

How Financially Secure Do Australians Feel?

The state of finance literacy in Australia.

There is no doubt that contemporary life is a challenge for many of us, and none more so than living through an economic downturn or health crisis.

Downturns and crises aside, even when our lives are running at a steady pace, everyday life can be all consuming and difficult to manage. It can be tough to find the time and motivation to keep all the balls in the air – especially our finances.

As financial specialists, we help our clients reach their financial and property goals through ALL life stages. While **HELPING** our clients with their finances is the most important part of our job, **EDUCATING** our clients is just as important.

Why is financial education so important?

Because research tells us that half of all Australians struggle with financial literacy.

In an Australian study¹ just five questions were asked about basic financial concepts such as inflation, calculating interest and portfolio diversification.

Less than half of the respondents could answer all five basic financial questions correctly. The results vary by age group and gender. Fifty percent of men and only 35% of women scored five out of five.

Professor Roger Wilkins of the Melbourne Institute of Applied Economic and Social Research commented that the divide is more likely a reflection of social and behaviour factors than any real difference in innate abilities.

Could you pass the test? The five question survey and answer test is shown on the right hand side.

The Australian Securities and Investment Commission (ASIC) released similar findings in their report². Only 35% of Australians know the exact value of their superannuation and 40% understand the concept of diversification.

We must look at this issue not in isolation but as one cog in the whole financial wellness wheel.

When researching this topic further, we came across this interesting and more holistic report by Deloitte Economics³ that takes financial literacy further. It is one thing to understand the fundamentals of your finances, but it is another to acknowledge and act on the information.

Literacy – consciousness – willingness to act – participation

There is a lot of data in this Financial Consciousness Index (FCI) report but essentially it tells us:

- the extent to which a person is not just financially literate, but whether they are conscious of their ability to affect their own financial outcomes, all the way to their willingness to act and the extent to which they are able to participate in sophisticated financial matters.
- the average Australian's 2019 FCI score is 48 out of 100, making them 'financially conscious'.
- only 5% of Australians are enlightened enough to be at the peak of financial consciousness (FCI score over 70).
- higher income earners are associated with a higher level of financial consciousness.
- it only takes one shift in an economic factor to influence how financially secure Australians feel – their own perceived level of financial wellness. This could be house price fluctuations, changes in interest rates, wages, job security (or lack of), cost of living or, as we have lived through, a global pandemic.

The effects of poor financial literacy are wide and varied.

Without an understanding of basic financial concepts, people are not equipped to make sound financial management decisions. For example, people who fail to understand concepts of compounding interest are likely to spend more on transactions fees, incur higher interest on loans, run up bigger debt and end up borrowing more and saving less⁴.

What is Australia doing to improve its financial literacy?

The Reserve Bank of Australia (RBA)⁵ has been:

- boosting economics studies in public schools (astonishingly only 40% of Australian high schools offer economics as a subject and only 10% of students are studying economics at HSC level).
- sending staff to schools across the country to present to students.
- holding teacher immersion events in schools.
- promoting the benefits of economics knowledge to students. Students who graduate with economics tend to have higher starting salaries.

At a consumer level, the teen documentary 'Teenage Boss' hosted by mathematics teacher, Eddi Woo on the ABC, has been following teenagers from diverse families. The teens are put in charge of the monthly family budget to teach them and their parents lessons about financial planning.

2019

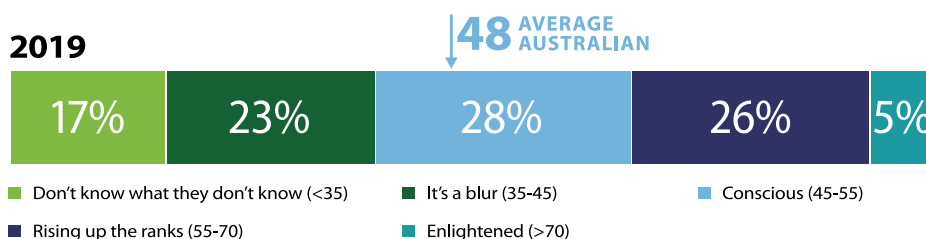
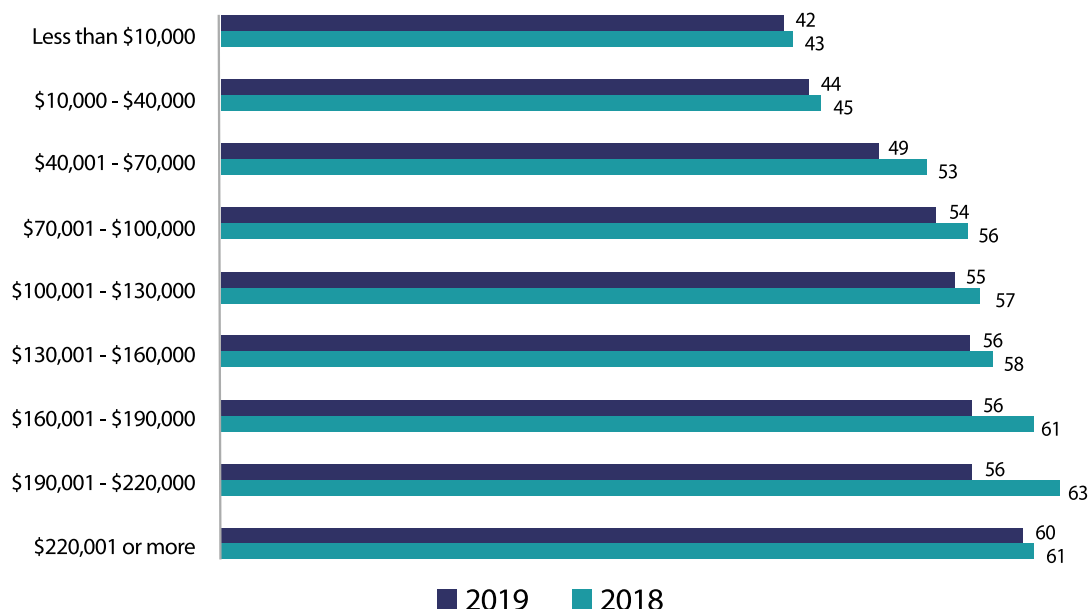


Chart 1.3 Income is Conscious, but how Conscious?



Now it's your turn... Turn your KNOWLEDGE into ACTION

These studies taught us that our first step is to understand the BASIC fundamentals of finance. What we have further learnt is that knowledge is power, but behaviour and action is the catalyst for change and financial success.

YOU can take action AND keep all those balls in the air (with some help from us).

Read our educational finance articles and topic sheets – we do all the research and bring you information that is succinct and practical. From mortgages, loans, savings, consolidating debt, budgeting, financial considerations through all stages of life to the latest housing market and industry updates, we share our knowledge and expertise.

Know your basics – for current homeowners or investors, know your mortgage interest rates and loan structure, when fixed rates are due to expire and latest balances.

For future borrowers, pay your bills on time, control your expenses and limit 'bad' debt such as credit cards, personal loans and buy-now-pay-later spending. This sounds basic but these three things can massively impact your future borrowing power.

Take ownership of your financial future – understand your superannuation fund and balance. Plan your DIVERSIFIED retirement strategy.

Will you own your own home by retirement?
Can you buy investment properties to build wealth? We can help you answer these.

We are:

- ✓ committed to educating our clients and helping them take a tighter rein on their finances
- ✓ across various loan and mortgage products and can find the right one to suit your circumstances
- ✓ in regular contact with lenders to stay across the changing financial landscape
- ✓ your negotiator – we are on YOUR side

Let us help you answer the 5 questions and more so you can achieve financial success.

1. University of Melbourne/The Melbourne Institute, Household, Income and Labour Dynamics in Australia (HILDA) Survey
2. ASIC, Australian Financial Attitudes and Behaviours
3. Deloitte Economics, Dollars and sense: Compare the Market's Financial Consciousness Index Edition 2
4. Financial Literacy Around the World: Insights from the S&P Global Finlit Survey
5. ABC News, Financial literacy education in Reserve Bank's and ASIC's sights

