household financial comfort report.

eighth survey june 2015.

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

EASY STREET OR HARD YARDS?
SEE HOW AUSTRALIANS ARE FARING AS AT JUNE 2015.

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

This edition presents the findings from the eighth survey, conducted in June 2015.

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

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

Over time the *Report* tracks changes in comfort and in doing so, highlights the ongoing – and potentially shifting – differences between household types, in terms of financial comfort and behaviours in managing finances.

about

ME is 100 per cent owned by Australia's leading industry super funds.

contact ME:

Matthew Read,
ME 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.

I have no worries. We own our own place and have done since 1986. Good huh!

EMPTY NESTER
QUEENSLAND

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executive summary.

01.

Household confidence in coping with a financial emergency (loss of income) fell 11% in the six months to June 2015, largely contributing to a 6% fall in overall household financial comfort, according to ME's latest *Household Financial Comfort Report*.

Linked to the fall in financial emergency-preparedness are big falls in comfort with cash savings (down 9%) and income (down 6%) in the six months to June 2015.

A lack of comfort about cash savings and the ability to cope with a financial emergency is particularly evident among single parents whose overall financial comfort fell 20% to 4.46 out of 10 during the first half of 2015.

Decreased comfort with cash savings is likely to be caused by weak income growth – with only a third of respondents reporting household income gains in the past year – together with increased concerns about the job market.

While job-security has remained steady at 71%, job availability fell 9 points with 56% of the workforce indicating it would be difficult finding another job within two months if they became unemployed, compared to 47% six months ago.

Concern about savings and incomes has also resulted in a rise in the number of households citing 'the cost of necessities' as their biggest worry, up 3 points to 50% of households. Other major worries for households were 'having enough cash on hand', rising 3 points to 37% and 'being able to make ends meet' rising 5 points to 34% of households.

Renters feeling the financial pinch

Overall financial comfort is down 12% among renters to 4.35 out of 10, to remain well below the comfort of home-owners (down 5% to 6.52) and households paying off mortgages (down 3% to 5.28).

The fall in comfort among renters may be a reflection of the financial difficulty first home buyers are experiencing getting into the property market, coupled with a continued rise in rents across many states, particularly in some major capital cities.

A tale of two generations

The latest data also tells a tale of two generations, with Gen Ys (aged 18-34) and pre-retirees (aged 50-59) reporting the biggest falls in overall financial comfort (both down 10%), but for very different reasons.

While Gen Ys (and single parents) are more concerned about their available cash savings, at the other end of the age spectrum, pre-retirees are most concerned about their expected standard of living in retirement as well as their investments.

Falling financial comfort for older generations is also linked to falls in comfort with investments (down 9% on average, with the largest fall of 13% for Builders (aged 75+)) and increased risk aversion in the current low interest environment.

A corollary of this is a fall in financial comfort in anticipated standard of living in retirement, down across all households by 8% to 5 out of 10, but by 16% to 4.5 among pre-retirees, with very high levels of comfort expected by self-funded retirees (7.14 out of 10) and significantly lower comfort levels reported among those totally/partly dependent on government pensions (3.38 and 5.15 out of 10 respectively).

Other findings include:

The labour-force: Self-employed workers reported the biggest fall in financial comfort (more than 20%) to the lowest level seen for this group since the survey commenced in late 2011, compared to a drop of 7% among full-time employees.

Regional variations: Comfort across all mainland states fell with relatively bigger falls in SA (down 10%), WA (down 9%) and NSW (down 8%). After a relatively small fall of 4%, comfort in Victoria was highest of the mainland states reflecting relatively higher levels of comfort across a range of drivers and in particular the ability to handle a financial emergency and comfort with cash savings.

Metro vs regional: After a fall of 9%, those living in regional areas continue to report significantly lower comfort (index of 5.18 out of 10), than city households (down 5% to an index of 5.52), with the highest comfort households located in Melbourne and Sydney.

Risk adverse: There has been a significant increase in financial risk aversion - with those people avoiding risk (39%) exceeding those willing to take risk (17%) by 22 percentage points - equal to its previous highest level in recorded in December 2012.

economic context.

02.

Overall, Australian households have continued a relatively prudent approach to spending and finances during the first half of 2015. Reflecting lower than average consumer confidence and weak labour income, spending caution still prevails with aggregate savings edging lower from historical highs. A recovery in household wealth continued – albeit somewhat concentrated in housing assets in Sydney and Melbourne and employer superannuation contributions. Debt has increased faster than income – largely due to investors and to a lesser extent owner-occupiers/upgraders in Sydney and Melbourne. Further reductions in loan borrowing rates have kept debt servicing costs relatively low, notwithstanding only slowly rising incomes (at about the pace of consumer price inflation).

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

Consumer confidence measures are weak and significantly below their long-run averages in mid-2015, after some transient gains associated with further reductions in the official cash rate and the latest Federal Budget having less negative impact on household finances than a year ago.

Labour market also remains weak. Forward-looking indicators - job ads and business hiring intentions – have mostly been unchanged over recent months consistent with continued modest job gains. The national unemployment rate edged lower to 6% over the 6 months to June 2015. In contrast, the broader measure of labour under-utilisation rate (both unemployed and under-employed) was 14.5% in May, compared with 13.8% six months ago, while long-term unemployment has risen consistent with a subdued labour market. Household unemployment expectations are elevated. Annual wages growth is subdued at about 2.5% - a similar pace as underlying consumer inflation.

Despite relatively low income growth and confidence, **household consumption** is growing at an average pace – supported by very low interest rates and strong wealth gains (mainly related to housing for some households). As measured by the official data, the **household saving rate** from current disposable income has edged lower to a bit below 10% during the past year, but remains relatively high, on average.

The housing sector as a whole has strengthened further – supported by low interest rates, strong population growth and heightened investor demand. However, there is considerable variation across regions with further strong house price gains in Sydney (up over 15% during 2014/15) and Melbourne (up 10% over the same period), but subdued gains in most smaller capital cities, with price falls in Perth and some regions.

Growth in **household debt** has stabilised at a moderate pace during the past six months. Housing credit growth continued at an annual rate of about 7%, with growth in investors (about 10.5%) out-pacing demand from first-home buyers and repeat owner-occupiers (5.5%). In contrast, many households continued to take advantage of low interest rates to pay down debt and other personal credit growth remained subdued. In aggregate, debt to income has risen a little over the past six months.

Although still a bit below its peak of mid-2007, **'real' household assets**, on average, have continued to increase relatively strongly, mainly reflecting further significant rises in residential property prices as noted above. Financial assets (mainly superannuation) have continued to rise during the first half of 2015, largely due to continued compulsory contributions, rather than increased voluntary savings and subdued and sometimes volatile equity returns.

As a result, the aggregate financial position of households – as measured by **household net wealth** (assets less debt) – continued to improve in the first half of 2015, albeit at a slower rate with disparate trends among households.

Aggregate household financial stress indicators (such as housing and other loans in arrears and property possessions) are low generally – an indication that households, on average, are coping reasonably well with debt servicing burdens due to ongoing low borrowing costs, despite 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 evident in this edition of ME's *Household Financial Comfort Report*.

We don’t feel financially safe.

COUPLE NO CHILDREN
NEW SOUTH WALES

latest trends in household financial comfort.

03.

3.1

HOUSEHOLD FINANCIAL COMFORT INDEX.

Overall household financial comfort decreased by 6% during the first half of 2015 largely reversing the gain over the previous 6 months. As measured by the *Household Financial Comfort Index* (see Figure 1), overall household financial comfort was 5.41 out of 10 in June 2015, down from 5.78 in December 2014. This is equivalent to about 63% of Australian households reporting mid to high comfort.

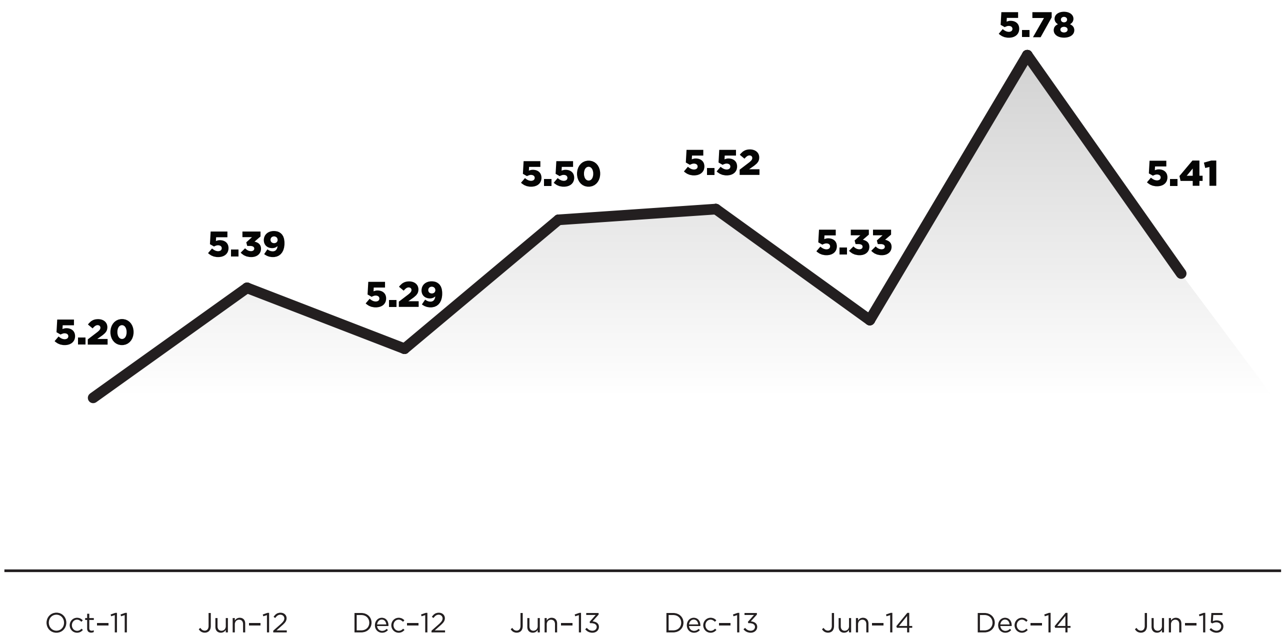


Figure 1 – Changes to the Household Financial Comfort Index. Scores out of 10.

From a medium-term perspective, household financial comfort has returned to around the average level recorded since the ME Survey commenced in late 2011.

how is the index calculated?

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

Comfort level with the overall financial situation of the household (1)

Changes in household financial situation over the past year (2) and anticipated in the next year (3)

Confidence in the household's ability to handle a financial emergency (loss of income) (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 fell over the first half of 2015 – see Figure 2.

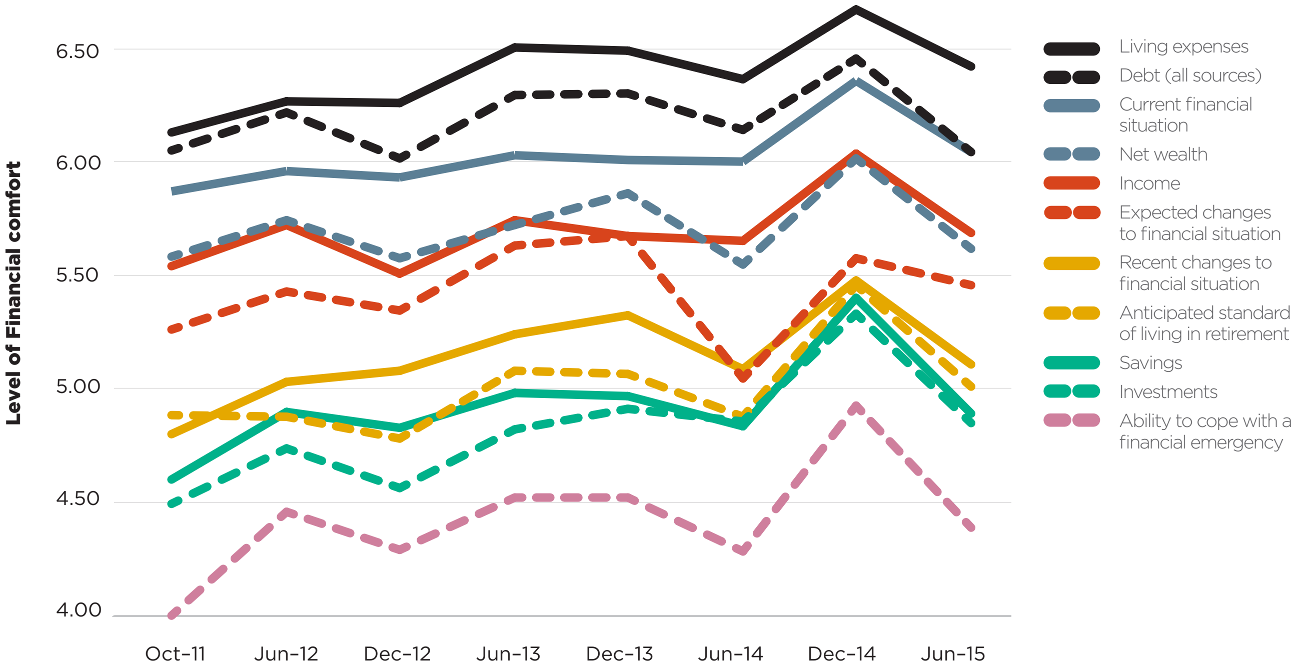


Figure 2 – The 11 components that make up the Index. Scores out of 10.

In terms of the Index components, in June 2015:

- Households were least comfortable with their 'ability to cope with a financial emergency' (4.39 out of 10), 'investments' (4.85 out of 10) and 'cash savings' (4.89 out of 10).
- Households were most comfortable with their ability to 'manage their current living expenses' (6.42 out of 10), their 'level of debt' (6.04 out of 10) and their 'current financial situation (6.04 out of 10).
- All 11 components fell significantly, with the biggest declines to the ability to handle a financial emergency (loss of income) (down 11% to 4.39), 'cash savings' (down 9% to 4.89), and 'investments' (down 9% to 4.85).

As shown in Figure 2, all components have largely maintained their positions relative to each other over the first half of 2015 – apart from 'expected changes to financial situation' during the next year. This may reflect reduced household concerns about the negative impact of the Commonwealth legislative proposals and other policies announced in the recent Federal Budget. In contrast, a year ago concerns with the 2014 Budget proposals weighed heavily on comfort – especially 'expectations'.

From a medium-term perspective, most components are a bit above or below their average outcome since late 2011. However, household comfort with both their 'current financial situation' and 'income' has fallen in mid-2015 to around the lower levels reported during the past few years.

3.3

FINANCIAL COMFORT DOWN ACROSS ALL HOUSEHOLD SEGMENTS.

The overall decline in financial comfort was reflected across all households in the six months to June 2015 – see Figure 3.

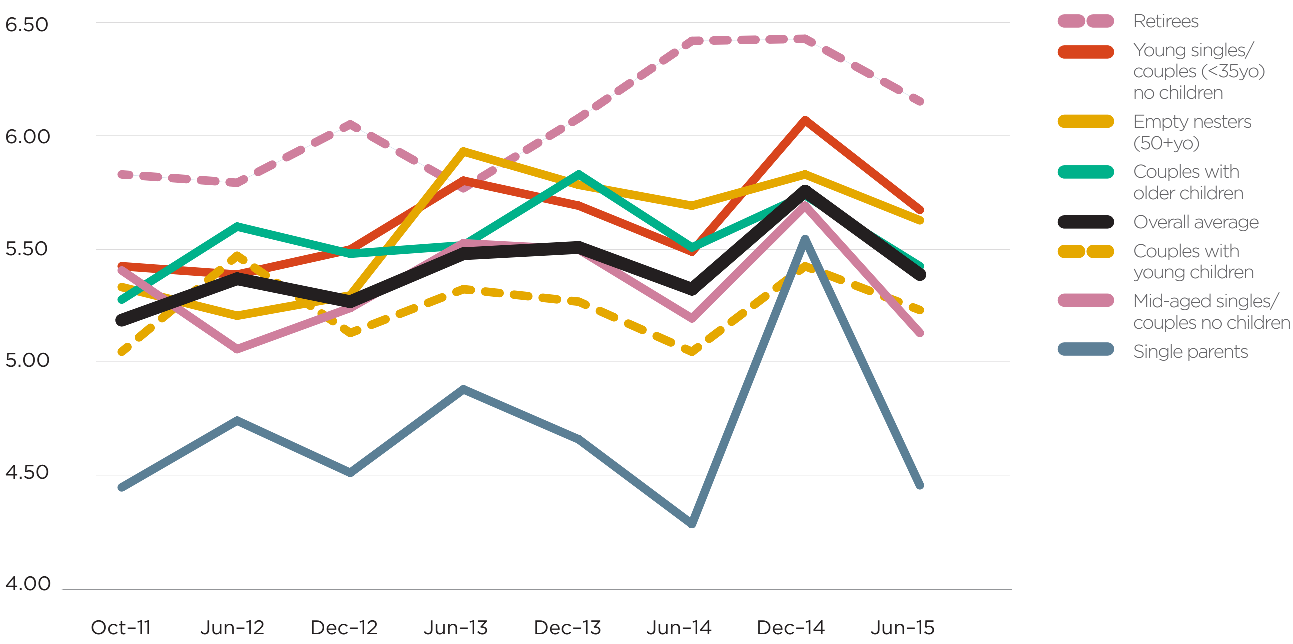


Figure 3 – Financial comfort across different households. Scores out of 10.

A lack of 'cash savings', a limited investment buffer and in turn low confidence in coping with a financial emergency (loss of income) have combined with subdued household income gains (both job availability and wages/government assistance) to weigh on comfort levels of many households – especially 'single parents'

In terms of households, in June 2015:

- After a very large fall, 'single parents' (down 20% to 4.46 out of 10) again reported significantly lower comfort than other household segments with the lowest level of comfort across all key drivers – and in particular, comfort with the ability to handle a financial emergency (down 24% to 3.60), 'investments' (down 26% to 3.67), their anticipated standard of living in retirement (down 24% to 3.79) and 'cash savings' (down 18% to 4.02). This is most evident among 'single parents' dependent on government assistance[1] (only 3.74) and to a lesser extent employed 'single parents'[1] (4.75 out of 10).
- Households below average financial comfort consisted of 'middle-aged singles/couples with no children' (5.14 out of 10) and 'couples with young children' (5.25 out of 10).
- Households with the highest financial comfort remained 'retirees' (6.18 out of 10) – especially, those expected to be self-funded 'retirees' (6.91), compared with those expected to be funded by the government aged pension (4.17 out of 10).
- Households without children also tended to have relatively higher financial comfort - notably 'young singles/couples with no children' (5.70 out of 10) and 'empty nesters' (5.65 out of 10).
- Apart from 'single parents', household financial comfort fell significantly among 'middle-aged singles/couples with no children' (down 10% to 5.14), and 'young singles or couples with no children' (down 7% to 5.70). Similar to 'single parents', this reflected larger falls in comfort with the ability to handle a financial emergency, 'investments' and 'cash savings'

[1] Small base size, interpret with caution.

3.4

FINANCIAL COMFORT DOWN ACROSS ALL GENERATIONS.

The overall decrease in financial comfort was reflected across all generations[2] in the six months to June 2015 – see Figure 4.

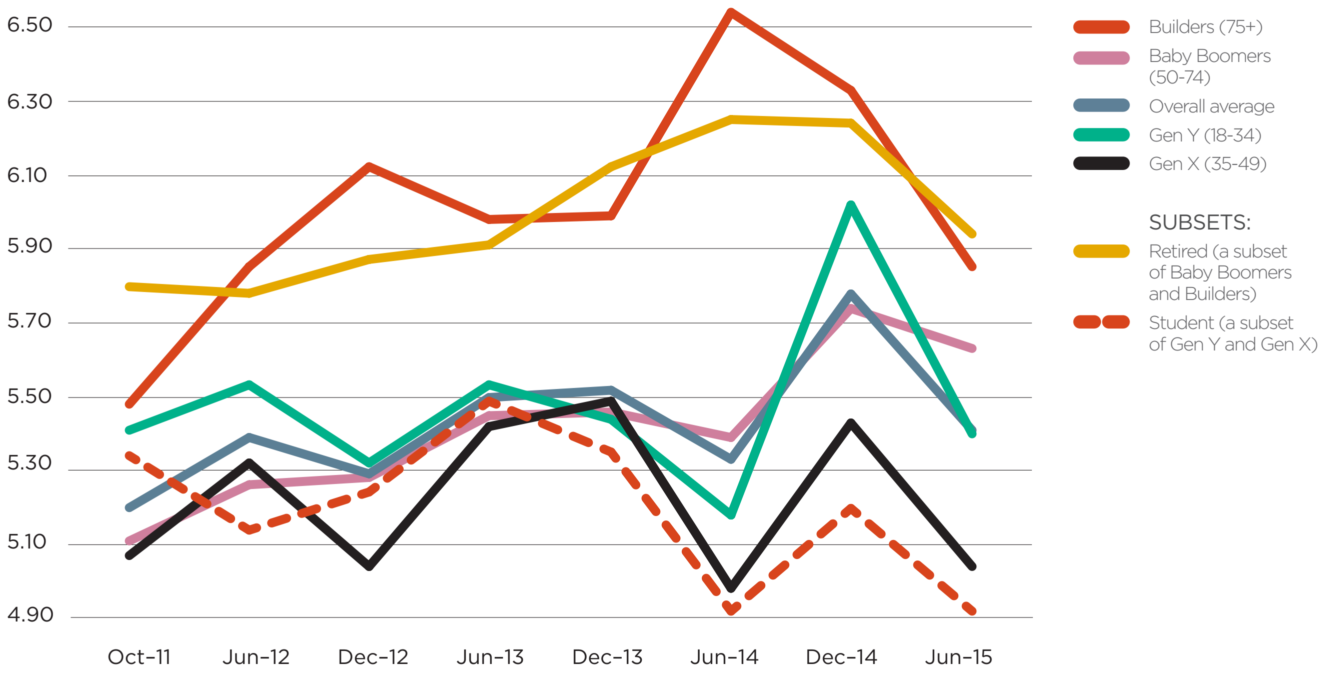


Figure 4 – Financial comfort across generations. Scores out of 10.

In terms of generations, in June 2015:

- Generations with the lowest financial comfort were Gen X (5.04 out of 10) and Gen Y (5.40 out of 10). Students (a subset of Gen Y), reported the lowest financial comfort of any sub-generation at 4.92 out of 10.
- Generations with the highest financial comfort were builders (5.85 out of 10) and baby boomers (5.63 out of 10). Retired (mainly a subset of builders and baby boomers) reported the highest financial comfort of any generation at 5.94 out of 10 – including those on private pension (7.01 out of 10) significantly higher than on the government aged pension (5.62 out of 10).
- Comfort fell across all generations/aged groups, with the largest declines of 10% in both Gen Y and pre-retirees (aged 50-59).

A tale of two generations

Gen Ys and pre-retirees (50-59) both reported the biggest falls in overall financial comfort, but for very different reasons. While Gen Ys (and 'single parents') were most concerned about their available 'cash savings' and their 'ability to cope with a financial emergency', at the other end of the age spectrum, 'pre-retirees' were most concerned about their expected standard of living in retirement as well as their 'ability to cope with a financial emergency'.

Falling financial comfort for older generations is also linked to falls in comfort with 'investments' (down 9% on average, with the largest fall of 13% for Builders (aged 75+)) mainly caused by lower interest rates and increased risk aversion.

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

3.5

FINANCIAL COMFORT DOWN ACROSS MOST STATES AND TERRITORIES.

In June 2015, financial comfort fell across all mainland states and most territories – see Figure 5

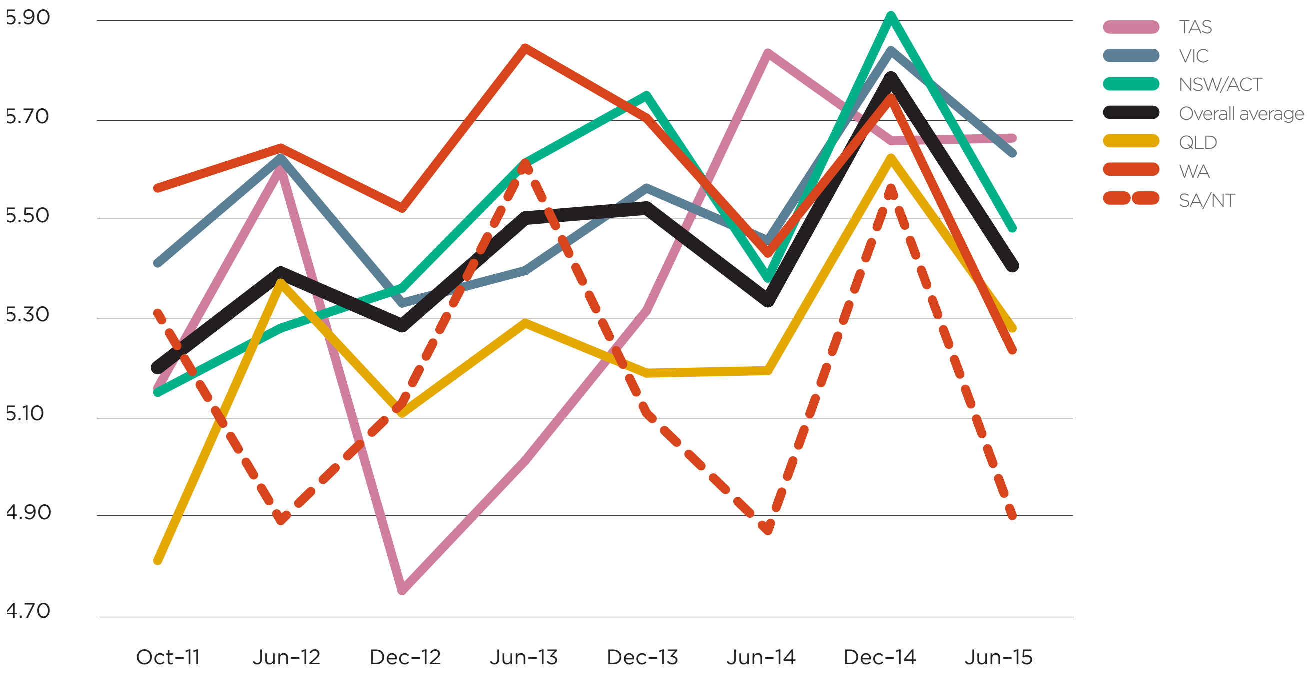


Figure 5 – Changes in financial comfort across states and territories. Scores out of 10.

In terms of the states and territories, in June 2015:

- Those with the lowest levels of financial comfort were South Australia/Northern Territory (4.90 out of 10), Western Australia (5.24 out of 10) and Queensland (5.28 out of 10), largely due to low levels of comfort with the 'ability to cope with a financial emergency', 'cash savings' and 'investments'.
- After a relatively smaller fall of 4%, comfort in Victoria was highest of the mainland states (5.63 out of 10) reflecting relatively higher levels of comfort across all drivers and in particular the 'ability to handle a financial emergency' and 'cash savings' levels of Victorian households. Victoria, followed by New South Wales (5.46 out of 10), recorded the highest levels of financial comfort among the mainland states.

As the resources construction boom faded further, household financial comfort has fallen to lower levels in resource rich regions – especially in South Australia/Northern Territory (down 12% to 4.90) and Western Australia (down 9% to 5.24) – with double-digit falls in most key drivers and in particular, household's 'anticipated standard of living in retirement', 'ability to cope with a financial emergency', 'income', and 'savings'.

Metro verses regional – the great divide.

Households living in regional areas (5.18 out of 10) reported lower levels of financial comfort overall than households living in metropolitan areas (5.52 out of 10).

As shown in Figure 6, this trend was evident across all larger states (New South Wales, Victoria, Queensland and Western Australia) with household comfort highest in the capital cities of Melbourne (5.71 out of 10) and Sydney (5.64 out of 10).

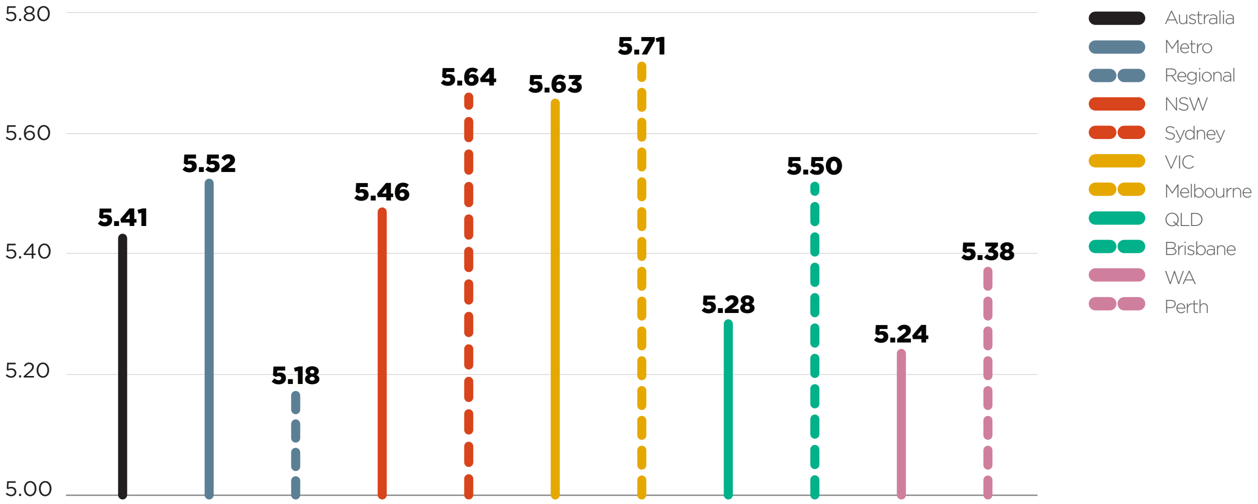


Figure 6 – Comfort index across Australia.

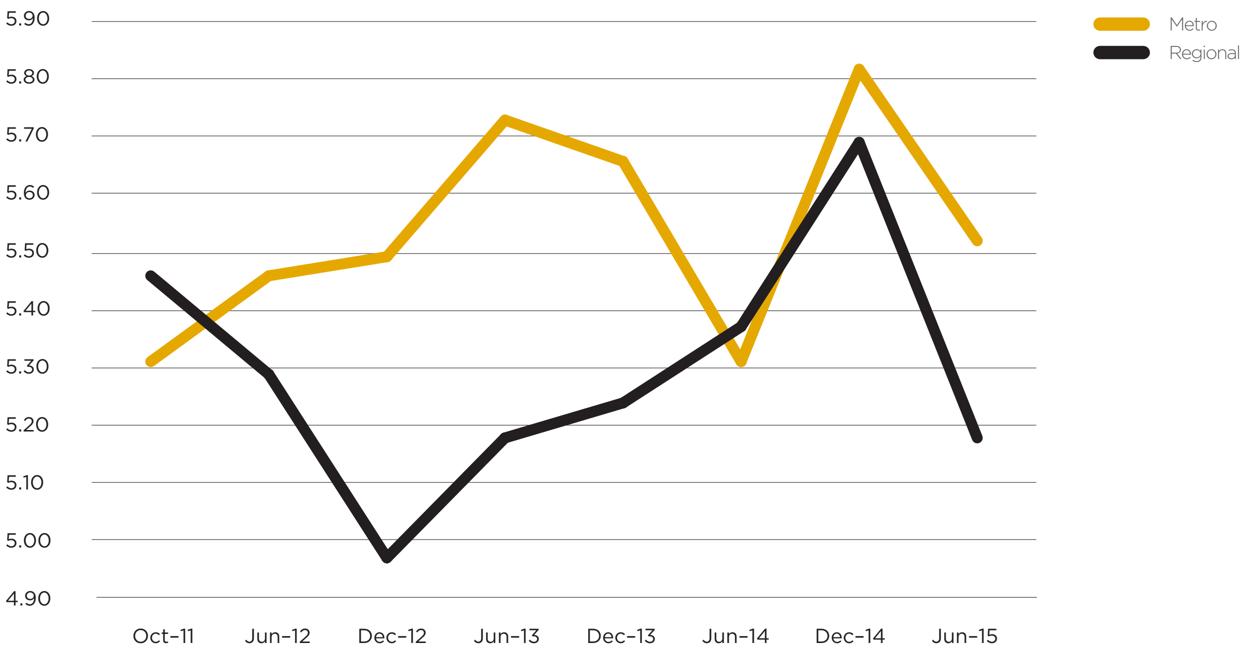


Figure 7 – Financial comfort across regional and metropolitan areas. Scores out of 10.

3.6

FINANCIAL COMFORT DOWN ACROSS ALL WORKFORCE SEGMENTS.

In June 2015, financial comfort declined across all areas of the labour force – see Figure 18.

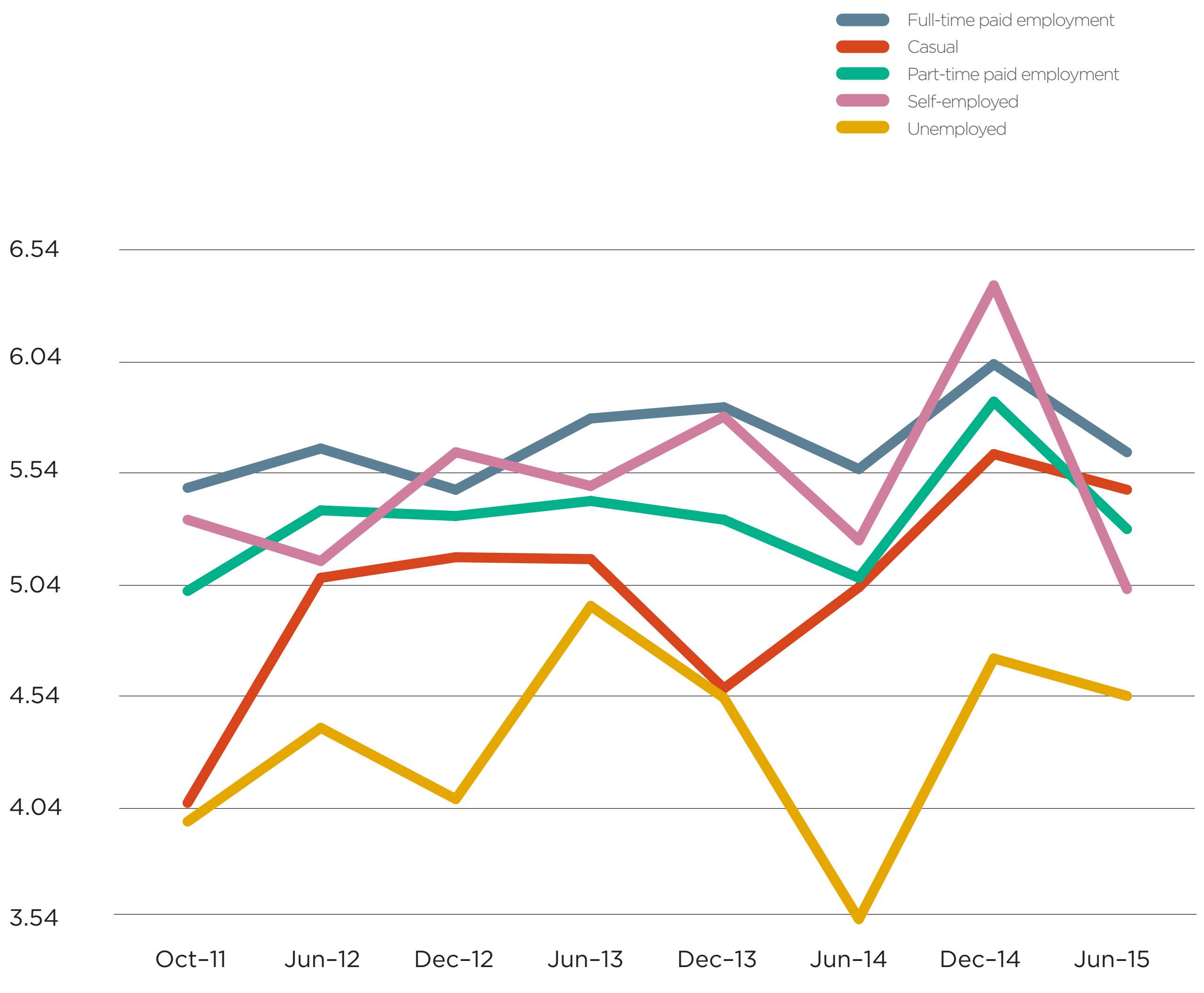


Figure 8 – Changes in financial comfort across labour segments. Scores out of 10.

Across workforce segments, comfort of self-employed workers recorded the biggest fall (down 21% to 5.02) during the first half of 2015, to its lowest level since the survey commenced in late 2011. This drop reflects falls across all drivers and in particular, components of savings, ‘investments’ and the ‘ability to cope with a financial emergency’.

Albeit to a much lesser extent, comfort of both full-time (down 7% to 5.63) and part-time employees (down 10% to 5.29) as well casual workers (only 3% to 5.47) also fell, with relatively small falls across most drivers. Nevertheless, full-time paid employees continued to have the highest comfort across the labour force - largely reflecting their higher comfort with ‘income’, savings and ‘investments’ as well as their ‘ability to cope with a financial emergency’.

In contrast, by far the lowest financial comfort continued to be reported by unemployed people (down 4% to 4.54) – reflecting relatively low comfort across all key drivers and especially, ‘income’ and ‘living expenses’.

Job availability

In June 2015, full-time workers were the most optimistic about finding another job – (44% thought it would be easy, down 9 points from six months ago), followed by self-employed workers (down by 14 points to 30%). Both casual and part-time workers are the least confident about finding another job: only 13% and 27% respectively, thought it would be easy to find another job within 2 months. (See more detail in section 4.4.)

Never having enough money for anything other than the bare necessities.

SINGLE PARENT
NEW SOUTH WALES

factors contributing to the overall fall in household financial comfort.

04.

4.1

LESS CONFIDENT ABOUT COPING WITH FINANCIAL EMERGENCIES.

Contributing to the overall fall in financial comfort was a fall in confidence in the 'ability to cope with a financial emergency' (loss of income for 3 months), down 11% in the six months to June 2015 - the largest fall among the 11 components that make up ME's *Household Financial Comfort Index*.

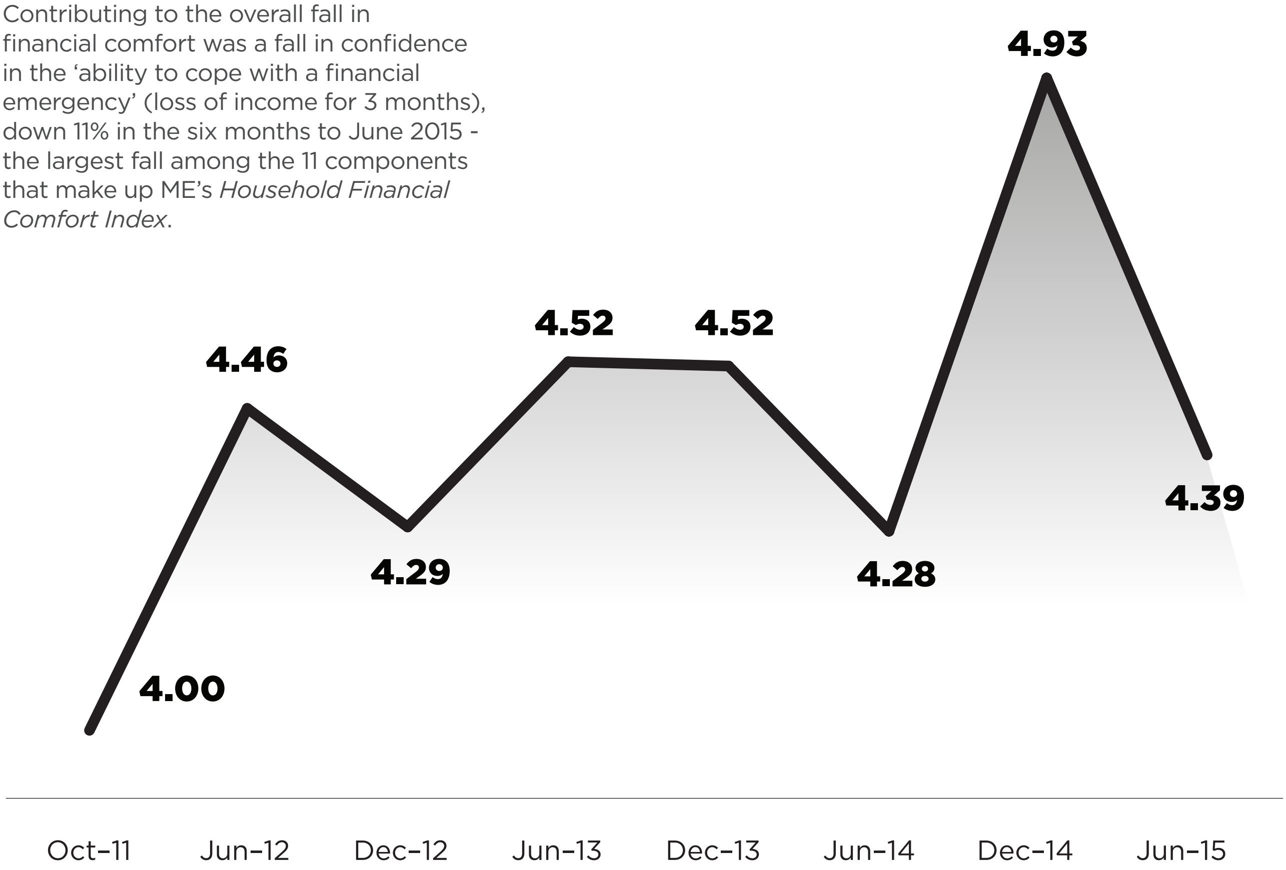


Figure 9 – Confidence in ability to handle an emergency. Scores out of 10.

All household segments reported significantly less confidence in their ability to cope with a financial emergency, with the biggest declines among 'single parents' (down 24% to 3.60), and 'middle-aged singles/couples with no children' (down 21 points to 4.16), and to a lesser extent, 'young singles/couples with no children' (down 13 points to 4.62). Again, 'single parents' were the least confident (3.60 out of 10), while 'retirees' were the most confident (5.26 out of 10).

Raising $3,000 in an emergency becoming more difficult.

The fall in confidence in the ‘ability to cope with a financial emergency’ is supported by a similar fall in the number of households indicating it would be easy to raise $3,000 in an emergency (down 5 points to 34% from December 2014). Put another way, about two-thirds of households could not easily raise $3,000 for an emergency.

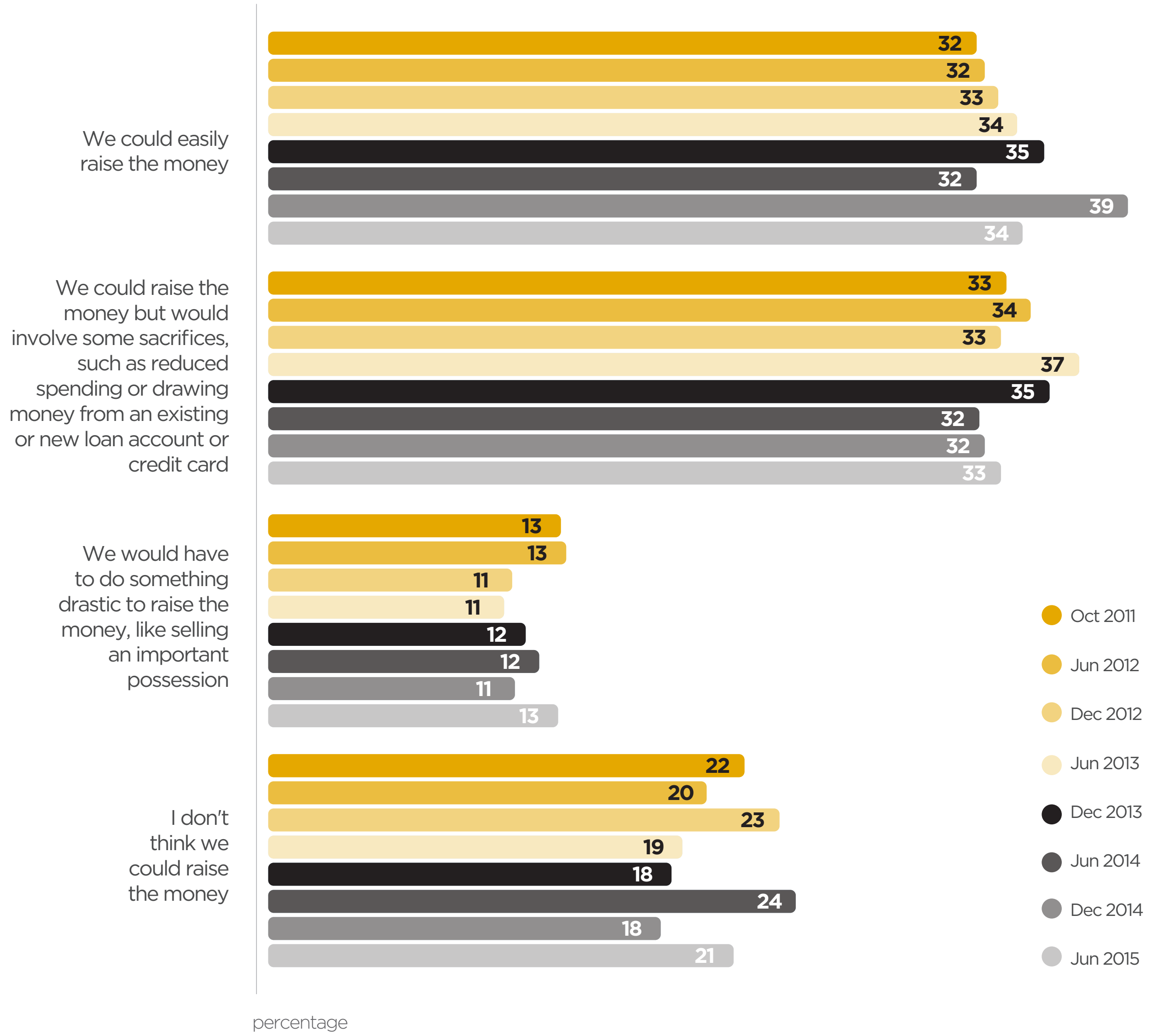


Figure 10 – Ability to raise $3,000 in a week for an emergency.

4.2

CONCERNS ABOUT SAVINGS CONTRIBUTED TO A FALL IN COMFORT WITH FINANCIAL EMERGENCIES.

Linked to the fall in preparedness for financial emergencies are big falls in comfort with ‘cash savings’, which declined 9% to 4.89 out of 10 (see figure 11) in the six months to June 2015. The broad-based fall in comfort in savings is another major contributor to the overall fall in the overall household financial comfort index.

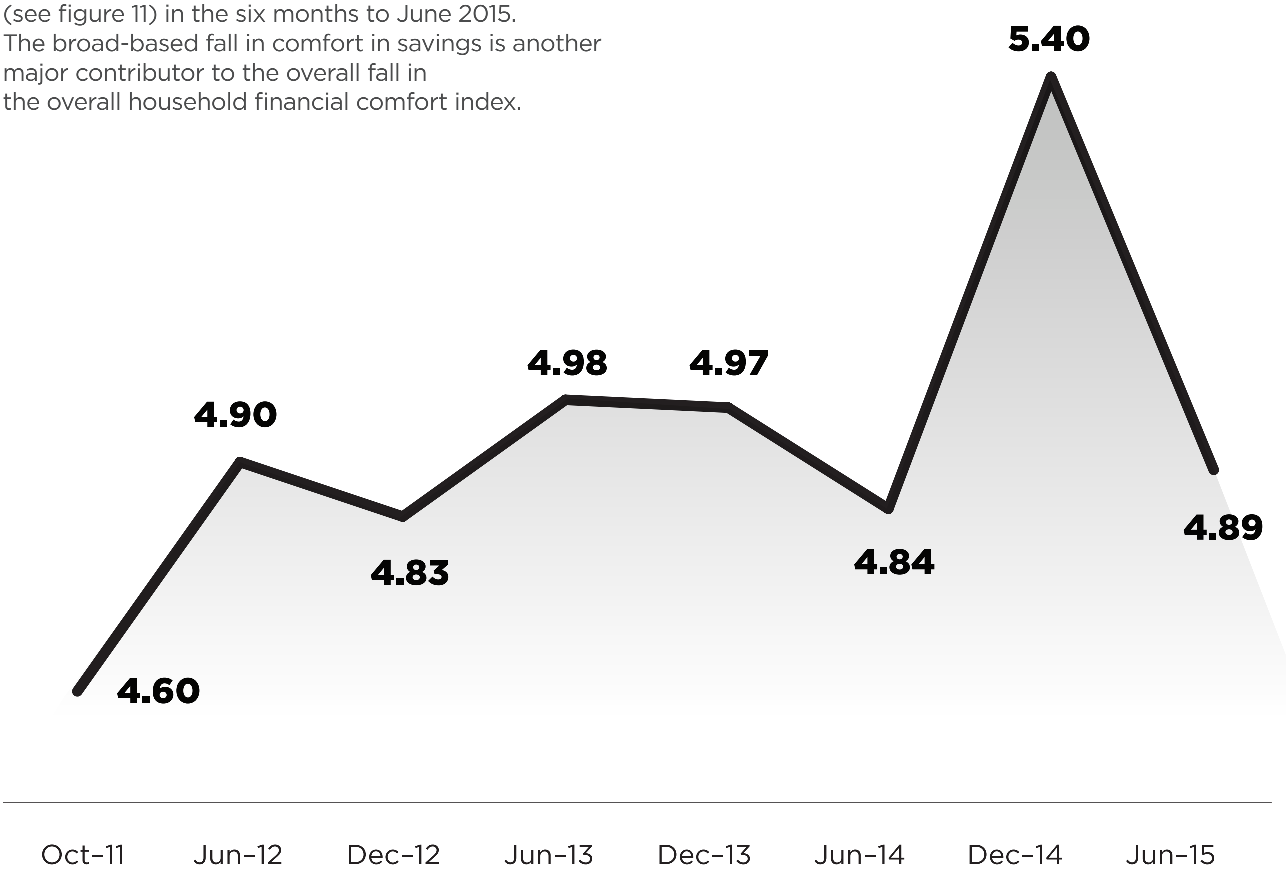


Figure 11 – Changes to comfort with cash savings. Scores out of 10.

Increased concerns about ‘cash savings’ were reported by all households, but particularly evident among ‘single parent’ households, whose financial comfort with ‘cash savings’ fell (18% to 4.02) in the 6 months to June 2015. Following a fall of 8%, ‘retirees’ remained relatively comfortable with savings at an index of almost 6 out of 10 in mid-2015 as well as self-funded ‘retirees’ (down 4% to 6.60).

Low savings levels.

Most Australian households have a relatively low stock of 'cash savings' – that is, a cash buffer for a 'rainy day' or an emergency. Figure 12 shows 34% of households in June 2015 reported less than $1,000 in cash savings and a further 28% reported having $1,000 to $10,000 in cash savings – a substantial deterioration over the first half of 2015.

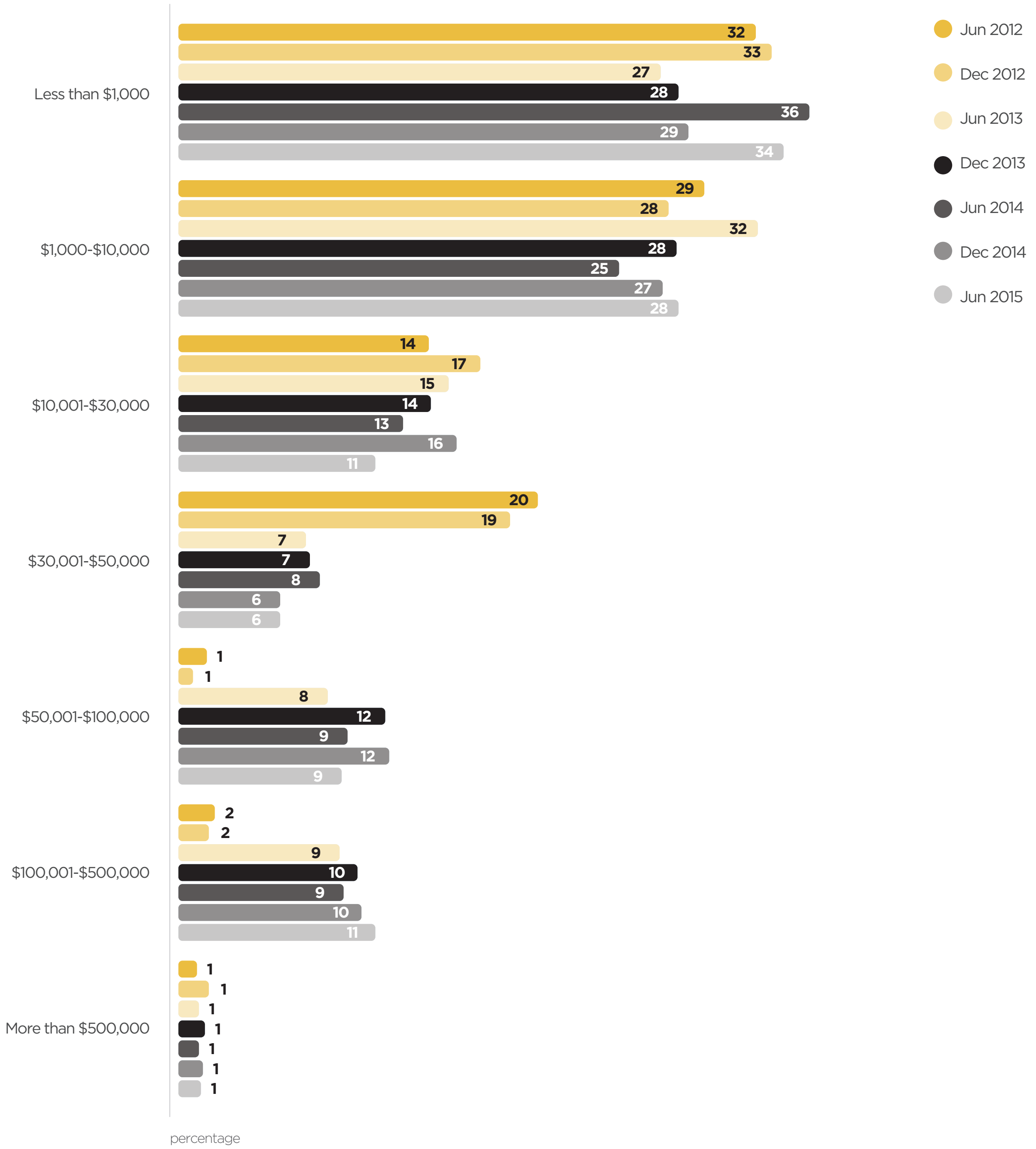


Figure 12 – How much cash savings do households currently hold?

Over-spenders outnumber savers.

There was little to no change in the number of households reporting over-spending each month. Only a majority of 'young singles/couples no children' (61%) and to a significantly lesser extent 'empty nesters' and 'retirees' (both 51%), are currently saving each month. Only 37% of 'single parents' reported to be savers.

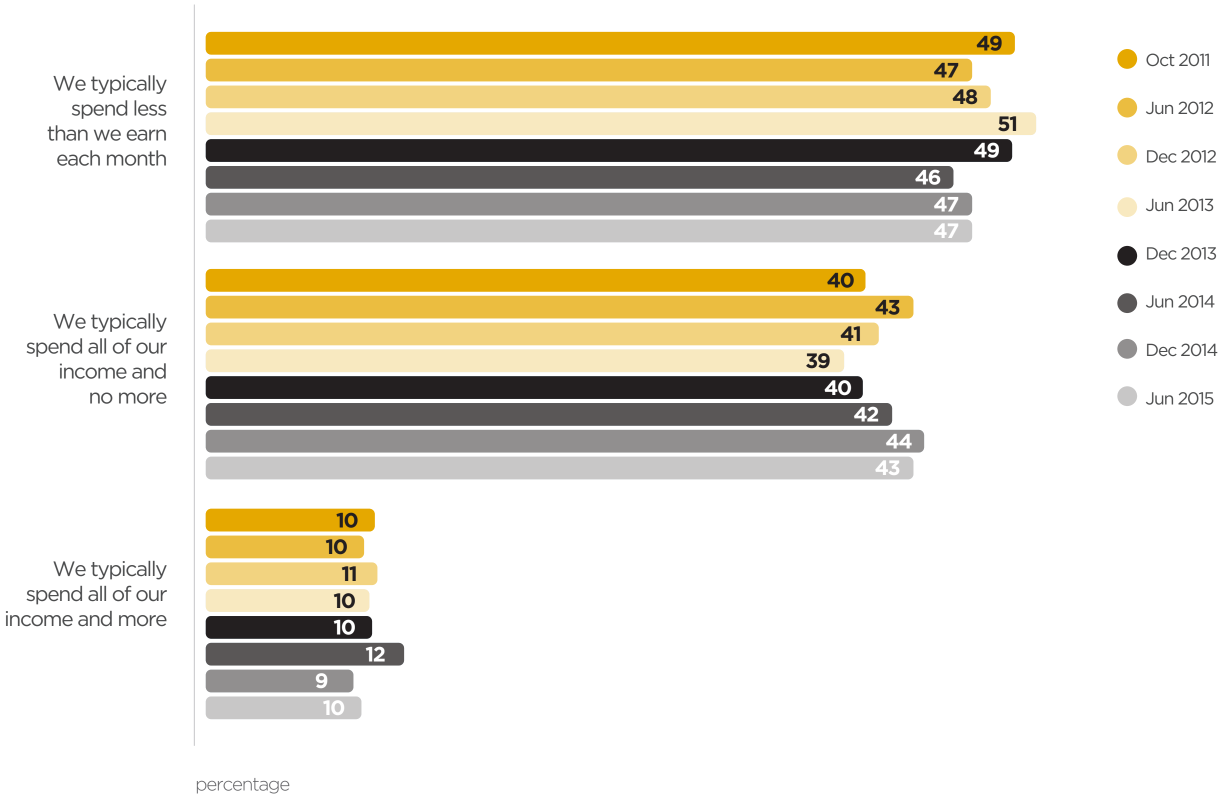


Figure 13 – Proportion who are saving, over-spending and breaking even each month

Falling savings amounts.

Contributing to the fall in comfort with savings were falls in the amount households are saving, with those households currently saving reportedly saving $745 each month or 4% less than in late 2014. On the other hand, over-spenders reported at bit less overspending at $473 each month or about 2% less than six months ago.

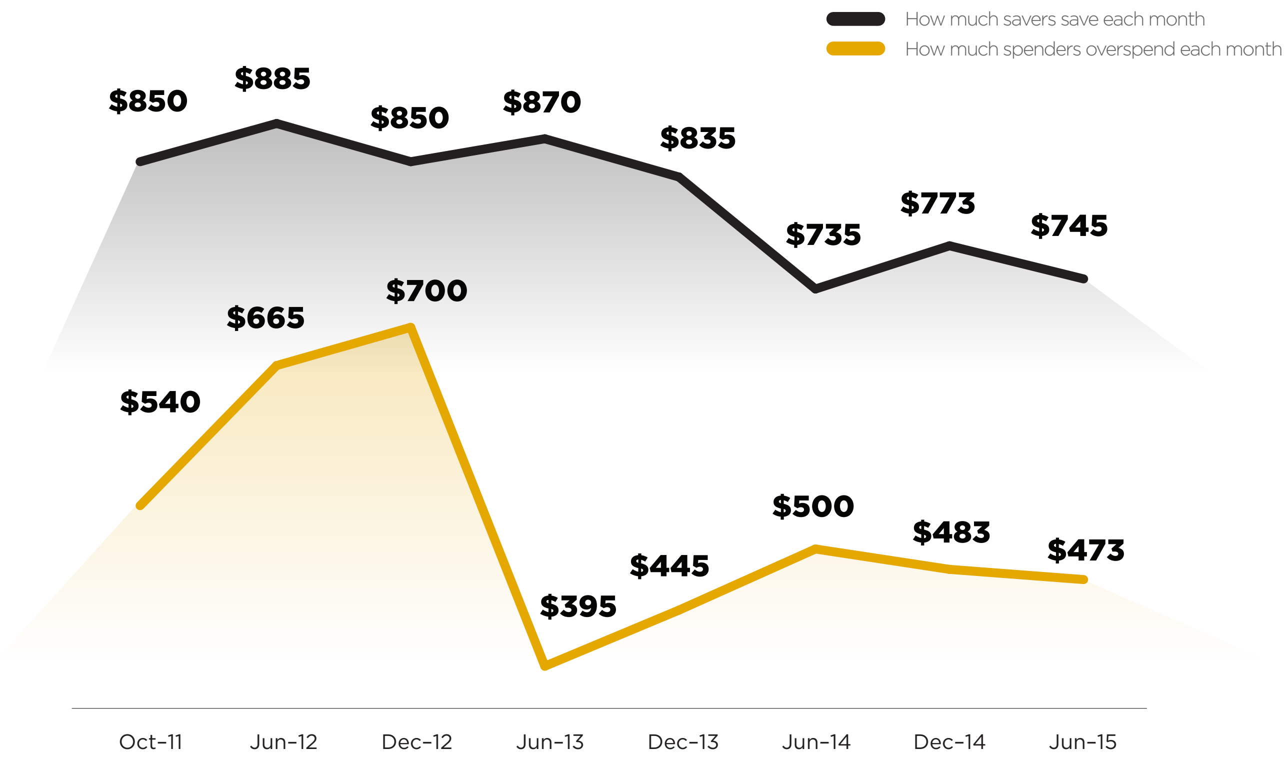
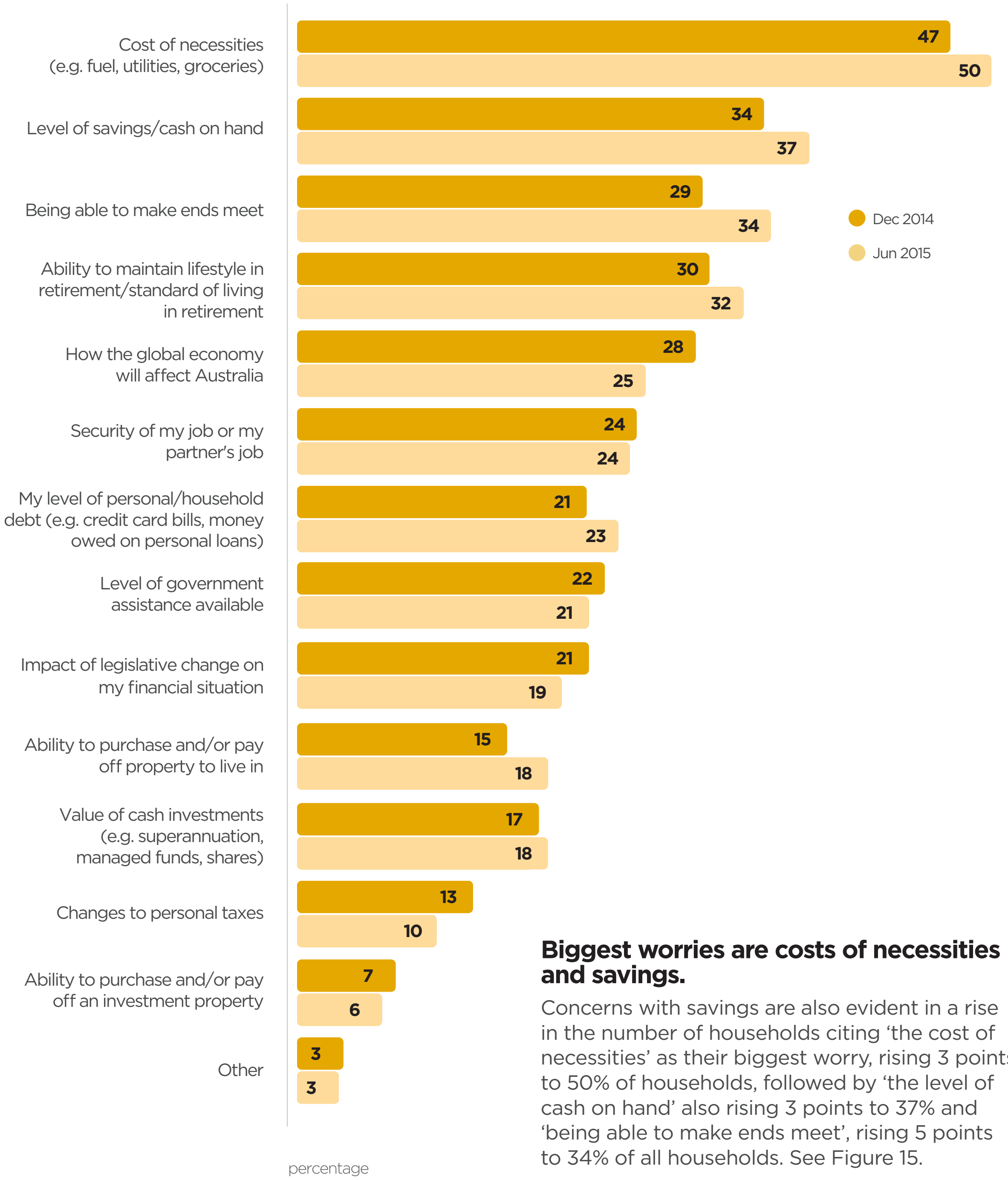


Figure 14 – $ amount savers are saving and over-spenders are overspending since the first survey.



Biggest worries are costs of necessities and savings.

Concerns with savings are also evident in a rise in the number of households citing 'the cost of necessities' as their biggest worry, rising 3 points to 50% of households, followed by 'the level of cash on hand' also rising 3 points to 37% and 'being able to make ends meet', rising 5 points to 34% of all households. See Figure 15.

Figure 15 – Biggest worries nominated by households. December 2014 versus June 2015.

4.3

DECLINING COMFORT
WITH HOUSEHOLD INCOME .

Subdued income gains.

Contributing to the fall in comfort with savings is a fall in income growth in the six months to June 2015 with a 7 point drop in the number of households reporting income gains in the last six months to 34%, and a 5 point increase in the number who reported income falls to 26%.

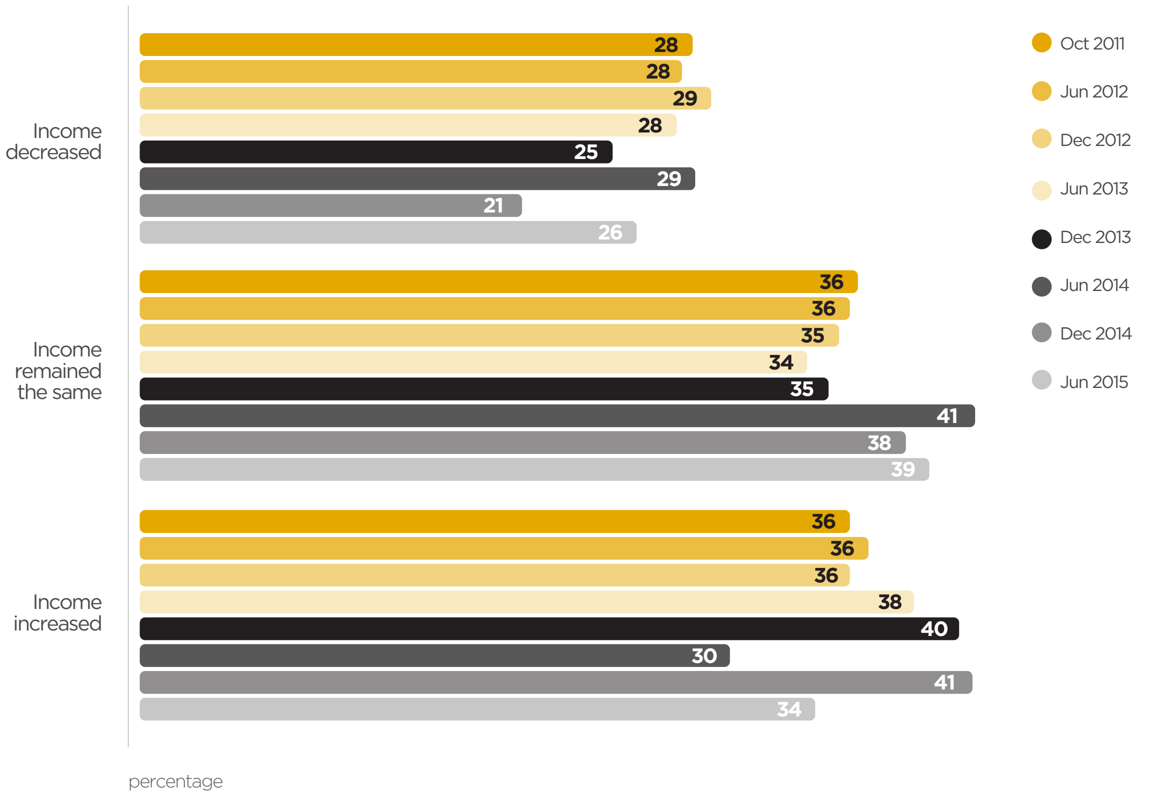


Figure 16 – Has your household income increased or decreased over the last year?

Adequacy of income eases.

Figure 17 shows a small decrease in the adequacy of incomes – largely reflecting households just being able to pay for essentials – consistent with the decreased comfort with household income noted above (see Figure 16). Around 26% of households reported that they 'can only afford the essentials and don't have money left over' in June 2015, up 2 points since six months ago, while 20% can 'afford extras like travel and holidays' (down 1 point since six months ago) and 9% reported they can 'afford extras as well as save and make extra loan repayments' (down 1 point since six months ago).

Households that reported they 'can't afford to pay for essential items and services' and 'can afford the essentials and have money left over' remained the same over the past six months, at 5% and 41% respectively.

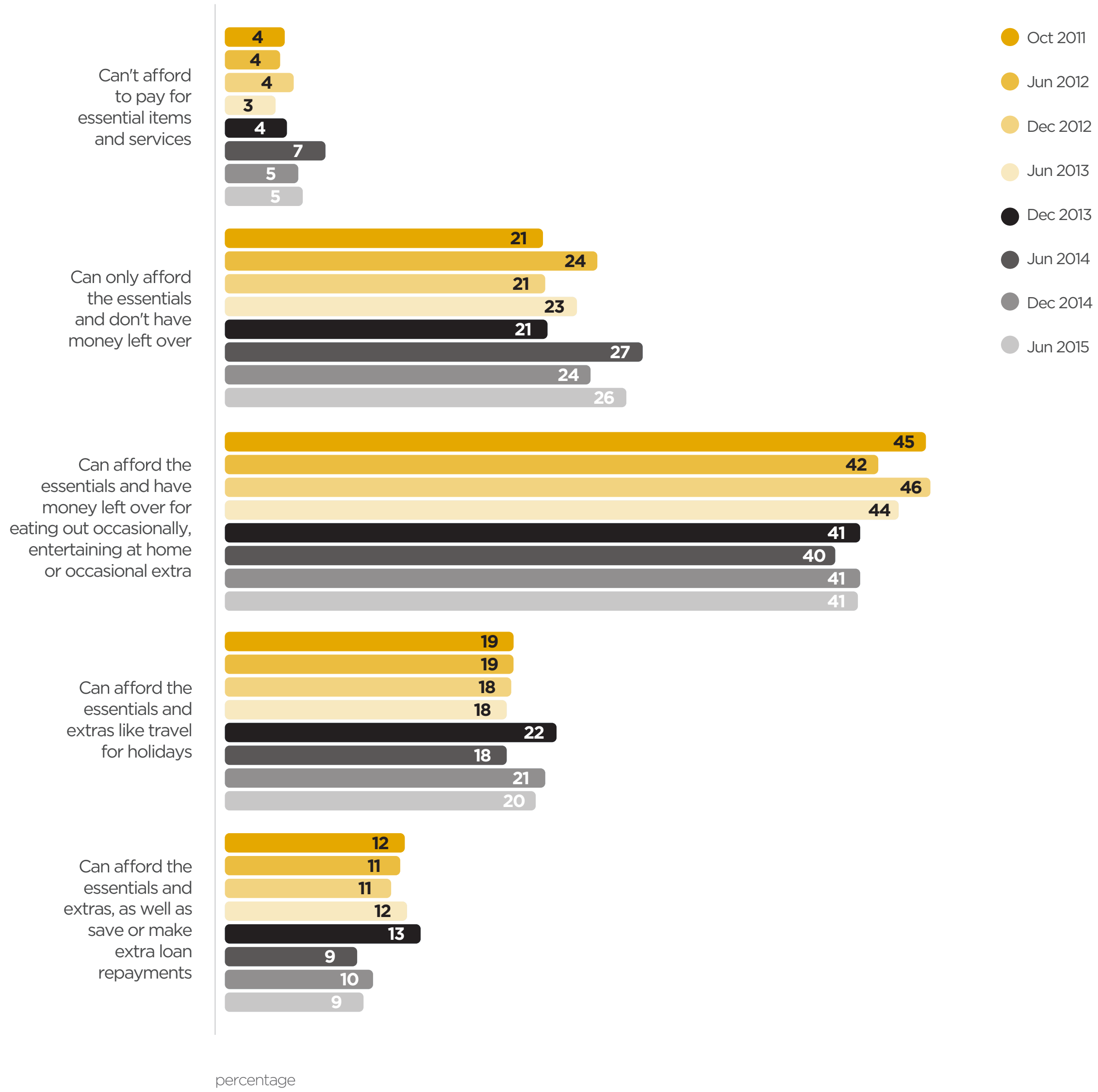


Figure 17 – How adequate is your income?

Comfort with household income fell significantly.

Overall comfort with household income fell 7% to 5.62 during the six months to June 2015 to be well below the average level of the past few years. 'Single parents' had the lowest levels of comfort with income (down 7% to 5.44), followed by 'young singles/couples with no children' (down 28% to 4.56). On the other hand, 'retirees' experienced the highest levels of comfort with income (6.37 out of 10).

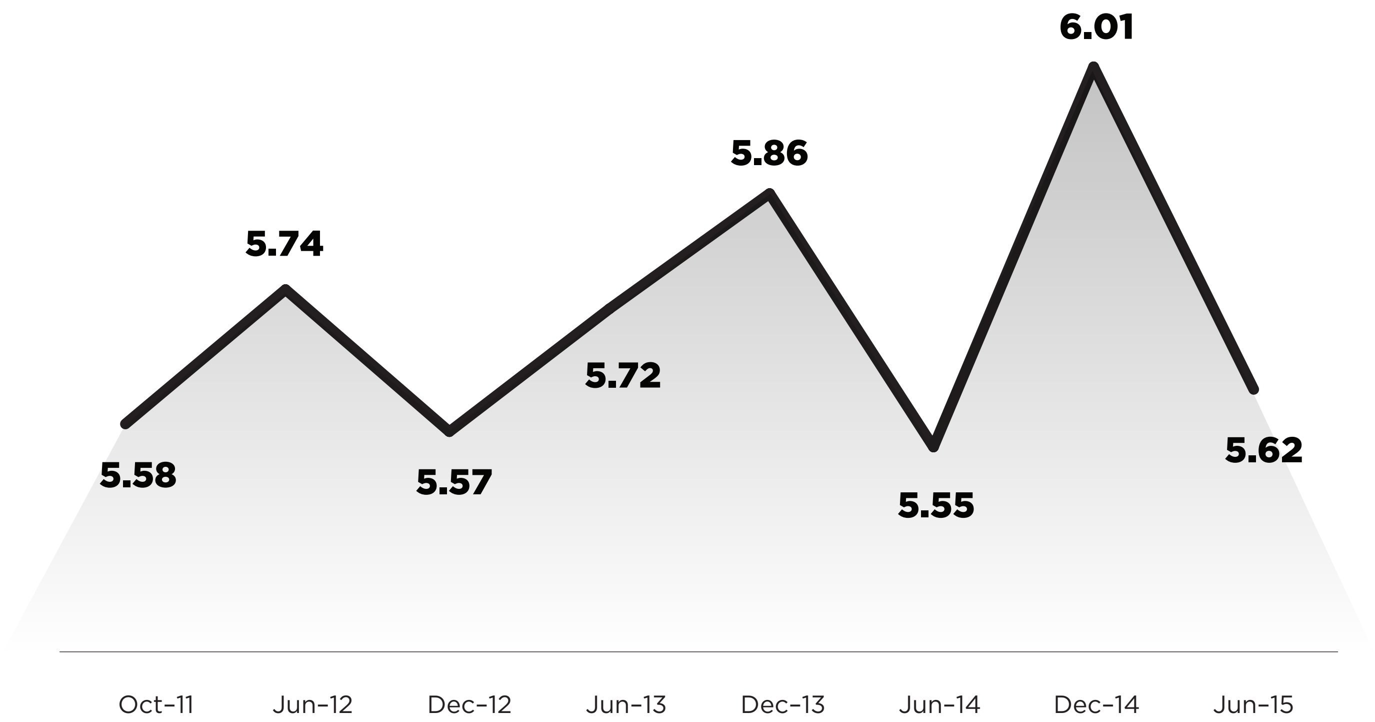


Figure 18 – Comfort with income. Scores out of 10.

4.4

RISING CONCERNS OVER JOB AVAILABILITY.

Also contributing to the fall in comfort were increasing concerns over job availability – as measured by the 'ability to get a new job in a couple of months if unemployed'. There was a marked decrease in job availability in the latest survey with those stating it would be easy to get a job within two months falling 10 points to only 38% during the six months to June 2015, while those reporting it would be difficult increasing 9 points to 56% - about the highest level over the past few years. See Figure 19.

The increased concern about job availability was marked across almost all households and across the labour force.

Casual workers were far more pessimistic about finding another job (85% said it would be difficult), followed by self-employed workers (63%) and part-time workers (63%), while a small majority (51%) of full-time paid employees thought it would be difficult.

In terms of households, 'empty nesters' were the least optimistic about finding another job (69% said it would be difficult), followed by 'couples with older children' (64%) and 'single parents' (62%).

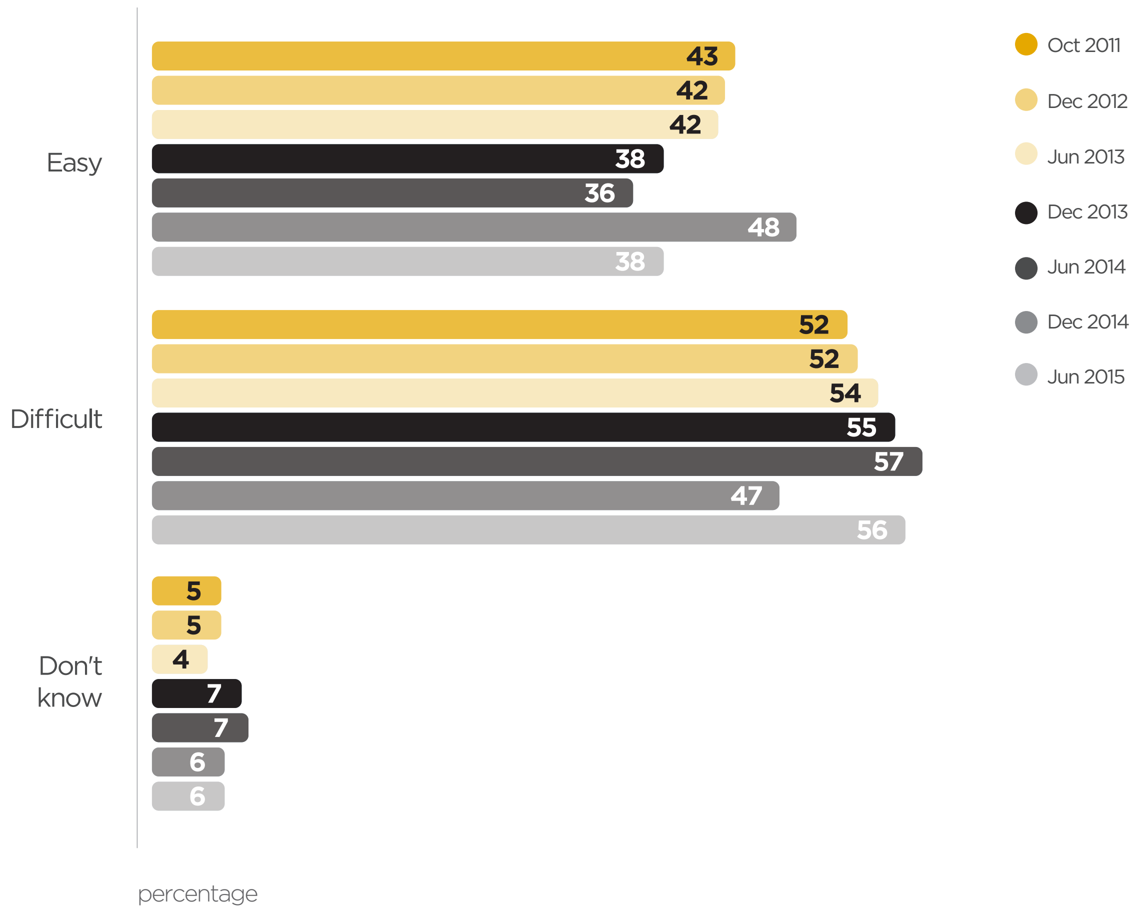


Figure 19 – Would it be easy/difficult to get a job in 2 months if unemployed?

4.5

FALLING COMFORT WITH INVESTMENTS.

Figure 20 shows overall comfort with 'investments' falling 9% to 4.85 out of 10 in the six months to June 2015, reversing gains during the latter half of 2014. Potentially contributing to the fall in comfort with 'investments' has been lower interest rates and increased volatility across share markets together with concerns about the global economy, despite higher home prices.

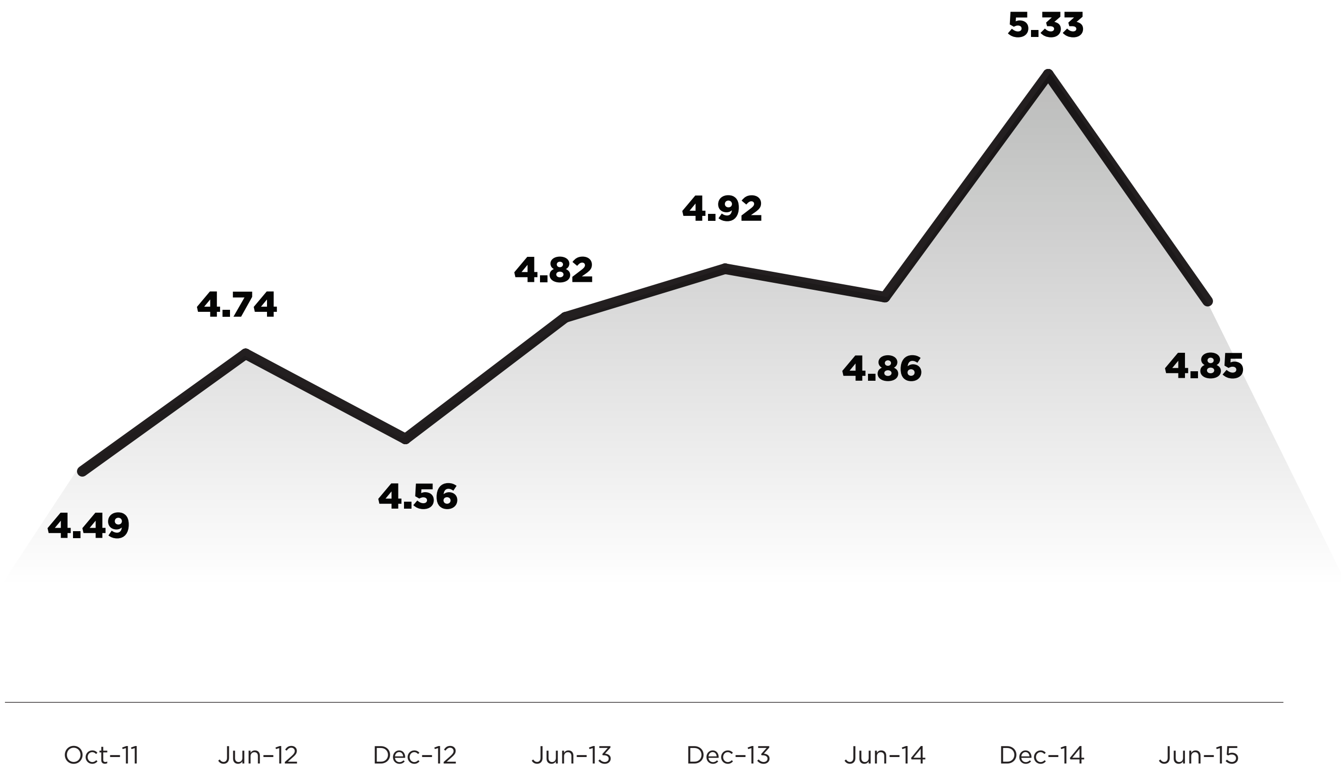


Figure 20 – Comfort with level of investments. Scores out of 10.

Across households, the lowest comfort and largest decline with 'investments' was reported by 'single parents' (down 26% to 3.67), closely followed by 'middle aged singles/couples with no children' (down 14% to 4.41). On the other hand, the highest comfort with 'investments' was reported by 'retirees' (albeit down 8% to 5.61), and those expecting to be self-funded (6.94 out of 10).

Falls in investment risk appetite

Correlated with a fall in comfort with 'investments' is a fall in risk appetite. Figure 21 shows a fall in risk appetite in the past six months - equal to its lowest ever level in December 2012. When households were asked how much financial risk they would be willing to take with any spare cash, 39% would avoid risk, up 5 points in the six months to June 2015, while those taking an average financial risk fell 6 points to 43%, and those willing to take a risk remained the same at 17%.

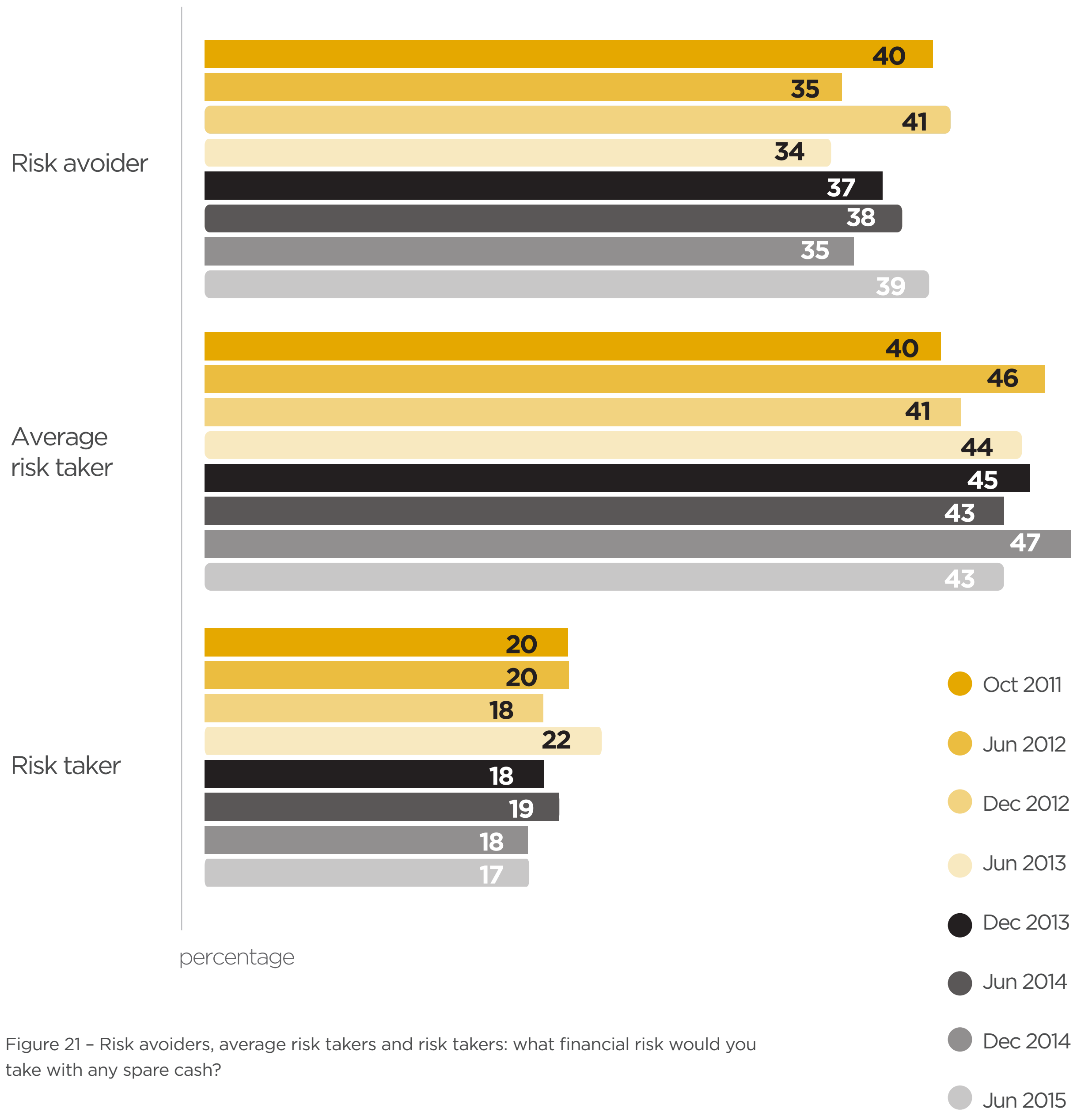


Figure 21 – Risk avoiders, average risk takers and risk takers: what financial risk would you take with any spare cash?

4.6

COMFORT WITH STANDARD OF LIVING IN RETIREMENT.

Consistent with the falling comfort with investments, there was a substantial fall with 'anticipated standard of living in retirement'. In the six months to June 2015, confidence with the ability to maintain lifestyle in retirement declined, down 8% to 5.01 out of 10.

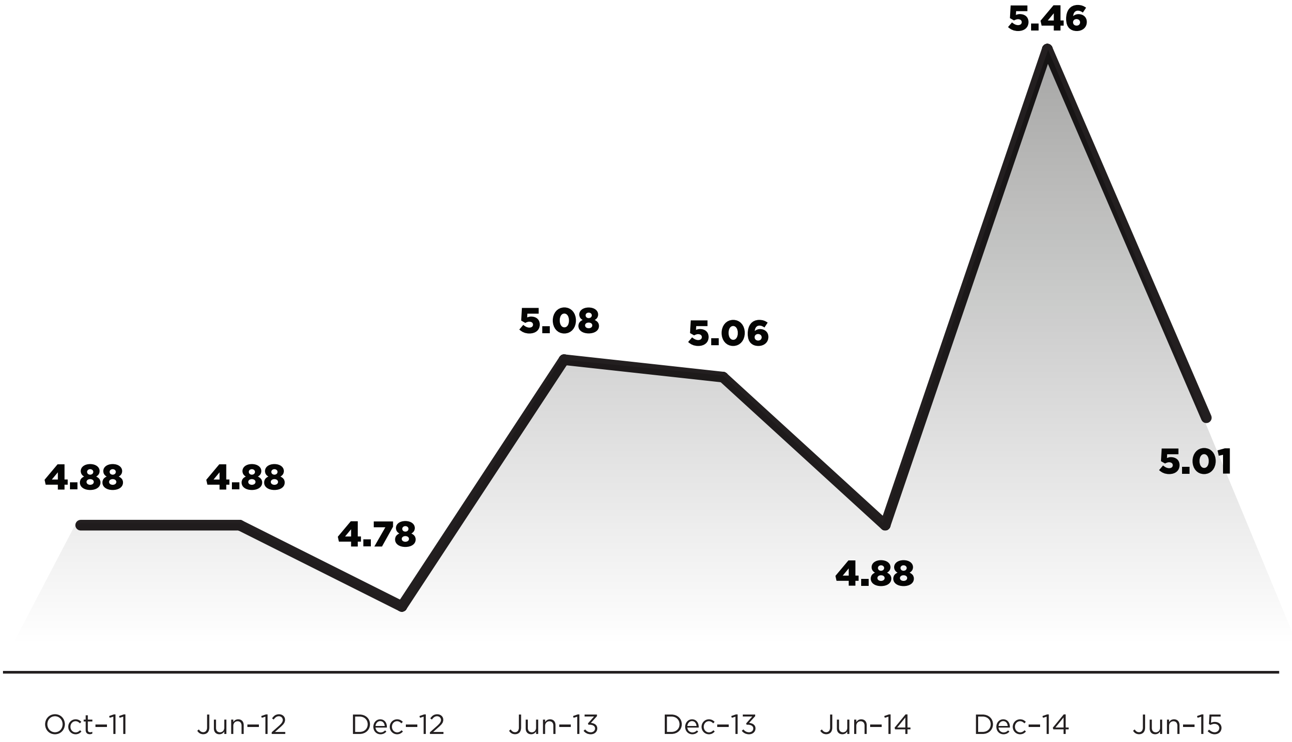


Figure 22 – Expectations for comfort in household's standard of living. Scores out of 10.

Financial comfort in the anticipated standard of living in retirement is down across all households, with the largest fall of 16% to 4.47 among 'pre-retirees' (aged 50-59) and to a lesser extent builders (aged 75+) down 13% to 5.76. Comparatively high levels of comfort are expected by self-funded 'retirees' (7.14 out of 10) and significantly lower comfort levels are anticipated among those expected to be totally/partly dependent on government pensions (3.38 and 5.15 out of 10, respectively) and currently 'single parents' (3.79 out of 10).

4.7

RENTERS FEELING THE PINCH.

Overall financial comfort is down 12% among renters to 4.35 out of 10, to remain well below the comfort of home owners (down 5% to 6.52) and households paying off mortgages (down 3% to 5.28).

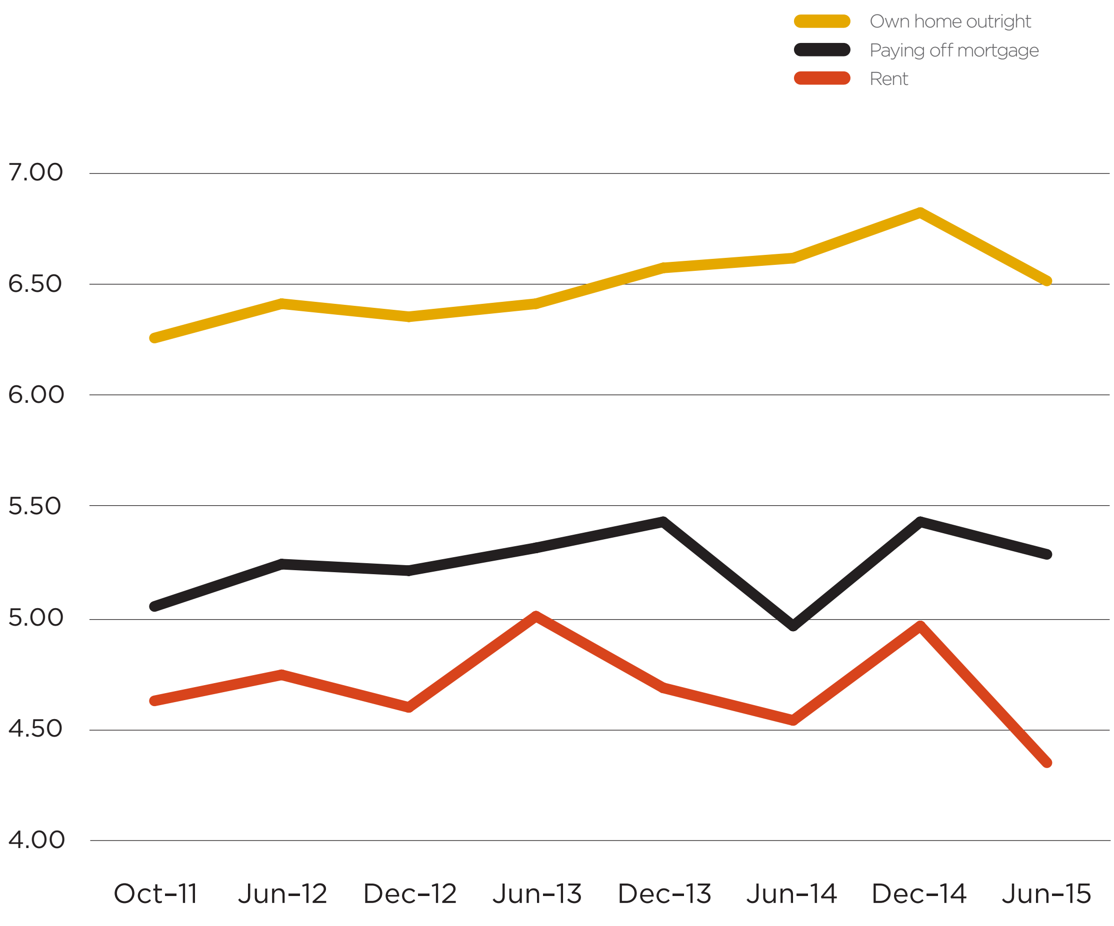


Figure 23 – Overall financial confidence based on home ownership. Scores out of 10.

The larger fall in comfort among renters may be a reflection of the difficulty first home buyers are experiencing getting into the property market, coupled with low residential vacancy rates and a continued rise in rents across many states, particularly in some major capital cities.

No pay rises in last 5 years and everything else is going up.

COUPLE WITH OLDER CHILDREN
QUEENSLAND

selected other findings.

05.

5.1
DEBT.

Overall comfort with debt.

Figure 24 shows overall comfort with debt decreased by 5% to 6.04 out of 10 during the six months to June 2015 to be slightly above historical levels. 'Single parents' were least comfortable with debt and reported the biggest decline (down 18% to 4.79), followed by 'renters' (down 12% to 4.90).

'Retirees' reported the highest level of comfort with debt (7.68 out of 10).

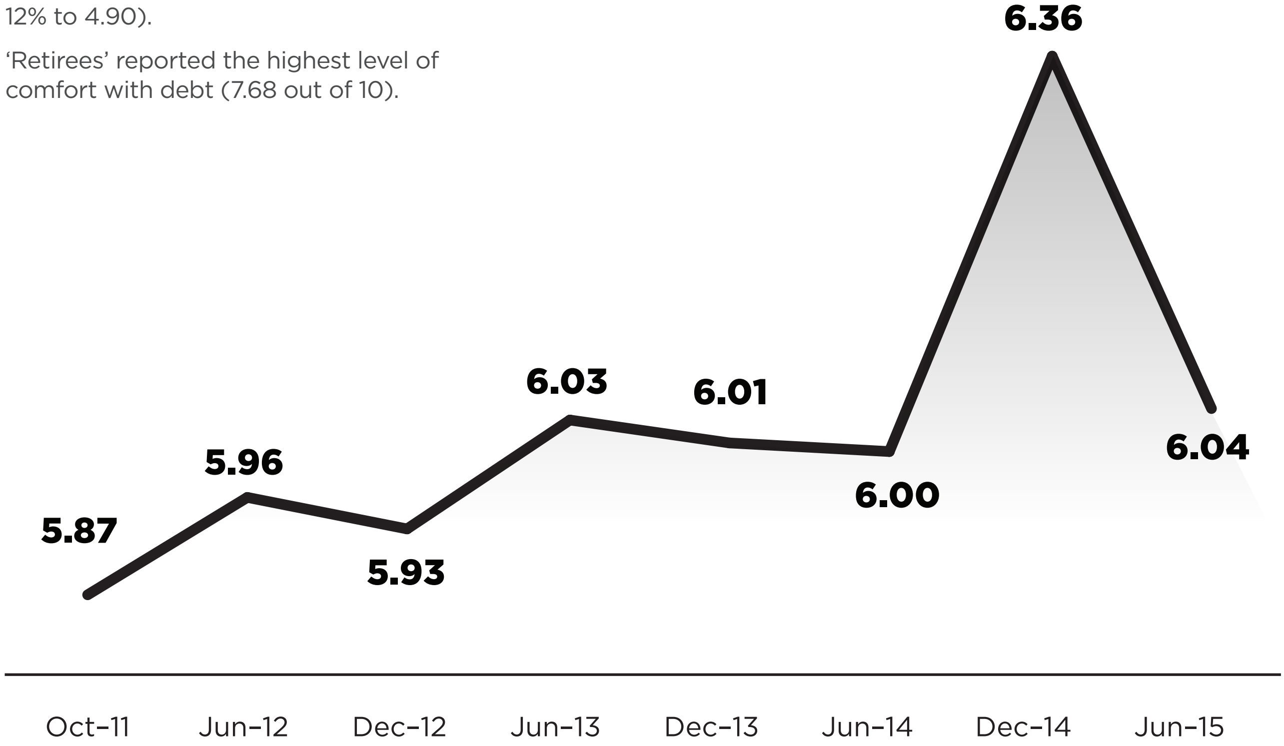


Figure 24 – Comfort with household's level of debt. Scores out of 10.

Changes to total debt over the last year.

Figure 25 shows a slight moderation in net demand for household debt during the six months to June 2015. The chart shows the percentage of those who increased debt minus those who decreased debt at each survey. In June 2015, households that decreased debt increased from 22% to 24%, while those reporting increased debt stayed the same at 32%, equating to a net 2 point decrease in households reporting an increase in debt over the past year – albeit still somewhat higher than during the past few years. Lower interest rates, higher income and investment values have supported some increased gearing among households, while comfort with debt has tended to improve slightly.

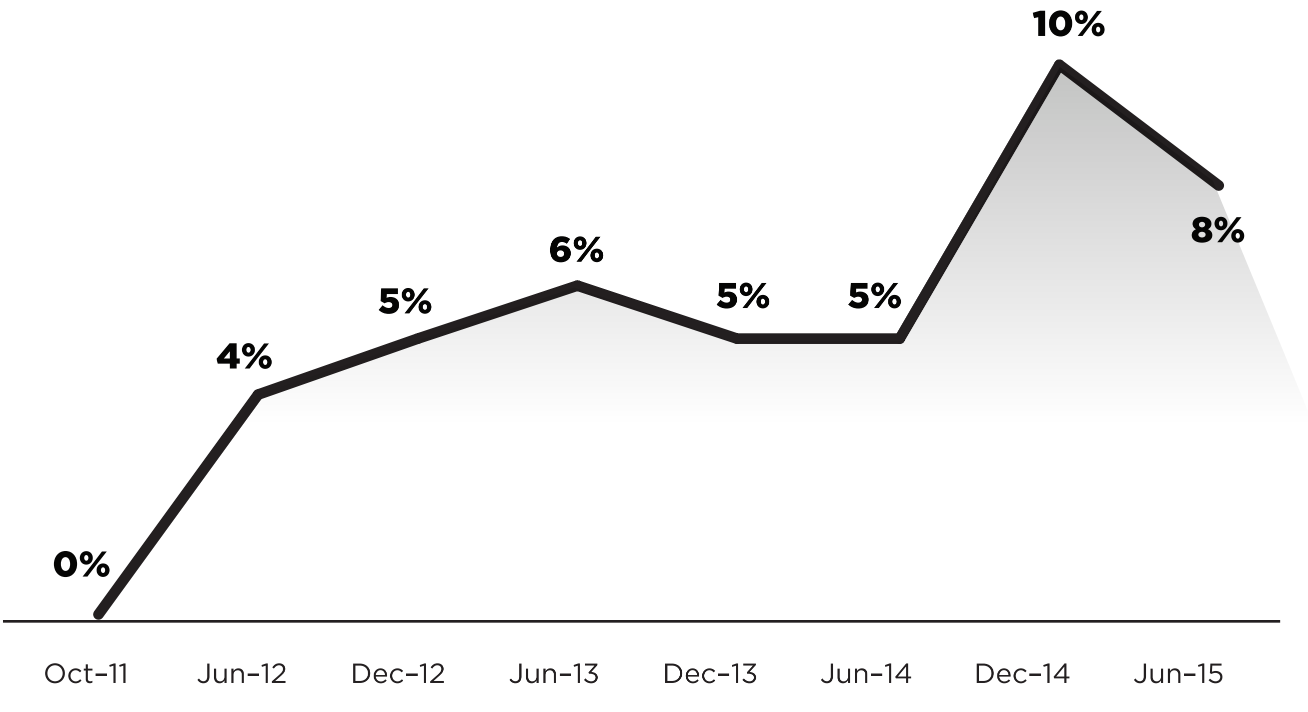


Figure 25 – Net % of households who increased debt.

5.2
MONTHLY EXPENSES.

Figure 26 shows a fall in overall comfort with the 'ability to pay regular expenses' (down by 4% to 6.42) in the past six months to June 2015, largely reversing the rise during the previous six months to December 2014.

Across households, the lowest comfort and biggest decline was reported by 'single parents' (down 12% to 5.63) and to a lesser extent 'couples with young children' (down 3% to 6.09). Households most comfortable paying regular expenses were 'retirees' (7.19 out of 10), and 'young singles/couples with no children' (6.99 out of 10).

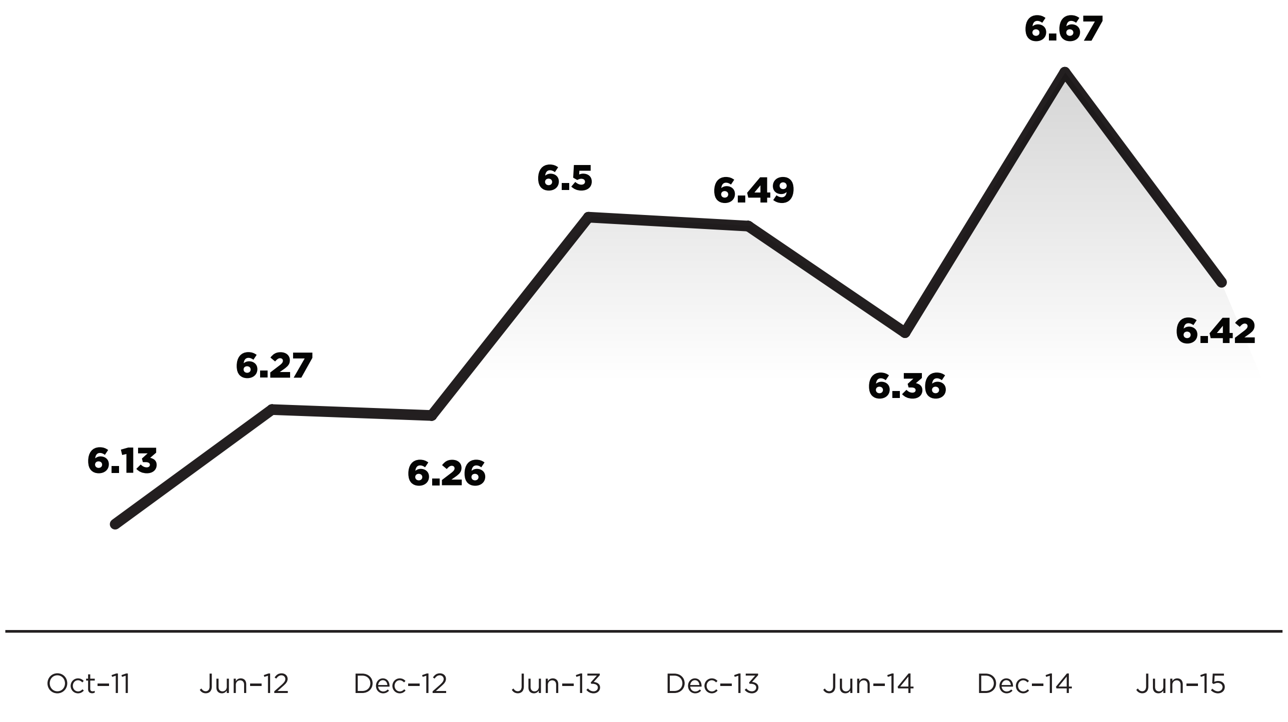


Figure 26 – Comfort with ability to pay regular expenses. Scores out of 10.

5.3

OTHER SUPERANNUATION FINDINGS.

Additional payments to super in the last six months.

Households continue to rely largely on employer contributions for superannuation. There has not been much shift in the proportion of households contributing more into super over the past three years, with those never or sometimes contributing extra consistently at around 85%, while those always or often contributing extra into super at around 15%, split almost equally.

In terms of households, 'empty nesters' (24%) and 'young singles/couples with no children' (17%) are the biggest contributors of extra money into their super. In terms of gender, almost twice the proportion of men (19%) than women (10%) contribute extra amounts into super. A greater number of higher household income earners (24% of those earning $100,000+) than lower income earners (16% of those with household incomes between $40,000 and $75,000 and only 4% of those with less than $40,000) are putting extra money into their super.

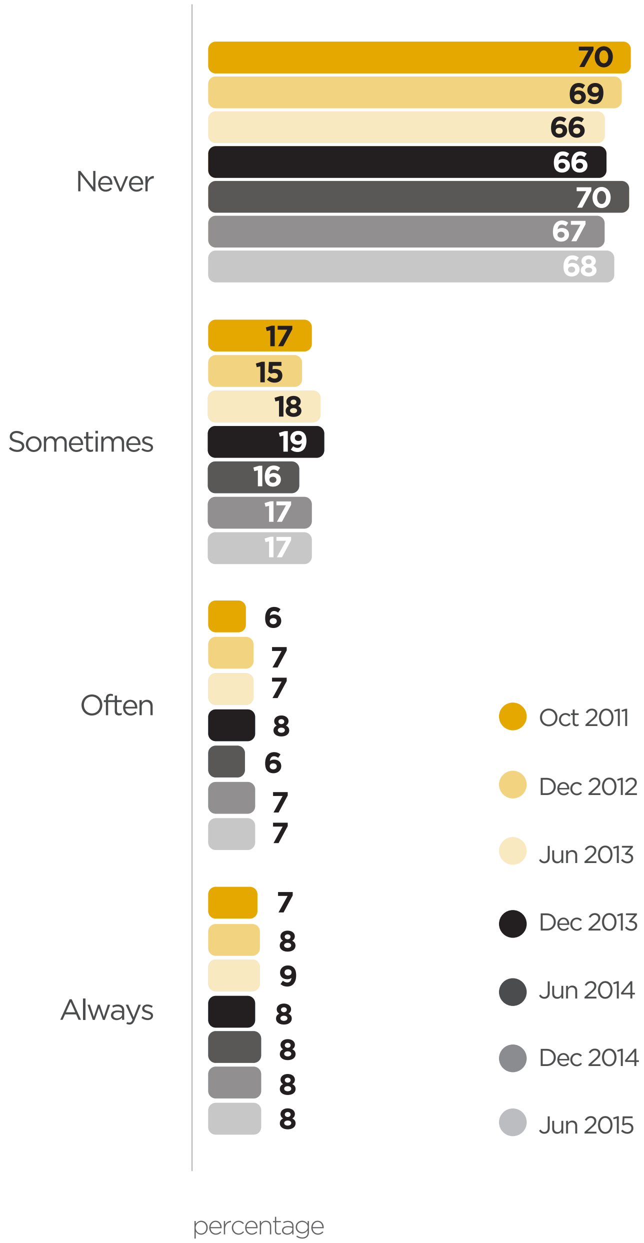


Figure 27 – Additional payments into super in the last six months?

Self-reliance in retirement.

Figure 28 shows there has been a slight reversal in the number of households expecting to fund retirement with their own funds over the past 6 months, down 2 points to 18% in June 2015, while those expecting to rely on the government pension only has increased by 6 points to 24% and those households expecting to use private savings and government pension fell by 3 points to 41%.

In terms of households, 'young singles/couples no with children' are the most confident with 23% indicating they will be able to fund their own retirement, while 'single parents' were the least confident with only 9% indicating they will be able to fund their own retirement. In terms of gender, over 20% of men compared to 14% of women expect to fund retirement with their own money.

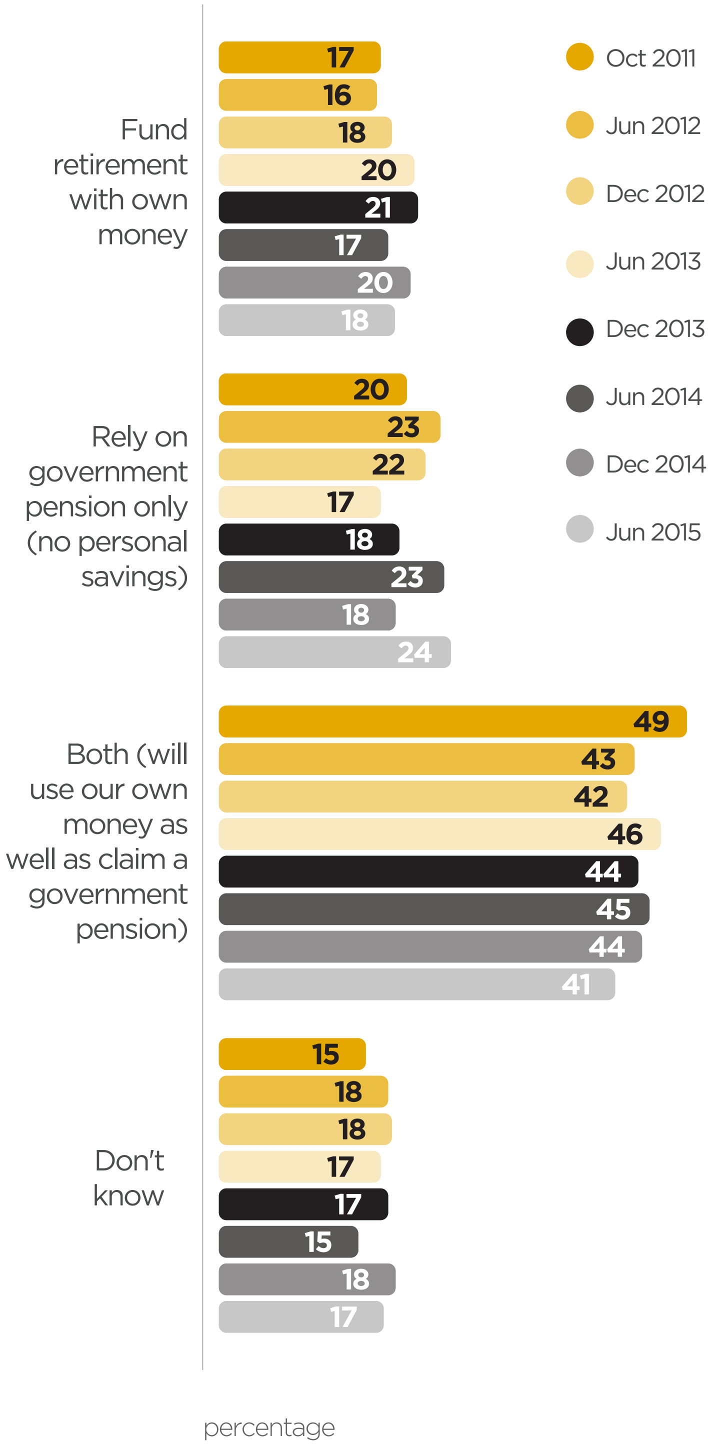


Figure 28 – How will your household fund retirement?

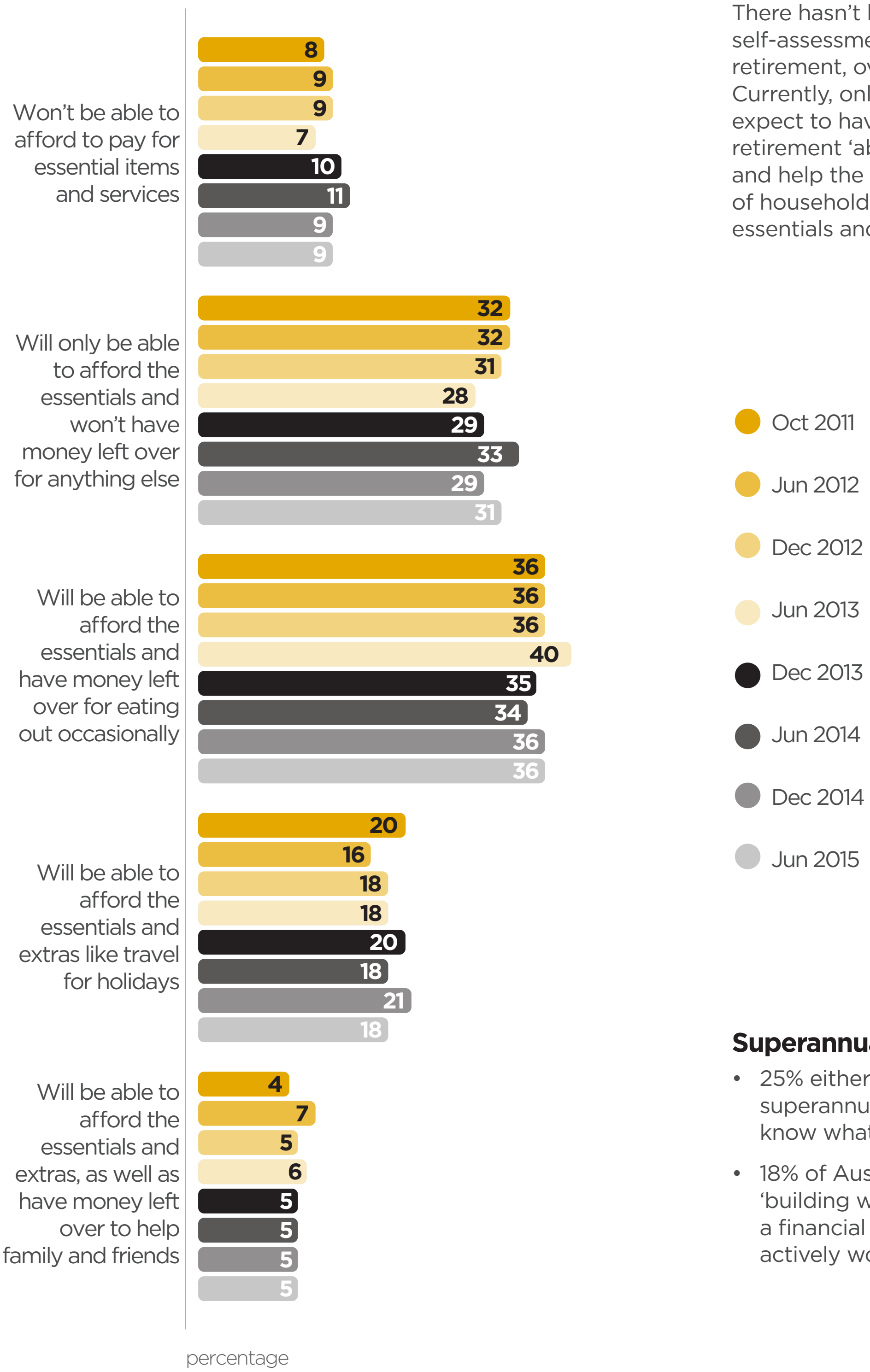


Figure 29 – Expectations for adequacy of income in retirement.

Expected adequacy of income in retirement.

There hasn't been much movement in self-assessments of income adequacy in retirement, over the past three years or so. Currently, only about 5% of households expect to have a very comfortable retirement 'able to afford essentials, extras and help the family', while a further 18% of households expect to be able to 'afford essentials and extras'.

Superannuation quick facts:

- 25% either don't have a superannuation fund or don't know what type they have.
- 18% of Australians reported 'building wealth for retirement' is a financial goal they're currently actively working towards.

5.4

OVERALL LEVEL OF (NET) WEALTH.

In the six months to June 2015, comfort with overall net wealth (as measured by what would be left in cash if you sold all your assets and paid off all debts today) decreased 6% to 5.69 – reversing the rise over the six months to December 2014.

All households reported falls in comfort with their (net) wealth. After very big falls during the past six months 'single parents' (down 26% to 4.25) and to a lesser extent 'middle aged singles/couples with no children' (down 12% to 5.19) reported the lowest level of comfort across households. On the other hand, the highest level of household comfort with net wealth was reported by 'retirees' (6.76 out of 10), followed by 'empty nesters' (6.04 out of 10).

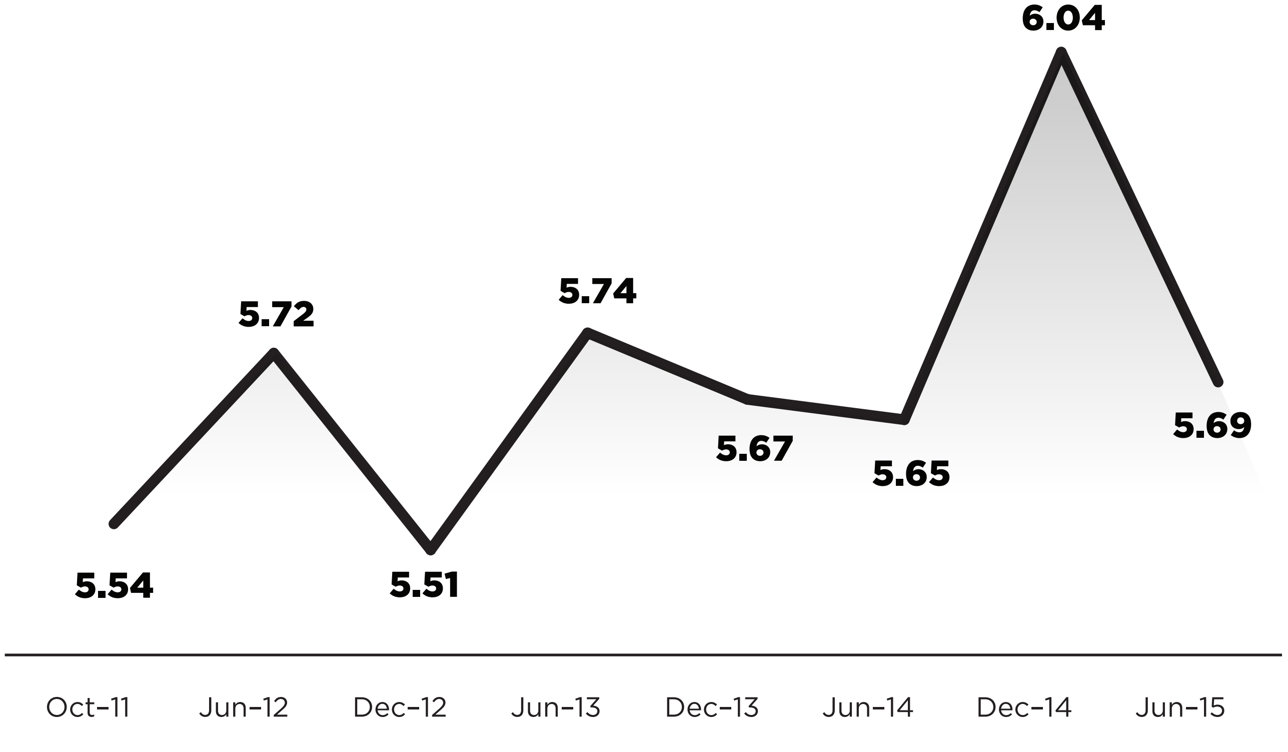


Figure 30 – Comfort with overall level of wealth. Scores out of 10.

appendix a household statistics.

06.

measure	Household Financial Comfort Index	Net Wealth Average Net Wealth	Household Income Average Household Yearly Income
Young singles/couples (<35yo) no children	5.70	$221,000	$86,000
Single parents	4.46	$246,000	$53,000
Couples with young children	5.25	$362,000	$95,000
Couples with older children	5.45	$653,000	$85,000
Middle-aged singles/couples no children	5.14	$369,000	$83,000
Empty nesters (50+yo)	5.65	$536,000	$70,000
Retirees	6.18	$862,000	$51,000

appendix b methodology.

07.

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

Eight 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 2015.

For analysis, the population sample was weighted according to ABS statistics on household composition, age, state and employment status to ensure that the results reflected Australian households.

An extensive review of other financial health /comfort indices and the academic literature suggested that a number of factors contribute to self-assessment of financial wellbeing and comfort. As such the ME *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).

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