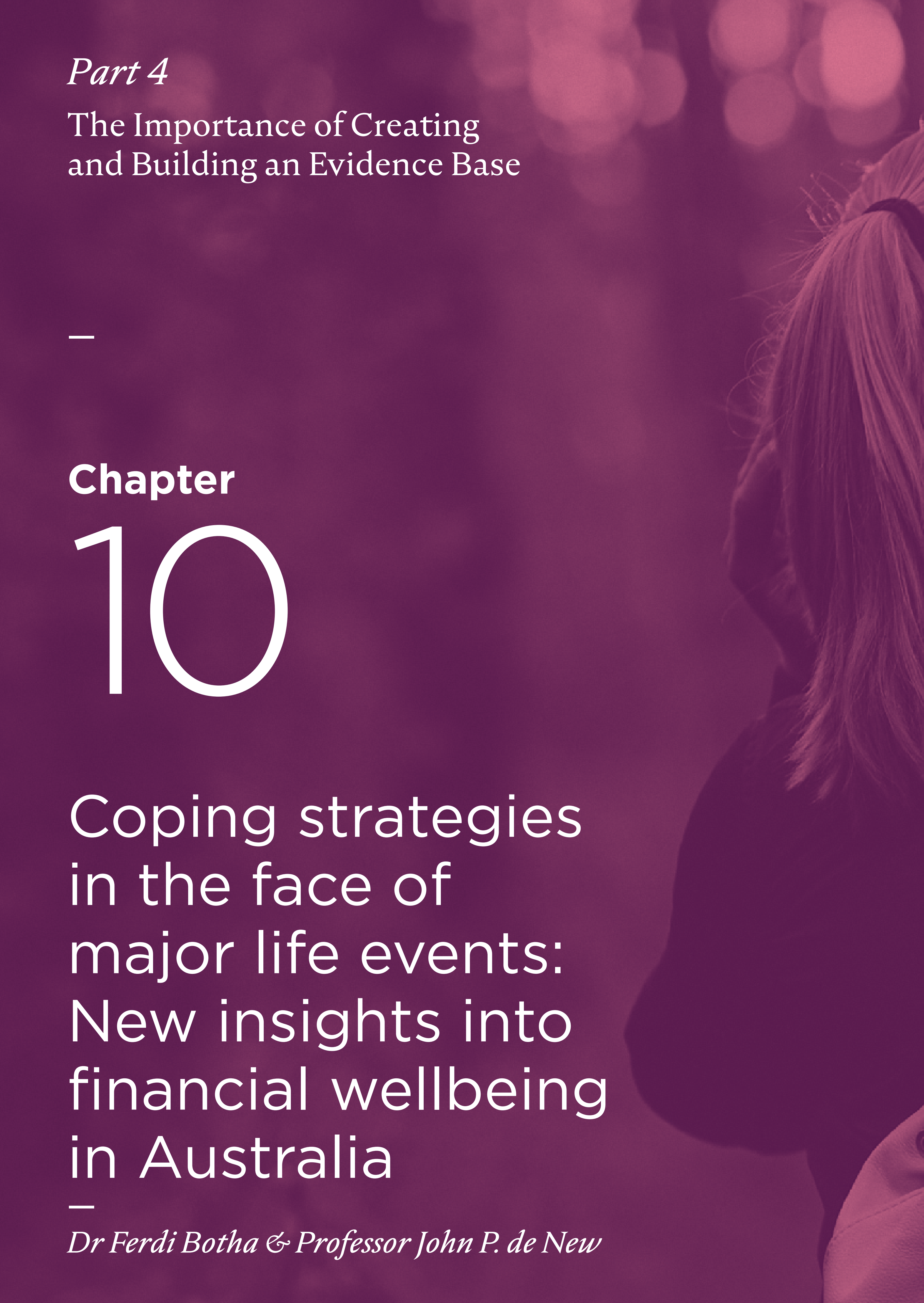

Part 4

The Importance of Creating and Building an Evidence Base

—

Chapter

10

Coping strategies in the face of major life events: New insights into financial wellbeing in Australia

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This study outlines the literature on research into financial wellbeing in Australia and provides new insights using 2020 data from the nationally representative Household, Income and Labour Dynamics in Australia (HILDA) Survey. Using a battery of financial and non-financial major life event shocks, we analyse how Australians experience these shocks in terms of financial wellbeing outcomes. We outline important determinants of financial wellbeing and demonstrate that prudent financial behaviours, attitudes, and high financial literacy contribute substantially to high levels of financial wellbeing and the ability to plan for current, unexpected, and long-term future required expenditures.

INTRODUCTION

Household income and wealth are arguably the most important determinants of personal affluence and command over societal resources. As such, researchers using the world's household panel and repeated large-sample cross-sectional datasets have been proficient in capturing detailed information on household income and wealth, indeed even including many of their separate component parts. In most studies, though we capture very well the level of income and wealth a household has at its disposal, we are often quite vague about how the household actually manages its resources, which can be equally as important. For any level of income and wealth, household finances may be balanced and buffered, or conversely, cash-poor and poorly managed, leading to vastly different outcomes and behaviours in the face of unexpected expenses, illness, unemployment, retirement or even daily necessary expenses. A household's access to financial resources does not imply that it spends that income in a prudent manner, conducive to its own 'financial wellbeing'. In this study we outline some newer advances in the measurement and analysis of the concept of financial wellbeing and how people can deal with shocks affecting their financial situation.

What exactly is 'financial wellbeing'? The literature is filled with various conceptualisations and there are far too many to list exhaustively here (for further details see Comerton-Forde et al., 2022). Previously the literature was largely American-based and focused on perceived (self-reported) measures and scales of financial wellbeing (see Prawitz et al., 2006; Consumer Financial Protection Bureau, 2017; Netemeyer et al., 2018).

The United States Consumer Financial Protection Bureau (CFPB) (2017) provides a very useful foundation, containing outcome-oriented components, as well as some subjective components. The CFPB (2017) defines financial wellbeing as comprising several different dimensions: having control over day-to-day and month-to-month finances (current time); being able to absorb a financial shock (unexpected events); being on track to meet financial goals (future); and having financial freedom (flexibility). This is a comprehensive definition relevant for the United States, which provides the basis for this study.[1]

Of course, the financial wellbeing measures must reflect the institutional background of the country for which they were defined. Here we will focus on the concept of financial wellbeing tailor-made for Australia, with appropriate components reflecting the institutional setting in Australia.

The study of 'financial wellbeing' has gained significant traction over the past few years. Drawing on work by the CFPB (2017), amongst others, Comerton-Forde et al. (2018) develop robust and validated scales of financial wellbeing using survey and bank-record data from Australians. Formally, financial wellbeing encompasses financial outcomes that people experience (Comerton-Forde et al., 2022, p. 137) and is defined as the extent to which people both perceive and have: (1) financial outcomes in which they meet their financial obligations; (2) financial freedom to make choices that allow them to enjoy life; (3) control of their finances; and (4) financial security—now, in the future, and under possible adverse circumstances.

Previous work has identified several determinants of financial wellbeing, with good financial behaviours being particularly important (Comerton-Forde et al., 2022). However, relatively little is known about how different major life events (shocks) are empirically associated with financial wellbeing. Comerton-Forde et al. (2022) find that a major financial improvement is related to higher perceived financial wellbeing, whereas a major financial worsening and requiring government support but not getting access, is related to lower perceived financial wellbeing. It is unclear whether a broader set of possible life events is associated with people's perceptions of financial wellbeing and how the financial wellbeing effects of such life events can be mitigated by advantageous financial behaviours, attitudes and high financial literacy.

In the recent past, Australia has endured several crises of enormous magnitude: the global financial crisis of mid-2007 to early 2009; the major bushfires in the states of Victoria and New South Wales from September 2019 to March 2020; and the ongoing COVID-19 pandemic from March 2020. Each of these seismic events has important implications for the populations directly and indirectly affected. Against this backdrop of shocks, we are interested in examining how Australians experiencing shock events are affected in the form of their associated financial wellbeing, and what they may be able to do to mitigate any negative shocks. Life event shocks are particularly interesting to examine empirically, as they are difficult to anticipate and to adapt one's behaviour accordingly.

Using nationally representative data on Australian adults, in this study we explore a set of 23 major life events to determine which are most strongly associated with financial wellbeing. We show that certain events, such as serious personal injury or illness to a family member, are moderately related to financial wellbeing. Notably, we find that financial behaviours and attitudes are very strong determinants of financial wellbeing, suggesting that most adverse financial wellbeing effects from seemingly negative major life events can be mitigated if people have sound financial behaviours and attitudes. This study is of particular interest, as data were collected in 2020 during the COVID-19 pandemic, which affected Australia particularly harshly, with many states going into extended lockdowns on a recurring basis. The pandemic itself spread very quickly and caused widespread illness with a number of fatalities. The employment situation, social movement and general health of many Australians were dramatically affected.

For all financial decision makers, financial literacy is an important cornerstone. Being able to understand fundamental relationships such as interest rates, the mechanism of inflation, investment diversification, risk and return and money illusion (scaling of prices and incomes) has been shown to be crucial for good financial outcomes (Lusardi and Mitchell, 2011). This analysis will also explore the mitigating role of financial literacy to deal with negative economic shocks. Encouragingly, financial literacy can be taught in the schooling system for children and in seminars for adults. In addition, transparent financial product disclosure statement (PDS) information can help to make information required for financial decision making as understandable as possible (ASIC, 2011).

1 In this study we focus on adult financial wellbeing, however there are also conceptualisations for child and youth financial wellbeing, outlined in Haisken-DeNew et al. (2019a).

The key to dealing with low probability, yet very negative events, is to prepare for contingencies and insure in some manner against such negative shocks. In the realm of financial wellbeing, preparing for these unexpected negative events can be achieved through systematic savings, holding adequate portfolios of liquid and illiquid assets, not being overly exposed to unilateral interest rate changes and adapting personal spending patterns to provide some buffer, should immediate and large expenditures be required to address events such as illness/death, unemployment, bankruptcy and forced relocation due to natural catastrophe. As financial wellbeing explicitly deals with the prudent intertemporal management of financial resources, it is of particular policy interest to know how Australians are able to handle such shocks, and whether prudent financial management strategies are adequate to sustain them during troubling times. Should this not be the case, further active policy measures to secure Australians may be required, such as macro/micro-prudential regulation, mortgage rules for banks, expanded unemployment insurance and a guaranteed minimum income policy. The Australian JobKeeper and JobSeeker Supplement support payments introduced temporarily in March 2020 during the worst of the COVID-19 pandemic were widely seen as effective in providing economic assistance to those most vulnerable: the unemployed, casual labourers and those (currently or previously) working in precarious industries or occupations. Most importantly, these payments ensured a substantially higher level of economic security than was previously available in Australia.

In addition to standard socio-economic determinants, in this study we specifically examine the crucial role of people’s own overall ‘financial strategies’, encompassing financial attitudes, financial behaviours and financial literacy, in determining financial wellbeing. One may not be able to change one’s household income quickly in the face of an economically significant shock, but a systematically prudent overall financial strategy may be sufficient to mitigate the worst effects of most shocks. This study will allow us to quantify empirically the extent to which prudent financial strategies can indeed do this, whilst controlling for standard socio-economic characteristics, including household income. Not only is the statistical significance of the component parts of the financial strategy important, but also the respective economic significance. If one were to have a prudent financial strategy, could one withstand major shocks and stabilise one’s financial wellbeing? If this were to be the case, this would provide evidence for active governmental or bank regulatory policies designed to increase regular household savings, improve financial transparency of costs to eliminate hidden costs, improve financial literacy both for school-age children and adults, and make the public aware of the cost of financial decisions focusing on high time-preference, such as credit or ‘buy now, pay later’ purchases.

DEVELOPMENT AND IMPLEMENTATION OF THE FINANCIAL WELLBEING SCALES

Development of financial wellbeing scales

In Comerton-Forde et al. (2018), the Melbourne Institute and Commonwealth Bank of Australia (CBA) collaborated to develop validated scales of financial wellbeing among a representative sample of Australian adult clients of CBA. This initial report developed and tested two financial wellbeing scales: the CBA–MI Reported Financial Wellbeing Scale and the CBA–MI Observed Financial Wellbeing Scale (version 1).

The Reported Financial Wellbeing Scale is a 10-item scale (providing a 0–100 metric) based on self-reported data that covers three temporal dimensions, that is, 'every-day' (day-to-day outcomes), 'rainy-day' (provision for emergencies) expenses and 'one-day' (provision for retirement) expenses. The Observed Financial Wellbeing Scale (version 1) is a 5-item scale (also providing a 0–100 metric) based on actual observed bank-record information that was also linked to the self-reported survey data. Although the Reported and Observed Scales are moderately correlated, with individuals with higher reported financial wellbeing tending to also report higher observed financial wellbeing, the scales measure distinct operationalisations of financial wellbeing.

Following the work by Comerton-Forde et al. (2018),[2] Haisken-DeNew et al. (2018, 2019b) subsequently developed a revised and improved observed financial wellbeing scale, namely the CBA–MI Observed Financial Wellbeing Scale (version 2). The scale itself is optimised using item-response theory (IRT) to arrive at the collection of best performing scale components. Only the best performing scale components are added to the scale, and each component is defined such that higher values of the component (each taking on discrete values zero through four) correspond to higher values of financial wellbeing. This has been done in such a manner that the component parts can be simply added together to obtain an overall financial wellbeing score, with substantial coverage over the entire financial wellbeing distribution.

The first academic journal publication utilising both the Reported and Observed Scales was the *Economic Record* (Comerton-Forde et al. 2022). It is the only published study to combine the two different financial wellbeing scales for the same linked sample of bank customers. There is a strong concordance of the two measures, providing added confidence in the bank-record-only measure.

To ensure wide circulation, in collaboration with CBA, the Melbourne Institute reports publicly on this quarterly bank-record data (CBA and MI, 2021a, 2021b, 2021c, 2022a). Basic trends in financial wellbeing development are described for a lay audience, with background macro-economic analysis to provide the economic context. Central to the discussion of financial wellbeing is not only the average levels, but also the distribution itself, and how this is changing over time. Based on cut-offs empirically identified by response patterns, the financial wellbeing distribution is segmented into four sections: 'having trouble', 'just coping', 'getting by' and 'doing great'. These four mutually exclusive segments are followed over time and distributional developments are contextualised against the backdrop of current economic events. Over the period of the COVID-19 pandemic, this has been especially important, due to dramatic movements in the observed financial wellbeing scale itself and all driving economic factors.

Empirical evidence for Australia

Based on the need for a shorter version of the 10-item Reported Financial Wellbeing Scale for use in surveys with limited space or survey time and to reduce respondents' cognitive load, Botha et al. (2020) used the original 10-item CBA–MI Reported Financial Wellbeing Scale to develop a 5-item scale of reported financial wellbeing, termed the CBA–MI Reported Financial Wellbeing Scale 5 (see Table 1). The 5-item scale retains largely the same properties as the 10-item scale by capturing all three temporal dimensions with identical weighting, yet with fewer items and still reliably measuring the construct of reported financial wellbeing.

The 5-item Reported Financial Wellbeing Scale has subsequently been included in Wave 20 (for the year 2020) of the HILDA Survey, and is planned to be repeated every four years.

This is the first large sample, nationally representative survey in the world[3] to include a validated scale of financial wellbeing, with a general discussion of the scale's properties and predictors of financial wellbeing reported in Wilkins et al. (2022). In a recent *Australian Population Studies* special issue on survey questions that the Australian Bureau of Statistics should include in the 2026 Census, Botha and de New (2021) argue for the inclusion of the 5-item Financial Wellbeing Scale. Publication of this article was not only strategic to increase visibility and adoption of the 5-item Reported Financial Wellbeing Scale, but also to provide strong arguments for why inclusion of the financial wellbeing scale in the Australian Census would inform national social and economic policy.

In a publication in the *Journal of Population Economics* on the impacts of COVID-19-related labour market shocks (such as job loss and reductions in earnings and working hours) on Australians' financial wellbeing, Botha et al. (2021) fielded a unique survey that used the 5-item Reported Financial Wellbeing Scale to measure perceived financial wellbeing. The study found that individuals who reported experiencing an adverse labour market shock due to the pandemic had substantially lower perceived financial wellbeing than people who did not experience such shocks. It was also found that the association of financial wellbeing with labour market shocks was most significant for those in the lower tail of the financial wellbeing distribution.

Published in the *Economic Record* using a combined survey and bank-record dataset, Comerton-Forde et al. (2022, p. 149) state that:

"Two key lessons are that (1) financial behaviours are particularly strong correlates of both reported and observed financial well-being, and (2) many of these behaviours are modifiable. If at least part of these strong correlations is driven by a causal link between financial behaviours and financial well-being, this implies we can increase financial well-being for many people by helping them modify their financial behaviours. Importantly, modifying these behaviours will likely be more easily achieved than improving people's overall socioeconomic standing by increasing their income or education."

As is clear from the above discussion, since their inception, the jointly developed Financial Wellbeing Scales have made a significant impact on the academic and engagement landscapes. To date, the analyses highlight several factors that are significantly related to higher/lower financial wellbeing, with financial behaviours consistently emerging as arguably the most important. In the following section, we consider whether, and the extent to which, a range of major life events (shocks) are associated with reported financial wellbeing. Our aim is to gain a broader understanding of the life events most likely to impact on financial wellbeing and identify financial strategies to mitigate any adverse financial wellbeing effects arising from such negative life events.

2 See also the lay-person accessible publication, Comyn and Ribar (2018).

3 This 2020 wave of financial wellbeing information is attached to 20 years of personal and household context for a nationally representative sample of Australians aged 15 and over.

APPLICATION: FINANCIAL WELLBEING, MAJOR LIFE EVENTS, AND FINANCIAL BEHAVIOURS

Data and methods

We use data from Wave 20 of the HILDA Survey, conducted in 2020 at the height of the COVID-19 pandemic. This survey instrument includes our 5-item scale of perceived financial wellbeing for the first time, in the HILDA Self-Completion Questionnaire (SCQ). We use information on respondents who answered all five financial wellbeing items and provided complete information on all variables used in the analysis, resulting in an analytical sample of 14,777 respondents.

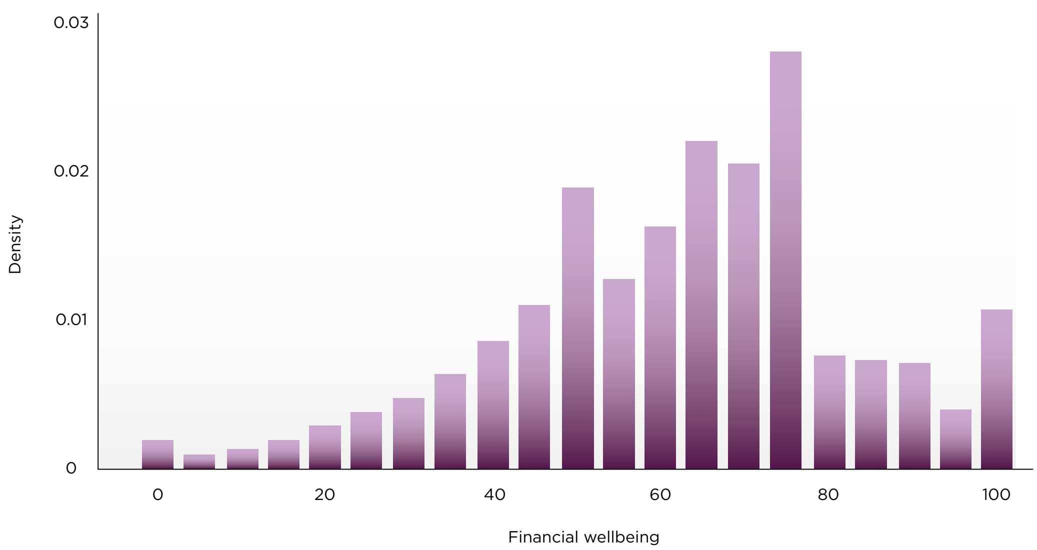
The financial wellbeing items and their response options are listed in Table 1. The reported financial wellbeing scale is obtained by a simple summation of all five items and by multiplying the summation by five (5) to obtain a score ranging from 0 (low financial wellbeing) to 100 (high financial wellbeing). Figure 1 displays the financial wellbeing distribution. The mean financial wellbeing score in this sample is 60.7 and the median is 65.

Table 1.
5-item financial wellbeing scale.

Question	Response
How well do the following statements describe you or your situation? 1. **I can enjoy life because of the way I'm managing my money.** 2. **I could handle a major unexpected expense.**	0 – Not at all 1 – Very little 2 – Somewhat 3 – Very well 4 – Completely
When it comes to how you think and feel about your finances, please indicate the extent to which you agree or disagree with the following statements: 3. **I feel on top of my day-to-day finances.** 4. **I am comfortable with my current levels of spending relative to the funds I have coming in.** 5. **I am on track to have enough money to provide for my financial needs in the future.**	0 – Disagree strongly 1 – Disagree 2 – Neither agree nor disagree 3 – Agree 4 – Agree strongly

Source: Botha et al. (2020).

Figure 1.
Financial wellbeing scale distribution (0–100 scale).



The HILDA Survey includes a battery of questions asking respondents to indicate whether a predefined list of major life events happened to them in the past 12 months. The major life events considered are:

- got married;
- separated from spouse or long-term partner;
- got back together with spouse or long-term partner after a separation;
- pregnancy/pregnancy of partner;
- partner or I gave birth to, or adopted, a new child;
- serious personal injury/illness to self;
- serious personal injury or illness to a close relative/family member;
- death of spouse or child;
- death of close relative/family member (e.g., parent or sibling);
- death of close friend;
- victim of physical violence (e.g., assault);
- victim of property crime (e.g., theft, housebreaking);
- detained in a jail/correctional facility;
- close family member detained in a jail correctional facility;
- retired from workforce;
- fired or made redundant by employer;
- changed jobs (i.e., employers);
- promoted at work;
- major improvement in financial situation (e.g., won lottery, received an inheritance);
- major worsening in financial situation (e.g., went bankrupt);
- changed residence;
- a weather-related disaster (e.g., flood, bushfire, cyclone) damaged or destroyed home.

Table 2 reports the prevalence, and the associated average level, of financial wellbeing for those not having and having experienced the event respectively, for our main variables of interest, namely major life events and financial behaviours, financial attitudes and financial literacy. Many life events or shocks have low incidences, with being detained in jail (0.2 percent), death of a spouse or child (0.6 percent) and getting back together with spouse/long-term partner after separation (0.9 percent) being the lowest reported experienced events. About 3 percent and 3.2 percent of respondents reported having experienced a major financial improvement and major financial worsening, respectively. Just over 14 percent changed residence, 11.6 percent changed jobs, and 11.8 percent experienced the death of a close relative or family member.

In terms of financial behaviours related to savings habits, 15 percent of Australians report not saving at all, whereas roughly 38 percent have no savings plan but do save whatever money remains after spending their income, and 36 percent save regularly. Attitudes on the times most important in relation to savings and investment decisions vary widely. Just under 15 percent believe the next week is the most important consideration, compared to 20 percent who believe it is the next year. About 23.8 percent of Australians believe the next five years or more are most important when making savings or investment decisions. The average financial literacy score of 4.47 suggests that the average Australian answered 4.47 questions correctly out of five. Just under 4 percent of respondents answered all five financial literacy questions incorrectly, whereas 41.3 percent answered all questions correctly.

To examine the determinants of perceived financial wellbeing in a multivariate framework, we estimate a simple linear regression (OLS) of the form:

$$fwb_i = \alpha + \beta\, event_i + \gamma_i\, financial_i + \delta_i X_i + \varepsilon_i,$$

in which the outcome variable fwb_i is financial wellbeing (0–100), $event_i$ denotes the various life events, $financial_i$ is financial strategy (financial behaviours, attitudes and literacy), X_i is a vector of additional control variables and ε_i is a standard error term. Interpretation of β_i, for example, will indicate whether persons who experience a specific life event report higher or lower associated financial wellbeing compared to persons who do not experience such an event. The coefficient γ_i on $financial_i$ will identify the amplifying or mitigating role of financial behaviours, attitudes, and literacy.

Table 2.
Summary statistics.

	Proportion (%)	Financial wellbeing	
		Without	With
Life events			
Got married	1.9	60.7	64.7
Separated from spouse/long-term partner	3.5	61.0	52.2
Got back together with spouse/long-term partner after separation	0.9	60.8	50.3
Pregnancy/Pregnancy of partner	4.7	60.7	61.3
Birth/adoption of new child	2.9	60.8	60.4
Serious personal injury/illness	7.6	61.2	55.3
Serious personal injury/illness to family member	13.1	61.2	57.8
Death of spouse or child	0.6	60.8	55.1
Death of close relative/family member	11.8	60.9	59.5
Death of close friend	10.9	60.8	60.2
Victim of physical violence	1.5	61.0	44.7
Victim of property crime	2.5	60.9	52.7
Detained in jail	0.2	60.8	30.1
Close family member detained in jail	1.6	60.9	50.6
Retired from workforce	2.6	60.7	62.6
Fired or made redundant	4.4	61.2	50.9
Changed jobs	11.6	61.1	58.2
Promoted at work	5.9	60.5	64.6
Major improvement in financial situation	3.0	60.5	69.2
Major worsening in financial situation	3.2	61.5	36.7
Changed residence	14.1	61.3	57.5
Weather-related disaster damaged or destroyed home	1.5	60.8	54.6
Saving habits			
Don't save: Spend more/as much as income	15.0	64.6	39.8
Save whatever is left over: No regular plan	38.1	61.8	59.0
Spend regular income, save other income	11.0	60.1	66.1
Save regularly by putting money aside each month	35.9	55.7	69.7
Most important time for savings/investment			
The next week	14.4	62.9	47.8
Next few months	24.0	62.0	56.8
Next year	20.1	60.8	61.8
Next 2-4 years	17.7	59.9	64.8
Next 5 or more years	23.8	58.3	68.6
Financial literacy			
No correct answers	3.9	61.2	50.7
One correct answer	5.0	61.2	51.7
Two correct answers	9.0	61.4	54.2
Three correct answers	15.7	61.6	56.2
Four correct answers	25.2	60.7	60.9
Five correct answers	41.3	57.2	65.8

Note: N = 14,777. Indicates portion of sample having the characteristic and the average level of financial wellbeing, for example, 13.1 percent of respondents experienced 'Serious personal injury/illness to family member' with average financial wellbeing of 57.8 (0–100).

RESULTS AND DISCUSSION

Table 3 reports the regression results on the extent to which our main variables of interest, major life events and financial behaviours, attitudes and literacy explain perceived financial wellbeing. The coefficient on the gender dummy suggests that financial wellbeing is almost one-point higher for men than for women which, although statistically significant, is not particularly large. As expected, financial wellbeing is significantly higher (by roughly 4.5 points on the 0–100 scale) among Australians who report a major financial improvement in their financial situation. Additionally, for women, serious injury or illness to a family member is related to higher financial wellbeing, whereas for men the birth/adoption of a new child and work-related promotion are significantly associated with greater financial wellbeing.

For men, serious injury or illness to a family member, retiring from the workforce, and home destruction/damage due to weather-related disasters (about five points) are related to lower financial wellbeing. For women, lower financial wellbeing is related to the birth/adoption of a new child, and job loss or redundancy. A major worsening in financial situation, such as bankruptcy, is strongly associated with lower reported financial wellbeing for all Australians. Financial wellbeing is on average lower by between 11.8 and 12.9 points among individuals who experience a major worsening of their financial situation.

Financial behaviours and financial attitudes are very important determinants of financial wellbeing. For each additional financial literacy question answered correctly, financial wellbeing is higher by between 0.7–1.2 points. Longer time horizons in relation to savings and investments tend to be associated with greater financial wellbeing. For example, those who view 'the next few months' and the 'next 5 or more years' as most important times for investment or savings decisions report financial wellbeing scores of 2.5 and 6.9 points higher relative to people who perceive 'the next week' as most important. Financial behaviours, as measured by respondents' savings habits, have considerably significant associations with financial wellbeing. Saving money more frequently and having clear savings plans are strongly related to better financial wellbeing. When compared to individuals who do not save at all, those who save whatever money is left over, even without a regular savings plan, report about 13-points higher financial wellbeing. Persons who save regularly each month have about 21 points higher financial wellbeing scores (on the 0–100 scale) as compared to those who do not save.

The main takeaway from our findings is that, although some major life events—especially serious illness in the family, a major financial deterioration such as bankruptcy and property damage due to weather-related disasters—are associated with significantly lower perceived financial wellbeing, prudent financial behaviours and attitudes have the potential to be associated with much higher levels of financial wellbeing. The implication is that the potential adverse financial wellbeing shocks of major adverse life events can likely be mitigated by sufficient financial literacy, longer savings and investment horizons and, especially, having good and frequent savings goals.

Regardless of the level of household income or employment circumstances, knowledge of financial fundamentals or financial literacy, a prudent savings plan that incorporates long-term goals, and sensible financial behaviours are skills that can be learned, practised and taught to household members to mitigate negative shocks that may arise. These important coping strategies are especially important in a country such as Australia, which provides only a minimal level of unemployment subsistence support upon entry into unemployment in the form of the JobSeeker program, at a much lower replacement rate than unemployment insurance, offered by many European countries.

According to the OECD (2005, p. 5), financial education programs should be designed to meet the needs and the financial literacy level of their target audience, as well as reflect how their target audience prefers to receive financial information. Financial education should be regarded as a life-time, on-going and continuous process, in particular in order to take account of the increased complexity of markets, varying needs at different life stages, and increasingly complex information.'

In our empirical analysis, we see that the highest levels of financial literacy and frequency of regular savings more than compensate for the negative shock of 'weather-related disaster damaged or destroyed home'. These skills are teachable and, indeed, the state of Victoria mandates this curriculum in its schools (Department of Education and Training, 2021). Similarly, NSW offers online learning with the 'Treasurer's Financial Literacy Challenge' intending to teach school children the real cost of standard purchases, such as cars, using real-life scenarios.

There are examples of government supporting voluntary additional savings for long-term goals. The Commonwealth government provides incentives through the Australian Taxation Office for savings for first home purchases in its First Home Super Saver Scheme. It allows Australians voluntarily to save money for a first home inside a person's superannuation fund (retirement savings), allowing first home buyers to take advantage of the concessional tax treatment of superannuation. Other voluntary additional payments into the superannuation scheme can be made with preferential tax treatment such as salary sacrifice contributions, voluntary payments into the scheme with government co-contributions, home downsizing payments for those aged 65 and over and spousal splitting of contributions (Australian Tax Office, 2022). From our empirical analysis, we see clearly that long-term savings provide additional financial security, which can be drawn from in times of financial need, especially if experiencing a negative shock with financial implications.

CONCLUSION

This study provides an overview of the Melbourne Institute's development and implementation of financial wellbeing scales for Australians in close collaboration with CBA. We also describe the growing adoption of the jointly developed Financial Wellbeing Scales in the academic community, and in an empirical application, examine how major life events and financial behaviours, attitudes and literacy explain perceived financial wellbeing.

The Financial Wellbeing Scales were carefully designed and rigorously tested, culminating in the 10-item CBA–MI Reported Financial Wellbeing Scale and the CBA–MI Observed Financial Wellbeing Scale (version 2). A short-form version of the Reported Scale was subsequently developed, leading to the 5-item Reported Financial Wellbeing Scale. This 5-item scale has since been included in Wave 20 of the HILDA Survey for the first time and has been used as a central outcome in academic journal publications.

In our empirical application, we found that some major life events are associated with higher or lower reported financial wellbeing. This is especially the case when experiencing a major financial worsening such as bankruptcy, which is related to significantly lower perceived financial wellbeing. In times of major crises, governments can play a key role in buffering economic shocks by implementing policies such as JobSeeker and JobKeeper to avoid the clearly negative shock of a 'major worsening in financial situation'. Importantly, however, the results suggest that good financial behaviours (saving regularly with a regular savings plan) and financial attitudes (longer time horizons in relation to savings and investment) are very strongly associated with higher financial wellbeing. Having sound financial behaviours is, therefore, an important way in which the financial wellbeing effects of negative major life events can be mitigated. Thus, preventative strategies for households to save systematically in 'good times' before crises eventuate are crucial to a successful coping mechanism. Policies that foster regular household savings or equity accumulation as a safeguard in times of economic downturn could be supported actively by government: for example, first-time home purchase, voluntary superannuation contributions up to a threshold and tax exemptions for 'locked in' regularly monthly savings up to a threshold.

It is important to note that in this study we use a single wave of cross-sectional data, and so none of the estimates reported can be interpreted as causal effects, rather only as non-causal associations. However, by focusing on life event shocks in this analysis (which embody a substantial degree of exogeneity to the people affected), we do have at least estimates that are likely to be indicative of the magnitude of potential causal effects. Nonetheless, the CBA–MI Financial Wellbeing Scales have enormous potential for use in both policy and academic settings, reflecting people's actual situation and the manner in which they manage their finances. The availability of longitudinal data on financial wellbeing will significantly expand the range of research questions that can be studied and will provide a stronger evidence base for estimating causal effects. Longitudinal analyses will be possible once the 5-item financial wellbeing scale is again included in the HILDA Survey in 2024.

Table 2.
Predictors of financial wellbeing.

	All	Only female	Only male
Life events			
Got married	1.584 (1.427)	3.185 (2.023)	0.348 (2.037)
Separated from spouse/long-term partner	1.086 (1.078)	0.930 (1.500)	0.974 (1.505)
Got back together with spouse/long-term partner after separation	−2.049 (2.242)	−4.860 (3.028)	3.204 (2.646)
Pregnancy/Pregnancy of partner	0.745 (1.081)	2.457 (1.503)	0.020 (1.329)
Birth/adoption of new child	0.034 (1.214)	−3.007 (1.788)*	2.947 (1.461)**
Serious personal injury/illness	0.220 (0.707)	1.452 (0.848)*	−1.080 (1.082)
Serious personal injury/illness to family member	−1.025 (0.502)**	−0.105 (0.630)	−2.054 (0.783)***
Death of spouse or child	−2.160 (1.904)	−1.973 (2.165)	−3.220 (3.506)
Death of close relative/family member	0.060 (0.571)	0.453 (0.728)	−0.296 (0.825)
Death of close friend	−0.198 (0.538)	−0.390 (0.733)	0.013 (0.767)
Victim of physical violence	−1.525 (1.279)	−1.462 (1.687)	−2.190 (1.926)
Victim of property crime	−1.997 (1.034)*	−2.153 (1.468)	−1.803 (1.403)
Detained in jail	1.506 (3.253)	4.723 (5.535)	−0.286 (4.192)
Close family member detained in jail	−0.326 (1.284)	1.159 (1.642)	−2.707 (2.078)
Retired from workforce	−1.184 (1.157)	0.670 (1.648)	−2.956 (1.569)*
Fired or made redundant	−1.180 (0.920)	−2.443 (1.297)*	−0.312 (1.238)
Changed jobs	−0.432 (0.641)	−0.887 (0.976)	0.268 (0.748)
Promoted at work	1.167 (0.730)	0.073 (0.870)	2.154 (1.172)*
Major improvement in financial situation	4.471 (0.798)***	4.421 (1.102)***	4.577 (1.180)***
Major worsening in financial situation	−11.872 (1.107)***	−12.205 (1.524)***	−12.948 (1.539)***
Changed residence	0.424 (0.633)	0.248 (0.844)	0.684 (0.910)
Weather-related disaster damaged or destroyed home	−4.262 (1.568)***	−3.320 (2.609)	−5.627 (1.866)***
Saving habits (Ref: Don't save: Spend more/as much as income)			
Save whatever is left over: No regular plan	13.195 (0.685)***	13.395 (0.887)***	12.821 (0.970)***
Spend regular income, save other income	17.942 (0.862)***	18.822 (1.079)***	16.863 (1.272)***
Save regularly by putting money aside each month	21.099 (0.755)***	21.702 (0.968)***	20.360 (1.095)***
Most important time for savings/investment (Ref: The next week)			
Next few months	2.468 (0.640)***	2.419 (0.853)***	2.495 (0.934)**
Next year	3.512 (0.740)***	3.761 (1.031)***	3.291 (0.988)***
Next 2-4 years	5.340 (0.709)***	5.492 (0.935)***	5.122 (1.033)***
Next 5 or more years	6.914 (0.761)***	7.191 (0.950)***	6.663 (1.136)***
Financial literacy	1.031 (0.156)***	1.229 (0.203)***	0.734 (0.225)***
Male	0.987 (0.388)**		
Number of observations	14,777	7,963	6,814
R-squared	0.446	0.445	0.460

Notes: Results represent OLS estimates of the predictors of Reported Financial Wellbeing on the 0–100 scale. Additional control variables included are a constant, age, education, labour force status, household equivalised annual disposable income, general- and mental health, whether a respondent has any resident children, marital status, housing tenure type, region of residence, immigrant status and Indigenous status. Robust standard errors are shown in parentheses. *** p < 0.01, ** p < 0.05, *, p < 0.10.

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