HOUSEHOLD FINANCIAL COMFORT REPORT.

SEVENTH SURVEY – DECEMBER 2014.

Insights from national research into the financial psychology of Australian households.

me Bank

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 1,500 households.

The survey was designed, developed and is produced biannually by ME Bank with assistance from DBM Consultants and Economics & Beyond.

This edition presents the findings from the seventh survey, conducted in December 2014.

Survey history

- First Edition: October 2011
- Second Edition: June 2012
- Third Edition: December 2012
- Fourth Edition: June 2013
- Fifth Edition: December 2013
- Sixth Edition: June 2014
- Seventh Edition: December 2014

This *Report* includes but is not limited to, the *Household Financial Comfort Index*, an overall measure of households' perceptions of their financial comfort, generated by asking respondents to estimate their financial comfort and expectations and confidence across 11 measures.

Over time the *Report* tracks changes in comfort and in doing so, highlights 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.

CONTACT US:

Matthew Read,
Head of Public Relations,
ME Bank

P 0432 130 338
E matthew.read@mebank.com.au
Level 28, 360 Elizabeth Street
Melbourne VIC 3000 Australia,
mebank.com.au

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ONE: EXECUTIVE SUMMARY.

Improvements in job availability and job security, a partial reversal in concerns with the 2014 Federal Budget, and rising cash savings and investments have boosted Australian households' overall level of financial comfort to a record high, as measured by ME Bank's seventh biannual *Household Financial Comfort Report*.

In the six months to December 2014 the ***Household Financial Comfort Index*** (which provides an overall measure of household financial comfort across 11 measures), **rose 8% to 5.78 out of 10**, its highest level as measured by the survey over its lifespan of three years (page 4).

Back in June 2014 overall household financial comfort had fallen 3% to 5.33 out of 10. At that time, financial comfort had taken a negative hit from elevated concerns with the 2014 Federal Budget and its proposed tightening of government assistance, as well as from rising negativity around the job market, low wage growth and falls in savings. Fast-forward to December 2014 and the financial psychology of Australian households has changed dramatically for the better.

A big contributor to the overall rise was a **22 point net increase in job availability** during the six months to December 2014, with those stating it would be easy getting a job within two months if unemployed rising from 36% to 48% and those reporting it would be difficult falling 10 points to 47%. This is the first time in the survey's history that more people have reported it would be easy getting a job within two months if unemployed, than those reporting it would be difficult (page 10).

A 12 point net increase in job security was also a contributor to the overall rise, with those persons feeling secure in employment rising 6 points to 72% during the six months to December and those insecure falling 6 points to 26% (page 11).

The role played by improving employment factors has meant the rise in financial comfort is broad-based. Financial comfort rose across all households (page 6) except, tellingly, retirees who self-evidently no longer work. Financial comfort also rose across most regions (page 8), most age groups except those over 65 for the reasons above (page 7) and all labour force segments (page 9), as well as across all 11 individual components that constitute the Index (page 5). This broad-based improvement in financial comfort for households engaged in the labour force has also helped close the gap that had appeared between older households and younger households, especially 'working Gen Ys'.

There were three other key factors influencing the overall rise in household financial comfort.

1. **Easing concerns over Federal Budget:** There was a lessening in concern with the negative impact of the 2014 Federal Budget with a 15 point fall in the number expecting the Budget will have a negative impact on their financial situation, from 67% to 52% in the six months to December 2014. Concerns with the impact of the Budget remain higher among households dependent on government assistance – single parents, pensioners and the unemployed (page 15).

   Asset value appreciation: Further growth in asset values has contributed to a further rise in confidence in investments and the ability to maintain lifestyle in retirement. Housing markets and share markets to a lesser degree helped improve comfort around 'investments' - up 10% - and 'ability to maintain lifestyle in retirement' - up 12% (page 12)

2. **Slight improvement in savings:** In December 2014 there were 47% of households saving each month (up 1 point). Also, households saving reported saving more each month (up 5% to $773 per month), while households overspending reported overspending less each month (down 4% to $483 per month) (page 13).

Other findings include:

- **In terms of households (page 6):** retired Australians' financial comfort remained steady in this latest survey but at levels higher than all other households at 6.46 out of 10 (including self-funded retirees at 7.3), largely due to continued comfort in 'income', 'ability to cope with a financial emergency' and 'expected standard of living in retirement'. 'Single parents working full or part-time' benefited more than any other household from employment factors and easing Federal Budget concerns, recording a 27% rise in overall financial comfort to 6.07. Single parents dependent on government assistance* continued to have the lowest level of financial comfort despite rising 5% to 3.59.
- **In terms of regions (page 8):** Household financial comfort increased across all states and territories except for **Tasmania** (down 3% to 5.66). **New South Wales** (5.93) and **Victoria** (5.84) continue to report the highest financial comfort of any region, while the **Australian Capital Territory** (5.48) and **South Australia** (5.55) reported the lowest household financial comfort, with **Western Australia** (5.74) a bit below the average for Australia as a whole (5.78). The overall difference in financial comfort between states shrank from 1.5 to 0.5.
- **In terms of the labour-force (page 9):** there were increases in financial comfort across all segments engaged in work – especially 'full-time self-employed persons*' (up 24% to 6.93). On the other hand, despite a big rise in the past six months due to improvements in the labour market, by far the lowest financial comfort understandably remains unemployed people (up 33% to 4.71).
- **In terms of households' biggest worries (page 16):** The cost of necessities is Australian household's biggest financial worry, reported by 47% of households, followed by level of savings (34%), ability to maintain lifestyle in retirement (30%) and being able to make ends meet (29%).

* small sample sizes

TWO: ECONOMIC CONTEXT.

Overall, Australian households have continued a relatively prudent approach to finances during the second half of 2014 – albeit risk appetite has picked up amongst investors notably in housing. There has been a further strong boost to net wealth at the aggregate level from higher house prices in most major cities and to a lesser extent superannuation. Debt demand (mainly for housing) has picked up, relative to slowly rising incomes. Ongoing low interest rates have kept debt servicing costs relatively low despite increased gearing.

Recent trends in the latest official estimates and other private sector reports have shown:

- **Consumer confidence measures have diverged lately** to be at or below average levels but higher than the recent low following the May Federal Budget.
- **Labour market** has strengthened with some pick-up in both full-time and part-time job gains – albeit hours work per worker remains weak. The national unemployment rate edged higher to 6.3% in October 2014 then returned back to 6.1% in December 2014 – the same as June 2014. Forward indicators – job ads and business hiring intentions – point to further moderate job gains.
- **Household consumption** spending growth has picked up a little – supported by very low interest rates and strong wealth gains (especially related to housing), but still relatively slow income growth. As measured by the official data, **the household saving rate** from current disposable income has edged lower to a bit below 10% during the past year, but remains relatively high, on average.
- **Consumer inflation** has remained low – in 'underlying terms' at about 2.2% per annum – and about the same as wage growth.
- **The housing sector** has strengthened further – supported by low interest rates, strong population growth and rising house prices. House prices, across capital cities, on average, rose about 8% during 2014 – boosted by very strong performances in Sydney (13%) and to a lesser extent Melbourne (8%), in contrast to modest gains in most other capitals and regions.
- Growth in **household debt** has picked up largely due to investor housing loans. Housing credit increased at an annual rate of about 7% during 2014, with growth in investors (9%) out-pacing demand from first-home buyers and repeat owner-occupiers (5%). In contrast, other households continue to take advantage of low interest rates to pay down debt. In aggregate, debt to income has increased a little over the past six months.
- Although still a bit below its peak of mid-2007, 'real' **household assets**, on average, have continued to increase strongly, mainly reflecting further significant rises in residential property prices as noted above. Financial assets (mainly superannuation) have continued to rise strongly during 2014, largely due to about 'average' financial asset returns and continued compulsory contributions, rather than increased voluntary savings.
- As a result, the aggregate financial position of households – as measured by **household net wealth** (assets less debt) – continued to improve in the second half of 2014 and 2014 as a whole – albeit there are disparate trends amongst households.
- Households have remained relatively conservative in their **investment preferences** – albeit there has been an increased tendency for investors to search for yield and switch from still relatively high cash holdings and gear into residential property and to a lesser extent equity and bond investments.
- Aggregate **household financial stress** indicators (such as housing and other loans in arrears and property possessions) are low generally – an indication that households, on average, are coping reasonably well with debt servicing burdens due to ongoing low borrowing costs, despite slightly higher unemployment over the past year or so. This masks a great deal of variation in the financial positions of Australians – across socio-economic and demographic factors – as is evident in the *Household Financial Comfort Report*.

THREE:
LATEST TRENDS IN HOUSEHOLD FINANCIAL COMFORT.

3.1 HOUSEHOLD FINANCIAL COMFORT INDEX

Overall Household financial comfort increased by 8% during the final half of 2014 to its highest point since the survey commenced in October 2011. As measured by the *Household Financial Comfort Index*, overall household financial comfort was 5.78 out of 10 in December 2014, up from 5.33 in June 2014 – see Figure 1. According to the Index, almost three quarters of Australian households reported high comfort, with only occasional financial worries.

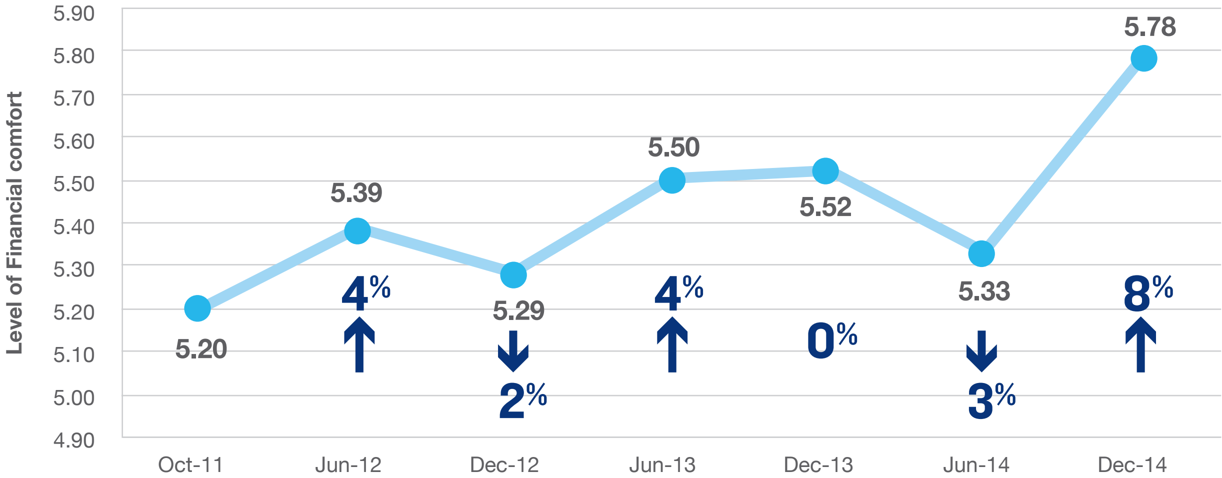

Figure 1 - Changes to the Household Financial Comfort Index since the first survey. Scores are out of 10.

HOW IS THE INDEX CALCULATED?

The *Household Financial Comfort Index* quantifies how comfortable Australian households feel about their financial situation by asking respondents to rate their household financial comfort, expectations, and confidence on a scale from 0 to 10 across eleven measures including:

- 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.

3.2 FINANCIAL COMFORT UP ACROSS ALL 11 INDEX COMPONENTS

The significant rise in the *Household Financial Comfort Index* was broadly based across all 11 components that make up the Index - see Figure 2.

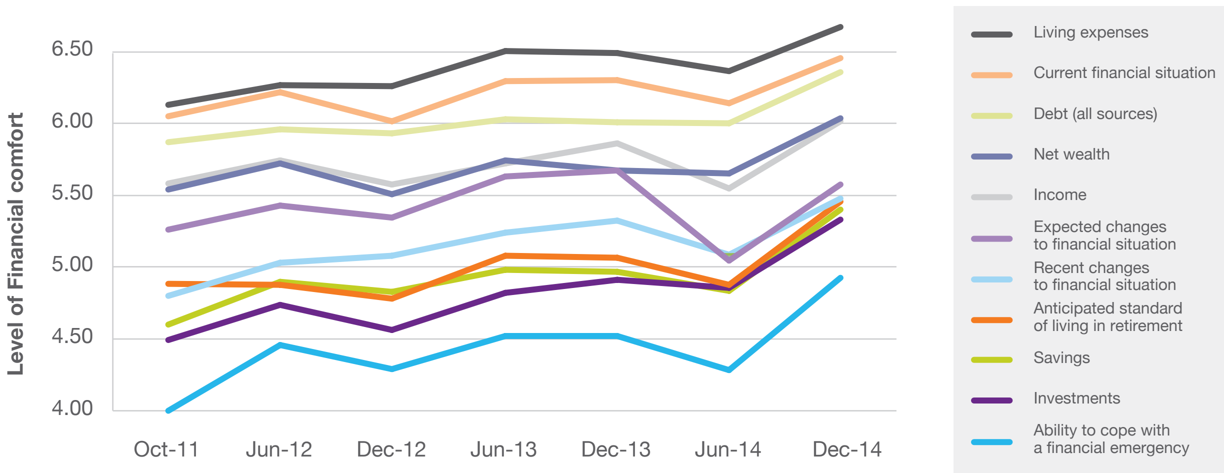

Figure 2 – The 11 components that make up the Index, showing changing levels of comfort over time. Scores are out of 10.

In terms of the 11 Index components, in December 2014:

- Households were least comfortable with their 'ability to maintain lifestyle if no income for three months', i.e. a financial emergency (4.93 out of 10), 'investments' (5.33 out of 10) and 'cash savings' (5.40 out of 10).
- Households were most comfortable with their ability to 'manage their current living expenses' (6.67 out of 10), their 'overall financial situation' (6.45 out of 10) and 'level of debt' (6.36 out of 10).
- The biggest rises across the 11 components were in the 'ability to maintain lifestyle if no income for three months' (up 15% to 4.93), 'cash savings' (up 12% to 5.40), 'anticipated standard of living in retirement' (up 12% to 5.46) and 'investments' (up 10% to 5.33).

As you can see from Figure 2 almost all components of the *Household Financial Comfort Index* have maintained their positions relative to each other during the past six months. The noteworthy exception is the component that measures 'expected changes to financial position over the next year' (purple line), which dropped significantly in the June 2014 survey relative to all other measures largely due to the negative impact of the Commonwealth legislative proposals to tighten government assistance and other policies announced in the May 2014-15 Federal Budget. This measure has recovered to a lesser degree than all other measures during the past six months, as household concerns about the impact on their financial situation from the legislative changes and still pending proposals, persist at significantly lower, albeit still elevated levels across a majority of households.

3.3 FINANCIAL COMFORT UP ACROSS MOST HOUSEHOLD SEGMENTS

The overall increase in financial comfort was reflected across all households except retirees, in the six months to December 2014 – see Figure 3.

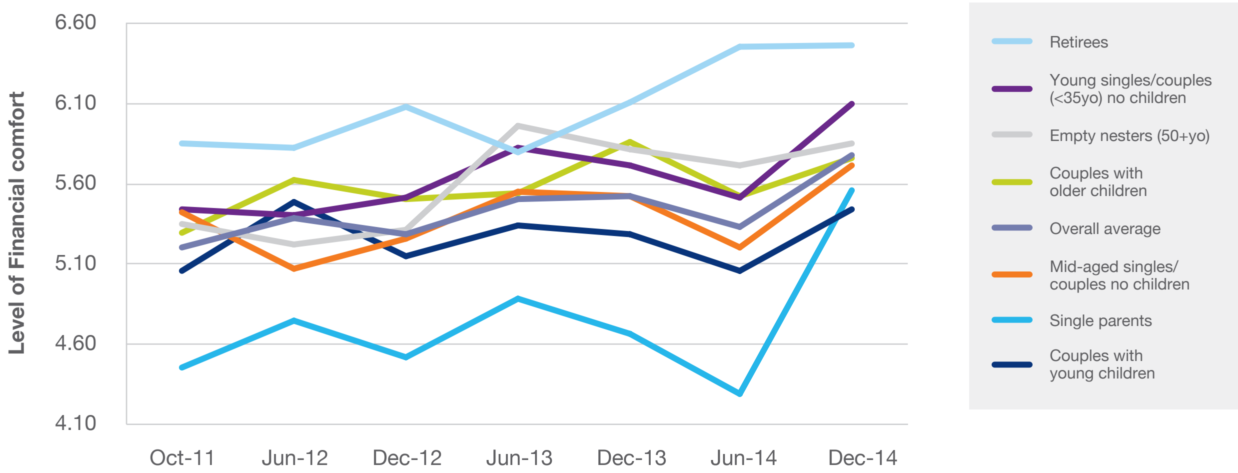

Figure 3 - Financial comfort across different households since the first survey. Scores are out of 10.

In terms of households, in December 2014:

- Households with the lowest financial comfort were 'couples with young children' (5.44 out of 10) and 'single parents' (5.56) – especially those single parents dependent on government assistance (only 3.59).
- Households with the highest financial comfort were 'retirees' (6.46) – especially 'self-funded retirees' (7.18) – and to a significantly less-extent 'young singles/couples no children' (6.10).
- The biggest rises in comfort were with single parents (up 30%), especially those working, and to a lesser extent 'young singles/couples no children' (up 11%).

That there were big improvements in comfort across all households engaged in the labour force except 'retirees' and 'single parents on government assistance*', indicates that improvements in the labour market were a key factor. This is supported by improvements to employment measures – job security and job availability – identified by the survey and the positive flow on to household comfort from rises in the 'ability to cope with a financial emergency' (up 15%) and both 'cash savings' and 'expected standard of living in retirement' (both up 12%).

It is also noteworthy that elevated concerns about recent Commonwealth government policies and their negative impact on expected comfort, eased across all households during the past six months except for 'single parents on government assistance*', 90% of the latter households are expecting to be worse off from the recent tightening in government assistance and proposals waiting to be passed by the Parliament.

Together with these lessening concerns about government assistance, the improvements in job security and availability have helped to close the comfort gap that had opened up between all other households and 'retirees' – especially in the previous six months to June 2014. However, apart from June 2013, 'retirees' (particularly 'self-funded retirees') have continued to enjoy the highest levels of financial comfort of any household since the first survey.

* small sample sizes

3.4 FINANCIAL COMFORT UP ACROSS MOST GENERATIONS

The overall increase in financial comfort was reflected across all generations except those 65+, in the six months to December 2014 – see Figure 4.

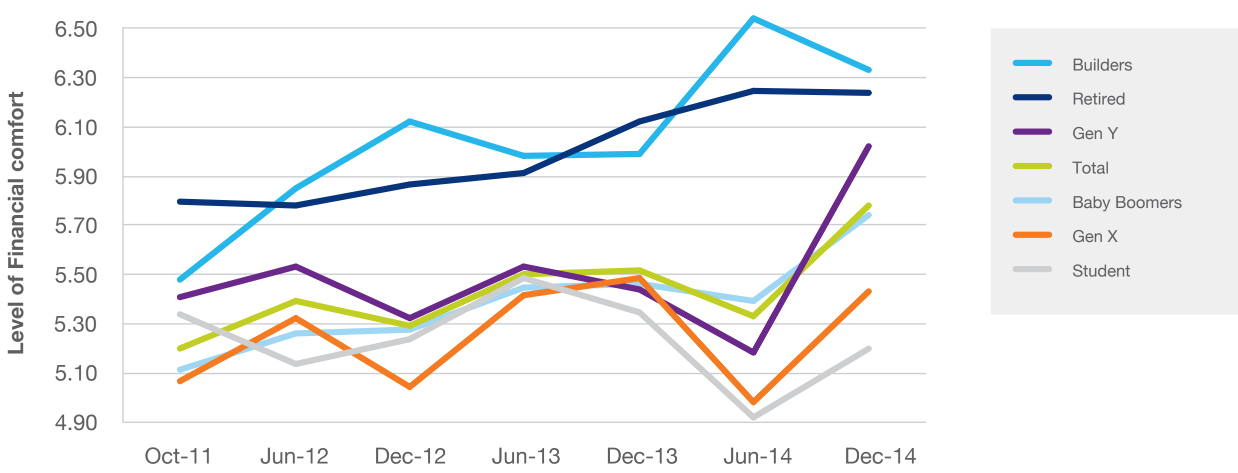

Figure 4 - Financial comfort across generations, since the first survey
(Note: 'retired' is a subset of 'Builders' and 'students' a subset of 'Gen Y'). Scores are out of 10.

Back in June 2014, there were falls in comfort across all generations under 65+, related in part to the anticipated tightening in government family tax benefits and income and other government assistance announced in the 2014-15 Federal Budget. More specifically at that time, subdued growth in wages, rising unemployment and low interest rates also negatively impacted comfort with 'savings' and 'incomes'. Over this same period, the financial comfort of 'self-funded retirees' (and more generally, 'builders') increased due to marked rises in their comfort with their 'investments', 'savings' and 'debt', as well as more generally their 'anticipated standard of living in retirement'. All this resulted in the opening up of a gap between older and younger generations.

During the latest six months to December 2014 this situation has reversed, with the financial comfort of builders lower (down 3% to 6.33) – including unchanged amongst retired people – while comfort rose across all other groups. This is largely due to improvements to employment factors but also to a lesser degree a fall in the expected negative impact of the 2014 Federal Budget on households. Across the generations, the biggest increase was in the financial comfort of Gen Y (up 16% to 6.02). After a big fall, concerns about the negative impact of the Federal Budget are the lowest amongst Gen Y, with 36% expecting their financial comfort to worsen due to the recent legislative change and proposals compared to 52% average across all generations. Despite relatively low income security, Gen Y were also the most optimistic about job availability in December 2014 – up 10 points to 65% thinking it would be easy to find another job within two months if unemployed. While only 29% of Gen Y felt that it would be difficult to find another job. The latter is much lower than for Gen X (42%) and almost half compared to workers aged in the 50s and 60s (almost 60%).

3.5 FINANCIAL COMFORT UP ACROSS MOST STATES AND TERRITORIES

In December 2014, an overall rise in household financial comfort was also evident across all states and territories except Tasmania* - see Figure 5.

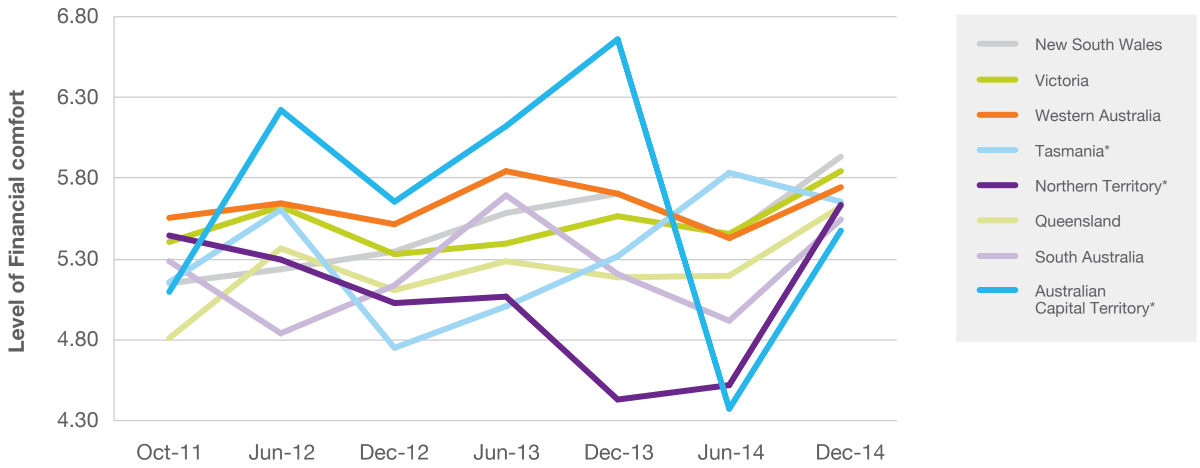

Figure 5 - Changes in financial comfort across states and territories since the first survey. Scores are out of 10.

Variations in financial comfort across regions diminished significantly, with a variation from highest to lowest of 1.5 in June 2014 shrinking to 0.5 in the six months to December 2014.

After rises in most components of financial comfort across Australia, the highest level of financial comfort was in New South Wales (up 9% to 5.93) and Victoria (up 7% to 5.84), while the lowest financial comfort was in the Australian Capital Territory* (up 25% to 5.48) and South Australia (up 13% to 5.55). Concerns about the negative impact of Commonwealth legislation in NSW fell markedly, down 28 points to 42% of NSW households expecting legislation tightening in government assistance to worsen their financial position in the next year, compared to a corresponding high of 66% in SA, 55% in Queensland, 53% in Victoria and 52% across Australia as a whole. Most States and Territories reported a significant rise in job availability during the six months to December.

In December 2014, financial comfort in both New south Wales and Victoria was higher than all other regions of Australia due to relatively high levels of comfort with ‘cash savings’, ‘investments’, ‘net worth’ and the ‘ability to cope with a financial emergency’.

Noting caution about the small sample sizes, the biggest rises in state financial comfort were in the Northern Territory*, which rose 25% to 5.63, and the Australian Capital Territory*, which also rose 25% to 5.48. Tasmania* was the only state to record a fall in financial comfort, falling 3% to 5.66. Tasmania was also the only state to record a significant fall in job availability, while most of the components of Tasmanian financial comfort fell – including comfort with ‘income’ (down 9% to 5.54) to be the lowest of any state.

* small sample sizes

3.6 FINANCIAL COMFORT UP ACROSS ALL LABOUR FORCE SEGMENTS

In December 2014, financial comfort rose across all areas of the labour force – see Figure 6.

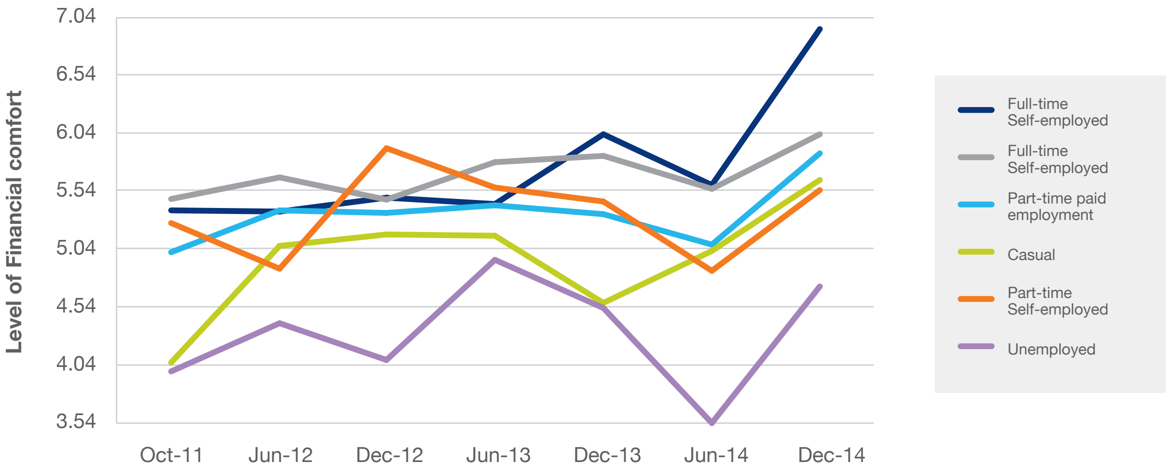

Figure 6 - changes in financial comfort across labour segments since the first survey. Scores are out of 10.

There were increases in the key components of the comfort index across all parts of the labour force – especially comfort with ‘cash savings’ and the ‘ability to handle a financial emergency’. There were significant improvements in both job availability and security during the past six months, while income gains significantly outnumbered decreased incomes – reversing the trend in the previous six months.

In December 2014, full-time workers were the most optimistic about finding another job (53% thought it would be easy - up 15 points on six months ago), followed by the self-employed (up 2 points to 45%). Despite significant rises, both part-time workers and casual employees are the least confident about finding another job; only 38% and 36%, respectively, thought it would be easy to find another job if they became unemployed. (See more detail in section 4.1 on page 10).

The highest financial comfort was reported by full-time self-employed persons* (up 24% to 6.93), and to a significantly lesser extent full-time paid employed persons (up 16% to 6.03). In December 2014, financial comfort of full-time self-employed was higher across all other parts of the labour force due to higher levels of comfort across all components – especially the ‘ability to maintain their lifestyle in an emergency’ as well as comfort in their ‘cash savings’ and ‘expected lifestyle in retirement’ and ‘confidence in the next year’.

On the other hand, despite a big rise in the past six months due to improvements in the labour market, by far the lowest financial comfort understandably remains unemployed people (up 33% to 4.71) – across all components of financial comfort.

* small sample sizes

FOUR: FACTORS CONTRIBUTING TO THE OVERALL RISE IN HOUSEHOLD FINANCIAL COMFORT.

4.1 IMPROVEMENTS IN EMPLOYMENT MEASURES A MAJOR FACTOR

An important contributor to the overall rise in household financial comfort during the six months to December 2014 was an improvement in two key employment measures, as outlined below.

A rise in job availability

There was a 22 point net increase in job availability in December 2014, with those stating it would be easy getting a job within two months if unemployed rising from 36% to 48% and those reporting it would be difficult falling 10 points to 47%. This is the first time the proportion of households reporting it would be easy getting a job within 2 months has been greater than those reporting it would be difficult – see Figure 7.

In December 2014, full-time workers were the most optimistic about finding another job (53% said it would be easy, up 15 points), followed by the self-employed (up 2 points to 45%). Despite significant rises, both part-time workers and casual employees are the least confident about finding another job: only 38% and 36% respectively thought it would be easy to find another job in two months if they became unemployed.

In terms of households, improvement in job availability was most pronounced among 'young singles/couples no children' as well as 'singles parents working', and 'couples with young children'. Only 'empty nesters' reported deterioration in job availability in the past six months (down 3 points to only 25%). As a result, 'couples with young children' were the most optimistic about finding another job (63% thought it would be easy, up 17 points), followed by 'young singles/couples no children' (up 16 points to 58%) and 'single parents' working* (up 7 points to 42%).

By age, Gen Y are by far the most optimistic about job availability (65% said it would be easy to find another job in two months if unemployed, while only 29% said it would be difficult). Difficulty in finding a job was much higher for Gen X (42%) and higher still for workers aged in the 50s and 60s (almost 60%).

* small sample sizes

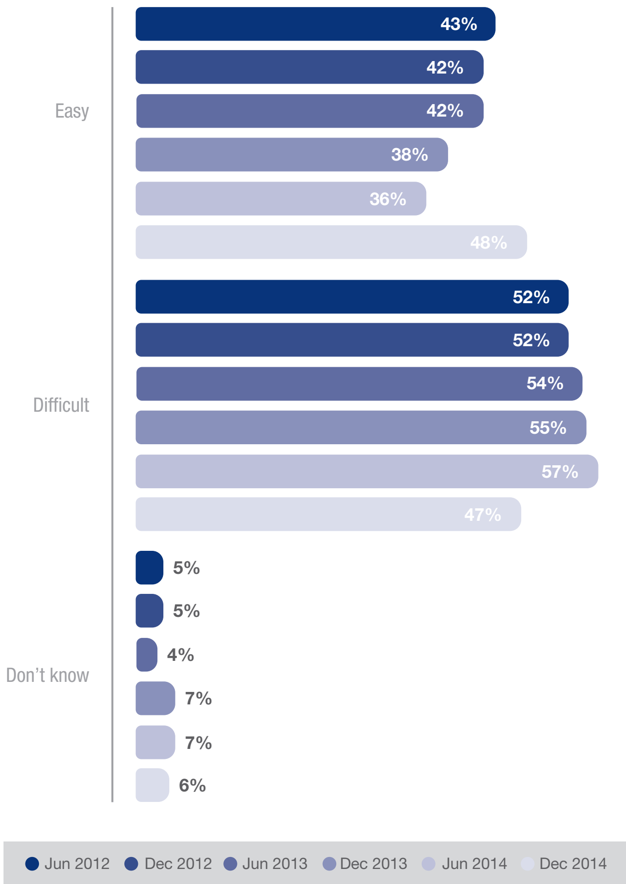

Figure 7 – % of households who state it would easy/difficult getting a job in 2 months if unemployed since the second* survey.

A rise in job security

There was a 12 point net increase in job security in the six months to December 2014, with those secure in employment rising from 66% to 72% and those insecure falling by the same amount to 26% - see Figure 8.

Full-time workers were the most secure in their jobs (75%), compared to part-time employees (70%) and self-employed (66%) and to a much lesser extent casual workers (58%). The biggest improvements were reported by single parents (15% net increase) and 'couples with young children' (10 point net increase). Job security rose markedly in urban populations (8 point net increase), compared to regional (1 point net increase) Across generations, it was highest among Baby Boomers (a 9 point net increase). There was a 10 point net increase in Queensland, the largest rise of any state or territory.

Figure 9 shows varying financial comfort for different employed persons, and the varying job availability for the same categories, indicating a clear correlation between financial comfort and job availability.

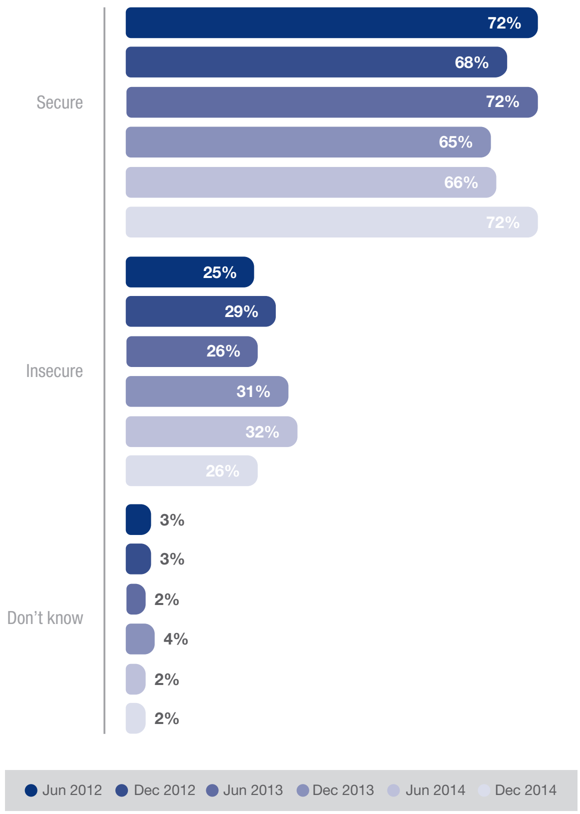

Figure 8 – % of household secure in their job, since the second* survey.

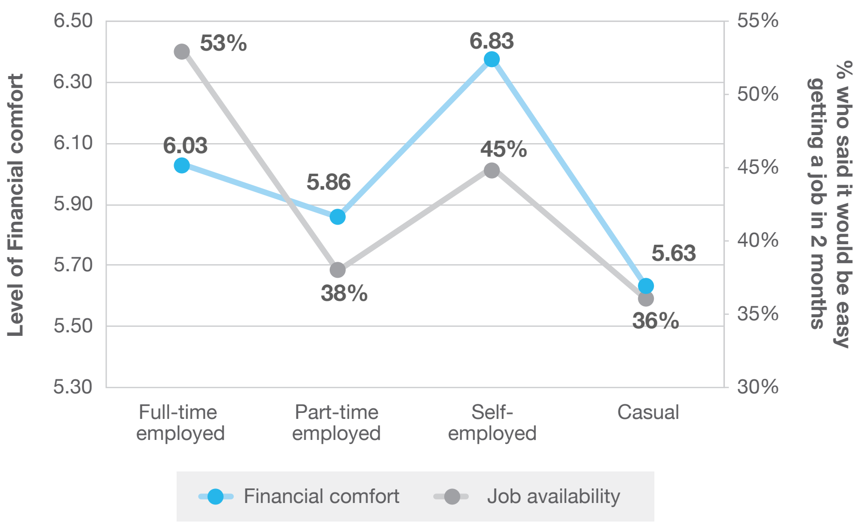

Figure 9 - Job availability vs financial comfort across different workforce segments. Scores are out of 10.

4.2 ASSETS CONTINUED TO APPRECIATE IN VALUE

With assets continuing to appreciate during the year, including housing markets, particularly Sydney (up 13.4%), Melbourne (up 8.4%), and Brisbane (5.2%) and share markets to a lesser degree, there were big improvements in comfort around ‘investments’ (up 10%) and ‘anticipated lifestyle in retirement’ (up 12%) – see Figure 10. This in turn contributed to the overall rise in household financial comfort.

Retirees continued to have the highest levels of comfort with both ‘investments’ and ‘maintaining their standard of living in retirement’ (6.09 and 6.58 out of 10 respectively), while ‘single parents’ reported the lowest levels of comfort with both measures (4.95 and 4.99, respectively).

Households reporting the biggest rises in comfort with investments included ‘single parents’ (up 37%) and ‘middle-aged singles/couples no children’ (up 15%). Gen Y reported the biggest rise of any generation (up 20%). The same groups reported the biggest rises in comfort with ‘anticipated standard of living in retirement: ‘single parents’ up 38%, ‘middle-aged singles/couples no children’ up 14% and Gen Y up 22%.

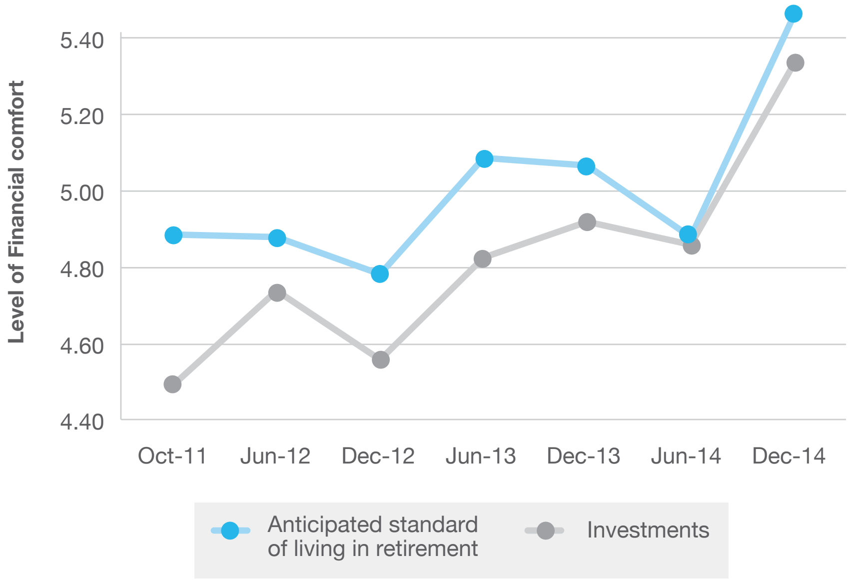

Figure 10 - changes in financial comfort for ‘investments’ and ‘anticipated standard of living in retirement’ measures since the first survey. Scores are out of 10.

4.3 CASH SAVINGS HAVE IMPROVED

Improvements in 'cash savings' also contributed to the increase in overall household financial comfort in the six months to December 2014.

More people saving

The number of households reporting they are saving each month from remained relatively consistent during the six months to December, while the number of households reporting they spend more than they earn fell 3 points to 9% and those breaking even increased 2 points to 44% - see Figure 11.

About 57% of 'young singles/ couples no children' and 'retirees' are saving each month, a higher proportion than other households, while only 37% of 'couples with young children' are saving each month. The biggest improvement in saving was among 'single parents' (an 11 point net increase to 43% saving each month), while 'couples with young children' reported the biggest fall (down 8 points to net 37% saving each month).

More being saved and less overspent

Those households saving each month also reported saving more each month (up 5% to $770), while those households overspending reported overspending less each month (down 4% to $480) – see Figure 12.

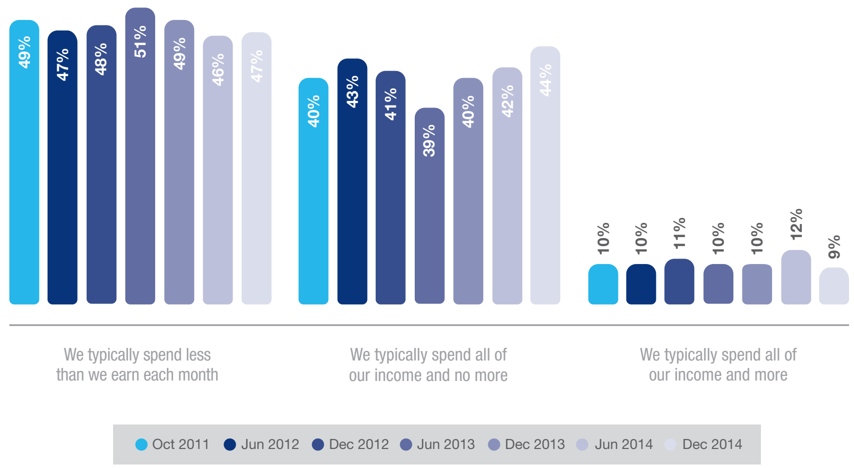

Figure 11 - % of households saving each month since the first survey.

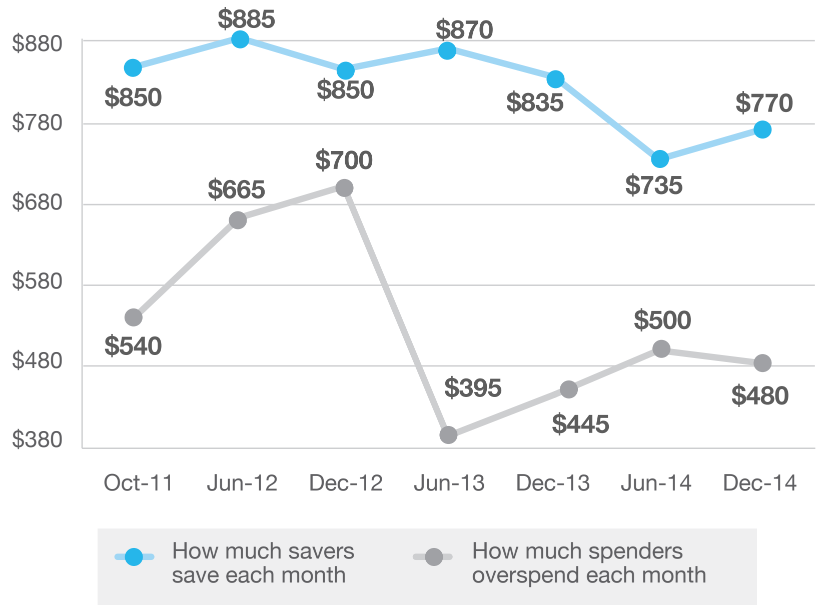

Figure 12 - $ amount savers are saving and over-spenders are overspending since the first survey.

More confidence in emergency savings levels

There was an 16 point net rise in the proportion of households confident they have enough savings to maintain their lifestyle if they lost their income for three months. The longer-term trend is for increasing confidence in 'cash savings for an emergency', with those confident (46%) outnumbering those not confident (42%) for the first time since the survey began – see Figure 13.

The biggest rises were among 'single parents' (up 45%) and 'middle aged singles/couples no children' (up 36%), those earning $40k-$75k (up 30%), and Gen Y (up 41%). Again, 'retirees' were the most confident (5.65 out of 10) while 'couples with young children' were the least confident (4.44 out of 10).

Rising comfort with levels of cash savings

Financial comfort with overall levels of cash savings significantly improved 12% to 5.40 during the six months to December. This reflects increases in the number of households saving, the amount being saved, improvements to job security and availability, and continued improvements in asset values – see Figure 14.

The biggest rises in comfort with cash savings were reported by 'single parents' (up 35%), 'middle aged singles/couples no children' (up 15%), 'self-employed' (up 41%), and Gen Y (up 34%). 'Retirees' continue to report the highest level of comfort with their savings (6.41 out of 10), while 'single parents' (4.91 out of 10) and 'couples with young children' (4.92 out of 10) report the lowest levels of comfort with savings.

Figure 13 - % of households who are confident of having enough savings in an emergency, since the first survey.

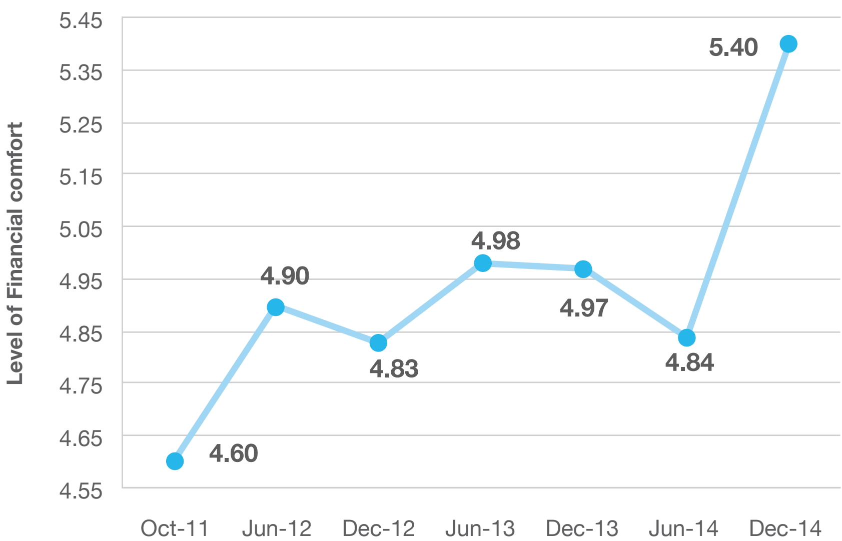

Figure 14 - changes in financial comfort with savings since the first survey. Scores are out of 10.

4.4 SLIGHT LESSENING IN CONCERNS ABOUT THE 2014 FEDERAL BUDGET

Another factor contributing to the overall improvement in household financial comfort is a lessening in concern about the expected negative impact of the 2014 Federal Budget. The 2014 Federal Budget had a large impact on financial comfort in the sixth (June 2014) survey, with 67% reporting they expected a negative impact on their financial situation over the next 12 months. Government policy changes are still a major concern for the majority of households: despite a fall of 15 points, 52% still expect the Budget to have a negative impact on their financial situation over the next 12 months. There was significant easing in concerns among 'young singles/couples no children' (including students), 'single parents' (working full or part-time*) and 'couples with young children'. In contrast, concerns remain very high among households dependent on government assistance – 'single parents', 'retirees' and the 'unemployed' (see Figure 15).

There was a corresponding fall in the number of households who chose 'the impact of legislative change' as their biggest worry, falling 8 points to 21% of households during the six months to December, albeit still significantly higher than the corresponding figure of 17% in December 2013 – see Figure 16.

Whether higher concerns about the 2014 Federal Budget proves to be temporary of course depends on any divergence between household expectations and the actual government policies that eventually emerge given that much of the legislation flagged in the May 2014 Federal Budget still remains to be passed through the Commonwealth Parliament.

* small sample sizes

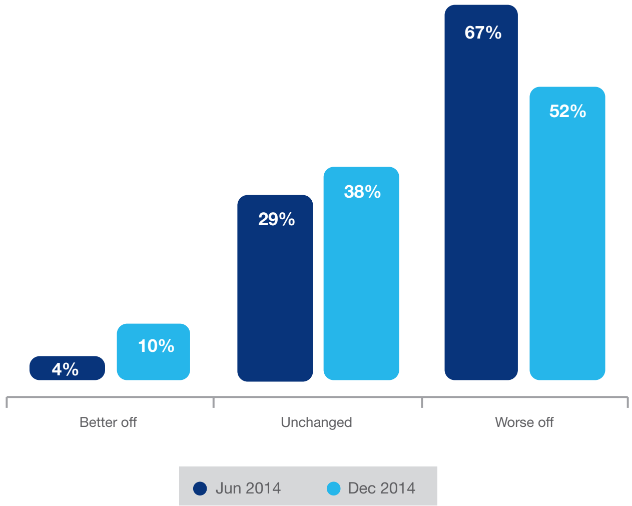

Figure 15 - % of households concerned about the impact of the 2014 Federal Budget on their financial situation: June 2014 vs December 2014.

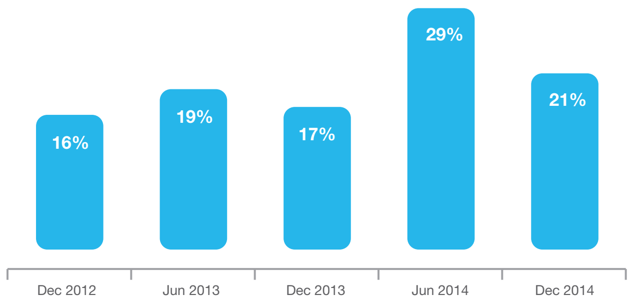

Figure 16 - % of households worried about the impact of legislative change since Dec 2012.

FIVE: SELECTED OTHER FINDINGS.

5.1 BIGGEST WORRIES

The prevalence of most of the top eight overall worries identified by households diminished in the six months to December 2014. There were also some changes in the relative positioning of the top household worries, with legislative changes falling from fifth to eighth and the impact of the global economy on Australia rising from seventh to fifth – see Figure 17.

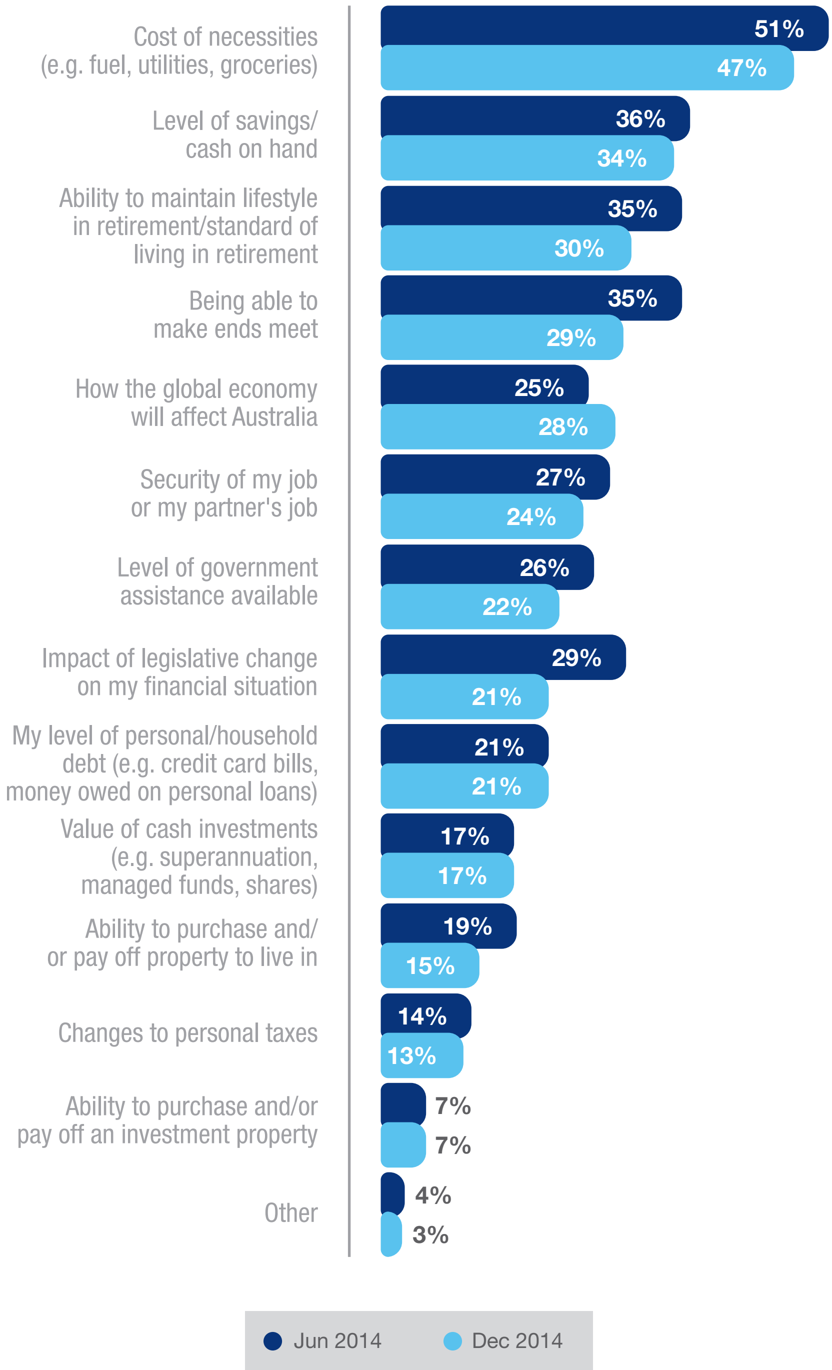

Figure 17 - biggest worries nominated by households - % of households: June vs December 2014.

5.2 MANAGING A FINANCIAL EMERGENCY

Figure 18 shows that confidence has slowly been growing in households' ability to raise money in an emergency, with the proportion reporting they could easily raise money creeping up from 32% to 39% over the last three years, while those who don't think they could easily raise the money falling from 24% to 18% during the same period.

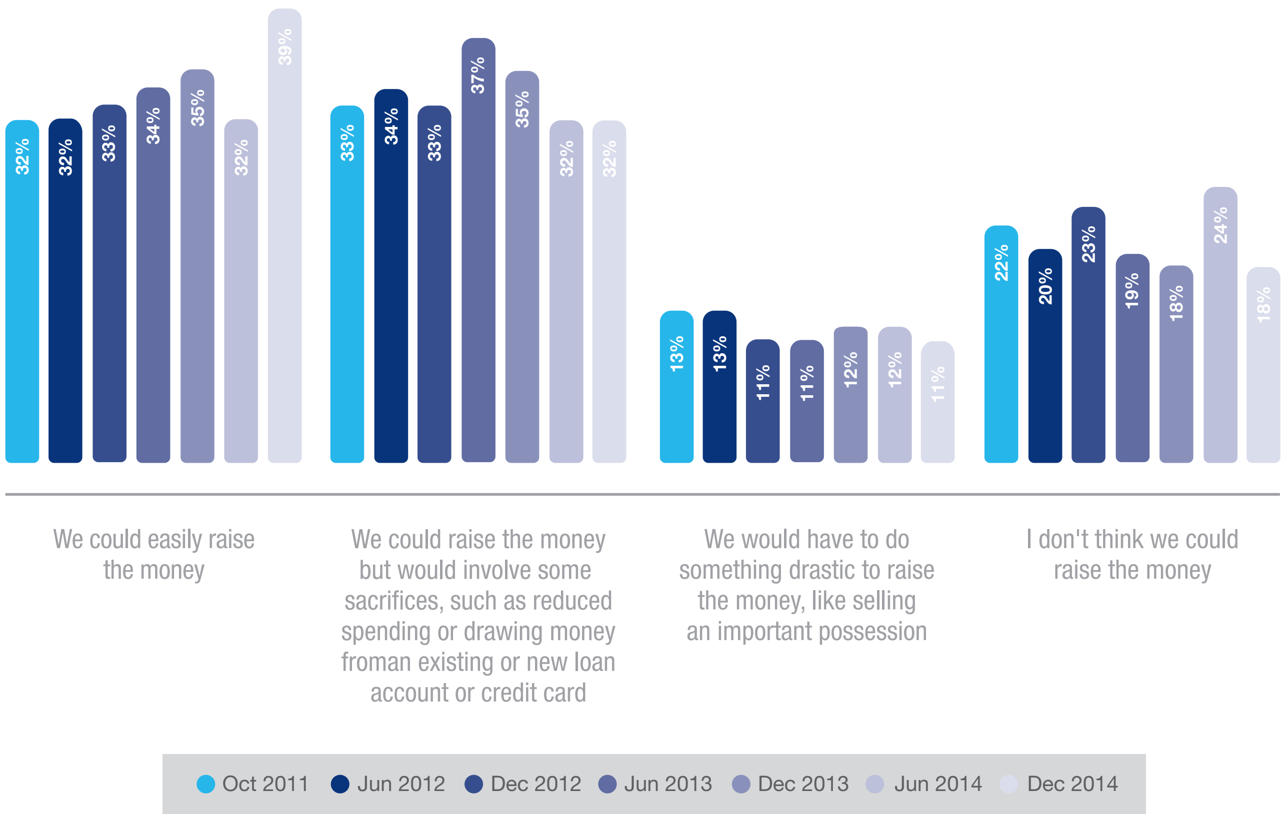

Figure 18 - If your household only had one week to raise $3000 for an emergency, how hard would it be for your household to get this money? % of households since the first survey.

5.3 INCOME

Rising comfort with income

As shown in Figure 19, overall comfort with income is 6.01 out of 10 in December 2014, a rise of 8% during the past six months. This is largely due to improvements in job security and availability during the period, as outlined in section 4.1 on page 10. The biggest rise in comfort with income was reported by 'single parents' (up 28%). 'Middle aged singles/couples no children' had the lowest comfort with income (5.74) while 'retirees' had the highest comfort with income (6.60) and of this group 'self-funded retirees' were higher still (7.18).

Changes to income in the last year

Figure 20 shows that in December 2014, 41% of households reported income gains, while 21% reported income falls, or a net 20% of households reporting rising incomes over the previous year. This result has significantly improved on June 2014 results where the net proportion of households reporting rising incomes was just 1%.

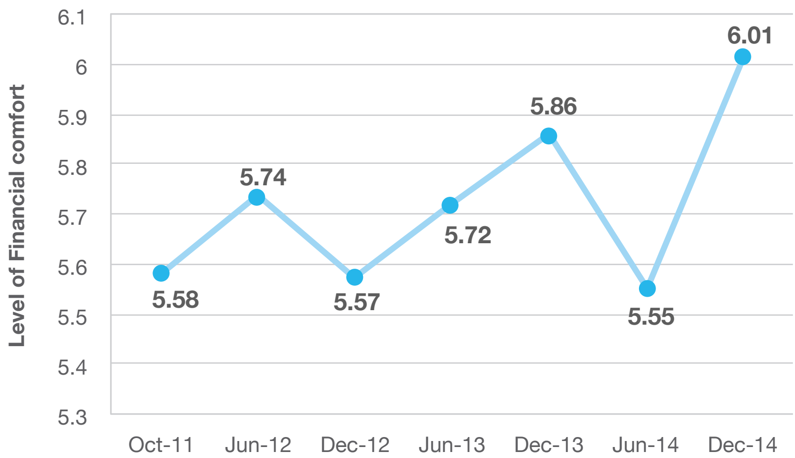

Figure 19 - Comfort with income since the first survey – scores out of 10.

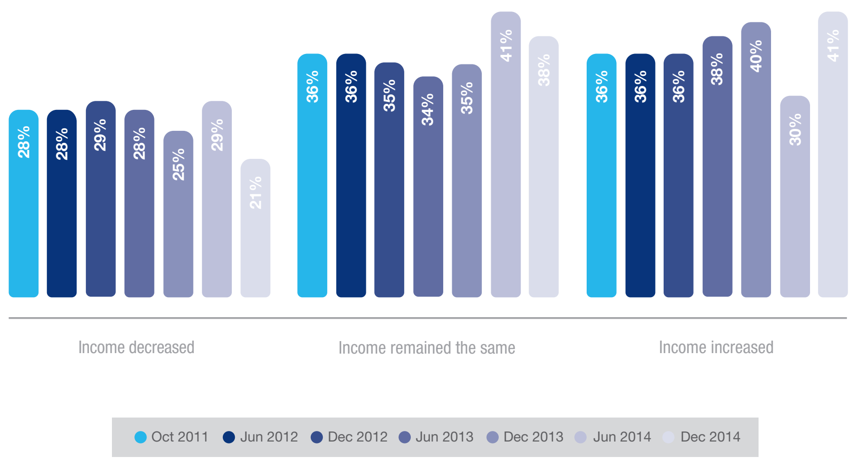

Figure 20 - Has your household income increased or decreased over the last year? % of households since the first survey.

Adequacy of income

Figure 21 shows a small increase in the adequacy of incomes across a number of measures – consistent with the increased comfort with household income noted above (see Figure 20). There was only 5% of households that reported they can't afford to pay for essentials in December 2014, compared to 7% six months ago, while 21% can afford extras like travel and holidays (compared to 18% six months ago) and 10% reported they can afford extras as well as save and make extra loan repayments (compared to 9% six months ago).

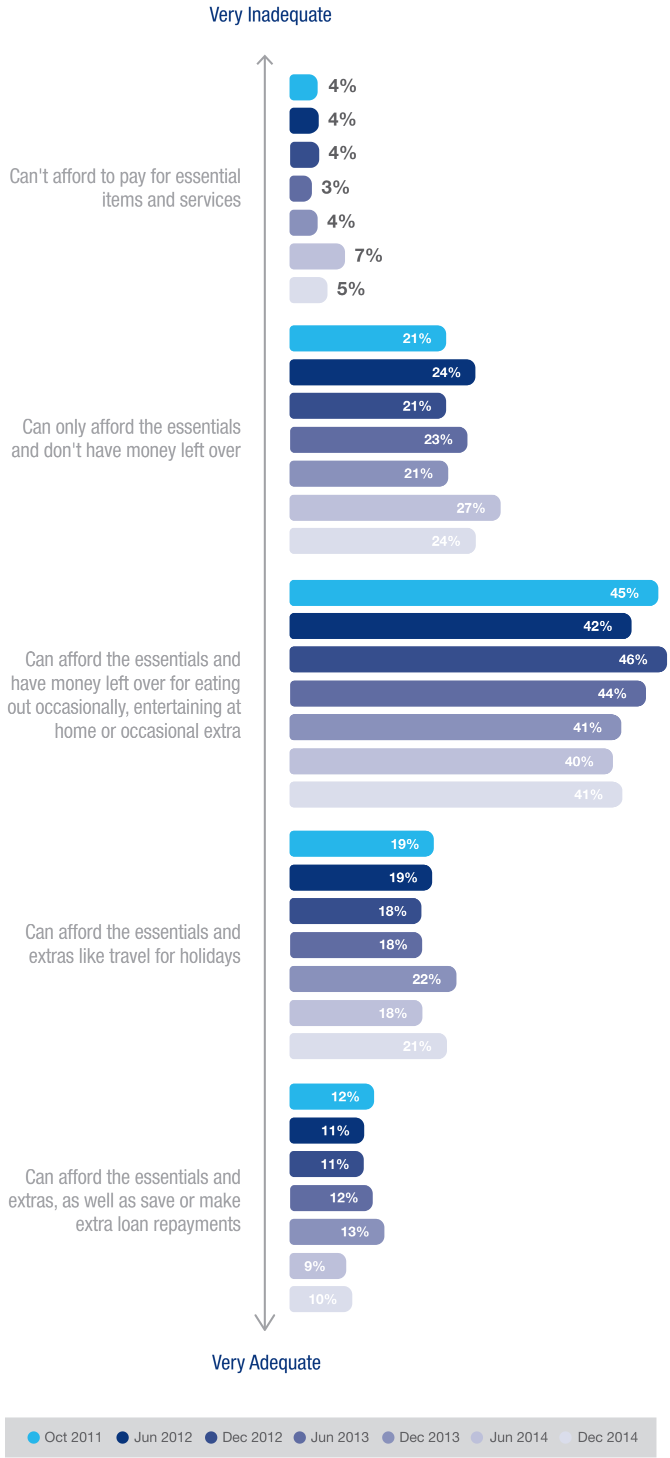

Figure 21 - How adequate is your income?
% of households since the first survey.

5.4 CASH SAVINGS.

As noted above, comfort with cash savings rose significantly over the six months to December – up 12% to 5.4 out of 10 (see figure 22).

Savings levels

Most Australian households have a relatively low stock of cash savings – that is, a cash buffer for a 'rainy day' or an emergency. Figure 23 shows that 29% of households in December 2014 reported less than $1000 in cash savings and 56% reported less than $10,000 in cash savings. This is an improvement during the past six months with the latest proportions of households with smaller balances lower than a few years ago and vice versa for households with larger cash savings.

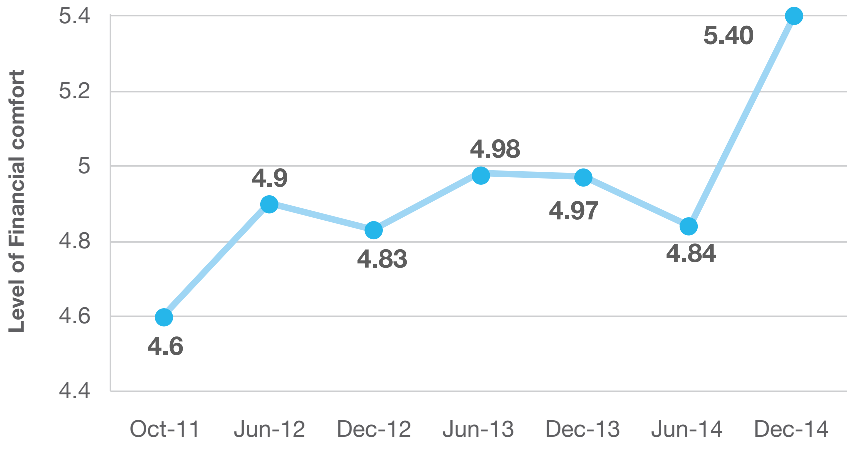

Figure 22 - changes to comfort with case savings since the first survey - scores are out of 10.

Figure 23 - How much cash savings do households currently hold? % of households since the first survey.

5.5 DEBT

Overall comfort with debt

Figure 24 shows overall comfort with debt increased by 6% to 6.36 out of 10 during the six months to December 2014. ‘Single parents’ reported the biggest rise in comfort with debt (up 17% to 5.85). In terms of households, ‘retirees’ were the most comfortable with debt (7.93), while ‘couples with young children’ were the least comfortable (5.55).

Changes to total debt over the last year

Figure 25 shows a slight rise in net demand for credit during the six months to December 2014. Households whose debt decreased fell from 26% to 22% of households, while those reporting increased debt grew from 30% to 32%, which equates to a net 10% households reporting increased debt. The net small proportion of households reporting increased debt is an increase from a recent low of 5% in June 2014 and is consistent with a modest comfort with debt largely due to the continued low interest rates, rising incomes and value of investments.

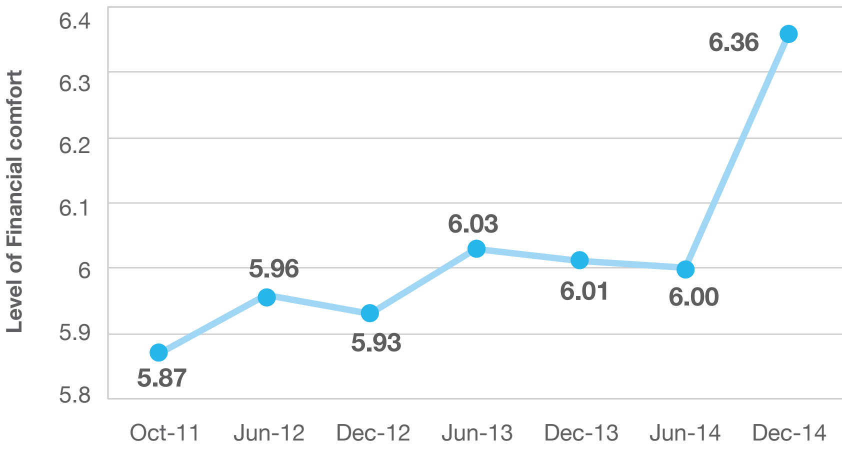

Figure 24 – Comfort with debt since the first survey. Scores out of 10.

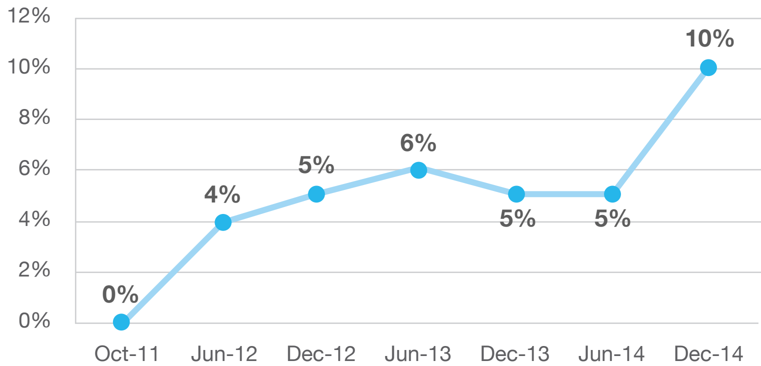

Figure 25 – Net % of households who increased debt since the first survey.

5.6 MONTHLY EXPENSES

The continued long-term trend for rising comfort with ability to pay regular expenses continues, with confidence hitting a three-year high of 6.67 out of 10, a rise of 5% during the six months to December 2014. The highest comfort with monthly expenses was reported by 'retirees' (7.46) followed by 'young singles/ couples no children' (6.98). The lowest comfort was reported by 'couples with young children' (6.25). The biggest rise in comfort was with 'single parents' (up 25%).

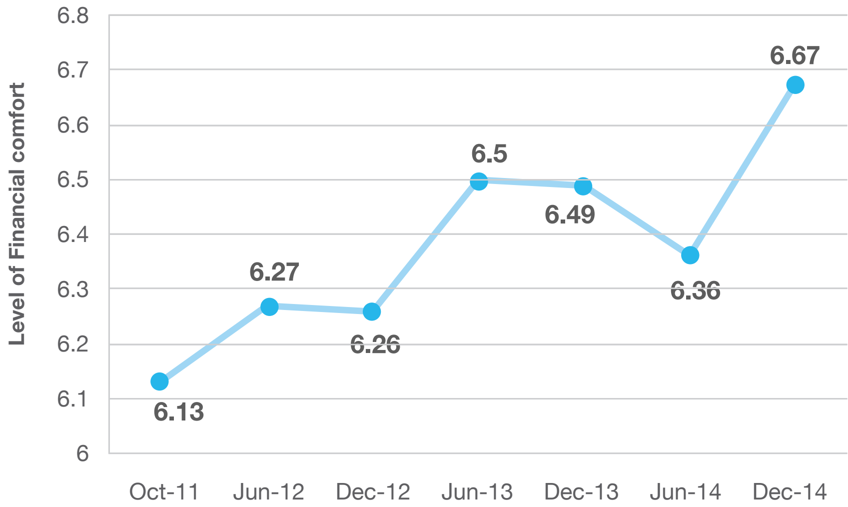

Figure 26 – Comfort with ability to pay regular expenses since the first survey. Scores out of 10.

5.7 INVESTMENTS

The long-term trend for rising comfort with investments continued in the latest survey, with confidence hitting a three-year high of 5.33 out of 10, a rise of 10% during the six months to December 2014. The highest comfort with investments was reported by 'retirees' (6.09), followed by 'young singles/ couples no children' (5.62), while the lowest comfort with investments was reported by 'single parents' (4.95). The biggest rise in comfort with investments was reported by 'single parents' (up 39%), followed by 'middle aged singles/ couples no children' (up 16%).

Investment risk appetite

When households were asked how much financial risk they would be willing to take with any spare cash (Figure 28), a net 18% of households continued to be risk avoiders (18% risk takers; 35% risk avoiders; 47% neutral). This is a small improvement in risk appetite in the past six months - albeit continues the conservative trend of the last three years.

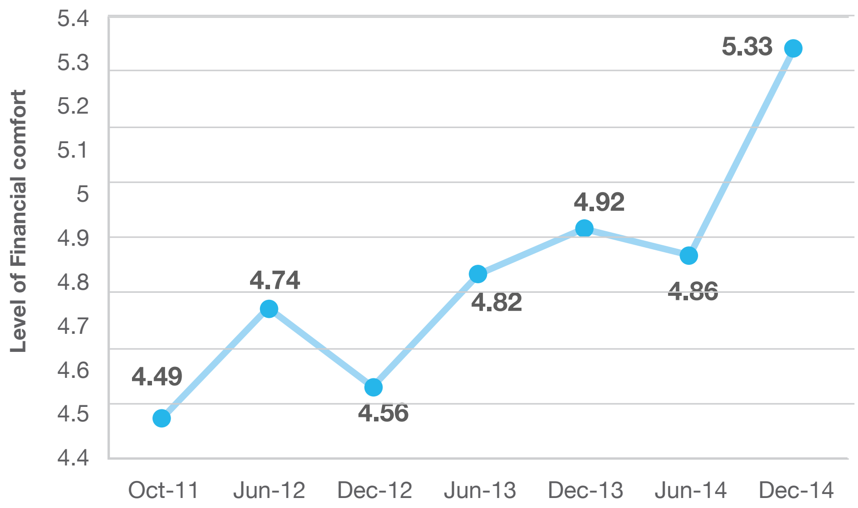

Figure 27 – Comfort with investments since the first survey. Scores out of 10.

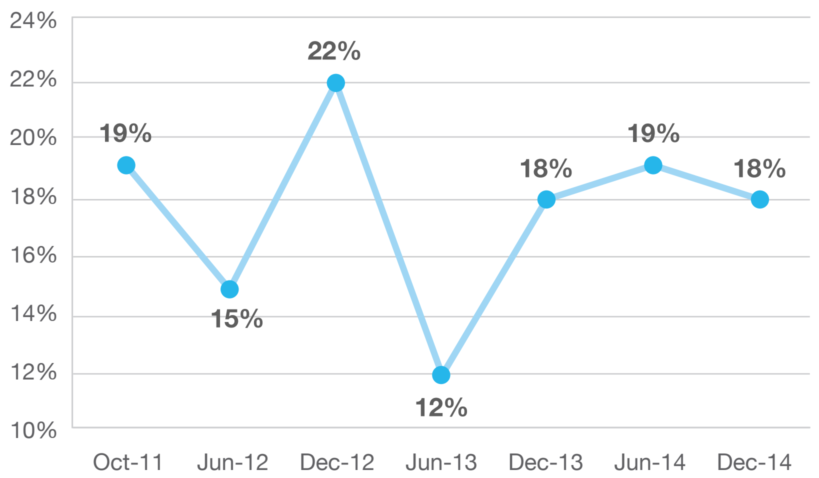

Figure 28 – A net % of households have been risk avoiders since the first survey.

5.8 RETIREMENT AND SUPERANNUATION

In the six months to December 2014 there was a 12% increase in confidence with the ability to maintain lifestyle in retirement, to 5.46 out of 10. Highest confidence was reported by 'retirees' (6.58) and 'young singles/couples no children' (5.89), while lowest confidence was reported by 'middle aged singles/couples no children' (5.01) and 'couples with young children' (5.04). The biggest rise in confidence was reported by 'single parents' (up 38%) and 'middle ages singles/couples no children' (up 14%).

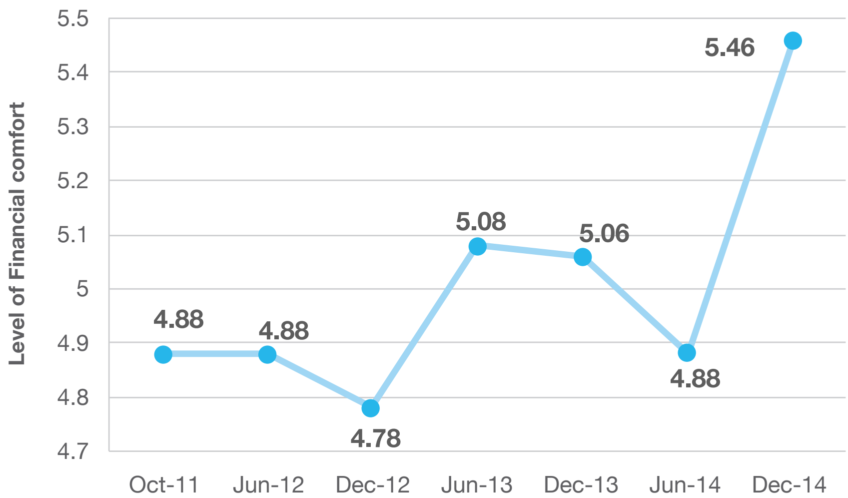

Figure 29 – Confidence with ability to maintain comfort in retirement since the first survey. Scores out of 10.

Additional payments to super in the last six months

There's not been much shift in the proportion of households contributing more into super over the last three years, with those never or sometimes contributing extra consistently sitting between 83%-87%, while those always or often contributing extra into super consistently sitting between 13% and 17%. In terms of households, 'young singles/couples no children' (20%) and 'middle aged singles/couples' (21%) are the biggest contributors of extra money into their super. In terms of gender, more men (18%) than women (13%) contribute extra amounts into super. A greater number of higher income earners (24% of those earning $100,000+) than low income earners (12% of those earning between $40,000 and $75,000) are putting extra money into their super.

Self-reliance in retirement

There has been a slight increase in the number of households expecting to fund retirement with their own funds over the last three years, creeping up by about 3 points to 20%, while those expecting to rely on the government pension has crept down by about 2 points to 18%. 'Young singles/couples no children' are the most confident with 30% indicating they will be able to fund their own retirement, while 'empty nesters' were the least confident with 15% indicating they will be able to fund their own retirement.

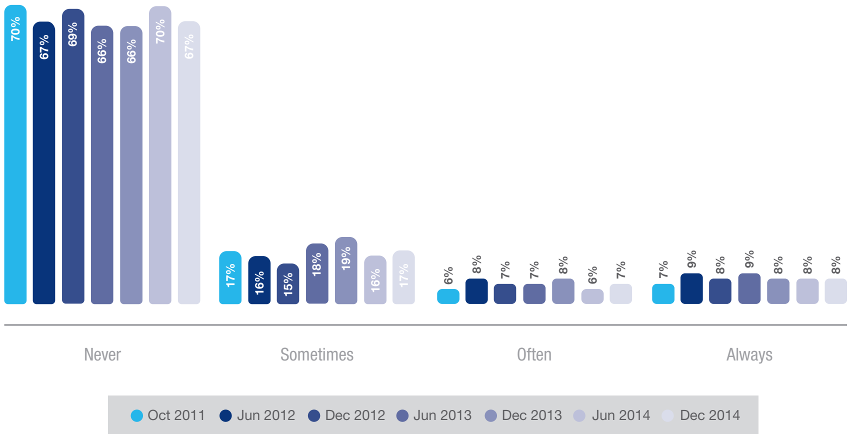

Figure 30 – Have you made additional payments into super in the last six months? % households since the first survey

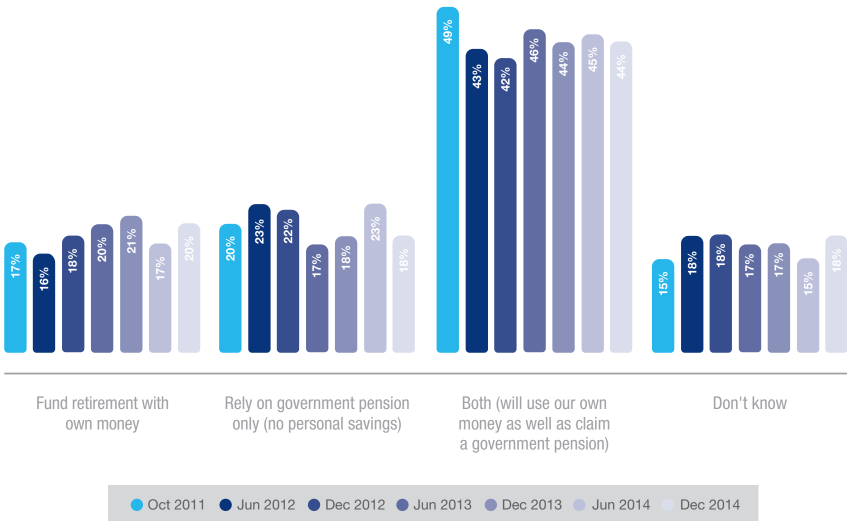

Figure 31 – How self-reliant will you be in retirement? % households since the first survey

Expected adequacy of income in retirement

There hasn't been much movement in self-assessments of income adequacy in retirement, over the past three years or so.

Superannuation quick facts

- 24% either don't have a superannuation fund or don't know if they have one
- 20% of Australians reported 'building wealth for retirement' is a financial goal they're currently actively working towards

Figure 32 – Expectations for adequacy of income in retirement. % households since the first survey

5.9 OVERALL LEVEL OF (NET) WEALTH

In the six months to December 2014, comfort with overall net wealth (what would be left in cash if you sold all your assets and paid off all debts today) increased 7% to 6.04.

The biggest increase in confidence in net wealth was reported by 'single parents' (up 27%), while 'retirees' reported the highest level of comfort with their net wealth (6.94 out of 10) and 'couples with young children' reported the lowest comfort with overall net wealth (5.67 out of 10).

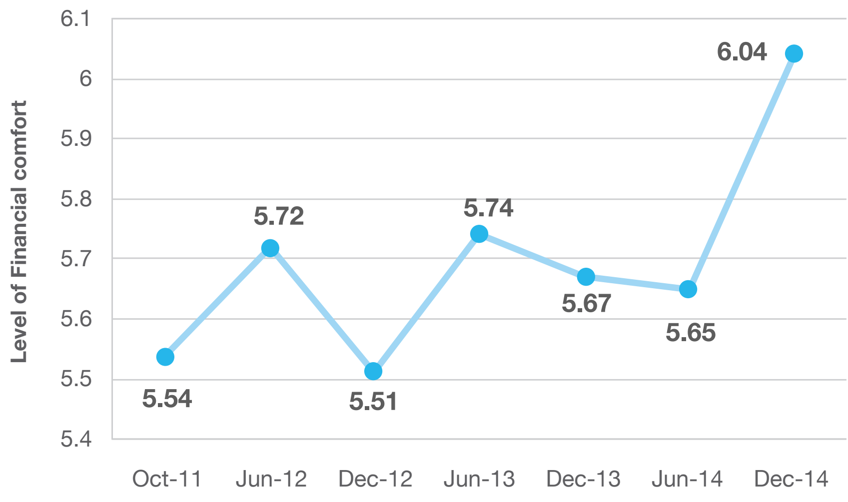

Figure 33 – Comfort with overall level of wealth since the first survey. Scores out of 10.

SIX: 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	6.10	$306,000	$90,000
Single parents	5.56	$427,000	$61,000
Couples with young children	5.44	$311,000	$101,000
Couples with older children	5.76	$718,000	$90,000
Middle-aged singles/couples no children	5.71	$414,000	$91,000
Empty nesters (50+yo)	5.85	$660,000	$64,000
Retirees	6.46	$717,000	$44,000

SIX: APPENDIX B METHODOLOGY.

ME Bank commissioned DBM Consultants to develop the *Household Financial Comfort Index* with Economics & Beyond and the 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.

Seven waves of research have been conducted every six months starting in October 2011, but usually in the months of December and June, with the latest conducted in December 2014.

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.

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