

Citibank Australian Wealth Survey Report

November 2009

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The Citibank logo consists of the word "citibank" in a blue, lowercase, sans-serif font. A red arc is positioned above the "i" in "citi".

A time of recovery. A time of opportunity.

In some senses the global financial crisis (GFC) has been a great leveller. Virtually all Australians have been impacted, either through falling investment values, tighter credit conditions or even job losses.

But as the economic recovery gains traction, investment markets increasingly offer abundant opportunities.

Around the globe, sharemarkets have experienced a sustained recovery since March 2009. Rising interest rates, while putting pressure on borrowers, offer improved returns to investors.

However many Australians, still reeling from the GFC, fail to tap into these opportunities.

Safe though low-yielding cash investments remain our preferred choice. Fewer than half of us are willing to consider the opportunities offered by rising sharemarkets and 70% of Australians remain uncomfortable holding investments with perceived higher risk, even though it could lead to improved returns.

Despite widespread risk aversion and a self-confessed lack of confidence in our investment skills, we are still adopting a do-it-yourself approach to wealth creation. Amazingly, Australians rely heavily on the investment tips offered by their mates.

I invite you to take a look through the findings from the Citibank Australian Wealth Survey to discover who stands to lose, and who is likely to gain as we head out of a period dubbed by some as the 'Great Recession' and head into an exciting period that holds possibility for economic prosperity.

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Our assets - homes and savings remain popular

Financial crisis or not, bricks and mortar remain the great Australian dream

Home ownership remains a top priority for Australians, and around three quarters of us live in a home we own - a figure that is consistent with longer term trends.

Of this overwhelming majority, 43% own their home outright, the remaining 33% are still paying off a mortgage.

Only 20% of Australians rent their home, a figure that starts out at 33% for the under-40s, tapering down to just 12% by the time we reach age 50 and beyond.

Outright ownership rises with age

Not only do levels of home ownership rise as we get older, we're more likely to have farewelled the mortgage with age. Only 8% of under-40s own their home unencumbered compared with 77% of those aged 60-plus.

There is also a high rate (57%) of unencumbered home ownership among low income households (those with an annual household income of less than \$40,000) however this tends to include retirees who are highly likely to have paid off their home loan.

Table 1: Levels of home ownership¹

	SEX			AGE			
	TOTAL	MALE	FEMALE	25-39	40-49	50-59	60+
	%	%	%	%	%	%	%
Own your home outright	43	42	43	8	28	52	77
Pay off a mortgage	33	33	32	53	46	32	7
TOTAL OWN HOME	75	75	76	61	74	84	84
Rent your home	20	19	21	33	20	12	12
Or, something else	4	6	3	6	5	3	3
Don't know \ refused	1	1	1	-	1	1	1

1. Male/ female heads of household aged 25+

Savings and investments - a preference for security

The vast majority (86%) of Australians aged 25-plus have some type of savings account. A further seven out of 10 has other forms of investment outside the family home.

Our high level take-up of savings accounts is, at face value, good news. However it still leaves more than one in 10 of us without basic savings.

Overall Australians remain keen investors despite the ravages of the financial downturn. Around 70% of us claim to have some type of investment, most commonly money in a specific savings-investment account or fixed term deposit (51%), followed by shares (32%), and investment property (17%). Units in a managed fund (13%) or a cash management trust (7%) lag behind other choices, while 9% of Australians have some other type of investment (including some with less mainstream investments like structured products).

Backing up separate studies that suggest men are more risk tolerant than women, 37% of men own shares directly compared with 27% of women. Men are also slightly more likely to favour (or be able to afford) an investment property.

Breakdown of investments

- 51% Savings/investment account or fixed term deposit
- 32% Direct shares
- 17% Investment property
- 13% Managed fund (separate from super)
- 9% Other
- 7% Cash management trust

Low income earners missing out on capital growth

As Table 2 shows, the greatest contrast in investment patterns is found when we look at household income.

High income earners aren't just more likely to invest per se, they're also more likely than low income households to have a diverse portfolio that includes both income based assets like cash as well as growth assets like shares and property.

Table 2: Investment patterns, low versus high income earners

Investment	High income (\$90,000+ annually)	Low income (Below \$40,000 annually)
Property	31%	5%
Managed funds	16%	8%
Direct shares	46%	21%
Savings account/term deposit	60%	45%
Cash management trust	9%	6%
Other	13%	5%
None	14%	41%

Maintaining the status quo - a key motivator for investing

In these post-GFC days, investing is as much about treading water as getting ahead.

Investing for future prosperity appears to take second priority for most Australians whose primary concern is focussed on the here and now, with the findings showing that 72% of Australians claim to invest merely to maintain their standard of living.

Saving for retirement is also a key motivator, with a further 34% of us investing in the hope of hanging up our work boots a little earlier.

Other key reasons for investing include:

- Saving for the things we want (64%);
- Saving for retirement (61%); or;
- Creating a buffer in case something goes wrong (59%).

Not surprisingly, different age groups have disparate reasons for investing.

The under-40s are far more likely to save for their own home but as we approach middle age, the focus switches to saving for retirement. By the time we reach our 60s, and we're in, or not far from retirement, the focus is firmly on maintaining our current standard of living.

Men and women reveal more similarities than differences in their motives for investing. A noteworthy exception is that men are more interested in saving for an early retirement, while women are more likely to see investing as a buffer against things going wrong. current lifestyle.

Keeping our heads above water...just

The vast majority of Australians (72%) invest to maintain their current lifestyle.

Retirement savings - still inadequate

Despite widespread ownership of super, we remain unsure that our nest egg will fund a comfortable old age.

A high proportion of Australians aged 25 years and over (77%) have money tucked away in superannuation. This figure drops to 50% for the over-60s but this may include retirees who have already cashed in their super.

There is a noteworthy gap in the levels of super held by men and women - 85% compared with 69%. This well-documented difference is typically explained by men's greater tendency to be the household's major bread-winner, leaving males better placed to receive employer-paid super contributions throughout an uninterrupted career.

The more worrying differences in super holdings occur between high and low income earners. Almost 100% of Australians earning above \$90,000pa have super. By contrast, only 43% of low income earners claim to have any superannuation.

Confidence in retirement savings is low

Despite most of us having superannuation, around one in two Australians (49%) are not confident their retirement savings will be sufficient to provide for a decent lifestyle post-work.

Only 17% of respondents are 'very confident' that their nest egg will be adequate. Even among high income households, 41% lack confidence in their nest egg.

Surprisingly, confidence in their retirement savings is highest among the over-60s.

Super changes may pave the way for better retirement planning

The Australian Securities and Investments Commission and the Association of Superannuation Funds of Australia have launched a joint project to examine the benefits of providing Australians with a simplified short-form disclosure document. The project will look at the information people are given about the superannuation product they have, the risks associated with that product, its fees and charges and the product's investment performance.

Perhaps more transparent and easy to understand information about super may give Australians a more accurate picture about their retirement nest egg and inspire them to better plan for their post work lives.

The impact of the GFC - savings shattered, finances rearranged

Only 17% of respondents say the global financial crisis has forced them to cut back on investments. However that's not to say the GFC has passed us by altogether.

Around one in two Australians (49%) has taken some sort of direct action as a result of the international downturn, and those in the middle to lower household income groups are far more likely to have made changes.

More than one-third (35%) have changed the way they manage their finances. Around 30% have been forced to dip into their savings just to maintain their standard of living. Lower income households are twice as likely as high income earners to have raided their savings to stay financially afloat.

In an effort to make up lost ground on investments, 13% of Australians have rearranged their portfolio.

At the extreme end of the spectrum, one in 10 Australians has either had to take on an extra job or work longer hours to boost their income.

Only a few (4%) have been forced to downgrade to a cheaper home as a result of the crisis.

Table 3: Our responses to the GFC

Action taken	Overall %	Low income households (less than \$40k)	Middle income households (\$40k-\$89k)	High income households (\$90k+)
Taken on extra job/ worked longer hours	10%	8%	12%	7%
Dipped into savings or investments	27%	36%	28%	14%
Changed the way manage finances	35%	39%	38%	28%
Changed investment mix	13%	12%	11%	17%
Downgraded to cheaper home	4%	5%	4%	3%
None	52%	43%	50%	61%

So, is now a good time to invest?

Despite reeling from the aftermath of a global downturn, the majority of Australians believe now is a good time to invest. Nonetheless we remain once bitten twice shy.

Since March this year global sharemarkets have turned the corner, enjoying an extended bull run. Here in Australia we've seen interest rates rise for the first time in many months and the residential property market appears to be gaining momentum.

Taken together, today's asset markets are ripe with opportunity, and our respondents agree, though the enthusiasm for investing varies between asset classes.

Investment properties top the list

Property is the preferred asset for today. Approximately three quarters (74%) of Australians say now is the time to tip money into an investment property, making this the most favoured of the investment categories surveyed.

Perhaps reflecting the Federal Government's deposit guarantee and rising interest rates, a high proportion of investors (69%)

Table 4: Is now a good time to invest?

	Superannuation	A savings-investment account, fixed term deposit or cash management trust	An investment property	Managed funds	Shares
	%	%	%	%	%
Very good time	21	19	28	9	14
Quite good time	42	49	46	38	35
TOTAL GOOD TIME	63	68	74	47	49
Quite bad time	19	17	15	25	27
Very bad time	9	5	5	10	13
TOTAL BAD TIME	28	22	20	35	40
Neither / don't know	9	10	6	18	11

also believe now is a good time to put money into cash-based investments including savings-investment accounts, fixed term deposits or cash management trusts.

Superannuation is another hot favourite, receiving a tick of approval from 64% of respondents - a figure that varies little between age groups.

Wary about shares

However when it comes to managed funds and the sharemarket, our views are far more polarised. Only 47% of Australians believe it is a good time for people to be putting money into managed funds, and only 49% feel it is a good time to be investing in shares.

Given the extent of last year's sharemarket falls, it's not surprising that investors are less than bullish about equities. Men are more enthusiastic than women when it comes to the sharemarket, managed funds and even superannuation. Women are either more likely to feel it is not a good time to be putting money into these types of investments, or simply not have a view - presumably due to lack of knowledge.

Lacking in confidence, risk averse

If a report card was dished out on our attitudes to investing, the overwhelming comment would probably read “Could do better”.

The majority of Australians not only lack confidence in their skills as an investor, we tend to be risk averse, poorly informed and, quite frankly, most of us would rather be doing something else.

Research is a chore

Only a minority of Australians (34%) say they enjoy researching and finding out about new investments. Younger Australians are most likely to relish the research process, 42% of under-40s say they actually enjoy doing their investment homework. This figure tapers away until we reach our 50s.

Top tips for topping the class in investment research

1. **Cheat!** There are now many independent consumer websites available to compare investment and banking products. Let the experts do the analysis for you and make an informed decision based on a range of options. Visit <http://www.canstar.com.au/> or <http://www.infochoice.com.au/>
2. **Copy:** Read books written by financially successful people. Learn from their advice and adapt their tips to suit your own needs.
3. **Discuss:** Visit a financial adviser or your bank and discuss your investment goals. Don't be afraid to ask questions!
4. **Read:** Most newspapers and websites provide easy to understand information about financial planning and investments. Take the time to become informed.

Risk is to be avoided

Only 28% of us say we're happy to take on more risk in order to earn a better return - though what constitutes 'risk' varies widely from person to person.

The under-40s are inclined to be more risk tolerant - 39% say they're prepared to take on more risk to boost returns. Not surprisingly we become more risk averse with age; only 17% of over-60s are comfortable increasing their portfolio risk.

This general risk aversion goes a long way to explaining our preference for cash-based investments.

...yet 40% claim to be successful investors

Rightly or wrongly, almost 40% of us classify ourselves as 'an astute investor with a good track record' with self-professed astute investors being a little more likely to be found among those aged 60+, and among those from middle to upper income households.

Table 5 - How we see ourselves as investors

	Enjoy researching and finding out about new investments	Believe in taking risks to achieve higher returns	Have considerable knowledge about investment planning	An astute investor with a good track record
Agree	34%	28%	35%	38%
Disagree	62%	70%	62%	55%

Balance comprises 'neither/don't know' responses

Tracking down opportunities

From mates and colleagues to accountants and the internet, we cast our net wide when it comes to investment research though our tendency to use multiple sources tapers off with age.

One in two use a finance professional

We may not overwhelmingly regard ourselves as successful investors but many Australians compensate for this by sourcing professional investment advice.

One in two of us made the effort to speak to a finance professional in the past 12 months, with accountants being a source of investment advice for 30% of Australians, along with bank-based advisers (18%), non-bank financial advisers (24%), and stockbrokers (7%).

Those from high income households are twice as likely to track down professional advice compared with low income households (65% versus 31%). And despite women being less confident investors than men, only 44% of females seek out the advice of professionals compared with 56% of males.

Web - a popular source of information

The internet plays a significant role in our investment decisions, and 31% of us used the net in the past 12 months for investment tips. Australians aged under 50 are vastly more likely to use the internet for investment research. Around 41% of these investors did research online in the past year - a figure that drops to just 15% among the over-60s.

Among the different types of websites we log onto for investment information, bank sites are the most commonly used.

While we may not feel confident in our own investment skills, we appear to hold the insights of friends and family in high regard. Over one third (35%) of Australians say that friends or family were a source of information about investing in the past 12 months.

Those from high income households are more likely to have used every source of investment information in the past 12 months - including family and friends.

Table 6: Sources of investment information used in the past 12 months

SOURCE of ADVICE	%
TOTAL USED ANY SOURCE	73
TOTAL ACCOUNTANT \ STOCKBROKER \ FINANCIAL ADVISERS	50
- accountant	30
- stockbroker	7
- professional financial adviser from a bank	18
- some other type of professional financial adviser	24
TOTAL WEBSITES	31
- bank's website	21
- another specialist financial website	15
- other websites	17
Financial section of the press	28
Investment magazines	13
Family or friends	35
Work colleagues	19
None \ don't know	27

Following a personal financial blue-print

We may not be confident investors but that hasn't stopped the majority of Australians taking a 'she'll be right' approach to prosperity.

Half of us (51%) fail to follow any sort of personal financial roadmap. It means we're leaving a great deal to chance despite the extra measures many households are adopting just to cope following a significant financial storm.

Only 26% of Australians follow a financial plan developed by a professional financial adviser, with a further 21% taking a do-it-yourself approach to their personal wealth blue-print,

The relative minority who do operate their financial lives according to a plan appear to be rewarded. Those with a plan are almost twice as likely to be confident in their retirement savings compared with those with a laissez-faire approach to their finances.

Yet as we saw earlier, it's a minority of respondents (38%) who regard themselves as successful investors.

With age comes a tendency to replace a DIY approach with formal plans drafted with the support of professional expertise. By the time we're in our 60s, 35% of Australians have a professionally prepared financial plan - up from 19% when we're in our mid-20s to 30s.

Low income earners excluded

Low income groups however are overwhelmingly excluded from the world of professional advice - perhaps because of the perceived cost, or possibly because of the view that their investments are insufficient to merit professional advice. Whatever the cause, 62% of those with a household income of less than \$40,000 annually have no specific financial plan compared with 42% of high income earners.

Table 7: Planning - the fast lane to confidence

Confidence in retirement savings				
	Have a specific financial plan developed with help of financial adviser	Have a specific financial plan developed without professional help	Total have a financial plan	Do not have a specific financial plan
	%	%	%	%
Very confident	20	29	24	11
Somewhat confident	42	36	39	24
Total confident	62	65	63	35
Not particularly confident	23	20	22	34
Or, not at all confident	14	13	14	28
Total not confident	37	33	36	62
Neither \ don't know	1	2	1	3

'She'll be right' or trusting our own instincts?

Only one in two Australians follow a personal financial plan, and even fewer, (26%) have a plan developed with the benefit of professional advice.

Making our spare cash work harder

Over 40% of Australians could be cutting themselves short on valuable interest income simply by being unaware of the rate their money is currently earning.

In the aftermath of an economic slowdown, both interest rates and inflation are rising. This creates the opportunity, and the need, for investors to make their money work hard in an account paying a decent rate of interest.

You'll recall from page four that 86% of Australians hold a basic savings account. However we don't always make the most of this asset, and it seems inertia is a key force.

Only 57% of those with a savings account can recall the exact interest rate their money is currently earning. Older investors, aged 60-plus tend to have a clearer understanding of the rate paid on the savings account, and this probably reflects the more critical role this type of investment plays in funding the daily living of retirees.

The carrot is just as effective as the stick when we reconsider our savings accounts. Only 13% bothered to move their cash around in the past 12 months in order to earn a higher rate, while 10% have changed accounts in order to trim the fees and charges.

Investors aged 50 and younger are far more likely to take their business elsewhere if they're not satisfied with the fees and charges on their savings account. But when it comes to switching accounts for a better rate, older Australians are just as likely to do so.

Table 8: Putting our savings to work

THOSE WITH SAVINGS ACCOUNT			
	You know exactly what interest rate you're getting on your savings account	Moved savings in last 12 months to earn a higher rate of interest	Moved savings in last 12 months to reduce fees and charges
	%	%	%
Yes	57	13	10
No	41	86	90

Balance comprises 'Don't know' response.

Managing our money

Online banking popular among younger Australians

Online banking is fast, convenient and inexpensive, and although one in two Australians has an online bank account, this average figure belies significant differences between generations.

Among the under-40s, 75% have an online bank account. Older Australians appear more mistrustful or reluctant to use internet banking, with just 22% of over-60s banking online.

Equally skewed is the divide between high and low income households. Those on a household income of \$90,000-plus are almost four times as likely to use internet banking as low income households (81% compared with 25%). Yet low income households stand to benefit more from the lower fees and better money management offered by online banking.

Those people who do embrace online banking use the service to execute a wide range of functions notably checking account balances, transferring funds between accounts and paying bills, and this broadly holds true across users in different demographic groups.

Table 9: Preferred means of payment when shopping

	AGE					HOUSEHOLD INCOME		
	TOTAL	25-39	40-49	50-59	60+	<\$40K	\$40K-\$89K	\$90K+
	%	%	%	%	%	%	%	%
Cash	38	34	28	30	52	56	30	20
Credit or debit card	37	35	41	44	32	20	43	53
EFTPOS	25	31	31	24	15	24	27	27
None / don't know	1	*	*	2	1	1	*	*

* = <0.5%

Cash is king at the checkout...but only just

Around 38% of Australians prefer to use the folding stuff when shopping compared with 37% who reach for their credit card. However, only around one quarter prefer to make purchases with EFTPOS.

There is a striking difference in preferences between the use of credit cards across different income groups. Australians from lower income households are far more likely to prefer using cash (56%) than credit/debit cards (20%). The figures are almost exactly reversed for higher income households, which have a marked preference for credit cards.

Men also tend to gravitate more towards the use of credit cards than women, whereas women are more likely to use EFTPOS.

Reinforcing the hesitance of older Australians to embrace new technology, 52% of the over-60s stick to cash, with a corresponding low take-up of EFTPOS (15%).

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Methodology

The Citibank Australian Wealth Survey was conducted by Newspoll in September 2009. The survey was fielded by telephone among a national sample of 1,085 people aged 25 years and over.

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