ING DIRECT
FINANCIAL WELLBEING INDEX
Q2 2012

It's your money

Financial wellbeing rises though superannuation remains a mystery to most

Only one in four know how their nest egg is invested.

The ING DIRECT Household Financial Wellbeing Index for the second quarter of 2012 is something of a milestone. It is our tenth consecutive quarterly report, and it continues to provide unique insights into the way Australian households are managing their personal finances – often across periods of economic uncertainty.

Our latest Index reveals that nationally, household financial wellbeing improved over the second quarter of the year. But by drilling down into state-based data, it becomes clear that there are significant differences in financial wellbeing across regions.

New South Wales and South Australia both experienced an uptick in financial wellbeing in Q2, and Western Australia continues to outpace the rest of Australia, recording the highest Index score of 108.3 compared to 105.6 nationally. However the remaining mainland states have experienced a decline in financial wellbeing, and this report offers insights into particular areas of weakness across each state.

In response to the fresh round of changes to our superannuation system, effective from 1 July 2012, this edition of the Financial Wellbeing Index also addressed the issue of how well Australians know their super savings, and how they confident they are that super will fund a decent retirement.

Our findings are remarkable. Only 26% of households understand how their super is being invested. Even fewer - 23%, are confident that their super will provide for a comfortable retirement.

These insights are all the more extraordinary because the nation's pool of superannuation savings stands at $1.34 trillion[1] - a substantial body of wealth by any measure. Yet households have only limited connection with this money, and 77% don't believe it will be adequate to support their senior years. Moreover we discover that some of the alternate plans being made to fund retirement including hopes of an inheritance, could leave many Australians significantly shortchanged in their senior years.

Don Koch
CEO, ING DIRECT Australia

[1] *APRA June 2011 Annual Superannuation Bulletin, February 2012.*

Financial wellbeing rises – though still below high of Q1 2010

Index continues upswing

The Household Financial Wellbeing Index fell to 105.6 in the second quarter of 2012 (Q2), down from 106.0 in Q1, to reach the same Index score for Q4 2011 - the lowest Index reading since its inception in Q1 2010.

In Q2 2012, improvements were noted in every aspect of financial wellbeing with the exception of credit card/short term debt where the Index is marginally lower (down to 129 from 130 in Q4 2011).

Snapshot across six key measures

Ability to pay regular bills

In Q2 2012 households rated their level of comfort with household bills at 3.84 (out of 7). Almost one in ten (9%) say it is almost impossible to pay all monthly bills on time (up from 7% Q1).

Credit card/short term debt

Across Australia, households hold an average of 1.9 credit cards though approximately one in ten (12%) do not own a credit card (down from 13% in Q1). Among households with a credit card, the median card balance is $1,768 – a reduction on the Q1 median of $1,854. More than half (61%) the nation's cardholders typically pay off their credit cards in full each month.

Mortgage/long term debt

Almost half (48%) the nation's mortgage holders are ahead with their home loan (up from 40% in Q1), suggesting households are continuing to reduce personal debt. However a noteworthy minority (5%) are falling behind with their mortgage. Comfort levels with households mortgages was 5.57 in Q2 – the highest score across all six indicators.

Household income

Two in three households (64%) rely on full-time work as their key source of income. Average household income for Q2 was $79,497 – a slight deterioration on the Q1 average of $79,856.

Personal savings

Half (53%) of Australian households have less than $17,000 in personal savings, up from 50% in Q1. Across all households the median savings level is $8,223 and 31% say they have less than $1,674 in savings. Among all households, the average comfort rating with savings stands at 3.3 - the lowest score across all six financial dimensions.

Investments/long term assets

Comfort levels with long term investments improved slightly over Q2, rising to 3.6 up from 3.5 in Q1. Almost one in three (28%) households own sharemarket investments and 19% have a rental property. Nonetheless, half (47%) of all households have no assets or investments outside of the family home.

The ING DIRECT Financial Wellbeing Index

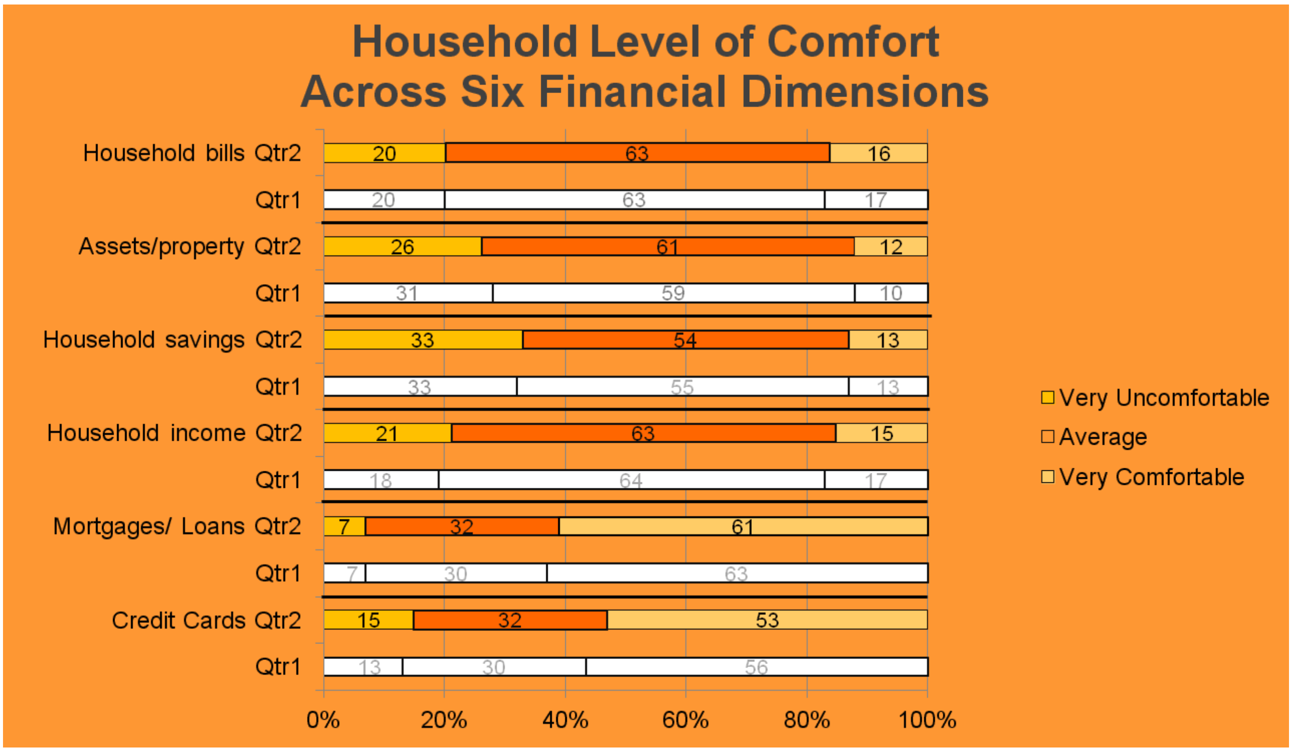
Unique insights into the financial health of Australian households

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.

Six key focus areas	Qtr 1 2012 Index	Qtr 2 2012
Short term debt – in particular credit cards	129	126
Long term debt – mortgages and personal loans	140	139
Household income	100	97
Short term credit – savings and term deposits	86	85
Long term assets – net home equity and other investments	88	90
Comfort meeting household bills	98	96

Household comfort levels



Events that helped shape sentiment

In the second quarter of 2012:

- The Reserve Bank of Australia (RBA) announced two separate cuts to the official cash rate, first in May (0.50%) and again in June (0.25%) bringing the cash rate to 3.5%.
- The Private Health Insurance rebate means test was scheduled to come into effect 1 July 2012.
- Tax cuts for low income earners were scheduled to come into effect 1 July 2012.
- Consumer household power charges are poised to increase by 10%-20% from 1 July 2012

Super: The mystery asset

The nation's $1.34 trillion dollar pool of retirement savings may be growing year by year but Australians are failing to form a connection with their superannuation, and for many super remains a mystery.

The ING DIRECT Financial Wellbeing Index confirms that 74% of households don't understand how their super is invested – including 67% of baby boomers (aged 50-64). Remarkably, close to one in five (17%) boomers have 'no idea' of their super fund's investment allocation. This knowledge gap is underpinning a lack of confidence in super as a foundation of retirement wealth.

Less than one in four have confidence in super

Only 23% of households are confident their super will fund a comfortable retirement, however this varies widely across states. In Queensland only 15% of households are confident their super will be adequate.

The 'no confidence' vote isn't restricted to any particular age group. From Gen Y (73% lack confidence) through to Gen X (83%) and the boomers (78%) there is a widespread lack of confidence that super will deliver a decent retirement lifestyle.

Making alternate plans

Among the 77% of people who lack confidence in their super, a variety of alternate plans are being made to make up the super shortfall:

- 21% plan to sell personal assets
- 21% will rely on income from non-super investments
- 16% are hoping their salary will rise over time
- 10% are relying on an inheritance.

Almost four out of ten (38%) are aware of the super shortfall but don't know how to bridge the gap. This figure rises to 51% of baby boomers.

Perhaps just as worrying, almost one in five (17%) households have given no thought to how they will make up the shortfall in their super.

Greater involvement with super boosts confidence

The Financial Wellbeing Index confirms a strong link between understanding super and having confidence in super as a retirement asset.

More than one third (39%) of households with a thorough knowledge of their super are 'very confident' their superannuation will deliver a decent retirement compared to 13% of those with 'no idea' about their fund's investment allocation.

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 if household financial wellbeing is improving or deteriorating.

Financial wellbeing around the nation

NSW

Comfort levels in NSW increased across all six financial indicators in the quarter to boost the overall Index score for Q2 to 108.1 up from 105.2 in Q1. Households continue to focus on **paying down debt.** The median credit card balance has dropped to $2,051 in Q2 down from $2,609 in Q1, and 62% of home owners are ahead with their mortgage – the highest proportion of any mainland state. The Index also recorded a modest rise in comfort with household bills – rising to 3.93 in Q2 from 3.9 in Q1.

Comfort with long term investments remains a weak spot among NSW households, and 73% say they don't have a thorough knowledge of how their super is invested (83% of NSW women). Three out of four (73%) NSW households don't believe their super will fund a comfortable retirement, and among these residents, 25% intend to sell off personal assets to fund their senior years.

Victoria

Household financial **confidence has deteriorated** across several key indicators in Victoria over the second quarter of 2012 and this has pushed the state's Index score down from 109.0 in Q1 to 105.5 in Q2. In particular the state's average comfort rating for credit card debt fell from 5.2 in Q1 to 4.99 in Q2. At the same time, average credit card debt per household rose from $1,467 in Q1 to $1,611 in Q2. Comfort with personal savings also dropped and 31% of households now have savings below $1,674 compared to 25% in Q1. This suggests households are dipping in to savings or turning to credit cards to meet rising living costs.

When it comes to superannuation savings, 75% of Victorian households aren't confident their super will be sufficient for a comfortable retirement, this rises to 82% among baby boomers. One in two (50%) of these boomers don't know how they can make up the shortfall.

Western Australia

The ING DIRECT Household Financial Wellbeing Index for Western Australian reached 108.3 in the second quarter of 2012 (Q2), above the national Index score of 105.6, and up from 106.0 in Q1 2012.

Household comfort levels in WA rose across five of the key indicators in Q2 with a small decline noted only in comfort levels for household mortgages – dropping from 5.6 in Q1 to 5.38 in Q2. WA residents continue to improve their financial wellbeing with reductions to outstanding card debt (average of $1,708 per household in Q2 versus $1,828 in Q1) and 48% of home owners are ahead with their mortgage compared to 46% in Q1.

WA households have the nation's lowest levels of understanding about how their nest egg is invested. Only one in five (20%) WA residents have a thorough knowledge of their super's asset allocation compared to 26% nationally. Almost one in three (29%) WA residents have 'no idea' about their fund's investment allocation, and only 25% of households are confident they will have sufficient super for a decent retirement.

South Australia

South Australian households experienced a rise in financial wellbeing over Q2 with increased comfort levels recorded across four of the six indicators. Comfort levels for credit card debt fell from 5.2 in Q1 to 5.17 in Q2, and the average number of cards per household rose from 1.5 to 1.7 over the quarter. The only other area where comfort levels deteriorated was ability to manage household bills, which dropped from 3.8 in Q1 to 3.66 in Q2.

One in two SA households (54%) have only one super account but only 22% of the state's residents say they understand how their nest egg is invested. Close to four out of five (82%) are not confident in their super savings - this rises to 90% among Gen X households.

Almost half (42%) of those who lack confidence (53% of Gen X) are aware of the super shortfall but aren't sure how to bridge the gap. Over one in four (28%) plan to sell personal assets to fill the gap.

Queensland

Household comfort levels in Queensland dropped across five out of six key indicators in Q2, with the only rise in confidence being for credit card debt (4.83 in Q2 up from 4.4 in Q1). Queenslanders appear to be feeling the pinch of rising living costs with 53% of credit card holders paying their card off in full each month, down from 65% in Q1; and 35% paying extra on their home loan compared to 46% in Q1. Comfort levels with household bills have also deteriorated, down from 4.0 in Q1 to 3.69 in Q2.

Queenslanders have the nation's highest level of knowledge about how their super is invested. Over one in four (28%) say they understand their fund's asset allocation. However only 15% of Queenslanders are confident their super will be sufficient to fund their retirement - the lowest level of confidence across all mainland states. Only 10% of Gen X households (aged 35-49) are confident in the ability of their super to fund retirement.

Among the 85% of households who lack confidence in their super, 38% have thought about the shortfall in their savings but aren't sure how to bridge the gap – this rises to 50% of baby boomers. One in four (23%) of those households who lack confidence plan to sell assets to boost retirement income. Almost one in ten (8%) are pinning their hopes on an inheritance – a figure that rises to 13% among the state's baby boomers.

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	5.25	4.99	4.83	5.17	5.06
Ave no of credit cards per household	1.9	2.0	1.7	2.0	1.7	1.8
Median card balance	$1,768	$2,051	$1,611	$1,757	$1,683	$1,708
Pay off card in full each month	61%	68%	59%	53%	61%	60%
Long term debt incl mortgages						
Comfort level	5.57	5.58	5.67	5.54	5.51	5.38
Paying extra on mortgage	48%	62%	39%	35%	46%	48%
Median mortgage balance	$181,344	$216,894	$159,546	$179,397	$175,422	$206,751
Household income						
Comfort level	3.87	4.02	3.75	3.64	3.88	4.14
Average income	$79,497	$87,588	$66,279	$72,404	$63,260	$89,354
Savings						
Comfort level	3.39	3.47	3.47	3.1	3.28	3.51
Household savings below $1,674	31%	25%	31%	36%	40%	28%
Investments						
Comfort level	3.6	3.68	3.67	3.34	3.45	3.73
Rental property ownership	19%	20%	22%	16%	16%	18%
Share ownership	28%	30%	29%	25%	22%	29%
Managing household bills						
Comfort level	3.84	3.93	3.78	3.69	3.66	4.16
Superannuation						
% who have a thorough knowledge of their fund's investment allocation	26%	27%	26%	28%	22%	20%
% who are confident their super will deliver a comfortable retirement	23%	27%	25%	15%	18%	25%
Overall comfort level	4.22	4.32	4.22	4.03	4.16	4.33
Index score	**105.6**	**108.1**	**105.5**	**100.6**	**104.0**	**108.3**

Research methodology

The ING DIRECT Financial Wellbeing Index was complied by Galaxy Research from the online responses of 1,015 households between June and July 2012 (Q2). Data for this quarter is weighted to the latest 2011 Census data. 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.