The right start

Helping young Australians prepare for their future by understanding what shapes their long-term financial wellbeing

CommonwealthBank

Foreword

Financial wellbeing

Financial wellbeing goes to the core of Commonwealth Bank's purpose – *to improve the financial wellbeing of our customers and communities.*

Being able to manage our money and choose how we spend it through the good times and bad is at the heart of financial wellbeing. For nobody is this more important than for the next generation of Australians, who are facing unprecedented and well-documented challenges to their financial futures.

Earlier this year, we launched our first-of-its kind measure of financial wellbeing: the CBA-MI Financial Wellbeing Scales, which allows Australians to better understand and improve their financial wellbeing.

By knowing what determines the financial wellbeing of future generations, we can all make sure that young people develop the capabilities and behaviours as children that will have the biggest impact on their future.

That's why we have partnered with the Melbourne Institute to develop this framework for defining financial wellbeing for children, adolescents and emerging adults. This is an important next step in making sure that everything we do ultimately leads to enhancing the financial wellbeing of our customers and communities.

Financial education is already a really important part of what we stand for as an organisation. That's why we continue to provide our free, curriculum-aligned financial education program, *Start Smart*, to all Australian schools regardless of whether the students or their families are customers with us. With over 500,000 Australian students participating each year, it is the largest financial education program of its kind in the world.

At Commonwealth Bank, we believe that financial education is strongest when it combines both theoretical understanding and practical application. For more than 88 years, our school banking program has helped children to learn about the practical side of saving and put good financial habits into practice. The program is now assisted by more than 10,000 parents, who volunteer to help their children and others' learn about saving.

One of the most important things we can do for our children and our country is to improve the financial wellbeing of future generations so they have confidence and security through good times and bad.

It is our hope that this research will play a positive role in helping us and our communities to enhance the financial wellbeing of young people.

Angus Sullivan
Group Executive, Retail Banking Services
Commonwealth Bank

December 2019

Why do we need to know about financial wellbeing?

Our attitude towards money drives many of the choices we make day-to-day. It plays a key role in where we live, how we live and what we do with our spare time, now and in the future.

What's more, it's not only adults making these decisions. Young Australians are increasingly being held accountable for the financial decisions they make early on in life.

The challenges ahead for the next generation of Australians are well documented. Young people are facing more debt, lower rates of home ownership, lower net wealth and are also falling behind in relative terms because of growing educational costs and soaring housing prices.

Young people will also have to deal with a rapidly-changing financial environment, with evolving technology and accessibility, which will shape their long-term financial wellbeing.

At Commonwealth Bank, our purpose is to "improve the financial wellbeing of our customers and communities."

All these factors mean that understanding what shapes young people's financial outcomes has never been more important. The choices they and their parents make now will affect their long-term wealth and opportunities.

Having already defined what financial wellbeing looks like for adults, Commonwealth Bank and its research partner, the Melbourne Institute, has now undertaken further research to understand what financial wellbeing means for young people today – and to identify ways to meaningfully improve it in the future.

Understanding what shapes young people's financial outcomes has never been more important. The choices they and their parents make now will affect their long-term wealth and opportunities.

Key findings

This report is an important first step towards a longer-term goal of developing and implementing measures of financial wellbeing for young Australians.

- While both young and old Australians share the need for financial wellbeing, we can't define them in the same way
- A young person's early experiences of financial attitudes and behaviours shape outcomes later in life
- How a child understands and perceives their financial wellbeing depends on their developmental stage and financial capability
- A child's financial capability develops over time, influenced by their parents, their experiences, their teachers, and others
- Young people's financial wellbeing in Australia is likely to be different based on their contextual features like their household and wider environments
- Our research had to recognise the challenges associated with obtaining data from or about younger children

What is financial wellbeing for young people?

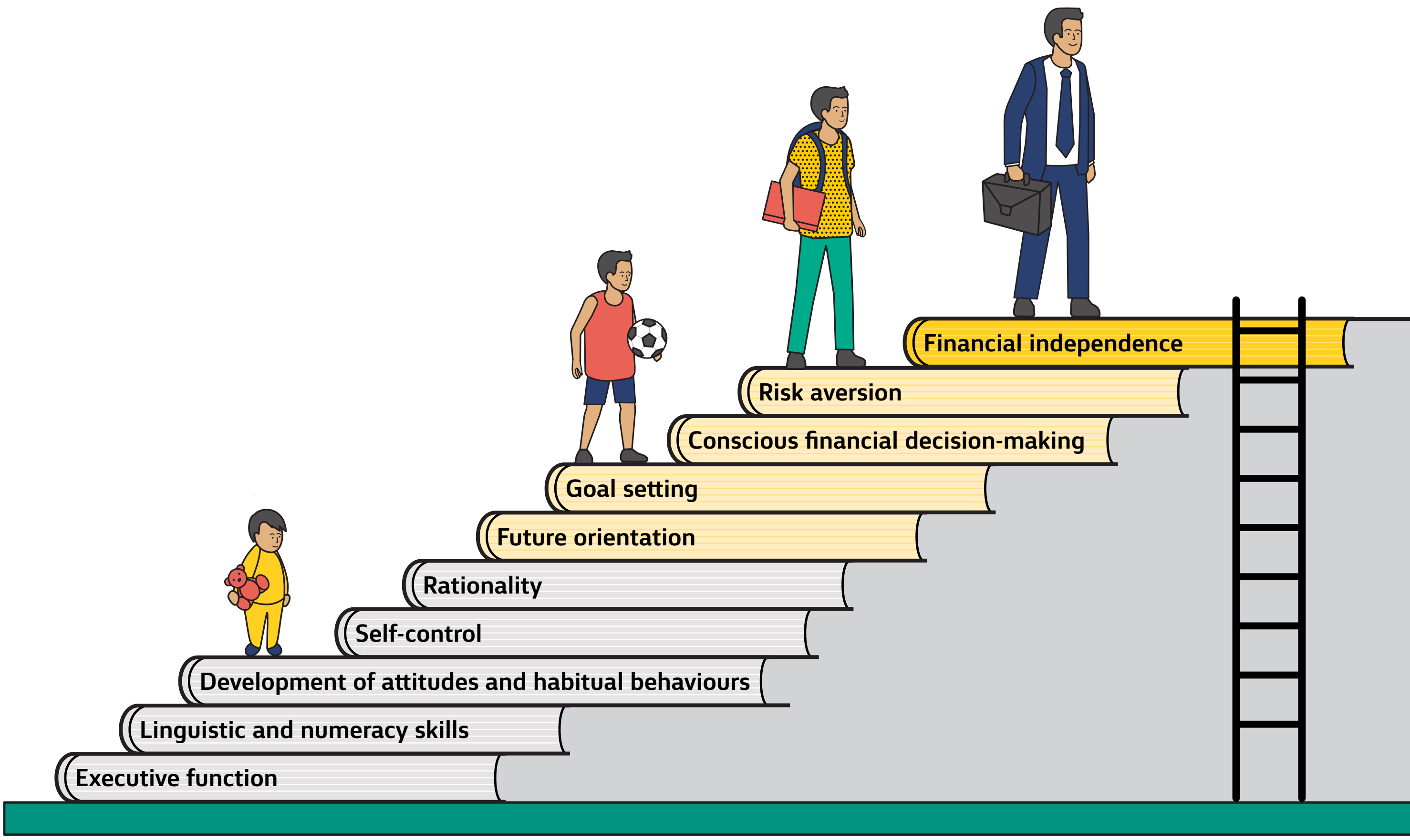
Money matters. Being able to manage our money and choose how we spend it through the good times and bad is at the heart of financial wellbeing.

For adults, we see this as having four key components:

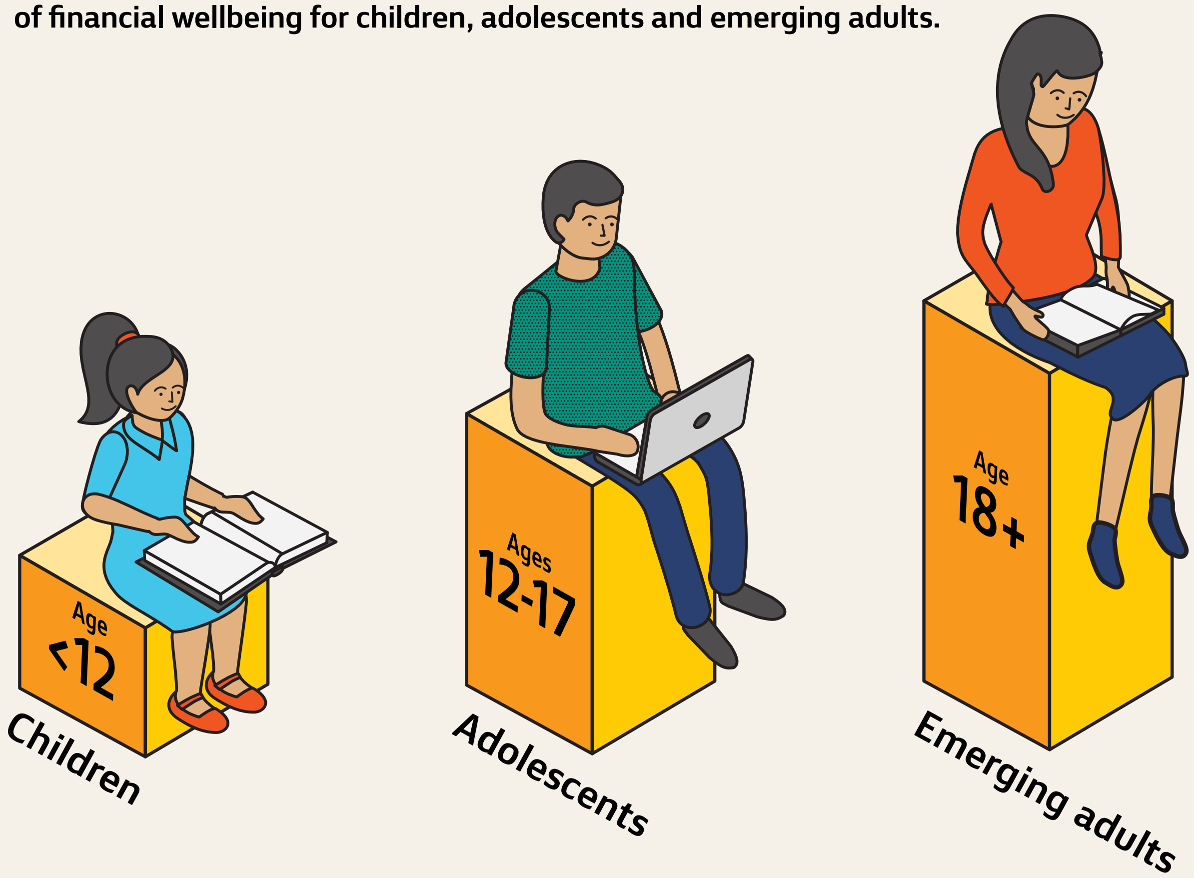
- the ability to meet your financial obligations
- the freedom to make choices that allow you to enjoy life
- control of your finances
- a feeling of security about your future obligations which apply to outcomes now, in the future, and under possible adverse circumstances.

While both young and old share the need for financial wellbeing, this definition is not appropriate for children and adolescents. For instance, children and adolescents don't take on debt or assume responsibility for paying bills.

What's more, their capabilities and behaviours evolve over time as they age from childhood, through adolescence, and into adulthood.



As a result of these differences over time, we have come up with distinct definitions of financial wellbeing for children, adolescents and emerging adults.



the extent to which children both perceive and have:

1. financial outcomes that meet their needs and further their development
2. financial outcomes that allow them to enjoy life, and
3. financial security – now, in the future, and under possible adverse circumstances.

the extent to which adolescents both perceive and have:

1. financial outcomes that meet their needs, that further their development, and in which they meet their age-appropriate financial obligations
2. financial outcomes that allow them to enjoy life
3. age-appropriate control of their finances, and
4. financial security – now, in the future, and under possible adverse circumstances.

the extent to which emerging adults both perceive and have:

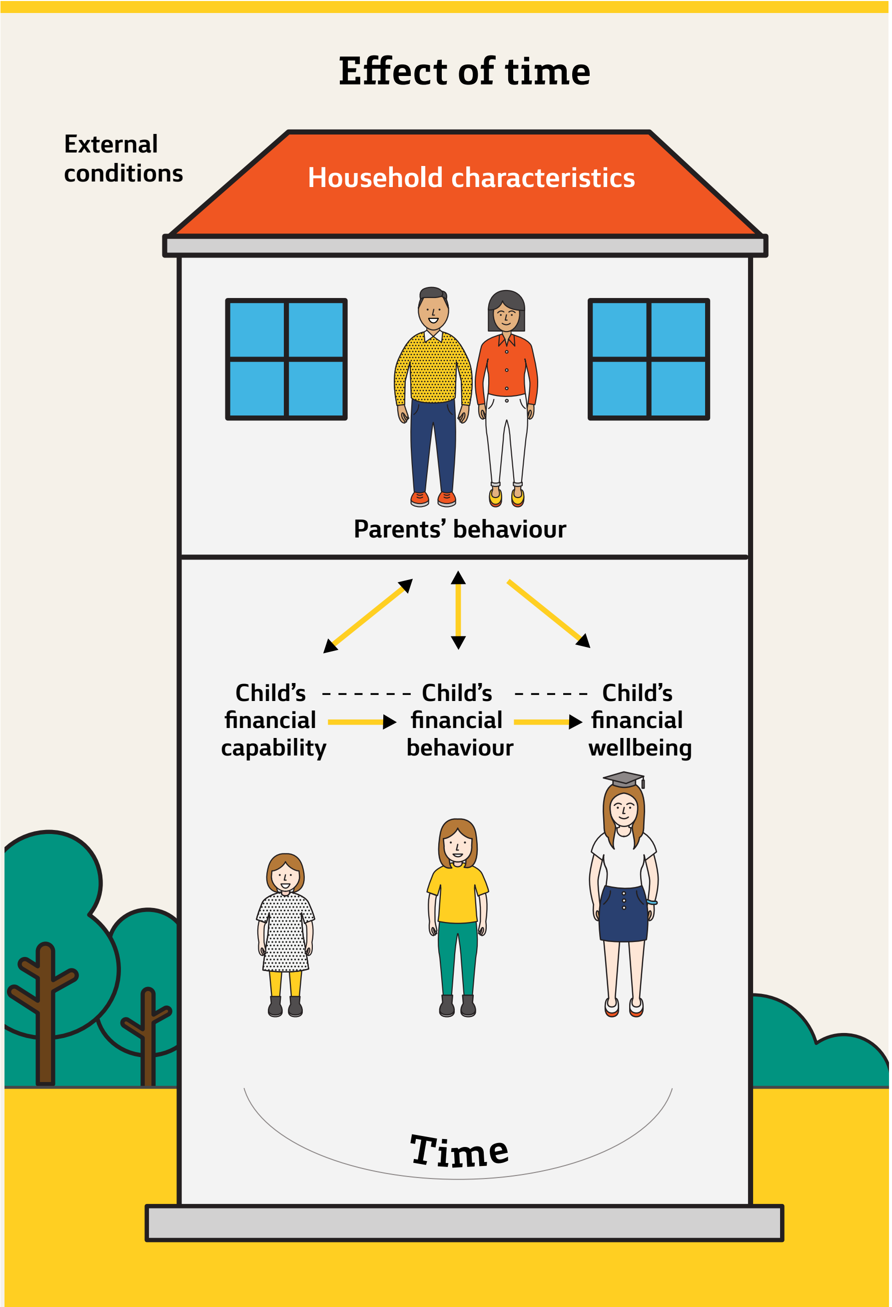
1. financial outcomes in which they meet their personal financial obligations
2. financial freedom to make choices that allow them to enjoy life and further their development
3. control of their finances, and
4. financial security – now, in the future, and under possible adverse circumstances.

How we determine financial wellbeing

Having defined the basic components of financial wellbeing for adults, we built on our existing research to visualise how young people's financial wellbeing is determined. This conceptual model identifies the relationships between different characteristics and young people's financial wellbeing over time.

What does this model mean?

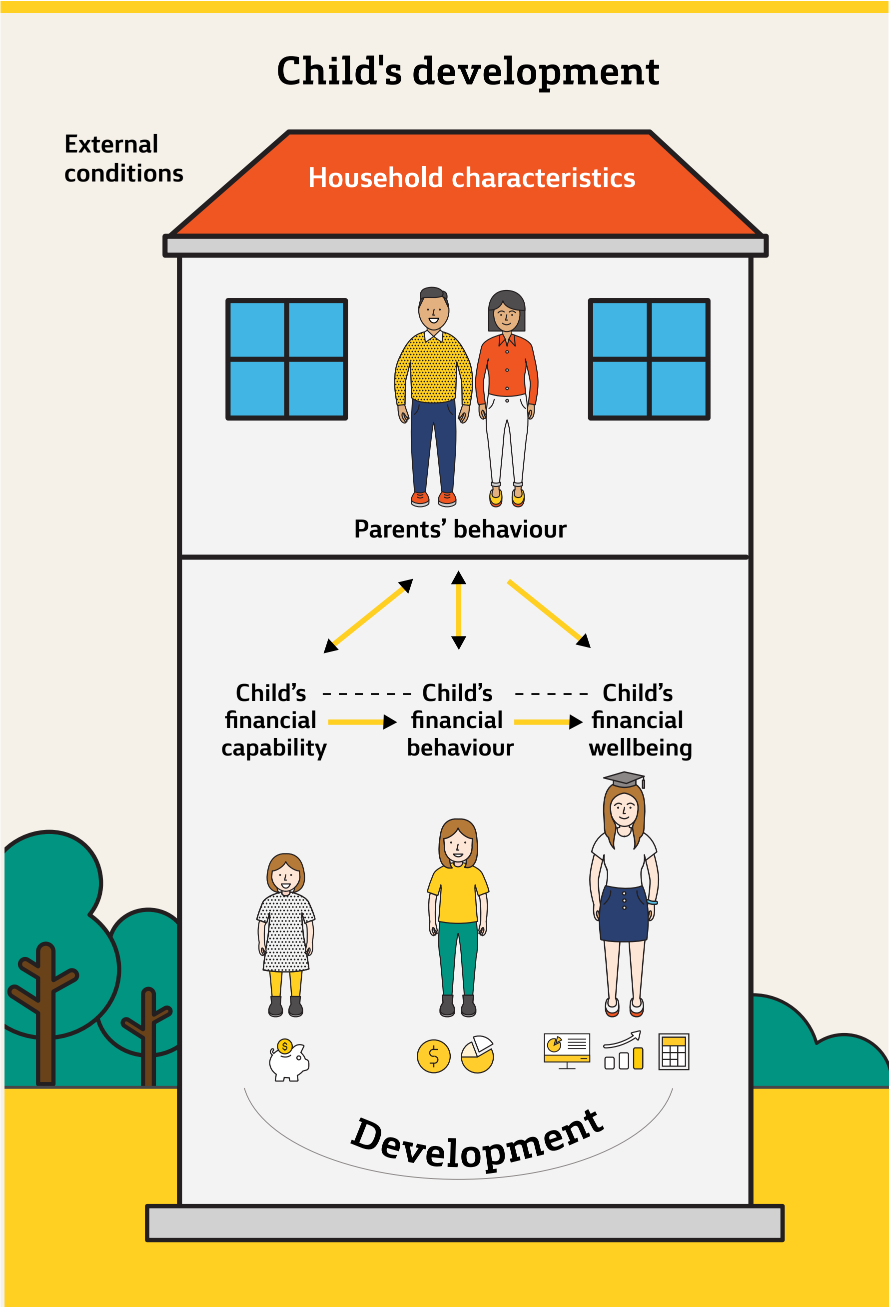
- There is a direct relationship between the parents' and the child's behaviours and financial wellbeing
- 'Household characteristics' impact a child's financial wellbeing directly and also indirectly through their influence on parents' and children's behaviour
- The household is placed inside a box labelled 'External conditions' to indicate that these conditions affect everything within.



How does wellbeing develop over time?

Using this model as a guide, we can dig deeper into what these relationships really mean for young Australians and their long-term financial wellbeing. From our extensive review of the available research into young people's financial outcomes, we found that:

1. Early experiences shape financial outcomes later in life.
2. A child's financial capability develops over time, influenced by their parents.
3. Familial, household and environmental context also plays an important role.



Finding 1

Financial wellbeing is a work in progress

The stage for a young person's financial wellbeing is set early in life.

As the first people to introduce the concept of money to young children, parents determine many of the conditions which will shape people later on. For instance, they may provide children with resources, such as an allowance, that young people can allocate to spending or savings.

Early experiences are also influenced by certain characteristics, such as gender or socioeconomic status. Gender can result in some of the most visible differences in behaviour and outcomes within a household.

It is clear that in households with traditional gender attitudes, financial outcomes diverge between sexes due to a variety of factors, such as boys receiving financial autonomy earlier.

There is also a subjective element to their financial wellbeing. How a child understands and perceives their financial wellbeing depends on their developmental stage and financial capability. For instance, although many young people work, studies reveal that many don't understand or appreciate superannuation. This perception is shown through their poor engagement with their superannuation funds.

The strong influence of parents and the importance of how each individual perceives their own wellbeing reveals how financial capability is a work in progress, starting from an early age.

Finding 2

Financial capability grows over time

A child's financial capability also develops over time as the child grows older.

If you are exposed to financial activities as a child, say, by having a savings account, your behaviour as an adult is affected. Why is this?

Unsurprisingly, parents are again a large part of the answer.

First, parents' financial and socialising behaviours heavily influence their children's financial capability as they grow up. This includes instructing them or talking to them about financial behaviour and sharing financial attitudes.

Second, as role models to their children – whether positive or negative – parents set an example for their children to follow.

Parents' behaviour and attitude towards their own finances play into a child's financial capability. For instance, attitudes that favour risk and debt – either among adolescents or their parents – are linked with more debt.

On the other hand, parents who have a positive relationship with young people and communicate with them about financial matters are shown to positively contribute to their financial wellbeing.

As our model shows, the influence of a child's parents impacts their financial wellbeing at any given time. But they also indirectly shape their child's future wellbeing through their influence on developing financial capability. In this way, parents tend to share their relative economic (dis)advantage with their children, translating into future outcomes.

Characteristics that influence young people's financial outcomes

- Age
- Gender
- Race & ethnicity
- Family socioeconomic status
- Policies & programs
- Financial literacy
- Own resources
- Attitudes & psychological traits
- Financial socialisation

Finding 3

The definition of financial wellbeing depends on context

Another crucial aspect of financial wellbeing is context.

Beyond just the parental relationship, the household is important because it includes all the other characteristics of the household and its members.

Access to resources is one key element of a young person's household context. There is a clear link between a person's own resources and their financial outcomes and wellbeing.

The Australian Institute of Health and Welfare (AIHW, 2018) estimated that 22 percent of Australian households with children under the age of 15 experienced housing stress in 2016.

When experiencing hardship like this, children are not bystanders – their financial wellbeing is deeply affected. Despite their young age, adolescents in these types of situations often feel financial anxiety about their families' economic situation and ability to meet expenses.

Our model also places young people's financial wellbeing inside a broader, environmental context outside the control of the family and household. This includes:

- the wider economic context which affects access to financial resources
- social support
- social norms that shape preferences and attitudes
- public programs and social insurance that can protect households from negative events
- the legal framework that affects households' and others' behaviour
- access to financial products and services.

This broader societal context is important because it helps us understand the differences young people face in different countries. For instance, we can look at how different higher education systems impact the financial wellbeing of emerging adults.

Emerging adults in Australia have access to helpful measures like subsidies and income-dependent loans. This reduces the need for educational savings and the pressure of educational debt. By contrast, 79 percent of 25-year-olds in the US held debt in 2012.

Despite this favourable comparison, research among Australian university students has shown they are less likely to believe that they are managing well financially and are more likely to borrow money from friends or family than non-students (Ryan 2014). This demonstrates that we need to keep the big picture in mind and look at the variety of familial, household and external influences to understand young people's financial wellbeing.

Gathering the information

Consolidating existing research to develop relevant measures – 4 surveys

An important contributor to this research is the large amount of data around youth financial outcomes collected through existing social surveys.

We consolidated relevant measures from the following four Australian surveys:

1. **The Longitudinal Surveys of Australian Youth**
   A study that follows cohorts of young Australians annually over a ten-year period, from their mid-teens to mid-twenties, as they move through school to further study, work, and beyond.
2. **The Longitudinal Study of Australian Children**
   A survey that has followed the families of two cohorts of Australian children every two years since 2003, when the cohorts were aged 4-5 years and 0-1 year respectively.
3. **The Household, Income and Labour Dynamics in Australia survey**
   A large national longitudinal survey that began with nearly 20,000 people in 2001 and has subsequently followed those people and their families in annual interviews.
4. **The Survey of Income and Housing and Household Expenditure Survey**
   A nationwide representative cross-sectional survey with large sample sizes.

Limitations of the research

1. **The sensitivity of data collection for young people**
   Our research had to recognise the challenges associated with obtaining data from or about younger children. Not only do young people's financial capability develop change over time, many outcomes, especially for children and adolescents are still dependent on their families through resources controlled by their parents.

   It is also a consideration that the majority of survey questions about youth financial outcomes are actually answered by their parents.
2. **Simplistic modelling**
   Our conceptual model identifies the anticipated relationships between different elements but does not indicate the strength or magnitude of these relationships. For example, it does not tell us whether children's or parents' behaviours have stronger effects on children's wellbeing, whether active or passive financial socialisation behaviours are more effective, how much children learn from previous experiences with financial behaviour, or how the strength of each relationship changes with age.

What's next?

In conclusion, young people's financial wellbeing at a given age depends on their own financial behaviour, their financial capability, their parents' financial and socialising behaviours, other characteristics of their household, and conditions outside the household.

The development of these financial wellbeing measures identifies gaps in existing data and will facilitate future research.

We see this report as an important first step towards a longer-term goal of developing and implementing measures of financial wellbeing for young Australians.

Based on this initial conceptual framework and research, we see these measures eventually being used to:

- document the distribution of young people's financial wellbeing,
- investigate the characteristics that contribute to financial wellbeing, and
- evaluate policies, programs, services, and interventions that might boost financial wellbeing.

For more information, please email:
corporateresponsibility@cba.com.au

Commonwealth Bank of Australia
ACN 123 123 124

CommonwealthBank