FORWARD thinking

Mood, Life and Money

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How do Australians feel about everyday life and financial decision making?

The world has changed. It's a familiar statement and looking back on 2011, with headlines about European debt concerns, the US economy and speculation of a second Global Financial Crisis, what will spring to mind for many is uncertainty.

However, while commentary about markets and economies is commonplace, the grass roots impact of this global change on Australians and their lives, has almost flown under the radar. Little has been known about how the volatility of the past few years has actually impacted everyday life and financial decision making, which is what Macquarie set out to uncover in late 2011 with its Mood, Life and Money – Macquarie Insights project.

A cautious optimism

Macquarie's in-depth survey of more than 1,600 people across Australia reveals that regardless of the world's woes, the majority of Australians (65 per cent) are feeling positive about their lives. However despite this positive outlook, only a quarter feel confident and in control when making life or financial decisions.

Macquarie Banking and Financial Services Group Analytics Research Manager, Gary Lembit, who led the project, said that the lack of confidence among Australians is driving a shift in behaviours when it comes to people managing their lives and their finances.

"We found that the quest for confidence is strong, with more than half the nation (56 per cent) wanting to feel confident as decision-makers. It's not enough anymore for people to simply put their trust in a professional; Australians are more cautious than in the past and while they recognise the value in professional advice, they are doing more of their own research, talking to their family and friends and generally wanting to be more involved in the decision making.

"People really want to understand the mechanics behind a particular decision or strategy, even down to the most simple financial decisions such as whether to invest or save." Mr Lembit added.

Money can't buy happiness

When it comes to investing or saving, there may be some truth in the old saying: money can't buy happiness. People with more substantial assets are found to be more positive about life than those with above average income, as are those who actively invest any spare cash they have. In general, those who say they are 'happily enjoying life' tend to be those who actively plan for the future and are more in control of their finances.

What the study also clearly shows is that active investors who have built up assets over time are more positive about life. This supports the need for financial planners to drive a continued focus on growing assets, in the short and long term, even in an environment where confidence is low and cash appears to be king.

Looking at the propensity to invest versus save, Mr Lembit said there are some interesting differences between genders: "Men are twice as likely as women to get new investments or buy shares when they have spare cash, whereas women are more likely than men to put as much as they can into a savings account."

Having 'enough'

While there are many differences across gender and generations in terms of approach to life and financial decision making, the top three fears for Australians are dominated by a common thread; money. The number one fear across Australia is not having enough for a rainy day, followed closely by not having enough to pay household bills and not having enough in retirement.

Mr Lembit said that many of these fears are driven by the unknown: 'People are often afraid of the unknown and in this case, the unknown is a question around what exactly constitutes enough."

Looking specifically at funding retirement, 10 per cent of Australians approaching retirement said they did not know how much they would need. Unsurprisingly, those currently earning higher incomes have higher expectations with 50-60 year old Australians earning $100,000 or more expecting they'll need around $100,000 per annum in retirement, compared to those earning less than $100,000 expecting they'll need around $58,000 per annum in retirement.

"Knowledge is power and we have seen that those who feel in control of their financial situation are also those who are more confident. Planners are in a perfect position to help people figure out what is 'enough', and to help them plan to ensure they can achieve their own personal 'enough', helping to minimise these fears." Mr Lembit added.

The power of advice

The good news for financial planners is that regardless of generation or gender, the survey indicates Australians are far more confident in their life and financial decision making if they involve financial experts. The issue for the industry however is that while the power of professional advice is well recognised, with the study showing that advice from financial planners and accountants is more trusted than advice from family and friends, it is most common for big decisions to be discussed with family, followed closely by cost analysis and online research. Actively seeking professional advice was among the most uncommon practices.

This recognition of the value of professional advice is coupled with openness to advice, providing a great opportunity for advisers to grow their client base. While 63 per cent of people have sought specialist advice in the past, 80 per cent state that they would consider professional advice.

Diving further into this openness to advice, almost 50 per cent of people said they would consider advice for retirement planning or transition to aged care, versus 17 per cent and nine per cent respectively who have actually sought advice for these areas in the past. Other areas where the value of advice was well recognised and would be considered include achieving tax efficiencies, structuring finances, creating investment portfolios, investing in property, setting up a self managed super fund and even simply combining finances at marriage.

A further opportunity for financial planners is with younger generations. Macquarie's study shows that many of the 'big' life decisions with considerable financial implications, such as getting married, having a family or buying property, are well underway by the age of 35, with the focus after this time tending to be more towards consolidation. Even career changes and entrepreneurialism, both of which can have a significant financial impact, tend to be characteristics of younger generations.

Mr Lembit said that these demographics should be considered by planners when looking at their business development plans: "To ensure true lifetime value, financial planners should focus on building relationships with clients when they are in their late twenties or early thirties. Many of the big life decisions are made by the time a client reaches 35, and any decisions that come after this time, such as a child's education or retirement, are significantly shaped by these earlier decisions and the financial impact they have had."

Conclusion

Reflecting on the research, Mr Lembit said it painted a fascinating picture of everyday Australians and some valuable insights for financial planners: "The world has changed, and perhaps for the financial services industry that hits closer to home than for most, but what was really overwhelming when we were talking to people as part of this study is the continued optimism right across Australia.

"If anything, there is more of an appetite than we've ever seen before for knowledge, coupled with a recognition that this comes from professional advice. People want to feel confident in their decision making, which means being active about taking control."

Mr Lembit added: "Ultimately our study has shown that despite global turmoil and uncertainty, the traditional Australian resolve remains strong. This provides a great opportunity for financial planners and their businesses, and for the financial services industry as a whole."