Changing tides – consumer finance and the generational wealth divide: trends and insights

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This research highlights a number of important concerns about the level of household debt in Australia, as well as savings levels, mortgage and credit card stress, and retirement savings strategies.

DURING THE DECADE between March 1998 and March 2008, there was a marked shift in the distribution of income and wealth from younger to older Australians, as well as an increase in credit card debt and mortgage stress. The subsequent global financial crisis (GFC) and its ensuing impact on the real economy have exposed some Australians, for the first time in over a decade, to the consequences of excessive leverage and inadequate financial planning. Although Australia has fared considerably better than other developed economies, the downturn has had a significant impact on people approaching retirement, in particular, and also those owning shares in general.

In response to the interest generated in the findings of the Finsia–Roy Morgan report, Reconciling wealth with leverage – new challenges in consumer finance, published in August 2008, earlier this year Finsia commissioned UMR Research to examine the impact of the GFC on the generational wealth divide. The results of this latest research were published in the August 2009 report, Changing tides – consumer finance and the generational wealth divide: trends and insights. The report provides insights on a broad range of issues including household debt and savings levels, retirement planning and investment strategies.

Overview of 2009 findings
Despite significant financial loss, high levels of financial stress and fears of inadequate retirement savings as a result of the GFC, many Australians are not about to change their approach to savings, borrowing and investment.

Although most Australians remain positive, believing our economy has fared comparatively well overall, the burden of this crisis has left 60% of Australians believing they are under ‘a lot’ or ‘some’ financial stress.

The research indicates older Australians are particularly affected by the GFC. A significant portion of Australians (36%) say they have been left slightly worse off as a result of the GFC. This group primarily consists of older people, including pensioners, while the 16% who say they are significantly worse off are mostly self-funded retirees. Moreover, 20% of Australians with investments say that since the start of the GFC, they have sold non-superannuation assets to use as spending money.
New Finsia report

Views on the cause of the GFC
When considering the cause of the GFC, Australians are quick to attribute blame to ‘the US’ or ‘American banks’ but many also blame ‘greed’. Interestingly, they even include themselves in the blame, acknowledging that they have been part of a ‘consumer society’ that makes many purchases that are often completely unnecessary.

Attitudes to credit and debt
In spite of this admission, Australians have largely continued to demonstrate an appetite for credit since the GFC began, with 79% of Australians holding a credit card. Over a quarter (27%) admit they usually end up paying interest on their credit card debt, with Generation X more likely to end up paying interest than those in their twenties. Disturbingly, 18% are oblivious to the amount of interest charged by their credit card provider for that debt.

On the question of access to credit cards, a staggering 84% of Australians believe access is given too freely to people who are unable to repay. Among the 79% with credit cards, 85% believe credit card regulation ought to be more rigorous as part of an overall tightening in the regulation of lending.

Financial literacy and knowledge about superannuation
The research also confirms a persistent lack of financial literacy among Australians generally. While most Australians believe their superannuation savings will be inadequate when they retire (only one in five believe that their superannuation will provide enough to live on in retirement), many Australians are not aware of how their superannuation is invested nor do they monitor it very closely.

Only a small percentage of Australians aged 40–49 years closely monitor how much superannuation they have (14%). Just 6% of Australians aged 30–39 years and a mere 3% of those aged 18–29 years closely monitor the level of their superannuation. This is in spite of having major doubts about the availability of the aged pension by the time they retire and an expectation that they will need to rely heavily on their superannuation savings in the future.

Increase in anticipated retirement age
Before the start of the GFC (across all age groups between 18 and 69 years), the age bracket in which the highest percentage of working participants said they expected to retire was 61–65 years old. Yet, since the start of the GFC (across all age groups between 18 and 69 years), the age bracket in which the highest percentage of working participants say they now expect to retire has risen to 66–70 years.

The qualitative research carried out by UMR indicates that a major reason that Australians now expect to retire at a later age relates to the increasing of the eligibility age for the aged pension. This change is particularly unpopular among younger Australians.

Financial stress
In relation to financial stress, only two in five Australians claim to be under no real financial stress. A mere 8% of Australians say they are better off since the start of the GFC. Higher income earners were less worried about losing their jobs than lower income earners. The 16% of Australians who say they are significantly worse off since the start of the GFC are mostly self-funded retirees.

As to credit card debt, it is those people in their thirties (35%) and forties (39%) who most commonly end up paying interest on this debt. Interestingly, while the overwhelming majority of Australians support greater regulation of credit cards, which they believe have been given out too freely, they believe this should not be done in isolation but as part of an overall tightening in the regulation of lending.

Significant differences from the longitudinal (1998–2008) study

The 2009 research findings reinforce the need to address existing policy issues and also raise important new policy issues for consideration, especially in relation to superannuation savings, the increase in the anticipated retirement age and financial stress generally.

Conclusion
Overall, there have been a number of marked changes to the household debt landscape over the past year. However, despite the impact of the GFC, Australians are generally optimistic about the prospects for the Australian economy.

Notwithstanding such optimism, the 2009 report highlights a number of important concerns about the level of household debt in Australia, as well as savings levels, mortgage and credit card stress, and retirement savings strategies.

Unless these important policy issues are addressed, now more than ever we are facing the risk that there will be an inadequate level of superannuation savings to fund the retirement of our ageing population, as well as rising levels of financial stress in Australia.

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