

# EXPLORING FINANCIAL WELLBEING IN THE AUSTRALIAN CONTEXT



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# Exploring Financial Wellbeing in the Australian Context

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# Exploring Financial Wellbeing in the Australian Context

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## Abbreviations

ABS	Australian Bureau of Statistics
ACOSS	Australian Council of Social Services
AHRC	Australian Human Rights Commission
ASIC	Australian Securities and Investment Commission
CPI	Consumer Price Index
CSI	Centre for Social Impact
GDP	Gross Domestic Product
GFC	Global Financial Crisis
HECS	Higher Education Contribution Scheme
HILDA	Household Income and Labour Dynamics in Australia (Survey)
NAC	National Alliance for Caregiving
NCOSS	New South Wales Council of Social Service
SPRC	Social Policy Research Centre
OECD	Organisation for Economic Co-operation and Development
UNSW	University of New South Wales Sydney

# Exploring Financial Wellbeing in the Australian Context

## Definition of terms

### Financial

Relating to money or how money is managed

### Financial capability

In Australia, the terms financial capability and financial literacy are used synonymously. However, the term financial capability is used in this report for consistency. Financial capability is defined as “a combination of financial knowledge, skills, attitudes and behaviours necessary to make sound financial decisions, based on personal circumstances, to improve financial wellbeing” [1;6].

### Financial inclusion/exclusion

Financial exclusion exists where individuals lack access to appropriate and affordable financial services and products – the key services and products are a transaction account, general insurance and a moderate amount of credit [2].

### Financial resilience

Financial resilience is the ability to access and draw on internal capabilities and appropriate, acceptable and accessible external resources and supports in times of financial adversity [3]. There are four categories of resources:

1. Economic resources: an individual’s level of savings; debt management; their capacity to meet cost of living expenses; their ability to raise funds in an emergency; and their level of income.
2. Financial products and services: an individual’s access to financial products and services – a bank account, credit and insurance – as well as demand for these products.
3. Financial knowledge and behaviour: an individual’s knowledge and understanding about money and financial products and services and their ability and willingness to apply that knowledge.
4. Social capital: an individual’s connection to, or isolation from, social networks; their level of social support in times of crisis; and their need for and access to community and/or government supports.

### Financial wellbeing

Financial wellbeing is when a person is able to meet expenses and has some money left over, is in control of their finances and feels financially secure, now and in the future.

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## EXECUTIVE SUMMARY

Money matters. It can determine where we live, how we live and what we do with our spare time, now and in the future. The ability to manage money and cope with unexpected financial shocks is important for individuals, households and the economy.

Around the world, programs are attempting to improve financial capability, inclusion, resilience and wellbeing [2, 4, 5]. These efforts are occurring across Australia, including for example the Financial Inclusion Action Plan [6] and the National Financial Literacy Strategy [1]. Financial Literacy Australia and ASIC both aim to improve financial wellbeing.

But, what does financial wellbeing mean?

Definitions of financial wellbeing have begun to emerge internationally [e.g., Consumer Finances Protection Bureau 7]. However, Australia lacks a definition. This project, commissioned by Financial Literacy Australia, fills this gap. It provides a definition for financial wellbeing that aims to be relevant to, and meaningful for, Australians of different ages and the people who work to improve financial outcomes. The project asked:

- ❖ What is financial wellbeing, and what are its different parts?
- ❖ What are the factors that influence financial wellbeing?
- ❖ Where does financial capability fit in?
- ❖ How can we measure financial wellbeing?

These questions were answered using data from an international literature review; focus groups and interviews with 72 people; a survey of 821 people living in Australia aged 18 and over; and consultations with experts in the field (from for-profit, not-for-profit and government sectors).

## Findings: What is financial wellbeing?

***Financial wellbeing is when a person is able to meet expenses and has some money left over, is in control of their finances and feels financially secure, now and in the future.*** It has three interrelated dimensions:

*Meeting expenses and some money left over:* includes having an adequate income to meet basic needs, pay off debts, and cover unexpected expenses and having some money left over.

*Being in control:* includes feeling and acting in control of your finances.

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*Feeling financially secure:* includes not having to worry much about money and having a sense of satisfaction with your financial situation.

These three dimensions are interlinked. There is a strong relationship between dimensions one and two, and dimensions one and two are strong predictors for dimension three. A person can be stronger or weaker in a particular area, but the overall result will determine a person's financial wellbeing. Wellbeing has objective (e.g. a person's savings) and subjective (e.g. how a person is feeling) components. Finally, **time is also important**. A person's financial wellbeing might be different today, tomorrow and in the future. Further, current actions and experiences can help shape a person's future financial wellbeing.

Each dimension has several sub-dimensions (see Table 1).

**Table 1: A model of financial wellbeing**

Financial wellbeing means...				
Meeting expenses and having some money left over		Being in control		Feeling financially secure
<b>Dimension 1</b>	<b>Meeting expenses and have some money left over</b>			
Definition	Includes having an adequate income to meet basic needs, pay off debts and cover unexpected expenses and having some money left over			
Sub-dimensions	Able to meet expenses	Able to manage debt	Savings buffer	Able to afford "little extras"
<b>Dimension 2</b>	<b>Being in control</b>			
Definition	Includes feeling and acting in control of your finances now and in the future			
Sub-dimensions	Having control over your financial situation		Setting and pursuing goals for future spending and life planning	
<b>Dimension 3</b>	<b>Feeling financially secure</b>			
Definition	Includes not having to worry much about money and having a sense of satisfaction with your financial situation			
Sub-dimensions	Limited financial worry		Satisfaction with financial situation	

People's levels of financial wellbeing and the resources they need to draw on to support their wellbeing may **change across the life course**. In particular, people's wellbeing is affected during transitional or life course events, such as moving out of home, having a baby, changes to employment status and income, and retirement. The experience of financial shock can also affect people's financial wellbeing.



## What factors influence financial wellbeing?

Many factors influence financial wellbeing. These factors can be found at the individual, household, community and societal levels. This research found that the strongest influencers of financial wellbeing were financial capability, financial inclusion, social capital and income. Health, particularly mental health, was also a strong influencer.

### Financial capability

Individuals with higher levels of financial capability – a combination of financial knowledge, attitudes, decisions, and behaviours – are more likely to have better financial wellbeing. But financial knowledge, attitudes, decisions and behaviours influence financial wellbeing in different ways, and they mean different things to people of different ages.

### Financial inclusion

Financial inclusion – having access to appropriate and affordable financial services and products – is important for financial wellbeing. People who are financially excluded – who lack access to financial products and services – have poorer financial wellbeing than people who are financially included. Financial exclusion is a potential barrier to financial wellbeing.

### Social capital (support from friends, relatives and/or the community)

Friends, relatives and/or community services can provide essential support during periods of financial stress. They might help to cover basic needs and expenses (e.g. income support), to meet unexpected expenses (e.g. emergency financial assistance), and for some, to afford little extras (e.g. parents helping young people to save). People who cannot rely on friends and family during times of financial stress report lower financial wellbeing.

### Income

Income is central to shaping financial wellbeing. For participants in this study, the *value* of the income (i.e. the amount of money coming in), the *stability* of the income (i.e. was it regular and secure) and the *source* of the income (i.e. work, a government payment, a superannuation income stream, parents) were each important in contributing to their financial wellbeing. At the household/family level, financial wellbeing decreases with household income.

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## Health

Disability, physical health and mental health were also found to affect financial wellbeing directly and indirectly. People with a probable serious mental illness are more likely to experience poor financial wellbeing, particularly people under 30 years, than people with low or no levels of psychological distress. People with disabilities had significantly weaker social capital to draw on in a financial emergency, which is an important contributor to financial wellbeing.

## Other factors

People who were interviewed and who took part in focus groups around the country also revealed a range of other factors at the individual, family, community and wider social levels, which were important to their financial wellbeing. These included, employment status, housing, caring responsibilities and government policy. For example, changes to policies governing superannuation had a direct impact on the financial wellbeing of older participants, and changes to the rate and eligibility requirements of income support payments had an impact on the financial wellbeing of people with low incomes (and some with middle incomes). These changes made it difficult for people to manage expenses, increased worry about money, and decreased people's sense of control over their financial circumstances.

## Where does financial wellbeing fit with other terms?

Financial wellbeing is directly linked to financial capability, financial inclusion, and financial resilience. This research suggests that financial capability, financial inclusion, social capital, and economic resources (especially income) are among the strongest influencers of financial wellbeing. These four factors also form the four dimensions of financial resilience [3]. This suggests that improvements in each of these four areas are likely to enhance a person's financial wellbeing both in times of financial adversity<sup>1</sup> and in the context of everyday money management, wealth accumulation and pursuit of long-term goals.

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Financial resilience is the ability to access and draw on internal capabilities and appropriate, acceptable and accessible external resources and supports in times of financial adversity [3]



## The financial wellbeing tree

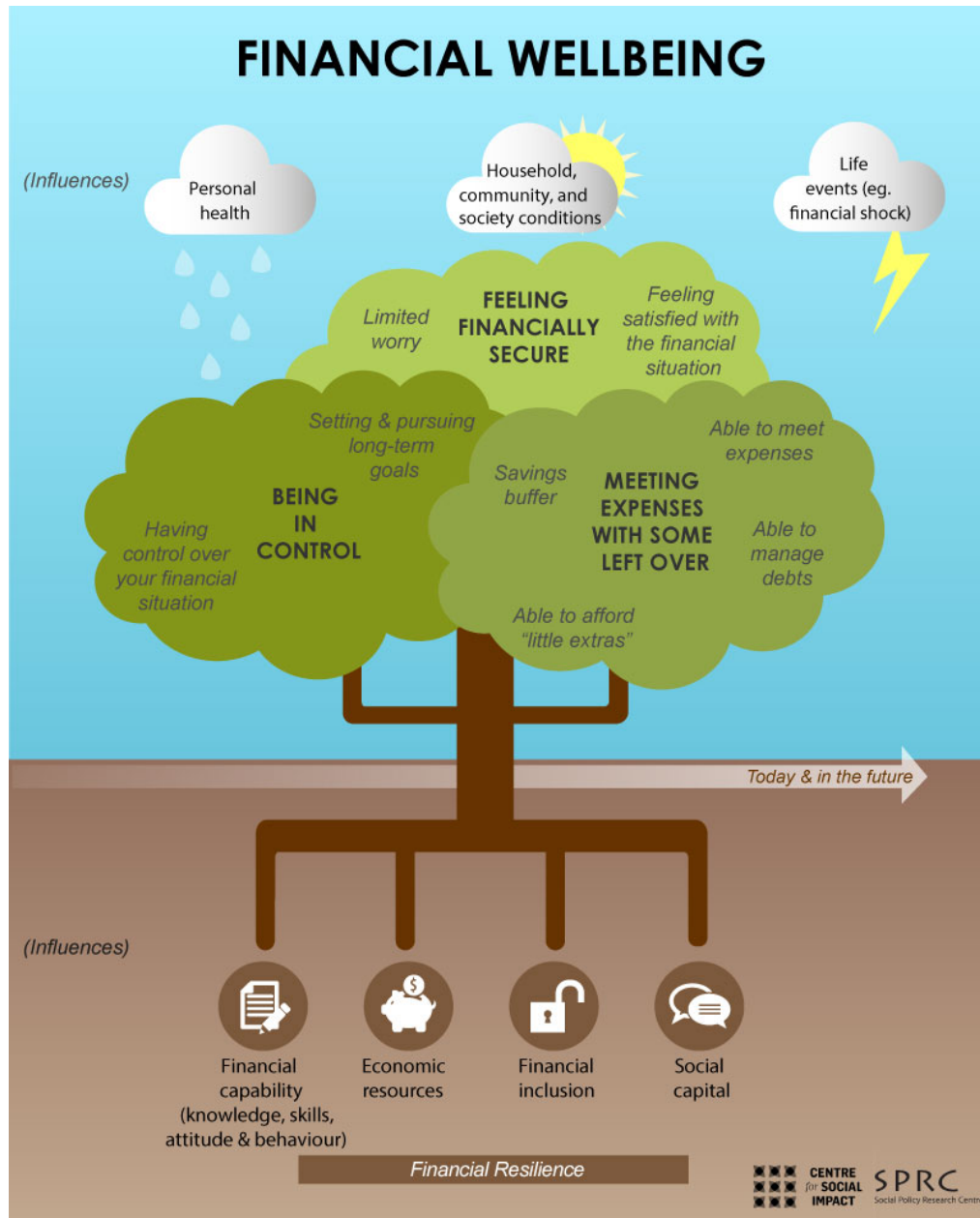
Financial wellbeing is not just about an individual's situation. It is important to understand that financial wellbeing is also influenced by people's household, community and social contexts. This is called taking an ecological systems approach to understanding financial wellbeing.

One way to think about financial wellbeing and the factors that influence it is to consider a tree (see Figure 1). The tree's health (or its financial wellbeing) is affected by factors within and outside of its control. The tree's foliage has three main branches, which represent the primary dimensions of wellbeing (meeting expenses, being in control and feeling financially secure). Each branch has a network of smaller branches that represent the subdimensions and indicate the health of the tree. The tree's root system draws in important nutrients that contribute to its growth during favourable circumstances (these are the primary influencers of financial wellbeing). Expected and unexpected external conditions or influences will affect the tree (what's happening at a household, family, community or societal level) and there will be planned and unplanned events that the tree needs the resilience to respond to (financial resilience to respond to financial shock and life events). Finally, what happens today matters for the tree, but its future wellbeing can change and actions today and tomorrow can be protective or hindering factors in the tree's future.



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Figure 1: The financial wellbeing tree



## How can we measure financial wellbeing in an Australian context?

It will be important to measure financial wellbeing into the future. This research has defined financial wellbeing and has used numerous indicators that will be helpful to measure wellbeing into the future. However, the financial wellbeing model should be further tested before finalising a measurement tool. In the



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meantime, it can be used by policy makers, regulators and organisations interested in increasing financial wellbeing to consider where they might focus their efforts on improving financial wellbeing across the population and for particular groups.



## INTRODUCTION

### The issue

According to official statistics, Australia's economy is doing well. Gross Domestic Product, wealth and income are growing in real terms [8, 9]. However, not everyone is benefiting equally from Australia's economic growth. In 2013-14, the top 20% of households by income held over 60% of total wealth [9, 10] and over 13% of Australians were living below the poverty line [11]. It is therefore not surprising that almost two-thirds of Australians faced some level of financial stress in 2015 [3].

The ability to manage personal finances and cope with financial shocks has always been important. And an increasingly complex financial system makes financial decision-making more challenging [12] and increases financial uncertainty for many. Trends such as increasing job insecurity and divorce rates are placing new pressures on financial decisions and decision makers [e.g. 13, 14]. These trends mean that achieving 'financial wellbeing' is a challenge.

In recent years, a number of definitions for financial wellbeing have emerged internationally [7]. However, Australia lacks a definition of financial wellbeing that is relevant and meaningful to their lived experience. This presents problems for assessing progress in achieving financial wellbeing at the individual and societal level, and for developing appropriate educational and policy responses.

The lack of an appropriate framework also hinders the ability of individuals, financial counsellors, employers, community organisations, and policy makers to help improve financial outcomes and financial wellbeing overall. An ecological systems approach [15] suggests that each has a role to play in promoting financial wellbeing.

### The context

Some responses by governments, not-for-profits and corporates have focused on providing financial education; providing tools and resources to increase knowledge and change behaviour (financial capability); increasing people's access to financial products and services (financial inclusion); and providing specialist support services (such as financial counselling, assistance programs and alternative forms of financial support) that address specific needs. For instance, efforts are being made to increase financial wellbeing by improving financial capability through the National Financial Literacy Strategy [1] and inclusion through the Financial Inclusion Action Plan [6].



## Where does financial wellbeing fit with other terms?

Financial capability is a combination of financial knowledge, attitudes, decisions, and behaviours, which influences how a person manages their finances and the decisions and actions they take. Financial inclusion is having access to appropriate and affordable financial services and products.

Much of the focus of financial capability and financial inclusion has been on individual capacities. Although it is recognised that broader structural conditions can also influence financial wellbeing, this receives less attention..

Recently, financial resilience – defined as “an individual’s ability to access and draw on internal capabilities and appropriate, acceptable and accessible external resources and supports in times of financial adversity” [3;5] – was developed as a concept and measured across Australia to provide a deeper understanding of a person’s overall financial situation and where they sit on a scale between severe financial stress and financial security.

This project explores the relationship between these concepts and financial wellbeing. The project builds on existing research and terminology and recognises that the factors influencing financial wellbeing lie beyond the individual. This approach will reveal the way in which improving an individual’s financial wellbeing requires action at multiple levels.

## This project

While much research has been done in an attempt to define financial wellbeing and its measures, financial wellbeing is a complex concept, defined in various ways, with little consensus on what it means to everyday Australians.

This project, commissioned by Financial Literacy Australia, aims to progress the understanding of financial wellbeing in Australia by: defining and conceptualising the term in the Australian context; understanding its components and the relationships between them; and beginning to understand how it might be measured. The project is driven by three key research questions:

1. **What is financial wellbeing?** How is financial wellbeing defined? What are its key components/domains? How does the concept of financial wellbeing differ for Australians of different ages, stages and social contexts?
2. **What influences financial wellbeing?** What are the influencers that facilitate or impede changes in financial wellbeing? How does financial capability contribute to financial wellbeing? How do influencers differ for different groups across the Australian population?

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3. **How can we measure financial wellbeing and its key components?** What indicator(s) can be used to measure financial wellbeing and changes over time?

The project aims to develop and test a new model of financial wellbeing and its influencers. It addresses gaps in existing knowledge by: critiquing the existing literature<sup>2</sup>; drawing on interviews and focus groups with young, working age and people of retirement age across Australia; consulting with key stakeholders in financial services, financial capability and financial inclusion; and developing and testing a draft model of financial wellbeing using a national survey of Australian people.

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<sup>2</sup> See Appendix B for a summary of recent research into the measurement of financial wellbeing



## RESEARCH METHODS

This report draws on data from three connected research phases (see Appendix A for details):

1. A scoping review of existing national and international research on financial wellbeing, which included over 80 papers.
2. Qualitative focus groups and interviews with a total of 72 people living in Australia through:
  - 9 focus groups with 54 people living in Australia of different ages, genders and socio-economic statuses
  - 18 one-on-one interviews with people from a low income; people with culturally and linguistically diverse backgrounds; sole parents; people with a disability; people caring for a family member with a disability or illness; young unemployed people; and people living in regional and rural areas.

Qualitative data was transcribed and coded and thematic analysis was used to examine the findings<sup>3</sup>.

3. A quantitative survey of a representative sample of the Australian population, with 821 respondents, conducted by Roy Morgan Research and weighted to be representative of the Australian population.

The survey was undertaken to test the preliminary model developed through the scoping review and qualitative work. Survey questions were mapped to each dimension and sub-dimension in the preliminary model of financial wellbeing (see Appendix C) and drew from existing questionnaires, including:

- the Household Income and Labour Dynamics in Australia (HILDA) survey
- a recent Norwegian Survey of financial wellbeing [16]
- the Financial Resilience survey [3]
- the Australian Bureau of Statistics Census 2006, 2011
- the Poverty and Exclusion in Modern Australia (PEMA) survey [17].

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<sup>3</sup> Note that for the purposes of the research, the following age categorisations were used: 18-25: 'young person', 26-64: 'working age', 65+: 'retirement age'. However it is acknowledged that there are participants under 25 and over 65 who are working for pay and those between 26 and 64 who are not working for pay.



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Factor analysis and regression analysis techniques were used to test the preliminary conceptual model of financial wellbeing and to identify factors that influence financial wellbeing (See Appendix D for details). The data was also analysed to see if and how life events (e.g. divorce, losing one's job) influenced financial wellbeing. Descriptive statistics can be found in Appendix E.

Each phase built on the previous phase to develop the conceptual framework of financial wellbeing and the key factors that influence it.

In addition, 11 expert stakeholders (including financial advisors, educators, counsellors and consumer representatives) were consulted to inform and refine the preliminary conceptual framework and the final draft framework. Finally, the project was guided by a steering group. The steering group met four times throughout the project and provided expert guidance in the development of the framework for financial wellbeing and its practical implications.

## WHAT IS FINANCIAL WELLBEING?

Financial wellbeing includes **subjective and objective elements** [See for example, 18, 19, 20]. Objective elements include people's financial circumstances, such as income, debt and savings, and can be externally verified [21]. Subjective measures capture people's perceptions or feelings about a situation or variable, such as satisfaction with income, financial situation and standards of living [19]. Some measures of wellbeing may combine objective and subjective ideas. For example, having "enough money to pay for essentials with some left for non-essentials (luxuries)" [20;1108] could be measured through subjective perceptions or objectively by measuring income versus expenditure. Using objective and subjective measures helps to capture a more complete picture of people's experiences.

People's levels of financial wellbeing and the resources they need to draw upon to support their wellbeing may change across the life course. In particular, people's wellbeing is most affected during transitional or life course events, such as moving out of home, getting married, getting divorced, having a baby, changes to employment status and income, and retirement. Therefore, ***the conceptualisation of financial wellbeing should also be understood within a life course framework.***

## An Australian definition of financial wellbeing

***Financial wellbeing is when a person is able to meet expenses and has some money left over, is in control of their finances and feels financially secure, now and in the future.***

Financial wellbeing has three interrelated parts, or dimensions:

1. ***Meeting expenses and some money left over:*** includes having an adequate income to meet basic needs, pay off debts, and cover unexpected expenses and having some money left over.
2. ***Being in control:*** includes feeling and acting in control of your finances.
3. ***Feeling financially secure:*** includes not having to worry much about money and having a sense of satisfaction with your financial situation.

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These dimensions are set out in Table 2.

Table 2: The three dimensions of financial wellbeing.

Financial wellbeing means...		
Meeting expenses and some money left over	Being in control	Feeling financially secure

Each of these three interrelated dimensions of financial wellbeing has a number of sub-dimensions. These sub-dimensions are described further below and the respective survey items are described in Appendix C.

## Dimension 1: Meeting expenses and some money left over

The first dimension of financial wellbeing is *meeting expenses and some money left over*. Drawing on the literature and qualitative work, we have identified four sub-dimensions:

- The ability to meet expenses
- Having manageable debt levels/being able to meet debt
- Having a savings buffer
- Being able to afford 'little extras'.

This dimension involves being in a financial position to be able to meet basic expenses and have some money left over to make choices in both short-term spending and broader life decisions and planning. Most existing conceptualisations of financial wellbeing include a dimension or several dimensions that capture a person's financial circumstances, in other words, the extent to which their material resources enable them to 'get by' and 'get ahead'. This work draws on a combination of objective measures of financial circumstances, such as savings or debt-to-payment ratios and subjective measures, such as whether a person thinks they can raise funds in an emergency, or whether a person has enough left over for non-essentials [7, 18, 22].

Research with Australians of different ages and characteristics strongly supported the existing literature. The participants in our study described having sufficient *to be able to cover expenses* (including to pay off debt) and *to have a bit left over*. By having a bit left over, they meant several things: having a bit you can put aside as a buffer in the case of an unexpected expense, having a bit you can put aside and save for the future, and having a bit you can use to buy small (and modest) luxuries.



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*Having enough money to pay the bills when they come in and you're comfortable, a little bit left over if you can for that emergency that you don't know about (female, retirement age<sup>4</sup>).*

*It means that all of my bills are paid and there's no lingering debt and I can afford a holiday (female, working age).*

Having a bit left over means having choices. According to the Consumer Financial Protection Bureau, financial wellbeing includes the capacity to make choices about spending that 'allow you to enjoy life' in the present and future [7]. Financial choice is an important component of financial wellbeing [7, 19, 20]. Interviews and focus groups with Australians of different ages provided insight into what financial choice means in people's everyday lives. The participants described the financial choices a person can and does make to live life in the way they would like.

*...you've got all the income or funds that you need to live life whether it's paying bills or whatever it is and have money so that if there's a contingency or situation that comes up you can handle it. Then I guess at the same time have disposable income so that you can have fun and live life the way you want to (Male, young person).*

This dimension is about being in a financial position to make choices in everyday spending and to live beyond the everyday by making choices regarding longer term planning and life goals.

Table 3: Dimension 1 and its sub-dimensions

Dimension 1	Meeting expenses and some money left over			
<b>Definition</b>	Includes having an adequate income to meet basic needs, pay off debts, and cover unexpected expenses and having some money left over			
<b>Sub-dimensions</b>	Able to meet expenses	Able to manage debt	Savings buffer	Able to afford "little extras"

There was a strong sense that having choices alone was not an adequate basis for financial wellbeing. Focus group and interview participants also talked about making informed choices – 'choosing wisely' or being in control.

<sup>4</sup> Note that for the purposes of the research, the following age categorisations were used: 18-25: 'young person', 26-64: 'working age', 65+: 'retirement age'. However it is acknowledged that there are participants under 25 and over 65 who are working for pay and those between 26 and 64 who are not working for pay.

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## Dimension 2: Being in control

The second dimension of financial wellbeing is **being in control**. This includes feeling in control over your financial circumstances and acting in control, or taking control, of your financial circumstances. Drawing on the literature and qualitative work, we have identified two sub-dimensions of being in control:

- Having control over your financial situation
- Setting and pursuing goals for future spending and life planning.

According to the literature, financial wellbeing is related to whether people have, or feel they have, financial autonomy, or are able to exert control over their finances and financial actions [19, 20, 23]. Vlaev and Elliot [20] suggest that perceived control over one's financial situation is a stronger predictor of financial wellbeing than income, debt-to-income ratio, attitudes towards finances or external pressures that affect borrowing.

Interviews and focus groups provided a more detailed understanding of why and how control is an important part of financial wellbeing. Two themes emerged with respect to the importance of control in the present and the future. The first was *having control over your current financial situation*, which means having a say in financial decisions that affect you, having access to your money and control over how it is spent, or generally having financial independence. Having control also included keeping track of your finances, and being responsible in your spending (including exercising self-control and being discerning in your spending behaviours).

*Just being in control. Being in control, not being that leaf in the breeze that's just blowing around everywhere and landing where you land (female, working age).*

*...I'm in control, that we are not getting big \$300, \$500 and \$600 bills, "Pay now or the debt collectors will come." I'm really proud of myself, that all of my bills are paid and I'm in front... (female, working age).*

The second theme was future-oriented, and focused on the importance of control over your finances going forward, especially *setting and pursuing goals for future spending and life planning*. One participant described this as 'helping her older self'.

*Control. You need your self-control. You've got to be disciplined to say, "I'm going to save this much money, put it away for this month and plan." It's about planning, planning your finances for your future needs and wants (male, working age).*

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According to the research participants, it is not possible to understand financial wellbeing unless the importance of *being in control* is taken into account. For example, an individual may have lots of money and be happy with the amount of money they have, but many participants believed that this person is not 'financially well' unless they are also in control of their financial situation; that is, they have access to and autonomy over their finances, understand and keep track of their finances, are controlled in their spending behaviour, and are planning for the future.

Table 4: Dimension 2 and its sub-dimensions

Dimension 2	Being in control	
Definition	Includes feeling and acting in control of your finances now and in the future	
Sub-dimensions	Having control over your financial situation	Setting and pursuing goals for future spending and life planning

### Dimension 3: Feeling financially secure

Feeling financially secure refers to the way a person feels about their financial situation. Drawing on the literature review and focus groups and interviews, we identified two sub-dimensions of feeling financially secure:

- Experiencing limited financial worry
- Having a sense of satisfaction with your financial situation.

A number of existing conceptualisations of financial wellbeing combine individuals' objective financial circumstances with how they feel about their financial circumstances. Some definitions identify a combination of an objective and a subjective assessment of a person's financial position [24], or the combination of 'being and feeling' [25]. Others focus more specifically on a particular feeling or state of mind, that is, satisfaction with financial circumstances or financial worry or stress [18, 23, 26, 27, 28]. Research suggests that a person's subjective assessment of their financial situation can be based on their current financial position but can also be shaped by a series of reference points. These reference points include people's financial experiences, challenges and progress in the past, their expectations and goals for the future, and the circumstances of their families and peers [18, 23].

The focus groups and interviews in this study provide deeper insight into just how important a person's feelings about their financial situations are to their overall financial wellbeing. While people frequently used 'worry' and 'satisfaction' to

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describe how they felt about their financial situations, worry – or not having to worry – was by far the most common. In all of the focus groups and most of the interviews, when participants were asked what is important to financial wellbeing, they said ‘not having to worry’.

*I think the bottom line is you don't have to worry about putting food on the table (male, Working age).*

*I'd love to ...not have to worry about looking after the next bit and then the next bit and then it's just a domino effect. For instance, I finally get my credit card paid off, what happens? Someone backs into my car, so now I've got to pay for the insurance to fix that (female, young person).*

For the participants, financial wellbeing meant not having to worry about a range of factors associated with their financial situation. It meant not having to worry about paying bills or buying food, not having to worry about whether they could afford to participate in a social activity with friends, not having to worry about where the next pay cheque is coming from, not having to worry about the ability to pay off debts, being able to buy something nice things occasionally without worrying, not having to worry about having enough to meet future health and aged care needs. Financial worry (some used the term ‘stress’ instead), was experienced in both the short and long term, and was associated with not being able to meet needs in both the present and the future.

*One of the things that I want for my older age is the ability to not have to worry and I think that's it, not to have to worry if I'm going to have enough money to pay the gas bill or the electricity bill (female, retirement age).*

Not having to worry was an essential component of financial wellbeing across all income groups. For individuals in the low-income groups, not having to worry was something they hoped for and aspired to. For those in high income groups, not having to worry was something they felt lucky and grateful for.

The concept of satisfaction was also important. For participants, satisfaction was a sense of overall financial wellbeing. Whereas ‘happiness’ with finances was often momentary or short-term, satisfaction was described as a longer term feeling. A person’s short-term feelings about their financial situation were often different from their longer term feelings. We have grouped these feelings under the heading of ‘feeling financially secure’. It is important to note that a comprehensive



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conceptualisation of financial wellbeing must capture feelings about both the present and the future<sup>5</sup>.

Table 5: Dimension 3 and its sub-dimensions

Dimension 3	Feeling financially secure	
Definition	Includes not having to worry much about money and having a sense of satisfaction with your financial situation	
Sub-dimensions	Limited financial worry	Satisfaction with financial situation

### How do the dimensions of financial wellbeing fit together?

Statistical analysis showed that the three proposed dimensions were strongly related rather than independent<sup>6</sup>. This suggests that to fully understand the concept of financial wellbeing, these dimensions can be explored both individually and holistically.

It is also helpful to understand how the dimensions may relate to one another. According to the quantitative analysis, there is a strong relationship between dimensions 1 and 2: meeting expenses and being in control (See Appendix F for a table of correlations). At the same time, dimensions 1 and 2 are strong predictors for dimension 3: feeling financially secure. That is, both meeting expenses and being in control contributed independently to financial security<sup>7</sup>. Meeting expenses plays a stronger role in contributing to feelings of financial security than being in control. A person can be stronger or weaker in a particular area, but the overall result will determine a person's financial wellbeing.

## WHAT ARE THE INFLUENCERS OF FINANCIAL WELLBEING?

Financial wellbeing is influenced by a number of factors. Family, peers, communities, institutions and society all play a role, alongside individual

<sup>5</sup> The items used by the research team to measure each of the sub-dimensions are detailed in the Appendix C.

<sup>6</sup> Bivariate correlations between the three dimensions were all over,  $r = 0.50$ . Also, factor analysis of the survey items produced a single factor rather than three discrete factors corresponding to each dimension. However, the single factor explained less than 50% of the variance in the financial wellbeing survey items, suggesting that much information is lost from combining the variables together. Therefore, when examining the influencers of financial wellbeing, we considered the three dimensions and financial wellbeing overall. The overall score was the mean of the three dimension scores.

<sup>7</sup> 'Feelings of financial security' was regressed on 'meeting expenses' and 'being in control': Adjusted  $R^2 = 0.58$ , Having enough:  $\beta = 0.6$ ,  $p < 0.001$ ; Being in control:  $\beta = 0.3$ ,  $p < 0.001$ .



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influencers. By taking a broad systems view, we can begin to understand the range of different enablers and barriers, as well as the roles that different contexts play, in influencing financial wellbeing.

### Our ecological approach

We take an ecological systems approach [15, 29]. This helps to understanding not just what is happening at an individual level, but also in households, communities and across society and how these factors affect financial wellbeing [7, 15, 29, 30].

A systems approach also considers feedback loops – how different factors interact and the outcomes – when one part of the system changes [30]. This is important for financial wellbeing because individual, family and community influences have been found to affect financial capability, financial inclusion and financial resilience [3, 19]. While some financial shocks might be unique to an individual, others can be much more widespread, such as the 2008–09 Global Financial Crisis.

This section draws on the literature and our research to examine the influences of financial wellbeing according to the different layers of the ecological model:

- a) Individual influences (e.g. financial capability, demographics, health)
- b) Household, family and peer-level influences (e.g. household income)
- c) Community level (e.g. community socio-economic status)
- d) Societal level (e.g. policies)

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A summary of the findings is presented in Table 6 and are described in greater detail below.

*Table 6: Summary of findings from the research*

Which factors consistently emerged as potential influencers of financial wellbeing across the research phases?	What factors require further and more detailed analysis?
<p>Financial self-efficacy<sup>8</sup></p> <p>Financial behaviours, particularly regular savings and paying off more than minimum credit or mortgage payments</p> <p>A positive attitude towards money</p> <p>Financial inclusion (access to financial products and services)</p> <p>Social capital</p> <p>Household income</p> <p>Health (especially mental health)</p>	<p>Age and life course events, and how they intersect to influence financial wellbeing</p> <p>Gender, but particularly differences within different groups of men and different groups of women.</p> <p>Education and employment, and the pathways that link them to financial wellbeing (e.g. wealth generation).</p> <p>Couple dynamics and the role of financial control in the household</p> <p>The influence of caregiver burden on financial wellbeing</p> <p>The role of community- and societal-level factors</p>

### Individual influencers

There are many potential individual influences of financial wellbeing. Based on the literature and the results of the qualitative data, we explored a number of individual influencers of financial wellbeing in depth, including financial factors (financial capability and financial inclusion); demographic factors (age, life course, gender, employment); and health and disability/ chronic illness. Findings from the survey are integrated into each section.

<sup>8</sup> Financial self-efficacy refers to people's self-rated ability to manage their finances. This represents their self-rated ability to manage their day-to-day spending, balance savings with spending and to have money set aside if needed.



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## Financial capability

Financial capability is a widely acknowledged influence on financial wellbeing. Financial capability contains the components of financial knowledge, attitudes and motivations, and behaviours (explored below). The existing literature and our own research suggests that the relationships between these components are highly complex.

### *Financial knowledge*

Financial knowledge influences financial wellbeing largely because of its relationship with financial behaviour [7, 19, 31]. However, it is important to note that having financial knowledge does not necessarily translate to changed or improved financial behaviours [32].

According to the participants, having financial knowledge meant understanding a range of financial terms, concepts, products and practices. This financial knowledge was said to be accumulated over time, mostly through informal channels, such as guidance from family (especially parents) and employers, and through professional training, personal life experience and/or independent research online.

*I feel like as I get older I probably should get my head around it a bit more. My parents taught us to save and things but yes I guess more the finer details of finance (female, young person).*

A number of participants had also sought professional financial advice. Some people reported that this improved their financial knowledge and skills and as a result supported them to improve their financial decisions and behaviours and therefore their overall financial wellbeing. Others sought financial advice not to improve their knowledge, but rather to support their financial decision-making.

*I have a financial planner, and my wife has one. I've had one from when I was about 18 or 19. You can't know everything so both of us have life insurance, superannuation, things like that, where we invest on what our financial advisor advises on (male, working age).*

According to the participants, it is the combination of financial knowledge and advice, and certain personal traits and attitudes (such as being responsible or determined) that can really change financial decisions and behaviours. Financial knowledge and advice was most useful when combined with the right attitudes or willingness to engage with and apply it.

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## *Financial attitudes and motivation*

Attitudes towards money and finances can influence financial wellbeing. Vlaev and Elliot [20] found that the more positive an individual's attitude towards money, the more likely they are to experience high financial wellbeing. Shim et al. [19] also propose a relationship between financial attitudes and financial wellbeing. Although indirect, Shim et al.'s adaptation of the theory of 'planned behaviour' suggests that financial attitudes may influence financial behavioural intentions, along with perceptions of control, subjective norms (parental expectations in this instance), and financial knowledge. Similarly, the Consumer Financial Protection Bureau [7] found attitudes towards a specific financial behaviour were a mediating factor between financial knowledge and carrying out that behaviour. Particularly, they found that: 'feel[ing] confident in knowing how to do it effectively' and 'believ[ing] that doing it is valuable', along with indicators of knowledge and skills, opportunity and the decision-making context, were factors influencing behaviour and relatedly, financial wellbeing [7;46].

Many of these findings were echoed in our participants' understandings of what it takes to make sound financial decisions. They are also consistent with the relationships between financial capability and financial wellbeing found in the survey data. However, our findings question the value of specific day-to-day financial behaviours as a lone mechanism (e.g. using budgeting apps) for financial wellbeing.

## *Financial behaviours*

Financial behaviours identified in the literature as influencing financial wellbeing can generally be grouped into four categories [7, 13, 33, 34, 35]:

1. Saving: active savings behaviour such as 'started or increased my savings' [34] and more passive actions like 'being frugal' or 'investing' [7].
2. Planning and budgeting: this has both a present and a future component. Present-related behaviours include following a budget or 'living an intentional lifestyle' [7] while future-related actions include having a financial plan for the future and having financial goals [7, 34]. Seeking knowledge and becoming more informed can also be considered an investment into the future [7].
3. Credit: this encapsulates actions related to decreasing or effectively managing debt [7, 33, 34].
4. Buying behaviours: captures actions related to actively managing spending, including cutting living expenses [34], being cautious when spending money [13], and avoiding compulsive buying [33].



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Recent research has also demonstrated the importance of financial mastery or financial self-efficacy for predicting higher savings, lower debt [36] and adjustment to retirement [37].

The survey found that, after adjusting for all other influencers, people with higher levels of financial self-efficacy<sup>9</sup> were more likely to feel financially secure, have enough money to meet expenses and be in control over their finances (see Appendix G for regression results).

Greater financial knowledge and positive financial attitudes were also associated with financial wellbeing, but to a lesser degree. However, this is likely to be partly explained by positive relationship of financial knowledge and attitudes with financial behaviours (see Appendix F for correlations). This finding is consistent with existing research which suggests that financial knowledge and attitudes when applied via positive financial behaviours, produces financial wellbeing [7, 16, 19, 31]. Interview and focus group participants reinforced this: people felt they needed the right knowledge, attitude and advice to make sound financial decisions (behaviours).

### *What financial behaviours are most influential for financial wellbeing?*

The survey asked a number of questions to understand which financial behaviours influence financial wellbeing. These can be split into:

1. Day-to-day money management behaviours (e.g. keeping track of money in head, checking bank statements, using budgeting apps)
2. Future financial planning behaviours (e.g. regular savings contributions, paying off more than minimum amounts on credit cards and mortgages, additional contributions to superannuation)
3. Financial self-efficacy questions (e.g. the extent people feel they balance their spending and savings, are organised with money and have money aside for later).

These three groups of behaviours showed different relationships with financial wellbeing. In general, financial self-efficacy was more associated with financial wellbeing than day-to-day money management behaviours and future financial planning behaviours. There were also differences between the day-to-day and future planning behaviours. As shown in Table 7, specific behaviours, such as saving regularly, checking credit card statements and paying off more than minimum credit card/loan repayments, are the behaviours most strongly associated with financial wellbeing. However, the survey findings suggest any

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<sup>9</sup> In this research, financial self-efficacy refers to self-rated ability to balance savings and spending and to be organised with money.



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impact they may have on financial wellbeing would be modest. Weaker influences include paying off more than minimum mortgage payments and making voluntary contributions to superannuation.

The survey findings also indicate that behaviours such as the use of online budgeting applications and keeping track of spending had no statistically significant influence on overall financial wellbeing.

Self-perceptions of *general* financial behaviours were strongly associated with financial wellbeing<sup>10</sup>. We also found that financial wellbeing increases as the number of long-term behaviours accumulate.

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<sup>10</sup>  $r=.6$ ,  $p<.001$ . This represents a strong relationship

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Table 7: Financial behaviours and their relationships with financial wellbeing

Day-to-day money management behaviours	% undertaking behaviour	Relationship with financial wellbeing	Future planning behaviours	% undertaking behaviour	Relationship with financial wellbeing
I checked my credit card statements for unusual/suspicious entries <sup>3</sup>	61%	Weak–moderate	Saved regularly	57%	Moderate–strong
I checked my bank statements for unusual/suspicious entries	71%	Weak	Paid more than the minimum repayment required by credit card company or loan provider <sup>11</sup>	71%	Weak–moderate
I kept receipts	47%	Very weak	Paid more than the minimum home loan repayment <sup>12</sup>	44%	Weak
I used a household budget/spread sheet	27%	Very weak	Made voluntary contributions towards my superannuation <sup>13</sup>	28%	Weak
I kept track of my money by writing down notes	21%	No relationship	Followed a budget	43%	Very weak
I kept track of my money in my head	40%	No relationship			
I used an online budgeting tool or app	4%	No relationship			
I used an app to keep track of my spending	7%	No relationship			
I looked at some or all of my bank/credit card statements but not in any detail	20%	No relationship			
None of these behaviours	4%	Very weak (negative)	None of these behaviours	9%	Very weak (negative)
Sum of behaviours	0: 3.7% 1: 17.1% 2: 19.2% 3: 24.2% 4: 19.5% 5: 10.7% 6: 4.6% 7: 0.9% 8: 0.1% 9: 0.1%	Very weak	Sum of behaviours	0: 9.4% 1: 24.8% 2: 30.9% 3: 21.0% 4: 11.0% 5: 2.9%	Moderate

In summary, overall perceptions of money management, savings behaviour and, to a lesser extent the monitoring of bank/credit card statements and paying off more than minimum credit card payments, warrant future investigation as potential influencers of financial wellbeing. Further research is needed to ensure that the findings are not affected by the subjective measures used to determine financial wellbeing among the participants surveyed.

<sup>11</sup> For those who access credit (n = 425)

<sup>12</sup> Analysis restricted to the 412 participants who have a mortgage. Note that for those with more than 50% owing on their mortgage, the relationship between paying off more than the minimum (60%) and financial wellbeing is stronger for this group (r = 0.25, p < 0.001) than for everyone with a mortgage (r = 0.16, p = 0.001).

<sup>13</sup> For those in the paid workforce

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## Financial inclusion

The literature and our quantitative research indicate that financial inclusion – ‘access to appropriate and affordable financial services and products’, including a bank account, insurance and line of credit [2;6] - is an influencer of financial wellbeing.<sup>14</sup>

Financial inclusion can enable individuals to cope with financial shocks, smooth consumption and asset build [4, 38]. The development of inclusive financial systems can particularly benefit vulnerable groups [39;279, 40].

The survey showed that people who report lower levels of financial inclusion had poorer financial wellbeing overall and across each of the three dimensions<sup>15</sup>.

The focus groups and interviews reinforced the importance of ‘appropriate and affordable’ credit. Generally, participants spoke in terms of good and bad debt. For example, a home loan could be a positive overall contribution to a person’s financial wellbeing in cases where they could meet the repayments without financial stress. In comparison, a small credit fringe (or payday) loan could be very bad for financial wellbeing because of the high repayment costs. Many people described an ambiguous relationship between access to credit and its impact on their financial wellbeing: some talked about wanting to ‘cut [their] credit card up’ (male, young person), but not being able to as they felt it served as a security net.

## Demographic factors

Personal demographic characteristics and traits have been identified as influencing financial wellbeing in other studies. For example, the Consumer Financial Protection Bureau [7] examined internal characteristics – having an internal frame of reference, perseverance, executive functioning and efficacy. Kim, Garman [34] considered the effect of age and income. Porter and Garman [23] included gender, ethnicity, educational attainment, employment status, and an index of general wellbeing in their model of financial wellbeing, with general wellbeing and full-time employment emerging as significant predictors of financial wellbeing. Shim, Xiao [19] examined the relationship between socio-demographic characteristics (such as gender, race/ethnicity, parent's income, student's income, class standing, living situation and age) and personal values on financial knowledge, attitudes and behaviour.

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<sup>14</sup> This has been included as an ‘individual influencer’, however, it is important to note that the provision of appropriate, affordable and accessible financial products and services relies on the financial services sector, not-for-profits and governments.

<sup>15</sup> See Appendix F for correlations.

## Exploring Financial Wellbeing in the Australian Context

Our research found a number of individual demographic factors that influence a person's overall financial wellbeing. These include individual demographics, such as age and gender; personal traits and skills; and circumstances, such as employment and health and wellbeing.

### *Age, life stages and life events*

Although not a common feature in existing literature, some research has recognised that financial wellbeing may differ according to ages, stages, life events and their interaction [41]. Our research found age, life stages and life events interact to influence financial wellbeing. This was a strong finding from the focus groups and interviews. However, the survey was unable to pick up the nuances of age because of the sample size and the number of people surveyed who reported experiencing significant life events in the last year<sup>16</sup>.

*Ages and stages:* Age and life course stages were frequently discussed as influencers of financial wellbeing by focus group and interview participants. People described the ways in which age shaped their financial situation and financial choices, their feelings about their financial situation, and control over their finances. Age also shaped what people valued when it came to each of the three dimensions of financial wellbeing.

The survey data suggests that financial wellbeing increases marginally with age<sup>17</sup>. *Young people* described increases in their expenses as they became independent from their parents. *Working age participants* experienced gradual increase in income, though this was interrupted by a range of factors such as redundancies, health issues, relationship breakdown and, particularly for women, caring responsibilities. *Pension age participants* described how retirement caused them to adjust their standard of living and attempt to reduce their expenses in some ways because they were no longer participants in the labour market. This is consistent with the literature. Schieman's [42] study [see also 43] showed that older participants were more financially satisfied than younger participants, despite their lower income.

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<sup>16</sup> Future research should target respondents experiencing particular life events to help address this.

<sup>17</sup> See appendix F

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*Life events:* When participants were asked about what gets in the way of financial wellbeing, the most common answer was life events. The focus here was on the impact of *unexpected* life events on a person's financial circumstances, and not having enough of a buffer, or being in the right circumstances, to be able to manage such an event. For example, participants talked about a range of unexpected life events that had affected their financial wellbeing: a health problem or injury, a car accident, a sudden large expense such as major car or appliance repairs and/or replacement, home repairs, losing a job (e.g. redundancy), business failure, relationship breakdown, domestic violence, being a victim of crime, needing to pay for assisted reproductive technology, falling pregnant, having to care for a family member with a disability or chronic illness, or a death in the family.

*I was in ... engineering ... I had a severe backache later so I had to leave the job. I couldn't work after that (male, working age)*

*All of a sudden the electrics go kaput and you find you've had a rat in the ceiling or a possum in my case and it's chewed its way through the wires so you've got to get the electrician in and they say, "Oh, you probably need a complete rewiring" (female, retirement age).*

For some, having insurance or savings mitigated these events somewhat. For others, lack of insurance or savings meant that the consequences of these events for their financial and general wellbeing were catastrophic. For all participants, there was recognition that even with insurance, savings and contingency planning, unexpected life events would always have some impact on financial wellbeing.

Previous research has also found intersections between age and events. For example, Plagnol's research [44] found higher financial wellbeing among older adults once they owned their own homes and when they no longer had dependents (e.g. caring for children and/or elderly parents).

The survey data showed that financial wellbeing decreased only marginally as life events compounded. And these small effects were the same across age groups. However, findings are likely to be skewed by the large proportion of survey respondents (75%) who did not report experiencing any 'events' in the previous year. A more targeted approach is needed to quantify life course influencers of financial wellbeing in the future.<sup>18</sup>

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<sup>18</sup> For instance, a retrospective life history approach has recently been used to demonstrate how socioeconomic, inter-personal, and health trajectories across the life course can influence health and wellbeing [45, 46]. Such an approach could be modified to more accurately identify life course influencers of financial wellbeing.



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### Gender

The relationship between gender and financial wellbeing is complex. It is well documented that women have different life and career trajectories that negatively affect their earning potential and wealth accumulation [47, 48]. This was echoed in the focus groups and interviews. Many women said that having and raising children or having caring responsibilities for others had an ongoing impact on their financial wellbeing. Gender pay differences were also mentioned.

*It's physically impossible for a woman who has children to have the same super as a man. Just imagine if, in some fantasy world, the woman was actually valued at the same hourly rate as a man (female, working age).*

Some women also talked about being treated differently by financial institutions because of their gender. Several of the older participants said that earlier in their lives they had been unable to get a loan in their own names or to get a credit card without having a husband to act as guarantor.

For some women, this created worry in the way they thought about their finances in the present and future. Some of the young women in our study described factoring all of this in to their future planning.

*It's like when are you going to have the baby? I'm 25 so if it's 28 where am I going to work so that I can get the leave, or am I going to hold off to 30 and then is it going to be harder or am I going to push it to 35 and am I going to have a house before then or after then? So how much have I got to be saving compared to how much travelling compared to where I've got to be working for an extended period of time? (Female, young person).*

In contrast, several of the male and female participants said that some men felt pressure to be the breadwinner and to provide adequately for their families and that this was damaging to their financial wellbeing, because they felt worried and pressured, and because they worked long hours which made them unhappy.

*You know? Because, ... I feel, as a guy, if I've got a wife and kids, which I hope I will one day, it's a lot of pressure on me to provide. Because if we have kids and there's time off for one of us at least, ... it puts more pressure on the other side (male, working age).*

Despite the importance of gender in the qualitative accounts, the survey did not identify any significant gender differences in financial wellbeing nor in influencers of financial wellbeing. However, there were limitations with the survey (e.g. we were unable to measure objective saving levels or super) and while men and women might have had different reasons for their financial wellbeing results, the overall results were similar.



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Nonetheless, the literature and focus groups and interviews suggest that gender plays an important role in influencing financial wellbeing, hence future use of the financial wellbeing framework needs to consider gender in a life course framework and considering factors such as their caregiving and employment status.

### *Employment*

Employment had a significant impact on participants' financial wellbeing according to the qualitative phase. Income generated through employment improved individuals' financial circumstances by making it easier for them to cover their expenses, to acquire assets, and to put a little aside as a buffer or for savings. Participation in work was also associated with less worry about one's financial situation and a greater sense of personal satisfaction with one's financial situation, and gave the participants a greater sense of choice and control when it came to their financial situation.

*But it all stems from job security, knowing that I'm going to have a job tomorrow or for the next month or so. That means I can ... have that security and then I don't have to live pay cheque to pay cheque (female, young person).*

Being in work also had a positive effect on future financial circumstances, through leave options, building future earnings potential and accumulating superannuation.

*When I look at my personal leave and I look at my long service leave and I look at my annual leave, I just think, 'Wow. Okay. This is like a security.' It's ... a financial comfort feeling knowing that if something happened the family, God forbid, or anything, they allow that time ... It's like an insurance policy (male, working age).*

In the same vein, unemployment or underemployment had a negative impact on an individual's financial wellbeing. Some people talked about losing their job and the negative effect this had on their financial wellbeing. Even for those not in the labour market, such as older retired people, the knowledge that they were unable to re-enter the labour market at any time shaped the way they thought about their financial situation, and was a source of concern or caution for many.

*I don't have a job. A job is really important. If I have a job I know - yes I get money from Centrelink but it's not enough. What is \$200 a fortnight going to do? (female, young person).*

*Being able to still work keeps me reasonably comfortable but I don't know how long that can go on for (female, retirement age).*



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Others described barriers to finding or staying in work, including experiencing workplace discrimination, being unable to find suitable or affordable childcare, facing the threat of having their income support payments withdrawn once they start earning income, or insecure work.

The nature and security of work was also important. The more secure the employment, and the more consistent the income, the more positive the impact was on an individual's financial wellbeing. Employment satisfaction and income commensurate with skill set all affected financial wellbeing.

*You might be in a job which gets you a lot of money but if you're not happy with it then chances are you might be spending money on something that you are happy with to console yourself in that job (male, young person).*

Some people said they preferred working for an employer because it gave them a greater sense of financial security, whereas others said that they preferred being self-employed because it gave them a greater sense of control over their financial circumstances.

The survey data also found that precarious employment affected financial wellbeing. People in the study on casual employment contracts (n = 100) had less access to bank accounts, credit, and insurance, which is significantly associated with lower financial wellbeing<sup>19</sup>. Where there was perceived 'control' amongst the casualised workers, it partially mitigated the negative impact on financial wellbeing. However, being employed or not was not associated with financial wellbeing in the survey data. This may be because of the sample or because the dichotomous employment variable is not sensitive enough to capture differences in financial wellbeing. For instance, those who are not working may be in this situation because of choice or because of a forced redundancy. As noted in the life course section, future research and practice should look more closely at the potential mechanisms (e.g. choice) that may link employment with financial wellbeing.

### *Education and skills*

As mentioned in the previous section, financial education, knowledge and skills were important enablers of financial wellbeing. But participants from the qualitative phase also described education and skills more generally as being of benefit to an individual's long-term financial wellbeing. According to many participants, having an education, having qualifications and having particular skills made one more employable, and increased the likelihood of an adequate income, leading to greater prospects of financial wellbeing. While some participants

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<sup>19</sup>  $r=.54, p<.001, n=100$

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described the challenges in the short-term associated with acquiring skills and qualifications – such as being on a low income or studying – they were widely considered to be of overall benefit to people’s financial wellbeing in the longer term.

In the survey data, there was no association between education and financial wellbeing, which was a surprising finding. However, education was positively associated with household income, which was positively associated with financial wellbeing<sup>20</sup>. Although no formal tests were undertaken, it is possible that education may indirectly influence wellbeing through opportunities to generate wealth as noted by the participants in the qualitative phase.

### *Health and disability/chronic illness*

Poor physical and mental health and disability are correlated with poor financial wellbeing [49, 50]. Poor health and disability can put negative pressure on individual or family finances, through the costs of care, restricted education and employment opportunities, and low government benefits [51, 52]. This can be particularly distressing for low-income individuals or families, not only because they have a lower pool of resources to draw from, but they typically also have fewer resources left over to deal with unexpected shocks [53].

The survey found people with poorer health reported lower financial wellbeing across all three dimensions: having enough, exercising control and feeling content. This finding was consistent (for mental health) after adjusting for all the potential influencers considered in this research (see Appendix G). People with a disability also tended to report lower levels of financial wellbeing, but these relationships were relatively weak.

The interview and focus group participants spoke at length about how poor mental and physical health negatively influenced their financial wellbeing. Some of the major reasons included reduced employment opportunities, reduced capacity to manage money and increased expenses. The quantitative phase also identified health as an influencer of financial wellbeing; especially for the *having enough* dimension.

The focus group and interview participants described how important good physical and mental health were to their participation in paid work, which in turn had positive effects on their financial circumstances, their feelings about their financial circumstances, and their control.

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<sup>20</sup> See Appendix F

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*Being in a good financial situation to me would be intrinsically tied with health. So a person's health or lack thereof and ability to earn would be tied together (female, working age).*

A number of participants described instances when problems with their physical health had created a barrier to their participation in work and therefore to their financial wellbeing. Participants with a low income, in particular, described ill-health as a barrier to their financial wellbeing.

*I'm trying to get a part-time job but because of my physical issues, it's hard. No-one really wants to employ you for two days a week or at my age at 55. But I know my disability support pension is coming in (female, working age).*

One participant explained that her mental health condition affected her ability to managing money effectively:

*Because I've got this disease, I don't really manage my money very well (female, working age).*

In addition to creating a barrier to participation in paid work, poor physical and mental health also created additional health-related living expenses which placed pressure on household budgets, particularly for the older cohort.

*12 months ago now, [I had a] prostate operation and I couldn't wait for the public system and it cost me \$5000. I was fortunate that I had the money (male, retirement age).*

*... when I was forced to take the redundancy I was already 66 ... I was at that stage trying to top up my super as much as I could. If I had not had the leg injury, you know, I would have probably topped it up a hell of a lot more knowing what I know now (male, retirement age).*

*I'm a type one diabetic ... I have quite expensive medical bills ... staying alive is obviously highly important so that is the most important thing for me to be financially stable to be able to afford to deal with that (female, working age).*

Uncertainty about future health costs led people to stress about whether they had enough savings. Where people could manage it, they continued to pay for private health insurance despite budget pressures to minimise worry about the cost of future health expenses.

Disability was not associated with lower financial wellbeing in the survey, however, the survey did not assess the extent that disability affected people's capacity to work or the nature of the disability.





## Household, family and peer influencers

Household and family influencers often closely affect a person's financial wellbeing. This differs based on age and life stages.

### Household income

Household income is an important influencer of wealth and financial stress. In Australia, households in the highest income quintile received over 40% of total income, and held over 60% of total wealth in 2013-14. This represents more than the share of income received by the bottom three quintiles, and more than the share of wealth held by all other quintiles combined [ABS 9, ABS 10]. It is therefore not surprising that almost two-thirds (64.3%) of Australians faced some level of financial stress in 2015, with 2 million adults experiencing high or very high levels of financial stress [3].

These findings from the literature were also reflected in our research. The survey showed that people who reported higher levels of household income also reported higher levels of overall financial wellbeing, even after accounting for differences in financial capability and the other influencers<sup>21</sup>.

Focus group and interview participants also identified household income as an important influencer of their financial wellbeing. In some cases, income was understood as a mechanism linking the other influencers to financial wellbeing. For example, poor health affected some people's ability to remain employed and therefore their ability to contribute to the household's income.

### Housing

Housing and housing expenses can affect an individual's and household's financial situation. Housing not only provides shelter but also 'allows people to take advantage of opportunities in education, health and employment—the means to get ahead in our society' [National Housing Task Force, 1988: 3 cited in 54]. The costs of housing, which are often the largest expense faced by households [55], can put pressure on household budgets.

Unaffordable housing costs contribute to poverty [56], can compromise housing stability and lead to overcrowding. Housing pressures increase stress [57, 58], including financial stress; affect financial resilience [59] and erode wellbeing. Inadequate housing especially affects the health and wellbeing of children [57, 58, 59].

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<sup>21</sup> In regression analysis, household income showed a significant association with overall financial wellbeing, having enough to meet expenses and feeling secure, after accounting for the study variables. However, there was no association between household income and being in control, when the other study variables were controlled for (see Appendix G).

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Housing costs and situations placed pressures on a number of people who participated in the focus groups and interviews. In the survey, housing costs relative to income were found to affect the ‘having enough to meet expenses’ dimension of financial wellbeing. Owning a home may also make people feel more financially secure. Overall, however, household income was a stronger influencer<sup>22</sup>.

### Couple dynamics

Couple dynamics are an important contributor to all three dimensions of financial wellbeing. Within households, women and men often report different levels of satisfaction [60]. This is partly related to an individual’s share of the income in the house. Research has found, for example, that the higher women’s share of household income, the greater their financial wellbeing [60]. But beyond who earns the income, the way couples manage household income matters to the wellbeing of each member, even more than the amount of income earned and by who [61]. Financial abuse is possibly the strongest example of this.

The impact of couple dynamics on financial wellbeing was discussed by male and female participants from all income levels, but more emphasis was placed on these dynamics by people of working age. A number of people spoke about ‘playing to strengths’ when it came to the management of money within the household. They talked about having and using complementary skills and interests when it came to managing the household’s finances. They reported that this improved their financial wellbeing because they were able to take or let go of responsibility where they wanted to, to acknowledge when their partner had more skills and to in turn experience less financial worry. A range of household strategies were discussed, such as separate and joint bank accounts, systems for tracking different kinds of expenses and managing income and expenses in ways that enabled each member of the couple to exercise choice and independence in their financial decisions while having a sense of control over the future direction of the household finances.

*I handle the finance in our [house]... I just handle it a lot better than he does (female)*

*Well, my wife's more disciplined than I am (male, retirement age).*

*I'm opposite to my husband ... I'm more about live every day as it comes ... He thinks more long term and he wants to be financially stable. He has the buffer. I wouldn't even know what, you know, where all that stuff*

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<sup>22</sup> This is consistent with literature which has found that it is difficult to disentangle the effects of housing from income effects associated with housing costs [54].

## Exploring Financial Wellbeing in the Australian Context

*is... You kind of need someone there to know about it all and to manage it (female, working age).*

While couple dynamics worked for many people, it became problematic if couples split and there were several examples of money being a source of conflict and of women experiencing financial abuse. Several women (of working age) talked about having a partner who was excessively controlling the household finances in a way that was detrimental to their own personal financial wellbeing.

*I worked part time right through the marriage, my husband travelled all around so I had to be there for the children ... He was in control of all of the finances. He was a control freak, you know ... he controlled everything ... [We] lived in a big two-storey house and we drove BMWs and whatnot and a lot of people think that's everything. But in fact, while living there, I had nothing. I was poor mentally.*

*... If I wanted to go to Myer to the makeup counter or whatnot and spend \$200.00, my husband would give me money when he saw fit to give me money and he'd say, 'Go out and buy makeup because you're looking ugly' or 'Go and do this because you're looking fat' or 'Go and buy some clothes'. So I was always under that pressure. But the money stream was always there (female, working age).*

Couple dynamics are therefore an important contributor to all three segments of financial wellbeing. They could contribute to the household's financial situation, they could contribute to the subjective feelings of each member of the couple about the household's financial situation, and they could contribute positively or negatively to the sense of choice and control that each member of the couple felt in their financial situation.

### Financial dependents and caregiving

A household's socio-economic situation, such as the level of income relative to the number of dependents in the household or parents' level of education, affects an individual's current and future financial wellbeing. Lower socio-economic households tend to have fewer resources to invest in their children, with consequences on the latter's opportunity to progress socio-economically relative to children in higher income households [62].

Research has also shown that caregiving can negatively impact the financial, physical, and emotional health of caregivers [63]<sup>23</sup>. Caregiving can lead to a loss of

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<sup>23</sup> Although the consequences of caregiving differ across caregivers. While George and Gwyther [64] found 'no evidence that caregivers, on average, experience decreases in ... financial security relative to random community samples' a report by the National Alliance for Caregiving (NAC) and



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earnings due to caregiving responsibilities and limited financial resources can influence the decision to become a caregiver [66]. This can have particular consequences for women who are usually the ones exiting or reducing their labour force participation to become caregivers [66]. The extent to which caring responsibilities affect a person's financial wellbeing is also highly variable and dependent on the nature and extent of their caring responsibilities. For example, the ABS Survey of Disability, Ageing and Carers, found female and male carers were less likely than non-carers to be employed and, if they are employed, less likely to be employed full time [67]. This affects earnings and opportunity costs, such as foregone earnings, fewer opportunities for career advancement, and lower retirement savings, which are likely to affect their future financial wellbeing [67].

These findings were echoed in the qualitative phase of this study, especially for people of working age and who were caring for a child or family member with a disability or illness. People discussed short-term and long term implications, including decreased income, increased expenses (treatment, services, home modifications, and other lifestyle adjustments), foregone work opportunities, and poor longer term career, income and retirement prospects.

There was also considerable discussion on the expenses associated with children. According to the participants, having children was a game changer. From that point onwards, their financial situation, their financial planning, and many of their financial decisions take place with their family in mind. It affects where they choose to live, their decisions about work, and has a considerable impact on their expenses for decades. The participants talked about the expenses associated with having young children, including recreation, childcare and education, and health costs. Others described the expenses associated with having adult children, such as board and living expenses and education costs.

*At the moment, the big issue for me is my kids. My boy is 13 years old and my daughter is 12. Sometimes they want to go out with their friends and sometimes they want to have lunch with their friends. ... I think I should be in a situation to support them (female, working age)*

*The costs of raising children, yeah, it takes a burden on your finances (male, working age)*

*It's a lot harder if you don't have money and you're trying to raise a kid (female, young person)*

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American Association of Retired Persons (AARP) [65] found that 15% of caregivers reported a high degree of financial hardship due to their caregiving.

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*I wish had money to have an estate to leave to the kids, which I haven't got. That's my biggest worry. (Female, working age).*

Having a family with dependent children meant some people took fewer risks, worked longer hours or stayed in unsatisfactory jobs to earn enough income to cover the family's lifestyle. For others, having a family meant working fewer hours – and earning less – to spend more time with their children. Overall, people wanted enough money for the standard of living that they desired, such being able to afford school excursions and holidays. Where parents were unable to do this, it caused feelings of guilt, worry and sadness; this was strong amongst females on low incomes and single parents. Some people also had a desire to set up their children for the future, which affected their financial wellbeing.

There were examples of people sacrificing their own financial wellbeing to ensure the financial wellbeing of their children.

### **Socialisation with money as a child**

Childhood and early adulthood exposures have an effect on financial wellbeing, according to the literature. Young adults whose parents spoke to them about the importance of savings, the family spending plan, and the use of credit when they were growing up, reported greater financial knowledge, had more positive attitudes towards money, less debt and greater satisfaction with their financial status [68, 69]. The impact of parents emerged strongly in the focus groups (discussed below). However, the survey showed no association between early socialisation with money and financial wellbeing.

### **Social capital**

Social capital is 'an individual's connection to, or isolation from, social networks; their level of social support in times of crisis; and their need for and access to community and/or government supports' [3;17]. It is a critical resource for reducing negative experiences, supporting stability [21], improving adaptive and coping capabilities [21, 70, 71] and supporting financial resilience [3].

In our survey, people who felt they could rely financially on others during times of financial stress were more likely to report higher levels of financial wellbeing. Even when accounting for all the other influencers, social capital still had an independent relationship with general financial wellbeing and the 'meeting





## Exploring Financial Wellbeing in the Australian Context

expenses' dimension<sup>24</sup>. The survey results also revealed that social capital is associated with other demographic characteristics<sup>25</sup>.

Several people said that they received financial support from other family members or friends at times when they needed it. This most commonly came from parents (although not exclusively). Many participants said that parents provided financial support by helping to meet costs of living, providing free or cheap board and lodging, help buying assets, supporting the costs of education or health and providing no-interest loans. For some participants, even though their parents were not currently providing them with financial support, the knowledge that their parents could do so if they needed it provided them reduced their overall level of worry and contributed to their overall financial wellbeing.

*I wouldn't even be able to go to university if they [my parents] didn't have the money ... if they weren't financially well off I wouldn't even go to university, I'd simply just get a trade (male, Young person).*

### Community and organisational influencers

Financial wellbeing can be influenced by a range of factors within a community and by the products, services and supports offered by organisations. This section examines:

1. Community socio-economic status
2. Accessibility of appropriate financial goods and services
3. The role of community organisations.

### Community socio-economic status

The socio-economic status of the community or neighbourhood has been found to affect the financial wellbeing of individuals [23], both in regard to how they feel about their own financial circumstances relative to others in the community, the resources available and the costs of living [73, 74, 75]. The 'neighbourhood effects' can influence people's wellbeing, independently of their own circumstances [76]. However, our survey did not find that relative socio-economic disadvantage at the community level affected wellbeing (Appendix F).

<sup>24</sup> This does not mean that social capital is not important for the exercising control and feeling content dimensions. Rather, it means that any influence of social capital on these dimensions is explained by variation in financial capability, household income and the other influencers.

<sup>25</sup> For example, people with a disability report lower levels of social capital;  $r=-0.24$ ,  $p<0.001$ ; this is not surprising given their higher rates of social isolation [e.g., 72].



# Exploring Financial Wellbeing in the Australian Context

## Accessibility of appropriate financial goods and services

The resources and supports available from governments, businesses and social services contribute to social capital (Orthner et al., 2004) and are key influences in enabling or disabling financial wellbeing. These effects include, but are not limited to:

- The provision of accessible, appropriate and acceptable financial products and services [77] from traditional financial services through financial institutions, insurance companies, governments and not-for-profits. This might be in relation to independently providing transitional products, such as bank accounts, lines of credit and insurance, or through partnerships (e.g. low and no-interest loans).
- Ensuring financial products and services are easy to understand.
- Providing appropriate tools and resources to facilitate understanding, use of and decision-making about financial products and services.
- Acting within an ethical framework that fosters trust.
- Offering tailored educational opportunities that build financial capability for different groups/needs.
- The provision of assistance programs for people at risk of or in hardship.
- Digital inclusion to ensure people can access technological tools and resources.
- Regulation of the financial goods and services market.

These effects imply that financial services, utility services and human service sectors across governments, for-profits, not-for-profits and hybrid institutions have a potentially vital role to play in fostering financial wellbeing.

Focus group and interview participants spoke about the influence of financial institutions on their financial wellbeing. Many participants spoke about good and bad financial advice, and how this could improve or damage their financial circumstances and financial wellbeing. Many people were very wary of the source of their financial advice, and spoke about the importance of trust in those people and institutions providing financial advice. This was especially the case for women.

**Participant:** *Yes. That's why a lot of us have a financial advisor.*

**Participant:** *I wouldn't trust one.*

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**Participant:** *I wouldn't either.*

**Participant:** *Oh no, they're good.*

**Participant:** *Oh yes, it's been very helpful*

*(females, retirement age).*

Financial products were also discussed as having positive and negative impacts on financial wellbeing. People liked the ease of internet banking and being able to move their money around. Access to credit and loans were considered to be positive when they were affordable, but could create significant financial stress when they were not. Some people (especially young people) talked about wanting to 'cut [their] credit card up' (male, young person) but not being able to because it felt like a security net. Others mentioned the ease with which they could access loans and the difficulties they had in navigating this and taking informed decisions about whether to use credit.

*The bank was like oh but you can borrow all of this money and the repayments are \$1000 a week and I was like that's like my whole wage, how do I then live? So making decisions I think – for me it was a really long process (female, young person).*

Overall, working age participants appeared more focused on the longer term. They discussed the importance of accessing reliable information to help them make a decision about using credit.

Generally, participants spoke in terms of good and bad debt. Access to unaffordable credit was unsurprisingly problematic.

*So I've done loans before yes it feels like oh I have money today and da, da, da but paying it back oh God I have to pay it back after all that money is gone. I'm not a fan of loans. It's tempting, especially if you're really, really hungry and you go okay I'm going to get a loan, and then once I get to the loan place I'm like no. So I'll go and then I'm just like what is it going to do for me? Getting a loan and then paying twice as much. You're losing money (female, young person).*

*Facilitator: What about things like loans? (...) Interviewee: They're annoying. I just wish they don't [sic] exist (female, young person).*

A large number of participants, especially in the retirement age group, talked about the importance of access to superannuation and good superannuation investment decisions by their financial institutions, as important to their financial wellbeing over the life course. Some people talked about the negative impact of not having access to superannuation prior to the introduction of compulsory

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superannuation in 1992, of taking career breaks, and being out of work on their accumulated the superannuation and what this would mean for their future financial wellbeing.

## Community organisations

For some participants, particularly those on low incomes, support from community organisations was extremely important for their financial wellbeing. This support contributed to their financial wellbeing in a range of ways. People talked about receiving a range of important supports from community organisations, including:

- financial advice and education, such as helping them learn financial skills like budgeting
- financial support through low or no-interest loans, food/food vouchers and support for utility bills
- advocacy and support in helping people deal with financial institutions to manage debt or overcome financial adversity
- legal advice to support them through difficult financial times.

For some people these resources were described as useful, for others, they had helped to turn around their financial situation and changed their outlook on the future. Several explained the ways in which the combination of support with their financial skills and the provision of direct assistance was what helped them overcome a difficult financial situation and enter a pathway to financial wellbeing. A number of people said that the support they received in building their financial skills had had a significant impact on their financial behaviours and that this, combined with the security of housing, meant that they were in a situation where they could plan for the future.

## Societal influencers

There are many societal and structural influences that can affect a person's wellbeing. Different groups at varied life stages will be affected in different ways by these societal influences. This section explores some of the more common influences<sup>26</sup>, including:

- Government policy
- Financial markets

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<sup>26</sup> Participants in research by the Consumer Financial Protection Bureau [7] acknowledged the power of the media in shaping consumption behaviours and thus contributing to financial wellbeing. This was not an area that emerged or was further explored in our study and so is not included here.

# Exploring Financial Wellbeing in the Australian Context

- Workforce trends
- Costs of living.

## Government policy

Government policies have a significant influence on financial wellbeing [7] through regulation (e.g. financial services industry, industrial relations); social security payments and provision of emergency services; policies (e.g. education, employment, superannuation, housing, retirement); programs (e.g. financial capability and delivery of human services); and frameworks, tools and guides (e.g. ASIC tools and resources and the National Strategy for Financial Literacy).

Many participants described the influence that government policy had on their financial wellbeing. The positive effects of policy on financial wellbeing were noted, including the safety net of income support payments (parenting, carer, disability and unemployment), the provision of the HECS scheme and public services such as transport, healthcare and disability services.

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However, people also discussed how policy and policy changes negatively affected their financial wellbeing by changing their financial circumstances, creating uncertainty, worry and a perceived lack of control about the future. Many examples were provided including:

- the low value of income support payments
- requirements to ‘prove’ disability status in order to continue to receive disability support pension
- the withdrawal of family payments due to changes in household income
- changes to pension eligibility
- superannuation and its interaction with the age pension
- the effect of income on income support payments
- the cost of pharmaceuticals
- the deregulation of university fees
- the eligibility for income support; and residential aged care policies.

*So you can't just automatically go, 'Oh, my 11-year-old will look after himself until 5 o'clock every night.' When you actually work when you're a single parent, the amount of things that have to get factored in such as childcare, afterschool care, whatever, what you make per hour and what you lose in government support is nothing. One of the biggest things that they could do would be raise up the amount that we could earn without it being affected.*

*I don't believe in the welfare to work sort of cards ... because I'm not an imbecile and I can make my own decisions. Moving people onto Newstart is just ridiculous because things that happen, they don't just go away magically after three months or six months. They're long-term financial decisions that have major impacts (female, working age).*

In some cases, recent changes affected people's decisions about work and retirement. For many people, the uncertainty associated with potential future policy changes made it difficult for them to plan and to anticipate how their financial circumstances would look in the coming years.

### Financial markets

Macro-economic circumstances – national and international – play an important role in people's financial wellbeing.

The influence of global financial markets became particularly evident during the 2008–2009 global financial crisis (GFC). Although Australia was somewhat protected and acted quickly to offset adverse impacts, the GFC still resulted in increased unemployment rates (especially for young people), made retirement

## Exploring Financial Wellbeing in the Australian Context

less affordable for middle-income earners, and affected spending levels amongst certain groups across the country [78, 79].

Income inequality has also been demonstrated to have a negative effect on the growth rates of national economies [80]. In recognition of this, Hayes et al.'s [77] model of financial wellbeing incorporates societal-level influences through indicators such as unemployment rates, GDP and the Gini coefficient (a measure of income inequality).

Several participants spoke of the effect that financial markets could have on their financial wellbeing. For a few, changes to interest rates and large-scale changes to the share market had had considerable and negative impacts on their financial circumstances, making it difficult to cover expenses or placing financial pressure on them, and for one person, his business fell apart and he was forced into bankruptcy. Young people had very little to say about financial markets and working age people made a small number of remarks about the impact of changes to interest rates in the context of both paying off mortgages and saving for retirement. It was primarily older participants who felt particularly vulnerable to changes in financial markets.

### Workforce trends

As discussed above, the influence of employment status on people's financial wellbeing is considerable. From a macro-level, workforce trends shape the types of employment available, employment status and working conditions.

One example is the increased casualisation of the workforce [81]<sup>27</sup>. The precariousness of casual work has been found to impact on workers' wellbeing and their financial security, financial stress levels and ability to make ends meet [82, 83;286]<sup>28</sup>.

Workforce trends affect different groups in varied ways. For example, young people experience higher levels of underemployment and casualised employment [85]. And Australia's two-tiered retirement income system (the age pension and occupational superannuation) disadvantages people with interrupted employment histories, namely women [86], Indigenous Australians [87], and casual workers [88].

<sup>27</sup> In August 2015, 2.3 million people worked as casual employees, that is, without paid leave entitlements – an increase of close to 2% on 2005 figures [81].

<sup>28</sup> It is important to note that some studies have found no evidence of casual work influencing physical or mental health, or job stress [84].



# Exploring Financial Wellbeing in the Australian Context

## Cost of living

The most commonly discussed influencer of financial wellbeing, apart from the individual and their household, was the cost of living. The cost of living affected people's overall financial wellbeing and each of its three dimensions. It was central to whether people could meet expenses and how much money they had left over. Many participants talked about increases in the cost of housing, utility bills, food, health expenses, running a car, maintenance and repairs, insurance and school expenses.

***Facilitator: What gets in the way of a good financial situation?***

***Participant: I think increasing prices on everything. ... In order to live you have to buy food. You have to pay medical expenses. You have to pay for petrol, roof over your head, all those really basic things. They just keep increasing in cost (female, working age).***

The cost of living affected the way participants felt about their financial circumstances, how much they worried about their finances and their sense of control over future increases.

***The main things that I worry about are big bills and they're mostly insurance bills and electricity, you know what I mean (male, retirement age).***

For some, the cost of living week-to-week made financial wellbeing a struggle. For others, while they managed current costs of living, they explained that they had very little leftover, worried about the future and the inability to 'get ahead'. Unsurprisingly, people on low incomes felt more exposed to changes to the cost of living than people with higher incomes.

***Even the cost of living and CPI every year, going up with bills and things. If you're only on Centrelink and it's not meeting that standard at all, it doesn't go in line with all the bills that increase over the years (female, working age).***

One small increase in just one expense could have a very significant impact on their financial wellbeing. Retired participants also felt more vulnerable to changes in the cost of living than people of working age. Several young people who were living at home (not in low-income households) felt protected from increases in living costs because their parents were absorbing the costs – paying for board, bills and food. They were aware, however, that these increases would affect their financial wellbeing in the future, for example, on their ability to live independently or to buy their own home.

## SO WHAT? AN AUSTRALIAN MODEL OF FINANCIAL WELLBEING

Drawing on a scoping review of existing literature; one-on-one interviews and focus groups with 72 people; and a survey of 821 people living in Australia aged 18 and over, we developed a definition of financial wellbeing that is relevant to the lives of Australians of different ages and life course stages. This definition takes into account the dual importance of objective financial circumstances and subjective perceptions of them, and is situated in a framework that captures the individual, household and community factors that influence financial wellbeing.

### What is financial wellbeing?

*Financial wellbeing is when a person is able to meet expenses and has some money left over, is in control of their finances and feels financially secure, now and in the future.*

It has three interrelated dimensions (see also Table 8):

*Meeting expenses and some money left over:* includes having an adequate income to meet basic needs, pay off debts, and cover unexpected expenses and having some money left over.

*Being in control:* includes feeling and acting in control of your finances.

*Feeling financially secure:* includes not having to worry much about money and having a sense of satisfaction with your financial situation.

# Exploring Financial Wellbeing in the Australian Context

Table 8: A model of financial wellbeing

Financial wellbeing means...				
Meeting expenses and having some money left over		Being in control		Feeling financially secure
<b>Dimension 1</b>	<b>Meeting expenses and have some money left over</b>			
Definition	Includes having an adequate income to meet basic needs, pay off debts and cover unexpected expenses and having some money left over			
Sub-dimensions	Able to meet expenses	Able to manage debt	Savings buffer	Able to afford "little extras"
<b>Dimension 2</b>	<b>Being in control</b>			
Definition	Includes feeling and acting in control of your finances now and in the future			
Sub-dimensions	Having control over your financial situation		Setting and pursuing goals for future spending and life planning	
<b>Dimension 3</b>	<b>Feeling financially secure</b>			
Definition	Includes not having to worry much about money and having a sense of satisfaction with your financial situation			
Sub-dimensions	Limited financial worry		Satisfaction with financial situation	

## Does financial wellbeing differ for different Australians? A life course perspective

*A life course perspective may inform the targeted promotion of financial wellbeing.* Interviews and focus groups with 72 people across Australia showed that people's financial wellbeing can be partly determined by where they were in their life course and the events they are experiencing within their lives<sup>29</sup>.

Younger people talked about increased expenditure after leaving home, working age participants spoke of their increasing income being offset by redundancies, health issues, relationship breakdown and, for women in particular, caring responsibilities. Pension-aged participants found that retirement caused them to adjust their standard of living after leaving the paid workforce.

<sup>29</sup> The quantitative data analysis was not sensitive enough to quantify the extent that life stages influenced financial wellbeing. This was due to low numbers experiencing specific life events and therefore an inability to examine how age may have intersected with other factors (e.g. gender, marital status) to influence financial wellbeing across the life course. Quantifying the life course effects on financial wellbeing would either require a much larger sample or a more in-depth study of particular groups.

## What shapes financial wellbeing?

An ecological model is a useful framework for understanding financial wellbeing. Individual, household/family/peer and community-level factors were found to be important in people's lived experiences and their perceptions of financial wellbeing. Strong influencers of financial wellbeing include: *financial capability, access to appropriate financial products and services (financial inclusion), social capital, household income and mental health.*

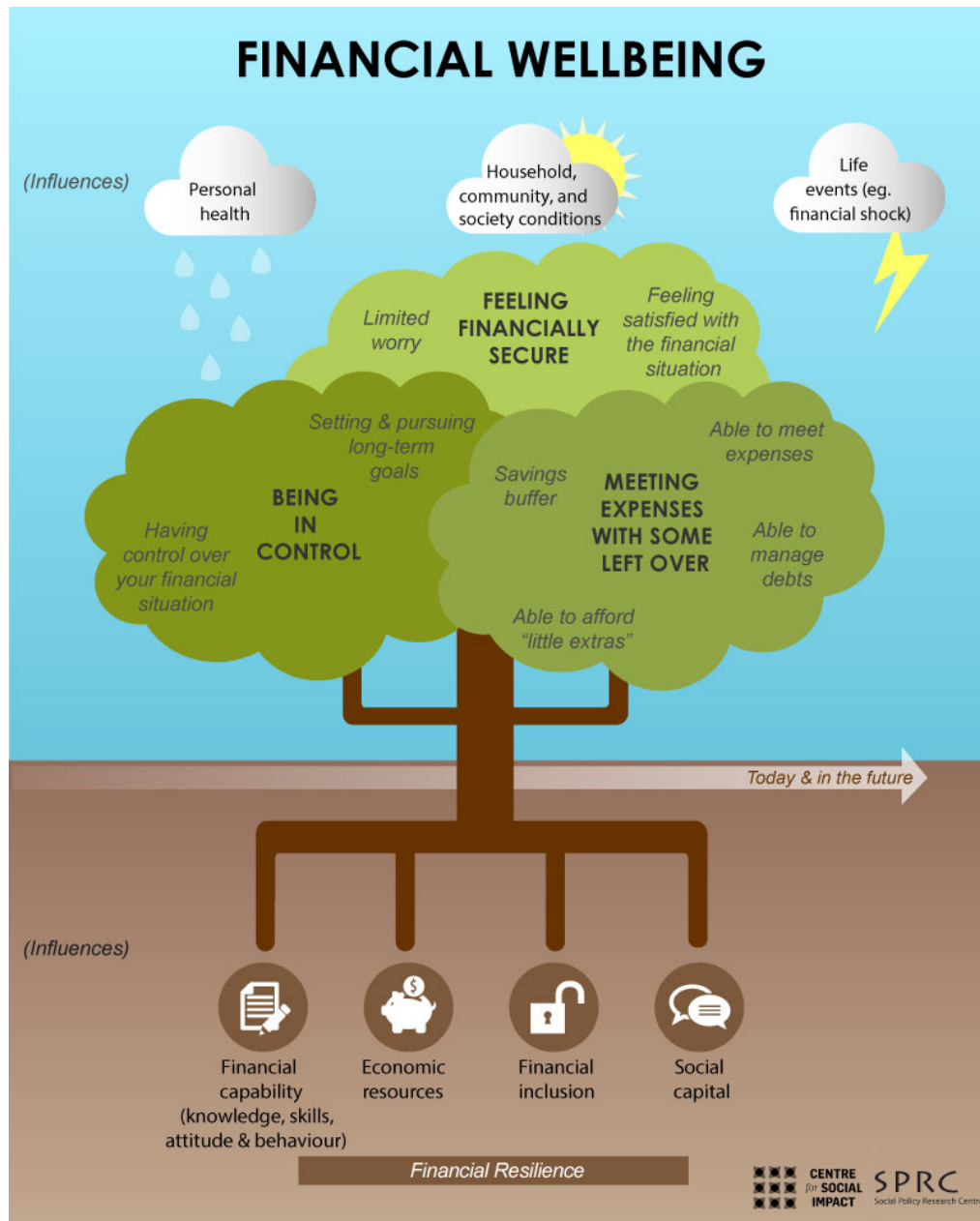
In addition, the literature and lived experience of people living in Australia showed that gender, employment, physical health, parental influence, couple dynamics, having caring responsibilities and financial dependents, policy change and the cost of living all affect people's financial wellbeing. The lack of housing affordability and increased living costs are significant structural issues across Australia and are particularly problematic for low-income households. Further, the demographic squeeze of supporting dependent young people and ageing parents is likely to be placing additional financial pressure on households, particularly low income ones.

## The financial wellbeing tree

Financial wellbeing is not just about an individual's situation. It is important to understand that financial wellbeing is also influenced by people's household, community and social contexts. This is called taking an ecological systems approach to understanding financial wellbeing.

One way to think about financial wellbeing and the factors that influence it is to consider a tree (see Figure 2). The tree's health (or its financial wellbeing) is affected by factors within and outside of its control. The tree's foliage has three main branches, which represent the primary dimensions of wellbeing (meeting expenses, being in control and feeling financially secure). Each branch has a network of smaller branches that represent the subdimensions and indicate the health of the tree. The tree's root system draws in important nutrients that contribute to its growth during favourable circumstances (these are the primary influencers of financial wellbeing). Expected and unexpected external conditions or influences will affect the tree (what's happening at a household, family, community or societal level) and there will be planned and unplanned events that the tree needs the resilience to respond to (financial resilience to respond to financial shock and life events). Finally, what happens today matters for the tree, but its future wellbeing can change and actions today and tomorrow can be protective or hindering factors in the tree's future.

Figure 2: The financial wellbeing tree



## What does this mean for financial counsellors, the financial services sector, and other policy actors and stakeholders?

This research will help people and organisations working to improve and promote financial wellbeing understand what it means for people, what influences their financial wellbeing and how their life stages and life events can shape their financial situation, actions and perceptions.

## Exploring Financial Wellbeing in the Australian Context

To help illustrate these points, we have developed four scenarios using the findings from the qualitative and survey research (See Table 6). These scenarios demonstrate the diversity of people that may use or need different kinds of financial services.

### Scenarios of financial wellbeing

#### **Myriam – low on the *being in control* dimension**

Myriam is a 20-year-old that has recently moved out from her parent's house to move in with her partner. Myriam's financial knowledge is limited; when she was living with her parents, they looked after all the financial decisions of the household, so Myriam has not had much exposure to financial decision-making processes or received financial advice. Her partner, who is more financially savvy, now looks after the household's finances but his excessive control of how money is spent is making her feel less financially autonomous and is eroding her confidence and mental health. The risk for Myriam is that her financial self-efficacy will continue to deteriorate making her feel less financially secure, which in turn can reduce her financial wellbeing.

#### **Kent – high on the *meeting expenses* dimensions**

Kent is a middle-aged professional worker in a high-paying job. His income allows him to live comfortably: he has enough to cover all cost-of-living expenses and have a bit left over to save and do the things he enjoys. He also has access to financial products and services to draw on in case of a financial shock, such as a line of credit and insurance. Kent feels he balances his spending and savings quite well; he is organised with his money and does not spend impulsively. As a result, it is likely he feels financially secure and that he has choice over his financial decision-making, increasing his financial wellbeing.



### **Tom – Low on the *feeling financially secure* dimension**

Tom is financially worried. He recently got laid off which has significantly reduced the household's income, and a larger than expected electricity bill now has him concerned he will not be able to meet needs in the present and the future. Tom used to have a credit card but not anymore due to his poor money management skills; he thought it was best to get rid of it as he tends to spend impulsively. He thinks about money a lot and is not satisfied with his current situation. The risk for Tom is that the loss of his income, combined with his lack of access to financial products and services, puts him in a vicious circle where he is unable to meet expenses and has little control over how to spend his money, leading to financial worry and weakening his financial wellbeing.

### **Azzie – high on the *being in control* dimension, but low on the *meeting expenses* dimension**

Azzie is 35 years old and has a mild intellectual disability. She is casually employed for one day a week at a local organisation, helping them with their filing, and also receives a pension from the government. The money she makes from her work and her government allowance allow her to meet her basic needs, however there is little if any money left over to save or spend on little extras. Although she does not have a lot of money, Azzie is very organised with her money and, with some help from her parents, balances her spending and her earnings. Her parents have always stressed how important it is to live within one's means and she learnt a lot from them about how to think carefully about what to spend her money on. While Azzie may not be able to increase her income, being in control of her finances helps her feel financially secure, preserving her financial wellbeing.

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People and organisations working to improve and promote financial wellbeing, such as financial counsellors, employers, financial institutions, community organisations, regulators, and policy makers can consider the role they play and how they might influence financial wellbeing overall, or the individual dimensions of financial wellbeing (see Figure 2). For example:

- financial service organisations can ensure that financial products and services are appropriate, affordable, tailored and accessible
- financial educators and counsellors can focus on identifying the aspects of people's lives that can be controlled, such as positive financial behaviours like managing debt, saving, and setting goals for the future
- government can help regulate the financial services sector
- government and community organisations can assist with resources and tools that assist to support and improve individual dimensions of financial wellbeing, especially meeting expenses and being in control
- different organisations can target, support and cross-refer people who are particularly vulnerable (such as people with low levels of social capital and economic resources).

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Table 9: Examples of the roles different stakeholders can play in supporting and improving financial wellbeing

	Goals for Improving financial wellbeing							
	Meeting expenses			Being in control			Feeling secure	
Actors and stakeholders	Helping people to meet expenses	Helping people to achieve manageable debt levels	Helping people to put aside a savings buffer	Enabling people to afford "little extras"	Supporting people to have control over their financial situation	Helping people to set and pursue long-term goals	Limiting financial worry	Improving satisfaction with financial situation
Individuals	x	x	x	x	x	x	x	x
Households	x	x	x	x	x	x	x	x
Financial guardians	x	x	x	x	x	x	x	x
Financial counsellors/educators	x	x	x	x	x	x	x	x
Financial services sector		x	x		x	x		
NFPs in financial services	x	x	x	x	x	x		
Community organisations (non-financial)	x	x	x	x	x	x		
Utility providers	x	x						
Regulators – ie ASIC	x	x	x	x	x	x		
Government (social & human services)	x				x		x	

## How can we measure financial wellbeing?

This research supports measuring the individual dimensions of wellbeing as well as financial wellbeing overall.

The three dimensions of financial wellbeing were highly correlated with each other and, while there were some exceptions, the factors that influence financial wellbeing largely affect the three financial wellbeing dimensions with a similar magnitude. Finally, all three dimensions of financial wellbeing were consistently associated with overall life satisfaction.

There is also evidence that supports examining the three dimensions of financial wellbeing separately. Statistical analysis indicated that financial knowledge was an independent predictor of *exercising control*, but it was not for the *meeting expenses* or *feeling secure*. Likewise, social capital, better mental health and fewer financial dependents were positively associated with the *meeting expenses* dimension. In all instances, these nuances would be lost by focusing exclusively on an overall measure of financial wellbeing. Finally, and perhaps most importantly, there were different distributions of scores for each of the three dimensions. For example, there were more people in the lowest category for the *meeting expenses* dimension than in *being in control*. This distinction was lost in the overall financial wellbeing score, which is an average of the three dimension scores.

Further work is required to determine measures of financial wellbeing. However, we recommend that financial wellbeing should be measured using its individual dimensions and overall. This will help understand which factors predict financial wellbeing and help determine whether people from specific groups with specific needs are making progress overall and within each dimension. Future research should examine how financial wellbeing changes over time for the population and particular groups and the influence of different reference points on financial wellbeing scores. Appendix H outlines some of the next steps for developing a measurement system for financial wellbeing.

## Limitations

Some limitations of the research should be considered when interpreting the findings. The use of cross-sectional data in the survey restricts the inference of cause and effect. Self-reported measures were also used over objective or externally verifiable measures. It is therefore important that future research aims to replicate these findings using longitudinal research and objective measures where applicable. That said, the self-reported measures tend to get higher response rates, which was important for the sample.

For the qualitative phase, the focus group sample recruited through the recruitment company, while diverse, captured the high and middle income groups



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but the low income groups were at the higher end of the income brackets selected. For that reason, the interviews became particularly important for capturing the perspectives of people with low incomes and people experiencing challenges to their financial wellbeing. Women were overrepresented in the interview sample, and future research into gendered constructions of financial wellbeing among low income groups would enrich the evidence. While the survey was unable to capture the detail identified in the qualitative research, the literature and qualitative research demonstrate the importance of future research with specific groups such as people with a disability and people with caring responsibilities.

### Conclusion

This research is among the first in Australia to begin developing a model of financial wellbeing and the factors that influence it. It represents a first step towards understanding what financial wellbeing is, what it means to people living in Australia and to identify what influences it.

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