THE FINANCIAL PSYCHOLOGY OF AUSTRALIAN HOUSEHOLDS.

INSIGHTS FROM NATIONAL RESEARCH.
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 1,500 households.

This Report presents the key findings from the fourth survey conducted in early June 2013, following previous surveys in October 2011, June 2012 and December 2012.

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,
- Other findings about household savings, investments, debt, living expenses, net wealth and standard of living in retirement, and
- Financial management behaviours and worries.

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 behaviours in managing finances.

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.

About Me Bank:

ME Bank is 100 percent owned by Australia’s leading industry super funds. It provides members of eligible 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:
KEY FINDINGS.

• In June 2013 Australian households reported medium comfort levels with their overall financial situation (up 4% to 5.5 out of 10) – a significant improvement since the previous survey in December 2012, and the highest level since the inaugural ME Bank Household Financial Comfort Report was conducted in October 2011 - page 5.

• Most household segments experienced an improvement in financial comfort during the past six months – driven by gains in all eleven drivers, with larger contributions to the uplift coming from investments, savings, ability to handle an emergency, and standard of living in retirement. ‘Empty Nesters’ felt the biggest improvement – up 12% during the past six months. The positive effects from a strong rise in share markets and to a lesser extent the Australian housing market have helped to boost the value of direct investments and superannuation of most households - page 7.

• In stark contrast to others, the financial comfort of ‘Retirees’ (in particular, partly government funded retirees) deteriorated by 5% during the past six months. All drivers of ‘Retiree’s’ financial comfort deteriorated, particularly investments, ability to handle a financial emergency, and standard of living in retirement. This largely reflects the negative impact of lower deposit rates on their investments given their relatively high and defensive exposure to bank deposits rather than growth assets, such as shares and investment properties. Unlike most other households, ‘Retirees’ have experienced little, if any benefit from lower borrowing rates given a lack of debt. Moreover, the vast majority of their wealth is somewhat illiquid equity in their owner-occupied home - page 7.

• Across all households the top four worries have remained largely unchanged over the past six months: the cost of necessities was the greatest worry across all households with more than 50% of households identifying it as a worry, followed by level of savings and cash on hand, ability to maintain lifestyle and standard of living in retirement, and how the global economy will affect Australia. In contrast, households with high comfort levels were increasingly worried about the impact of legislative change on their financial situation – up 10% to 31% of households with high comfort. The greatest positive among households is their ability to make ends meet, with 36% of households identifying this as a positive - page 21.

• Reflecting improved overall financial comfort, most households are somewhat optimistic about their financial situation over the next year with only a fifth of households expecting their financial situation to worsen, about 30% of households expecting their financial situation to stay the same, and almost half of households’ expect an improvement in their situation. While for most household types a (net) majority expect their financial situation to get better, almost 36% of retirees expect their situation to get worse compared to only 22% who expect a better situation - page 5.
“WE WORKED VERY HARD TO OVERPAY OUR MORTGAGE PRIOR TO HAVING CHILDREN. WE ARE VERY HAPPY WITH THIS DECISION NOW.”

COUPLE WITH YOUNG CHILDREN, SOUTH AUSTRALIA.

• In terms of state variation, household financial comfort continued to improve in most regions. Following significant gains during consecutive half years, comfort in South Australia is above comfort across Australia as a whole, after experiencing the lowest comfort levels in June 2012. Comfort levels remained the lowest in Tasmania and the highest in the ACT and Western Australia - page 8.

• Households’ saving situation has improved slightly, with a 4% fall in the proportion of households struggling to save each month, from 53% in December 2012 to 49% in June 2013. In dollar terms, for those families spending more than they earn, the average amount spent each month above income decreased from a high of $701 (almost $8500 per annum) in December 2012 to $395 ($4740 per annum) in June 2013, mainly reflecting less overspending by ‘Couples with children’ - page 15.

• There was significantly lower financial comfort among ‘Casual’ workers, who had the lowest levels of comfort for people with jobs (unchanged at an index of 5.15 during the six months to June 2013), compared to relatively high comfort levels for people in ‘Full-time paid employment’ (up 6% to an Index of 5.78) – page 23.

• Risk appetites have increased over the past six months. Complete financial risk-avoidance fell by 7% to 16% of households, matched in part by an increase in households willing to take average financial risks (up 3% to 44%) and households willing to take above average financial risks (up 2% to 18%). Only 4% of households remained willing to take substantial risks, with no households among ‘Retirees’ and ‘Empty Nesters’ willing to take substantial risk. Currently, only ‘Young singles/couples with no children’ are net risk lovers with those willing to take substantial risk outnumbering those unwilling to take any risk - page 20.

• Despite an improvement in the savings situation of households, rising financial comfort with cash savings and investments and slightly less risk aversion in the past six months, households with discretionary savings continued to prefer to make larger loan repayments (up 6% to 56% of households), rather than invest in direct shares and bonds (unchanged at 22%) or make voluntary contributions to superannuation (33%) - page 20.
Overall Australian households have continued a more prudent approach to finances during the first half of 2013. On a positive note, there has been a strong boost to net wealth from higher equity prices and moderate house price rises as well as easing debt burdens from falling borrowing rates. In contrast, real income gains (after rising consumer prices) have remained modest, gearing is still relatively high, and the labour market has weakened further.

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

- Consumer confidence has been relatively flat in the past few months to remain about its long-run average level, after rising in early 2013.
- Labour market conditions continued to soften in the first half of 2013 with subdued forward-looking indicators. The national unemployment rate has risen to a 4-year high of 5.7% in May 2013, compared with 5.4% in December 2012. The broader measure of labour under-utilisation rate (both unemployed and under-employed) or the unused labour supply was 12.9% in May (or 30% higher than the unemployment rate) and compared with an average under-utilisation rate of about 12% in the second half of 2012. Average hours worked declined to a 2-year low in May 2013. There has also been a significant fall in employment relative to both the workforce and the population, partly due to discouraged workers.
- Household labour income gains have slowed – reflecting slow growth in full-time employment, a continued lift in part-time job gains and subdued average wages growth.
- Household consumption spending has kept broadly in line with slower income growth and there has been a continued shift from spending on discretionary to essential items. As a result, household savings have remained relatively high – as measured by official data, the household saving rate from current household disposable income was estimated at about 10% in the first half of 2013, largely unchanged over the past couple of years and well above the average of the past two decades.
- Consumer inflation has remained relatively low – in ‘underlying terms’ at around 2.5% per annum – albeit with some marked variations across items over the past year – including larger rises in health, education and housing utilities and falls in other items (such as durables like electrical goods and cars, and recreation and financial services).
- The housing sector has continued to improve gradually. Spending on new dwelling investment has risen modestly, housing sales have picked up, auction clearance rates are higher and house prices, across capital cities, on average, are up about 4% over the past year – since a trough in mid 2012.
- Growth in household debt has remained subdued overall. The amount of housing credit continued to grow at an annual rate of about 4.5% in the first half of 2013. There has been some pickup in housing approvals for owner-occupiers and investors, while demand for first-home buyers’ finance has remained subdued, despite improved affordability. Both credit card and other personal loans have declined a bit further – especially to fund investments in listed equities and managed funds.
- Household assets, on average, have increased significantly further. Notwithstanding some continued volatility in both equity and bond markets, this mainly reflected a further significant rise in local and global share prices during the first half of 2013, and to a much lesser extent, an increase in residential property prices in most capital cities. Long term retirement savings in superannuation have also recorded a significant rise largely due a pickup in asset returns and continued compulsory contributions, rather than extra voluntary savings.
“MY BIGGEST CONCERN IS I DID NOT KNOW ENOUGH ABOUT SAVINGS OR SUPERANNUATION WHEN I WAS YOUNG. NOW AT 51 I WILL FIND IT VERY HARD TO SAVE ENOUGH MONEY TO LIVE OFF IN RETIREMENT OR EVEN TO BUY MY FIRST HOUSE.”

SINGLE MALE, NSW.

• Despite rising asset markets and significantly lower short to medium term borrowing and deposit rates to well below average levels, households have remained relatively conservative in their investment preferences – arguably reflecting still historically high gearing (debt to assets). Households with debt have continued to make larger than minimum loan repayments, and build cash savings in bank deposits, rather than direct investments such as equities, bonds and other managed funds investments.

• As a result, overall household net wealth (assets less debt) increased strongly in both the first half of 2013 and the 2012/13 financial year as a whole, following a significant fall during 2011/12.

• Financial stress indicators continue to show that households as a whole are coping reasonably well with debt servicing burdens due to continued employment, disposable income gains and relatively low borrowing costs. This of course masks a great deal of variation among Australians. There is a small majority of Australians (older and higher incomes in owner-occupied housing) well ahead of scheduled mortgage repayments and little if any credit card debt. However, there is a significant share of highly geared households with high debt servicing costs. There are also some regions with significant stress reflecting large dwelling price falls and relatively high unemployment rates.
Australian households have a moderate but increasing level of comfort with their overall financial situation. Australians overall were feeling significantly more comfortable in June 2013, compared to the previous survey in December 2012. This is the highest level of comfort experienced by Australian households since the Index was established in October 2011.

As measured by the Household Financial Comfort Index, household financial comfort was 5.50 (out of 10) in June 2013 - a significant increase of 4% compared with the corresponding figure of 5.29 in December 2012 (Fig 1). These financial comfort scores are consistent with those reported when Australian households feel ‘occasional stress or worry’, rather than when ‘financial problems require significant lifestyle change’.

Looking forward to the next year, Australian households as a whole are largely optimistic. Many anticipate an improvement in their financial situation during the next year, with:

- 48% stating they anticipate their household financial situation will improve;
- 31% indicated an expectation that their situation would stay the same and
- 22% predicted that it would worsen.

Retirees were the only household group with more people who expected their future financial situation to get worse rather than better.

Figure 1: Financial comfort levels of Australian households over time.
VARIATION ACROSS HOUSEHOLD SEGMENTS

Variation in financial comfort exists across household segments with 'Empty Nesters' showing the highest level of household financial comfort (mean score of 5.96). Comfort levels for this segment have increased significantly (+12%) since the previous report in December 2012 and this is the first time a household segment other than ‘Retirees’ has had the highest level of Household Financial Comfort. Conversely, the comfort level of ‘Retirees’ has dropped by 5% from 6.08 to 5.70 over the past six months. ‘Single parents’ remained the household type with the lowest financial comfort (mean score of 4.89; Fig 2).

“...VERY COMFORTABLE WITH MY CURRENT FINANCIAL SITUATION AS I OWN MY OWN HOME AND HAVE A NEW CAR.”

EMPTY NESTER, QUEENSLAND.
HOUSEHOLD FINANCIAL COMFORT INDEX BY HOUSEHOLD TYPE.

<table>
<thead>
<tr>
<th>HOUSEHOLD TYPE</th>
<th>Single parents</th>
<th>Couples with young children</th>
<th>Couples with older children</th>
<th>Young singles / couples (&lt;35yo) no children</th>
<th>Mid-aged singles / couples no children</th>
<th>Empty nesters (50+yo)</th>
<th>Retirees</th>
<th>All households</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMFORT SCORE JUNE 2013</td>
<td>4.89</td>
<td>5.34</td>
<td>5.54</td>
<td>5.83</td>
<td>5.55</td>
<td>5.96</td>
<td>5.79</td>
<td>5.50</td>
</tr>
<tr>
<td>CHANGE SINCE DECEMBER 2012</td>
<td>+8% ↑</td>
<td>+4% ↑</td>
<td>+1% ↑</td>
<td>+6% ↑</td>
<td>+6% ↑</td>
<td>+12% ↑</td>
<td>-5% ↓</td>
<td>+4% ↑</td>
</tr>
</tbody>
</table>

Figure 2: Household Financial Comfort Index by Household Type.

How comfortable households felt about their finances increased across most household types except for ‘Retirees’, with a significant increase recorded for ‘Empty Nesters’.

The June 2013 result changes a trend noted in previous Household Financial Comfort Index surveys when ‘Retirees’ reported feeling the most comfortable about their finances. Over the past six months to June 2013, the overall comfort levels of ‘Retirees’ declined by 5% from 6.08 to 5.79 as measured by the Index, driven by declines among nearly all the components of the Index, but especially:

- Confidence in their ability to maintain their lifestyle in retirement (decreased 9% since December 2012)
- Their expected standard of living in retirement (decreased 8%)
- Comfort with their investments (decreased 6%), and
- Comfort with respect to their income (decreased 6%).

This deterioration in comfort of ‘Retirees’ (and in particular – those partly funded by the government), largely reflects the negative impact of lower deposit rates on their investments given their relatively high and defensive exposure to bank deposits rather than growth assets such as shares and investment properties. Unlike most other households, ‘Retirees’ have experienced little, if any benefit from lower borrowing rates given a lack of debt. Moreover, the vast majority of their wealth is somewhat illiquid equity in their owner-occupied home.

Conversely ‘Empty nesters’ showed the largest increases in comfort levels with their finances, increasing 12% from 5.31 in December 2012 to 5.96 in June 2013. There were increases in all components of the Index for these Australian households, with statistically significant increases in:

- Confidence that they have enough savings to maintain their lifestyle if they lost their income for three months (increased 27%)
- Comfort with their level of savings (increased 21%)
- Comfort with the current level of investments (increased 15%)
- Their expected standard of living in retirement (increased 14%)
- Comfort with their household’s amount of wealth (increased 12%)
- Comfort with their ability in managing and paying for regular expenses (increased 11%), and
- Their expectations for their financial situation in the next year (increased 10%).
The financial comfort of ‘Single parent’ households increased by 8% (from an index of 4.52 in December 2012 to 4.89 in June 2013). This was largely driven by significant increases in comfort with their investments (increased 23%) and positivity about their financial situation in the next year (13% increase in those saying that they anticipate a much better financial situation in the next year). That said, ‘Single parents’ households were nearly three times more likely to say that they had worried about job loss or an event that might threaten the security of their household’s income (31% reported worrying more than a moderate amount in June 2013 compared with 12% in December 2012).

Slight increases were also recorded among all other household segments – ‘Young singles/couples no children’ (Index of 5.51 in December 2012 and 5.83 in June 2013), ‘Middle-aged singles/couples no children’ (Index of 5.26 in December 2012 and 5.55 in June 2013) and ‘Couples with young children’ (Index of 5.15 in December 2012 and 5.34 in June 2013).

‘Couples with older children’ showed broadly unchanged Index results (an increase of less than 1% with an Index of 5.50 in December 2012 and 5.54 in June 2013).

The positive effects from a strong rise in share markets and to a lesser extent the Australian housing market over the past six months have boosted the value of direct investments and superannuation of most households. Lower borrowing costs have also increased most households’ comfort with their debt burdens and boosted their cash savings. It has also improved their expectations for financial comfort during the next year and in the longer term their standard of living in retirement.

**VARIATION ACROSS STATES AND TERRITORIES**

During the six months to June 2013, the Household Financial Index remained relatively stable in most regions with trends toward improved comfort with household finances especially in South Australia (Fig 3).

Continuing a trend noted in previous reports, Western Australia and the Australian Capital Territory have recorded the highest levels of comfort in June 2013. Conversely, Tasmania and the Northern Territory recorded the lowest levels of comfort (although results for the less populous States and Territories should be treated with caution due to smaller samples).

Tasmanian households had the lowest comfort levels nationally and the lowest comfort with respect to nearly all individual components of the Index. Tasmanians were also most likely to report that they had felt significant worry about job loss or a circumstance that might impact their income (40% compared with the national result of 22%) and showed the highest negativity regarding their prospects if they had to find another job (80% said it would be somewhat to very difficult to find a job within two months of becoming unemployed compared with the national result of 53%).

“NOT HAVING ENOUGH MONEY FOR ALL THE THINGS WE NEED, PARTICULARLY FOR MY SON SUCH AS ORTHODONTICS, MEDICAL.”

SINGLE PARENT, NSW.
Of the mainland states, comfort in South Australia continued to rebound from the lowest level across Australia in June 2012 to be significantly above the Australian average in June 2013 following rises of 11% to an index of 5.70 in the six months to June 2013 after an increase of 6% during the previous 6 months. All components of the comfort index have risen significantly for households in South Australia during the past year. Similarly, both Queensland and New South Wales reported improvements (both up +4%) in their comfort indexes to 5.29 and 5.59 respectively, while comfort also increased in Western Australia (up 6% to an index of 5.84). Most key drivers tended to have small increases in these three states during the six months to June 2013 – for example, Queenslanders and households in New South Wales reported relatively larger rises in comfort levels with respect to their investments while households in Western Australia reported relatively larger increases in comfort with managing their day-to-day living expenses and their savings.

Over the first half of 2013, the ME Bank Financial Comfort Index for Victoria was largely unchanged at an index of 5.40, but still a bit below comfort across Australia as a whole, although this did end a trend of decreasing comfort levels among Victorian households.

HOUSEHOLD FINANCIAL COMFORT INDEX BY STATE AND TERRITORY.

<table>
<thead>
<tr>
<th>STATE OR TERRITORY</th>
<th>COMFORT SCORE (OUT OF 10) AS OF JUNE 2013</th>
<th>PERCENTAGE CHANGE SINCE DECEMBER 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>NEW SOUTH WALES</td>
<td>5.59</td>
<td>+4%</td>
</tr>
<tr>
<td>QUEENSLAND</td>
<td>5.29</td>
<td>+4%</td>
</tr>
<tr>
<td>VICTORIA</td>
<td>5.40</td>
<td>+1%</td>
</tr>
<tr>
<td>SOUTH AUSTRALIA</td>
<td>5.70</td>
<td>+11%</td>
</tr>
<tr>
<td>TASMANIA*</td>
<td>5.01</td>
<td>+5%</td>
</tr>
<tr>
<td>WESTERN AUSTRALIA</td>
<td>5.84</td>
<td>+6%</td>
</tr>
<tr>
<td>NORTHERN TERRITORY*</td>
<td>5.07</td>
<td>+1%</td>
</tr>
<tr>
<td>AUSTRALIAN CAPITAL TERRITORY*</td>
<td>6.13</td>
<td>+8%</td>
</tr>
<tr>
<td>OVERALL</td>
<td>5.50</td>
<td>+4%</td>
</tr>
</tbody>
</table>

Figure 3: The Household Financial Comfort Index by State and Territory compared to the overall household comfort score of 5.50 in June 2013.
“I worry about not having enough money to send my child to college, but we live simply so will make a conscious effort to start saving harder.”

SINGLE PARENT, VICTORIA
FOUR:  
CHANGING COMFORT LEVELS  
WITH KEY FINANCIAL ASPECTS.

Australian households felt the most comfortable with ‘monthly expenses’ and ‘debt from all sources’, and although significant increases were observed in comfort levels with ‘cash savings’ and ‘investments’ in June 2013, these remained the two areas households felt least comfortable with.

If we focus on the seven of the 11 components of the Household Financial Comfort Index most relevant to the household balance sheet (Fig 4), comfort levels were highest in June 2013 with respect to:

• Managing and paying ‘monthly expenses’ (68% of Australian households were somewhat or very comfortable). Comments from respondents suggested that there was greater concern about how rising prices, especially for necessities such as utilities, would influence their ability to save or have money left over for discretionary spending, rather than their ability to manage their expenses per se, and

• Their current level of ‘debt from all sources’ (57% of Australian households were somewhat or very comfortable, in contrast to 12% of households that were very uncomfortable with debt burdens). Critically, the findings also showed that debts were thought to be manageable when savings buffers were not eroded, but almost 30% of Australians were just managing to make minimum loan repayments and a further 6% of households were falling behind on loan repayments.

COMFORT LEVELS ACROSS KEY ASPECTS OF HOUSEHOLD FINANCES.

Figure 4: Seven of the 11 individual measures that make up the Household Financial Comfort Index, including distribution of comfort levels and the average comfort score for each measure.
Comfort levels remained lowest in June 2013 for:

- Current cash savings (overall, 23% 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) – 22% of respondents reported being very uncomfortable.

Comfort with most aspects of household finances mentioned in Figure 4 above had increased during the six months to June 2013, with comfort across all households:

- Improving significantly with respect to managing monthly expenses (+4%), net wealth (+4%), anticipated standard of living in retirement (+5%) and current level of investments (+6%), and to a statistically less extent
- Household income (+3%), cash savings (+3%) and amount of debt from all sources (+2%). See Fig 5 below.

### Comfort Levels Across Key Aspects of Household Finances.

<table>
<thead>
<tr>
<th>MEASURE</th>
<th>Wealth (net)</th>
<th>Household Income</th>
<th>Monthly expenses</th>
<th>Cash Savings</th>
<th>Investments</th>
<th>Debt from all sources</th>
<th>Anticipated standard of living in retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Comfort Score June 2013</strong></td>
<td>5.74</td>
<td>5.72</td>
<td>6.50</td>
<td>4.98</td>
<td>4.82</td>
<td>6.03</td>
<td>5.08</td>
</tr>
<tr>
<td><strong>Change Since December 2012</strong></td>
<td>+4%</td>
<td>+3%</td>
<td>+4%</td>
<td>+3%</td>
<td>+6%</td>
<td>+2%</td>
<td>+5%</td>
</tr>
</tbody>
</table>

Figure 5: Percentage change during the six months to June 2013 in household comfort levels for seven of the eleven individual measures that make up the overall comfort index.

“OUR FAMILY SPENDS A LOT ON RUNNING THE HOUSEHOLD. WE CURRENTLY HAVE 4 TO 5 ADULTS AND 2 TEENAGERS IN THE HOUSE. FOOD BILL IS MASSIVE AND POWER AND WATER EXPENSES ARE INCREASING.”

COUPLE WITH OLDER CHILDREN, WESTERN AUSTRALIA
Despite the percentage increases in overall household comfort with ‘investments’, ‘anticipated standard of living in retirement’ and to a lesser extent ‘cash savings’, these aspects of the household financial position remained among the areas with which Australian households had the lowest levels of comfort.

An examination of these aspects of household comfort (Fig. 6) indicated that:

• The increase in comfort with investments was driven by ‘Single parent’ (+23%) and ‘Empty nester’ (+15%) households. Conversely, ‘Retiree’ households (-6%), declined with respect to comfort with the current level of investments. As a result, ‘Single parents’ have the least comfort with their investments, while ‘Empty Nesters’ have the highest comfort with investments, followed by ‘Middle aged households with no children’ and ‘Retirees’ – both with the same level of comfort with investments.

• ‘Empty nesters’ and ‘Retirees’ also showed divergent attitudes with respect to changes in their anticipated standard of living in retirement – ‘Empty nesters’ reported a significantly higher anticipated standard of living in retirement (+15%), while a decrease was noted for ‘Retirees’ (-8%), albeit self-funded retirees still anticipated a relatively high standard of living in retirement.

• An increase in comfort with cash savings was noted among ‘Empty nesters’ (+21%) and ‘Single parents’ (+17%), while savings comfort for ‘Retirees’ fell (-5%). Similarly to investments, ‘Single parents’ continued to have the most discomfort with cash savings and ‘Empty nesters’ reported the highest comfort with cash savings – well above ‘Retirees.

The positive effects from a strong rise in share markets and to a lesser extent the Australian housing market have helped to boost the value of direct investments and superannuation of most households (except ‘Retirees’ during the past six months). ‘Retirees’ - especially those partly funded by governments - with their relatively high and defensive exposure to bank deposits rather than growth assets such as shares, have been negatively impacted by lower cash and term deposit rates. Furthermore, unlike most other households, ‘Retirees’ have experienced little, if any benefit from lower borrowing rates given a lack of debt.
I CARRY NO DEBT WHATSOEVER.
I OWN A CREDIT CARD, BUT USE
IT RARELY AND ALWAYS PAY
THE DUE AMOUNT IN FULL. ANY
EXTRA MONEY I HAVE IS USED
TO INVEST FOR THE FUTURE.”

SINGLE MALE, VICTORIA

PERCENTAGE CHANGE IN HOUSEHOLD COMFORT WITH INVESTMENTS, SAVINGS AND ANTICIPATED STANDARD OF LIVING IN RETIREMENT.

<table>
<thead>
<tr>
<th>HOUSEHOLD TYPE</th>
<th>Single parents</th>
<th>Couples with young children</th>
<th>Couples with older children</th>
<th>Young singles/couples (&lt;35yo) no children</th>
<th>Mid-aged singles/couples no children</th>
<th>Empty nesters (50+yo)</th>
<th>Retirees</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMFORT WITH INVESTMENTS</td>
<td>+23%</td>
<td>+3%</td>
<td>THE SAME</td>
<td>+8%</td>
<td>+12%</td>
<td>+15%</td>
<td>-6%</td>
</tr>
<tr>
<td>LEVEL OF CASH SAVINGS</td>
<td>+17%</td>
<td>-1%</td>
<td>-3%</td>
<td>+6%</td>
<td>+5%</td>
<td>+21%</td>
<td>-5%</td>
</tr>
<tr>
<td>ANTICIPATED STANDARD OF LIVING IN RETIREMENT</td>
<td>+18%</td>
<td>+7%</td>
<td>+3%</td>
<td>+7%</td>
<td>+9%</td>
<td>+14%</td>
<td>-8%</td>
</tr>
</tbody>
</table>

Figure 6: Percentage change during the six months to June 2013 in household comfort with investments, level of cash savings and the anticipated standard of living in retirement, by household type.
Previous Household Financial Comfort Reports found that a majority of Australian households were struggling to save in a typical month – however, this trend reversed slightly during the six months to June 2013, with 49% of households struggling to save each month, compared with 53% in December 2012.

Despite a significant decrease in risk avoidance in the latest survey, discretionary savings have been used to make larger than minimum loan repayments and to save for medium to long term goals (such as a car, home, holiday), rather than invest in financial assets (such as share, bonds) or to make voluntary contributions to superannuation.

Figure 7: Percentage of households who are spending more or less than their income in a typical month.
Across all Australian households:

- 49% of households are not saving of which 39% of households were breaking even each month (that is, spending all of their income and no more), and the remaining 10% were overspending (that is, spending more than they earned by drawing on savings, loans, credit cards or equity in their home).

By household segments:

- Spending more than they earned in a typical month remained most common among ‘Single parents’ (14%) and ‘Couples with young children’ (13%), while overspending is least common by both ‘Young and Mid-aged singles and couples with no children’ (5%). Cash left over at the end of the month was most common among households comprised of ‘Young singles/Couple no children’ (66%), and ‘Empty nesters’ (60%), while savings tends to be less common among ‘Single parents’ (33%) (see Fig 8).
While the percentage of households spending more than they earned each month remained relatively consistent with previous surveys (at about 10% of households), there has been a marked fall in the dollar amount of overspending in a typical month – especially among ‘Couples with children’. Over the past six months, the average amount spent each month above income decreased from a high of $701 (almost $8500 per annum) in December 2012 to $395 ($4740 per annum) in June 2013 (Figure 9). Over the past six months, overspending in a typical month for ‘Couples with young children’ and ‘Couples with older children’ has fallen markedly from about $900 to about $300 and $500, respectively.

51% of survey respondents spent less than they earned each month (saving) with an average of $870 per month saved (or approximately $10440 per annum). This was similar to the results noted in the previous surveys for the Household Financial Comfort Index. Among those saving over the past six months, less spending by ‘Couples with children’ was partly offset by increased spending by ‘Young singles/couples’, ‘Single parents’ and ‘Empty nesters’.

Figure 8: Typical monthly savings for different household types.

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Figure 8: Typical monthly savings for different household types.
A savings buffer is critical if households are faced with a financial emergency. It is those households that have low comfort with regards to savings and typically overspend each month that also report they would not be able to raise $3,000 in an emergency and many would not be able to maintain their lifestyle for long if they lost their income (Fig 10).

For example:

- 29% of ‘Single parents’ would not be able to raise $3,000 for an emergency and this segment was more likely than other household types to say that they would only be able to maintain their lifestyle for less than a month if they lost their job (29%). ‘Couples with young children’ were in a slightly better situation compared to ‘Single parent’ households, yet 17% reported only being able to maintain their lifestyle for less than a fortnight if they lost their job and 21% could not raise $3,000 emergency cash.

- ‘Empty nesters (50+yo)’ and ‘Retirees’ reported the highest likelihood of being able to maintain their lifestyle for six months or more (31% and 29%, respectively). ‘Empty nesters’ also reported among the highest comfort levels with their cash savings, yet a relatively high percentage (17%) could not raise $3,000 in an emergency – perhaps reflective of a focus on saving for retirement without easy access to cash.
### ABILITY TO MAINTAIN LIFESTYLE OR RAISE EMERGENCY CASH.

<table>
<thead>
<tr>
<th>HOUSEHOLD TYPE</th>
<th>Less Than A Fortnight</th>
<th>6 Months Or More</th>
<th>Would not be able to raise $3000 for a financial emergency</th>
</tr>
</thead>
<tbody>
<tr>
<td>SINGLE PARENTS</td>
<td>29%</td>
<td>15%</td>
<td>29%</td>
</tr>
<tr>
<td>COUPLES WITH YOUNG CHILDREN</td>
<td>17%</td>
<td>12%</td>
<td>21%</td>
</tr>
<tr>
<td>COUPLES WITH OLDER CHILDREN</td>
<td>11%</td>
<td>23%</td>
<td>16%</td>
</tr>
<tr>
<td>YOUNG SINGLES / COUPLES (&lt;35YO) NO CHILDREN</td>
<td>11%</td>
<td>10%</td>
<td>14%</td>
</tr>
<tr>
<td>MIDDLE-AGED SINGLES / COUPLES NO CHILDREN</td>
<td>20%</td>
<td>22%</td>
<td>19%</td>
</tr>
<tr>
<td>EMPTY NESTERS (50+YO)</td>
<td>10%</td>
<td>31%</td>
<td>17%</td>
</tr>
<tr>
<td>RETIREES</td>
<td>13%</td>
<td>29%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Figure 10: Ability to maintain lifestyle if lost main source of income and to raise $3,000 in an emergency.
DISCRETIONARY SAVINGS AND FINANCIAL RISK

A significant decrease in financial risk avoidance was observed in this latest survey. Over the six months to June, those households willing to take no financial risk (ie risk avoiders) fell by 7% to 16% while households willing to take average financial risks increased 3% to 44% and above average financial risks increased 2% to 18%. Households willing to take substantial risks (ie risk lovers) remained largely unchanged in a minority of 4% of households. This decrease in risk avoidance was observed in all types of households, except for ‘Retirees’.

Despite this decrease in risk avoidance, risk avoiders continue to exceed risk lovers by 12% of households overall. In terms of types of households, 25% of both ‘Retirees’ and ‘Empty nesters’ were unwilling to take any risk and virtually no ‘Retirees’ or ‘Empty nesters’ were willing to take ‘substantial risk’. ‘Young singles/couples with no children’ were the only households with slightly more risk lovers (11% of households) than risk avoiders (9%).

Reflecting the overall lack of risk appetite, the purchase of financial assets (such as shares and bonds) remains the least likely form of financial savings/investments by households during the past six months. The most popular uses of discretionary savings remained the medium to long term goals of saving for a car, holiday, home, and, to a lesser extent, making larger than minimum bank loan repayments. Indeed, there was a substantial increase in household preferences towards savings by both making larger than minimum loan repayments and savings for a holiday and car with both up by 6% to 56% and 72% of households respectively, over the past six months.

All households, except for ‘Middle aged singles/couples with no children’ and ‘Retirees’ have increased discretionary savings preferences for a holiday, car, home, while all types of households have significantly increased making larger loan repayments – older households without children (both ‘Middle aged’ and ‘Empty nesters’) have contributed the most to increased bank loan repayments.

“MY INCOME IS CURRENTLY ENOUGH TO PAY OUR BILLS AND HAVE ENOUGH LEFT OVER TO SAVE FOR HOLIDAYS.”

MIDDLE-AGED COUPLE, NEW SOUTH WALES.

“..WE ARE EXCEEDING OUR CURRENT SAVINGS GOALS.”

COUPLE WITH YOUNGER CHILDREN, VICTORIA.
Greatest areas of household worry remain the rising cost of necessities, especially among households with low financial comfort. Despite improvements in how comfortable Australian households feel about their ability to manage their monthly expenses, when asked what their greatest worry is overall, the cost of necessities including fuel, utilities and groceries is the top worry, with 52% of households listing this as a main concern and this being the most commonly listed concern across all household types. Among Australian households, the level of savings or cash on hand (40%) and the ability to maintain their lifestyle in retirement (32%) were also frequently listed as top areas of concern (Fig. 11).
Across household types, those with low financial comfort tended to be those with a lack of savings buffer, lower incomes, higher non-mortgage debt and lower property values – these households tended to worry about balancing rising costs, debt and cash savings. Households with high financial comfort tend to be those with high investments especially in superannuation and property and higher net wealth, and the greatest concerns of these households were related to how the global economy would impact Australia, the cost of necessities, and the impact of legislative change on their financial situation and to a lesser extent the anticipated standard of living in retirement (Fig. 11).

However, across all households the top four worries have remained largely unchanged since the previous survey, except for households with high comfort levels. The latter were increasingly worried about the impact of legislative change on their financial situation – up 10% to 31% of households with high comfort.

In contrast to household concerns, the greatest positive among households was their ability to make ends meet, with 36% of households identifying this as a positive. A quarter of households reported that the level of debt and job security were also among their greatest positives about household finances.
There is also a great deal of variation in financial comfort reported by different parts of the labour force, with significantly lower financial comfort among ‘Casuals’ and the ‘Unemployed’.

According to the Index, ‘Casuals’ had the lowest levels of comfort for people with jobs (unchanged at an index of 5.15 during the six months to June 2013), while relatively high comfort levels were reported by people in ‘Full-time paid employment’ (up 6% to an Index of 5.78). Conversely, there was a significant increase of 21% in the financial comfort of the ‘Unemployed’ (index of 4.95 in June 2013 compared with 4.08 in December 2012; Fig 12), although ‘Unemployed’ continued to record the lowest level of comfort of any part of the labour force.

**HOUSEHOLD FINANCIAL COMFORT INDEX BY WORKFORCE STATUS.**

<table>
<thead>
<tr>
<th>WORKFORCE STATUS</th>
<th>Full-time paid employment</th>
<th>Part-time paid employment</th>
<th>Self-employed</th>
<th>Casual</th>
<th>Unemployed</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMFORT SCORE AS AT JUNE 2013</td>
<td>5.78</td>
<td>5.42</td>
<td>5.48</td>
<td>5.15</td>
<td>4.95</td>
<td>5.50</td>
</tr>
<tr>
<td>CHANGE SINCE DECEMBER 2012</td>
<td>+6% ↑</td>
<td>+1% ↑</td>
<td>-3% ↓</td>
<td>THE SAME</td>
<td>+21% ↑</td>
<td>+4% ↑</td>
</tr>
</tbody>
</table>

Figure 12: Household Financial Comfort Index across the workforce, showing variation in comfort scores across parts of the labour force compared to the overall comfort score of 5.50 in June 2013.

“MEETING PAYMENTS AND PAYING BILLS AS I ONLY HAVE A CASUAL JOB. I GET A LOT OF HOURS WITH MY JOB OVER THE SUMMER MONTHS BUT HARDLY ANY IN THE WINTER MONTHS.”

MIDDLE AGED FEMALE, VICTORIA.
The ability of households to save was also affected by employment status. Although there was an improvement in the latest Survey, ‘Casual’ workers remained the most likely to spend all their income on household expenses with nothing left over in a typical month (down 12% to 40% in June 2013). Fewer ‘Casual’ workers also overspent above their income in a typical month (down 5% to 6% in June 2013), while ‘Casual’ workers being able to save money after paying expenditures in a typical month rose significantly (up 15% to 53% in June 2013).

In terms of workforce status (employed persons):

- Nearly one-half (47%) of ‘Casual’ workers felt somewhat to very insecure in their jobs with 19% feeling very insecure in their jobs (compared with 16% in December 2013). This contrasts with only 5% of ‘Full time’ workers feeling very insecure about their job.
- Slightly more ‘Casual’ workers reported that they would last less than a month if they lost their job (25% for ‘Full time’ workers and 30% for ‘Casual’ workers). Among ‘Part time’ employees, 31% reported lasting less than a month if they lost their job.
- ‘Casual’ workers were most likely to report that they would be unable to raise $3,000 in an emergency (27% compared with 14% of ‘Full time’ employees).

“I’M ONLY A CASUAL WORKER SO I ONLY GET A FEW SHIFTS A WEEK MEANING I DON’T EARN VERY MUCH. IT’S HARD TO SAVE WHEN YOU DON’T EARN MUCH AND YOU HAVE THINGS LIKE THE PRICE OF PETROL CONSTANTLY RISING.”

CASUAL WORKER, QUEENSLAND.
APPENDIX A: HOUSEHOLD STATISTICS.

HOUSEHOLD TYPE STATISTICS.

<table>
<thead>
<tr>
<th>Household Type</th>
<th>Household Financial Comfort Index</th>
<th>Average Net Wealth</th>
<th>Average Household Yearly Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Young singles/couples (&lt;35yo) no children</td>
<td>5.83</td>
<td>$256,000</td>
<td>$87,000</td>
</tr>
<tr>
<td>Single parents</td>
<td>4.89</td>
<td>$341,000</td>
<td>$63,000</td>
</tr>
<tr>
<td>Couples with young children</td>
<td>5.34</td>
<td>$329,000</td>
<td>$89,000</td>
</tr>
<tr>
<td>Couples with older children</td>
<td>5.54</td>
<td>$653,000</td>
<td>$92,000</td>
</tr>
<tr>
<td>Middle-aged singles/couples no children</td>
<td>5.55</td>
<td>$371,000</td>
<td>$87,000</td>
</tr>
<tr>
<td>Empty nesters (50+yo)</td>
<td>5.96</td>
<td>$691,000</td>
<td>$74,000</td>
</tr>
<tr>
<td>Retirees</td>
<td>5.79</td>
<td>$602,000</td>
<td>$42,000</td>
</tr>
</tbody>
</table>
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. Waves of research have been conducted in October 2011, June 2012, mid-December 2012 and June 2013.

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

An extensive review of other financial health/comfort indices and the academic literature suggested that a number of factors contribute to self-assessment of financial wellbeing and comfort. As such the ME Bank Household Financial Comfort Index incorporates eleven measures of how households feel about their financial situation – these include:

- Comfort level with (1) the overall financial situation of the household
- Changes in household financial situation (2) over the past year and (3) anticipated in the next year
- (4) Confidence in the household’s ability to handle a financial emergency, and
- Comfort levels with (5) household income, (6) living expenses, (7) short-term ‘cash’ savings and (8) long-term investments, (9) debt, (10) overall net wealth, and (11) the household’s anticipated standard of living in retirement.

To provide contextual insight for the Comfort Index, respondents were asked to rate how comfortable they would be with their current overall household situation if they were feeling ‘occasional stress or worry’, and also if they were experiencing ‘financial problems which require significant lifestyle change’.

To collect data on how households felt about their financial situation via household financial comfort, confidence with finances and anticipated change in finances, we used 0-10 scales anchored by descriptive terms ‘not at all comfortable’ to ‘extremely comfortable’ (comfort), ‘not at all confident’ to ‘extremely confident’ (confidence) and ‘worsen a lot to improve a lot, with a mid-point of ‘stayed the same’ (anticipated change). Questions to collect household actual financial data included those that asked for dollar amounts or dollar range as well as actual behaviour (e.g., whether or not their household was able to save money during a typical month).
FURTHER INFORMATION.
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
• The ‘gap’ between the expected financial comfort of individual households based on their financial situation to the actual financial comfort scores that they report.
For additional information, contact Matthew Read (matthew.read@mebank.com.au) at ME Bank.

DISCLAIMER.
Members Equity Bank Pty Ltd ABN 56 070 887 679 (‘ME Bank’ has prepared the attached ME Bank Household Financial Comfort Report. Information in the report is current as at July 2013 and is subject to change. The Report has been prepared in good faith however we make no representation and give no warranty as to the accuracy, reliability, or completeness of the information contained in the Report. ME Bank does not accept any responsibility in any way for the report or for your use of the Report for any purpose.