household financial comfort report.

tenth survey june 2016

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

SEE HOW AUSTRALIAN HOUSEHOLDS ARE FARING AS AT JUNE 2016.

about this report.

The ME *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 is designed, developed and produced biannually by industry super fund-owned bank ME with assistance from DBM Consultants and Economics & Beyond.

This edition presents the findings from the tenth survey, conducted in June 2016.

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
- Eighth Edition: June 2015
- Ninth Edition: December 2015
- Tenth Edition: June 2016

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, 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 is 100% owned by Australia's leading industry super funds.

contact ME:

Matthew Read,
Head of Public Relations
P 0432 130 338
E matthew.read@mebank.com.au
Level 28, 360 Elizabeth Street
Melbourne
VIC 3000 Australia
mebank.com.au

content.

“Our biggest worry is never getting out of debt.”

COUPLE WITH YOUNGER CHILDREN
QUEENSLAND

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01.

ME's tenth biannual *Household Financial Comfort Report* shows marked deterioration in Australian households' confidence in their 'ability to manage debt over the next six to 12 months', doubling from about 5% over the past few years to 10% as at June 2016 (see *Report* page 37).

'Single parents' reported the highest levels of concern in their 'ability to meet minimum debt repayments over the next six to 12 months' (19%), followed by 'couples with young children' (15%) and 'young singles/couples' (12%).

Consistent with an expected rise in debt stress, more households 'paying off or owning a home' reported to be drawing on their home equity to 'pay off debt' (up 4 points to 11%) and 'to make ends meet' (also up 4 points to 10%) during the first half of 2016 (see *Report* page 37).

There is a marked increase in households feeling vulnerable to income shocks associated with wage cuts, fewer hours worked and a lack of suitable jobs as well as lower dwelling prices in some parts of Australia, all of which increases debt stress.

With a lack of cash savings or equity buffer in their home, there's a notable increase in households expecting to be unable to service their debts, despite record low borrowing costs.

As for the overall finding, ME's overall *Household Financial Comfort Index* – a measure of households' perceptions of their financial comfort – dropped significantly by 4% to 5.37 out of 10 in the six months to June 2016.

This result means about 90% of Australian households reported low-to-mid financial comfort, with only 10% reporting high comfort. The result reverses the increase in comfort reported in December 2015, and is the fourth lowest financial comfort level since ME commenced the survey in late 2011 (see *Report* page 5).

All 11 index components deteriorated, with the largest falls seen in 'net wealth', 'income', 'cash savings' and 'investments' as well as households' 'ability to handle short-term income loss' and 'anticipated standard of living in retirement'.

The *Report* identified a number of factors contributing to the significant deterioration in perceived financial comfort.

The findings clearly indicate heightened concerns around the adequacy of income, the cost of necessities, lack of job availability and security as well as deterioration in expectations about meeting minimum debt payments and maintaining a standard of living in retirement.

In terms of generations[1], the comfort of 'baby boomers' fell the most of any generation (down 7%) to the lowest level reported for that age cohort in the past couple of years (5.42 out of 10) – lower than 'Gen Y' (down only 2% to 5.46), but still above 'Gen X' (steady at 5.18) (see *Report* pages 9-10).

'Baby boomers' reported greater perceived stress with 'income', 'cash savings' and 'net wealth' in the past six months to June 2016, despite continued gains in actual income and net wealth across households on average.

'Baby boomers' also reported greater worries with the 'cost of necessities' and the 'ability to maintain lifestyle in retirement' as well as the 'level of government assistance available' and 'impact of legislative change on their financial situation'.

The findings add to a number of recent policy debates such as changes to superannuation. As many as 45% of 'baby boomers' said they 'expect to be worse off after the recent Federal Budget'. Furthermore, 'retirees' reported their lowest levels of comfort since the survey began, although they're still the most financially comfortable of any household life stage.

Other findings

Work segment disparity:
'Full-time self-employed' workers were the only work segment to experience a rise in financial comfort (up 4% to 5.96 out of 10) in the past six months to June 2016, and reported the highest comfort across the labour force. In contrast, there were major drops reported by 'casual' and 'part-time self-employed' workers whose comfort fell 14% and 16% to record lows of 4.44 and 5.13 respectively. These workers reported double-digit falls in drivers such as 'income', 'cash savings' and the 'ability to cope with a financial emergency (loss of income)' (see *Report* page 14). Consistent with falls in comfort with these key drivers were increased concerns around 'job availability', 'job security', and 'adequacy of income' (see *Report* pages 18-25).

Standout states and cities:
South Australia was the most financially comfortable mainland state in Australia, rising 2% to a historical high of 5.74 out of 10, while all other mainland states experienced a fall. Comfort levels in Western Australia fell 2% to a record low of 5.02 out of 10.

While financial comfort in Victoria as a whole experienced a 6% drop to 5.52, Melbourne reported the highest comfort level of any city at 5.80 out of 10 – down only 2%, and still well ahead of Sydney, which reported a 4% drop to 5.58 out of 10 (see *Report* page 12-13).

Concerns with the Federal Budget:
Overall, more households reported they would be 'worse off' (35%) than 'better off' (14%) when asked about the 'expected impact of the 2016/17 Federal Budget on their overall financial situation over the next year'. The remaining 50% of households said their financial situation would remain 'about the same'. Compared to previous surveys, these findings are more negative than those for the 2015/16 Budget, but a lot better than the 2014/15 Budget (see *Report* page 16).

[1] Generation definitions are Gen Y: 18–34, Gen X: 35–49, Boomers: 50–74, Builders: 75+.

economic context.

02.

Overall, Australian household finances remained relatively resilient during the first half of 2016 – supported by continued employment and wages growth as well as low borrowing costs and rising house prices in most parts of Australia. On the other hand, both consumer sentiment and household consumption growth remained a bit above average, but disposable income growth is very slow and the saving ratio eased a bit further. Subdued household income gains reflected a shift towards part-time jobs as well as historically low wage gains. The recovery in (net) wealth moderated further, with solid asset gains (especially housing) partly offset by increased gearing. Debt has increased faster than income, but servicing costs remain at about average levels due to very low housing loan rates.

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

Consumer confidence measures remained about their long run averages during the 6 months to June 2016 - slightly positive with pessimists slightly outnumbered by optimists.

Labour market conditions have been mixed. Following strength in the later half of 2015, job gains have moderated during the first half of 2016. Moreover, there has been a shift towards part-time employment and actual hours worked has declined significantly over the first half of 2016. Despite a fall in the participation rate, the employment to population ratio has trended lower with more people available for work. The unemployment rate has trended sideways at around 5.8% during the first half of 2016 - a bit lower than during 2016. The broader measure of labour under-utilisation rate (both unemployed and under-employed) was much higher at 14.2% in May – much the same as six months ago, but a bit lower than a year ago. Labour costs remain weak; annual wages growth has moderated to a historically low pace in all states and industries and average earnings per hour are little changed over the past year – arguably consistent with a time of considerably higher unemployment.

Household consumption growth has picked up slightly to about its historical long-term pace – supported by very low interest rates, job gains and rising wealth (mainly related to housing). With still relatively low disposable income growth, as measured by the official data, **the household saving rate** from current disposable income has continued to trend slowly lower, but remains relatively high, on average.

Residential property prices continued to rise in most parts of Australia – albeit with strong annual growth in Sydney and Melbourne (both up over 10%) and weaker results in most other states and regions – including lower house prices in Perth (-5%) and Darwin (-1%) as well as some metro apartment markets. While new building approvals, especially for multi units have eased from high levels, dwelling investment continued to grow supported by low interest rates and population growth.

Although still a bit below its record peak in mid-2007, 'real' **household assets**, on average, have continued to increase relatively strongly compared to income, mainly reflecting further significant rises in residential property prices, as noted above. Financial assets (mainly superannuation) have continued to rise during the second half of 2015, largely due to continued compulsory contributions, rather than increased voluntary savings and a small fall in both global and Australian share prices.

Reflecting a moderation in mainly investor demand due to some tightening in prudential and lending standards, annual growth in **household debt** has eased slightly during the past six months – including housing credit from 7.4% during 2015 to 6.9% over the year to May. A slowdown in annual growth in investor lending to 6% has more than offset a pickup in owner-occupied lending to 7.4%. Many households also continued to take advantage of mortgage-offset accounts and low interest rates to pay down housing debt. Other personal loans (such as credit cards and equity backed loans) have contracted by 1% during the year to May, after remaining unchanged during 2015.

As a result, the aggregate financial position of households – as measured by **household net wealth** (assets less debt) – continued to improve, albeit at a slower pace in the first half of 2016. In aggregate, debt-to-income has risen a little further over the past six months, while debt-to-assets have fallen slightly (asset gains, especially related to housing have outpaced increased debt). Debt servicing burdens have eased to about average historical levels, as housing loan rates have fallen to very low levels.

Aggregate **household financial stress** indicators (such as housing and other loans in arrears and property possessions) are generally low – consistent with households, on average, coping reasonably well with debt servicing burdens due to ongoing low borrowing costs, despite slow income growth and higher long-term unemployment over the past year or so. This masks a great deal of variation among Australians – across socio-economic and demographic factors – as is evident in the *Household Financial Comfort Report*.

“We’ve bought houses and can easily live from the rent.”

COUPLE WITH ADULT CHILDREN
NEW SOUTH WALES

latest trends in household financial comfort.

03.

3.1
HOUSEHOLD FINANCIAL COMFORT INDEX.

Overall, the *Household Financial Comfort Index* (see Figure 1) declined by 4% to 5.37 out of 10 during the first half of 2016. This decline in comfort slightly more than reverses the increase during the second half of 2015.

Consistent with the current indice, households with medium and high levels of comfort fell by 2 points each to 52% and 10%, respectively, while households with a low level of comfort rose by 4 points to about 39%.

From a medium-term perspective, this is the fourth lowest level of household financial comfort recorded since ME commenced the survey in late 2011 and about 1% below the historical average of 5.44 out of 10.

The decrease in overall household financial comfort during the first half of 2016 reflects households feeling more financially stressed around most key drivers – including their overall 'net wealth', 'income', 'cash savings' and 'investments' as well as their 'ability to handle a financial emergency' and 'anticipated standard of living in retirement'.

Generally, there was a significant deterioration in household worries surrounding the impact of the recent Federal Budget, legislation and job security.

Although financial comfort with actual debt is still relatively high and debt stress remains relatively low, 10% of households with debt do not expect to meet minimum payments in the next 6 to 12 months – a doubling from historical lows of about 5% (see more in Section 5.2).

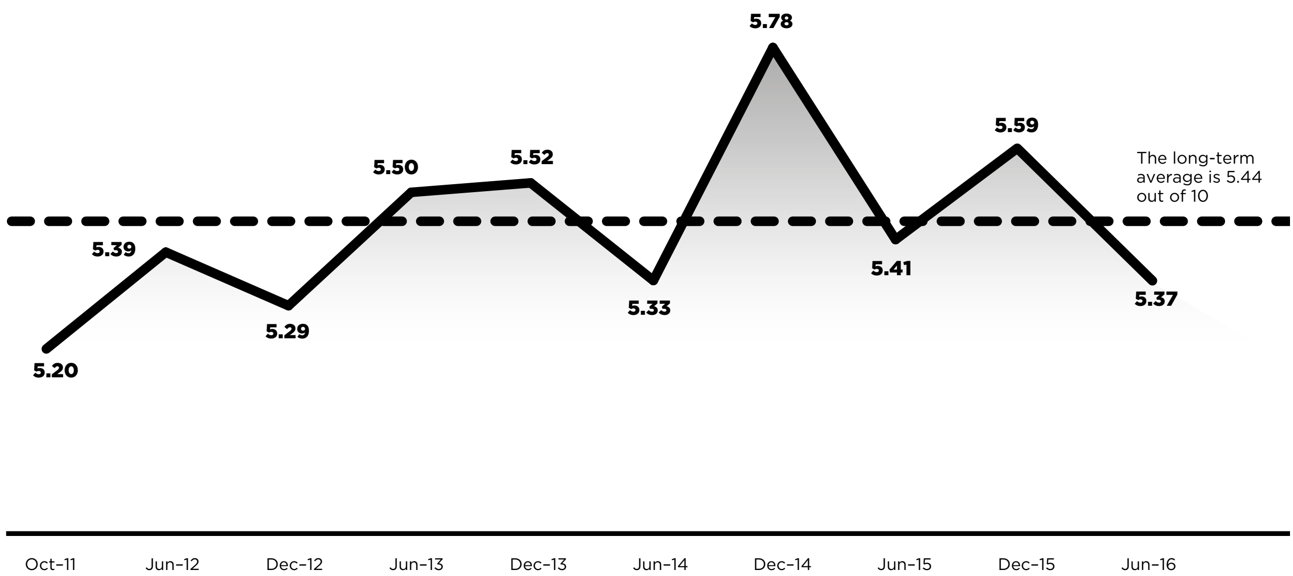

Figure 1 – Changes to the *Household Financial Comfort Index* Scores out of 10.

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 of 0 to 10 across 11 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 (loss of income for three months) (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 DOWN ACROSS ALL 11 INDEX COMPONENTS.

All measures of the *Household Financial Comfort Index* deteriorated over the first half of 2016 (see Figure 2).

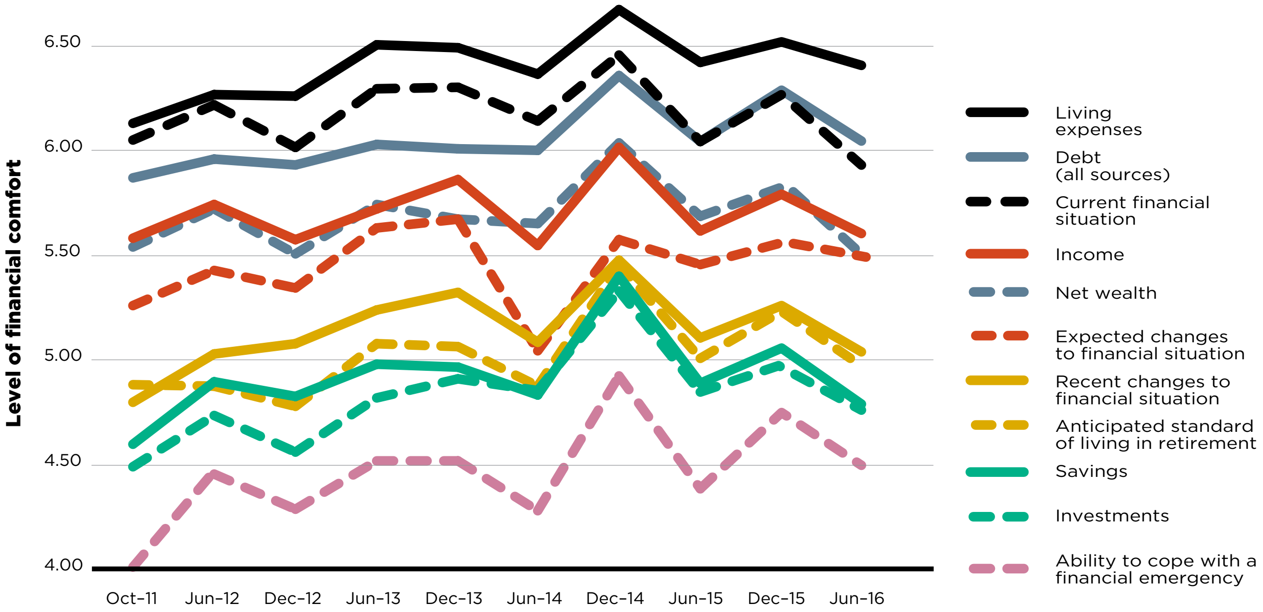

Figure 2 – The 11 components that make up the Index, showing changing levels of comfort over time. Scores out of 10.

In terms of the Index components, in June 2016:

- Households were least comfortable with their 'ability to cope with a financial emergency' (4.50 out of 10), 'investments' (4.80 out of 10) and 'cash savings' (4.81 out of 10).
- Households were most comfortable with their ability to 'manage their current living expenses' (6.41 out of 10), 'level of debt' (6.04 out of 10) and 'current financial situation' (5.96 out of 10).
- The greatest declines in household comfort included 'net wealth' (down 6% to 5.50), 'current financial situation' (down 5% to 5.96), comfort with 'cash savings' (down 5% to 4.81), and 'ability to cope with a financial emergency' (down 5% to 4.50).

The majority of components of overall comfort were lower in June 2016 than their average outcome since late 2011. Three of the 11 index components fell to below average outcomes including 'current financial situation' (3% below its average of 6.17), 'net wealth' (3% below compared with 5.69) and 'income' (2% below compared with 5.70).

Furthermore, only two components were marginally higher in June 2016 than their average historical outcome over the past 10 surveys – such as the 'ability to cope with a financial emergency' (1% compared with 4.50) and 'anticipated changes in household financial situation in the next year' (1% compared with 5.48).

Despite the significant and broad-based deterioration of household financial comfort during the six months to June, macro-economic and financial indicators have continued to improve. Both household (net) wealth and income have continued to rise, albeit at a slower pace. In contrast, there have been bouts of heightened volatility in financial markets, unemployment has trended sideways, hours worked have fallen and retrenchments have increased.

Household worries about both the 'impact of legislative change' and 'level of government assistance available' have increased over the past six months. Furthermore, a high proportion of households anticipate the recent 2016/17 Federal Budget will have a negative impact on their financial situation over the next year (35% reported they would be 'worse off')[2]. See Sections 3.8 and 3.9 below for more details.

[2] Please note the latest survey was conducted during a Federal Election campaign.

3.3

FINANCIAL COMFORT DOWN ACROSS MOST HOUSEHOLDS.

Overall financial comfort was mixed across different life stages, with deterioration across most households in the six months to June 2016 (see Figure 3).

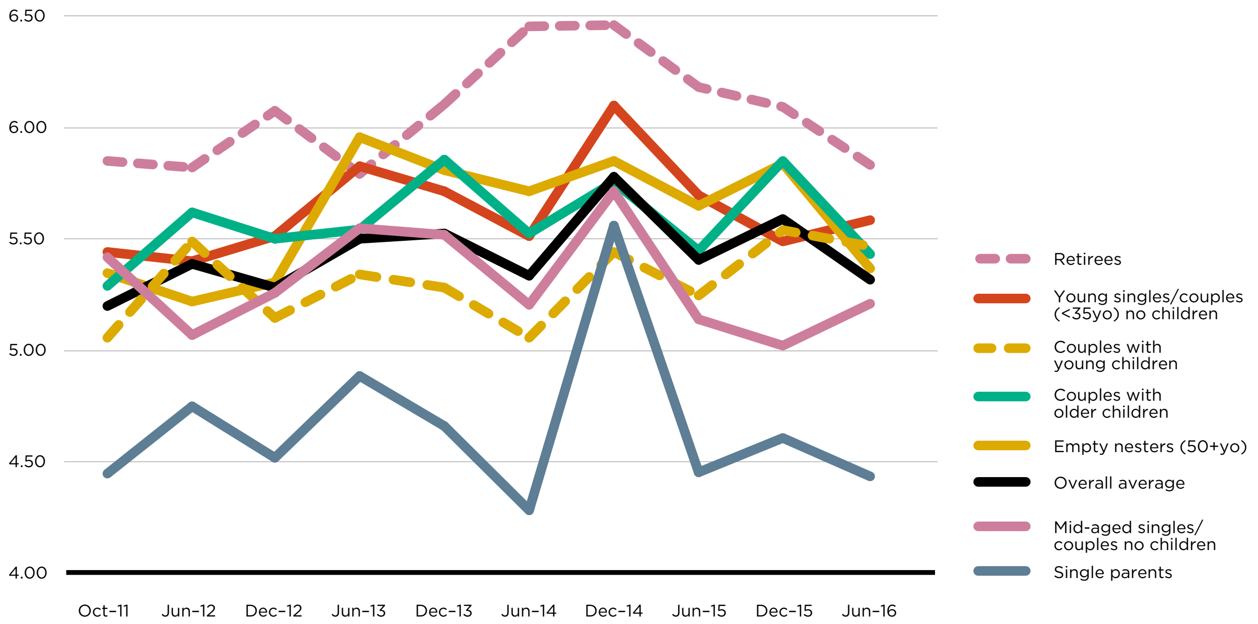

Figure 3 – Financial comfort across different households. Scores out of 10.

In terms of households, in June 2016:

- Households with the lowest financial comfort were 'single parents' (4.47 out of 10), especially those single parents dependent on government assistance[3] (3.49 out of 10), compared with single parents with full-time work (5.76 out of 10).
- Conversely, households with the highest financial comfort were 'retirees' (5.78 out of 10) especially 'retirees' with their main income from a superannuation annuity (6.47 out of 10), compared to 'retirees' with their main income from the age pension (5.19 out of 10). Despite having the highest level of financial comfort in June 2016, 'retirees' reported their lowest level of comfort since the survey began in late 2011.
- All households reported declines in comfort except 'middle-aged singles/couples with no children' (up 4% to 5.24) and 'young singles/couples (<35 years old) with no children' (up 1% to 5.55). These households experienced modest increases across most key drivers.
- The largest falls in household comfort were recorded by 'empty nesters' (down 8% to 5.40), 'couples with older children' (down 7% to 5.44), and 'retirees' (down 5% to 5.78), especially those on the age pension (down 7% to 5.19). These households experienced falls across all key drivers.

[3] Interpret with caution, low sample size.

3.4

GAP IN FINANCIAL COMFORT CLOSES SOMEWHAT BETWEEN GENERATIONS.

Across generations[4] in the six months to June 2016, the largest decrease in household financial comfort was reported by 'baby boomers', while the comfort of both 'Gen Y' and Gen X' remained broadly unchanged. As a result, the generational gaps, in trend terms, narrowed to some extent (see Figure 4).

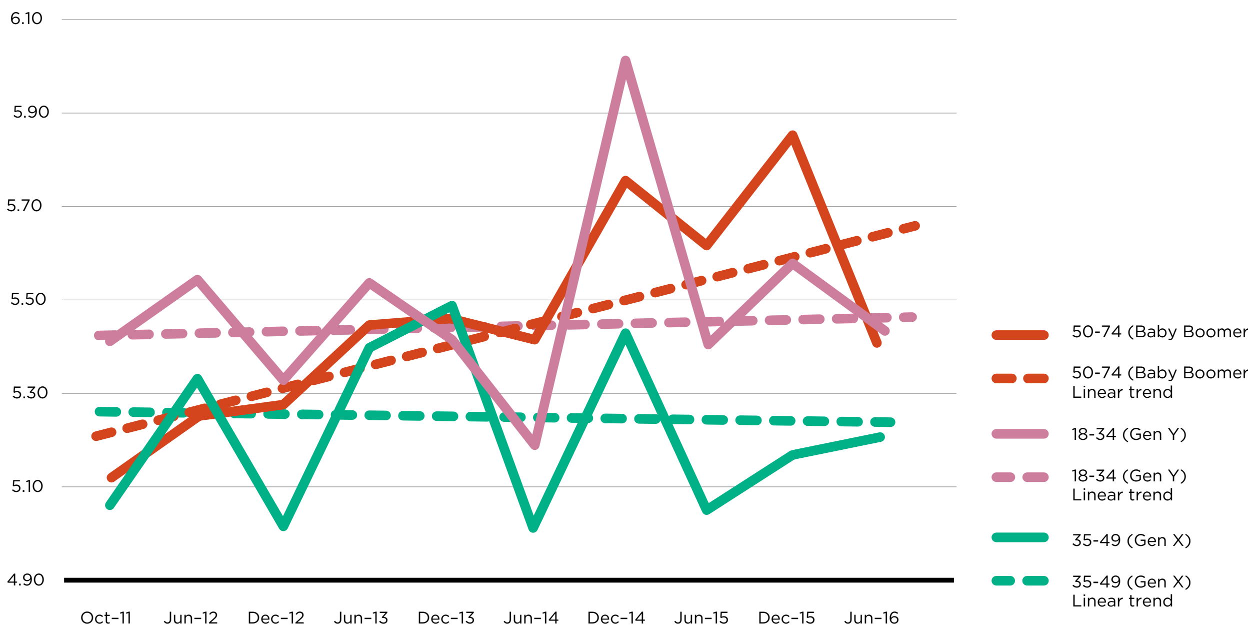

Figure 4 - Financial comfort across generations. Scores out of 10.

In terms of generation in June 2016:

- The household financial comfort of 'baby boomers' fell by 7% to 5.42 – the lowest level for the past couple of years. This was due to relatively large falls in key drivers such as 'comfort with household income', 'cash savings' and 'overall net wealth'.
- 'Gen X' continued to report the lowest household financial comfort of any generation (unchanged at 5.18), with all key drivers of comfort - including 'comfort with household income' and 'overall net wealth' - broadly unchanged over the past six months. Meanwhile, 'Gen Y' fell by 2% to 5.46 – with small deteriorations across most key drivers of comfort.
- As a result, the comfort of 'baby boomers' was about the same as 'Gen Ys' and remained notably above 'Gen X' by 5% in June 2016.

[4] Generation definitions are Gen Y: 18–34, Gen X: 35–49, Boomers: 50–74, Builders: 75+.

Putting aside the relative volatility in the self-ratings of ‘baby boomers’ in the latest survey, in linear trend terms, the comfort of ‘baby boomers’ has increased significantly since late 2011, while the comfort of younger generations has remained relatively unchanged. This widening trend in the generational divide reflects relatively bigger increases in comfort with ‘investments’, ‘cash savings’, ‘debt’ and in turn ‘net wealth’ and ‘anticipated standard of living in retirement’ over time.

The partial reversal of this trend among ‘baby boomers’ in the latest survey contrasts with the continued gains in actual income and (net) wealth across households, on average. Against that, the ‘greatest worries’ of ‘baby boomers’ have increased significantly over the past six months – reporting more worries about the ‘cost of necessities’ (up 7 points to 58%) and the ‘ability to maintain lifestyle in retirement’ (up 6 points to 44%) as well as the ‘level of government assistance available’ and ‘impact of legislative change on their financial situation’ (both up 5 points to about 30%).

Furthermore, a relatively higher proportion of ‘baby boomers’ anticipate the recent Federal Budget to adversely impact their financial position over the next year, with 45% of boomers reporting to be ‘worse off’, compared with only 7% saying they would be ‘better off’. In contrast, a lower proportion of younger generations expect to be negatively impacted (25% of ‘Gen Y’ and 32% of ‘Gen X’), while a significantly higher proportion expect to be ‘better off’ (24% and 16% for ‘Gen Y’ and ‘Gen X’, respectively) – see Section 3.9 for further detail.

3.5
RENTERS FEELING THE PINCH.

Overall financial comfort declined across all housing tenures during the six months to June 2016 (see Figure 5).

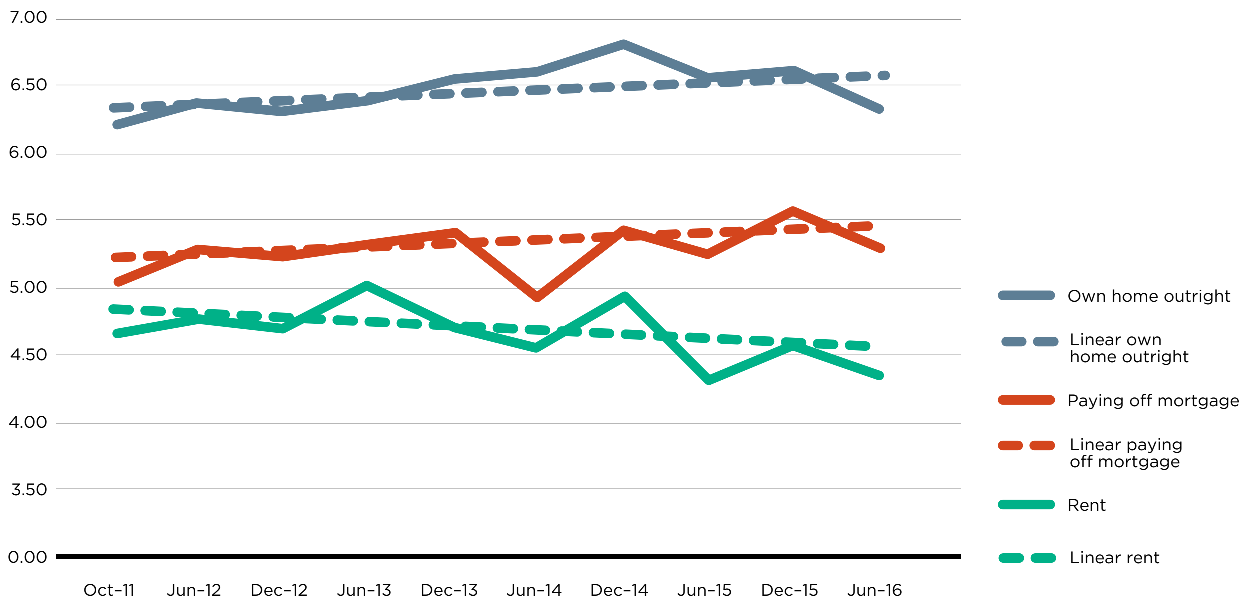

Figure 5 – Overall financial confidence based on home ownership. Scores out of 10.

The household financial comfort of 'renters' fell by 3% to 4.39 during the six months to June 2016 due to falls in most key drivers to return to slightly above its recent low of 4.35 in June 2015. The comfort of 'renters' is significantly lower than the comfort of both households 'paying off their mortgage' and to a greater extent 'homeowners' (those that own their home outright) and the divergence is widening.

While 'renters' tend to have lower comfort across all key drivers, the lower comfort among renters may also be a reflection of the difficulty first home buyers are experiencing getting into the residential property market. Both house prices and rents are growing faster than incomes, particularly in some of the major capital cities, and both changes to prudential arrangements and a tightening of bank lending standards have lowered borrowing capacity over the past year, despite lower interest rates on residential mortgages.

Meanwhile the comfort of households 'paying off mortgages' fell by 3% to 5.36 with marked falls across all key drivers of comfort. Signs of debt stress among some households have emerged, despite historically low loan rates. Around 10% of 'households with debt' said that they expect 'difficulty in meeting their minimum repayments in the next 6-12 months' – up 5 points during the past six months, after little change since the start of the survey in late 2011. See more in section 5.2.

The financial comfort of 'homeowners' fell by 5% to 6.31, reflecting a fall in all key drivers, to return to slightly above the historical low of 6.26 in October 2011.

3.6

FINANCIAL COMFORT DOWN ACROSS MOST STATES AND TERRITORIES.

Over the six months to June 2016, household financial comfort decreased across most mainland states/territories, with the exception of South Australia /Northern Territory (see Figure 6).

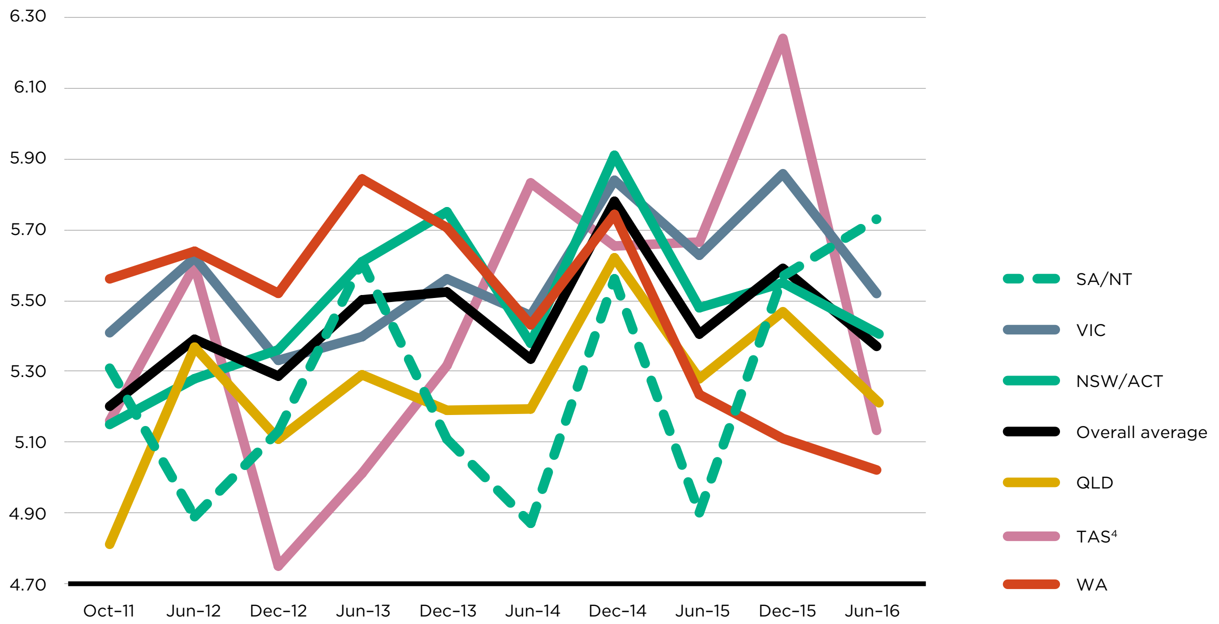

Figure 6 – Changes in financial comfort across states and territories. Scores out of 10.

In terms of the states and territories, in June 2016:

- Western Australia continued to report the lowest household financial comfort (down 2% to 5.02) – lower than its recent low of 5.11 in December 2015. This was connected to relatively low comfort across all key drivers compared to other states, especially with 'income', 'net wealth' and 'debt' and consistent with a weak labour market, sluggish demand and falling house prices.
- To a lesser degree, the comfort of Queensland-based households also remained lower than other mainland states, down 5% to 5.20 during the past six months – equivalent to similar lows reported in 2013/14. The decline reflected relatively lower comfort across all key drivers.
- Conversely, South Australia and the Northern Territory reported the highest comfort level across Australia, with household financial comfort up 3% to a historical high of 5.72, reflecting relatively higher comfort across all key drivers, in particular the 'ability to cope with a financial emergency', 'cash savings', 'income' and 'retirement'.
- In other fluctuations, Tasmania[5] recorded the greatest decline in household financial comfort (down 18% to 5.12), reflecting relatively lower comfort across all key drivers.

Consistent with other broad economic indicators of Australian activity, the marked decline in household comfort in Western Australia over the past couple of years is being offset by gains in the eastern mainland Australian states, especially Victoria and New South Wales – albeit comfort in these two states fell during the past six months.

The increased comfort in South Australia is arguably inconsistent with broader economic indicators, although recent announcements of large government defence contracts and other assistance may have boosted perceived comfort in this state. Indeed, among other drivers, household 'expectations of their financial situation in the next year' increased by 6% to 5.79 in mid-2016 – the highest across Australia.

[5] small sample size.

Metro versus regional – the great divide.

In June 2016, households residing in regional areas continued to report lower levels of financial comfort than households living in metropolitan areas (5.04 versus 5.51 out of 10, respectively) – albeit household comfort in both metropolitan and regionals declined notably by 4% and 5%, respectively, over the past six months (see Figure 7).

As shown in Figure 8, this trend of higher comfort in metropolitan households was evident across larger states such as New South Wales, Victoria and Western Australia with the exception of Queensland, where the state reported slightly higher financial comfort than its capital city, Brisbane (5.20 versus 5.15, respectively).

In terms of cities, the greatest decline in household financial comfort was reported by households residing in Brisbane (down 9% to 5.15), while households living in Perth recorded a small increase (up only 1% to 5.19).

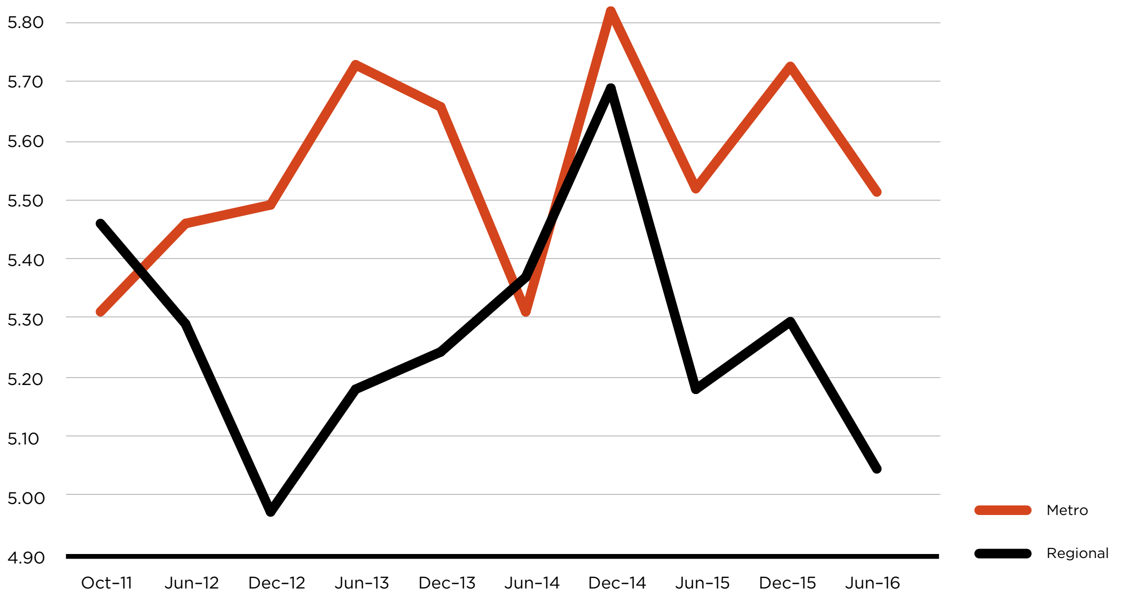

Figure 7 – Comfort index across metropolitan and regional Australia.

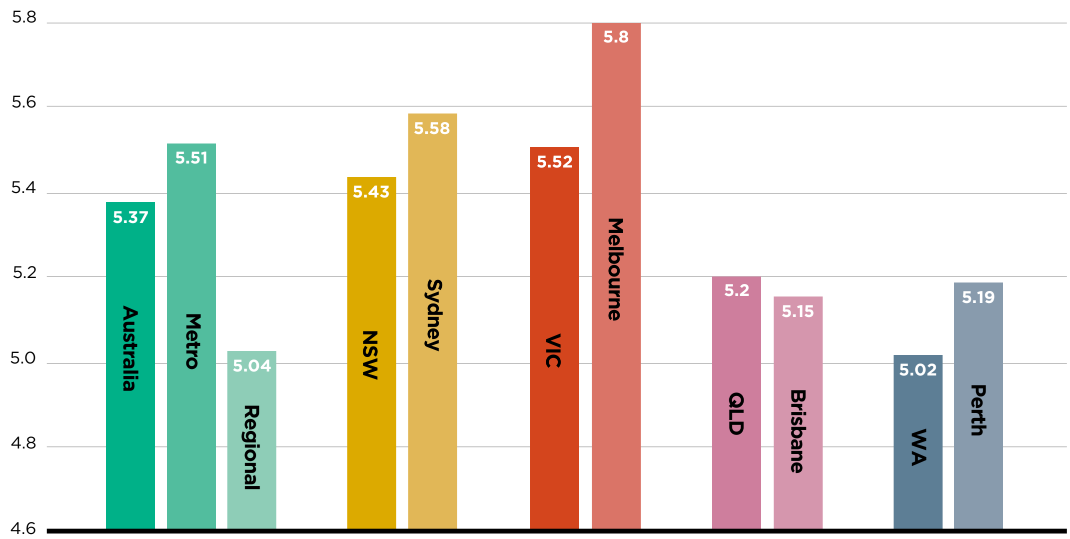

Figure 8 – Financial comfort across larger states and metropolitan areas. Scores out of 10.

3.7

FINANCIAL COMFORT DOWN ACROSS MOST WORKFORCE SEGMENTS.

During the six months to June 2016, household financial comfort decreased across most areas of the labour force – especially 'casual' and 'part-time' workers (see Figure 9).

This is consistent with deterioration in 'job availability' and 'job security' and diminished comfort with 'cash savings' and the 'ability to cope with a financial emergency' over the past six months, also noting that actual income gains remained subdued (see Section 4).

In June 2016, the lowest household financial comfort across the workforce was reported by 'casual workers' (down 14% to a recent low of 4.44), followed by 'part-time workers' (down 16% to 5.13 for 'part-time self-employed' and to a lesser extent down 4% to 5.12 for 'part-time paid employees'). The majority of these workers reported double-digit falls in drivers such as 'income', 'savings', 'ability to cope with a financial emergency', as well as comfort with 'investments', 'net wealth' and 'retirement'.

Conversely, following a small rise over the past six months, the highest household financial comfort among the labour force was reported by 'full-time self-employed' (up 4% to 5.96), and to a lesser extent 'full-time paid employees' (down 1% to 5.77), reflecting higher comfort across most key drivers.

The lowest financial comfort continued to be 'unemployed' people, (albeit up 30% to 4.72), in a similar outcome reported in December 2014 – reflecting low comfort across all key drivers, in particular the 'ability to cope with a financial emergency' (only 3.45 out of 10) and 'cash savings' (3.79 out of 10).

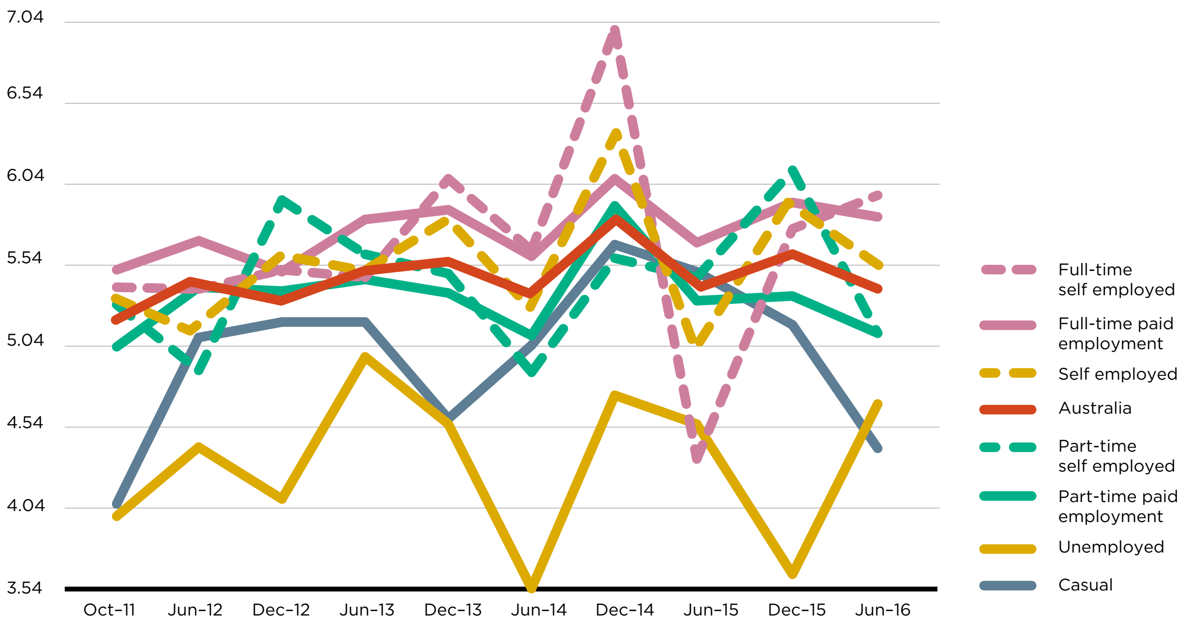

Figure 9 – Changes in financial comfort across labour segments. Scores out of 10.

3.8

INCREASED NET WORRIES.

Households reported an increase in 'net worries'; in other words, they reported more 'worries' and less 'positives' in June 2016. This is largely due to concerns related to the 'level of government assistance available', the 'impact of legislation on my financial situation' and the 'security of my partners or my job' (see Figure 10).

The top net worries were 'cost of necessities' (relatively unchanged over the past six months at -37%) and to a lesser extent, 'the global economy' (unchanged at -22%), 'ability to maintain lifestyle in retirement' (down 3 points to -19%), level of savings/cash on hand (down 3 points to 18%), 'impact of legislation on my financial situation' (down 2 points to -18%), 'level of government assistance' (down 4% to -15%), and 'security of my partners or my job' (down 4 points to -12%).

On the other hand, only in the case of 'my level of personal/household debt' did positives slightly outweigh worries (net +1%) in June 2016.

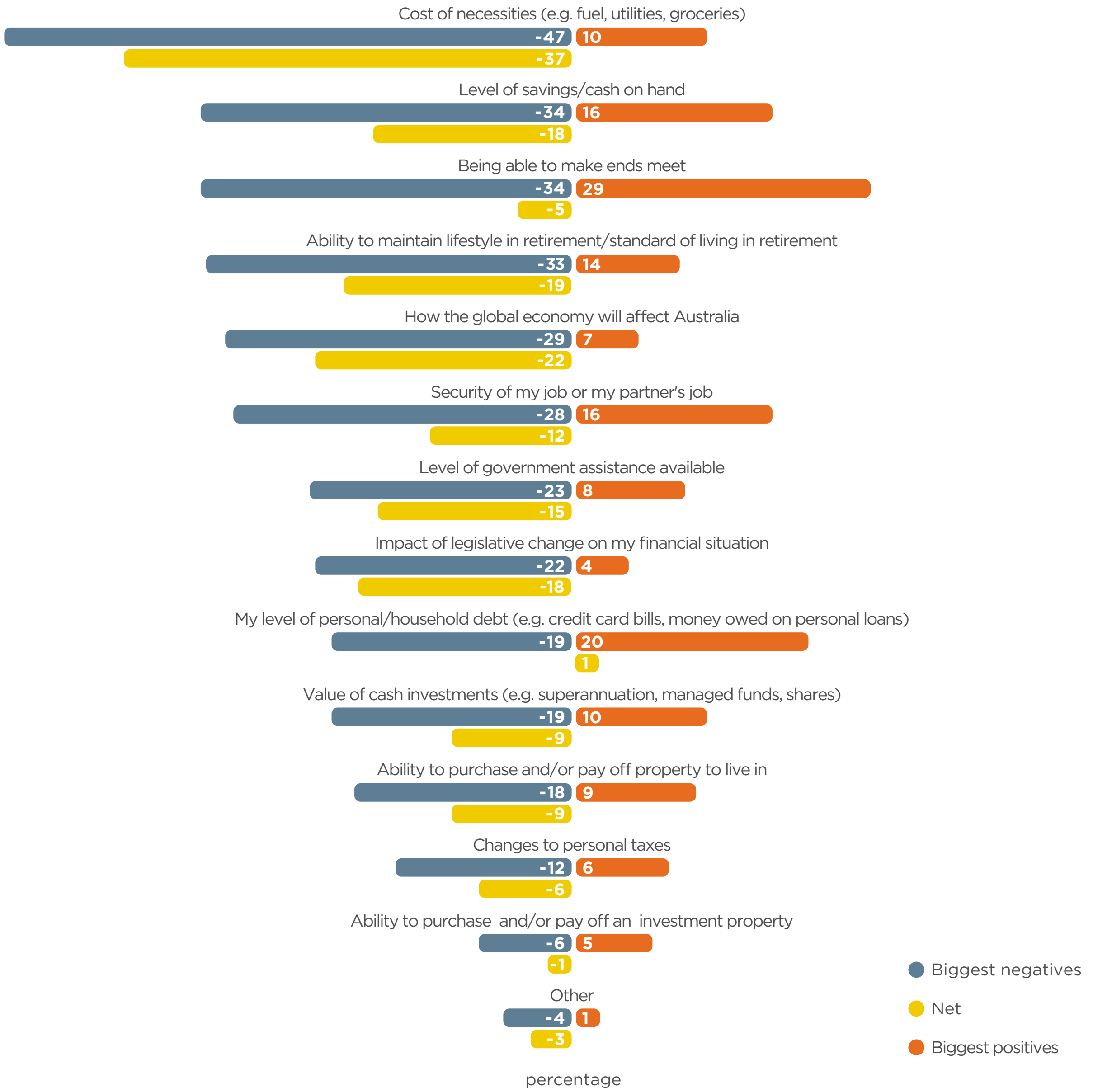

Figure 10 – Biggest worries and positives nominated by households. June 2016.

3.9

FEDERAL BUDGET'S NEGATIVE IMPACT ON EXPECTATIONS FOR FINANCES.

Respondents were asked about the 'expected impact of the 2016/17 Federal Budget on their overall financial situation over the next year'. More households reported they would be 'worse off' (35%) than 'better off' (14%), while the remaining 50% of households said their financial situation would remain 'about the same'. Compared to previous surveys, these findings rank somewhat worse than the same question for the 2015/16 Budget and a lot better than responses connected to the 2014/15 Budget.

With respect to the most recent Budget, the most negative responses in net terms (that is, 'worse off' less 'better off') were reported by 'empty nesters' (-39%) and 'retirees' (-38%). Across generations and workforce segments, baby boomers (-38%), 'casual workers' and 'part-time employees' (-32%) reported the most negative responses in net terms.

On the other hand, about as many 'full-time employees' and 'Gen Y' respondents reported feeling 'worse off' as reported feeling 'better off', resulting in a net overall impact of around zero.

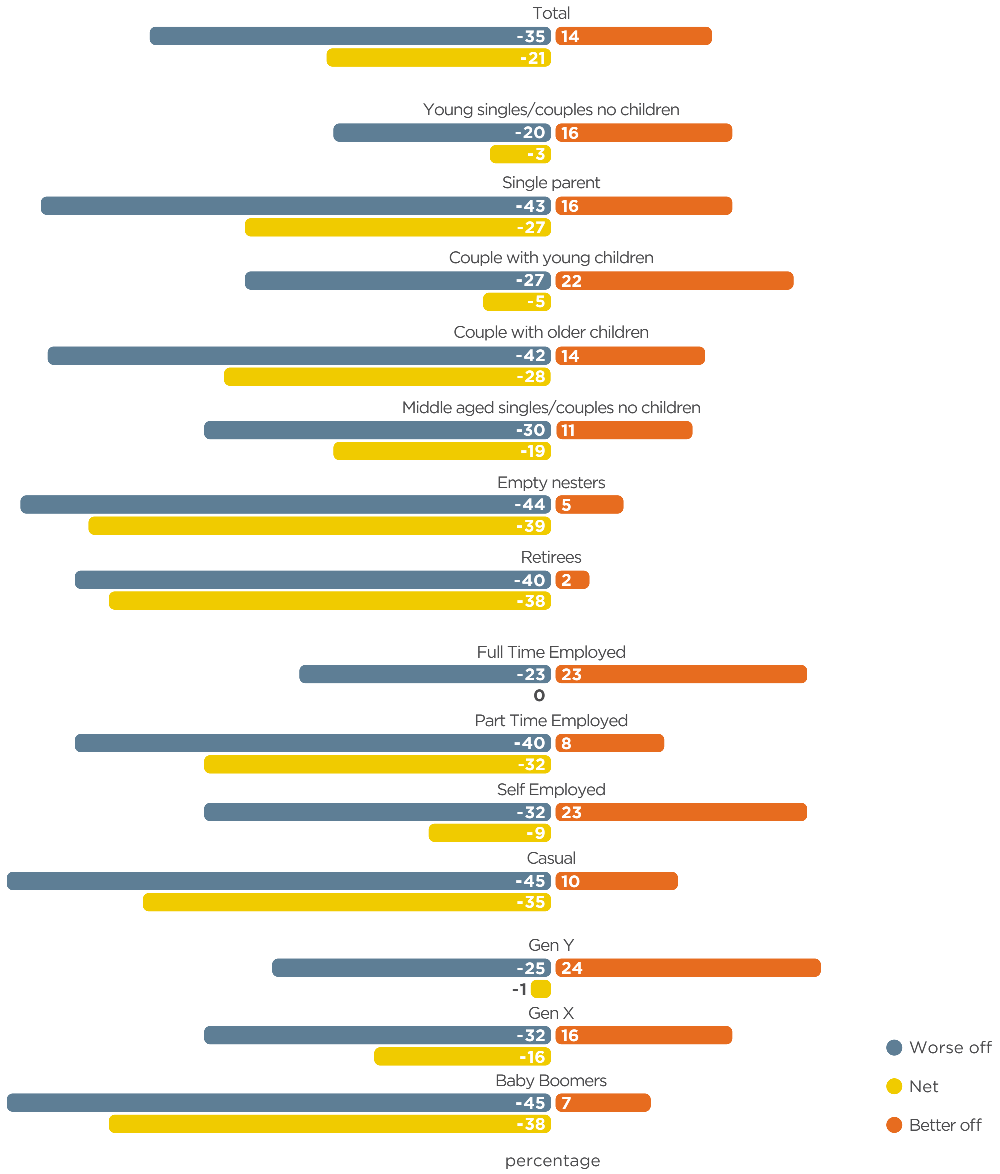

Figure 11 – Impact of 2016/17 Federal Budget on overall financial situation during next year.

“My biggest worry is losing my job.”

PART-TIME EMPLOYED
TASMANIA

factors contributing to the overall fall in household financial comfort.

04.

As noted in Section 3, the overall fall in household financial comfort over the past six months was broadly based, with sizeable declines in 'comfort with income', 'cash savings', 'net wealth' and the 'ability to handle a financial emergency'. Consistent with falls in comfort with these key drivers were increased concerns around the 'adequacy of income', the 'cost of necessities', 'job availability' and 'job security' as well as deterioration in expectations about 'meeting minimum debt payments' and maintaining a 'standard of living in retirement'. Households also remained worried about the 'global economy', and increasingly so about the 'impact of legislative change on their financial situation'.

4.1
CONFIDENCE IN BOTH JOB AVAILABILITY AND SECURITY DOWN.

During the six months to June 2016, there was a marked decline in household confidence in both 'job security' and the 'availability of jobs'.

Households anticipating difficulty in getting a job within two months increased by 4 points to 56% in the past six months to June 2016, reversing the gains from 12 months prior (June 2015). Meanwhile, those reporting it would be 'easy' deteriorated by 2 points in the past six months to 39% (see Figure 12).

Households with the highest level anticipating difficulty in getting a job within two months included 'empty nesters' (72%), 'retirees' (68%) and 'couples with older children' (63%). Alternatively, over 50% of both 'young singles/couples' and 'middle-aged singles/couples' reported it was 'easy' to get a job, compared with 'retirees' (28%) and 'empty nesters' (22%).

By workforce segment, 'casual' workers recorded the highest level of anticipating difficulty in getting a job within two months (up 23 points to 88%), followed by 'part-time employed' workers (up 11 points to 71%), compared with far lower expected difficulty in finding a job reported by 'full-time paid employees' (up 1 point to 51%) and 'self-employed' workers (down 1 point to 45%).

Households living in regional areas also found it more difficult than households living in metro areas (65% versus 54% respectively).

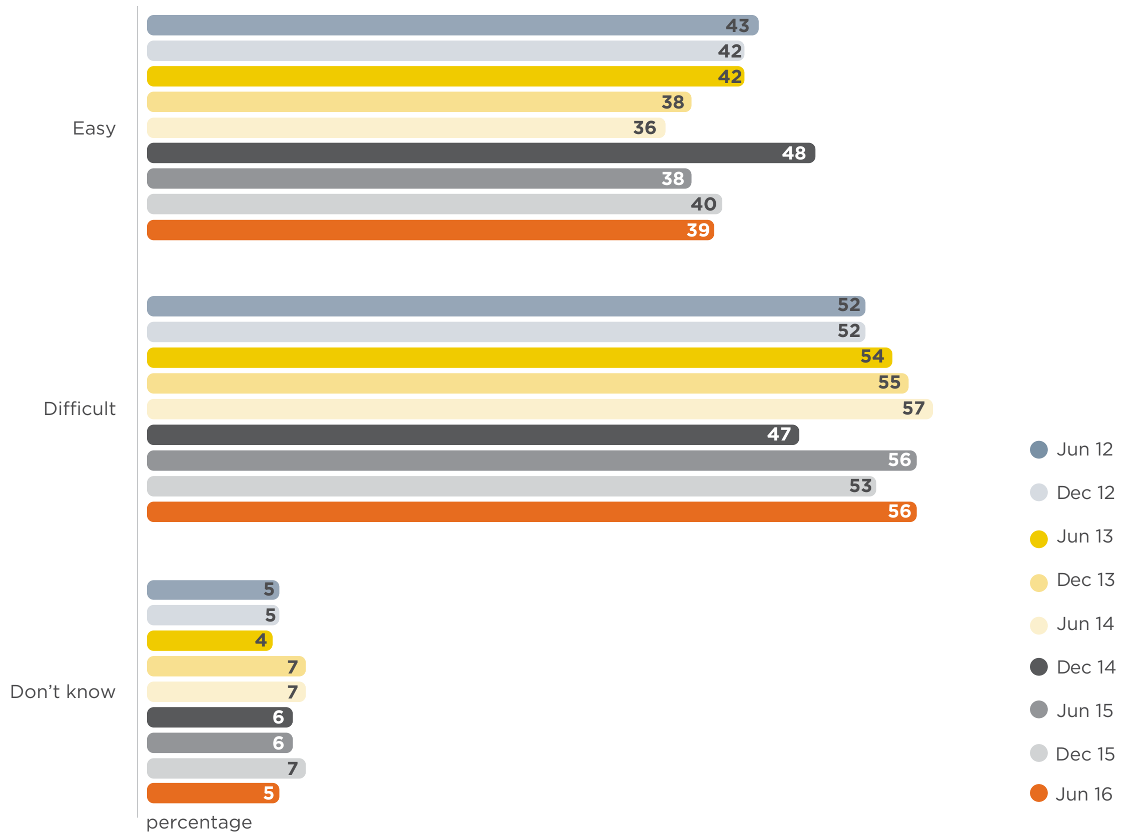

Figure 12 – Would it be easy/difficult to get a job in 2 months if unemployed?

Similar to a fall in 'job availability', 'job security' decreased by 5 points to 68% and 'job insecurity' rose by 4 points to 29% during the past six months to June 2016, the highest level of 'job insecurity' reported in the past couple of years (since June 2014).

By household type, 'single parents' recorded the highest 'job insecurity' (up 8 points to 34%), followed by 'couples with older children' (up 8 points to 32%) while 'couples with young children' recorded the lowest 'job security' (up 1 point to 24%).

Across the employed workforce, 'casual' workers reported the highest levels of 'job insecurity' (up 15 points to 54%), followed by 'part-time employed' workers (up 8 points to 36%) while 'full-time employed' workers recorded the lowest comfort with 'job insecurity' (up 2 points to 25%).

Across the states, Western Australia recorded the highest 'job insecurity' of any Australian state (up 14 points to 41%), followed by Queensland (up 10 points to 34%), while Victoria reported the lowest job insecurity (21%).

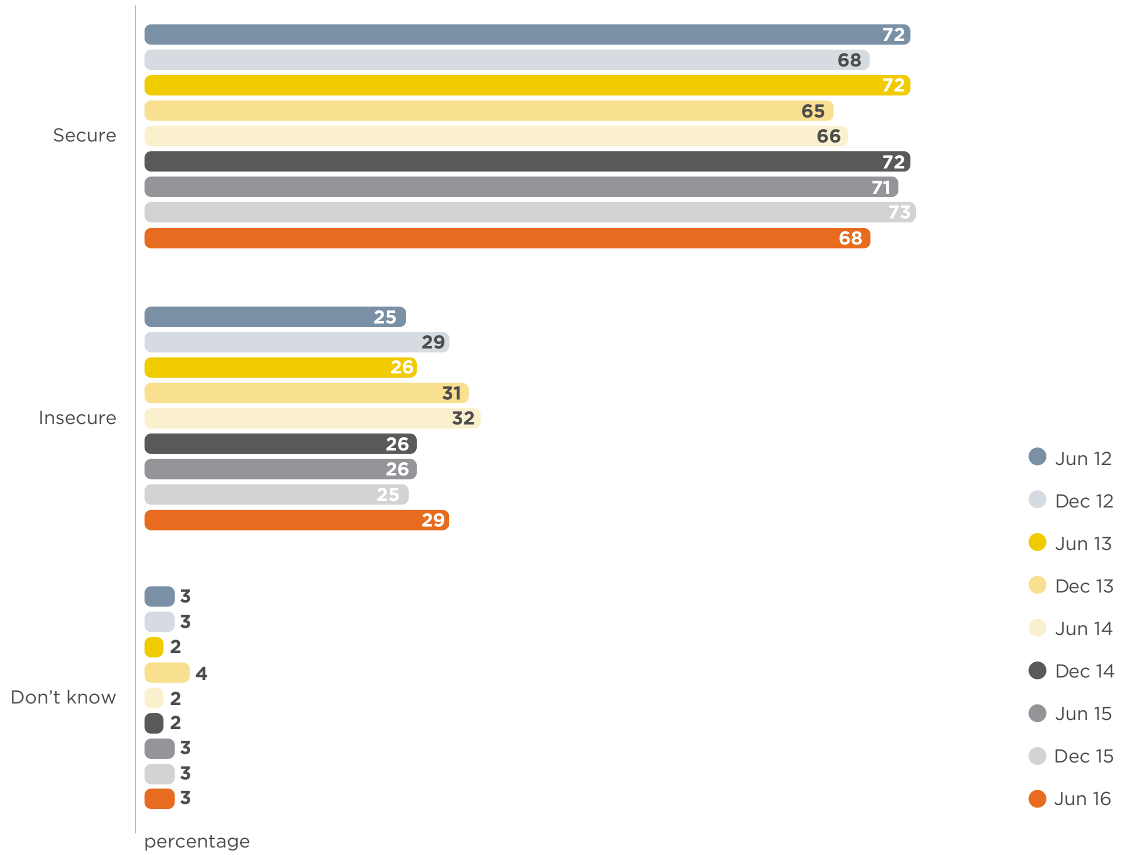

Figure 13 – Thinking specifically about your job, how secure have you felt about your job in the last month?

4.2

HOUSEHOLD COMFORT WITH INCOME DETERIORATES.

Over the past six months to June 2016, there was a significant deterioration in household comfort with income, arguably related to continued subdued income growth and a lack of 'income adequacy' for some households, while confidence about 'job security' and 'job availability' diminished.

Overall comfort with household income decreased by 4% to 5.56 during the six months to June 2016, a historical low since the survey began (see Figure 14).

The biggest declines were reported by 'retirees' (down 8% to 5.87), 'empty nesters' (also down 8% to 5.52) and 'couples with older children' (down 7% to 5.65).

By household, the lowest level of 'comfort with income' was reported by 'single parents' (down 3% to 4.48).

Despite a fall over the past six months, the highest level of 'comfort with income' continued to be reported by 'retirees' (5.87 out of 10), especially 'retirees' with their main income from a superannuation annuity (6.47 out of 10), compared to 'retirees' with their main income from the age pension (5.19 out of 10).

By workforce segment, the greatest deterioration was recorded by 'casual workers' (down 15% to 4.40) including the lowest level of comfort with income in June 2016, while 'full-time employed' persons reported the highest comfort with income, although they experienced a small deterioration in comfort levels (down 2% to 6.14).

Consistent with Section 3.6, Western Australia reported the lowest 'comfort with income' across Australia (down 7% to 5.04), and to a lesser degree, Queensland (down 6% to 5.29). Conversely, South Australia/Northern Territory recorded the highest 'comfort with income' (up 5% to 6.09), the only mainland state to report a rise.

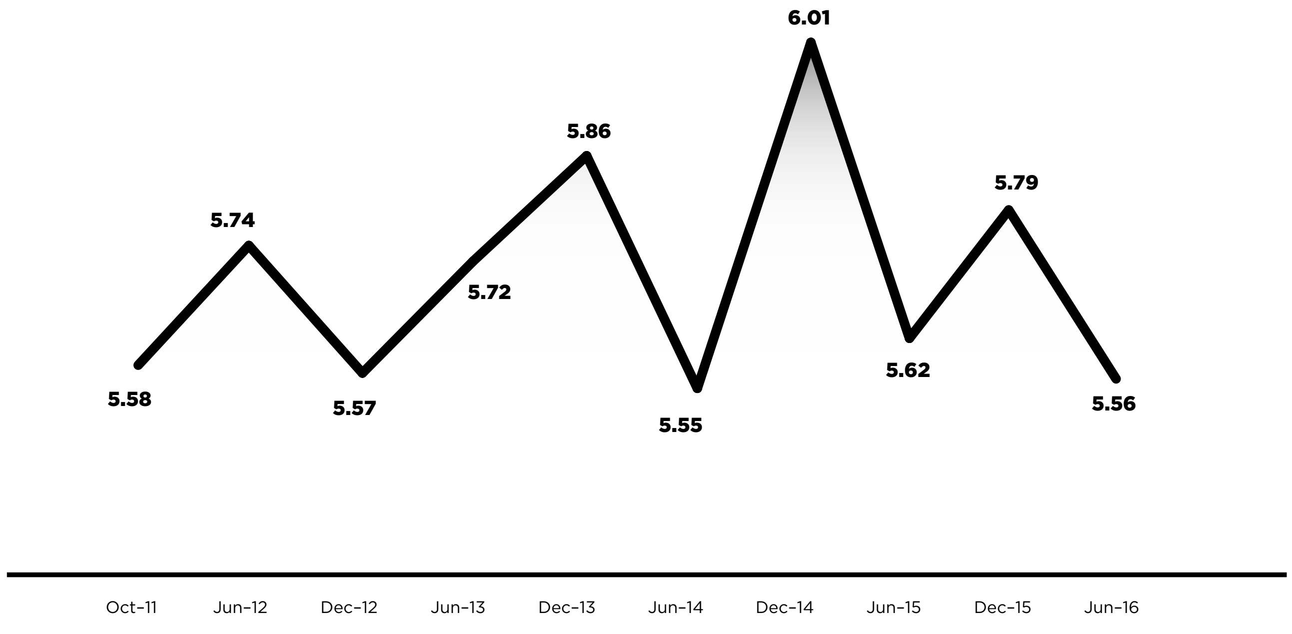

Figure 14 – Comfort with income. Scores out of 10.

Subdued income gains.

Households continued to report subdued income gains over the past year (see Figure 15).

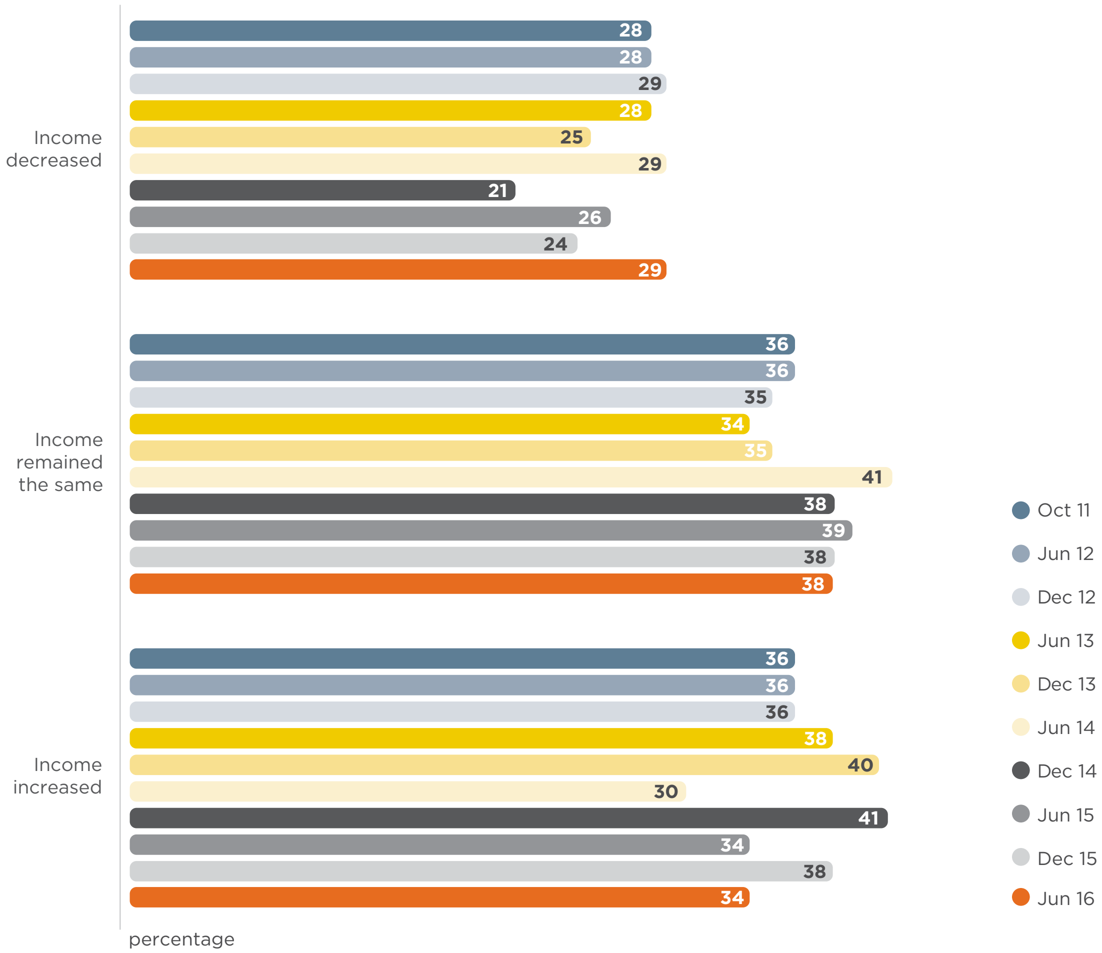

Figure 15 – Has your household income increased or decreased over the past year?

Overall, the proportion of households that reported income falls increased by 5 points to 29% in the six months to June 2016, the highest number in the past two years. Correspondingly, the proportion that reported income gains fell by 4 points to 34%, while those with the same household incomes remained at 38% of households, largely unchanged since the December 2014 survey.

By household type, the greatest proportion of households that reported income falls during the past year to June 2016 were 'single parents' (up 7 points to 36%), 'couples with older children' (11 points to 36%) and 'empty nesters' (up 3 points to 33%).

On the other hand, the proportion of households reporting income gains over the past year continued to vary markedly, with the greatest proportion among 'young singles/couples with no children' (albeit down 5 points to 47%), 'couples with young children' (up 3% to 47%) while 'retirees' reported the lowest proportion (up 2% to 22%).

Consistent with lower job availability and security, 'casual' and 'part-time employed' workers recorded the largest rise among the workforce that reported 'decreased income over the past year' – up 17 points to 44% and up 8 points to 34% respectively, compared to a 4 point rise to 19% of 'full-time employees'.

Conversely, almost half of 'full-time employees' and to a lesser extent about 40% of 'self-employed' workers reported income increases.

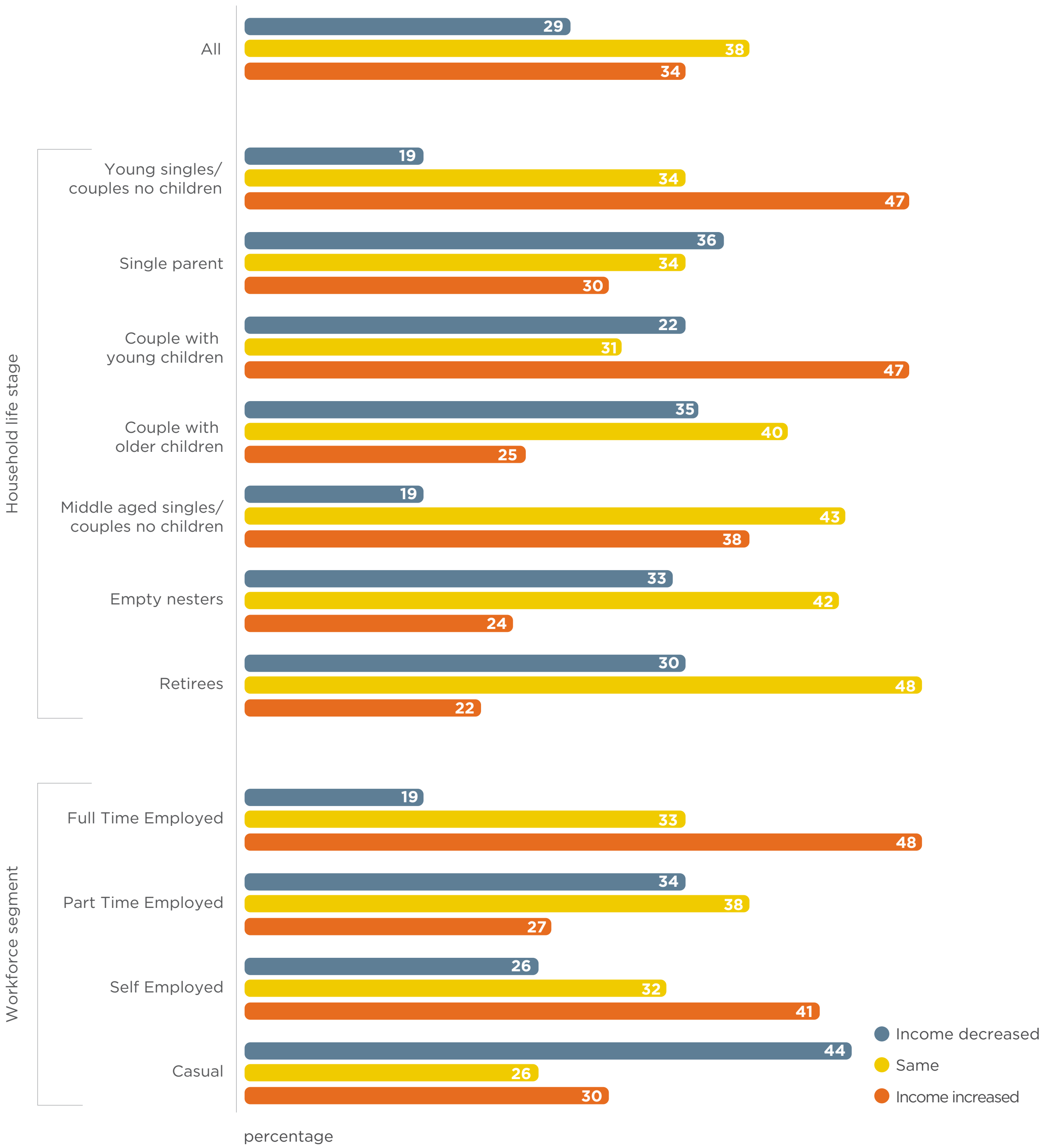

Figure 16 – Household income changes by life stage and workforce segments.

Adequacy of income deteriorates slightly.

The fall in comfort is also consistent with the deterioration in ‘income adequacy’ during the six months to June 2016 (see Figure 17).

Around 27% of households reported they ‘can only afford the essentials and don’t have money left over’, up 7 points over the past six months June 2016 to return to a high reported in June 2014.

Conversely, the proportion of households that reported they can ‘afford discretionary spending’ declined by 6 points to 69% – albeit 41% felt they could ‘afford the essentials plus occasional extras’. Furthermore, 19% reported they could ‘afford the essentials and extras like a holiday’ and only 9% said they can ‘afford the essentials, extras and make additional loan repayments’.

By household type, the greatest inadequacy of income was reported by ‘single parents’ (up 12 points to 37% of households that reported they ‘can only afford the essentials and don’t have money left over’), and to a lesser degree, ‘couples with young children’ (up 12 points to 33%).

‘Part-time employed’ workers recorded the highest and largest rise in income inadequacy (up 17 points to 32% of households that reported they ‘can only afford the essentials and don’t have money left over’), and to a lesser extent ‘casual’ workers (up 7 points to 27%), in sync with lower job availability and confidence.

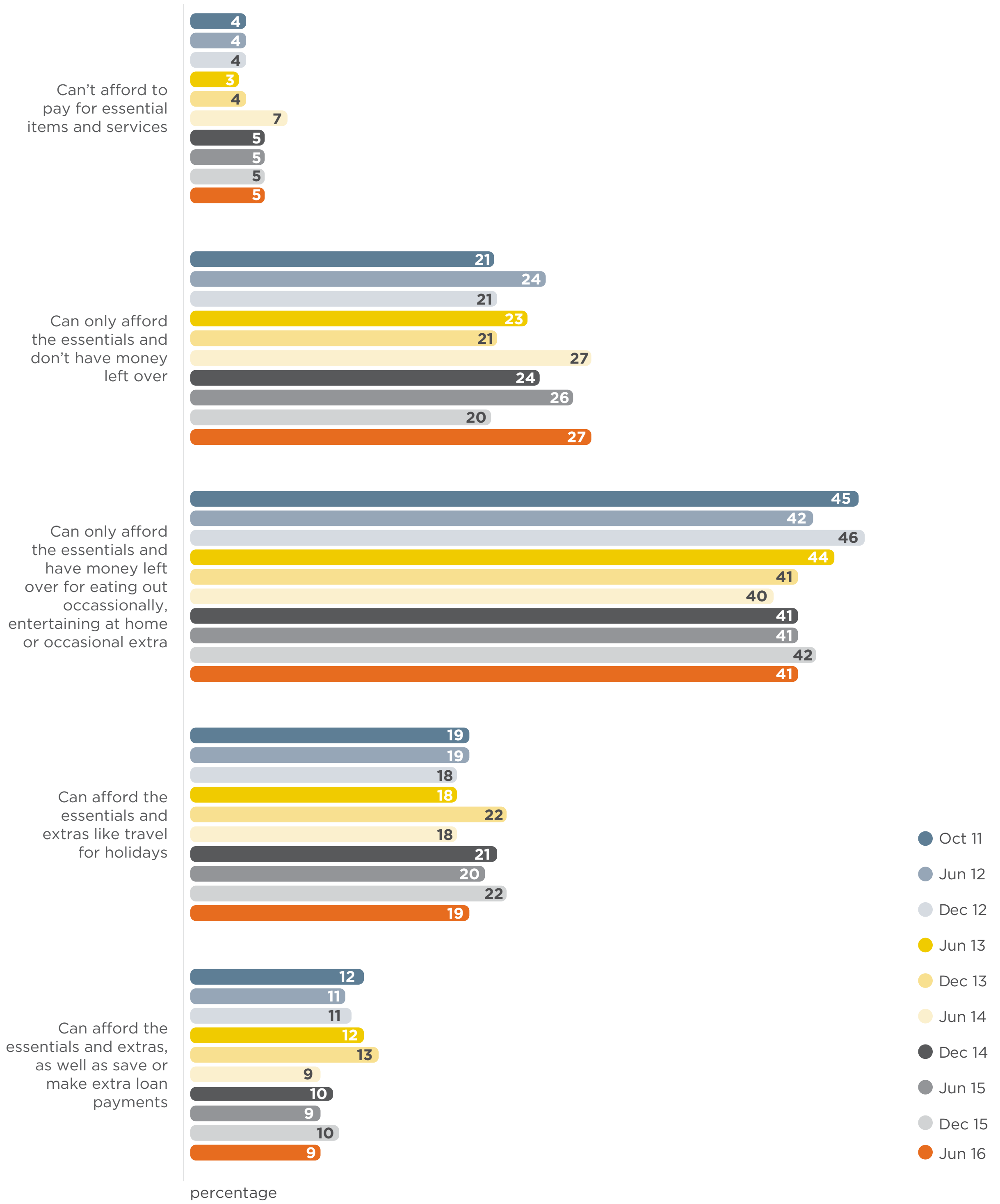

Figure 17 – How adequate is your income?

4.3

COMFORT WITH CASH SAVINGS DECREASES.

Deterioration in income and lower confidence about the availability and security of jobs are in turn reflected in reduced ‘comfort with cash savings’ (down 5% to 4.81) – (see Figure 18).

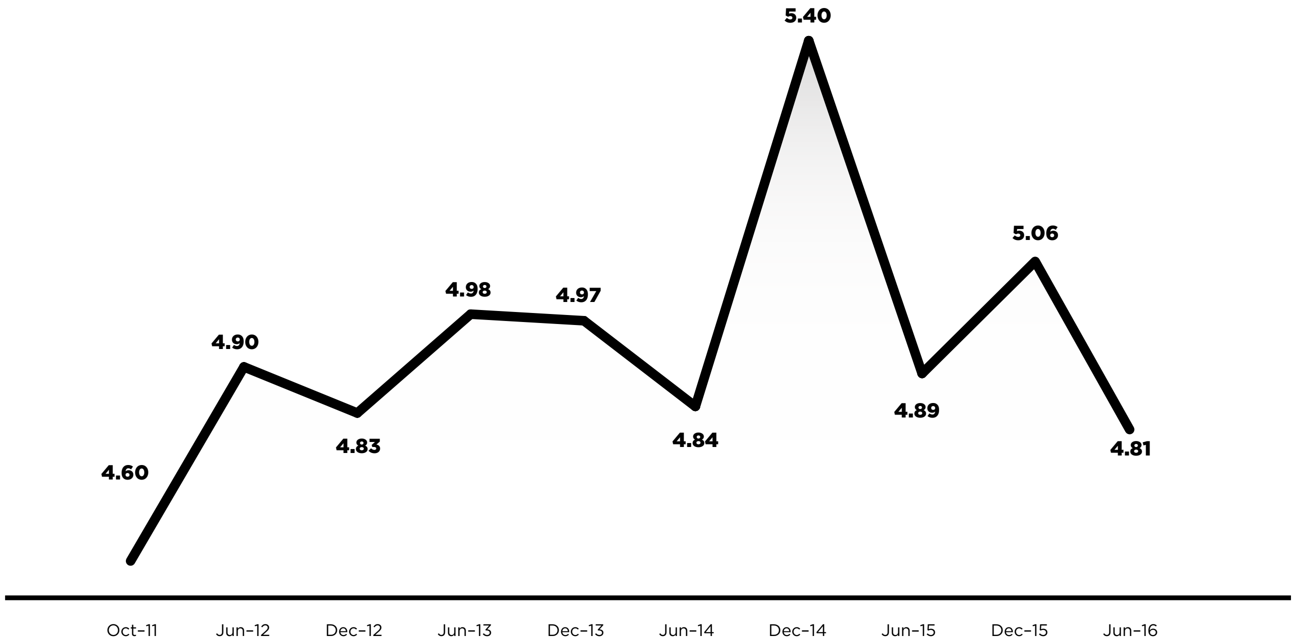

Figure 18 – Comfort with income. Scores out of 10.

Comfort with ‘cash savings’ fell across most households in the first half of 2016. ‘Empty nesters’ reported the biggest decline in comfort with ‘cash savings’ (down 13% to 4.81), followed by ‘retirees’ (down 9% to 5.23) and ‘single parents’ (down 8% to 3.69). On the other hand, comfort with ‘cash savings’ improved for ‘young singles/couples with no children’ (up 5% to 5.09) and ‘middle aged singles/couples with no kids’ (up 4% to 4.56).

By household type, the least comfortable with ‘cash savings’ remained ‘single parents’ (3.69 out of 10), and to a lesser extent those ‘working full or part-time’ (4.11 out of 10) as well as ‘retirees funded by a government pension’ (3.51 out of 10). Despite ‘retirees’ reporting the lowest level of comfort with ‘cash savings’ since the start of the survey, this group still reported the highest comfort with ‘cash savings’ (5.23 out of 10) of any demographic, possibly due to a relatively high level of ‘comfort with income’.

By workforce segment, the lowest and greatest decline of ‘comfort with cash savings’ was recorded by ‘casual workers’ (down 33% to 3.16), followed by ‘part-time employed’ (down 7% to 4.55), compared with a rise for ‘full-time employed’ (up 1% to 5.30).

Western Australia also reported the lowest ‘comfort with cash savings’ among mainland states (down 4% to 4.56), and to a lesser degree, Queensland (down 4% to 4.59). Conversely, South Australia/Northern Territory recorded the highest and only rise in ‘comfort with income’ (up 9% to 5.27).

Disparate savings amounts across households

The proportion of households saving between $30,001 to $50,000 and $50,001 to $100,000 have increased by 1 and 2 points, respectively.

Despite this finding, over half of households reported relatively low cash savings of less than $10,000 – that is, a cash buffer to assist with an emergency (down 2 points to 55%).

Households are saving less money, reporting smaller amounts of savings in June 2016 compared to six months ago. Fewer households reported having less than $1,000 in cash savings (down 1 point to 30% in June 2016), and those with $1,000 to $10,000 cash balances declined (down 1 point to 25%).

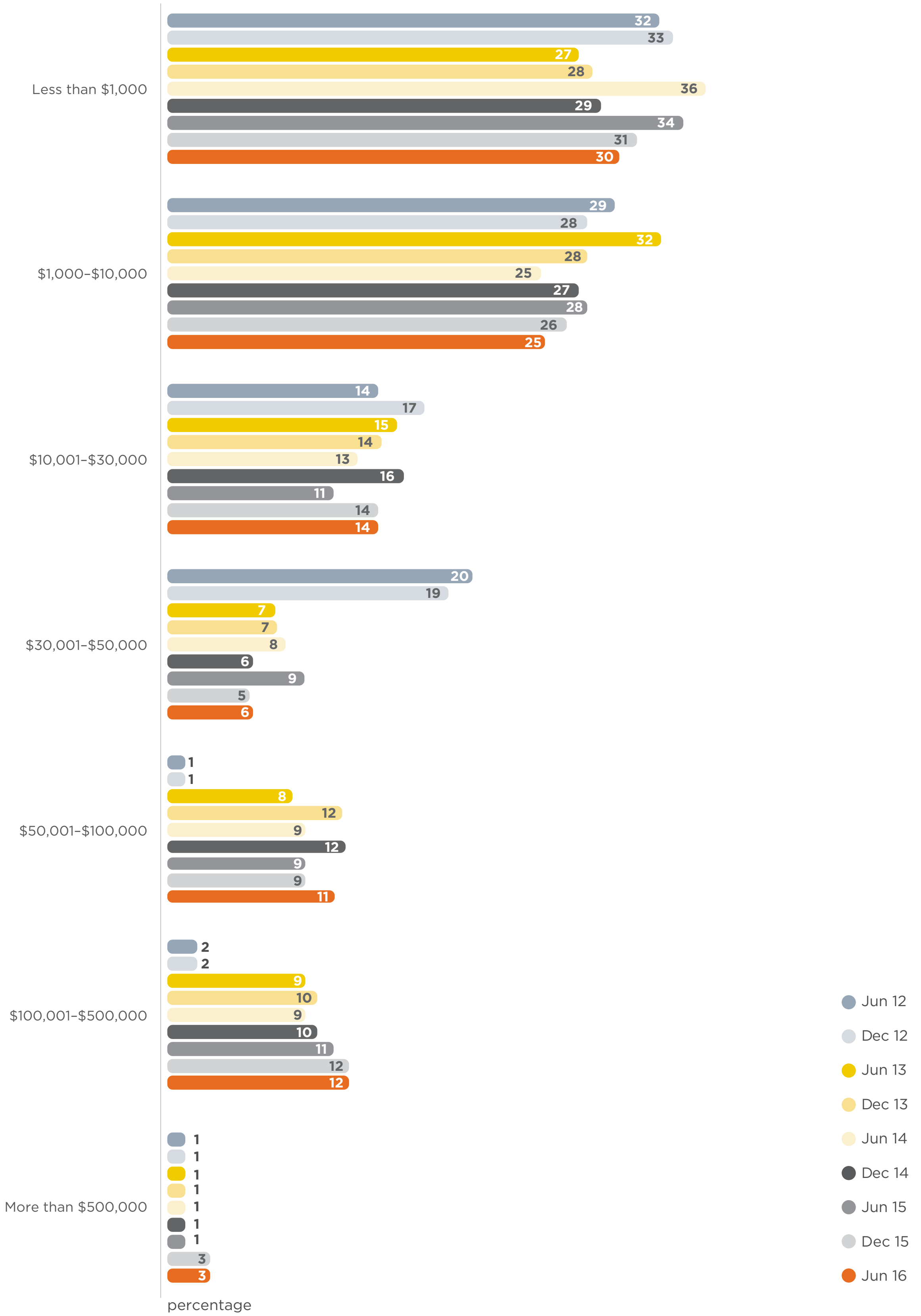

Figure 19 – How much cash savings do households currently hold?

Slightly fewer savers.

There was a slight fall in the proportion of households saving over the past six months to June 2016. The number of households reporting 'spending less than they earn each month', (i.e. 'savers') decreased 2 points to 48%, alongside those 'spending all of their income and more' (down a point to 8%), whereas households 'spending all of their income and no more' increased (up 3 points to 43%).

Across households, 'single parents' (38%) and 'couples with older children' (43%) reported lower levels of saving, or 'spending less than they earn each month'. Correspondingly, 12% of both 'couples with older children' and 'low-income/less than $40,000' households reportedly higher levels of 'spending all they earn and more'.

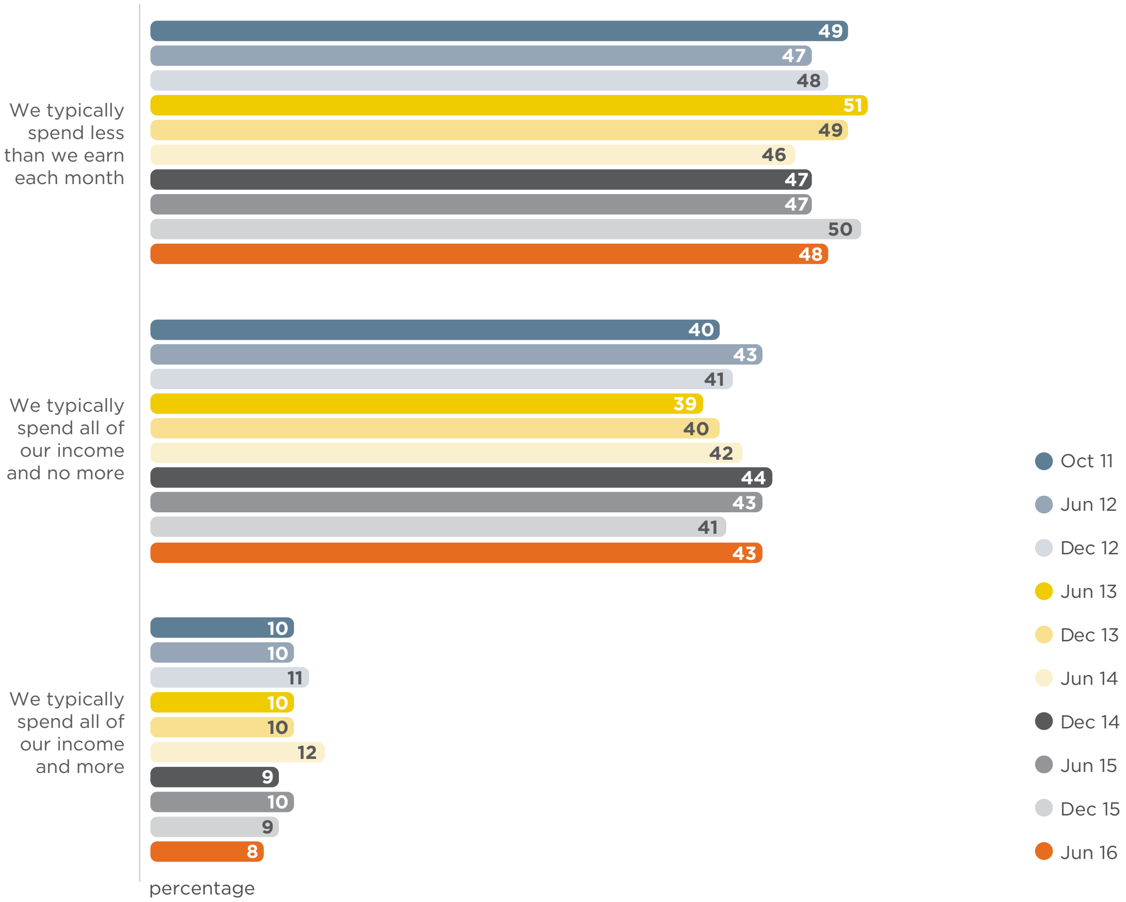

Figure 20 – Proportion who are saving, overspending and breaking even each month.

Marked increase in overspending.

Contributing to the fall in 'comfort with savings' was a marked increase in the amount of households overspending, while the amount of savings remained relatively unchanged.

The 8% of households overspending were overspending significantly more, spending an additional $584 each month (or about $7,000 per annum) in June 2016, compared with $418 (or about $5,000 per annum) in December 2015. Overspending was most prevalent amongst 'couples with older children' (12%), 'part-time employees' (13%) and 'unemployed' people (12%), as well households earning low incomes (less than $40,000 per annum) (12%).

Conversely, almost half of households currently saving were saving less, putting away $779 each month or about $9,300 per annum, compared with about $9,600 per annum in December 2015. Across the population, saving was most prevalent among 'self-funded retirees' (75%) and to a lesser extent 'middle-aged singles/couples with no kids' (64%), 'young singles/couples' (54%) and 'full-time employees' (54%) as well as households earning higher incomes over $100,000 per annum (61%).

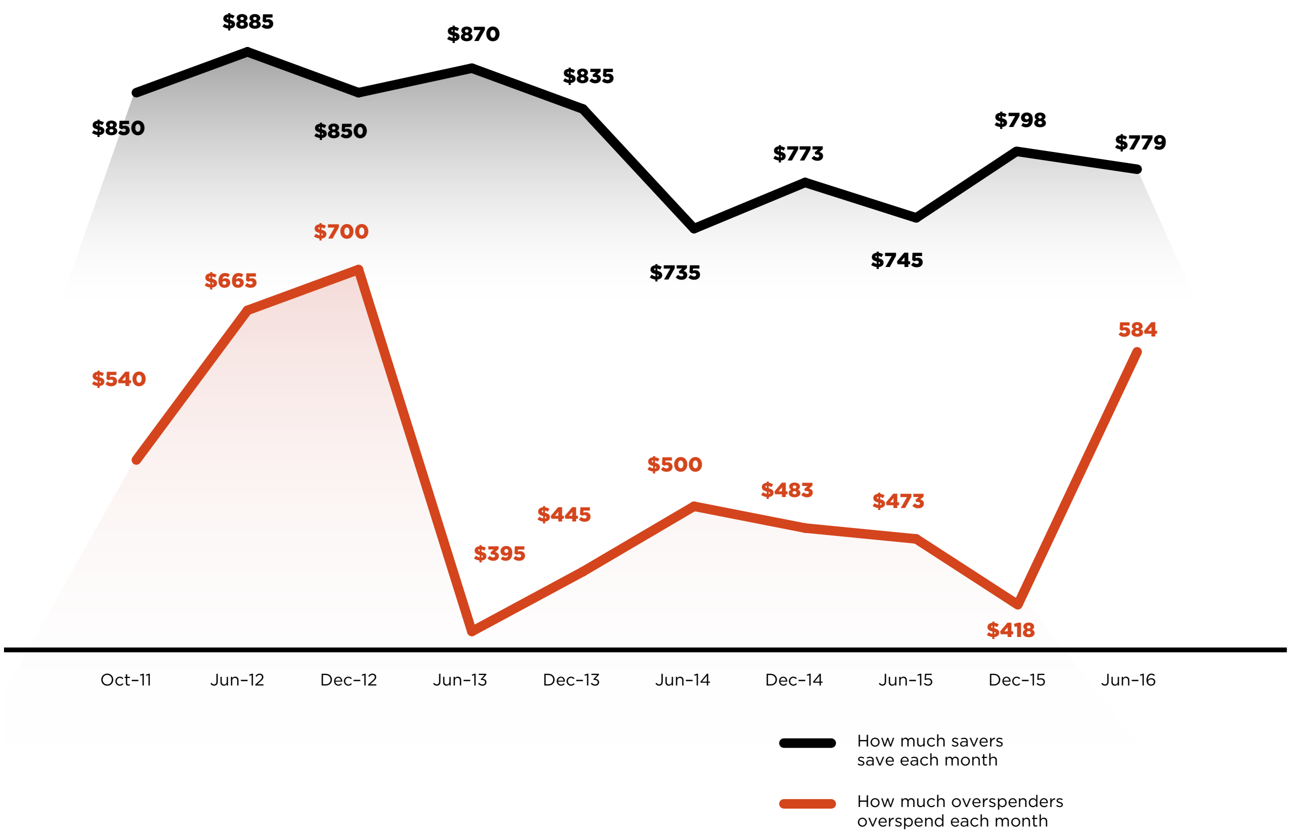

Figure 21 – $ amount savers are saving and over-spenders are overspending since the first survey.

4.4

LESS CONFIDENCE IN COPING WITH A SHORT-TERM INCOME LOSS.

Consistent with 'lower job security' and 'job availability' and limited cash buffers, a significant decline in the 'ability to cope with a short-term income loss' also contributed to the fall in household comfort during the first half of 2016.

Confidence in the 'ability to cope with a short-term income loss' declined 5% to 4.50 in the six months to June 2016, returning to its average level since October 2011. About 42% of households are confident that they could cope with a short-term income loss.

In contrast, the unemployment rate has continued to trend sideways over the first half of 2016 to be significantly lower than 2015. On the other hand, employment growth has slowed, with more people in part-time or casual jobs and average hours worked declining significantly.

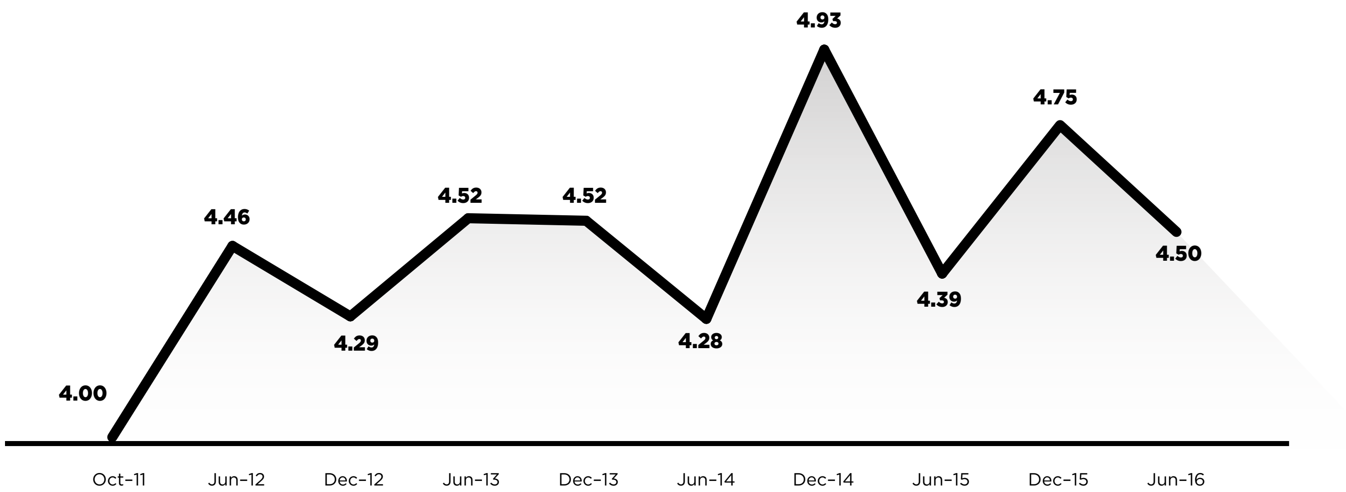

Figure 22 – Confidence in ability to handle an emergency, if you lost your income for three months. Scores out of 10.

A fall in confidence across most households was partly offset by a rise among both 'young and middle aged singles/couples without children'.

The least confident and greatest decline in comfort was reported by 'single parents' (down 15% to 3.13) and 'empty nesters' (down 14% to 4.51) – 14% and 6% lower than historical averages, respectively. Conversely, the highest confidence in the 'ability to handle a short-term income loss' continued to be recorded by 'retirees', albeit down 5% to 4.98.

In terms of rises, 'young singles/couples (<35yo) with no children' reported rising confidence in their 'ability to cope with a short-term income loss', the largest increase of any household by 10% to 4.73 – slightly above historical outcomes – followed by 'middle-aged singles/couples with no children' (up 8% to 4.52 or about its average outcome).

Confidence in the 'ability to cope with a short-term income loss' fell across most of the workforce, particularly casual employees (3.13 out of 10) and 'part-time self-employed', who reported a double-digit decline of 20% to 4.73.

Raising $3,000 in an emergency is slightly more difficult.

The decrease in the 'ability to cope with a short-term income loss' is supported by a decline in the proportion of households indicating it would be 'easy to raise $3,000 in an emergency' – down 1 point to 35% over the six months to June 2016. On the other hand, almost two-thirds (65%) of households could 'not easily raise $3,000 for an emergency'.

Consistent with responses to coping with loss of income, 'single parents' reported the most difficulty (79%), while 'retirees' reported the least difficulty (51%). Across the workforce, 'casuals' (82%) recorded the most difficulty, compared with 'full-time employees' and 'self-employed' workers (both about 60%).

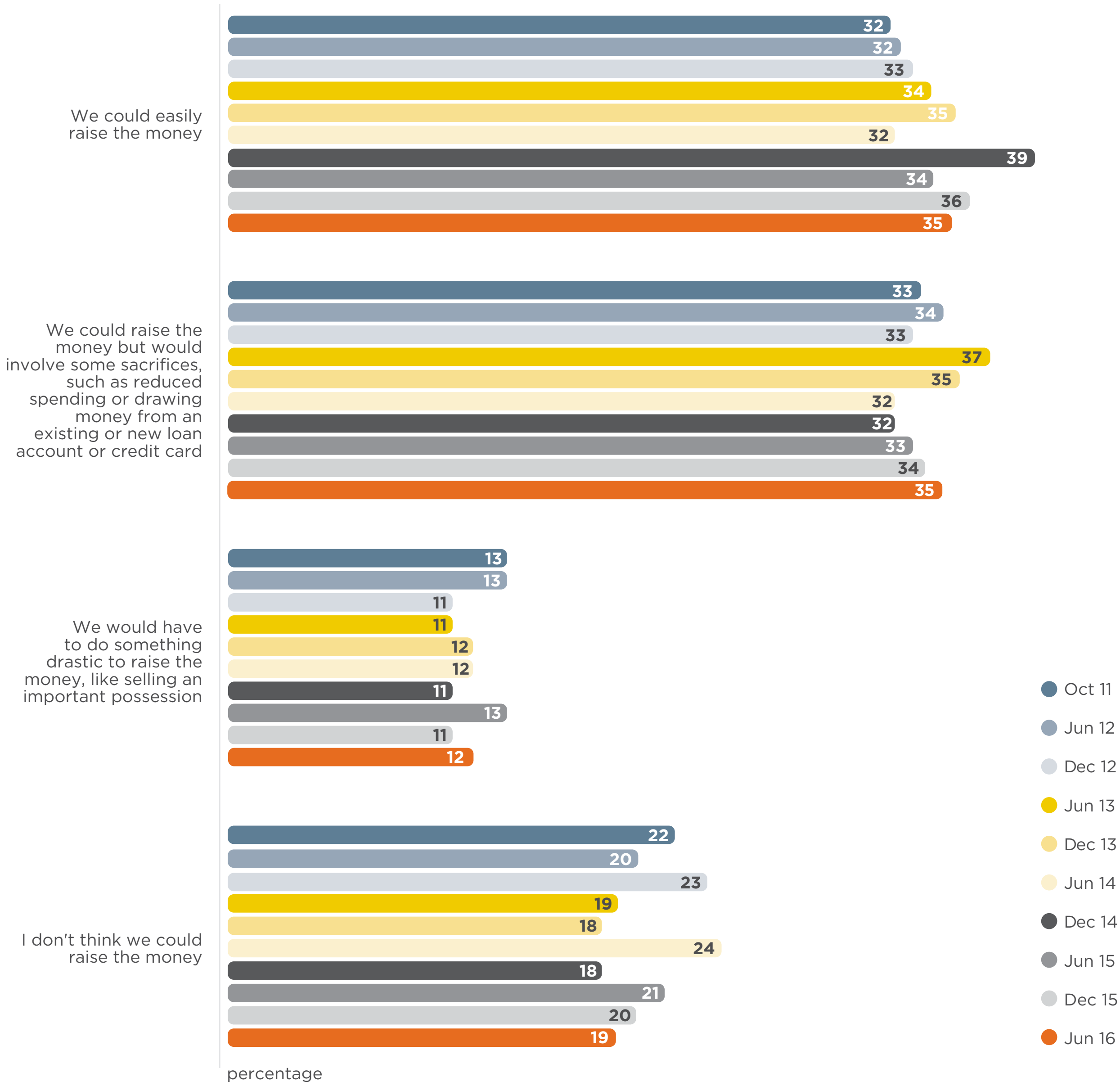

Figure 23 – Ability to raise $3,000 in a week for an emergency.

4.5
OVERALL LEVEL OF (NET) WEALTH.

Comfort with 'overall level of (net) wealth' significantly deteriorated over the past six months to June 2016, larger than the falls in comfort with debt, investments and anticipated standard of living in retirement, as noted in sections 5.2, 5.3 and 5.4.

In the six months to June 2016, comfort with 'overall level of wealth' (as measured by what would be left in cash if you sold all your assets and paid off all debts today) decreased by 6% to 5.50 out of 10 – below the research average (see Figure 24).

'Single parents' reported the lowest level of comfort with 'overall level of wealth' (down 4% to 4.33), followed by 'middle-aged singles/couples with no children' (down 1% to 5.07), while 'self-funded retirees' continued to record the highest level of household comfort with 'overall level of wealth' (although down 6% to 7.04), followed by 'couples with older children' (also down 8% to 5.82).

'Empty nesters' reported the biggest decline in 'overall level of wealth' in the past six months (down 11% to 5.60), followed by 'couples with older children' (down 8% to 5.82). In contrast, comfort with wealth of both 'young singles/couples' and 'middle-aged singles/couples with no children' were unchanged at 5.40 and 5.07, respectively.

In contrast to these findings, macro-financial indicators have continued to improve; residential property prices across Australia have continued to rise (with the notable exceptions of Perth as well as apartments in some CBDs), while returns on superannuation have increased modestly over 2015/16, following strong rises over the previous five years.

Against this, a great deal of uncertainty continues to cloud the financial outlook, and at times bouts of marked volatility have weighed on investor confidence. In addition, household worries about the impact of government legislation and assistance have increased over the past six months, although the latest survey was conducted in the middle of a Federal Election that addressed significant policy changes to superannuation and taxation on investment properties.

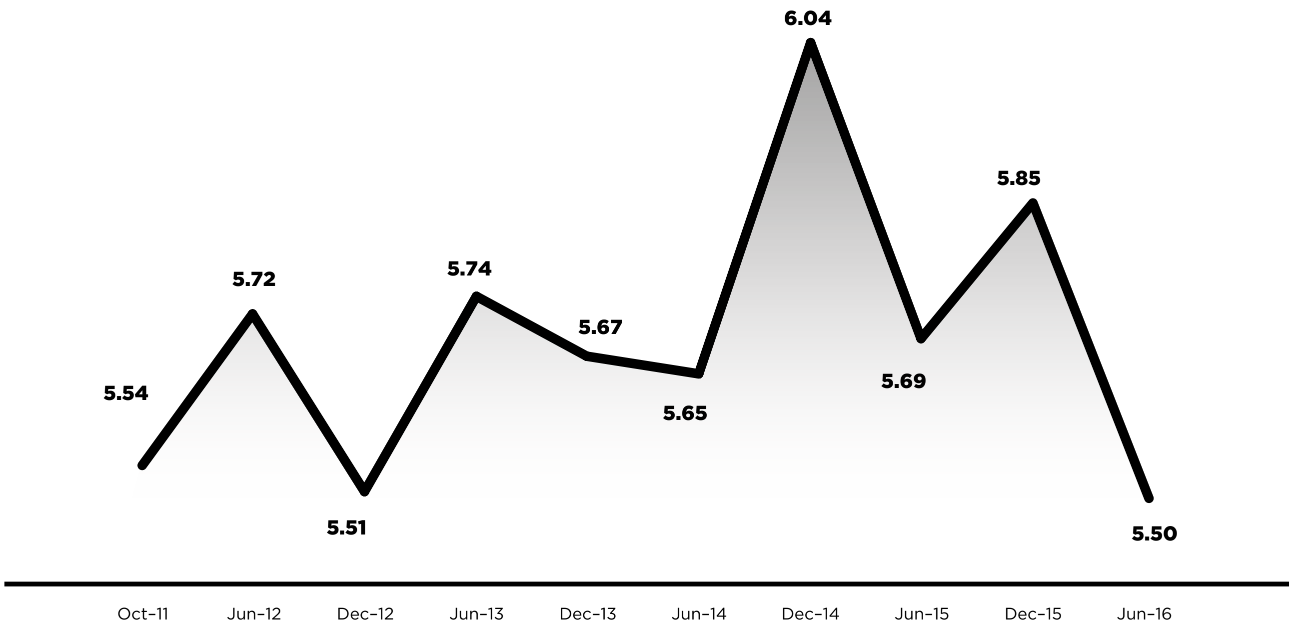

Figure 24 – Comfort with overall level of wealth. Scores out of 10.

“We worry about retrospective changes to superannuation.”

COUPLE WITH OLDER CHILDREN
NEW SOUTH WALES

selected
other findings.

05.

5.1
MONTHLY EXPENSES.

Figure 25 shows a small fall in overall comfort with the 'ability to pay regular expenses' (down 2% to 6.41) – largely reversing the rise six months prior.

Households least comfortable paying regular expenses were 'single parents' (5.71 out of 10) and 'couples with older children', the latter also reporting the biggest decline (down 7% to 6.34), while households most comfortable were 'retirees' (6.98 out of 10), and 'empty nesters' (6.78 out of 10).

As noted in Section 3.8, the cost of necessities was cited as one of the biggest worries by 47% of households and to a lesser extent 'being able to make ends meet' by 34% of households.

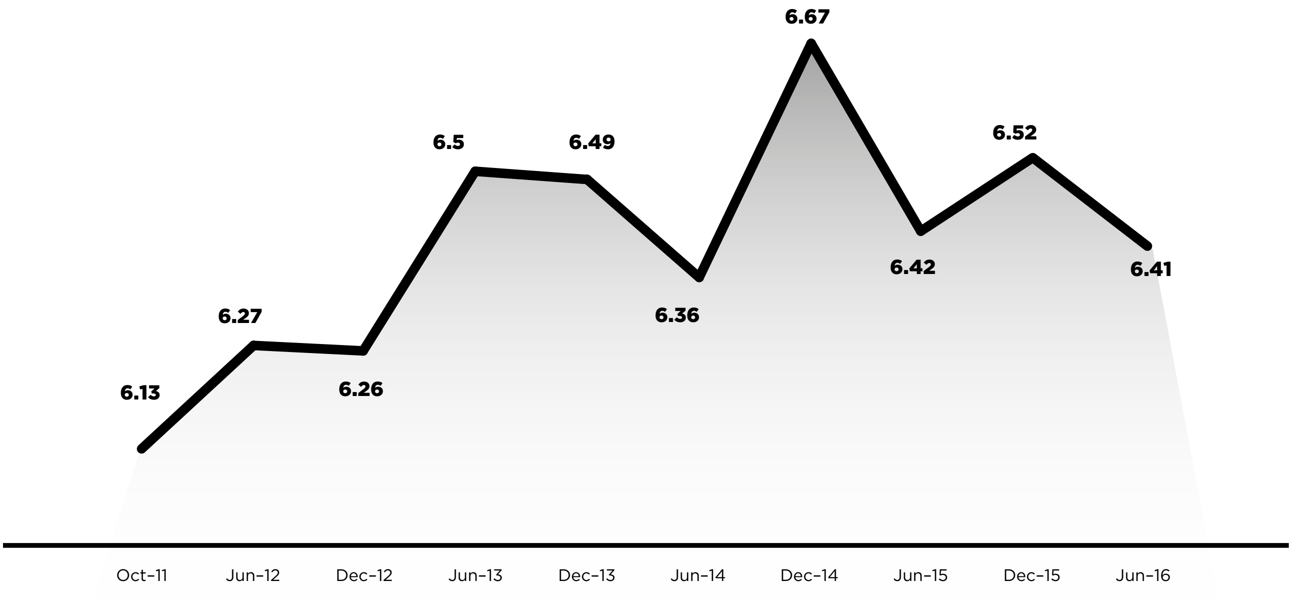

Figure 25 – Comfort with ability to pay regular expenses. Scores out of 10.

5.2
DEBT.

Overall comfort with debt remains relatively high and while households continue to increase borrowings, debt stress is relatively low. This is largely due to supportive macroeconomic and financial conditions – in particular, sustained jobs and wage growth, rising residential property prices and historically low interest rates. However, there are pockets of discomfort and marked distress across some households and regions faced with job losses, sustained retrenchment, wage cuts and lower house prices. Indeed, households are expecting a marked increase in their inability to meet the minimum repayments on their debt during the next 6-12 months.

Overall comfort with debt.

Figure 26 shows overall comfort with debt decreased by 4% to 6.04 during the six months to June 2016, reversing the rise recorded six months earlier. Despite the latest fall, comfort with debt remains close to its average historical outcome and much higher than most other key drivers of overall comfort.

Across life stages, most households recorded modest falls in their comfort with debt during the first half of 2016. 'Single parents' remained the least comfortable with debt, despite rising the most of any household segment during the six months to June 2016 (up 5% to 5.50), and to a lesser extent 'couples with young children' (down 3% to 5.60). 'Couples with older children' reported the greatest decline in comfort with debt of any household (down 9% to 5.91). 'Retirees' continued to be the most comfortable with debt, albeit down 3% to 7.44, and to a lesser extent, 'empty nesters' (also down 6% to 6.64).

By housing tenure, home owners continued to report very high levels of comfort with debt - albeit down by 6% to 7.46 during the six months to June 2016, compared with households paying off a mortgage (down 3% to 5.41) and renters (unchanged at 5.33).

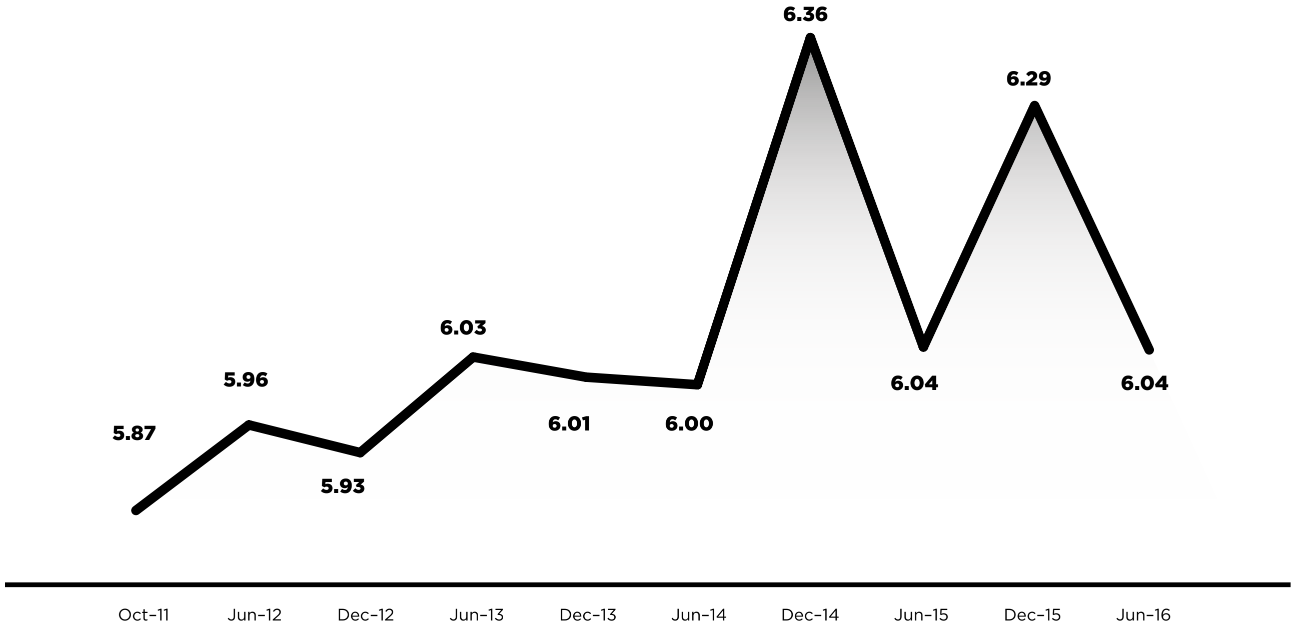

Figure 26 – Comfort with household's level of debt. Scores out of 10.

Sustained modest pick-up in household debt.

There has been a sustained, albeit modest pick-up in the household demand for debt over the past year (a net 9% of households increased debt over the past year to June 2016).

Figure 27 shows the (net) percentage of those who increased debt minus those who decreased debt at each survey – a proxy for the net demand. In June 2016, the net percentage of households that increased debt over the past year remained unchanged at 9%, with a rise in debt reported by about a third of households partly offset by a decrease in debt by about a quarter of households, with about 44% reporting unchanged debt levels.

By household segment, there has been relatively strong net debt demand by 'couples with young children' (up 2 points to 28% over the past year to June 2016) and to a lesser extent 'young singles/couples' (down 11 points to 19%). On the other hand, 'empty nesters' (down 6 to -14%), 'middle-aged singles/couples without children (down 3 to -10%) and retirees (up 6 to -5%) decreased their debts over the past year.

By loan purpose, net debt demand for residential mortgages is stronger than other loans such as credit cards (13% versus 5%, respectively).

Across mainland states, there was double-digit demand over the past year from households in all the eastern states; in stark contrast, household debt reportedly decreased slightly in Western Australia (net demand of -2%) over the same period.

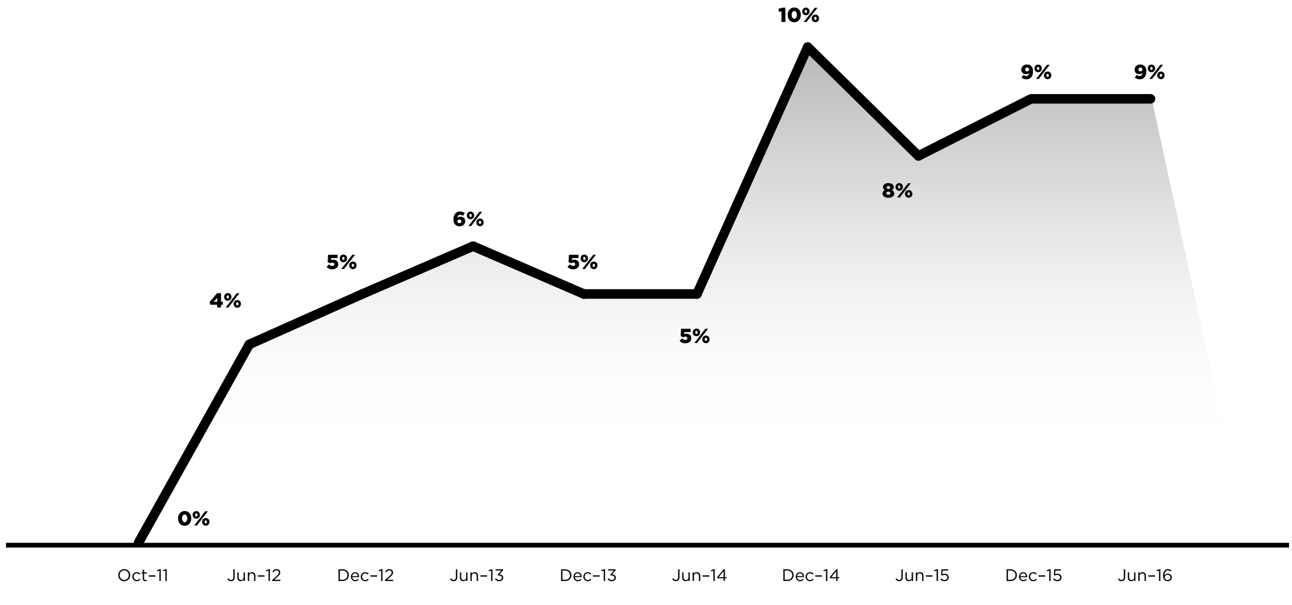

Figure 27 – Net % of households who increased debt over the past year.

Ability to manage debt expected to deteriorate markedly.

While the vast majority of households continue to 'expect to be able to pay a little/lot more than minimum payments on their debt over the next 6-12 months', there was a marked deterioration in those households that 'expect to just make minimum payments' and more disconcerting, 'not meet minimum payments'.

About 65% of households reported to have outstanding debt in June 2016. Of this group, 10% of households anticipate they will be 'unable to meet their required minimum debt payments' in the next 6-12 months – a twofold increase since December 2015 (up 5 points to 10%), and highest since the survey began. A further 33% of households expect to 'just manage to make minimum payments' – up 4% to about the average historical outcome. On the other hand, 31% of households expect that they 'can pay a little bit more than the minimum' – down about 6% below the historical outcome of 37%, while 26% of households expect that they 'can pay a lot more than minimum payments' down 2 points.

'Single parents' reported the highest anticipation in being 'unable to meet their required minimum debt payments' (down 1 point to 19%), followed by 'couples with young children' (up 12 points to 15%) and 'young singles/couples' (up 6% to 12%), compared with about 5% across other household segments.

Across the labour force, 16% of 'unemployed' households expect they will be 'unable to meet their required minimum debt payments', compared with 9% of working households.

By loan purpose, 12% of households with non-mortgage debt (such as credit cards and other personal loans), and to a lesser extent 8% of households with a mortgage, do not expect to meet minimum payments, compared with the corresponding figures of 8% and 2% in December 2015. This expected rise in debt stress is also evident across all states as well as housing investors and owner-occupiers.

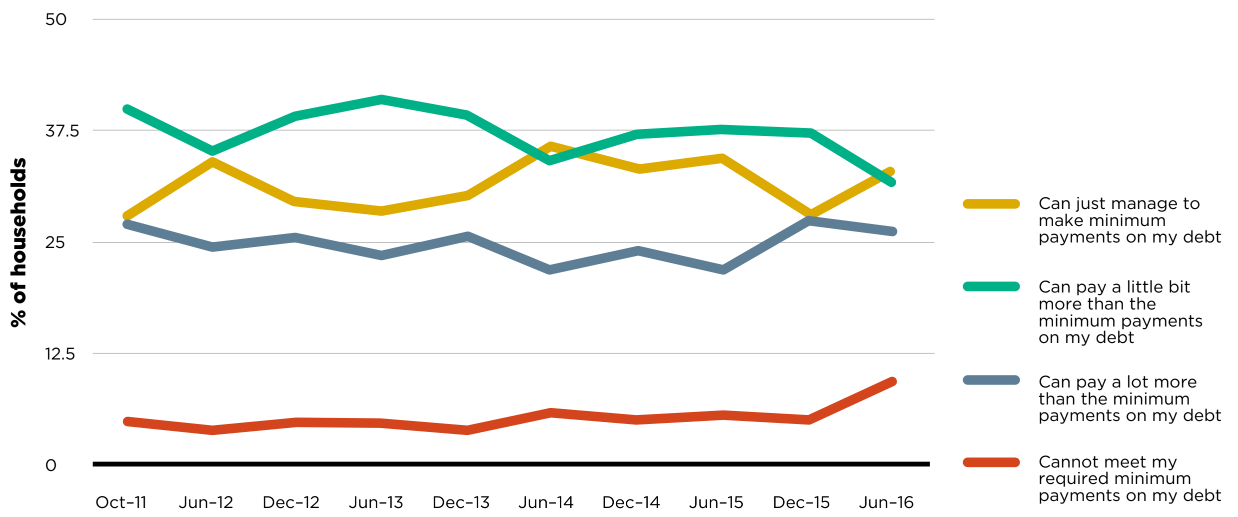

Figure 28 – Ability to manage debt for the next 6-12 months.

Increase in drawing on home equity.

There was a significant increase in home equity withdrawals from 23% to 32% of households over the past six months to June 2016 – increasingly used to 'make ends meet' and 'pay off debts' – potentially consistent with signs of increased financial stress, as noted previously. That said, the majority of households with home equity are not withdrawing equity for increased consumption, investment or debt consolidation.

About 70% of households reported to 'own their home outright' or be 'paying off their home' in June 2016. Of this group, about one-third are using equity in their home for a variety of purposes including 'investments' (up 3 points to 12%), 'paying off debts' (up 4 points to 11%), 'making ends meet' (up 4 points to 10%), 'purchases such as a car' (up 4 points to 9%) and 'funding retirement' (up 1 points to 3%).

In June 2016, the highest proportion of households reporting to be 'drawing on home equity' to 'make ends meet' were 'young singles/couples' (up 7 points to 18%), 'couples with young children' (up 8 points to 18%) and to a lesser extent, 'working single parents' (10%).

Similarly, the highest proportions of households making home equity withdrawals to 'pay off debts' were 'couples with young children' (up 5 points to 17%) and both 'single parents' and 'young singles/couples with no children' (up about 6 points to 16%).

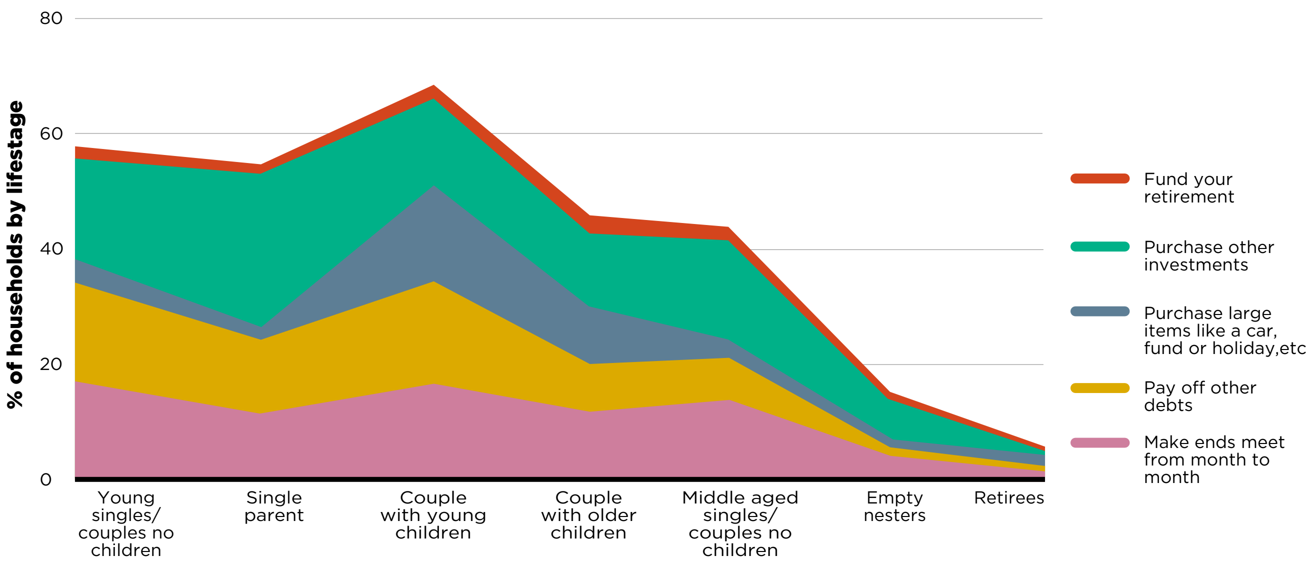

Figure 29 – Home equity withdrawals (June 2016).

5.3
INVESTMENTS.

Comfort with investments decreases.

Figure 30 shows overall comfort with investments decreased by 4% to 4.80 during the six months to June 2016, reversing the rise six months earlier to about the average outcome since the survey began in late 2011.

Household segments with the lowest level of comfort with investments were 'single parents' (down 4% to 3.72), 'empty nesters' (the greatest decline of any household of 7% to 4.72) and 'couples with young children' (down 5% to 4.82).

Conversely, households with the highest level of comfort with investments, despite slight declines, included 'couples with older children' (down 5% to 5.09) and 'retirees' (down 4% to 5.08).

Only a couple of household segments reported gains in comfort with investments – 'middle-aged singles/ couples with no children' (up 4% to 4.46) and 'young singles/couples (<35yo) with 'no children' (up 3% to 5.02).

Similar to the fall in comfort with net wealth, the comfort with investments contrasts with the continued rise in the value of the main household investments – residential properties and to a lesser extent direct share holdings and superannuation. Residential property prices continued to rise over the past six months across Australia (with the notable exceptions of Perth as well as apartments in some CBDs), while returns on superannuation increased modestly over 2015/16, following strong rises over the previous five years. Conversely, a great deal of uncertainty continues to overhang the financial outlook and at times bouts of marked volatility have weighed on investor confidence. This is also noteworthy given the survey was conducted in the middle of a Federal Election campaign, which included significant policy changes to superannuation and the taxation on investment properties.

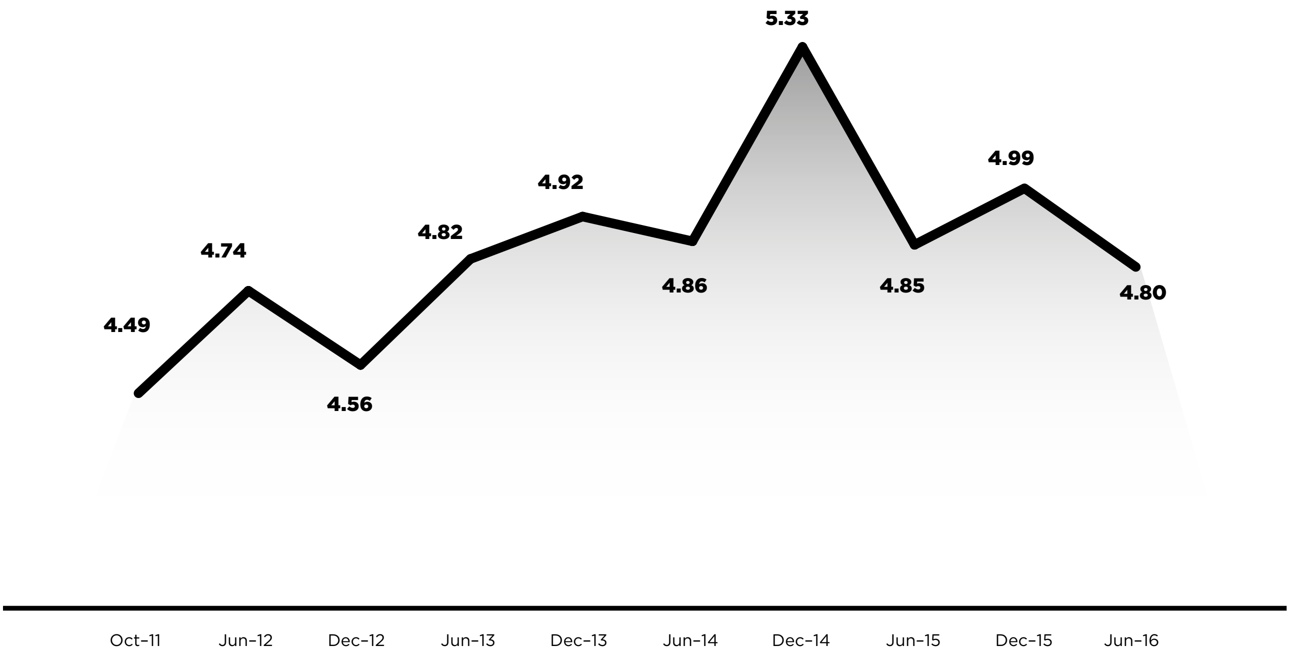

Figure 30 – Comfort with level of investments. Scores out of 10.

Investment risk appetite improves.

After a small deterioration in risk appetite during 2015, there was a small improvement across Australian households during the first half of 2016 – a somewhat surprising result given some moderation in investment returns, bouts of increased volatility and continued uncertainty about prospects. Put another way, 'neutral' or 'average' risk takers continued to outnumber 'risk avoiders' and to a greater extent 'risk takers'.

Figure 31 shows an increase in 'risk takers' willing to take above average and substantial risk – up 4 points to 21% in the past six months to June 2016, compared to a small fall in 'risk avoiders' (those people who would take few and no risks with their money) – down 2 points to 38%. Those willing to take an average risk for an average return has also declined a further point to 41% over the past six months.

This is arguably consistent with households willing to take increased risk in search for yield and income with returns on bank deposits and medium and long-term government bonds at very low levels.

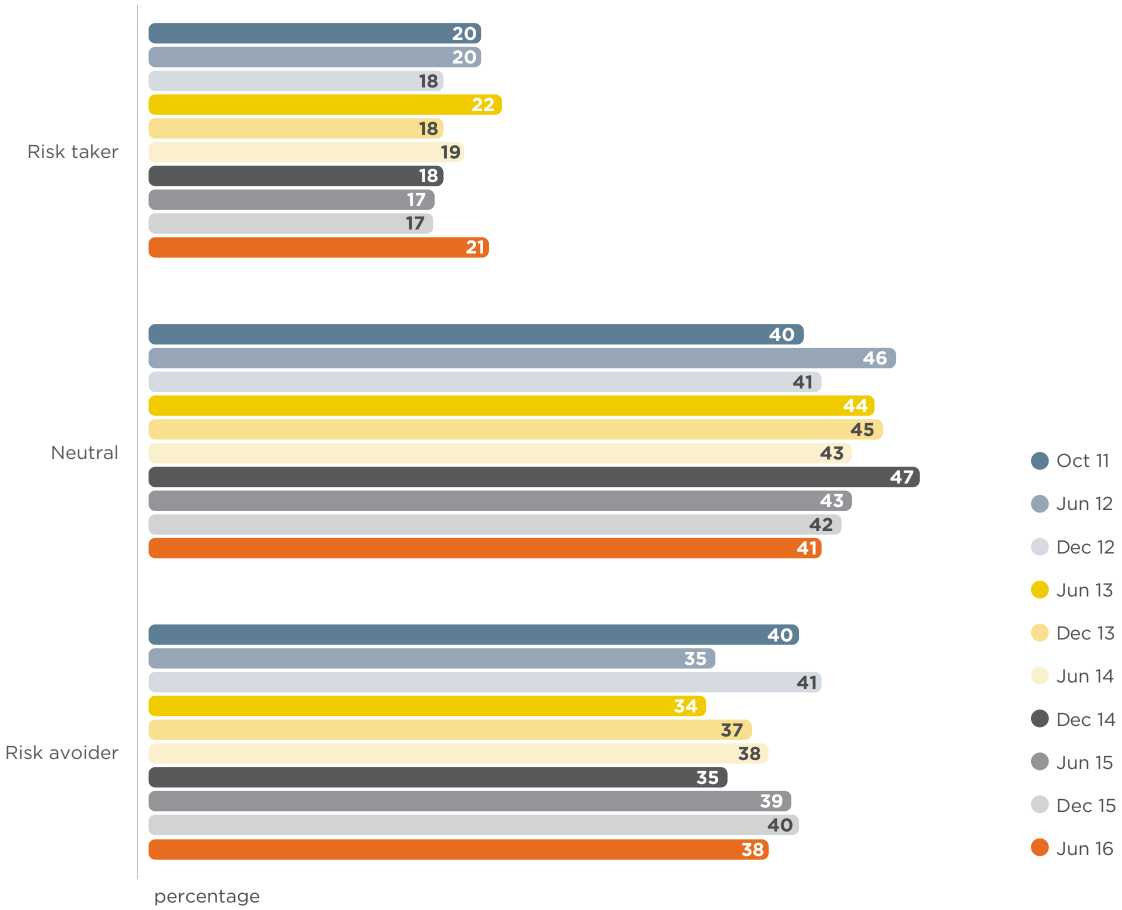

Figure 31 – Risk avoiders, average risk takers and risk takers: what financial risk would you take with any spare cash?

5.4
SUPERANNUATION.

Comfort with standard of living in retirement.

In the six months to June 2016, confidence with households' 'anticipated standard of living in retirement' decreased 4% to 5.02 – returning to about the same level as 12 months prior and the historical average.

There was a notable decline in the comfort with the anticipated standard of living in retirement across most households and generations – especially 'baby boomers'. 'Single parents' reported the lowest (down 5% to 3.74) followed by 'middle-aged singles/couples with no children' (up the most of any household by 3% to 4.35).

At the other end of the scale, 'self-funded retirees' continued to report the greatest level of financial comfort with their 'anticipated standard of living in retirement', despite falling 6% to 7.07 and to a much lesser extent, followed by 'young singles/couples (<35yo) with no children' (unchanged at 5.33).

Comfort with anticipated standard of living in retirement fell across all generations over the past six months to June 2016, with a big decline among 'baby boomers' (down 7% to 5.15) to be below 'Gen Y' (down only 2% to 5.22) but higher than 'Gen X' (also down 2% to 4.53).

As noted previously, bouts of volatility in investment markets, the recent Federal Budget, Federal Election campaign and related policy proposals for changes to superannuation may have negatively impacted comfort with standard of living in retirement – especially those approaching retirement and retirees.

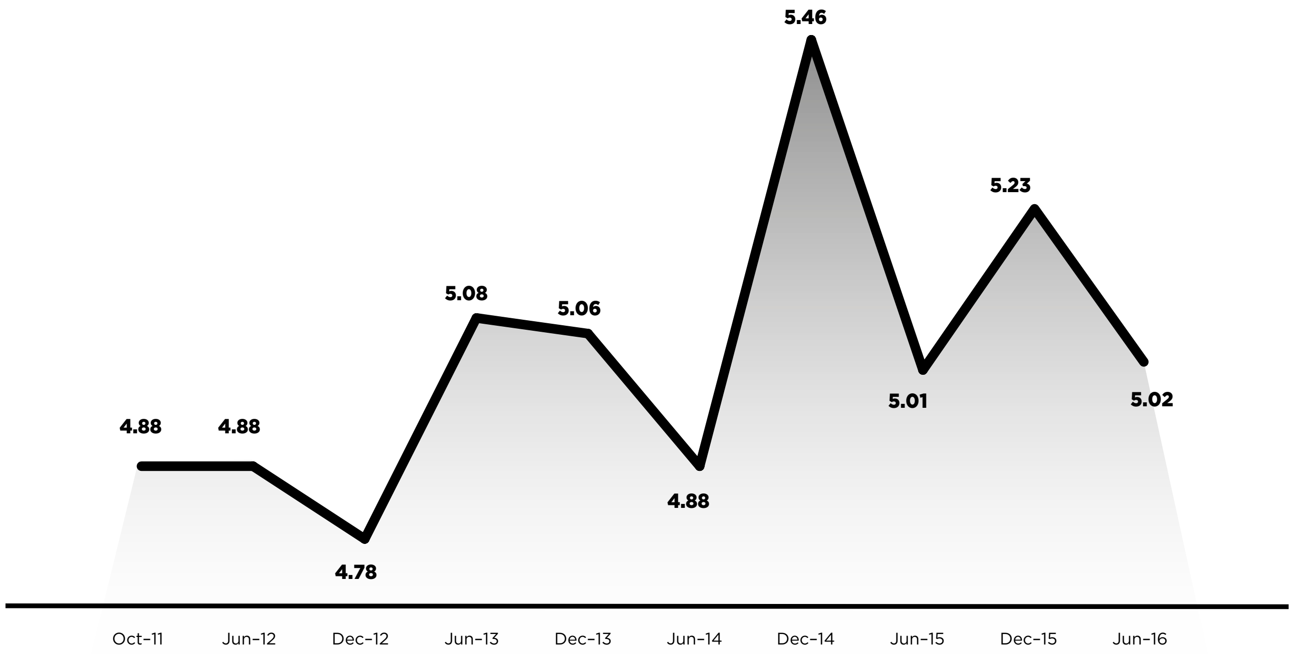

Figure 32 – Expectations for comfort in household's standard of living in retirement. Scores out of 10.

Additional payments to superannuation in the past six months.

Households continue to rely largely on employer contributions for superannuation.

In the past six months, the proportion of households reporting to make additional payments to their superannuation slightly increased, while the proportion of households reporting to make these payments 'sometimes' or 'never' declined (see Figure 33).

In terms of gender, more men (25%) than women (14%) reported to be contributing extra amounts into superannuation.

Furthermore, a greater proportion of higher household income earners (30% of those earning $100,000+) than lower income earners (18% of those with household incomes between $40,000 and $75,000 and only 9% of those with less than $40,000) reported to be contributing extra money into their superannuation.

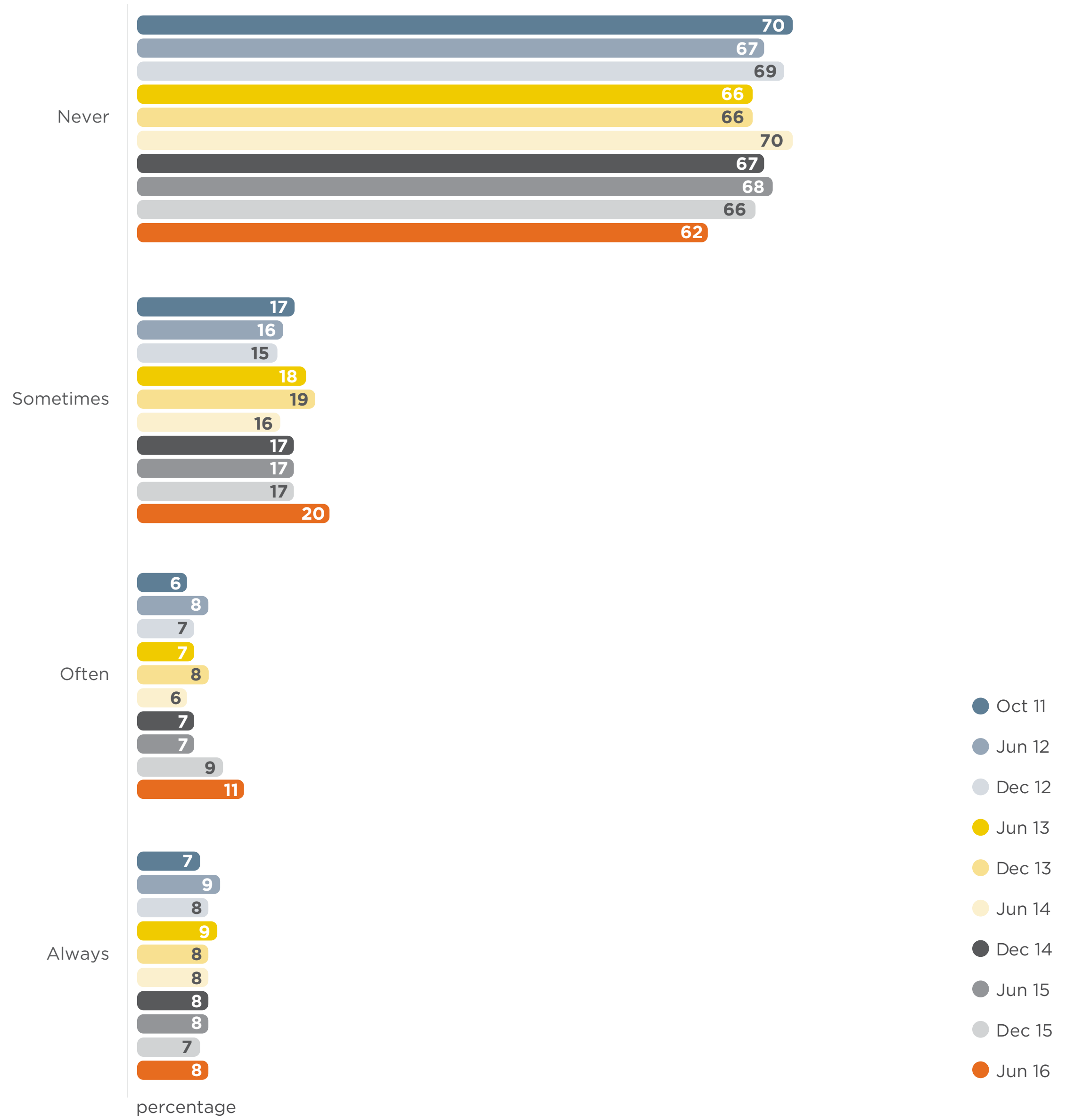

Figure 33 – Additional payments into superannuation in the last six months?

Self-reliance in retirement.

Figure 34 shows there has been a slight rise in the number of households expecting to 'rely on the government pension' during retirement in June 2016, up 2 points to 21%, while the number of households expecting to 'use both private savings and the government pension' decreased by 3 points to 43%. Around 20% expect to 'fund retirement with their superannuation'.

In terms of households, 'single parents' reported the least confidence with 12% indicating they will be able to 'fund their own retirement' while 'couples with younger children' recorded the greatest confidence (25%).

In terms of gender, 25% of men compared to 15% of women expect to 'fund retirement with their own money'.

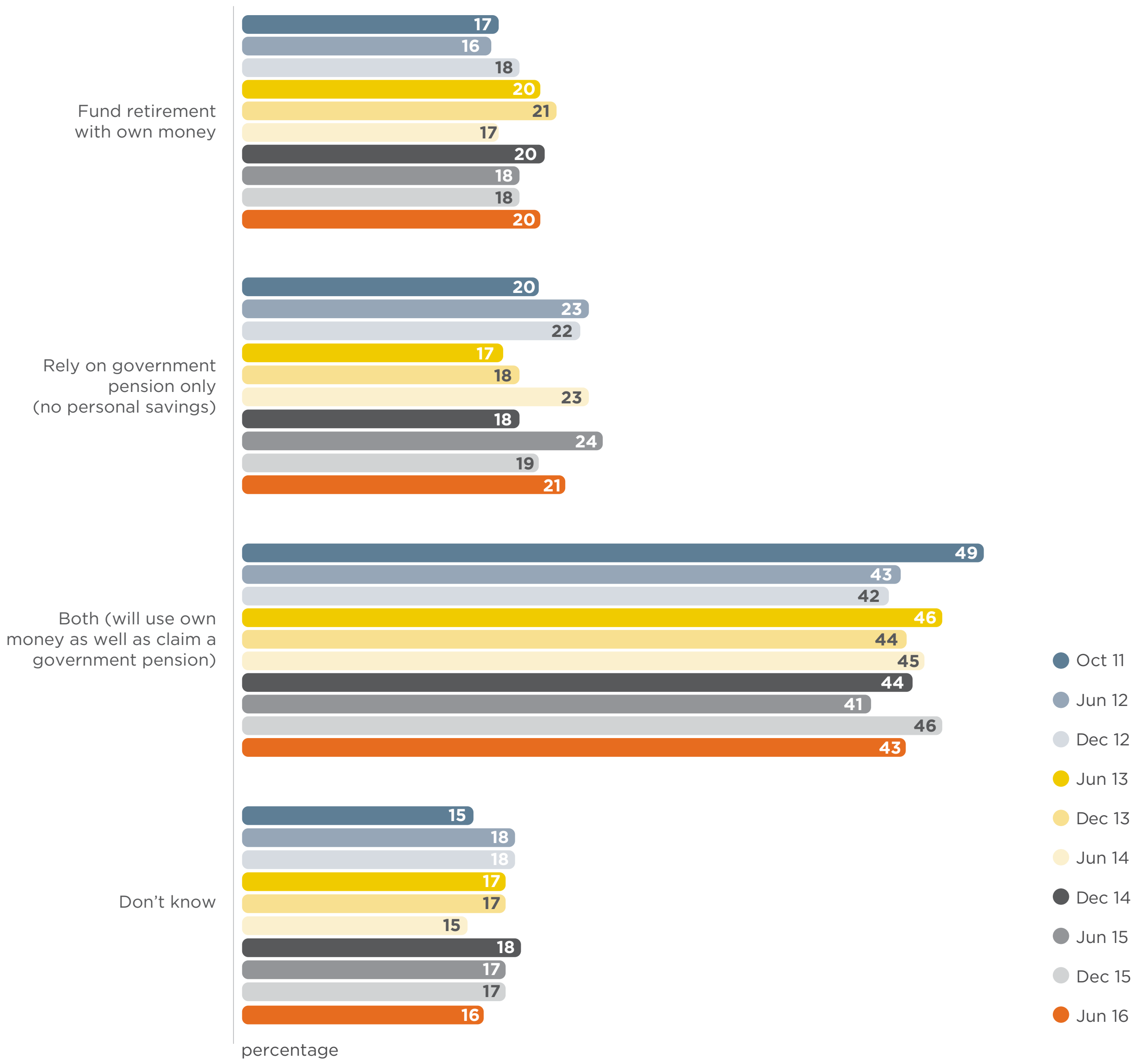

Figure 34 – How will your household fund retirement?

Expected adequacy of income in retirement.

In June 2015, households slightly reduced their expectations of income in retirement.

Households expecting to 'afford essentials and extras' decreased by 2 points to 19%, and households expecting to 'afford essentials and have money left over' also decreased 2 points to 36%.

Meanwhile, households expecting to 'afford the essentials with no money left over' increased by 3 points to 29%.

Superannuation quick facts:

- 25% either don't have a superannuation fund or don't know what type they have.
- 17% of Australians reported 'building wealth for retirement' is a financial goal they're currently actively working towards.

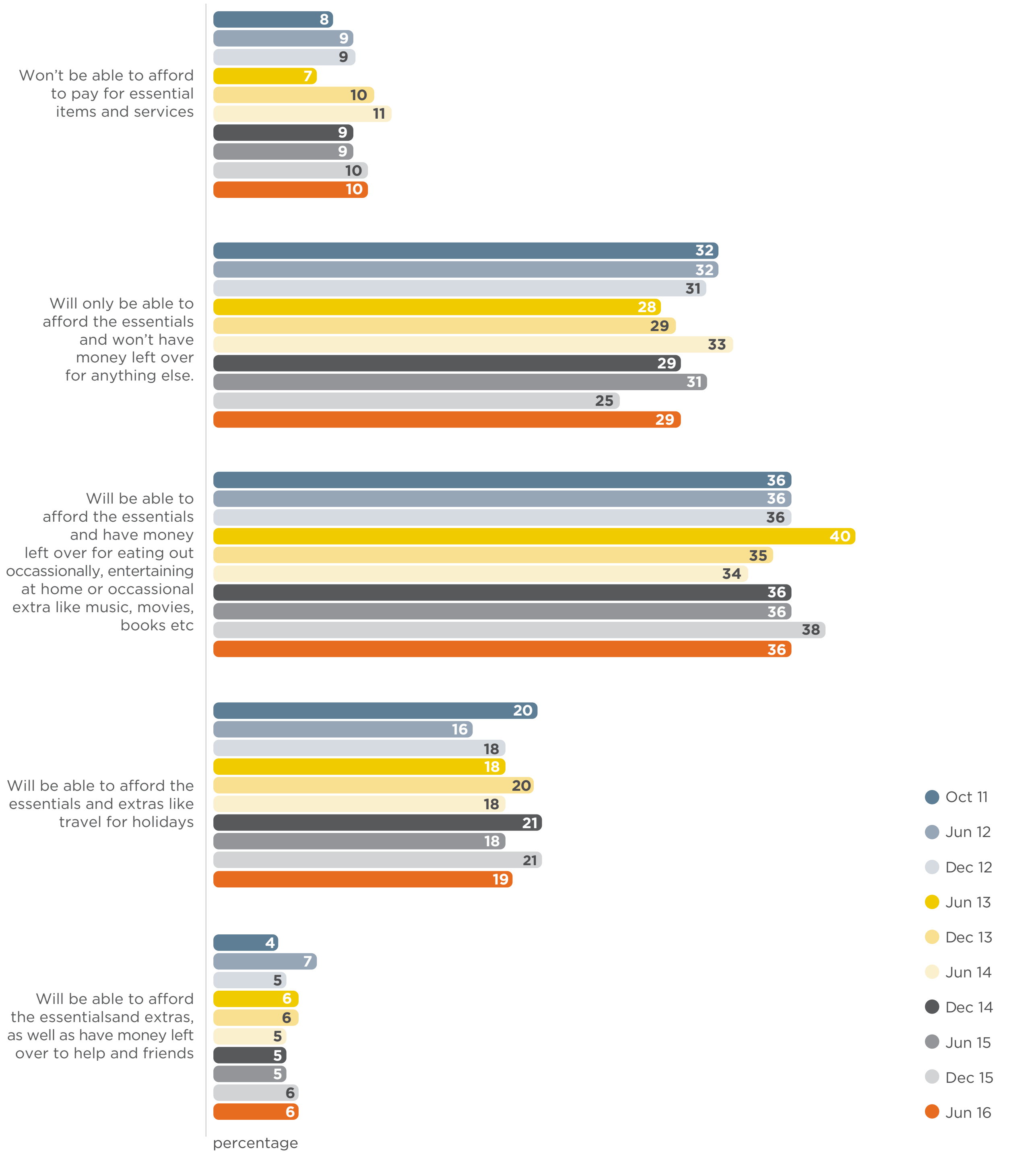

Figure 35 – Expectations for adequacy of income in retirement.

appendix a
household statistics.

06.

	Net Wealth		Household Income
measure	**Household Financial Comfort Index**	**Average Net Wealth**	**Average Household Yearly Income**
Young singles/couples (<35yo) no children	5.55	$247,000	$70,000
Single parents	4.47	$397,000	$68000
Couples with young children	5.46	$408,000	$95,000
Couples with older children	5.44	$673,000	$94,000
Mid-aged singles/couples no children	5.24	$437,000	$93,000
Empty nesters (50+yo)	5.40	$577,000	$68,000
Retirees	5.78	$719,000	$45,000

appendix b methodology.

07.

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

Ten 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 June 2016.

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 academic literature suggested that a number of factors contribute to self-assessment of financial wellbeing and comfort. As such the ME *Household Financial Comfort Index* incorporates 11 measures of how households feel about their financial situation – these include:

- Comfort level with (1) the overall financial situation of the household
- Changes in household financial situation (2) over the past year and (3) anticipated in the next year
- (4) Confidence in the household's ability to handle a financial emergency, 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 ranges as well as actual behaviour (e.g. whether or not their household was able to save money during a typical month).

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