THE CHANGING FINANCIAL PSYCHOLOGY OF AUSTRALIAN HOUSEHOLDS.

INSIGHTS FROM NATIONAL RESEARCH.

HOUSEHOLD FINANCIAL COMFORT REPORT.

SEPTEMBER 2012.

me Bank

BANK FAIRER.

ABOUT ME BANK:

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

SPECIAL THANKS:

ME Bank would like to thank three organisations involved in the design and development of the ME Bank *Household Financial Comfort Report* – Baker Group, DBM Consultants and Economics & Beyond.

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ONE:
FOREWORD.

The *ME Bank Household Financial Comfort Report* provides in-depth and critical insights into the financial situation of Australians based on a survey of about 1500 households.

This *Report* presents the key findings from the second survey conducted in June 2012, following the inaugural survey in October 2011.

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, providing important insights into the changing financial and economic psychology of Australian households.

The *Household Financial Comfort Index* specifically measures:

- overall household financial comfort, by asking respondents to estimate their financial comfort as well as their expectations and confidence across 11 measures, and
- the gap between perceived financial comfort and an objective measure of their actual financial situation.

The *Report* also includes other findings about household savings, investments, debt, living expenses, as well as financial management behaviours and worries.

The latest survey also included questions to provide new data on:

- job security and difficulty finding a job, and
- awareness of increases in the Super Guarantee (SG) and expected impact of SG increases on superannuation.

THE ROAD FROM HERE.

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

The *Household Financial Comfort Report* will be a source of ongoing information to public policy makers, financial institutions and social welfare organisations and will hopefully assist in decisions regarding taxation, superannuation, banking, financial regulation, welfare reform, financial education and other related matters.

THE ME BANK HOUSEHOLD FINANCIAL COMFORT REPORT.

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

TWO:
KEY FINDINGS.

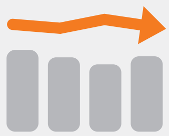
- Australian households are slightly comfortable with their overall financial situation, with current comfort levels similar to those reported when they feel 'occasional stress or worry'.
- Australians overall were feeling more comfortable in June 2012 compared to October 2011 when the inaugural *Household Financial Comfort Report* was conducted.
- Variations exist across household segments with 'Retirees' showing the highest level of household financial comfort and 'Single Parents' having the lowest household financial comfort.
- The significant increase in financial comfort appears to be driven by increases in how comfortable households with children ('Couples with young children', 'Couples with older children' and 'Single parents') are feeling about their financial situation.
- In terms of state variations, there was a substantial recovery in household financial comfort in Queensland since the previous Index in October 2011. In contrast, households in South Australia reported the lowest level of comfort, after a significant deterioration in this latest survey.
- 'Young couples no children' 'Middle-aged couples with no children', 'Couples with young children' and 'Empty nesters (50+yo)' were the least realistic about their financial situation relative to their peers.
- The greatest financial worries of households that had low overall comfort levels relate to their lack of a savings buffer and living costs, while households with high comfort are more likely to be worried about the global economy.
- A majority of Australian households are still struggling to save, with 53% of households not having any cash left over at the end of a typical month.
- Comfort with savings and household income was linked to fears about job security – households that had low overall comfort levels about savings and income were also feeling most insecure about their jobs, including casual workers.
- High household financial comfort was strongly driven by household superannuation. However confidence in self-funded retirement varies across household types and groups with lower confidence are uncertain or pessimistic that changes in SG contribution levels will affect them.
- There was significant variation in financial comfort based on workforce status, with relatively high comfort levels for households with people in 'Full-time paid employment', but significantly lower comfort levels in all other parts of the labour force. 'Casuals' and 'Part-time self-employed' had the lowest levels of comfort for people with jobs, while 'Unemployed' had the lowest levels of comfort.

WHEN ASKED ABOUT THEIR HOUSEHOLD FINANCIAL SITUATION OVER THE LAST YEAR, AUSTRALIANS SAID:

...has gotten better

35%

...is about the same



30%

...has worsened

35%

The proportion of Australians saying their household financial situation has improved, increased 5% to 35% since October 2011 when the inaugural ME Bank *Household Financial Comfort Report* was conducted.

THREE:
ECONOMIC CONTEXT.

Australian households as a whole have continued their more prudent approach to finances during the first half of 2012.

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

- Household savings have remained relatively high, with the saving rate from current household disposable income at about 9.5% in the first half of 2012 – well above the average of the past two decades.
- Growth in household debt has remained subdued – both housing credit for owner-occupied and investment purposes, while other personal loans have declined – especially for equity/shares.
- Households have become more conservative in their investment preferences directing a larger share of their discretionary savings to deposits, while reducing direct equity and other managed fund investments.
- Overall household net worth has continued to decline reflecting small falls in house prices across most capital cities and significant share price falls during the 2011/12 financial year.
- Relatively low and stable unemployment rates in the first half of 2012 (at around 5.25%) – albeit labour market conditions vary across states and regions.
- Financial stress indicators continue to show that the household sector as a whole is coping reasonably well with debt servicing burdens due to continued employment, disposable income gains and relatively low interest rates, despite cost of living pressures. This of course masks a great deal of variation amongst Australians.

"WE ARE DOING FINE. WE HAVE OUR HOME PAID OFF AND INVESTMENT PROPERTIES."

DIMI - MARRIED WITH TEENAGE CHILDREN.

FOUR:
HOUSEHOLD FINANCIAL COMFORT INDEX.

Australian households are slightly comfortable with their overall financial situation, with current financial comfort levels similar to those reported when they feel occasional stress or worry. Australians overall were also feeling more comfortable in June 2012 compared to October 2011 when the inaugural survey was conducted.

As measured by the *Household Financial Comfort Index*, household financial comfort was 5.39 (out of 10) in June 2011 - a significant improvement on the corresponding figure of 5.20 in October 2011 (Fig 1). That is, Australian households as a whole are slightly comfortable with their overall financial situation. Australians report current financial comfort scores consistent with those reported when they felt ‘occasional stress or worry’, rather than when ‘financial problems require significant lifestyle change’.

HOUSEHOLD FINANCIAL COMFORT INDEX.

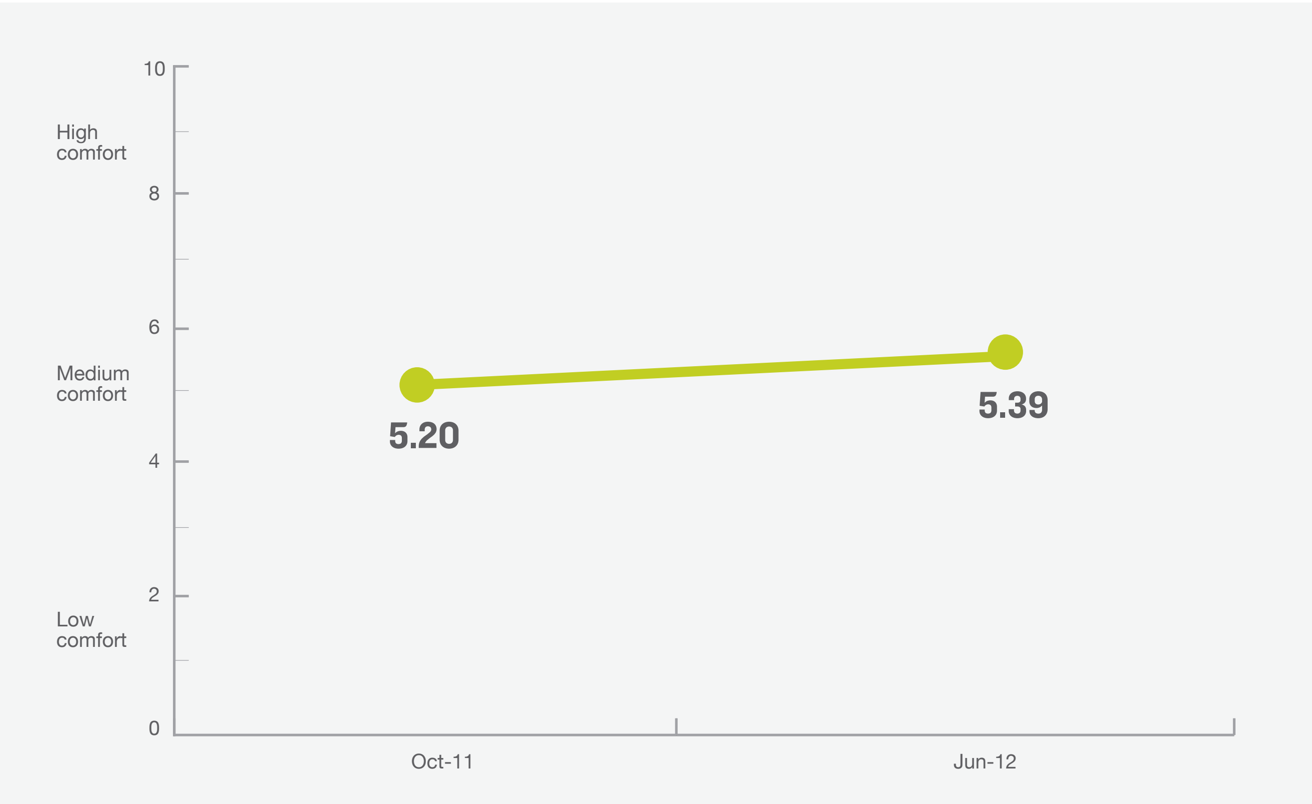


Figure 1: Financial comfort levels of Australians.

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.

VARIATION ACROSS HOUSEHOLD SEGMENTS.

Variation in financial comfort exists across household segments with 'Retirees' showing the highest level of household financial comfort (mean score of 5.82) and 'Single Parents' (mean score of 4.75) having the lowest household financial comfort (Fig 2).

HOUSEHOLD FINANCIAL COMFORT INDEX BY HOUSEHOLD TYPE.

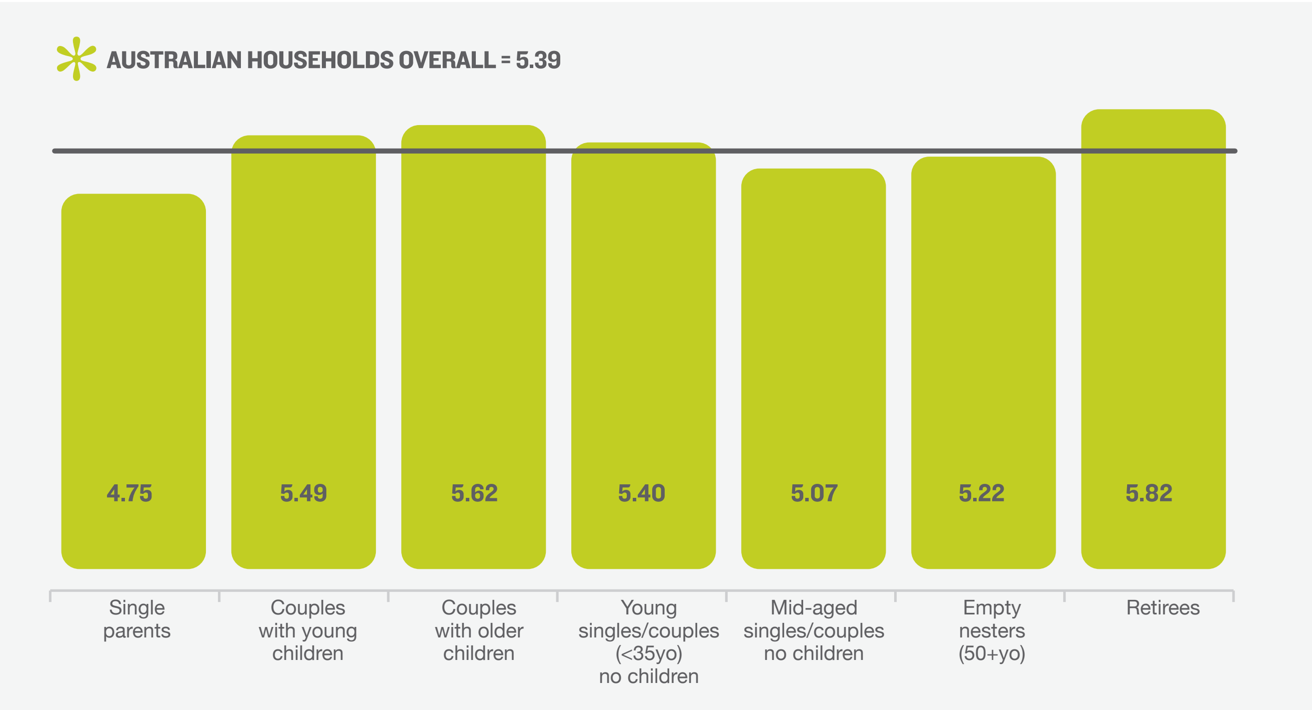


Figure 2: *Household Financial Comfort Index* by Household Type, showing variations in comfort across different household types compared to the overall comfort score of 5.39.

The significant increase in the *Household Financial Comfort Index* (Index of 5.20 in October 2011 up to 5.39 in June 2012) was largely due to increases in how comfortable households with children are feeling about their financial situation.

The *Household Financial Comfort Index* significantly increased from 5.06 in October 2011 to 5.49 in June 2012 for 'Couples with young children', with improvements in most components of their comfort index and in particular their cash savings.

Similarly, households comprised of 'Single Parents' (Index of 4.45 in October 2011 up to 4.75 in June 2012) and 'Couples with older children' (Index of 5.29 in October 2011 up to 5.62 in June 2012) showed slight increases in financial comfort.

This uplift in comfort for households with children may reflect the increased government payments that came through in the June quarter 2012. These payments were announced in the May Federal Budget as a part of the Government's 'Benefits from the Boom' package and focused on increases to family payments, a School kids Bonus and additional support through Parenting Payments.

Slight decreases were noted among 'Middle-aged singles/ couples no children' (Index of 5.42 in October 2011 down to 5.07 in June 2012) and 'Empty nesters (50+yo)' (Index of 5.35 in October 2011 down to 5.22 in June 2012). The financial comfort levels were broadly unchanged for 'Young singles/ couples (<35yo) no children' (Index of 5.44) and 'Retirees' (Index of 5.85) – with the latter household type continuing to record the highest comfort level.

"CURRENTLY HAPPY WITH THE SITUATION BUT WOULD LIKE TO BE ABLE TO SAVE A BIT BETTER, TO HAVE MORE SAVED TOWARDS RETIREMENT."

CASSANDRA - MARRIED, CHILDREN IN PRIMARY SCHOOL.

VARIATION ACROSS THE LABOUR FORCE.

There is a great deal of variation in financial comfort reported by different parts of the workforce. According to the Index, 'Casuals' (5.07) and 'Part-time self-employed' (4.87) had the lowest levels of comfort for people with jobs, while relatively high comfort levels were reported by 'Full-time paid employment' (5.65). 'Unemployed' (4.40) had the lowest levels of comfort (Fig 3).

HOUSEHOLD FINANCIAL COMFORT INDEX BY WORKFORCE STATUS.

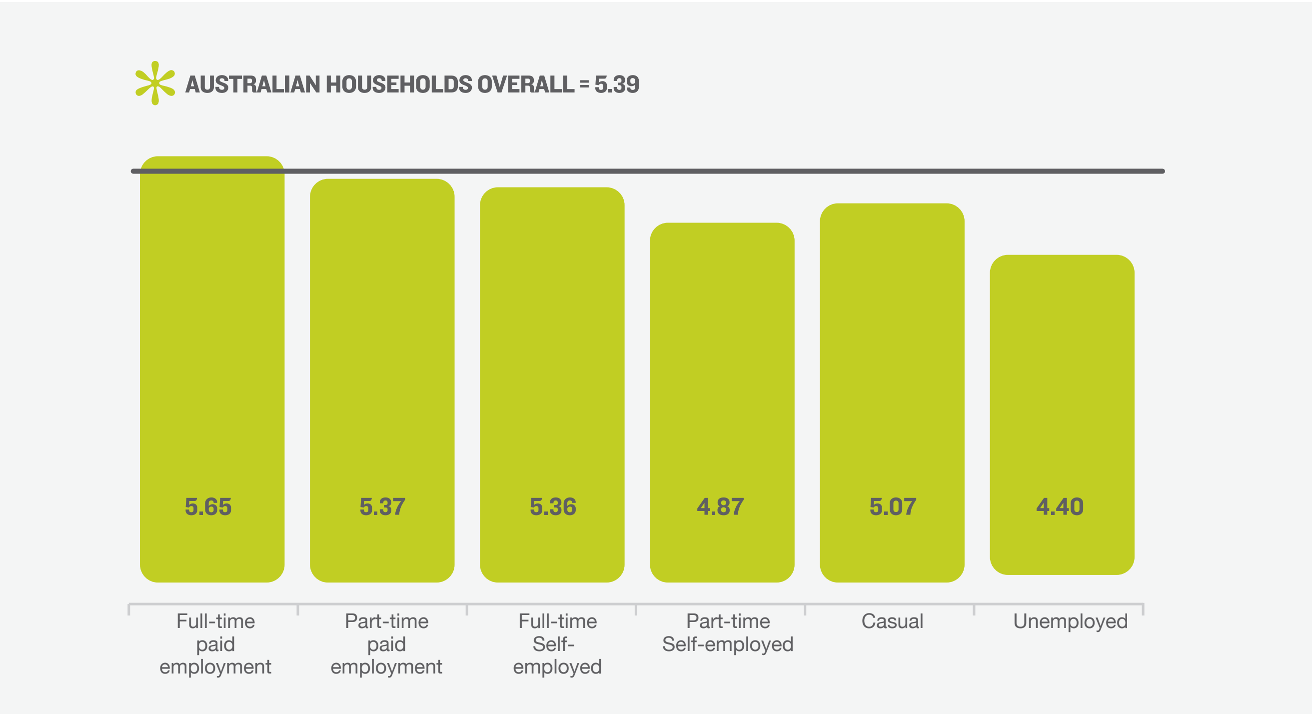


Figure 3: *Household Financial Comfort Index* across the workforce, showing variations in comfort across parts of the labour force compared to the overall comfort score of 5.39.

VARIATION ACROSS STATES AND TERRITORY.

State-level variation in the *Household Financial Comfort Index* showed substantial recovery in Queensland since the previous Index in October 2011. In contrast, South Australia reported the lowest level of comfort, with a significant deterioration in the latest survey.

The ME Bank Financial Comfort Index for Queensland was 5.37 in June 2012 – much the same as for Australia as a whole – compared to 4.81 in October 2011 with improvements reported across most of the 11 measures of their index, notably current 'household income'. The lower level of comfort in Queensland in 2011 appears to have been temporary and associated with the earlier negative impacts of widespread flooding and Cyclone Yasi during the previous summer.

HOUSEHOLD FINANCIAL COMFORT INDEX BY STATE AND TERRITORY.

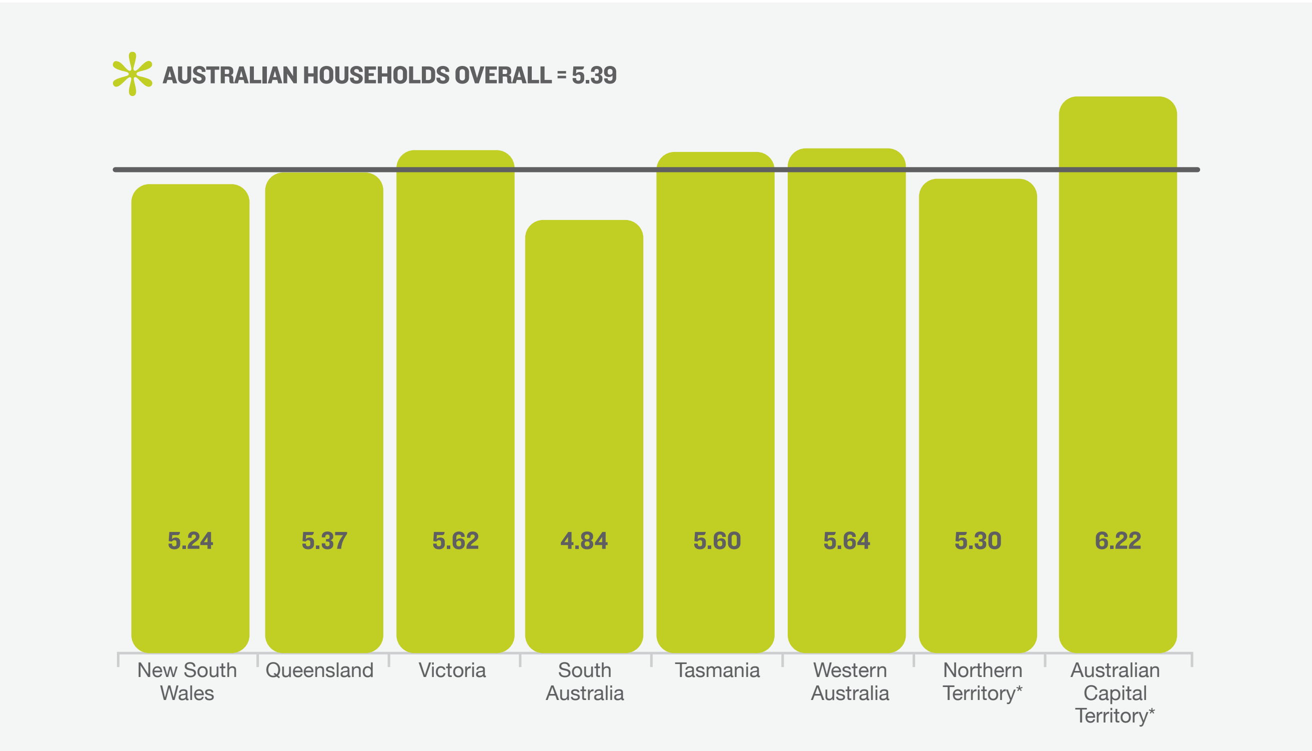


Figure 4: The *Household Financial Comfort Index* by State and Territory, compared to the overall household average of 5.39. Asterisks indicate segments with small sample sizes.

With respect to State and Territories (Fig 4):

- There were slight increases in the *Household Financial Comfort Index* for Tasmania (Index up from 5.17 in October 2011 to 5.60 in June 2012) and to a lesser extent Victoria (Index up from 5.41 to 5.62) – with households in both States a bit more comfortable than the average for Australia.
- Financial comfort in South Australia had declined from an Index of 5.28 in October 2011 to 4.84 in June 2011 – the lowest of any State and Territory – mainly reflecting a deterioration in many components of the comfort but especially in household income. For this *Report*, we also explored perceptions of job security and ease of finding another job within two months of becoming unemployed. We found that while South Australians were similar to the national result with respect to how they felt about their job security, they were most likely to say that it would be difficult to find another job (58% said it would be difficult compared to 52% nationally and 36% of Western Australians), suggesting a relationship between lower financial comfort in South Australia and perceived difficulty in finding a job.
- The *Household Financial Comfort Index* remained fairly stable for New South Wales (Index up from 5.15 to 5.24) and Western Australia (Index up from 5.57 to 5.64), with the former significantly less comfortable than Australia as a whole and the latter significantly more comfortable.

"WE'RE SO CLOSE TO RETIREMENT AGE AND WE FEEL INSECURE ABOUT THE FUTURE."

MONICA - MARRIED, NO CHILDREN, SOUTH AUSTRALIA.

"I AM QUITE COMFORTABLE. I CAN AFFORD ALL OF THE THINGS THAT I WANT AND NEED DUE TO A NEW JOB AND AN INCREASED WAGE."

ALEXANDRA - SINGLE, WESTERN AUSTRALIA.

FIVE:
A MAJORITY OF HOUSEHOLDS ARE REALISTIC ABOUT THEIR FINANCIAL SITUATION.

Analysis of how comfortable Australian households felt about their financial situation along with their reported financial details (wealth, income and debt) showed that 'Young couples with no children' 'Middle-aged couples with no children', 'Couples with young children' and 'Empty Nesters (50+yo)' were the least realistic about their financial situation relative to their peers.

Households' perceived comfort levels were compared to their expected financial comfort based on their objective financial data collected in the survey. Households are classified relative to their peers based on a tendency to:

- overestimate comfort (that is, the actual comfort level is higher than would be expected from the financial situation of the household),
- have realistic comfort (that is, the actual comfort level is the same as would be expected from their financial situation), or
- underestimate comfort (that is, actual comfort level is lower than would be expected from their actual financial situation).

It is important to note that we have not assessed whether or not the financial situation of a household provides a sustainable and reasonable standard of living; instead, we have focused on the propensity of household segments to be characterised by an overestimate or underestimate of their financial comfort based on objective measures of their net wealth, income and debt relative to their peers.

COMPARING REPORTED HOUSEHOLD COMFORT LEVEL WITH EXPECTED COMFORT.

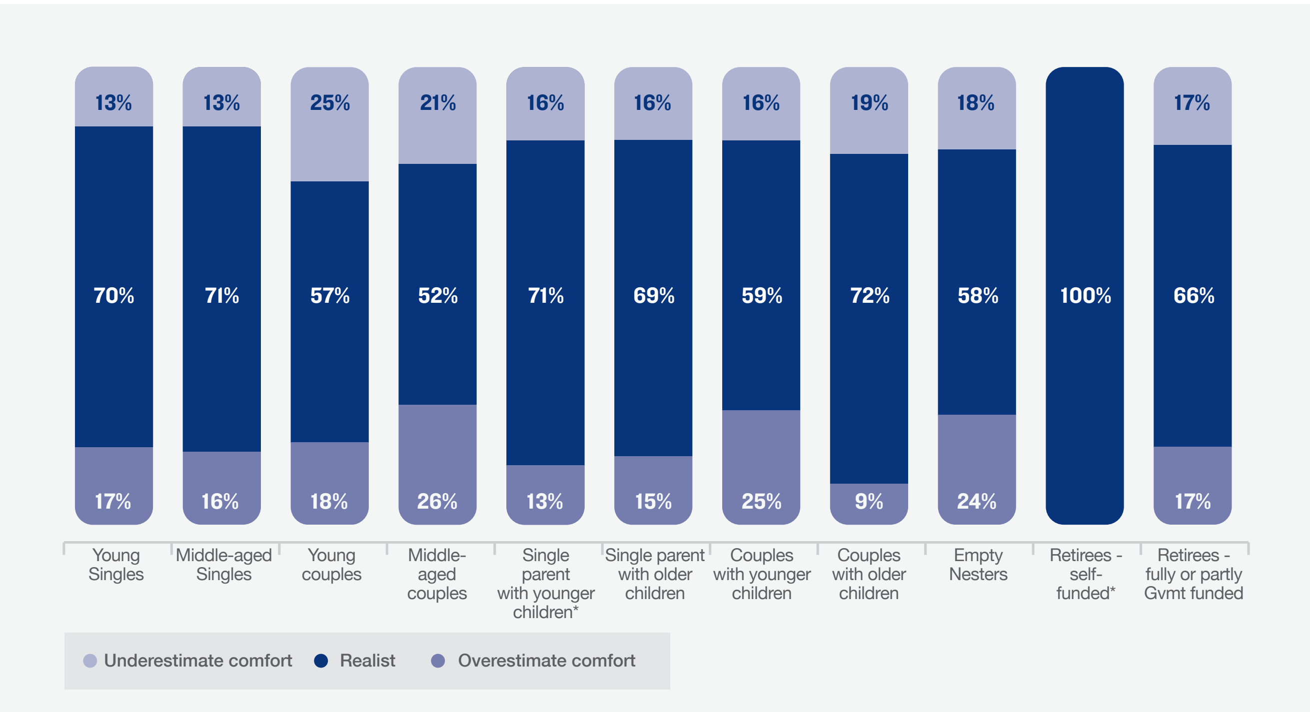


Figure 5: The gap between households' reported comfort and expected comfort based on their actual financial situation. Each household type is divided between those who underestimate, overestimate or have realistic comfort and is compared to their peers. Asterisks indicate small sample sizes.

> "I AM UNSURE OF HOW MUCH INCOME TO EXPECT WHEN I DO RETIRE AND FIND IT DIFFICULT TO ESTIMATE."
>
> PATRICIA - MARRIED, NO CHILDREN.

- A majority across all types of households were realistic about their financial situation – albeit there were a significant proportion of households that either over- or under- estimated their financial situation relative to their peers.
- 'Young couples with no children' (57% realists), 'Middle-aged couples with no children' (52% realists) and 'Empty Nesters (50+yo)' (58% realists) had the lowest proportion of realists. Within these segments, financial comfort levels tended not to match what was expected given their financial situation.
  - There was a skew toward overestimating comfort for 'Middle-aged couples with no children', 'Couples with young children' and 'Empty nesters (50+yo)'.
  - A greater proportion of 'Young couples with no children' (25%) underestimated their financial comfort rather than overestimated it (18%).
- As per the previous ME Bank *Household Financial Comfort Report*, 'Self-funded retirees' were most realistic in that their financial comfort levels matched what would be expected for the segment given their actual financial situation.

Over and underestimation of comfort may be linked to a need for financial literacy and education, with higher literacy and education providing a better ability to accurately estimate financial comfort or access tools and/or advice to provide more accurate estimates.

INTEREST, CONTROL AND SELF-SUFFICIENCY OF FINANCES.

A majority of Australian households report taking an interest in their finances (70% strongly to somewhat agree) but 35% of households do not feel knowledgeable and 24% somewhat or strongly agree that they have little control over their financial situation. These results highlight that there is a segment of Australian households that would benefit from financial literacy education.

Take a strong interest in their finances	**70%**
Knowledgeable, educated and informed about finances	**65%**
Have little control over their financial situation	**24%**

SIX:

HOUSEHOLD COMFORT REMAINS LOWEST WITH SAVINGS AND INVESTMENTS.

Comfort levels with savings and investments had increased since October 2011, yet they were still the areas that households felt least comfortable with.

The greatest financial worries of households with low comfort levels relate to their lack of a savings buffer and living costs, while households with high comfort are more likely to be worried about the global economy.

COMFORT LEVELS ACROSS DIFFERENT FINANCIAL SITUATION MEASURES.

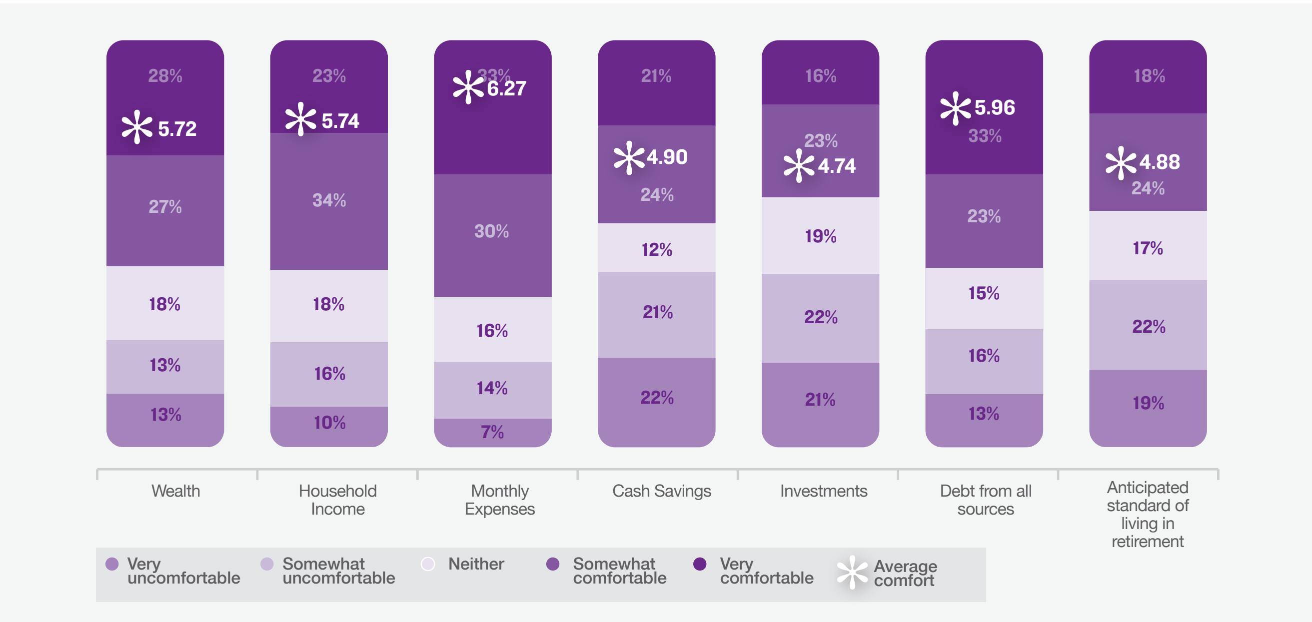


Figure 6: Seven of the 11 individual measures that make up the *Household Financial Comfort Index*, including level of comfort with each measure and the average comfort score for each measure.

If we focus on the seven of the 11 measures of the *Household Financial Comfort Index* most relevant to the household balance sheet (Fig 6), we see that comfort levels remained highest in June 2011 with respect to:

- Managing and paying 'monthly expenses' (63% of Australian households were somewhat or very comfortable). Comments from respondents suggested that there was greater concern about how rising prices would influence their ability to save, rather than their ability to manage their expenses per se; and
- Their current level of 'debt from all sources' (56% of Australian households were somewhat or very comfortable). The findings also showed that debts were thought to be manageable when savings buffers were not eroded.

As in October 2011, comfort levels remained lowest for:

- Current cash savings (overall, 22% of respondents were very uncomfortable with their household's level of cash savings); and
- Current level of investments (including investment property, superannuation, shares, bonds and managed funds) – 21% of respondents reported being very uncomfortable.

Comfort with most measures of the household finances mentioned in figure 6 above had increased from October 2011 to June 2012, with average comfort (Fig 7) having:

- Increased by 2% to 3% for household net wealth, household income, monthly expenses, and debt from all sources; and
- Increased by 6% to 7% for cash savings and investments.

PERCENTAGE CHANGE IN HOUSEHOLD COMFORT LEVELS BETWEEN OCTOBER 2011 AND JUNE 2012.

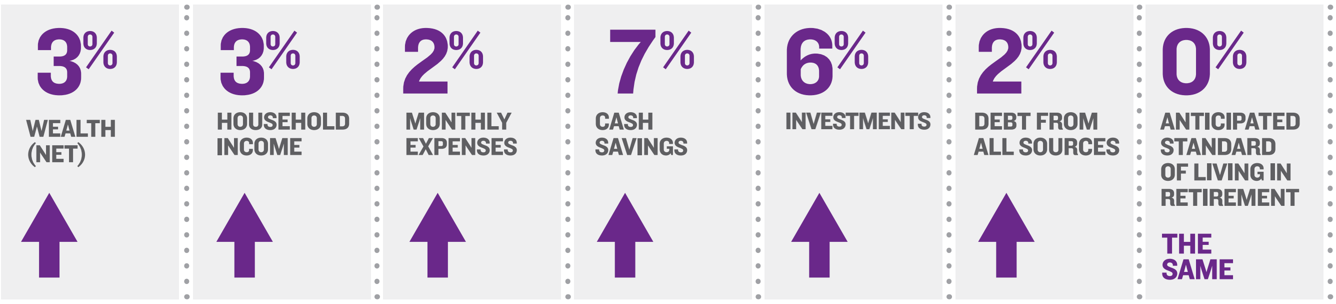


Figure 7: Percentage change in household comfort levels for seven of the 11 individual measures that make up the index.

Despite there being greater percentage increases in average comfort with cash savings and level of investments, these aspects of the household financial position remained the areas with which Australian households had the lowest levels of comfort.

There was no change in the average comfort with respect to the anticipated standard of living in retirement (average of 4.88) with 19% of respondents anticipating a very uncomfortable standard of living in retirement.

"VALUE OF INVESTMENTS HAVE DECREASED OVER THE LAST 5 YEARS WITH NO SIGHT OF RECOVERY OVER THE NEXT 1-2 YEARS."

MINNIE - MARRIED, NO CHILDREN.

Low comfort levels with cash savings and investments were likely driven by (Fig 8):

- Concerns with rising costs for necessities especially among households with low levels of financial comfort; and
- Uncertainty about how the global economy would affect Australia especially among households with high financial comfort.

TOP THREE FINANCIAL WORRIES AMONG AUSTRALIAN HOUSEHOLDS.

HOUSEHOLDS OVERALL (INDEX =5.39)	LOW FINANCIAL COMFORT HOUSEHOLDS. (INDEX 0-4)	HIGH FINANCIAL COMFORT HOUSEHOLDS (INDEX >8)
60% Cost of necessities (e.g. fuel, utilities, groceries)	**80%** Cost of necessities (e.g. fuel, utilities, groceries)	**39%** How the global economy will affect Australia
40% Level of savings/ cash on hand	**74%** Being able to make ends meet	**38%** Cost of necessities (e.g. fuel, utilities, groceries)
37% How the global economy will affect Australia	**63%** Level of savings/ cash on hand	**63%** Ability to maintain lifestyle in retirement/ standard of living in retirement

Figure 8: The top three financial worries of all Australian households compared to those with low financial comfort and those with high financial comfort. Shows the percentage of households who rated the items as a ‘worry’.

> **“THE EVER RISING COST IN UTILITIES IS PUTTING MORE AND MORE PRESSURE ON AN ALREADY TIGHT BUDGET, WITH NO INCREASE TO INCOME TO OFFSET THE INCREASE IN COSTS.”**
>
> **ELIZABETH - MARRIED WITH PRESCHOOL CHILDREN.**

SEVEN:
A MAJORITY OF AUSTRALIANS ARE STILL STRUGGLING TO SAVE.

A majority of Australian households are still struggling to save, with 53% of households not having any cash left over at the end of a typical month.

Across all Australian households:

- 53% of households are not saving with 43% of survey respondents breaking even each month, spending all of their income and no more; and the remaining 10% spending more than they earned by drawing on savings, loans, credit or equity in their home.
  - While the percentage of households spending more than they earned each month remained consistent with the first *Household Financial Comfort Index*, the amount spent each month above income had increased from an average of $541 per month (almost $6,500 per annum) to $665 per month (almost $8,000 per annum).
- 47% of survey respondents spent less than they earned each month with an average of $885 per month saved (or approximately $10,500 per annum). This was similar to the results noted in October 2011 where 49% of households saved an average of $850 per month.
  - Cash left over at the end of the month was most common among 'Middle-aged singles/couples no children' (52%), 'Retirees' (49%) and 'Young singles/couples (<35yo) no children' (49%).

'Retirees' and 'Couples with older children' were most comfortable with their level of cash savings while 'Single Parents' were least comfortable (Fig 9) – likely a function of their current ability to save. Respectively, 49% and 48% of 'Retirees' and 'Couples with older children' spent less than they earned in a typical month whereas a lower proportion of 'Single parents' (35%) spent less than they earned each month.

"I BUDGET ALL MY MONEY AND DON'T OVER SPEND ON ANYTHING. I MAKE MY OWN CLOTHES AND...FOOD... I MANAGE WHEN I CAN AND BELIEVE I WILL GET ALONG FINE IN THE FUTURE."

SANDRA - SINGLE, NO CHILDREN.

The ability of households to save was also affected by employment status. ‘Casual’ workers (48%) were more likely to spend all their income on essential household expenses with nothing left over than ‘Full-time’ (36%) or ‘Permanent part-time’ (45%) employees. Only 5% of ‘Casual’ workers were likely to be able to save any money after paying for essentials, compared to 15% of ‘Full-time’ employees.

COMFORT WITH CASH SAVINGS BY HOUSEHOLD TYPE.

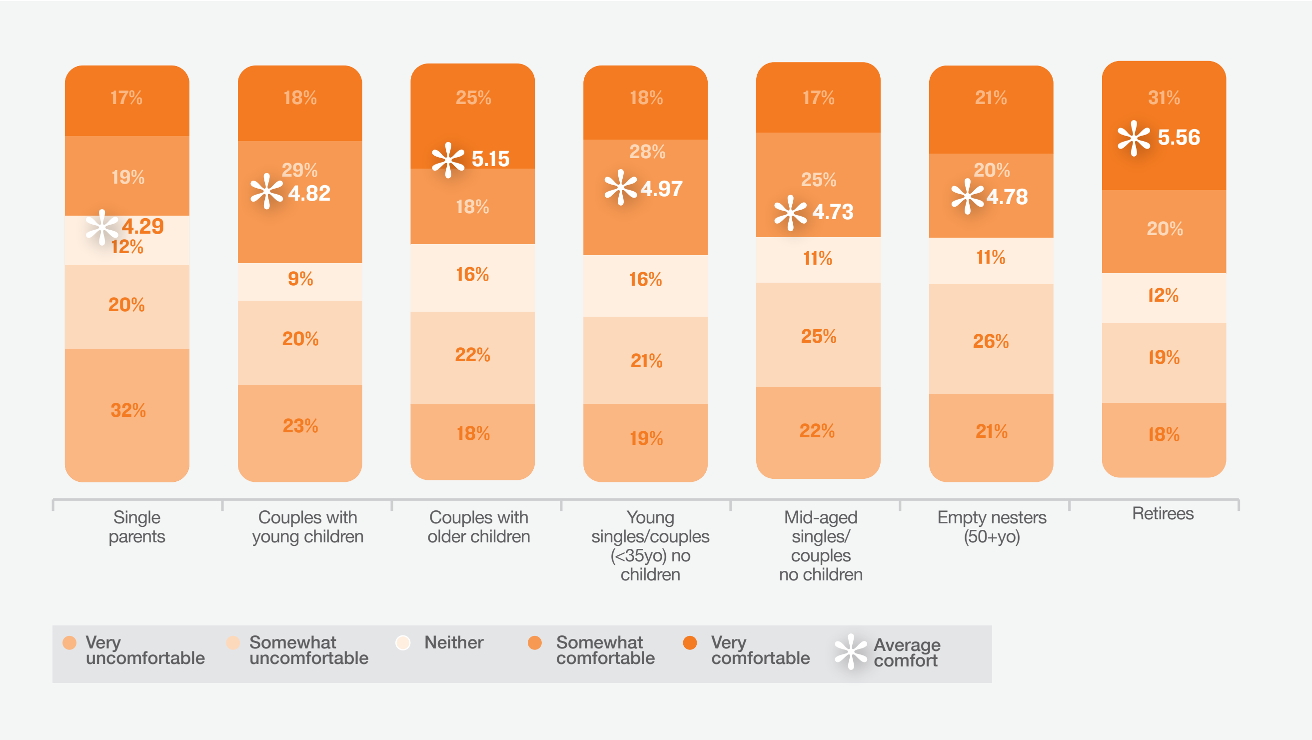


Figure 9: One of the measures of financial comfort – cash savings. Shows level of comfort with ‘cash savings’ and the average comfort score for each household type.

“I WORRY THAT MY HUSBAND WILL LOSE HIS JOB AND WE DON’T HAVE ANY SAVINGS TO SUPPORT US.”

ALEXIS - MARRIED WITH PRESCHOOL CHILDREN.

A savings buffer is critical if households lost their income – and it is those households that have low comfort with regards to savings that also report that they would struggle to manage if they lost their income.

The survey found that (Fig 10):

- 43% of 'Single Parents' would not be able to maintain their lifestyle for a fortnight;
- 'Retirees' and 'Couples with older children' were most likely to be able to maintain their lifestyle for six months or more (36% and 31%, respectively); and
- 'Empty nesters (50+yo)' reported a high likelihood of being able to maintain their lifestyle for six months or more (29%) despite also having one of the lowest comfort levels with their cash savings – perhaps reflective of this segment's focus on saving for retirement.

ABILITY TO MAINTAIN LIFESTYLE IF LOSE MAIN SOURCE OF INCOME.

Household Type	Would be able to maintain lifestyle for…	
	LESS THAN A FORTNIGHT	6 MONTHS OR MORE
SINGLE PARENTS	43%	11%
COUPLES WITH YOUNG CHILDREN	20%	24%
COUPLES WITH OLDER CHILDREN	16%	31%
YOUNG SINGLES / COUPLES (<35YO) NO CHILDREN	23%	17%
MIDDLE-AGED SINGLES / COUPLES NO CHILDREN	23%	21%
EMPTY NESTERS (50+YO)	14%	29%
RETIREES	9%	36%

Figure 10: Ability to maintain lifestyle if lose main source of income.

EIGHT:
COMFORT WITH SAVINGS AND HOUSEHOLD INCOME IS LINKED TO FEARS ABOUT JOB SECURITY.

The households with the lowest comfort levels regarding cash savings were also those households with low comfort levels with respect to their household income:

- Highest comfort levels with household income were reported by 'Couples with older children' (6.02), 'Couples with young children (5.97), and 'Retirees' (6.02) (Fig 11).
- 'Empty nesters (50+yo)' (5.57) and 'Young singles/couples (<35yo) no children' (5.44) had intermediate levels of comfort with their household income; and
- 'Middle-aged singles/couples no children' (5.26) and 'Single Parents' (5.12) had the lowest comfort with household income.

COMFORT WITH HOUSEHOLD INCOME - BY HOUSEHOLD TYPE.

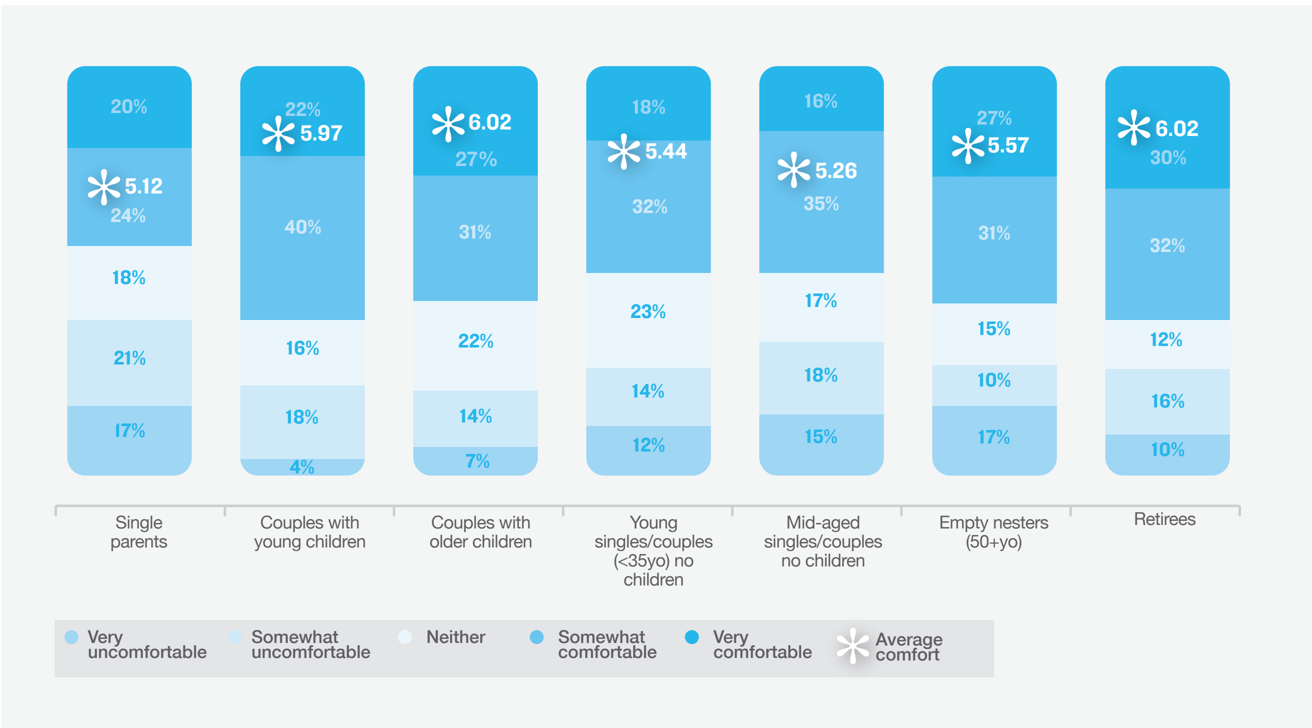


Figure 11: One of the 11 measures of financial comfort – comfort with household income. Shows level of comfort with household income and the average comfort score for each household type.

From the perspective of workforce status, households with 'Casual', 'Part-time workers' and 'Unemployed' had lower comfort levels regarding their household income (Fig 12).

- 'Casuals' (5.23) and 'Part-time self-employed' (4.87) had the lowest levels of comfort among those who are employed. 'Unemployed' (3.93) had the lowest levels of comfort among all groups surveyed; and
- Highest comfort levels with household income were reported by those in 'Full-time paid employment' (6.05).

COMFORT WITH HOUSEHOLD INCOME - BY WORKFORCE STATUS.

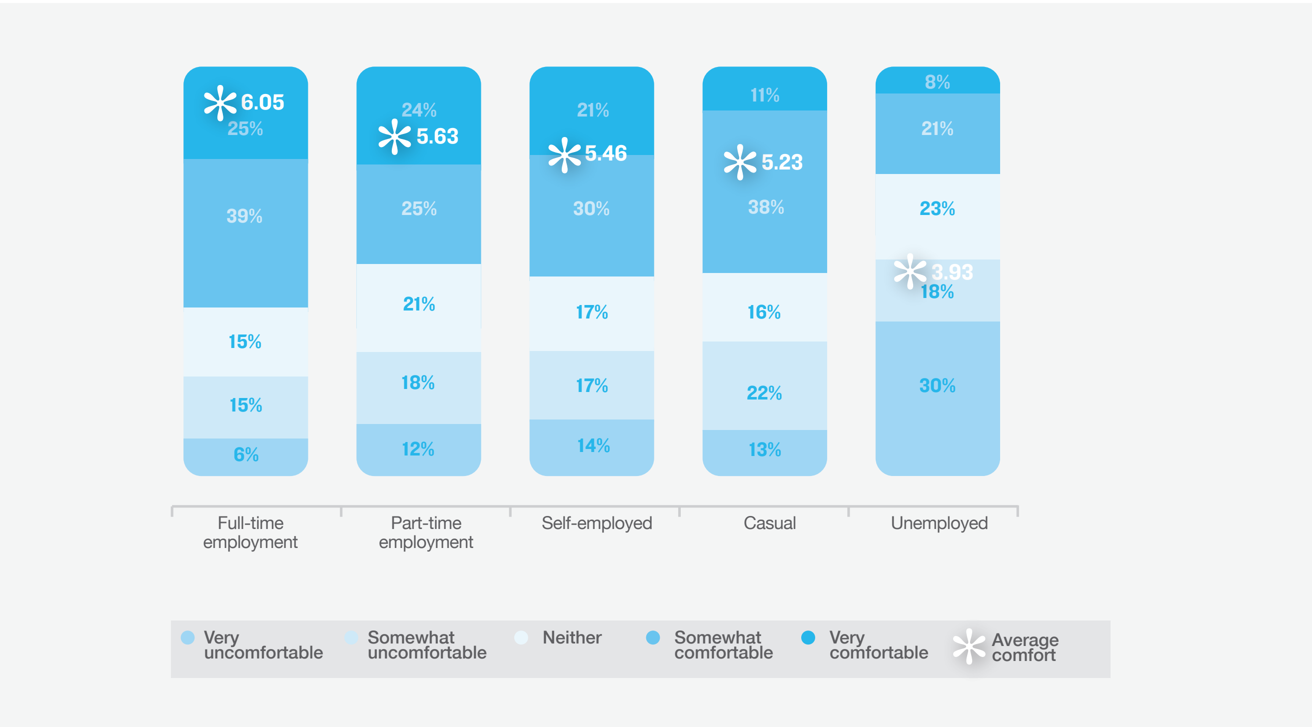


Figure 12: One of the 11 measures of financial comfort – comfort with household income. Shows level of comfort and the average comfort score for each employment category.

JOB SECURITY.

While 72% of respondents overall felt secure in their current job, there were higher levels of job insecurity among the household types with low comfort levels especially regarding household savings and income (Fig 13). Both 'Single parents' and 'Casual' workers reported significantly higher levels of job insecurity.

Furthermore 52% of respondents reported that they would have difficulty in finding another job within two months if they became unemployed.

With respect to job security and re-employability:

- The segments most likely to report that they were somewhat or very insecure about their job were 'Single Parents' (45% insecure) and 'Middle-aged singles/couples with no children' (31% insecure).
- Overall 'Middle-aged singles/ couples with no children' were more optimistic that they would be able to find a job within two months of becoming unemployed – 57% thought it would be difficult compared to 66% of 'Single Parents'.
- While 'Empty nesters (50+yo)' reported an intermediate level of concern for the security of their job relative to other household types (24% were very to somewhat insecure), they were most likely of all segments to say that it would be difficult to find another job - 79% of 'Empty nesters (50+yo)' reported that it would be difficult to find another job within two months if they became unemployed.
- In contrast, 'Couples with young children' and 'Young singles/couples (<35yo) no children' were most optimistic about their job security and being able to find a new job within two months of becoming unemployed.

	Single parent	Couple with young children	Couple with older children	Young singles/ couples no children	Middle aged singles/ couples no children	Empty nesters	Overall
JOB INSECURITY	45%	19%	23%	22%	31%	24%	25%
DIFFICULTY FINDING A NEW JOB WITHIN TWO MONTHS	66%	38%	57%	43%	56%	79%	52%

Figure 13: Shows the percentage of people from different household types, who think their job is 'somewhat or very insecure', and the percentage who think it would be 'somewhat or very difficult to find a new job within two months of becoming unemployed'.

"OUR JOBS ARE SECURED FOR NOW AND WE EARN ENOUGH AT THE MOMENT TO SUPPORT OUR TEENAGE CHILDREN."

PAULA - MARRIED WITH TEENAGE CHILDREN.

In terms of job security by workforce status:

- Over 40% of all casual workers felt very insecure (16%) in their job and a further quarter of casual workers felt somewhat insecure. Furthermore 66% of casual workers expected they would have difficulty in finding another job within two months if they become unemployed – including over half expected finding a new job to be very difficult
- In contrast, only 4% of 'Full-time employees' felt very insecure in their jobs and a further 20% felt somewhat insecure. A bit under half of 'Full-time employees' thought they would have difficulty – including 20% expecting it to be very difficult.

While a small majority (52%) of respondents expect to have difficulty in finding another job, a third of Australians indicate that they are willing to move interstate for a job, and 45% are unwilling. About half of people with children and to a greater extent 'Empty nesters (50+yo)' are unwilling to move interstate for a job. 'Young singles/couples (<35yo) no children' (44%) and 'Middle-aged singles/couples with no children' (42%) are more willing to move interstate.

NINE:

FINANCIAL COMFORT DRIVEN BY SUPERANNUATION AND HOME.

The *Household Financial Comfort Index* indicates that high household financial comfort was strongly driven by household superannuation and home property value. However confidence in self-funded retirement varies across household types with segments with lower confidence uncertain or pessimistic that changes in SG contribution levels will affect them.

An examination of the individual financial aspects that make up wealth suggested that the value of major household assets (including superannuation savings, and to a lesser degree, main property value) are key drivers of higher financial comfort (Fig 14).

These patterns were also observed in the inaugural survey with high (>8) comfort levels observed for households with super balances of greater than $200,000. Main property is also a driver of financial comfort but the relationship from medium to high comfort levels is flatter than for household superannuation balance. For other assets, the relationship was flatter across low, medium and high comfort levels. In terms of debt, a low level of both mortgage and non-mortgage debts do not have a major impact on financial comfort.

Compared to their superannuation and home value, household income had a modest positive impact on the level of financial comfort.

RELATIONSHIP BETWEEN HOUSEHOLD FINANCIAL COMFORT AND FINANCIAL ASPECTS.

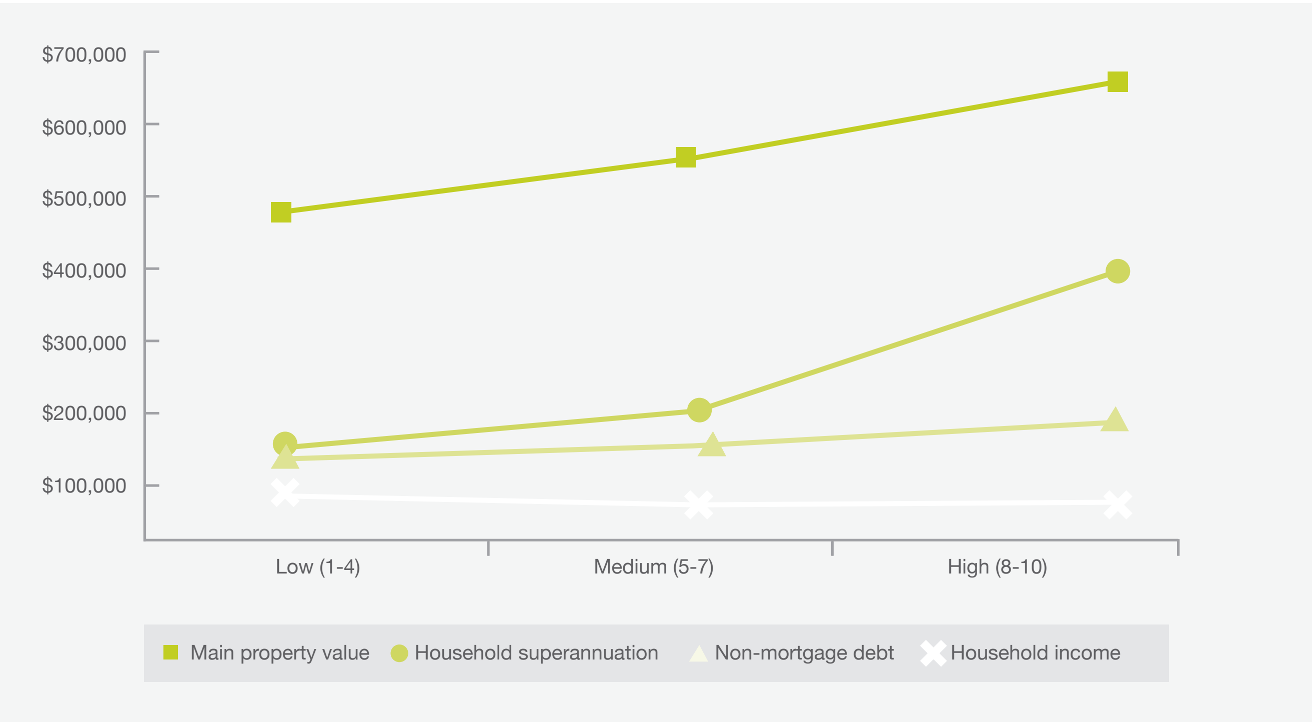


Figure 14. Shows the strength of the relationship between financial comfort and four different measures of household comfort: main property value; household superannuation; non-mortgage debt; household income. A steeper line indicates a stronger relationship.

During the June 2012 survey, we explored how confident households were in funding their retirement with their own money – 35% of Australian households were very or somewhat confident that they would be able to fund their retirement with their own money.

Among household types:

- ‘Empty nesters (50+yo)’ and ‘Single Parents’ were least confident (Fig 15) in their ability to fund their retirement with their own money.

> **“MY POSITIVE IS MY PARTNER’S JOB SECURITY AND HER SUPERANNUATION FUND IS VERY GOOD AND GIVES US PEACE OF MIND.”**
>
> **KEVIN - MARRIED WITH NO CHILDREN.**

CONFIDENCE IN FUNDING RETIREMENT WITH OWN MONEY.

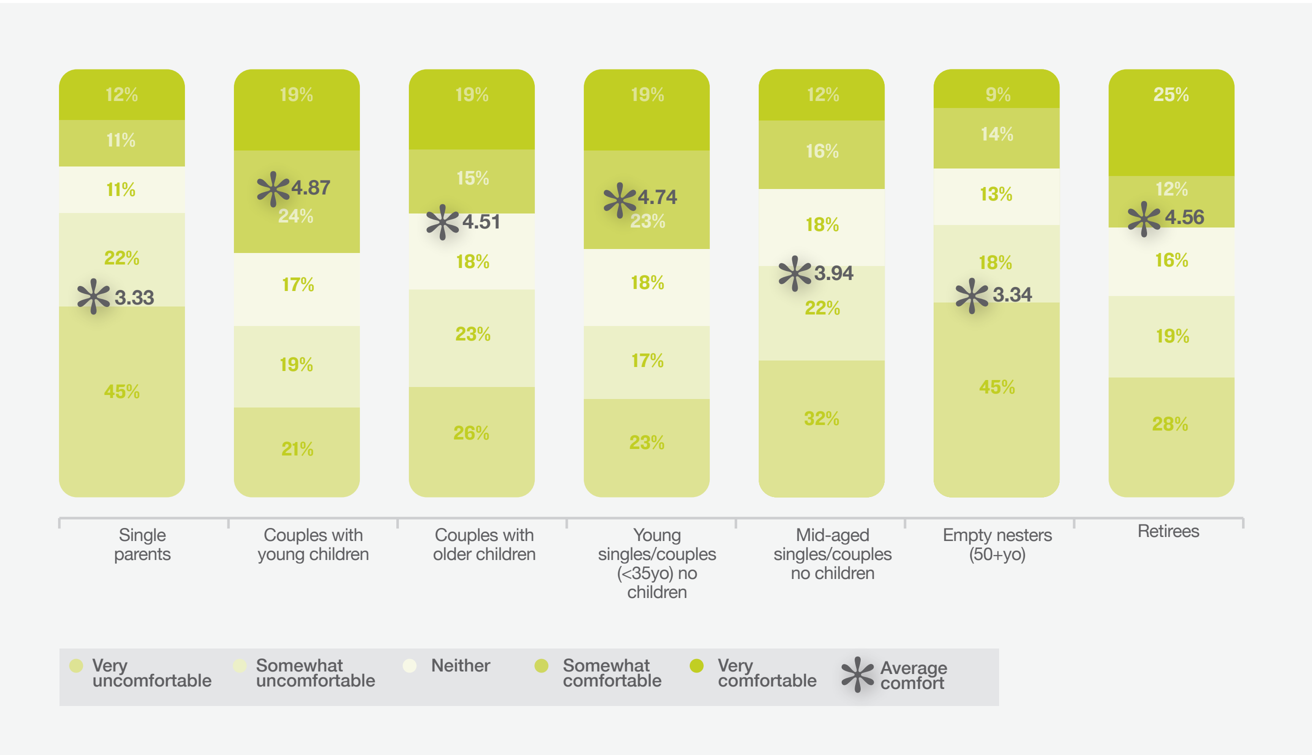


Figure 15: Shows one of the measures of financial comfort – confidence in funding retirement with your own money – including level of confidence and the average comfort score for each household type.

AWARENESS AND IMPACT OF INCREASES IN THE SUPERANNUATION GUARANTEE.

Among overall respondents, 43% reported that they were aware that the Government recently legislated increasing Superannuation Guarantee (SG) contributions from 9% to 12% by 1 July 2019. In general, older respondents were more likely to be aware of the recent changes to the SG (Fig 16).

The household segments most likely to be aware of the changes to the SG were 'Retirees' (63% aware), 'Empty nesters (50+yo)' (49% aware) and 'Couples with older children' (49% aware). Household segments characterised by younger Australians were less likely to be aware of the changes to the SG but those aware were more likely to say it would make a big difference to their super outcome than older households.

	AWARENESS OF SG INCREASE	THINK SG INCREASE WILL MAKE A BIG DIFFERENCE*
Single parent	41%	26%
Couple with young children	39%	38%
Couple with older children	49%	17%
Young singles/ couples no children	30%	38%
Middle aged singles/ couples no children	43%	21%
Empty nesters	49%	10%
Retirees	63%	2%
Overall	43%	24%

*Asked of those aware of the SG increase

Figure 16: Shows the percentage of respondents from different household types aware of the increase in the superannuation guarantee, and of those the percentage who think the increase in the superannuation guarantee will make a big difference.

TEN:

APPENDIX A: HOUSEHOLD STATISTICS.

HOUSEHOLD TYPE STATISTICS.

	HOUSEHOLD FINANCIAL COMFORT INDEX	AVERAGE NET WEALTH	AVERAGE HOUSEHOLD YEARLY INCOME
Young singles/couples (<35yo) no children	5.40	$245,250	$72,570
Single parents	4.75	$218,690	$57,630
Couples with young children	5.49	$334,300	$89,930
Couples with older children	5.62	$562,650	$93,080
Middle-aged singles/couples no children	5.07	$328,810	$82,680
Empty nesters (50+yo)	5.22	$518,890	$58,600
Retirees	5.82	$553,310	$41,750

ELEVEN:

APPENDIX B: METHODOLOGY.

ME Bank commissioned DBM Consultants to develop the *Household Financial Comfort Index* with Economics & Beyond and Baker Group. The research includes an online survey of approximately 1,500 Australians aged 18 years and older who do not work in the market research or public relations industries. The first wave of research was conducted in October 2011 and this second wave of research was conducted in June 2012 with 1,475 respondents). 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-assessments of financial well-being 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).

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

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

NOTES:

FURTHER INFORMATION.

The ME Bank *Household Financial Comfort Report* also examined:

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

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