ING DIRECT FINANCIAL WELLBEING INDEX Q4 2012

ING DIRECT

Spend your life well

Saving and paying down debt take top priority

Australian households are taking active steps to boost their financial wellbeing over the next 12 months.

The fourth quarter of 2012 (Q4) marks the eighth consecutive quarterly survey for the ING DIRECT Household Financial Wellbeing Index, and since its inception in Q1 2010 we have gained unique insights into the financial health of the nation's households.

The Index score of 107.5 for Q4 2012 is slightly off the 2-year high of 109.0 recorded in Q3, but it's likely this reflects the impact of the festive season – traditionally a big spending time of year.

A more lasting trend is the headway Australians are making with their mortgages. Most notably, 93% of home owners are 'comfortable' with their loan, with 64% saying they are 'very' comfortable - the highest level since tracking began. Almost half (49%) of these households are ahead with their repayments though in Queensland (58%) and Victoria (57%) this proportion is even higher.

Household savings remains the Achilles heel of the nation's financial health, consistently recording the lowest comfort levels across all six indicators. The good news is that Australians are taking steps to address this weak spot.

One in three (32%) households have set a target to build personal savings over the next 12 months. Among these savers, 52% are aiming to build a cash pool equal to at least three months wages. Based on our findings of a national average pre-tax income of $79,340 in Q4 2012, this equates to an after-tax nest egg worth $15,200.

It's a challenging target but Australians tell us they are adopting a range of sensible strategies to achieve their goal. These include living within a budget, cutting back on discretionary spending and setting clear savings benchmarks.

For 37% of households reducing or avoiding personal debt is the primary goal for the year ahead, and today's low interest rate environment certainly offers a valuable head start in lowering personal debt.

As we head into 2013, and face the inevitable uncertainties of a new year, the ING DIRECT Household Financial Wellbeing Index confirms that Australian households are making valuable progress in strengthening their financial security. Regardless of what the next 12 months throws at us, fundamental steps like reducing debt and growing savings will leave all households better placed to handle any curve balls the year may bring.

Vaughn Richtor
CEO, ING DIRECT Australia

Financial confidence declines in wake of festive season spending

Index falls from Q3 high

The ING DIRECT Financial Wellbeing Index fell slightly to 107.4 in Q4 2012, down from 109.0 in Q3 2012. This decline is likely to reflect the impact of Christmas/New Year spending.

Australian households continue to focus on debt reduction with almost one in two (49%) making additional repayments on their home loan. The majority of home owners (64%) are 'very comfortable' with their home loan, the highest level since tracking began in Q1 2010.

Over one in three (34%) households say they are financially better off than they were a year ago, while 41% say their financial position has remained unchanged. One in four (24%) say their financial situation has deteriorated over the past year.

At a glance

Credit card/short term debt

The 2012 festive season appears to have impacted card spending. Median credit card debt has risen from $1,470 in Q3 to $2,002 in Q4 2012 however comfort with card debt has risen slightly from 5.02 (out of a possible 7) in Q3 to 5.07 in Q4. The majority (61%) of card holders are paying their card off in full each month.

Mortgage/long term debt

Australians continue to be more comfortable with their home loan than any other aspect of financial wellbeing. Comfort levels with long term debt rose slightly from 5.62 in Q3 2012 to 5.64 in Q4 following two consecutive cuts to official interest rates in November and December 2012. Nationally, almost one in two (549%) of households with a home loan are ahead with their repayments up from 47% in Q3.

Household income

Confidence with income deteriorated slightly over the quarter with comfort levels falling from 4.09 in Q3 2012 to 3.97 in Q4.

Ability to pay regular bills

Household comfort with ability to pay regular bills declined from 4.06 in Q3 to 3.96 in Q4 2012. Seventeen per cent say they are uncomfortable with household bills – a slight increase from 17% in Q3.

Personal savings

Household savings are once again the key weak spot in the financial wellbeing of Australian households, after long term assets became the key concern in Q3. Comfort levels declined from 4.09 in Q3 to 3.97 in Q4, and 30% of households say they are 'uncomfortable' with their level of savings – up from 26% in Q3.

Investments/long term assets

Like savings, long term investments are an area of concern for Australian households. Over one in four (27%) households are 'very uncomfortable' about their long term investment and 20% say they hold no significant investments at all.

The ING DIRECT Financial Wellbeing Index

Tracking the financial health of a nation.

The ING Direct Financial Wellbeing Index rates household comfort levels across the six key aspects of personal financial wellbeing (as noted below).

Our respondents rated their personal comfort level for each of these aspects on a scale from 1 'very uncomfortable' to 7 'very comfortable'. The average of these scores is indexed to the scale midpoint, so that a score of 4 has an Index value of 100. By comparing the Index scores between quarters we can see how household financial wellbeing is changing over both short and longer timeframes

	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
	Index											
Short term debt (credit cards)	126	129	127	126	127	126	130	130	129	126	130	127
Long term debt (mortgages)	139	142	137	136	136	138	137	139	140	139	141	141
Household income	99	102	101	100	97	99	100	98	100	97	102	99
Short Term credit (savings)	88	87	86	88	83	86	84	84	86	85	91	89
Long term assets (investments)	91	93	92	91	88	88	88	86	88	90	89	90
Household bills	102	102	100	100	98	97	96	97	98	96	102	99
Overall	**107.5**	**109**	**107.2**	**106.5**	**104.8**	**105.8**	**105.9**	**105.6**	**106**	**105.6**	**109**	**107.5**

Events that helped shape sentiment

In the fourth quarter of 2012, the RBA cut wholesale overnight lending rate by 0.25% in November 2012 and by a further 0.25% on 5 December 2012 bringing the official cash rate to 3.0%

Target $15,200: One in three Australians focus on savings

As comfort with debt hits a new high, 32% of households make saving their key goal.

Australians have set some key goals for 2013:

- 37% of households want to avoid/reduce personal debt – rising to 46% among Gen Y households (aged 35-49)
- 32% are aiming to build savings - rising to 39% of Gen Y households (aged 18-34)
- 9% will invest more in property and the sharemarket
- 5% will contribute more to their super fund.

Savings and debt reduction key goals for 2013

Paying down or avoiding debt is the primary financial goal for 37% of Australians – a figure that rises to 46% among Gen Y households (aged 35-49). Victorians are least likely to focus on debt with only 30% of households saying they plan to cut back debt this year.

One in three households (32%) plan to save more in 2013. Younger Australians are the nation's keenest savers with 39% of Gen X households (aged 18-34) aiming to build savings. Tucking away spare cash is a particular priority in Western Australia and Victoria where 37% of households have saving as their primary financial goal.

Nationally, 52% of savers are aiming to build a nest egg worth at least three months wage or salary. In after-tax figures that represents a nest egg worth around $15,200.

Why we're saving

Among those households that plan to save more this year, the key driver for 51% is the aim of building a buffer of spare cash. Other reasons for saving more include:

- 21% can afford to save more now
- 18% are concerned the economy isn't looking so good this year
- 18% are able to save now because they have paid down debt
- 16% are worried about job security
- 10% say the global financial crisis (GFC) was a wake-up call

How we'll save

Among households planning to save:

- 41% will follow a stricter budget
- 39% will cut discretionary spending
- 29% plan to save on a regular basis
- 27% will cut back on dining out
- 21% will work towards a personal savings goal
- 15% will take fewer holidays away.

Financial wellbeing around the nation

New South Wales

The ING DIRECT Financial Wellbeing Index for NSW fell slightly to 106.5 down from 107.3 in Q3. NSW residents are the nation's least likely to build savings this year as 41% knuckle down to reduce debt instead. In particular, 48% of baby boomers (aged 50-64) plan to focus on debt reduction compared to 31% of Gen Y households (aged 18-34).

NSW residents are least likely to be ahead on their home with 36% of home owners making additional loan repayments compared to 49% nationally.

Victoria

The Household Financial Wellbeing Index for Victoria declined from 111.1 in Q3 2012 to 108.8 in Q4 2012 however it is above the national Index score of 107.4 and along with Queensland, represents the highest state-based reading.

Almost four out of ten (37%) Victorians plan to save more this year, while 30% see paying down debt as their top priority. The state's younger households are more likely to save with 41% of Gen Y residents (aged 18-34) aiming to build a pool of savings while 48% of Gen X households (aged 35-49) prefer to focus on paying down debt. More than one in ten (13%) households will invest in property and shares compared to a national average of 9%.

South Australia

The Index score for South Australia fell from 111.1 in Q3 2012 to 108.8 in Q4. Fewer than one in three (30%) SA households say their financial situation has improved over the past year, driving 41% to reduce personal debt while 32% will aim to save more over the year ahead.

Over one in four (26%) SA households have seen their finances go backwards in the past year, and only 30% say they are better off today they were 12 months ago.

Western Australia

Save or pay off debt? Western Australians are evenly divided. One in three (36%) of the state's households plan to pay off debt this year, while 37% have set a target to build personal savings in 2013.

The state's Financial Wellbeing Index dropped from 107.9 in Q3 2012 to 105.8 in Q4 - the lowest across all mainland states. Nonetheless, 75% of WA households say their personal financial wellbeing is the same or better than it was 12 months ago.

The state's savers are using a variety of strategies to build savings including cutting discretionary spending (42%), sticking to a budget (41%), tucking money away on a regular basis (33%) and dining out less (31%).

Queensland

In Queensland, the Index fell to 108.8 in Q4 down from 111.1 in Q3. Just over one in four (27%) Queensland households say they are financially worse off than they were 12 months ago. Almost one in four (38%) say their situation has not changed and 35% believe their financial wellbeing has improved over the last year compared to 34% nationally.

Four out of ten (41%) Queenslanders plan to cut debt in 2013 while 28% nominate saving as their top priority – rising to 42% of the state's Gen Y households.

Financial Wellbeing – state by state snapshot

Aspect of financial wellbeing	National	NSW & ACT	Vic	Qld	SA	WA
Credit card debt						
Comfort level (out of 7)	5.07	4.88	5.32	5.22	5.15	5.21
Ave no of credit cards per household	1.9	2.1	1.9	1.9	1.5	1.7
Median card balance	$2,002	$2,021	$1,664	$2,090	$1,813	$3,021
Pay off card in full each month	61%	62%	63%	61%	55%	62%
Long term debt incl mortgages						
Comfort level	5.64	5.68	5.69	5.63	5.57	5.36
Paying extra on mortgage	49%	36%	57%	58%	49%	47%
Median mortgage balance	$214,415	$238,742	$178,906	$187,156	$170,992	$252,015
Household income						
Comfort level	3.97	3.88	4.01	4.04	3.86	4.07
Average income	$79,340	$80.670	$74,754	$80,727	$71,603	$90,101
Savings						
Comfort level	3.54	3.6	3.62	3.48	3.38	3.38
Household savings below $1,674	24%	23%	18%	31%	35%	27%
Investments						
Comfort level	3.6	3.58	3.69	3.70	3.43	3.39
Rental property ownership	22%	25%	24%	20%	19%	16%
Share ownership	27%	25%	35%	26%	16%	22%
Managing household bills						
Comfort level	3.96	3.92	3.99	4.06	3.75	3.96
Main financial goal						
Reduce debt	37%	41%	30%	41%	41%	36%
Save	32%	29%	37%	28%	32%	37%
Overall comfort level	4.30	4.26	4.35	4.35	4.2	4.23
Index score	**107.4**	**106.5**	**108.8**	**108.8**	**104.9**	**105.8**

Research methodology

The ING DIRECT Financial Wellbeing Index was compiled by Galaxy Research from the online responses of 1,016 households between 3 January and 9 January 2013. The data was weighted by region and household size to reflect the Australian household population based on the 2006 census. The level of savings reported in the study is also calibrated to APRA national bank total deposits (households) to ensure accuracy of household savings levels.

About ING DIRECT

ING DIRECT began operating in Australia in 1999. By doing business online, over the phone and through intermediaries, ING DIRECT keeps it overheads low and passes the savings onto customers in the form of competitive rates. Today, it has grown to become Australia's fifth largest retail bank, with $26 billion in deposits, more than $38 billion in loans and around 1.4 million customers. Please note, ING DIRECT is never abbreviated to ING.