THE FINANCIAL PSYCHOLOGY OF AUSTRALIAN HOUSEHOLDS.

INSIGHTS FROM NATIONAL RESEARCH.

ME Bank
BANK FAIRER.

HOUSEHOLD FINANCIAL COMFORT REPORT.

SIXTH SURVEY – JUNE 2014.

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.

This edition of the *Report* presents the findings from the sixth survey conducted in June 2014.

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* 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. It provides everyday Australians 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.

A lack of cash savings has emerged as one of the biggest areas of concern among Australian households, according to ME Bank's latest biannual *Household Financial Comfort* survey, conducted in June 2014.

In June only 46% of households reported the ability to save each month, the lowest level since ME Bank's first survey in October 2011 (and falling 3% from December 2013), while 42% were breaking even and 12% were overspending by drawing on savings, loans or home equity. This contrasts with the latest official estimates showing the average household savings rate at about 10% of disposable incomes - only slightly below the recent highs of the past decade.

Of those saving the amount saved per month fell 12% and of those overspending the amount overspent rose 13%. About one third of households (35%) also reported having less than $1000 in cash-on-hand, a rise of 7% during the past six months, while 24% said they could not raise $3000 in an emergency, a rise of 6%. 'Level of cash savings on hand' appeared as a top two concern, reported by 36% of respondents.

OVERALL HOUSEHOLD FINANCIAL COMFORT FALLS – AND IS EXPECTED TO FALL IN THE NEXT YEAR.

Concern about cash savings was a key factor that contributed to an overall 3% fall in ME Bank's *Household Financial Comfort Index* to 5.33 out of 10, largely reversing previous gains in 2013. Other factors contributing to the fall in the overall Index was a marked drop in 'expectations for financial comfort over the next year', and, to a lesser extent falls in comfort with 'household income', as well as 'anticipated standard of living in retirement'.

FEDERAL BUDGET FUELLING DISCOMFORT.

In terms of expectations for financial comfort over the next year, this fell sharply by more than 10% from December 2013 to an index of 5.1 (out of 10) in June 2014, the lowest since the survey began. There is a strong link to the 2014-15 Federal Budget with 67% of households expecting their financial situation to worsen over the next year as a result of the proposed tightening of government assistance.

In terms of comfort with 'household income': it fell 5% to 5.55 out of 10, after being negatively impacted by relatively low average wage growth, moderate job gains, rising unemployment and corresponding falls in job security over the period, as well as an anticipated tightening in government income assistance and tax benefits announced in the Federal Budget.

In terms of 'anticipated standard of living in retirement': it fell 4% to 4.88 out of 10, largely impacted by legislative changes announced in the Federal Budget. 'Ability to maintain lifestyle in retirement' emerged as a top three concern among households for the first time, increasing by 5% to 35% of households.

GROWING DISPARITY IN FINANCIAL COMFORT BETWEEN ASSET RICH HOUSEHOLDS AND OTHERS.

The survey indicates a growing disparity in financial comfort between asset-rich households and other households, and between age groups. Asset-rich households (including self-funded retirees and home owners) have benefited from a sustained rise in global and local equity prices as well as significant gains in residential prices, especially in Sydney, Melbourne and Perth. In contrast, limited household income gains and rising concerns about cash savings among most other households have seen their financial comfort falling.

For example, over the six months to June 2014, the financial comfort of 'builders' (people aged 65+ years) increased markedly by 9% to an index of 6.5 to the highest level of comfort since the survey commenced, while all other broad life stage groups fell significantly, especially Gen X (down 4% to 4.9 out of 10 – to its lowest level since the survey commenced).

All the other main household groups experienced falling comfort in the six months to June 2014.

TWO: ECONOMIC CONTEXT.

Overall, Australian households have continued a relatively prudent approach to finances during the first half of 2014. There has been a further strong boost to net wealth at the aggregate level from higher equity and house prices in most major cities as well as easing debt burdens from low loan rates and early prepayments. In contrast, household purchasing power and confidence have fallen.

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

- **Consumer confidence** fell sharply – especially about the time of the Federal Budget – to be almost 9% lower than a year earlier in June 2014 and to return to well below its long-run average level.
- **Labour market** remains weak with subdued forward-looking indicators. The national unemployment rate rose to its highest rate since mid-2003 to be 6% in June 2014, compared with 5.9% in December 2013. The broader measure of labour under-utilisation rate (both unemployed and under-employed) was 13.5% in May, compared with 13.4% six months ago and 12.9% in May 2013.
- **Household income** gains have slowed further and real purchasing power has fallen, with average annual wage growth at about 2.5% - its slowest pace for about a decade and below the pace of consumer inflation - and modest gains in hours worked.
- **Household consumption** spending growth remains relatively weak, albeit a bit above the relatively slow income growth. As measured by the official data, the household saving rate from current disposable income was estimated at about 10% in the first half of 2014, a bit lower during the past year, but still well above the average of the past two decades.
- **Consumer inflation** has remained moderate – in "underlying terms" at about 2.8% per annum – albeit with some marked variations across items over the past year – including larger rises in health, education and housing utilities and falls in other items (eg, durables like electrical goods & cars).
- **The housing sector** has strengthened further. New dwelling investment has picked up, housing sales have remained strong, and house prices, across capital cities, on average, are up 10% during 2013/14 - boosted by very strong performances in Sydney and to a lesser extent Melbourne and Perth, in contrast to modest gains in most other regions.
- Growth in **household debt** has remained subdued overall with a pickup in housing loans partly offset by repayment of unsecured personal loans. The amount of housing credit increased at an annual rate of about 6% in the first half of 2014, with growth in repeat owner-occupiers and investors out-pacing demand from first-home buyers.
- 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 local and global share prices, and, as noted above, residential property prices. Superannuation has also recorded a significant rise for the second consecutive financial year, largely due to a pickup in asset returns and continued compulsory contributions, rather than voluntary savings.
- As a result, overall **household net wealth** (assets less debt) increased strongly in both the first half of 2014 and 2013/14 overall.
- 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 to residential property and equity investments.
- Aggregate **household financial stress** indicators generally are low – an indication that households, on average, are coping reasonably well with debt servicing burdens due to relatively low borrowing costs, despite a gradual rise in unemployment over the past year or so. This masks a great deal of variation amongst Australians – across socio-economic and demographic factors.

“WE NEED MORE INCOME AND MORE JOB OPPORTUNITIES.”

YOUNG COUPLE NO CHILDREN, SOUTH AUSTRALIA.

“WE HAVE NO SAVINGS.”

COUPLE WITH YOUNG CHILDREN, WESTERN AUSTRALIA

“MY BIGGEST WORRY IS HOW THE 2014 BUDGET WOULD REALLY AFFECT OUR HOUSEHOLD FINANCIAL SITUATION.”

COUPLE WITH YOUNG CHILDREN, WESTERN AUSTRALIA.

THREE:
HOUSEHOLD FINANCIAL COMFORT.

3.1 HOUSEHOLD FINANCIAL COMFORT INDEX.

Household financial comfort fell in the first half of 2014 but from its highest point of the past few years, largely reversing the gains of 2013.

As measured by the *Household Financial Comfort Index*, household financial comfort was 5.33 (out of 10) in June 2014, down 3% from 5.52 in December 2013, and lower than readings of 5.50 a year earlier and 5.39 two years ago (see Figure 1).

The current financial comfort score of 5.33 is consistent with those reported when Australian households feel ‘occasional stress or worry’, rather than when ‘financial problems require significant lifestyle change’.

Put another way, Australian households had a medium level of financial comfort in June 2014.

THE HOUSEHOLD FINANCIAL COMFORT INDEX.

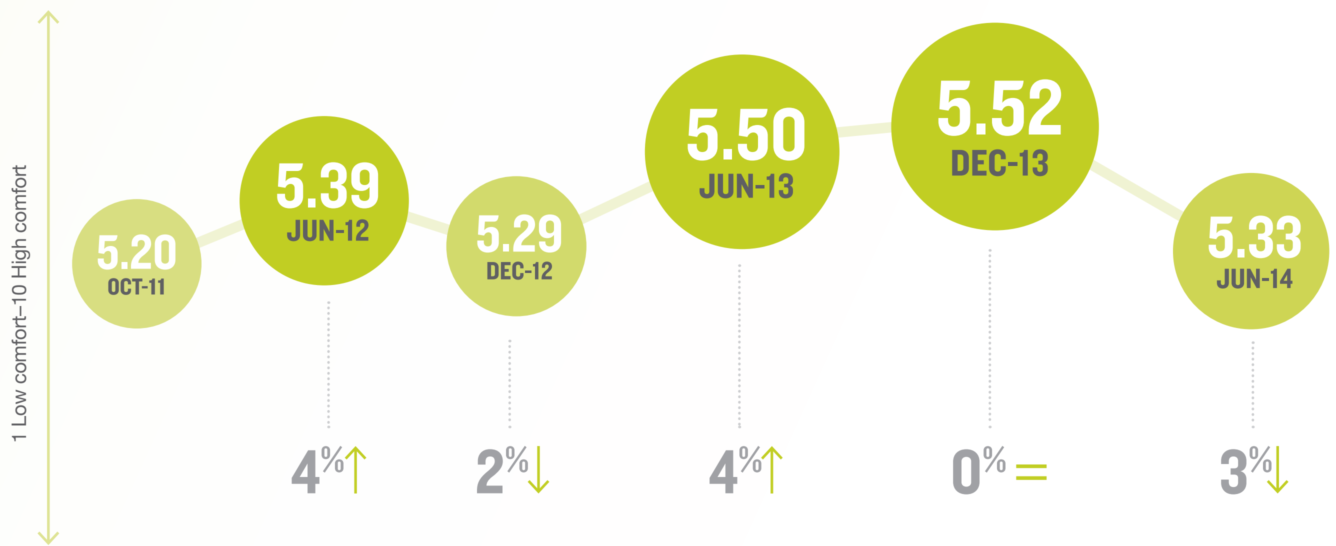

Figure 1 – Financial comfort levels of Australian households over time showing % change from the previous survey.

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.

COMFORT LEVELS ACROSS KEY ASPECTS OF HOUSEHOLD FINANCES.

During the past six months to June 2014, there were falls across all key drivers of household finances (see Figure 2), noting the Index is comprised of 11 measures – see 'How the index is calculated?' above.

Financial Comfort With	Wealth (Net)	Household Income	Monthly expenses	Cash Savings	Investments	Debt from all sources	Anticipated standard of living in retirement
December 2013	5.67	5.86	6.49	4.97	4.92	6.01	5.06
June 2014	5.65	5.55	6.36	4.84	4.86	6.00	4.88
% change	**0%**	**-5%**	**-2%**	**-3%**	**-1%**	**-0%**	**-4%**

Figure 2 – Changes in financial comfort in past six months across seven key drivers

In June 2014, households continued to be least comfortable with cash savings (4.84 out of 10), investments (4.86 out of 10) and their anticipated standard of living in retirement (4.88 out of 10).

In contrast, households continued to be significantly more comfortable with their ability to manage their current living expenses (6.36 out of 10) and amount of debt (6.00 out of 10) – also see Figure 3.

The biggest falls in comfort were across household income (down 5%), and anticipated standard of living in retirement (down 4%).

COMFORT LEVELS ACROSS KEY DRIVERS OF HOUSEHOLD FINANCES.

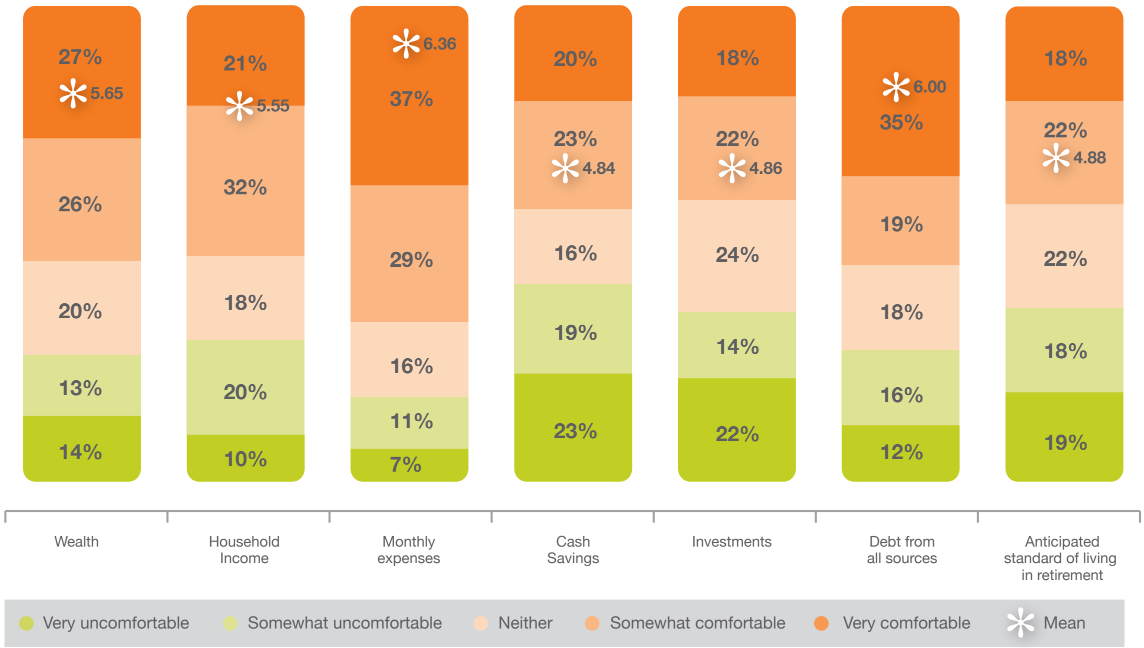

Figure 3 – Comfort levels across key drivers of household finances.

INSIGHTS

Comfort with **cash savings** has been negatively affected by an overall fall in the proportion of households saving each month to the lowest level since the ME Bank Survey commenced in October 2011. In this survey only 46% of households reported an ability to save each month – see Figure 23. Comfort with the ability to pay monthly expenses is relatively higher, but there is markedly less comfort in the ability to raise money for an emergency with almost one in four households thinking they could not raise money (up 6% in the past six months – see Figure 40.)

Comfort with **investments** fell and remains low. Despite rises in key household asset prices, most Australian households have low holdings of direct shares and house prices gains have been somewhat concentrated in major capital cities such as Sydney and Melbourne, while smaller cities and regional Australia have been subdued and/or fallen. Across Australia, gains in comfort with investments of self-funded retirees have been offset by falls across all other households.

Anticipated standard of living in retirement has been affected by legislative changes announced in the 2014-15 Federal Budget such as the increase in age pension age to 70 by 2035 and the annual indexing to consumer inflation rather than to average wage gains from 2017. In contrast, current retirees' comfort with their anticipated standard of living in retirement actually rose 8% to a relatively high index of 6.3 in the six months to June 2014.

Comfort with **income** has been negatively affected by low wage growth overall, only moderate job gains, rising unemployment, and corresponding falls in job security as well as the anticipation of the proposed tightening in government income assistance and tax benefits announced in the 2014-15 Federal Budget. Across households as a whole, only 30% of households experienced an income increase in the last year, one percentage point more than the 29% of households that reported a decrease in income, while a further 41% had unchanged household incomes. In terms of net household wealth, 37% of households reported an increase in overall wealth in dollar terms, while 21% reported a decrease and a further 41% had unchanged wealth over the past six months.

NEGATIVE EXPECTATIONS FOR FINANCIAL COMFORT OVER THE NEXT 12 MONTHS.

Australians' future expectations for financial comfort over the next year have fallen sharply by more than 10% in the past six months to an index of only 5.1 (out of 10) in June 2014 – the lowest level since the ME Bank survey began in October 2011 and well below current actual comfort levels. Across all households, pessimists and optimists about the next year are evenly distributed: about 32% of households expect their overall financial situation to worsen (compared with 21% six months ago); 34% expect an improved personal financial situation (down from 46%); and the remaining 34% expect an unchanged financial situation. 'Single parents' are the most pessimistic with almost 44% expecting their financial situation to worsen. Only a majority (52%) of 'young singles and couples without children' expect their situation to improve over the next year. See Figure 4 below.

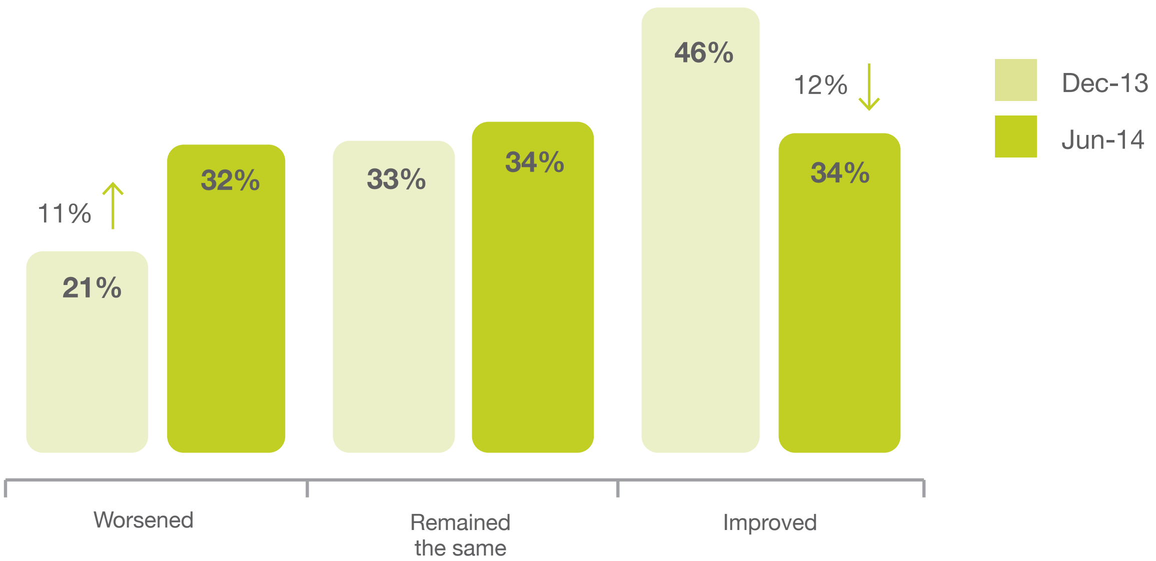

Figure 4 – How much do you expect your household's overall financial situation to have worsened or improved... in the next year?

"I WORRY ABOUT UNCERTAINTY FOR THE FUTURE WITH CHANGES IN THE BUDGET."

COUPLE WITH YOUNG CHILDREN, VICTORIA.

INSIGHTS

IMPACT OF THE 2014-15 FEDERAL BUDGET.

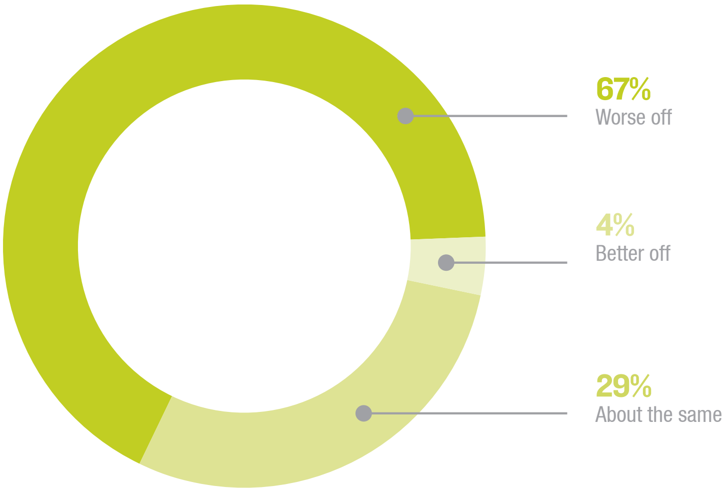

Figure 5 – How will the 2014-15 Australian Federal Budget affect your household's overall financial situation over the next 12 months?

- There is a correlation between increasing pessimism by households about their overall financial situation and how they perceive the 2014-15 Federal Budget will affect their overall financial situation over the next 12 months.
- Almost 30% of households expect the Budget to have little/no impact on their personal situation, while about two thirds expect a negative impact and only 4% expect the Budget to improve their financial situation during the next financial year.

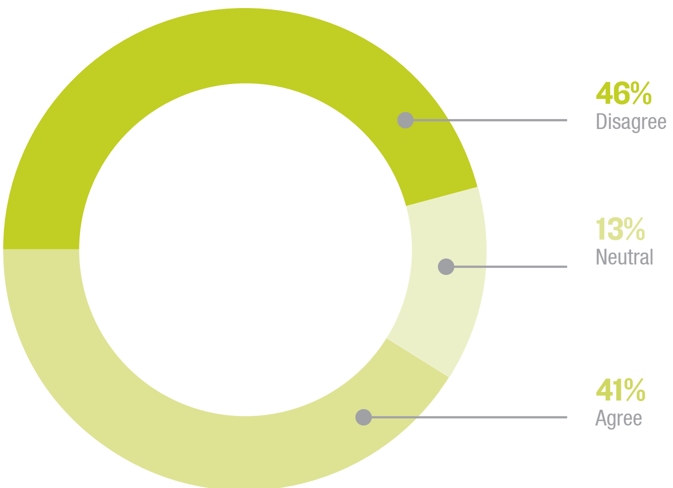

Figure 6 – The Federal Budget will lead to long term gains for all Australians

- 41% of Australians believe the 2014-15 Federal Budget will lead to long-term gains for all Australians.
- The biggest proportion (46%) expect the Budget won't lead to longer-term gains for all Australians.
- Furthermore, 75% agreed that the Budget is too hard on vulnerable Australians, while 16% disagreed and a further 10% neither agreed nor disagreed.

INSIGHTS

BIGGEST WORRIES.

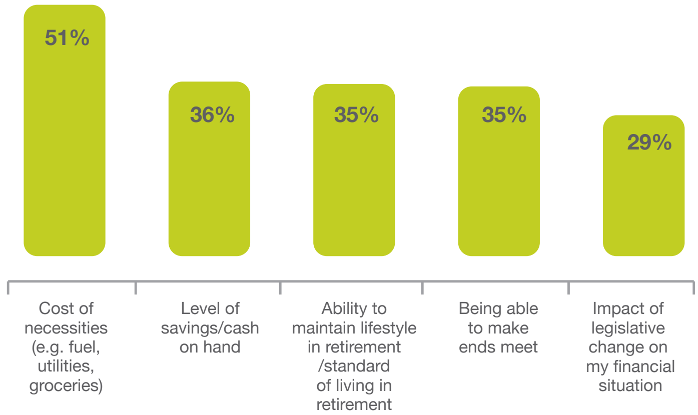

Figure 7 – Thinking more generally about your household finances, which aspects cause you the greatest worry?

BIGGEST POSITIVES.

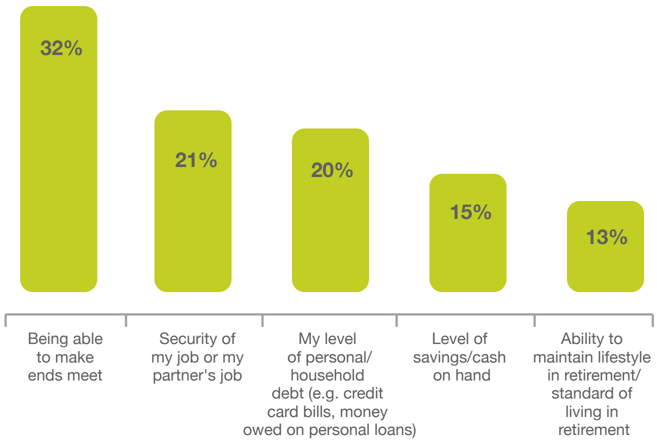

Figure 8 – Thinking more generally about your household finances, which aspects do you feel most positive about?

JOB SECURITY.

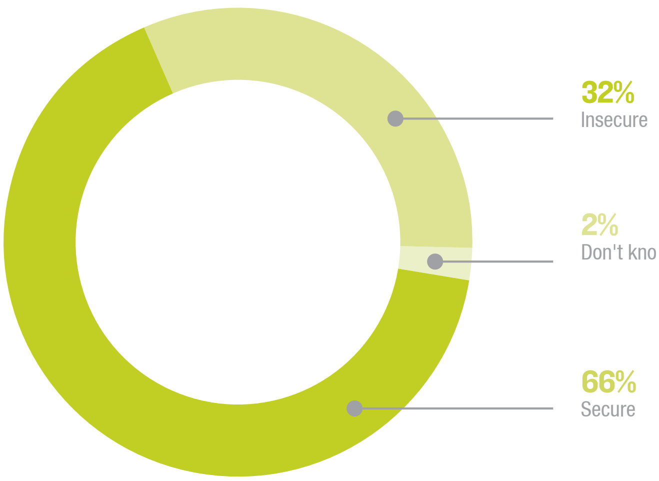

Figure 9 – How secure have you felt about your job in the last month?

- During the last six months, 'ability to maintain lifestyle in retirement' has emerged as a top three concern, increasing by 5% to 35% of households.
- The 'impact of legislative changes has also emerged as a top five concern, an increase of 17% to 29% of households since December 2013.
- 'Cost of necessities' continues to be the biggest worry, increasing 2% in the last six months to 51% of households.
- Job security has dropped out of the top five concerns, falling from 31% in December 2013 to 27% in this survey, although it remains a significant concern for many households – also see Figure 9 below.

- In contrast, the biggest positives reported by households remained largely unchanged.
- 'Being able to make ends meet' for almost a third of households remains the biggest positive.
- After a fall of 5%, the level of government assistance dropped out of the top 5, displaced by the 'ability to maintain lifestyle in retirement' – up 2% to 13% of households.

- Job insecurity continues to be widespread across the population with 32% reportedly insecure in their job in the last month, up from 31% in December 2013.
- 'Single parents' (42%) and 'casual workers' (42%) are the most insecure, in employment.
- 'Baby boomers' (37%) are more insecure in employment than 'Gen X' (29%) and 'Gen Y' (21%).

3.2 VARIATION IN FINANCIAL COMFORT ACROSS HOUSEHOLD SEGMENTS.

Significant variation in financial comfort exists across households, with wider differences emerging over the past six months to June 2014 – see Figure 10. In June 2014:

- Across households, 'retirees' had the highest level of financial comfort (6.45), after an increase of 5.7% from December 2013. Among 'retirees' there is a marked dichotomy however, with very high comfort amongst 'self-funded retirees' (up 8% to 7.81), while 'government-assisted retirees' financial comfort actually fell 15% to a comfort index of 4.70.
- All other broad household groups experienced a significant fall in comfort in the six months to June 2014.
- 'Single parents' continued to have the lowest level of financial comfort (4.29) by household situation, after falling to 4.29 – more than 8% lower than in December 2013. Within single parent households, 'single parents' who mainly rely on government assistance fell to a low comfort level of only 3.41 (down 12%), while 'single parents' with full-time or part-time work had a much higher level of comfort at 4.79 (down 3%) – albeit still below most other households.
- Comfort of both 'couples with young and older children' fell by about 5%.
- Within 'couples with children at home', 'families with teenage children' reported the biggest fall of 13% from 5.96 to an index of 5.19. In contrast, the comfort of 'couples with adult kids at home' was largely unchanged at 5.71 – about the same level of comfort as 'empty nesters'.

	Oct-11	Jun-12	Dec-12	Jun-13	Dec-13	Jun-14	% change
Single parents	4.45	4.75	4.52	4.89	4.66	4.29	**-8.1**
Couples with young children	5.06	5.49	5.15	5.34	5.28	5.06	**-4.3**
Couples with older children	5.29	5.62	5.50	5.54	5.86	5.52	**-5.7**
Young singles/couples (<35yo) no children	5.44	5.40	5.51	5.83	5.72	5.51	**-3.6**
Mid-aged singles/couples no children	5.42	5.07	5.26	5.55	5.52	5.20	**-5.7**
Empty nesters (50+yo)	5.35	5.22	5.31	5.96	5.81	5.71	**-1.7**
Retirees	5.85	5.82	6.08	5.79	6.11	6.45	**5.7**
Overall average (out of 10)	**5.20**	**5.39**	**5.29**	**5.50**	**5.52**	**5.33**	**-3.4**

Figure 10 – Financial comfort by households over time.
(^) Percentage change six months ended June 2014.

GROWING DISPARITY BETWEEN ASSET-RICH HOUSEHOLDS AND OTHERS.

By age cohorts/life stage, it is also noteworthy that over the past six months to June 2014, the comfort of 'builders' (people aged 65+ years, including those persons both working and retired) increased markedly by 9% to an index of 6.54, while all other broad life stage groups fell significantly (especially 'Gen X').

Within the younger 'Gen Y's', comfort of tertiary students fell by a further 8% to 4.92 in June, its lowest level since the ME Bank survey commenced in October 2011, and compared with the peak of a year ago of 5.49.

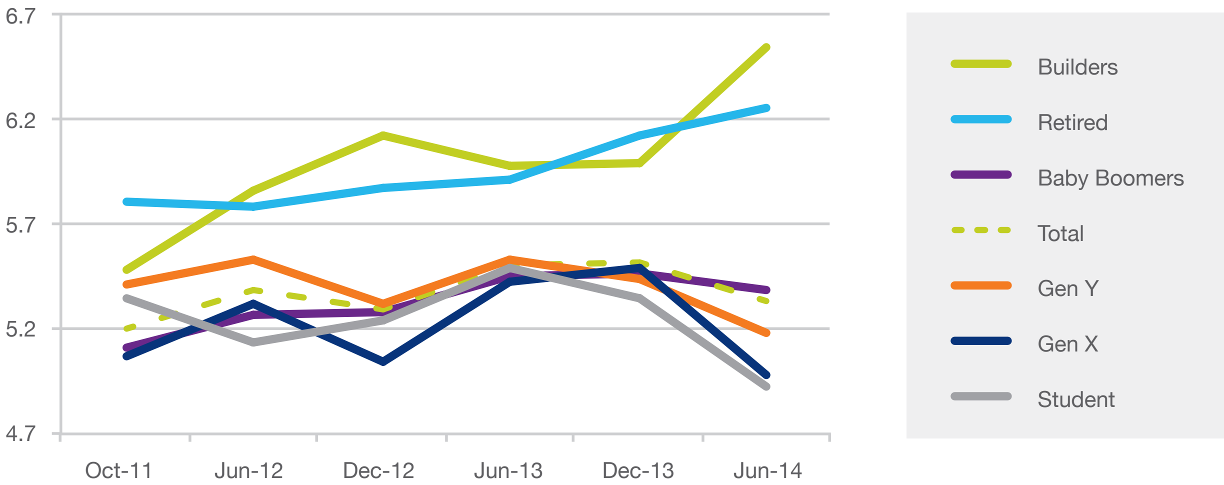

Figure 11 – Financial comfort over time for different generations.

INSIGHTS

Albeit to various degrees, the decline in comfort is widespread across households. The comfort level across most groups of households has been negatively impacted by the anticipation of the tightening in government family tax benefits and income and other government assistance announced in the 2014-15 Federal Budget, especially comfort over the next year and to a lesser extent the ability to maintain current lifestyle if unemployed for three months and also beyond for their anticipated standard of living in retirement. The subdued growth in wages, rising unemployment and low interest rates have also weighed on the comfort with savings and incomes of most households, with some offset from debt servicing burdens on most households.

That said, those households highly dependent on government assistance have recorded the larger declines in comfort – notably, tertiary students, single parents and government-funded pensioners.

In stark contrast, the overall comfort level of 'self-funded retirees' (and more generally, 'builders') have increased markedly 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. There has been a marked improvement in their both (net) wealth and income over the past couple of years as local and global share market continued to rise and more recently as house prices have picked up – especially in the major capital cities.

More generally, comfort of households that own their own home has continued to edge higher over the past year to a relatively high comfort index of 6.62, while comfort of those paying off mortgages fell markedly over the past six months to 4.96, despite sustained lower interest rates and rising house prices in most cities. Households in rental accommodation fell to a low of 4.54 – the lowest since the ME Bank survey commenced in late 2011.

3.3 VARIATION IN FINANCIAL COMFORT ACROSS STATES AND TERRITORIES.

Some variation in financial comfort was evident across states and territories – see Figure 12. In June 2014:

- All mainland states experienced falls in financial comfort with similar levels of financial comfort now being evident in the bigger states: New South Wales, Victoria and Western Australia.
- Tasmania, Victoria, Western Australia and New South Wales had the highest financial comfort.
- Australian Capital Territory, Northern Territory, and South Australia had the lowest financial comfort.
- New South Wales, Victoria, South Australia and Western Australia all experienced falls in financial comfort of between 1.9% and 5.5%, while Tasmania and Northern Territory experienced increases of 9.7% and 2.1% respectively.

	Oct-11	Jun-12	Dec-12	Jun-13	Dec-13	Jun-14	% change
New South Wales	5.15	5.24	5.35	5.59	5.71	5.43	**-4.8**
Queensland	4.81	5.37	5.11	5.29	5.19	5.19	**0.0**
Victoria	5.41	5.62	5.33	5.40	5.56	5.46	**-1.9**
South Australia	5.29	4.84	5.14	5.70	5.20	4.92	**-5.5**
Tasmania*	5.16	5.60	4.75	5.01	5.32	5.83	**9.7**
Western Australia	5.56	5.64	5.52	5.84	5.70	5.43	**-4.8**
Northern Territory*	5.45	5.30	5.03	5.07	4.43	4.52	**2.1**
Australian Capital Territory*	5.10	6.22	5.65	6.13	6.66	4.37	**-34.3**
Overall average (out of 10)	**5.20**	**5.39**	**5.29**	**5.50**	**5.52**	**5.33**	**-3.4**

Figure 12 – Financial comfort by state, over time.
(^) Percentage change six months ended June 2014. (*) Indicates small sample size.

INSIGHTS

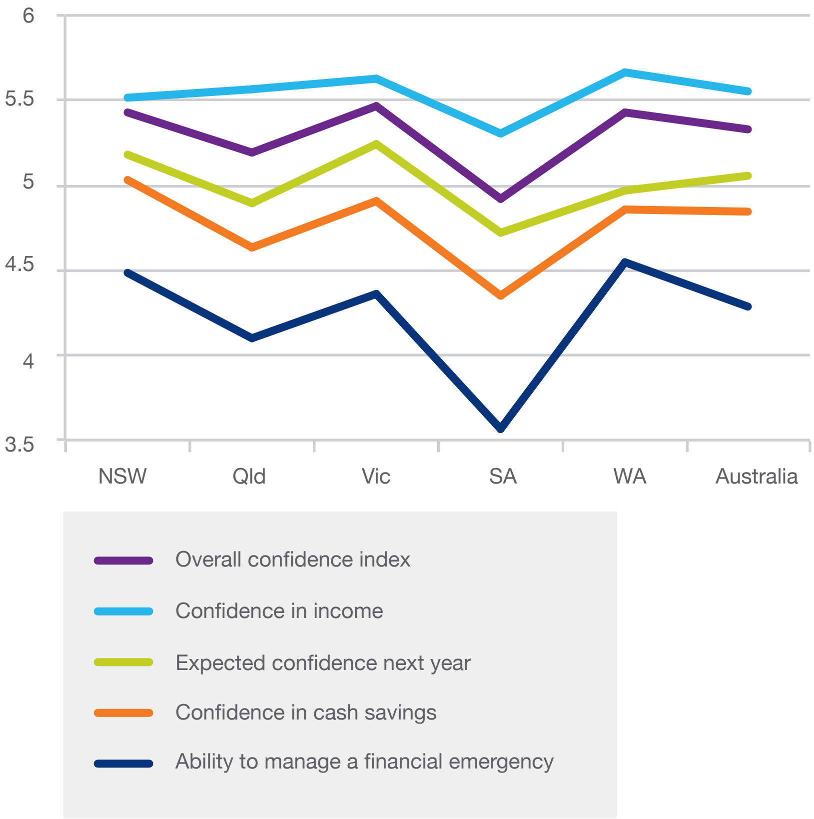

Figure 13 – Comfort levels for 'level of income', 'overall financial comfort index', 'expected financial comfort over the next year', and 'ability to raise $3000 in an emergency, by state.

Consistent with the trends in households noted in section 3.2 above, there were falls in all the key drivers of comfort by State with bigger falls in comfort over the next year and to a lesser extent the ability to maintain current lifestyle if unemployed for three months, as well as beyond for their anticipated standard of living in retirement. In the case of other key drivers, the comfort of households in Queensland with their investments, savings and debt increased in the past six months – counter to the trend in most other states. In terms of the anticipated comfort for the next financial year, households in South Australia expect to continue to be the least comfortable (index of 4.72), and to a lesser extent in both Queensland (4.89) and Western Australia (4.97) are expected to be below the comfort levels of the larger states of NSW and Victoria (both around an index of 5.4).

3.4 VARIATION IN FINANCIAL COMFORT ACROSS LABOUR FORCE.

While significant variation in financial comfort exists across the labour force, financial comfort fell across all labour force categories except casual workers – see Figure 14.

- Unemployed persons experienced the biggest fall in financial comfort in the six months to June 2014 (down 22% to an index of 3.54) – to the lowest level since the survey commenced in October 2011.
- Part-time self-employed (down 11%) and casual workers (up 10%) had the lowest levels of comfort of people with jobs, with indexes of 4.85 and 5.03, respectively, in June 2014.
- Comfort of casual workers rebounded in the past six months to June – largely reversing the sharp fall in the six months to December 2013 after the last Federal Election.

	Oct-11	Jun-12	Dec-12	Jun-13	Dec-13	Jun-14	% change
Full-time paid employment	5.47	5.65	5.46	5.78	5.83	5.56	**-4.7**
Part-time paid employment	5.01	5.37	5.35	5.42	5.33	5.07	**-4.9**
Full-time Self-employed	5.37	5.36	5.48	5.42	6.02	5.59	**-7.2**
Part-time Self-employed	5.26	4.87	5.90	5.56	5.45	4.85	**-11.0**
Casual	4.06	5.07	5.16	5.15	4.57	5.03	**9.8**
Unemployed	3.98	4.40	4.08	4.95	4.53	3.54	**-21.9**
Overall average (out of 10)	**5.20**	**5.39**	**5.29**	**5.50**	**5.52**	**5.33**	**-3%**

Figure 14 – Financial comfort by workforce status over time.
(^) Percentage change six months ended June 2014.

INSIGHTS

The decline in comfort is widespread across the labour force – albeit most marked among those unemployed. This is in part due to rising unemployment but arguably due to the tightening of eligibility requirements as well as reduction of payments for unemployed persons announced in the 2014-15 Federal Budget. Comfort for unemployed person about the next year was down over 30% to a very low index of 3.76, and comfort with their ability to handle a financial emergency was down 28% to a very low index of 2.71.

Of those people with work, most key drivers fell markedly. The large fall for part-time self-employed is largely attributed to very large falls in comfort about their ability to manage a financial emergency (down over 36% to a very low index of 3.1) as well as savings and investments (both down over 20% to about the same relatively low indexes of about 3.8).

THE CORRELATION BETWEEN FINANCIAL COMFORT AND JOB SECURITY.

There remains a strong link between levels of financial comfort and job security – see Figure 15. In terms of workforce status, over the longer-term casual workers have consistently reported the highest levels of job insecurity and in turn significantly lower financial comfort.

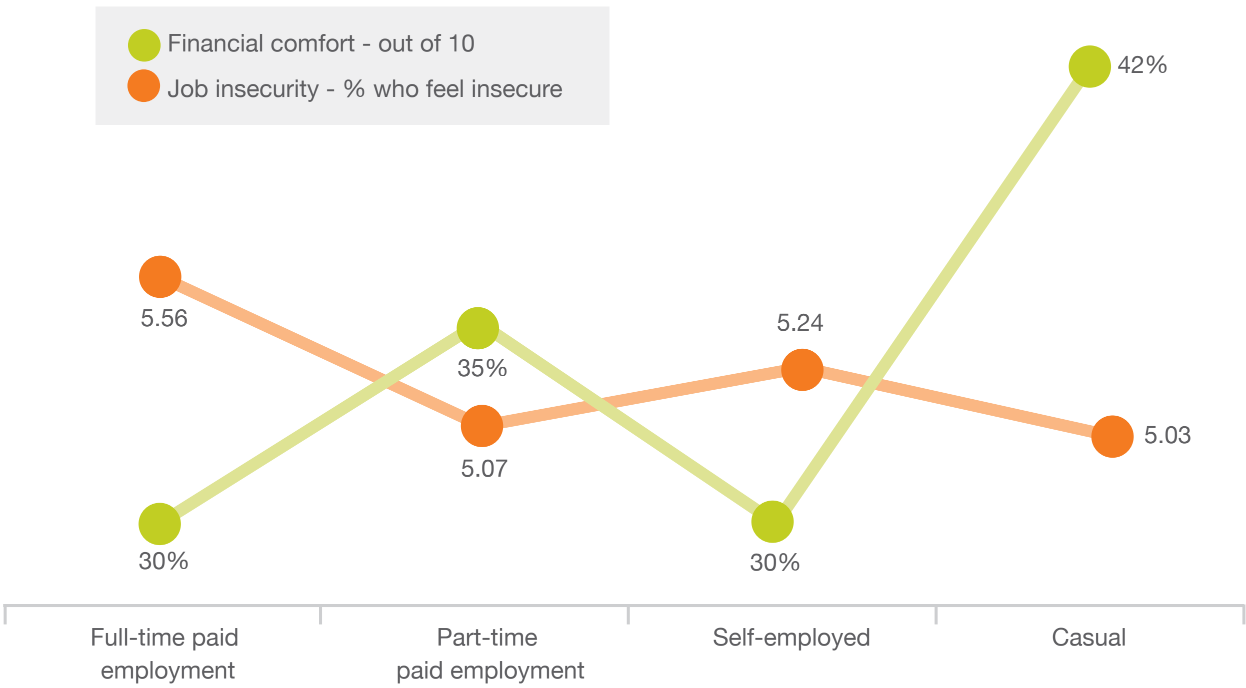

Figure 15 – Financial comfort of working Australians is linked with job insecurity.

“I’M CONCERNED ABOUT KEEPING MY JOB AS IT’S ONLY A CASUAL POSITION.”

EMPTY NESTERS, QUEENSLAND.

"I NEVER HAVE ENOUGH MONEY TO PAY FOR ESSENTIALS, SCHOOL SUPPLIES FOR THE KIDS, COSTS ASSOCIATED WITH HEALTH."

SINGLE MOTHER,
WESTERN AUSTRALIA.

"AT AGE 67 I EARN AND HAVE ENOUGH MONEY TO LIVE QUITE COMFORTABLY."

RETIREE, QUEENSLAND.

"WE ARE VERY GOOD WITH OUR MONEY AND BOTH HAVE GOOD JOBS AND ARE PLANNING FOR THE FUTURE SO I FEEL POSITIVE ABOUT THE FUTURE."

COUPLE WITH YOUNG CHILDREN,
NEW SOUTH WALES.

FOUR: DRIVERS OF FINANCIAL COMFORT – SOME KEY FEATURES.

4.1 INCOME.

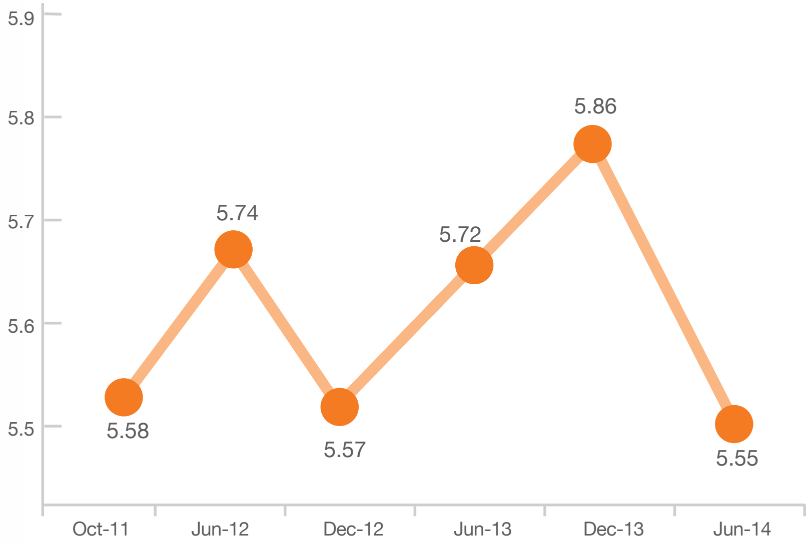

Figure 16 – Comfort with level of income over time

INSIGHTS

- Overall comfort with level of income was 5.55 out of 10 – a fall of 5% in the six months to June 2014. This reflects a lack of wages growth over the period – see Figure 17 – rising unemployment and corresponding falls in job security as well as the anticipation of the tightening in government income assistance and tax benefits announced in the 2014-15 Federal Budget.
- Of households, 'single parents' had the lowest comfort with income (4.56) and of this group government dependent 'single parents' were lower still (3.73).
- 'Retirees' had the highest comfort with income (6.30) and of this group 'self'-funded retirees' were higher still (7.12).
- All mainland states had similar levels of comfort with income in June 2014.
- Of working Australians, 'casual workers' had the lowest comfort with income (4.86 out of 10), and 'full-time paid employees' had the highest (5.90), compared with a very low index of 3.54 for 'unemployed persons'.

INSIGHTS

CHANGES TO INCOME OVER THE LAST YEAR.

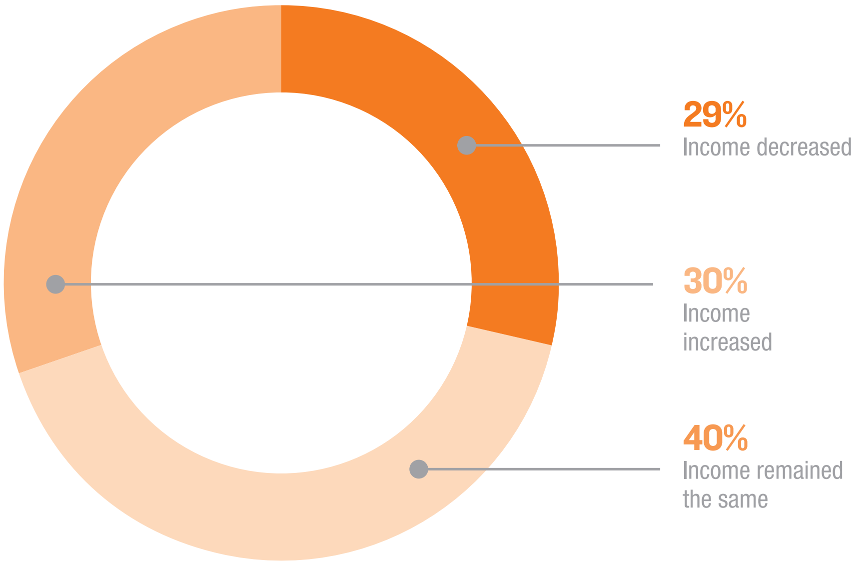

Figure 17 – Has your household income increased or decreased over the last year?

- Overall, the proportion of households reporting income gains over the last year (30%) was about the same as those reporting income falls, or a net gain of 1%.This contrasts somewhat to December 2013 when about 40% of households reported income gains, compared 25% reporting income falls, or a net gain of 15%.
- 'Young singles' and 'self-funded retirees' reported gains in income well in excess of income falls in the period (net 26% and 36% gains respectively).
- 'Unemployed', 'single parents' and 'government-assisted retirees' reported the biggest net falls in income in the period (net -48%, -23% and -26%, respectively).
- 'Gen Y' had the most net income gains over the period (net 20%), while 'Baby Boomers' had the biggest net fall (net -7%).

ADEQUACY OF INCOME.

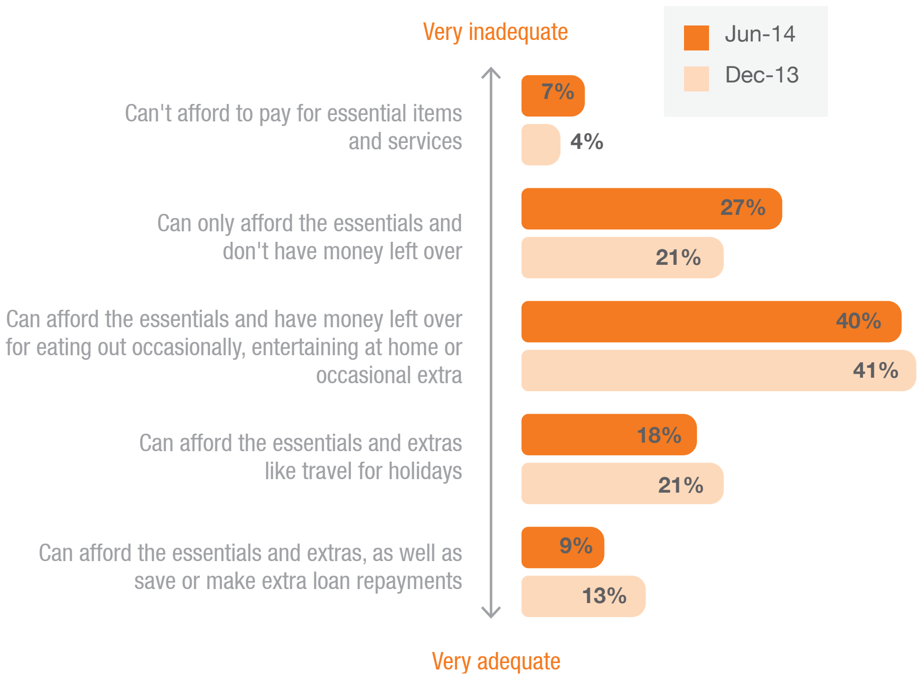

Figure 18 – Has your household income increased or decreased over the last year?

- There was an increase in the proportion of households reporting 'very inadequate' levels of income in the six months to June 2014, with an increase from 4% to 7% of those stating they 'can't afford to pay for essential items and services'. There was also a fall of 4% in the number reporting 'very adequate' income. Again, this likely reflects the lack of real wages growth and loss of purchasing power in the period – see Figure 18.
- 'Retirees' and 'single parents' receiving income support were the most likely to report inadequate income, with 70% and 64%, respectively indicating they can just afford or can't afford the essentials.
- 'Self-funded retirees' were the most likely to report more than adequate incomes, with 57% reporting they can afford essentials plus extras and/or the ability to save and make extra loan payments.

INSIGHTS

EASE OF FINDING EMPLOYMENT WITHIN TWO MONTHS IF UNEMPLOYED.

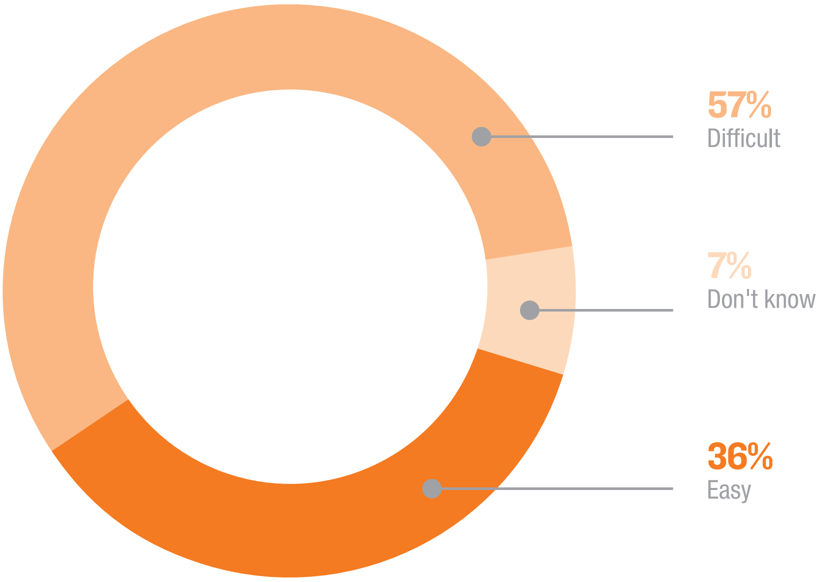

Figure 19 – How easy/difficult would it be to find a job in 2 months if unemployed?

- A majority (57%) of households said it would be difficult to find a job within two months if they became unemployed.
- Perceived difficulty in finding a job increased by 2% to 57% from the December 2013 survey,
- ‘Casual workers’ were more likely to say it would be difficult to find a job within two months if they became unemployed, with 83% reporting this compared to 55% of ‘full-time workers’ and 63% of ‘part-time workers’.
- Workers in Queensland and Tasmania said it would be more difficult finding a job (67% and 64%, respectively).
- Older workers reported it would be more difficult finding a job (74% of people 60+, compared to 40% of 18-29 year olds.)

INSIGHTS

4.2 SAVINGS.

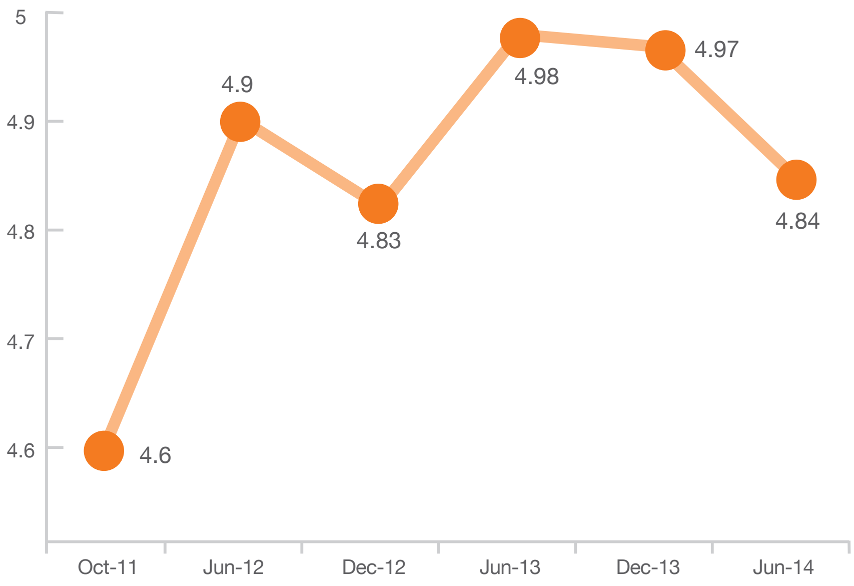

Figure 20 – Comfort with savings over time.

- Overall comfort with level of savings fell 3% to 4.84 out of 10 reflecting falls in the number of households saving each month (see Figure 20).
- 'Retirees' had the highest level of comfort with savings at 6.54 out of 10, of whom 'self-funded retirees' had even higher comfort at 6.67 out of 10. 'Retirees' were also the only group whose comfort with savings increased significantly by 17% in the past six months.
- 'Single parents' were the least comfortable with level of savings (3.66 out of 10), followed by 'couples with young children' (4.45 out of 10).
- Tasmanians were the most comfortable of any state with savings (5.43), while South Australians and Northern Territorians were the least comfortable of any state (both about 4.3).
- 6% of Australians are using equity in their home to purchase larger discretionary items like a car or fund a holiday.

SAVINGS LEVELS.

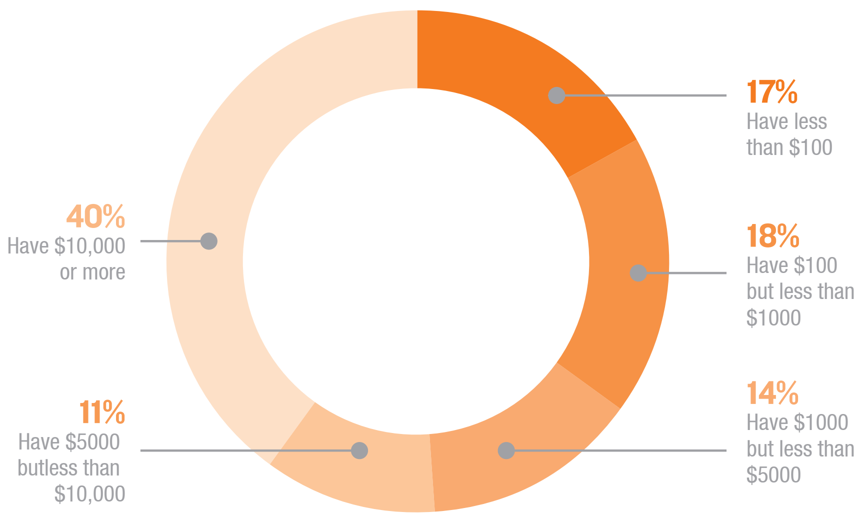

Figure 21 – How much cash savings do households currently hold?

- While the ABS continues to report household savings out of current income slightly lower than decade highs, most Australian households have a relatively low stock of cash savings – that is, a cash buffer for a 'rainy day' or an emergency.
- In June 2014, 17% of households report less than $100 in cash savings, an increase of 3% since December 2013, and 35% less than $1000, an increase from 28% in December 2013. On the other hand, those households with savings of more than $1000 decreased by 7% to almost two-third of households in the past six months to June 2014.
- 30% of casual workers reported less than $100 in cash savings, the lowest of any working cohort.

INSIGHTS

SAVINGS AND FINANCIAL GOALS.

Figure 22 – What are your financial goals?

- Debt management is one of the highest financial goals for households. Paying off a mortgage (30%), paying off debts as fast as possible (30%) the most common financial goal reported by households while getting debts under control (21%) is not far behind.
- Property investing (11%) is more popular than investing in shares, bonds and commodities (8%).
- 'Self-funded retirees' are the most likely group to be buying investment properties (27%), 'Gen X' are the most likely to be focusing on paying off their mortgage (45%), while working 'single parents' and 'students' were the most likely to be saving for a raining day (37% for both groups).

OVERSPENDING – BREAKING EVEN – OR SAVING.

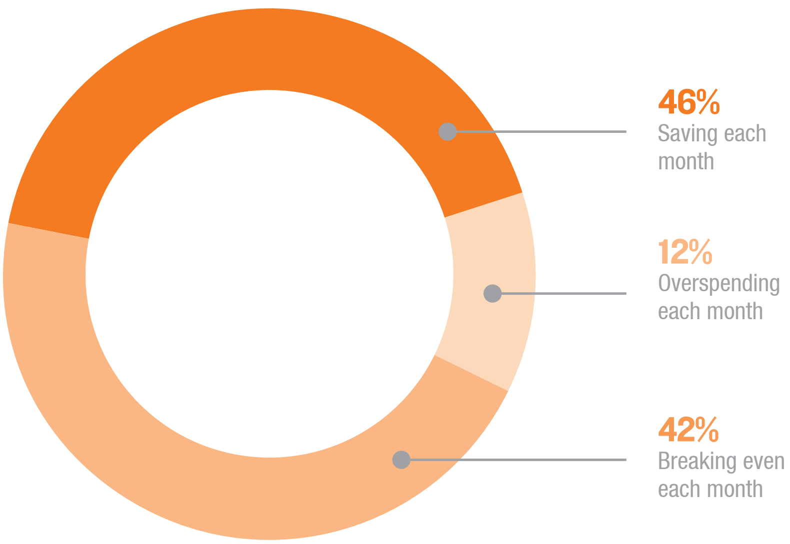

Figure 23 – Do you overspend or save?

- The proportion of households saving has fallen to its lowest since the survey began in October 2011, with only 46% of households saving each month, a fall of 3% from December 2013.
- A further 42% break even and spend all their income, while 12% spend more than they earn each month (by drawing on savings, loans or equity in their home).

INSIGHTS

AMOUNT SAVED OR OVERSPENT EACH MONTH.

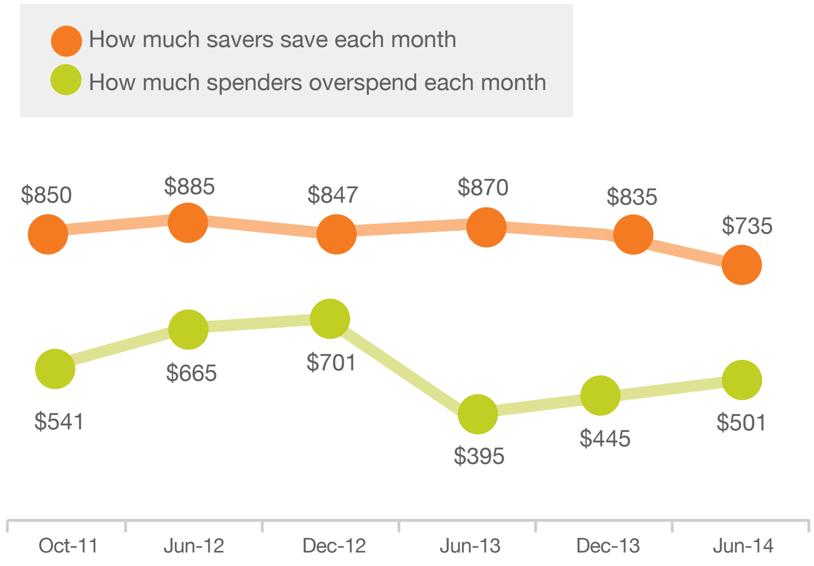

Figure 24 – Amount saved or overspent each month, over time

- The amount of net savings has fallen significantly over the past six months.
- Of those saving each month, the amount saved each month decreased a further 12% from $835 per month to $735 per month in June 2014.
- Of those overspending each month, the amount overspent each month increased 13% from $445 per month to $501 per month.
- This continues a trend for both falling savings and increasing overspending that started 12 months ago.

4.3 DEBT.

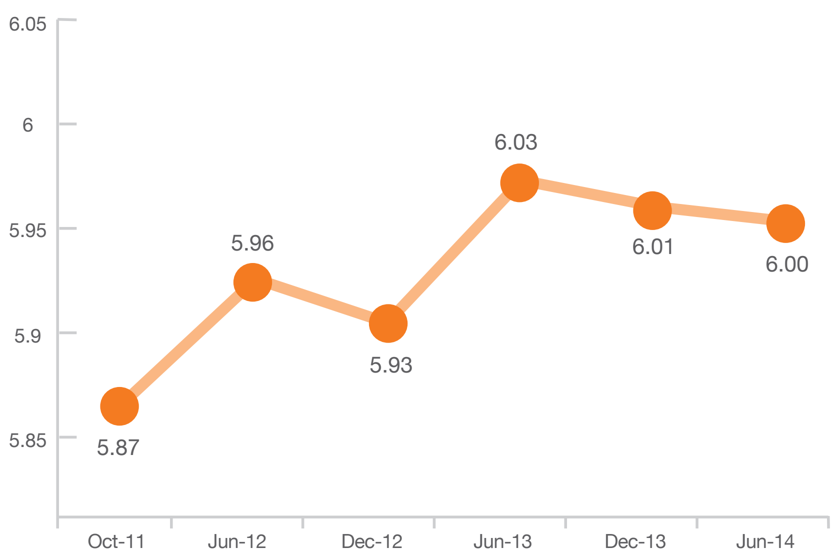

Figure 25 – Comfort with debt over time.

- Overall comfort with debt remained largely unchanged at 6.00 out of 10.
- ‘Retirees’ (8.42) and ‘Empty nesters’ (50+) were the most comfortable with debt. ‘Single parents’ (4.99) and ‘couples with young children’ (5.34) were the least comfortable with debt.
- ‘Single parents’ (4.99), particularly ‘government-assisted single parents’ (4.38) were the least comfortable with debt.
- New South Wales (6.10), Victoria (6.11) and Tasmania (6.46) all indicated higher comfort with debt, while ACT recorded the lowest at 5.05 out of 10.

INSIGHTS

CHANGES TO TOTAL DEBT OVER THE LAST YEAR.

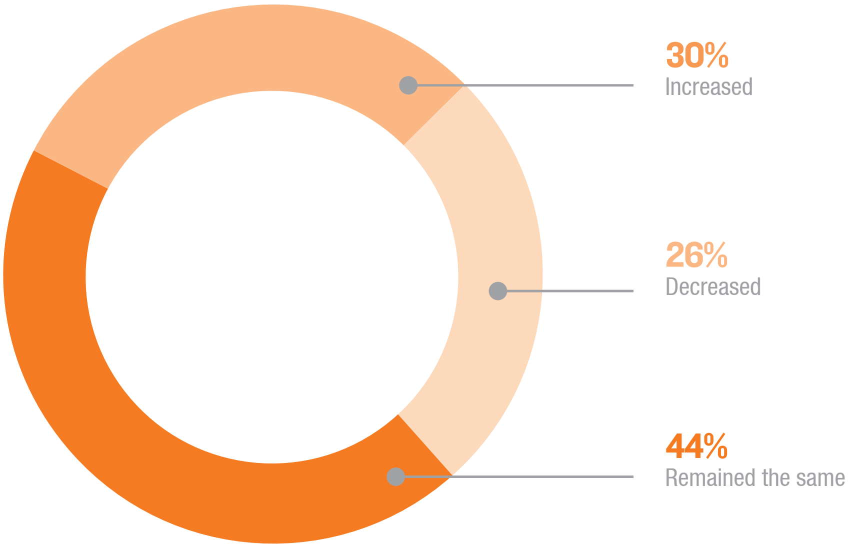

Figure 26 – Changes in total debt over the last year

- Household demand for credit remains subdued, with a relatively small difference between households that increased debt over the past year (30%) and those that decreased debt (26%). This has changed little from the last survey in December 2013 when 33% had increased debt in the last year, compared to 28% who had decreased debt.
- A higher propensity to increase debt over the past year was found among ‘single parents’ (43%) and ‘students’ (42%).
- The highest propensity to decrease debt over the past year was found among ‘Middle-aged singles/couples with no children’ (33%).

DEBT HABITS – THE LAST SIX MONTHS.

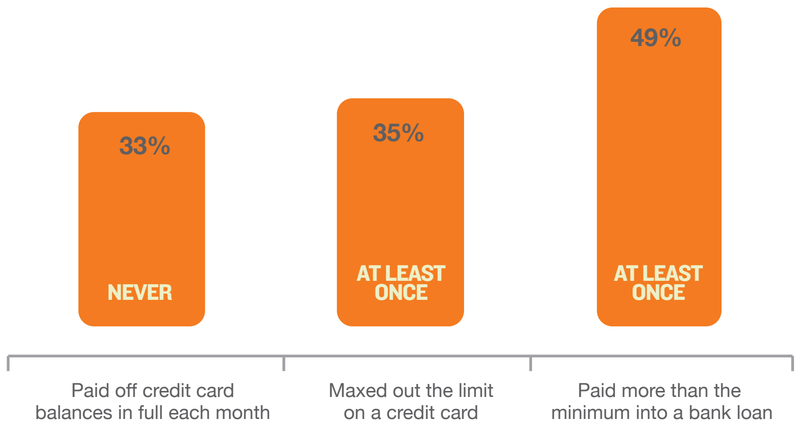

Figure 27 – Debt habits over the last six months

- Almost half or 49% of households are making larger debt payments than required on their mortgages, down from 55% in December 2013.
- There are some concerning habits particularly around credit cards: 33% reported they were credit card ‘revolvers’ during the last six months, never paying off the debt in full, up from 29% in December 2013; and 35% reporting they maxed out the limit on a credit card in the last six months, up by 1% from December 2013.
- 43% of ‘single parents’ said they’d maxed out a credit card in the last six months.

4.4 MONTHLY EXPENSES AND BUDGETING.

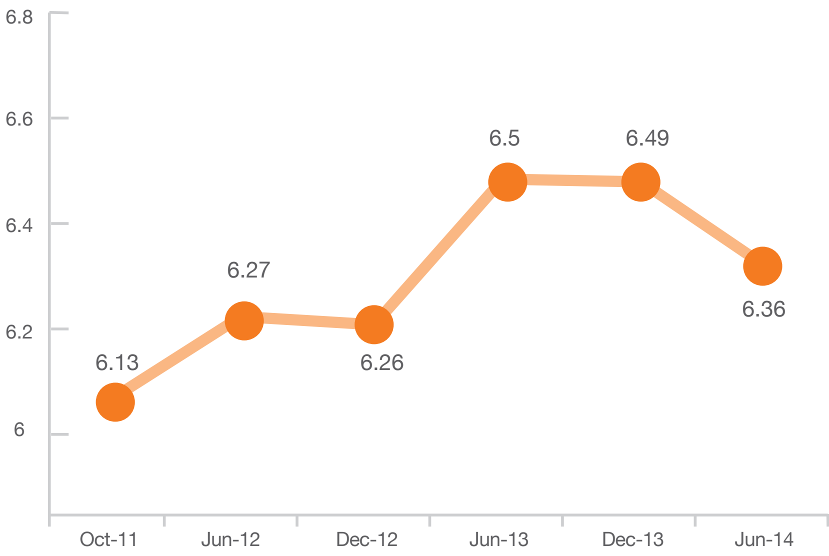

Figure 28 – Comfort with ability to pay regular expenses over time

- Overall comfort with ability to pay regular expenses fell 2% to 6.36 out of 10.
- 'Retirees' (7.30) and 'empty nesters 50+' (6.90) are the most comfortable with their ability to pay for regular expenses. 'Single parents' (5.09) reported the least comfort.
- 6% of Australians are currently using equity in their homes to make ends meet from month to month, including 10% of 'couples with younger children' compared to only 2% of 'empty nesters'.
- Tasmania had the highest level of comfort with monthly expenses and budgeting (7.03), while Northern Territory (5.41) and ACT (5.52) had the lowest.

ACTIVITIES TO HELP MANAGE EXPENSES – IN THE LAST SIX MONTHS.

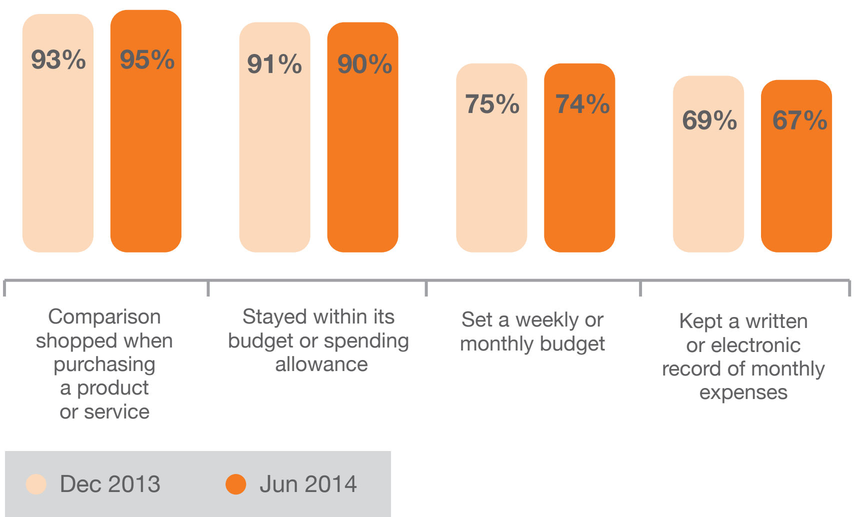

Figure 29 – Activities employed to help manage expenses in the last six months.

- Activities employed by households to manage expenses included comparison shopping (up 1% to 95% in the six months to June 2014), staying within their budget (down 1% to 90%), setting a budget (down 1% to 74%) and keeping an electronic record of monthly expenses (down 2% to 67%).

INSIGHTS

4.5 INVESTMENTS.

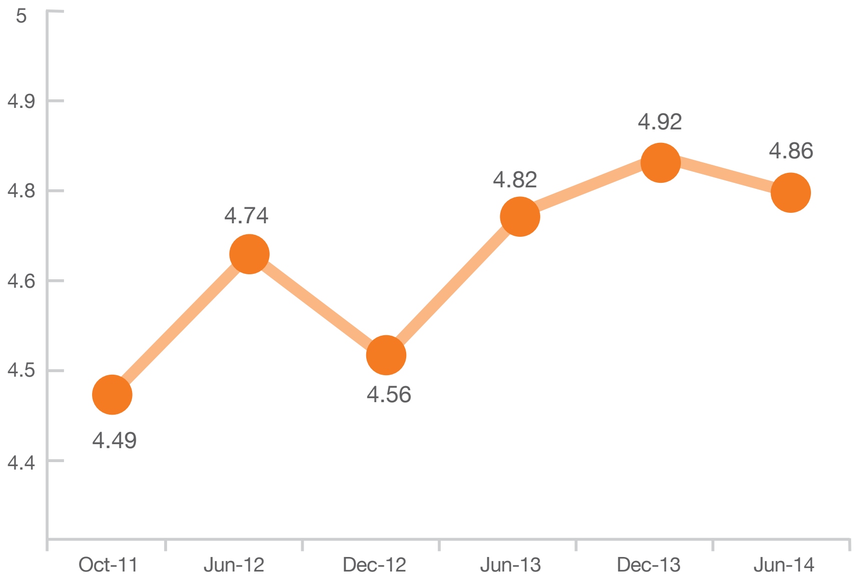

Figure 30 – Comfort with investments over time.

- Overall level of comfort in investments fell about 1% to 4.86 out of 10 with a large rise amongst 'retirees' slightly offset by falls across other households – see Figure 30.
- 'Retirees' are the most comfortable with their investments – up 19% to 6.29.
- After a large fall of 12%, 'single parents' were the least comfortable with their level of investments (index of only 3.6).

INVESTMENT RISK APPETITE.

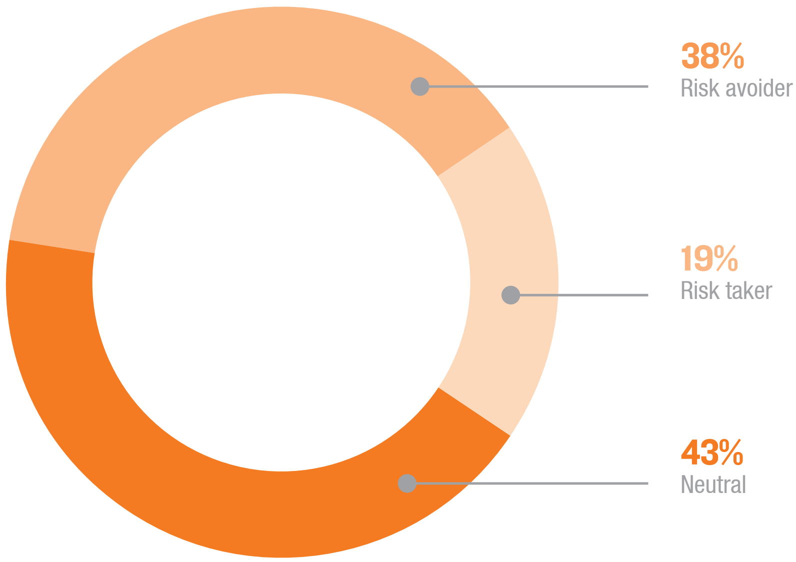

Figure 31 – Australians' appetite for investment risk.

- Overall, Australians are still relatively cautious when it comes to taking risks with their investments.
- Only 19% of households would take above-average risks to earn extra returns (up 1% from Dec 2013), compared to 38% who would avoid risks (up 1% from December 2013).
- 'Self-funded retirees' have the highest propensity for risk taking at 35%.
- Men are bigger risk takers than women: 21% of men would take above average risks with their investments, compared to 17% of women.

INSIGHTS

RECENT LEVEL OF INVESTMENT ACTIVITY.

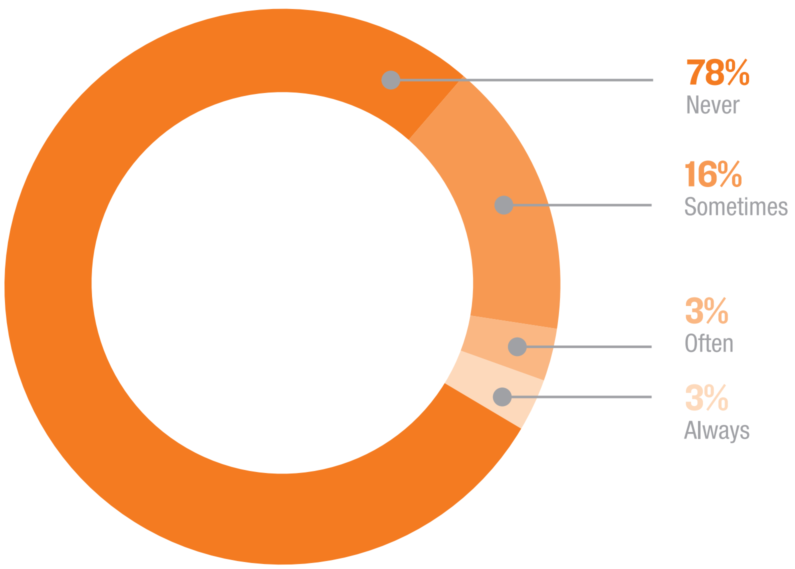

Figure 32 – In the last six months, how often has your household... Bought bonds, stocks or invested in a managed fund?

- Less than a quarter or 22% of households reported engaging in some investment activity in the last six months, slightly down from 23% in December 2013.
- 'Self-funded retirees' (47%) and 'young singles' (27%) were the most likely household groups to have engaged in investment activity in the last six months, while 'middle aged singles/ couples no children' (13%) were the least likely.
- 12% of Australians are currently using equity in their home to purchase other investments –'couples with young children' (16%) and 'couples with older children' (16%) are the most likely to be engaging in this activity.

INVESTMENT PLANS.

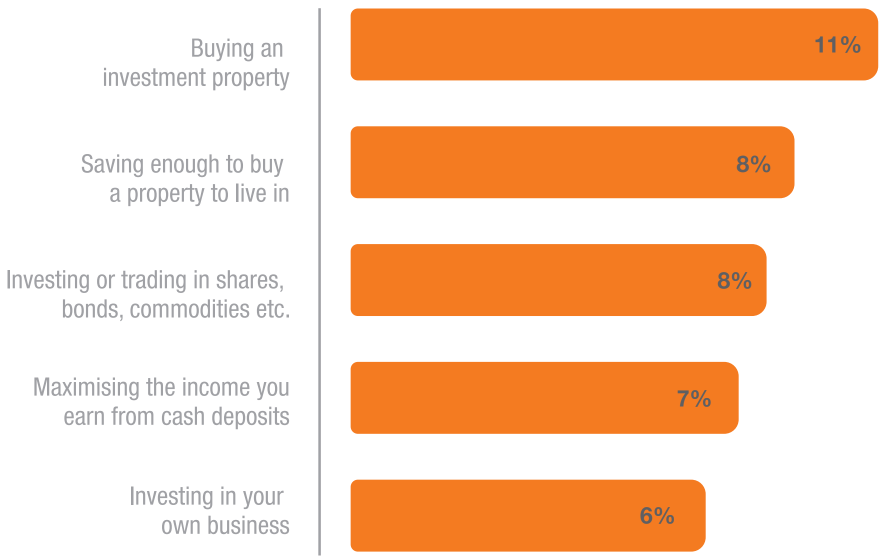

Figure 33 – What investment goals are you actively working toward?

- While 11% of households reported buying an investment property as a financial goal, 'young singles/couples' were the most likely to report this goal (18%) in June 2014, up from 15% six months ago.
- While 8% of households reported saving enough to buy a property to live in, 27% of 'young singles' reported this activity, up 2%.
- While overall 8% report investing or trading in shares as a financial goal, 'young singles/couples' (10%) and 'couples with older children' (10%) were the most likely to report this goal.
- More men than women are planning to invest or trade in shares, bonds, commodities (10% men versus 5% women).

4.6 RETIREMENT AND SUPERANNUATION.

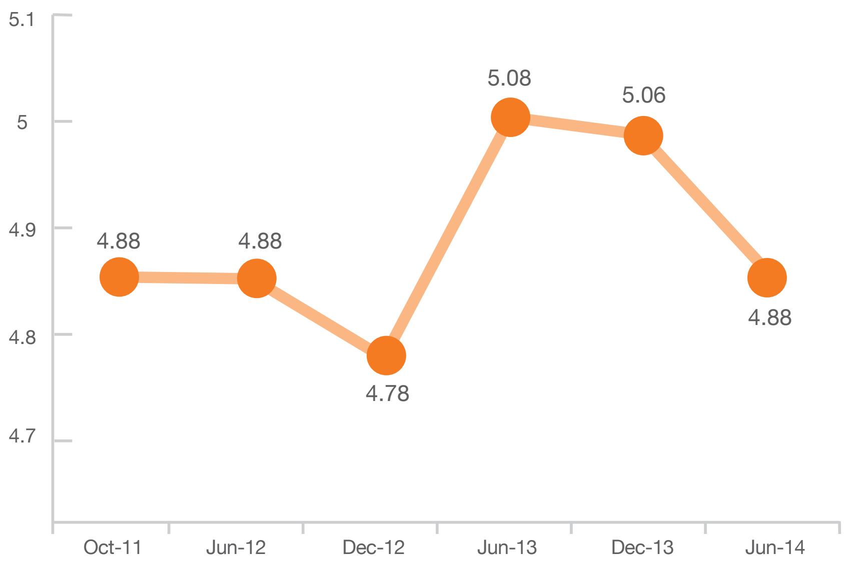

Figure 34 – Confidence with ability to maintain comfort in retirement, over time.

- Overall confidence in ability to maintain comfort in retirement fell 4% to 4.88 out of 10.
- ‘Retirees’ (with an index of 6.31) are the most confident in their ability to maintain comfort in retirement – the only households to report increased confidence – up 8% over the past six months.
- That said, there is a significant difference between the expected comfort of ‘government funded retirees’ (3.14), ‘partly self and government funded retirees’ (4.97) and ‘self-funded retirees’ (7.43).
- Retirement expectations are much lower for females (4.59) than males (5.17).
- 2% of ‘retirees’ are currently using equity in their own home to fund retirement.

ADDITIONAL PAYMENTS TO SUPER IN THE LAST SIX MONTHS.

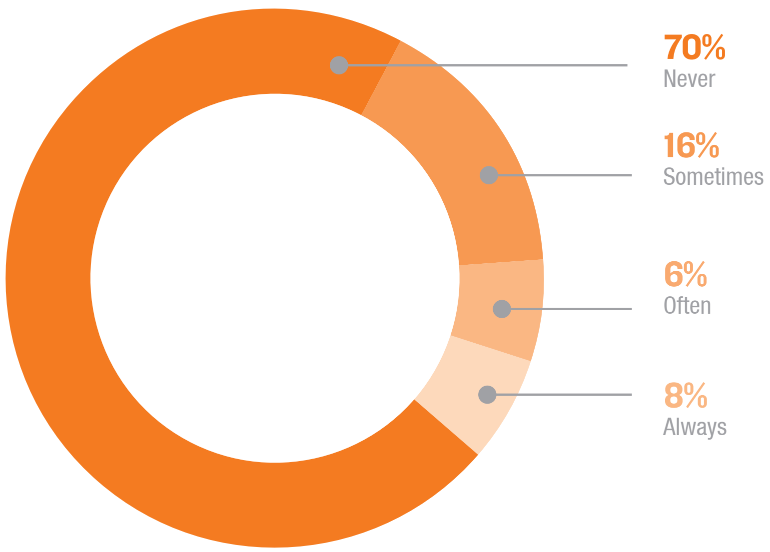

Figure 35 – Have you made additional payments into super, in the last six months?

- 30% of households have made additional payments into their super in the last six months, down from 34% in December 2013, despite falling overall confidence by households in their ability to maintain comfort in retirement.
- ‘Couples with older children’ (39%) and ‘self-funded retirees’ (46%) are more likely than other households to have contributed more to their super.
- More men contributed additional amounts to super than women: 34%, compared to 26%.

INSIGHTS

SELF-RELIANCE IN RETIREMENT.

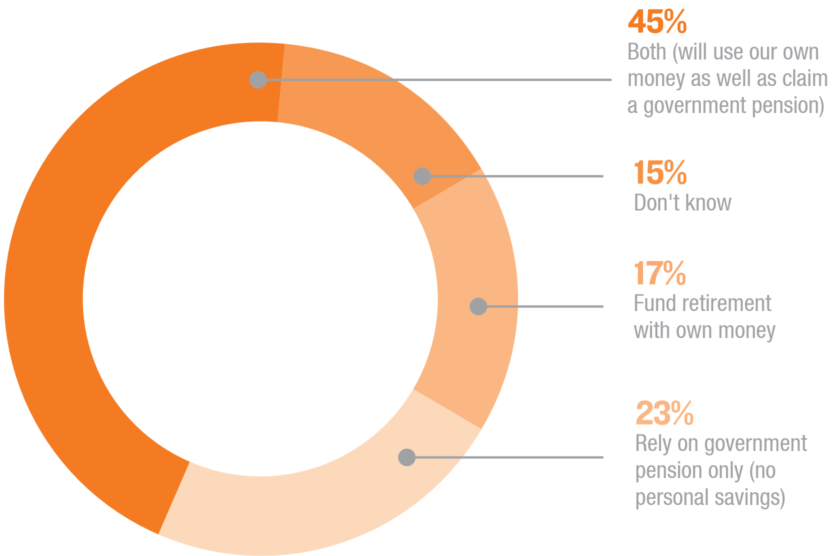

Figure 36 – How self-reliant will you be in retirement?

- Overall only 17% expect to rely on their own savings in retirement, down 4% from December 2013.
- Worryingly, 23% expect to rely on the government pension only, up 5% from December 2013.
- 15% don't know what they'll rely on.
- About 45% continue to expect to use own super as well as rely on government pension.
- 'Young singles/couples' are the most likely to expect to fund their own retirement (25%).
- More men than women expect to fund their own retirement: 21%, compared to 14%.

EXPECTED ADEQUACY OF INCOME IN RETIREMENT.

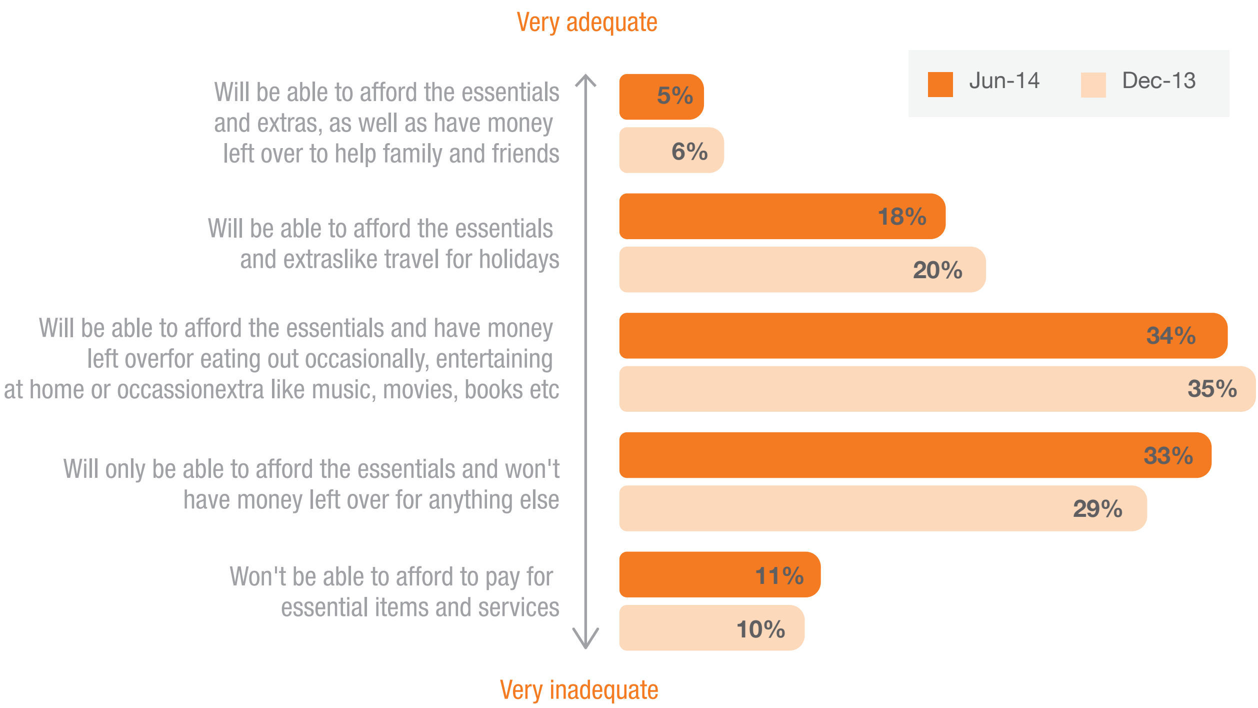

Figure 37 – Expectations for adequacy of income in retirement.

INSIGHTS

SUPERANNUATION QUICK FACTS.

- 23% either don't have a superannuation fund or don't know if they have one
- 11% of 'couples with older children' have a self-managed super fund, the largest group to do so
- 9% of 'Gen Y' claim to have a SMSF
- 20% of Australians reported 'building wealth for retirement' is a financial goal they're currently actively working towards

From figure 37:

- Overall 11% expect not to be able to afford to pay for essential items and services in retirement, up from 10% in December 2013.
- '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 25% 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.

4.7 OVERALL LEVEL OF (NET) WEALTH.

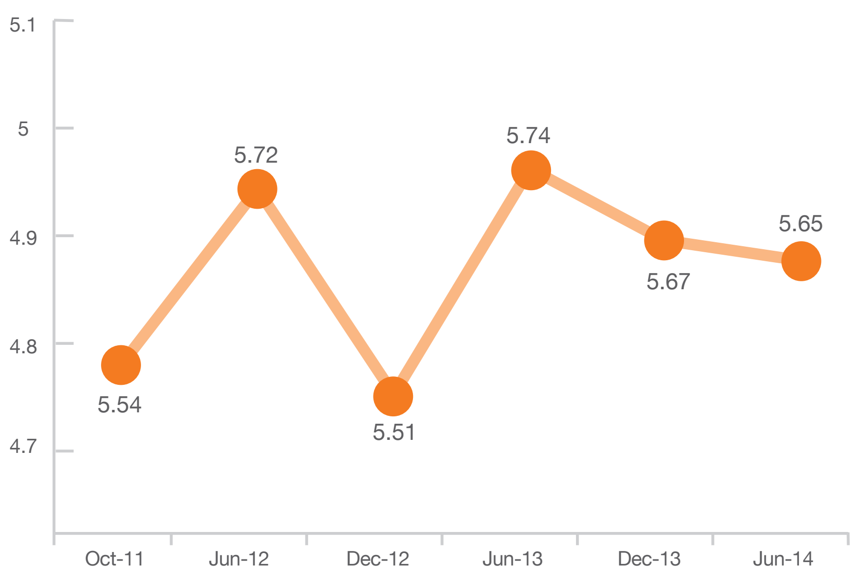

Figure 38 – Comfort with overall level of wealth over time.

- Comfort with the overall level of (net) wealth remained static at about 5.65 out of 10.
- 'Retirees' (6.92) – especially 'self-funded retirees' (7.51) – and 'empty nesters' (6.38) are the most comfortable with overall level of wealth, all experiencing an increase in comfort in the six months to June 2014. 'Single parents' (4.51) are the least comfortable and experienced a fall in comfort in the six months to June 2014.
- 21% of Australians reported a decrease in overall wealth in dollar terms (versus 18% six months ago), while 37% reported an increase (versus 46%) and a further 41% (versus 36%) had unchanged wealth over the last six months.

4.8 MANAGING A FINANCIAL EMERGENCY.

SAVINGS TO MAINTAIN CURRENT LIFESTYLE IF UNEMPLOYED .

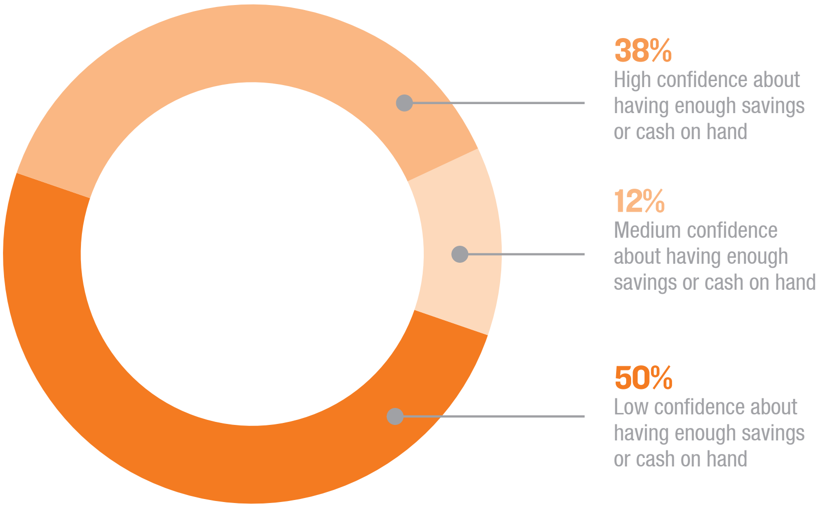

Figure 39 – How confident are you that your household has enough savings or cash on hand to maintain your lifestyle if you lost your income for three months?

- High levels of confidence in having enough savings to maintain lifestyle if unemployed for three months fell by 4% to 38% of households between December 2013 and June 2014.
- Correspondingly, low confidence in having enough savings to maintain lifestyle if unemployed for three months increased by 4% to 50%.
- 65% of 'Single parents' have low confidence in their ability to maintain lifestyle if unemployed for three months, followed by 'self-employed' (58%), women (56%) and men (44%).

DIFFICULTY RAISING $3000 IN AN EMERGENCY.

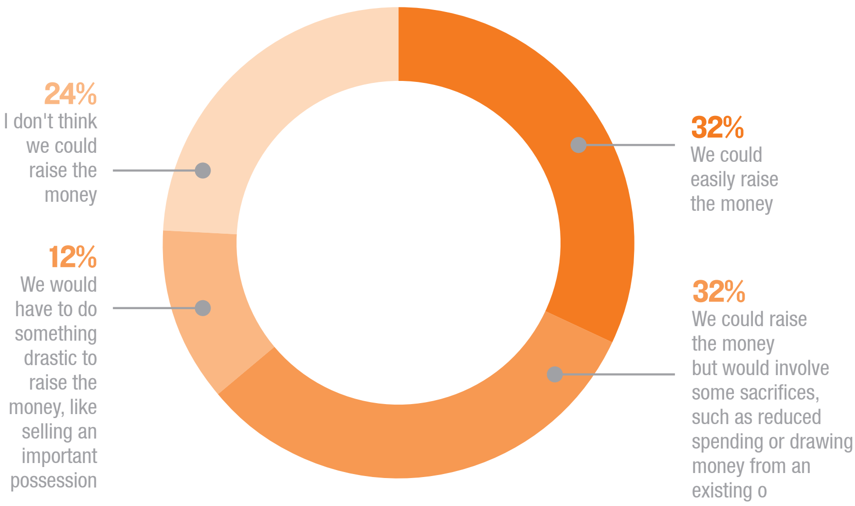

Figure 40 – If your household only had one week to raise $3000 for an emergency, how hard would it be for your household to get this money?

- Across all households, 24% do not think they could raise $3000 in an emergency, an increase of 6% from December 2013.
- 'Single parents' (41%) and particularly 'single parents' receiving government assistance (57%), 'government funded retirees' (51%) and to a lesser extent 'casual employees' (31%) report the most difficulty.

FIVE:
APPENDIX A HOUSEHOLD STATISTICS.

		Net Wealth	Household Income
	Household Financial Comfort Index	Average Net Wealth	Average Household Y early Income
Young singles/couples (<35yo) no children	5.51	$213,000	$79,000
Single parents	4.29	$303,000	$47,000
Couples with young children	5.06	$318,000	$86,000
Couples with older children	5.52	$596,000	$87,000
Middle-aged singles/ couples no children	5.20	$351,000	$83,000
Empty nesters (50+yo)	5.71	$689,000	$65,000
Retirees	6.45	$586,000	$42,000

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.

Waves of research have been conducted in October 2011, June 2012, December 2012, June 2013, December 2013 and June 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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