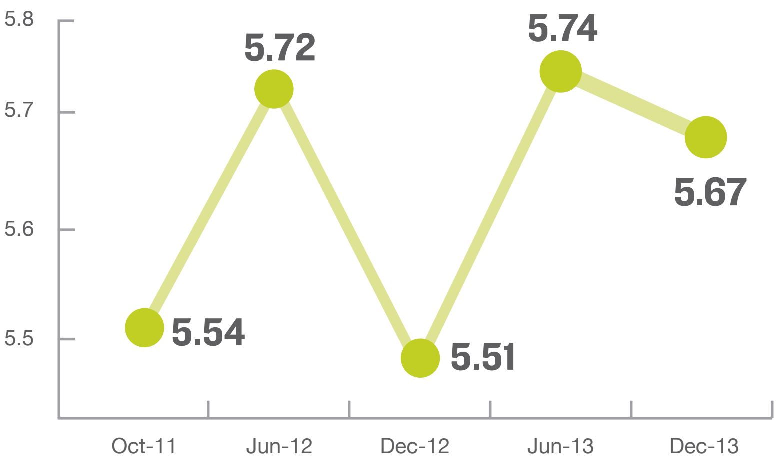


Figure 32 - Comfort with overall level of wealth over time.

INSIGHTS

- Comfort with the overall level of (net) wealth was 5.67 out of 10.
- **'Retirees' (6.52) – especially self-funded retirees (7.20) – and 'empty nesters' (6.28) are the most comfortable with overall level of wealth.** 'Single parents' (4.68) are the least comfortable.
- 18% of Australians reported a decrease in overall wealth in dollar terms, while 46% reported an increase and a further 36% had unchanged wealth over the last six months.

4.8 MANAGING A FINANCIAL EMERGENCY.

SAVINGS TO MAINTAIN CURRENT LIFESTYLE IF UNEMPLOYED

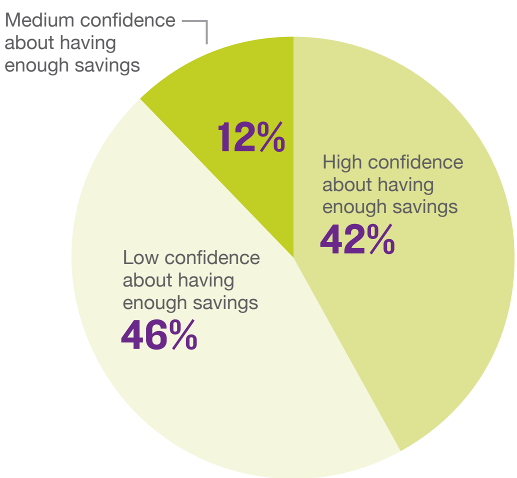


Figure 33 – How confident are you that you have enough savings to maintain your current lifestyle if unemployed for three months?

INSIGHTS

- **Confidence in having enough savings to maintain lifestyle if unemployed for three months was unchanged at 4.52.**
- 'Single parents' (3.5) and especially those on government assistance (2.02) and government paid pensioners (2.7), as well as casual workers (3.0) and unemployed (3.1) had the lowest confidence.
- Self-funded retirees (6.6) and to a lesser extent, 'empty nesters' (5.1) had high confidence.

DIFFICULTY RAISING $3000 IN AN EMERGENCY

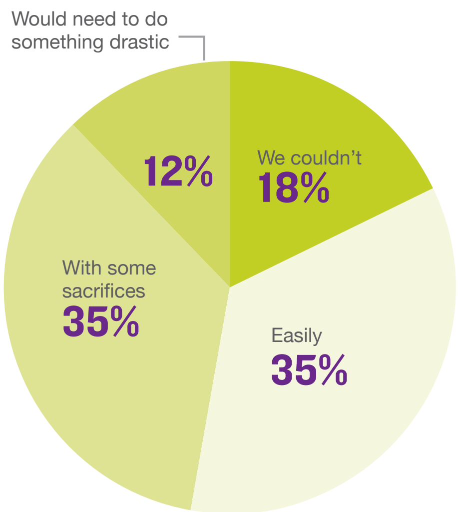


Figure 34 – How difficult would it be to raise $3000 in an emergency?

INSIGHTS

- Across all households, 18% do not think they could raise $3000 in an emergency including 'single parents' (29%) and particularly 'single parents' receiving government assistance (51%), government funded retirees (45%) and to a lesser extent casual employees (30%).

FIVE:
APPENDIX A: HOUSEHOLD STATISTICS.

HOUSEHOLD TYPE STATISTICS.

		NET WEALTH	HOUSEHOLD INCOME
	HOUSEHOLD FINANCIAL COMFORT INDEX	AVERAGE NET WEALTH	AVERAGE HOUSEHOLD YEARLY INCOME
Young singles/couples (<35yo) no children	5.72	$244,000	$85,000
Single parents	4.66	$372,000	$62,000
Couples with young children	5.28	$325,000	$95,000
Couples with older children	5.86	$614,000	$98,000
Middle-aged singles/couples no children	5.52	$389,000	$85,000
Empty nesters (50+yo)	5.81	$583,000	$71,000
Retirees	6.11	$733,000	$47,000

NINE:
APPENDIX B: METHODOLOGY.

ME Bank commissioned DBM Consultants to develop the *Household Financial Comfort Index* with Economics & Beyond and Baker Group. The research includes an online survey of approximately 1,500 Australians aged 18 years and older who do not work in the market research or public relations industries. Waves of research have been conducted in October 2011, June 2012, December 2012, June 2013 and December 2013.

For analysis, the population 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-assessment of financial wellbeing and comfort. As such the ME Bank *Household Financial Comfort Index* incorporates eleven 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, and
- 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 Comfort Index, 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'.

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).

FURTHER INFORMATION

For additional information, contact Matthew Read (matthew.read@mebank.com.au) at ME Bank.

DISCLAIMER

Members Equity Bank Pty Ltd ABN 56 070 887 679 ('ME Bank' has prepared the attached ME Bank *Household Financial Comfort Report*. Information in the report is current as at January 2014 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. ME Bank does not accept any responsibility in any way for the report or for your use of the Report for any purpose.

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