Research and Policy Centre

All in it together?

Financial wellbeing before COVID-19

Emily Porter, Dina Bowman and Matthew Curry

2020

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Note

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Summary

In this first paper in a series on financial wellbeing in Australia we explore patterns and trends in the two years prior to the COVID-19 crisis. Our analysis uses a range of financial wellbeing measures developed by ANZ based on the continuous Roy Morgan Single Source Survey.[1] This allows us to examine variations in financial wellbeing among Australians, consider how and why these have changed and focus on the subjective and objective capacity of individuals in low-income households to respond to crises.

This and ANZ's work draw on Kempson and colleagues' (2017) definition of financial wellbeing as comprising the ability to meet commitments, feel comfortable and be financially resilient (see box).

Before the COVID-19 crisis, overall financial wellbeing was increasing

- The two years prior to the COVID-19 pandemic were characterised by rising Financial Wellbeing scores for most Australians.
- Improved ability to Meet Commitments drove the increase in Financial Wellbeing scores.
- However, these gains were not enjoyed equally. Increases in the ability to Meet Commitments were stronger among households with income above the median[2], with an average improvement of almost 7% over the two-year period to March 2020. Among lower income households the improvement was just under 4%.
- The gap between the Feeling Comfortable scores of people in higher and lower income households remained high over the two years prior to COVID-19, averaging 17%.
- Overall Financial Resilience scores saw limited change, increasing only by 2% from 54.4 (out of 100) in the three months to March 2018 to 55.7 in the three months to March 2020, a much weaker increase than the change in overall Financial Wellbeing.

The ANZ Financial Wellbeing Indicator is made up of three key components:

- The **Meeting Commitments score** estimates a person's ability to consistently meet everyday commitments. The measure is built using questions on whether paying bills on time or buying groceries and other essentials can be a struggle due to lack of funds and whether a person has been unable to pay bills or loans on time due to a lack of funds.
- The **Feeling Comfortable score** captures how comfortable people feel regarding their current financial situation and whether this has improved in the past year. It also considers perceptions around future financial wellbeing and economic security, using individual responses regarding their outlook for the next year and ability to plan for the long term.
- The **Resilience score** estimates the number of months' income a person has in savings and their ability to manage a drop in income by a third. 'Resilience' therefore provides a useful indicator of whether people have a financial buffer to cope with economic shocks.

1 Data from Roy Morgan Single Source Program has been used under licence with its permission. This survey is conducted continuously with data packaged quarterly.

2 The median real equivalised household income is estimated quarterly, with the quarterly median income for the period March 2018 to March 2020 ranging between $51,400 and $56,612. We estimate equivalised real household income by dividing real household income by the square root of household size, in line with OECD (2013). Income is adjusted for inflation to June 2020 prices based on ABS (2020a) data.

This general improvement was not shared by everyone

Closer analysis shows that groups who did not share the improvements in Financial Wellbeing scores in the two years before COVID-19 (March quarter 2018 to March quarter 2020) included unemployed workers, single parents, disability pensioners, young people and renters.

- Unemployed workers spent almost 90% of their income on expenses[3], leaving limited scope for saving, with this likely to contribute to a 1% decline in their Financial Resilience.
- In contrast to every other household type (coupled parents, couples, and single adults), Financial Wellbeing scores for single parents[4] declined—by 6%.
- People receiving the Disability Support Pension saw their Financial Wellbeing decrease, driven by a sharp 21% decline in their ability to Meet Commitments.
- Among young people (aged 18 to 29) the Feeling Comfortable scores declined by 4%, though overall Financial Wellbeing increased by 4%.
- Financial Wellbeing for renters continued to lag behind other groups, with scores around 30% lower than home owners and 15% below those with mortgages.

Background

Australia entered the COVID-19 crisis having experienced almost 30 years of uninterrupted economic growth. Australian households across the income distribution have benefited from that growth through higher living standards (Productivity Commission 2018). ANZ research (2019) found that overall Financial Wellbeing scores for people over the age of 14 increased from 57.4 (as a score out of 100) in the 12 months to December 2014 to 59.7 in the 12 months to June 2019. Nevertheless, this growth has been uneven.

Over the last decade, low wage growth (Gilfillan 2019), stubbornly high youth unemployment averaging over 12% (ABS 2020b), increasing underemployment (ABS 2020b) and uncertain incomes (Banks & Bowman 2019) combined to undermine the financial wellbeing and economic security of many in Australia (ABS 2020b).

While employment became less secure, inadequate social security payment rates (Community Affairs References Committee 2020) and increased conditionality compounded the stress and stigma of relying on such income (Bowman, Thornton & Mallett 2019; Cook 2019; Thornton, Bowman & Mallett 2020). This has contributed to one in eight people in Australia living below the poverty line[5], including almost 18% of children under the age of six in 2018 (ACOSS 2020b).

As home ownership has become less attainable, rental stress has also increased. For most low-income earners, finding more affordable housing just isn't possible. Just 3% of rental properties are considered affordable (rents below 30% of income) for people on income support. For those relying on the minimum full-time wage the figure is 22% (Anglicare Australia 2020).

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3 Roy Morgan provides data on expenses as a proportion of income. We adjust this variable to remove outliers by capping expenses as a proportion of income at 200%.

4 Single parents are defined as individuals who are not married or in a de facto relationship and are a parent or guardian to an under 18-year-old in their household.

5 Based on the 50% median income threshold (Sila & Dugain, 2019) and excluding housing costs.

The study

We draw on Roy Morgan Single Source survey data from April 2017 to March 2020.[6] This continuous survey, from which data is packaged quarterly, includes a wide range of questions about consumer behaviours, demographic and socioeconomic background, and attitudes. The total sample includes 40,689 respondents aged 18 and older for the period April 2017 to March 2018, with an average of around 3,400 individuals surveyed each quarter. The Single Source survey is particularly valuable for tracking financial wellbeing in Australia over time, due to its large, nationally representative sample and cross-sectional interviews.

The ANZ Roy Morgan Financial Wellbeing Indicator[7] we use in our analysis brings together several survey items to measure the combined influence of three components of financial wellbeing identified by Kempson and colleagues (2017), namely:

- the ability to meet everyday commitments
- how financially secure respondents feel; and
- their resilience to negative shocks.

Regression analyses conducted by ANZ and Roy Morgan on the survey items, and subsequent weighting of each item, result in each respondent being assigned scores from 0 to 100 for each of the three dimensions of financial wellbeing. The average of these three scores is reported as the overall Financial Wellbeing Indicator, which also ranges from 0 to 100.

Financial wellbeing measures are snapshots rather than measures of sustained economic security. However, with a focus on vulnerable groups in society, our analysis explores how the three dimensions of short-term financial wellbeing interact with the structural drivers of inequality and insecurity (Brown & Bowman 2020).

This can elucidate where increasing financial wellbeing is likely to help build economic security and, conversely, where improvements are likely to be transitory. For example, where an individual is more able to meet commitments they will likely have a corresponding increase in financial wellbeing. But if their income remains low or variable, improved ability to meet commitments may not be accompanied by improvements in the ability to save or acquire assets (ANZ 2018), limiting any long-term improvement in economic position.

The wealth and breadth of the Roy Morgan Single Source survey allows us to track overall levels and inequalities of financial wellbeing over time. Further investigation of the three dimensions that make up the overall indicator allows us to examine the processes behind larger trends in financial wellbeing and consider how these trends diverge across groups with typically higher levels of socioeconomic deprivation. Groups considered include lower-income households, unemployed workers, single-parent households, people with disabilities, and young people.

Financial wellbeing of vulnerable groups

All five groups examined have traditionally faced relatively high economic insecurity and are observed to have relatively low Financial Wellbeing scores. A common factor across these groups is their limited access to (full-time) work, resulting in lower incomes and high expenditures relative to income. This creates challenges meeting basic expenses, particularly for renters, and limits ability to save. While this leads to weakened financial resilience in the short term, over the longer term it is likely to reduce an individual's ability to build financial security.

6 While the survey data covers the quarters from April 2017 to March 2020, we use the March 2018 and March 2020 quarters as comparison points when examining changes in financial wellbeing in the pre-COVID period. This is done to ensure seasonal variation does not influence our findings. However, where group sample sizes are low (e.g. single parents), we use a 4-quarter moving average, incorporating all data from April 2017 to March 2020.

7 The methodology used to create measures for the three domains and the overall Financial Wellbeing Indicator is elaborated in *The ANZ Roy Morgan Financial Wellbeing Indicator Report December 2019* (https://www.bluenotes.anz.com/content/dam/news/articles/2019/December/ANZ-Roy-Morgan-Financial-Wellbeing-Indicator-Report.pdf)

A common factor across these groups with low Financial Wellbeing scores is their limited access to full-time work, resulting in lower incomes and high expenditure relative to income.

Unemployed workers

- Over the period April 2018 to March 2020, the real personal income[8] of unemployed respondents averaged just $16,600 a year. This was 80% lower than the average annual income of full-time workers. For unemployed workers aged under 29, average annual income shrinks to around $11,000.
- Not surprisingly, the Meeting Commitments scores of unemployed workers are 23% lower than those of people in employment. Nonetheless, their low overall Financial Wellbeing score, which is 27% lower than score for those in employment, appears to be driven by even lower scores in the Feeling Comfortable and Resilience dimensions. Scores for unemployed workers in these dimensions are around 30% lower than for those in employment.

Single parents

- Over the two years to March 2020, the average Financial Wellbeing score for single parents was just 43.8[9], compared to the Australian average of 60.8. Single parents spent on average around 90% of their income, due to much lower incomes, providing very little buffer for large or unexpected expenses and limiting their ability to build savings over time.
- Over the same period, financial wellbeing among single parents has not kept pace with the overall improvements experienced by the population as a whole. In fact, while every other household type (coupled parents, couples, and single adults) experienced increases in financial wellbeing, single parents' Financial Wellbeing scores were 6% lower in the four quarters to March 2020 than they had been in the four quarters to March 2018.

Disability Support Pensioners

- Those in receipt of Disability Support Pensions had very low Financial Wellbeing scores. In March 2018, Financial Wellbeing scores were around 22% lower for those on a disability support pension at 46.8 out of 100 based on a four-quarter moving average, than for the rest of the population. By March 2020 this difference had grown to 35% as the Financial Wellbeing of Disability Support Pensioners declined to 40.2.
- The decline in Financial Wellbeing scores was driven by a sharp 21% decline in the ability of DSP recipients to Meet Commitments, from an average score of 56.1 in the 4 quarters to March 2018 to an average of 44.2 in the 4 quarters to March 2020. Over the same period, the Feeling Comfortable and Financial Resilience scores also fell substantially by 11% and 8% respectively.

8 Note that while equivalised household income is used for comparison purposes throughout most of this report, we use personal income for unemployed respondents to highlight the very low-income contribution to a household for this group while jobless. Personal income is adjusted based on inflation to June 2020 prices using ABS (2020a) data.

9 All Financial Wellbeing Indicator and dimension scores are out of 100.

Youth and financial wellbeing

- On average, in line with previous ANZ (2018) research, Financial Wellbeing scores increase with age, resulting in youth having the lowest financial wellbeing of all age groups. Financial Wellbeing Indicator scores for those aged 18 to 29[10] averaged 54.7 over the two-year period to March 2020 and were 5% lower than scores for those aged 30 to 44 and 22% lower than for those aged 65 and older.
- Youth in the early stages of their career are likely to have lower incomes. However, for some youth, poorer financial wellbeing outcomes are more pernicious, resulting from structural barriers (for example, increasingly insecure employment and paucity of entry level jobs) that have complicated the transition from education to full time work.
- Financial Resilience scores for unemployed youth (under 30 years) are 20% lower than Financial Resilience scores for unemployed workers aged 30 and over.
- Youth who remain living with their parents are observed to have higher levels of overall financial wellbeing, with an average score of 56.2 compared to 53.7 for those not co-habiting with their parents. This suggests that family support plays an important role in shaping the level of financial wellbeing experienced by youth.

Housing and financial wellbeing

- Over the two years to March 2020, renters are found to have much lower Financial Wellbeing, with scores around 30% lower than home owners and 15% below those with mortgages. Importantly, the impact of housing on financial wellbeing increases with age.
- Meeting Commitments scores are 14% higher for home owners aged 65 and over compared to home owners aged 18 to 29. In contrast, Meeting Commitments scores remain relatively stable for renters (rising by only 1% between youngest and oldest age groups and those with mortgages (rising by only 5%).
- Among renters, Feeling Comfortable scores decline with age, while for those with a mortgage, the scores are lower after age 45, suggesting that planning for retirement becomes more challenging where home loans are outstanding.

Towards financial wellbeing for all

Our analysis of financial wellbeing data prior to the pandemic shows that those on low or insecure incomes are likely to experience poor financial wellbeing even in 'good' times. Worryingly, it also shows that many lacked a buffer to cushion the financial impacts of COVID-19. This highlights the need for a decent social security safety net to support those locked out of secure, full-time work. Recovery from the crisis will require investment in job creation and affordable housing to improve financial wellbeing and ensure everyone can build economic security.

10 While ages 15 to 24 are most commonly used to classify the 'youth' cohort, we use the 18 to 29 range as our sample only considers those aged above 18. This allows us to take into account the later transitions to work occurring as education attainment increases.

1 Introduction

Australia entered the COVID-19 crisis having experienced almost 30 years of uninterrupted economic growth. The average household had benefited from that growth (Productivity Commission 2018). ANZ research (2019) found that overall Financial Wellbeing scores for people over the age of 14 increased from 57.4 (as a score out of 100) in the 12 months to December 2014 to 59.7 in the 12 months to June 2019. Nevertheless, in 2018, one in eight people in Australia lived below the poverty line[11], as did almost 18% of children under the age of six (ACOSS 2020b).

In this paper, we explore patterns of financial wellbeing before the COVID-19 crisis. Our analysis uses a range of financial wellbeing measures developed by ANZ based on data from the Roy Morgan Single Source Survey. We focus on the experience of low-income and vulnerable Australians, specifically:

- the unemployed
- single parents, most of whom are women
- Disability Support Pensioners
- young people
- renters.

These groups have been hit hard by the pandemic, so it's timely to examine their financial wellbeing before the crisis hit.

The report is structured as follows: first we sketch the social and economic context prior to the pandemic; we then briefly review understandings of financial wellbeing; we describe the dataset and our analytical approach; and we present and discuss our findings. We conclude by offering proposals for fostering financial wellbeing for all of us.

11 based on the 50% median income threshold (Sila & Dugain 2019) and excluding housing costs

2 Inequality and insecurity before COVID-19

Prior to COVID-19, multiple factors combined to undermine the financial wellbeing and economic security of many in Australia (ABS 2020b). These included low wage growth (Gilfillan 2019), stubbornly high unemployment, especially for young people (Borland 2020), increasing underemployment (ABS 2020b) and uncertain incomes (Banks & Bowman 2019).

Labour market changes meant that entering the workforce no longer guaranteed a decent wage or job security. While employment became less secure, inadequate social security (Senate Community Affairs References Committee 2020) and increased conditionality compounded the stress and stigma of relying on social security (Bowman et al. 2019; Cook 2019; Thornton et al. 2020). Income support payments in Australia are among the lowest in OECD countries (Henriques-Gomes 2020). The poverty rates for those relying on income support are high, with over half of those on Newstart Allowance/JobSeeker Payment (57%) and Parenting Payment (54%) living in poverty, as well as 43% of those on Youth Allowance (43%) and 42% of those on Disability Support Pension (DSP) (ACOSS 2020c).

Australia's welfare system developed based on the assumption that most Australians would own their home, particularly by retirement age (Deeming 2013). However, as housing prices have risen much faster than incomes (OECD 2020), home ownership has declined substantially. Research by the Grattan Institute (Daley, Coates & Wiltshire 2018) shows that in 1981 over 60% of Australians aged 25 to 34 owned or were buying their home; and by 2016 this had fallen to 45%, while ownership rates for those in the lowest income quintile showed the sharpest decline, falling to 23%.

As home ownership has become less attainable, rental stress has also increased. In 2008, around 35% of lower income Australians (defined as the bottom 40% of income earners) paid more than 30% of their income on rent, with this proportion increasing to 44% in 2016, and the majority of these renting from private landlords (ABS 2019). For most low-income earners, finding cheaper housing isn't possible. In March 2020, just 3% of rental properties are considered affordable (under 30% of income) for people on income support, and 22% for those relying on the minimum full-time wage (Anglicare Australia 2020).

These trends all combine to undermine financial wellbeing for those doing it tough.

Labour market changes meant that entering the workforce no longer guaranteed a decent wage or job security.

3 Financial choices and wellbeing

Low incomes limit options and increase risk, with many people on low incomes forced to make tough choices, like whether to eat or pay the rent (Bowman & Banks 2018; Bowman & Wickramasinghe 2020). Where income only just covers expenses, saving becomes impossible, increasing the challenge of managing unexpected expenses, like car repairs or school excursions (Banks & Bowman 2017a, 2019; McKenzie & McKay 2017).

These constraints influence financial choices and behaviours. Many everyday costs are higher for low-income households, who cannot afford to buy in bulk or prepay monthly or annual travel passes. Low-income individuals report delaying payment of bills as a way of making do, which attracts penalties that increase total costs (Bowman & Banks 2018). Paying bills on time to avoid late fees may not be possible. Equally, the range of financial products available to them is likely to be more limited, with low income earners more likely to rely on payday loans or other high-interest products (Banks & Bowman 2017a; Bowman et al. 2016).

A person's economic position is therefore one of the many factors that shape the individual choices and behaviours that create financial wellbeing. This was acknowledged by Kempson and co-authors (2017) who outlined the following determinants of financial wellbeing:

- the social and economic environment
- knowledge, skills and experience
- psychological characteristics (e.g. attitudes, motivations and biases)
- behaviours.

ANZ draws on this conceptual framework which identified three components of financial wellbeing (meeting commitments, feeling comfortable and financial resilience). These are used to create an overall measure of financial wellbeing. Using these, we add to their analysis, exploring the impact of social and economic context on financial wellbeing of key groups.

Low incomes limit options and increase risk, with many people forced to make tough choices.

4 Data and approach to analysis

We draw on Roy Morgan Single Source survey data from April 2017 to March 2020.[12] This survey includes a wide range of questions about consumer behaviours, demographic and socioeconomic background, and attitudes. The total sample includes 40,689 respondents aged 18 and older, with an average of around 3,400 individuals surveyed each quarter. The Single Source survey is particularly valuable for tracking financial wellbeing in Australia over time, due to its large, nationally representative sample and cross-sectional interviews.

The ANZ Financial Wellbeing Indicator[13] draws on a number of individual survey items and seeks to measure the combined influence of three components of financial wellbeing identified by Kempson and colleagues (2017):

- the ability to meet everyday commitments
- how financially secure respondents feel; and
- their resilience to negative shocks.

Table 1 shows which items from the Roy Morgan Single Source survey are used in calculating scores for each dimension. Regression analyses conducted by ANZ on the survey items, and subsequent weighting of each item, result in each respondent being assigned scores from 0 to 100 for the three dimensions of financial wellbeing. The average of these three scores is reported as the overall Financial Wellbeing Indicator, which also ranges from 0 to 100.

Table 1. Financial Wellbeing Indicator data items

ANZ Roy Morgan FWI dimensions	Questions and items from Roy Morgan Single Source survey
Meeting commitments	Q. Meeting my bills and commitments is a struggle from time to time Q. In the past 12 months I have sometimes been unable to pay bills or loan commitments at the final reminder due to lack of money Q. I sometimes run short of money for food or other regular expenses
Feeling comfortable	Q. I feel financially stable at the moment Q. I have planned enough to make sure I will be financially secure in the future Q. Would you say you and your family are better-off financially – or worse-off than you were at this time last year? Q. Looking ahead to this time next year… do you expect you and your family to be better-off financially – or worse-off than you are now?

12 While the survey data covers the quarters from June 2017 to March 2020, we use the March 2018 and March 2020 quarters as comparison points when examining changes in financial wellbeing in the pre-COVID period. This is done to ensure seasonal variation does not influence our findings. However, where group sample sizes are low (e.g. single parents), we use a 4-quarter moving average, incorporating all data from June quarter 2017 to the March quarter 2020.

13 More detail about the methodology used to create measures for the three dimensions and the overall Financial Wellbeing Indicator is available in The ANZ Roy Morgan Financial Wellbeing Indicator Report December 2019, <https://www.bluenotes.anz.com/content/dam/news/articles/2019/December/ANZ-Roy-Morgan-Financial-Wellbeing-Indicator-Report.pdf>.

ANZ Roy Morgan FWI dimensions	Questions and items from Roy Morgan Single Source survey
Resilience	Number of months' income in savings calculated using following questions: Q. Household's total present approximate weekly or annual income from all sources before tax – please include all wages, salaries, pensions and other income Q. Would you please say the approximate amount that is in the (main/second) account as of today Managing a drop in income by a third is calculated using the following questions: Q. Household's total present approximate weekly or annual income from all sources before tax – please include all wages, salaries, pensions and other income Q. Approximate amount that is in the (main/second) account as of today Q. How much does your family spend on all living and household expenses in an average week? Please include all expenses such as shopping, luxuries, transport costs, bills, credit and loan repayments, rent and home loans, school fees etc. (if living in a shared household, only include your own total living expenses)

Source: The ANZ Roy Morgan Financial Wellbeing Indicator Report December 2019, p. 28)

We also analysed responses to selected questions from the Single Source survey, including demographic characteristics and individual use of and access to financial products such as credit cards, saving accounts and superannuation.

In our analysis, we focus on selected vulnerable groups in society, to understand how the long-term structural drivers of inequality and insecurity shape the dimensions of financial wellbeing (Brown & Bowman 2020). It is important to recognise financial wellbeing measures as a snapshot rather than a longer-term measure of economic security. Still, understanding how the different dimensions of financial wellbeing interact with social and economic factors will provide useful insights as to where improved financial wellbeing can facilitate longer term improvements in economic security.

For example, where someone becomes more able to meet commitments, this can be expected to increase their financial wellbeing. However, over the longer term, where a person's income is low or variable, saving regularly or acquiring assets will remain challenging as very little is likely to be left over after meeting commitments. This limits an individual's ability to build resilience and make any long-term gains in economic position.

The wealth and breadth of the Roy Morgan Single Source survey allows us to track overall levels of financial wellbeing over time and, crucially, to investigate inequalities. Further investigation of the three dimensions that make up the overall indicator allows us to examine the processes behind larger trends. In the following analysis, we consider trends in financial wellbeing among groups that have typically experienced socioeconomic deprivation, including low-income households, unemployed workers, single-parent households, people with disability, and young people.

We provide a series of descriptive statistics, cross-tabulations and decompositions that, together, provide a comprehensive view of trends and inequalities in financial wellbeing prior to perhaps the defining economic and public health shock of our time: the COVID-19 global pandemic.

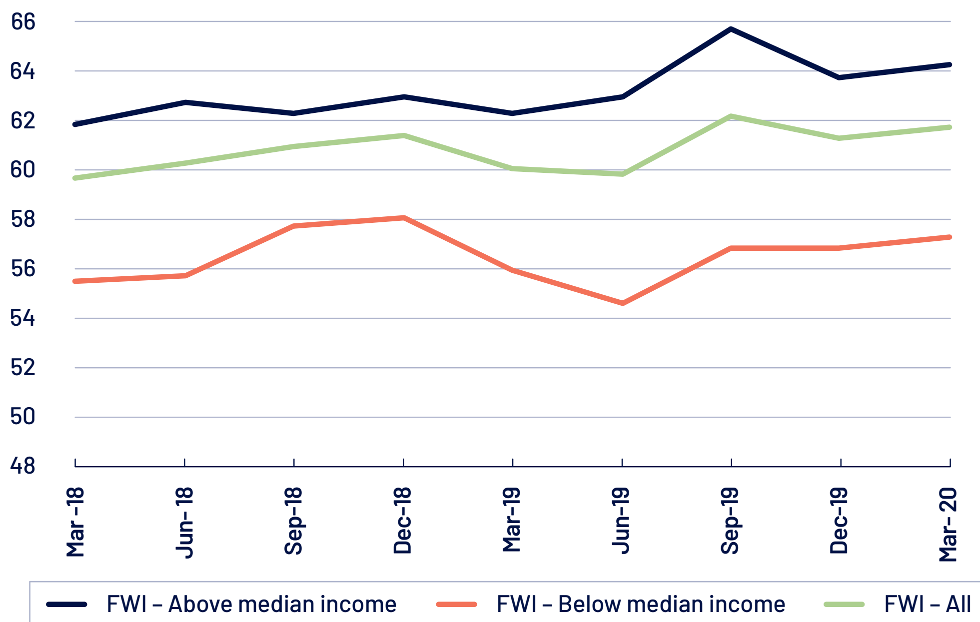
5 Findings

Before the COVID-19 crisis, overall financial wellbeing in Australia was increasing, but not for everyone

The two years prior to the COVID-19 pandemic were characterised by rising financial wellbeing. On a 100-point scale, overall Financial Wellbeing scores increased from an average of 59.4 points in the March 2018 quarter[14] to an average of 61.7 in the March quarter 2020, a 4% increase overall, as shown in Figure 5.1.

Figure 5.1 plots overall Financial Wellbeing by quarter for households above and below the median equivalised[15] household income. For those living in higher income households[16], the Financial Wellbeing Indicator score was 61.9 in March 2018 compared to 55.3 for lower income households[17], an almost 12% difference. By March 2020, this gap widened slightly by 0.5%, reflecting the continuing gap in financial wellbeing across the income distribution.

Figure 5.1 ANZ Roy Morgan Financial Wellbeing Indicator scores by level of equivalised household income – March quarter 2018 to March quarter 2020



Source: Roy Morgan Single Source quarterly rolling averages. Base: Australians 18+

14 March 2018 is used as a comparison point rather than the first survey quarter, June 2017, to limit the impact of seasonal variation.

15 The median real equivalised household income is estimated quarterly, with the quarterly estimates for the period March 2018 to March 2020 ranging from $51,400 to $56,612. We estimate equivalised household income by dividing total household income by the square root of household size, in line with OECD (2013). Income is adjusted for inflation to June 2020 prices based on ABS (2020a) data.

16 Those with income above the median.

17 Those with income below the median.

The ability to meet commitments drove the increase in financial wellbeing

Gains in the Meeting Commitments dimension of wellbeing drove this increase. This dimension measures whether people report consistently being able to afford basic expenses and pay bills on time. Average Meeting Commitments scores rose by almost 6%, from an average of 69.6 in the three months to March 2018 to 73.5 in the three months to March 2020. A more modest increase of 3% was observed in the Feeling Comfortable dimension, while Financial Resilience showed limited change over the period.

However, these gains were not enjoyed equally, with improvements concentrated among higher income households. From the March quarter 2018 to the March quarter 2020, households with income above the median saw an average improvement of just below 7% in their ability to meet everyday expenses, with most of this increase occurring after the March 2019 quarter. By contrast, lower income households experienced less than a 4% increase over the same period.

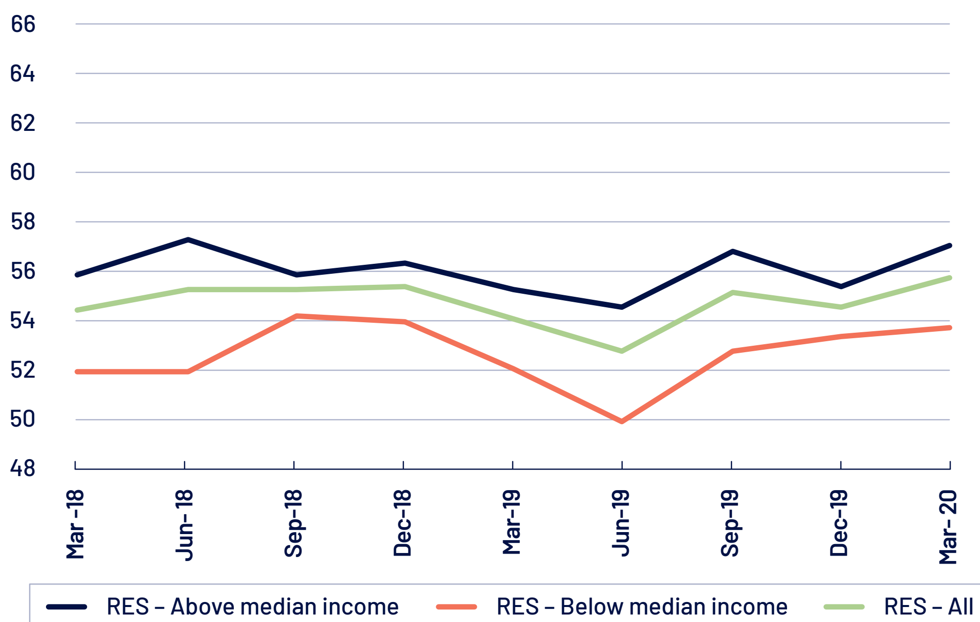
Feeling comfortable scores were much worse among lower income households

Feeling Comfortable scores mirrored those observed for Meeting Commitments. People in lower income households averaged a score of 50.4 over the two-year period to March 2020, while scores for higher income households were 17% higher at 59.1. Overall, the data shows that lower income Australians consistently feel less secure and less able to plan for the longer term compared to those with higher incomes, highlighting the role of income in shaping individuals' certainty and ability to plan for the future.

The financial resilience score only had a slight increase

Overall Financial Resilience scores showed limited change (Figure 5.2), increasing by 2% from 54.4 in the March quarter 2018 to 55.7 in the March quarter 2020, a much weaker increase than the change in overall Financial Wellbeing. The Resilience dimension of the Financial Wellbeing Indicator uses data on household income, savings and expenditure to estimate the number

Figure 5.2 **ANZ Roy Morgan Financial Resilience scores by level of equivalised household income – March quarter 2018 to March quarter 2020**



Source: Roy Morgan Single Source quarterly rolling averages. Base: Australians 18+

of months' income in savings and the ability to manage a one-third drop in income. Financial Resilience therefore provides a useful indicator of whether people have enough left over at the end of the month to put something away for a rainy day, providing a buffer to economic shocks.

Compared to other wellbeing dimensions, the Financial Resilience scores show weaker differences between our higher and lower income groups. Over the two-year period to March 2020, Financial Resilience scores for lower income Australians were, on average, around 6% lower than for high income Australians. Figure 5.2 shows that people in lower income households experienced greater volatility in Financial Resilience scores, including a sharp decline observed in June 2019. This difference is likely to reflect the higher general level of risk borne by lower income Australians, stemming from their increased exposure to the shift towards insecure work, more conditional welfare and higher housing costs (Banks & Bowman 2017b, 2019).

The limited growth observed in the Financial Resilience dimension in the two years preceding the crisis contrasts distinctly with the strong growth observed in the Meeting Commitments dimension and the overall Financial Wellbeing indicator. It suggests that increasing individual ability to meet commitments is not necessarily accompanied by increased savings, meaning that short-term changes in financial wellbeing may have limited impact on economic security over the longer term.

Importantly, this lack of financial buffer, reflected in the low Financial Resilience scores, leaves people having to make tough choices between taking on costly debt through credit cards or short-term loans or going without essentials (Bowman & Banks 2018). This is illustrated when looking at the proportion of individuals in the survey with expenditures higher than their income.[18] Across the whole sample, 20% reported expenditure higher than their income in March 2020 quarter. For those with below-median household equivalised income, this rate is substantially higher at 33%, than for those with above-median income at 12%. This suggests, in line with a number of other studies, that a growing number of lower income Australians have to rely on credit to meet their consumption needs, or draw on savings, trading off future financial wellbeing and leaving many vulnerable to the impact of a crisis (ACOSS 2020c; Banks & Bowman 2019).

Why are some Australians falling behind when it comes to financial wellbeing?

While the previous section showed that Australians with low incomes experience lower levels of financial wellbeing, these effects intensify for those without full-time work; single parents; those relying on Disability Support Pension; young people, especially those unemployed; and those who rent.

Unemployment, income support and financial wellbeing

Overall Financial Wellbeing scores for unemployed workers averaged 44.8 (out of 100) for the two-year period to March 2020. This was 27% lower than for those in employment (61.7). While unemployed workers have more limited capacity for Meeting Commitments due to lower incomes, their low overall Financial Wellbeing score appears to be driven by lower scores in the Feeling Comfortable and Resilience dimensions when compared to those in employment. Unemployed workers had a Feeling Comfortable score of 39.5 over the two-year period to March 2020, 31% lower than the 57.6 for those employed. A similar 28% gap is seen in Resilience, with a score of 39.1 for unemployed workers compared to 54.8 for those in employment.

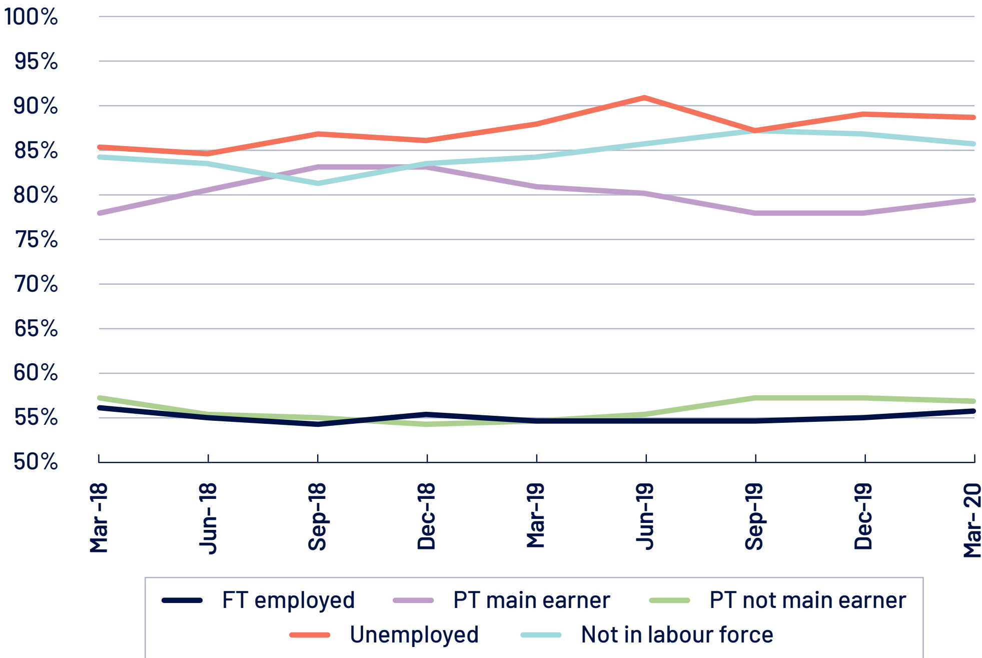
Building financial resilience is challenging for those with low incomes, who have less capacity to save after expenses. Over the period April 2018 to March 2020, real personal income for unemployed respondents averaged just $16,600 a year. This is 80% lower than the average annual real personal income for full-time workers. For unemployed workers aged under 29, average annual real personal income shrinks to around $11,000.

18 Roy Morgan provides data on expenses as a proportion of income. We adjust this variable to remove outliers by capping expenses as a proportion of income at 200%.

People who were unemployed spent on average the highest proportion of their income across the survey period (Figure 5.3). They were also the least likely to have a separate savings account[19] with a financial institution, with this effect strongest for those aged 45 to 64 years.

In the quarter ending March 2020 based on a four-quarter moving average, unemployed people spent 89% of their income, leaving limited scope for saving or managing unexpected expenses. Indeed, 33% of unemployed people reported expenditure above their income. In this context, planning and building economic security becomes impossible, which is illustrated by the difference in Feeling Comfortable scores.

Figure 5.3 Percentage of income spent on living expenses by employment status – Four-quarter moving average, March 2018 to March 2020



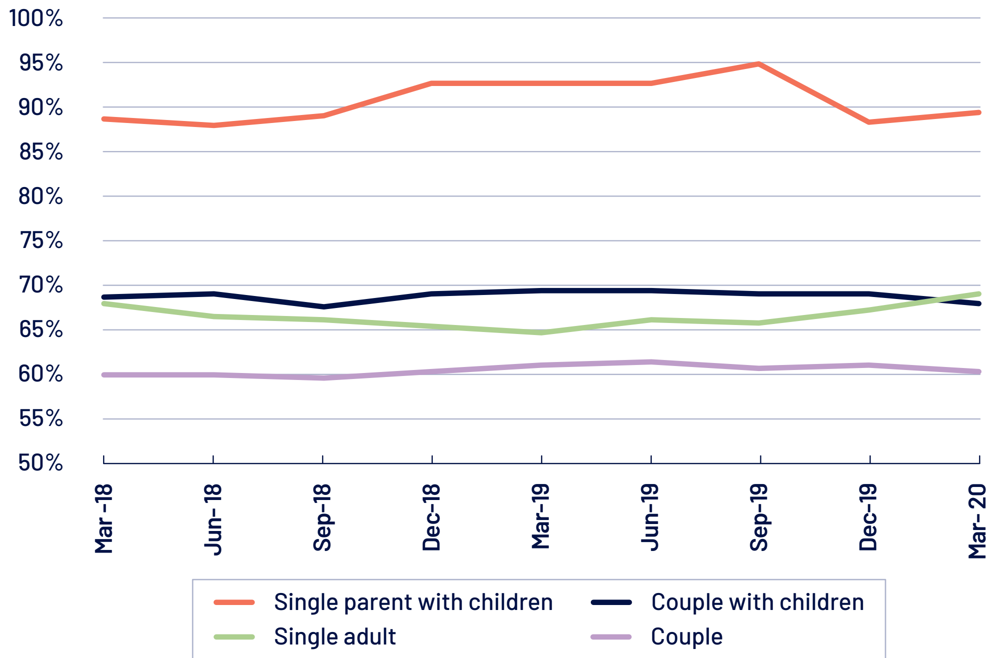
Note: A four-quarter moving average is used in this figure due to the lower sample size for unemployed people within the survey.
Source: Roy Morgan Single Source four-quarter moving averages. Base: Australians 18+

19 This refers to accounts used solely for savings as opposed to everyday transaction accounts.

Single parents and financial wellbeing

Over the two-year period to March 2020, the single parents' Financial Wellbeing scores averaged just 43.8, compared to an average of 60.8 for all Australians. Single parents spent around 90% of their income on expenses, as shown in Figure 5.4, due to much lower incomes on average, resulting in a weaker ability to consistently meet expenses or to build savings.

Figure 5.4 Percentage of income spent on living expenses by household type – Four-quarter moving average, March 2018 to March 2020

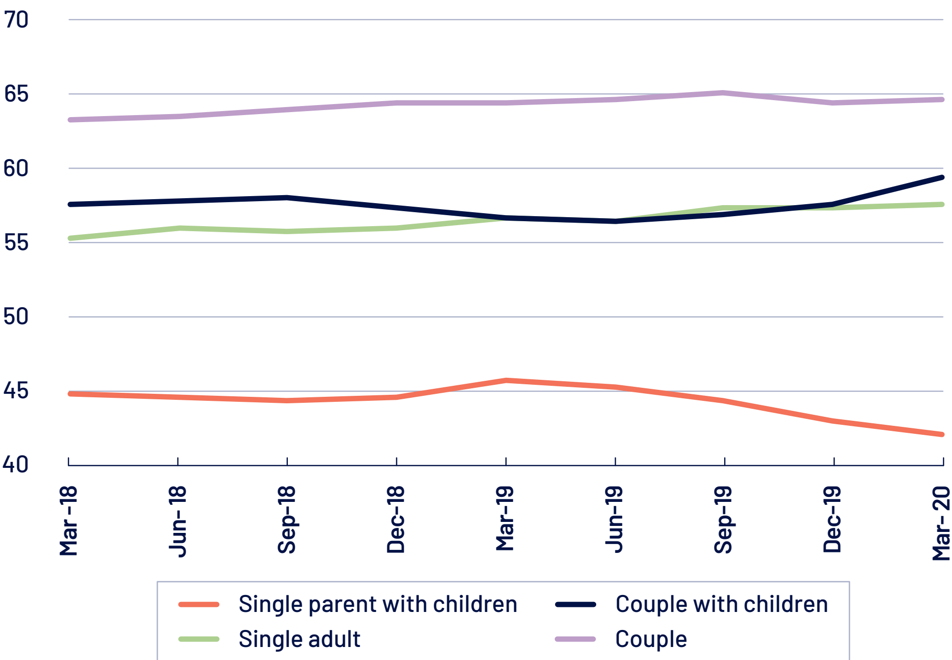


Note: A four-quarter moving average is used in this figure due to the lower sample size for single parents within the survey.
Source: Roy Morgan Single Source four-quarter moving averages. Base: Australians 18+

Perhaps even more worryingly, over the past two years, financial wellbeing among single parents has not kept pace with the improvements experienced by the population as a whole. In fact, while every other household type (coupled parents, couples and single adults) experienced increases in Financial Wellbeing, single parents' Financial Wellbeing scores were 6% lower in the four quarters to March 2020 than in the four quarters to March 2018 (Figure 5.5).

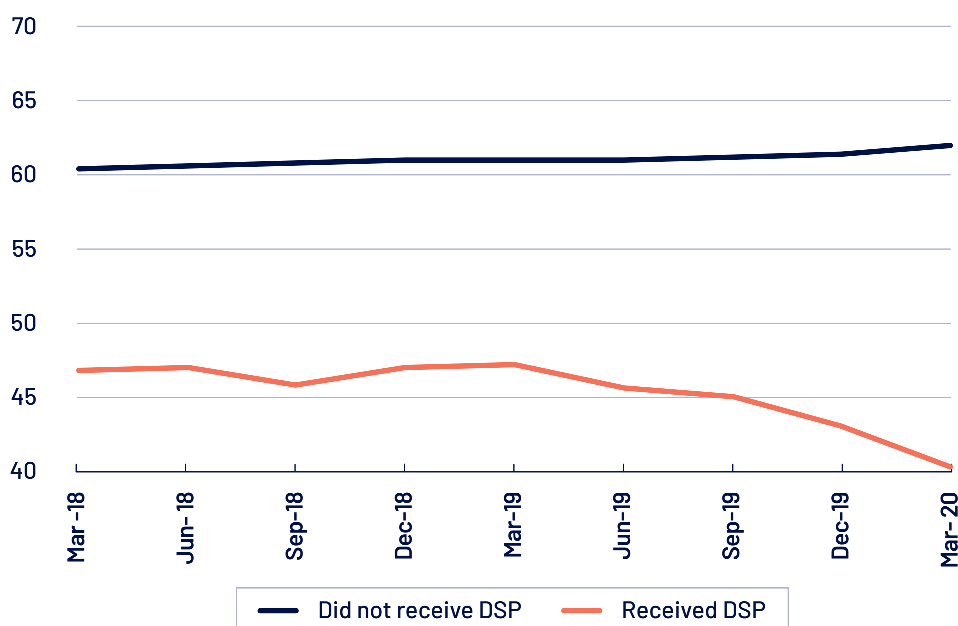
Over the entire two-year pre-COVID-19 period, single parents had much lower scores than other household types on each of the three domains, but a declining ability to meet their basic commitments seems to have driven the decline in their financial wellbeing.

Figure 5.5 ANZ Roy Morgan Financial Wellbeing Indicator scores by household type – Four-quarter moving average, March 2018 to March 2020



Note: A four quarter moving average is used in this figure due to the lower sample size for single parents within the survey.
Source: Roy Morgan Single Source four-quarter moving averages. Base: Australians 18+

Figure 5.6 **ANZ Roy Morgan Financial Wellbeing Indicator scores by Disability Support Pension recipient status – Four-quarter moving average, March 2018 to March 2020**



Note: A four-quarter moving average is used in this figure due to the lower sample size for Disability Support Pensioners within the survey.
Source: Roy Morgan Single Source four-quarter moving averages. Base: Australians 18+

Disability, income support and financial wellbeing

People receiving Disability Support Pensions had very low Financial Wellbeing scores. In March 2018, their Financial Wellbeing scores were around 22% lower, at 46.8 (out of 100) based on a four-quarter moving average, than for other respondents. However, by March 2020 this difference had grown to 35% as Financial Wellbeing of Disability Support Pensioners declined to 40.2.

This was driven by a sharp 21% decline in the ability of DSP recipients to Meet Commitments. Scores for this dimension fell from an average of 56.1 (out of 100) in the four quarters to March 2018 to an average of 44.2 in the four quarters to March 2020. Over the same period, the Feeling Comfortable and Financial Resilience dimensions also fell substantially, by 11% and 8% respectively.

Youth and financial wellbeing

Young people had the lowest Financial Wellbeing scores of all age groups. Financial Wellbeing Indicator scores for those aged 18 to 29 averaged 54.7 (out of 100) over the two-year period to March 2020. This is 5% lower than the average score for those aged 30 to 44 and almost 22% lower than for those aged 65 and older. These differences become starker when looking at the Resilience dimension of financial wellbeing, with Resilience scores for youth (aged 18 to 29) around 10% lower than for those aged 30 to 44, and 33% lower than those aged 65 and older.

Some of these differences are because young people are more likely to be studying than other age groups, temporarily reducing their earning capacity. At the same time, youth in the early stages of their career are likely to have lower incomes, often matched by lower expenditures. Figure 5.7 shows that while youth (respondents aged 18 to 29) in full-time employment experience more challenges meeting commitments than those aged 30 and over in the labour force, this group is also more likely to feel comfortable about the future. However, for some youth, poorer financial wellbeing outcomes are more

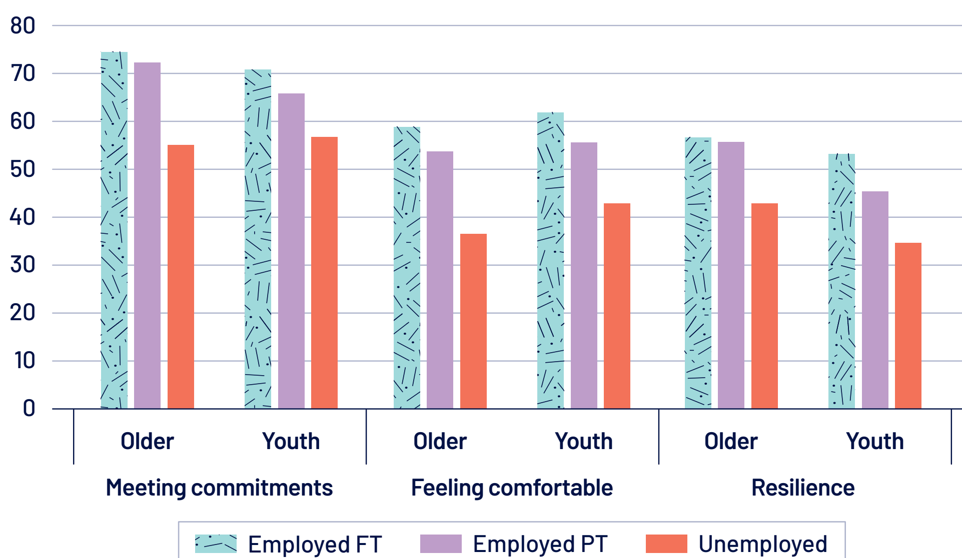
pernicious, resulting from structural barriers that have increased the challenge of transitioning from education to full time work.

Youth are more likely to be unemployed than older workers, with this negatively impacting financial wellbeing in a range of ways. Financial Resilience scores for unemployed youth are around 18% lower than Financial Resilience scores for unemployed workers over 30, highlighting the challenge of saving and managing unexpected expenses where incomes are low. In addition, around 61% of unemployed workers under 30 report having no superannuation compared with 31% of unemployed workers over 30. This suggests that while unemployed youth face financial challenges in the short term, these may be compounded over the longer term as the impact of weaker savings and superannuation diminishes economic security.

Compared to older workers, youth are more likely to work part-time (Cassidy 2017) and be underemployed and seeking more hours of work (ABS 2020b). This affects their ability to meet commitments, as shown in Figure 5.7, with young part-time workers' scores for this dimension around 9% lower than older part-time workers, while for youth in full-time work the gap shrinks to 5%. This pattern becomes stronger for the Resilience dimension, where a 18% gap exists between young and older part-timers, while the gap for full-time workers is just 6%.

Interestingly, these effects are weaker where youth have access to parental support. Over the two-year period ending March 2020, the average Financial Wellbeing score for youth in part-time work was 59.3 (out of 100) for those who lived with their parents, compared to 52.1 for those who did not. This impact intensified as household income diminished. In households with income under the median, young part-time workers who lived with their parents had an average Financial Wellbeing score of 55.2, compared to just 48.3 for those who did not. Similar effects were observed for unemployed youth who lived with their parents, particularly for youth in lower income households.

Figure 5.7 Financial Wellbeing Indicator scores by dimension, age group and labour force status – Average April 2018 to March 2020



Source: Roy Morgan Single Source, two-year average April 2018 to March 2020. Base: Australians 18+

Housing and financial wellbeing

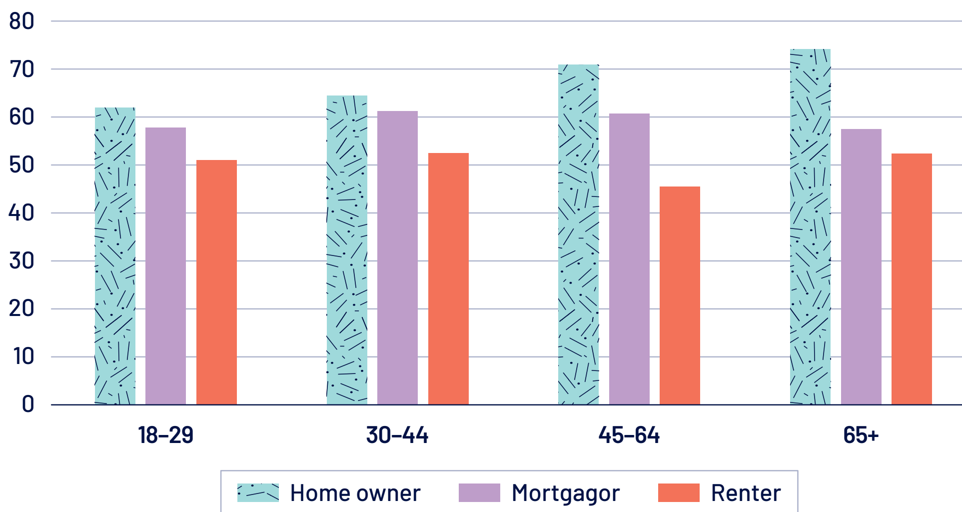
Reduced home ownership and high rental costs have important implications for both short-term ability to meet commitments and longer term economic security, impacting financial wellbeing in different ways throughout the life course. While both mortgagors and renters face high housing costs in the short term, mortgagors increase their equity in their home over time. This acts as a buffer against rising housing costs in the future, improving their ability to plan, while also building wealth.

Figure 5.8 shows Financial Wellbeing scores by age group and housing type. Renters experience the lowest financial wellbeing across all age groups, in line with previous ANZ (2018) research. Importantly, for those under 65 years, the gap between renters and those that own their home increases sharply with age.

For people under 45, the difference in Financial Wellbeing scores between renters and home owners (both outright and with mortgages) stems from the improved ability of home owners to meet commitments and their higher resilience. As age increases, the ability to meet commitments improves substantially for those that own their home outright. Over the two years to March 2020, Meeting Commitments scores are 14% higher for outright home owners aged 65 compared to those aged 18 to 29. In contrast, Meeting Commitments scores remain relatively stable for renters (rising by only 1% between youngest and oldest age groups) and those with mortgages (rising by only 5%).

A divergence between those who own their home outright and those that still face monthly housing costs (mortgagors and renters) is also observed in the Feeling Comfortable dimension. While differences in Feeling Comfortable are minimal for respondents aged under 30 years, scores for this dimension decline with age among renters. For those with a mortgage, Feeling Comfortable scores also decline after age 45, suggesting that planning for retirement becomes more challenging where home loans are outstanding. According to recent research, the proportion of home owners aged 55 to 64 years who owe money on mortgages has tripled from 14% in 1990 to 47% in 2014 (ViforJ & Wood 2019).

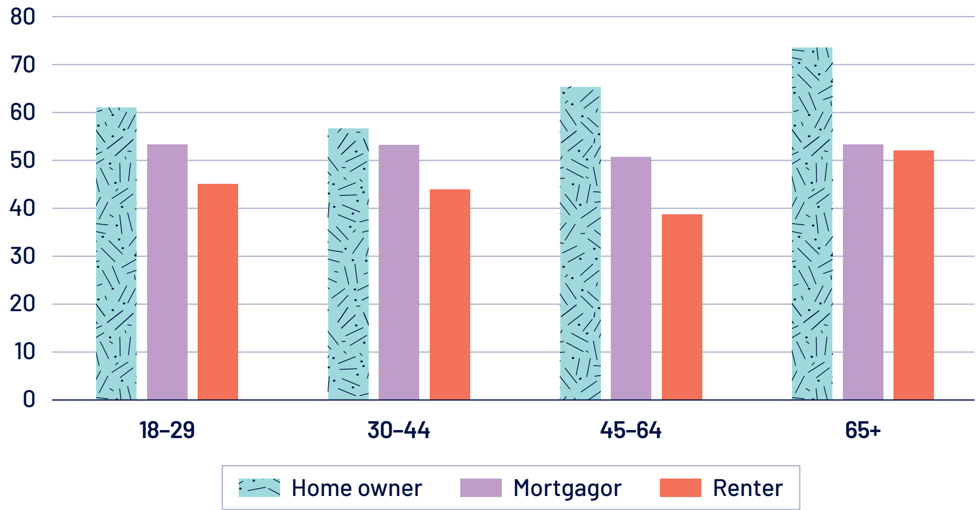
Figure 5.8 ANZ Roy Morgan Financial Wellbeing Indicator scores by age and housing situation – Average April 2018 to March 2020



Source: Roy Morgan Single Source two-year average April 2018 to March 2020. Base: Australians 18+

As lower income Australians are now less likely to own their home, we again look at the effect of age and home ownership on financial wellbeing, restricting the sample to those with household income below the median. Figure 5.9 shows that these patterns strengthen for lower income households. The average Financial Wellbeing score for lower income home owners aged 65 and above is 73.4, compared to a score of 52 for those renting or still paying off a mortgage. Interestingly, the latter score is just below the Financial Wellbeing score of 53.1 for higher income over 65-year-olds who do not own their own home. This suggests that while income appears to play the most important role in shaping financial wellbeing for younger Australians, by retirement age, housing plays a more important role. As home owners show strong improvement across all financial wellbeing dimensions as age increases, it is likely that the certainty of having access to low-cost stable housing influences this shift. In addition, this highlights the compounding impact of poor financial wellbeing over time. In the short term, poor financial wellbeing limits the ability to save and plan for the future. Over the longer term, this continued lack of savings diminishes an individual's ability to create economic security or ensure decent housing in retirement.

Figure 5.9 ANZ Roy Morgan Financial Wellbeing Indicator scores by age and housing situation for respondents with below median equivalised household income average April 2018 to March 2020



Source: Roy Morgan Single Source two-year average April 2018 to March 2020. Base: Australians 18+

6 Responding to the crisis and creating financial wellbeing for all

This publication has examined underlying patterns of financial wellbeing prior to the pandemic. Our analysis shows that, prior to the pandemic, those on low incomes were likely to experience poor financial wellbeing. Worryingly, it also shows that many lacked a financial buffer to cushion any negative financial shocks, shocks that many Australians now face as a result of the COVID-19 crisis.

Helping people build financial resilience requires policy reform in the key areas outlined below.

Secure, sustainable work and helping people into jobs

Our analysis shows that unemployed workers and part-time workers (particularly when they are the main earner in a household) have poorer financial wellbeing than those in full-time work. Others have noted that as the availability of full-time work has diminished, Australians increasingly rely on part-time and insecure work (Gilfillan 2019). Entering the labour market no longer guarantees financial wellbeing, particularly in this era of stagnant wage growth.

The current COVID-19 crisis has exacerbated these challenges; however, the crisis also provides opportunities for investment in new jobs. Increasing wages and job security in sectors currently characterised by precarious conditions and low pay, such as aged care and early childhood education, will improve service quality and allow workers in these sectors to build financial wellbeing. Expanding access to Employment-Based Training pathways and access to vocational training will improve job opportunities, particularly for young workers, allowing workers to build financial resilience over time.

A decent social safety net that ensures economic dignity

Our analysis of financial wellbeing data shows that people relying on the Disability Support Pension scored poorly in the period 2018 to 2020. Similar patterns were observed for unemployed workers and single mothers—two groups with a strong reliance on social security (ACOSS 2020a). This suggests that the existing social safety net, which is intended to protect people from financial shocks, leaves recipients vulnerable and unable to build economic security.

As most Australians rely on social security at some point in their lives (Wilkins 2017, p. 40), all payments should be increased to allow recipients to achieve financial wellbeing and fully participate in community and economic life. Suspending compliance requirements for those on income support and focusing on building capabilities would improve the dignity afforded to social security recipients and better support re-entry to the labour market. These reforms will become even more important as our economy continues to change and recover from the crisis.

Secure and affordable housing

Around one-third of Australian households are renters, with the number of lifelong renters expected to grow over time (Coates 2019). Our analysis shows that renters experience lower financial wellbeing in the short term. In the longer term, lifelong renters are likely to miss out on the gains in economic security experienced by home owners, weakening their financial resilience and limiting their ability to plan for the future. Sustained investment to lift the number of social and affordable rentals, while creating jobs, is long overdue.

Such reforms are vital to improve the ability of all Australians to experience financial wellbeing. In the short term this will allow people to live with economic dignity and improve resilience, reducing the risk of having to rely on credit and limiting the impact of financial shocks. Over the longer term, improving financial wellbeing will allow all Australians, regardless of their income, to improve resilience and build economic security.

Our next publication will examine the impacts of the COVID-19 crisis itself on the financial wellbeing of low-income Australians.

Worryingly,our analysis shows that many Australians lacked a financial buffer to cushion any negative financial shocks, shocks that many now face as a result of the COVID-19 crisis.

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All in it together?
Financial wellbeing before COVID-19

Emily Porter, Dina Bowman and Matthew Curry

2020

Acknowledgement of Country

The Brotherhood of St. Laurence acknowledges the Traditional Custodians of the land and waterways on which our organisation operates. We pay our respects to Aboriginal and Torres Strait Islander Elders past, present and emerging.

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