Household **debt** in Australia

AMP.NATSEM Income and Wealth Report Issue 9. November 2004

Household **debt** in Australia – Walking the **tightrope**

NATSEM

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Foreword

Walking the Tightrope

In the 1960s and 70s Australians were big believers in having a nest egg of savings set away for a rainy day, just in case.

Since then times have changed.

Not only have we forgone putting away a small part of our income on a regular basis, our level of household savings is now in the negative.

Today debt is a way of life with the average Australian household spending 2.3 per cent more than it earns each week.

And all forms of debt are on the increase. Home loans, other property loans, personal loans, HECS and credit card debt are all at record levels.

In 2002 the level of debt owed by Australian households represented almost 60 per cent of all economic activity in Australia.

For the average Australian household, debt management is a careful balancing act and financial resources are stretched to their limits.

The question is: is this sustainable?

Are we out of control with our spending or just pushing our debt management skills to their limit?

Have we invested too much in our homes and other residential property, at the expense of a more diverse and effective investment strategy?

The ninth AMP.NATSEM Income and Wealth Report investigates our relationship with debt and the profile of debt consumption in Australia.

This report reveals that as long as sickness or unemployment doesn't strike, most households should be able to cope, although the average Australian family's sensitivity to higher interest rates is much more acute than in the past.

While top-line figures suggest a picture of out of control consumption, a closer analysis of the data broken down by income and age reveals that debt levels are not shared evenly across the adult population.

Households that have clocked up the highest levels of debt also tend to be those best positioned to service it.

They're either at their peak years of earning capacity or they earn a higher than average income.

We're also pretty responsible at managing our debt. Over half the population uses their credit card wisely, paying off their balance every month, and the small minority who have clocked up credit card debt in excess of $10,000 tend to be those who earn the most.

Overall, while it's true we're cutting it pretty fine these days, most households should be okay.

However, in the good old days if times got bad there was always that nest egg to fall back on.

Today many families in Australia may not have left themselves that luxury.

Those households walking the debt tightrope without a safety net should seek professional financial planning advice in order to ensure they have adequate protection against the impact of a sudden loss of job, illness or the like which could tip them off balance.

AMP publishes these reports as a service to the community and to our customers, who make up one in four working Australians. The objective of this report is to make our readers aware of current trends, how these could affect them, and what steps to take to protect their income and future lifestyle.

Introduction

During the past 20 years we have been getting ourselves into more and more debt. Aided by spiralling property prices, the proliferation of credit cards with frequent flyer points and rewards programs and our appetite for DIY renovations, home theatre systems and new cars, in 2002 our combined debt was an estimated $431 billion.

In this edition of the AMP.NATSEM report we examine household debt in Australia looking in particular at:

- household savings (or lack of them)
- household debt by income and age
- housing loans by income and age
- use of credit cards
- personal loans, and
- HECS debts.

Recently released data shows that in 2002, Australian households owed $422 billion in housing and other loans and on credit cards.[1] And to this can be added the $9 billion that graduates owed in HECS debts.[2] This accumulated household debt amounted to just under 60 per cent of the value of Australia's Gross Domestic Product (that is, of all economic activity in Australia).

This amounts to a total debt of about $60,000 for each household in 2002 which, given an average disposable household income of about $46,000[3] means that the level of debt represents 1.3 years of income. This implies that many Australians will be burdened with high levels of debt for years to come.

Perhaps not surprisingly, these levels of debt have resulted in us, as a nation, spending more than we earn – our current net household savings rate is – 2.3 per cent.

1 Most of the information about households in this report is based on data from the Household Income and Labour Dynamics in Australia (HILDA) survey (see Technical Notes). These aggregate figures are a summation of the household values reported in the HILDA survey but are very close to those reported by the Reserve Bank of Australia.

2 HECS is the Higher Education Contribution Scheme, which is an income-contingent loan scheme for university students that helps to meet part of the tuition costs of such students. Students can pay 'up-front' with an accompanying discount, or repay the loan when their income reaches specified levels.

3 'Disposable' income means total income minus income tax.

Australian households are currently spending 2.3 per cent more than is coming into the average household each week in income.

1. **Debt** in Australia

In the 1960s and 1970s the ratio of net saving to disposable income (called the household savings ratio)[4] was generally above 10 per cent. In other words, we were following the advice of most financial planners by saving one-tenth of our after-tax income.[5] However, since the mid-1970s the ratio has been falling and, as Figure 1 shows, it is now negative. This means that, on average, Australian households are currently spending 2.3 per cent more than is coming into the average household each week in income. In essence, Australians are spending more than they are earning by going into debt.

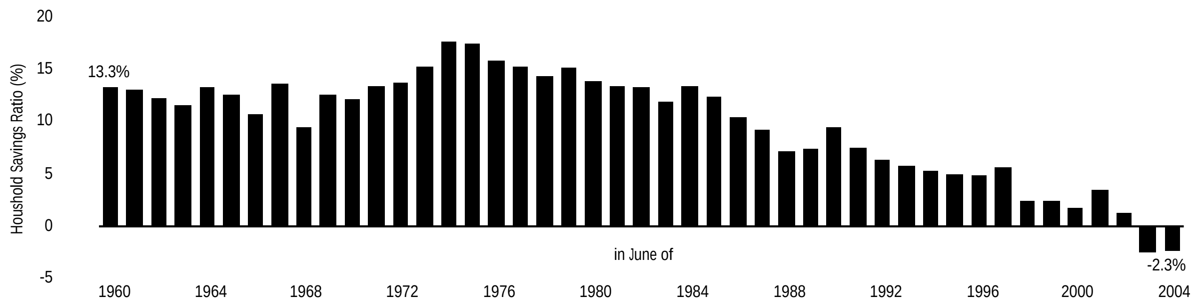
This negative saving ratio does not bode well for the future, as the population ages and the baby boomers start retiring. The Treasurer has questioned whether it is fair for retirees to rely on future taxpayers to fund the major part of their retirement, while people themselves have been spending rather than saving.[6] A previous AMP.NATSEM report on income, superannuation and debt pre and post retirement found evidence that many Australians were retiring early and spending what little superannuation they had accumulated, in the expectation that they would receive the pension when they reached pension age.[7]

Given that, on average, we are spending more than we are earning, it isn't surprising that all forms of debt are increasing. In 2002 an estimated:

- $279.4 billion was outstanding on home mortgages
- $85.4 billion was outstanding on other property loans
- personal loans (for travel, cars, etc) reached $49.9 billion
- the total HECS debt was $9.1 billion, and
- we had a credit card debt of $7.3 billion.

Together, this totals about $431 billion owed by Australian households to the private sector and Federal Government through HECS (Figure 2).

Figure 1. Household savings ratio, 1960 to 2004



Note: The graph shows household saving as a percentage of household disposable (after-income-tax) income.

Source: ABS 5204.0 Australian System of National Accounts, Table 1

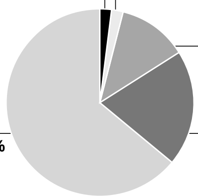
4 See the technical notes for a more complete definition and discussion.

5 This is also the savings level suggested in George S. Clason's classic book on saving and investing - "The Richest Man in Babylon".

6 Treasurer, 'Australia's Demographic Challenges' Speech, 25 February 2004.

7 Kelly, S., Farbotko, C., and Harding, A., 'The Lump Sum: Here Today, Gone Tomorrow', AMP. NATSEM Income and Wealth Report, Issue No 7, March 2004.

Figure 2. Estimated total household debt by type, 2002



Source HILDA Wave 2 confidentialised dataset

What types of households have incurred these debts?

As Table 1 shows, high income households generally have much higher debt levels than low income households. Households whose total income exceeded $100,000 a year accumulated an average debt of $143,000. This compared with an average debt of only $9,700 for households with incomes of between $1 and $20,000.

Table 1. Estimated household debt by disposable income, 2002

Annual disposable income	Home mortgage	Other property debt	HECS debt	Credit card debt	Other debt	Total debt
	$	$	$	$	$	$
Negative	54,300	26,600	600	4,400	7,400	93,400
Zero	8,900	7,400	700	200	900	18,000
$1-$20,000	5,600	1,500	900	400	1,400	9,700
$20-40,000	17,800	3,700	1,200	700	3,000	26,500
$40-60,000	34,600	8,400	1,300	1,100	5,700	51,100
$60-80,000	54,600	10,700	1,400	1,500	8,400	76,500
$80k-100,000	68,500	23,800	1,300	1,400	10,000	104,900
$100,001+	86,200	35,100	1,800	1,500	18,600	143,200
Overall	**39,100**	**12,000**	**1,300**	**1,000**	**7,000**	**60,300**

Source: HILDA Wave 2 confidentialised dataset

Note: The negative income values are unreliable due to the small number of observations in the survey.

Many households in Australia do not have any debts. These include those who prefer to remain debt free and older Australians who have paid off their debts. While the results in Table 1 for each particular type of debt are examined in more detail below, Table 2 shows the average debt only for those *Australian households who have some debt.* For those households who owed at least $1, the average debt was $93,500 per household – somewhat less than double the after-tax income of these households of $53,000.

The average debt levels of those with incomes between $1 and $20,000 a year and who have a debt was about $29,000, almost three times the average level for all households in this income range shown in Table 1. For households with incomes above $80,000 shifting from examining all households to only those with some debts increases average debt levels by about one-fifth. At the top end, households with debts and with average incomes of more than $100,000 a year had average total debts of just over $170,000.

Table 2. Average debt for households with some debt by disposable income, 2002

Annual disposable income	Home mortgage	Other property debt	HECS debt	Credit card debt	Other debt	Total debt
	$	$	$	$	$	$
Negative	86,400	42,200	1,000	7,000	11,800	148,400
Zero	29,100	24,400	2,200	600	2,900	59,100
$1-$20,000	16,800	4,600	2,600	1,200	4,100	29,200
$20-40,000	32,500	6,800	2,200	1,300	5,500	48,300
$40-60,000	47,700	11,600	1,800	1,500	7,900	70,500
$60-80,000	68,800	13,400	1,800	1,800	10,600	96,400
$80k-100,000	80,900	28,100	1,500	1,700	11,800	124,000
$100,001+	102,700	41,900	2,200	1,800	22,100	170,800
Overall	**60,600**	**18,500**	**2,000**	**1,600**	**10,800**	**93,500**

Source: HILDA Wave 2 confidentialised dataset

The negative income values are unreliable due to the small number of observations in the survey.

Are younger Australians more likely to go into debt than older Australians?

Figure 3 illustrates clearly that debt shows a pronounced pattern over the lifecycle. Half of the average debt of about $40,000 for households headed by an 18 to 24 year old is due to their home mortgage. Not surprisingly, this age group also has higher HECS debts than any of the older groupings, with an average debt of $4,500.

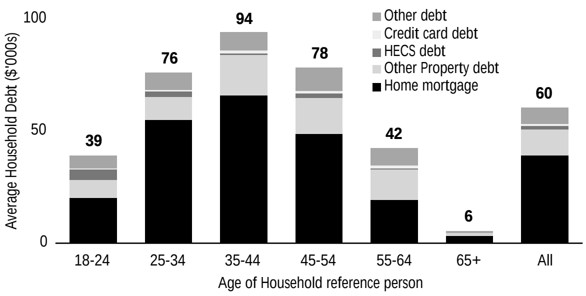
Average debt levels climb quickly as households make the leap into home ownership, rising to a peak of just under $95,000 where the head of the household is aged 35 to 44 years. After this point debt begins to fall, as households pay off their debt and begin to prepare for retirement. The average debt of households headed by an older Australian was very low, at only $5,600 a year (Table 3 and Figure 3).

Table 3. Household debt by age of household head, 2002

Age of household head	Home mortgage	Other property debt	HECS debt	Credit card debt	Other debt	Total debt
	$	$	$	$	$	$
18-24	20,300	7,900	4,500	500	6,200	39,400
25-34	54,900	10,400	2,100	1,200	7,500	76,100
35-44	65,700	18,300	700	1,400	8,100	94,200
45-54	48,600	16,500	1,500	1,400	10,300	78,300
55-64	19,300	13,400	800	1,000	7,900	42,400
65+	3,100	1,300	100	200	1,000	5,600
Overall	**39,100**	**12,000**	**1,300**	**1,000**	**7,000**	**60,300**

Source: HILDA Wave 2 confidentialised dataset

Figure 3. Household debt by age of household head and type of debt, 2002



Source: HILDA Wave 2 confidentialised dataset

Once again, average debt levels are higher if we look only at those who have at least one dollar of debt. This time the shift is most pronounced for older age groups, with the average debt of those aged 55 to 65 who have a debt being about $83,000, almost double the $42,000 apparent for all 55 to 65 year olds (Table 4). This age group is clearly divided into those who have no debt and those who still have substantial debt. Among those aged 65 years and over who have a debt, the average debt level is $31,000, with more than half of this being due to older Australians paying off their own home.

The most indebted households are those living in the nation's capital.

Table 4. Average debt for households with some debt by age of household head, 2002

Age of household head	Home mortgage	Other property debt	HECS debt	Credit card debt	Other debt	Total debt
	$	$	$	$	$	$
18-24	28,100	11,000	6,300	600	8,500	54,600
25-34	67,600	12,800	2,600	1,500	9,300	93,700
35-44	80,000	22,400	800	1,700	9,900	114,800
45-54	61,700	20,900	2,000	1,700	13,100	99,500
55-64	37,500	26,100	1,500	2,000	15,400	82,500
65+	17,000	7,200	400	1,200	5,300	31,100
Overall	**60,600**	**18,500**	**2,000**	**1,600**	**10,800**	**93,500**

Source: HILDA Wave 2 confidentialised dataset

Table 5. Average household debt by type and state/territory, 2002

	Home mortgage	Other property debt	HECS debt	Credit card debt	Other debt	Total debt
	$	$	$	$	$	$
NSW	44,400	14,500	1,100	1,000	6,200	67,100
VIC	38,100	11,200	1,500	900	7,100	58,800
QLD	34,800	12,000	1,200	1,200	7,700	56,800
SA	25,300	4,700	1,600	800	6,000	38,300
WA	42,900	13,300	1,300	1,300	8,300	67,100
TAS	19,800	1,400	1,600	900	3,600	27,200
ACT	60,600	17,000	1,200	1,000	15,000	94,800
Australia	**39,100**	**12,000**	**1,300**	**1,000**	**7,000**	**60,300**

Source: HILDA Wave 2 confidentialised dataset

Note: NT not shown because of sample size.

A state by state comparison of debt is shown in Table 5. While it might be expected that the high housing prices in New South Wales would give households in that state the highest level of debt, the most indebted households are those living in the nation's capital. The average household in the ACT has a $94,800 debt. Households in New South Wales and Western Australia are the next highest with an average household debt of $67,100. The state with the lowest level of debt is Tasmania with $27,200 per household followed by South Australia with $38,300.

This order appears to reflect the household income profiles of the various states and territories. The ACT has the highest average household disposable incomes ($62,200) and has the highest average debt, while Tasmania has the lowest household disposable income ($38,800) and the lowest household debt.

Table 6. Household debt to disposable income ratio by state/territory, 2002

	Disposable income	Debt	Ratio
	$	$	
NSW	47,700	67,100	1.4
VIC	46,300	58,800	1.3
QLD	43,900	56,800	1.3
SA	39,900	38,300	1.0
WA	43,700	67,100	1.5
TAS	38,800	27,200	0.7
ACT	62,200	94,800	1.5
Australia	**45,700**	**60,300**	**1.3**

Source: HILDA Wave 2 confidentialised dataset

Note: NT not shown because of sample size.

In addition to the higher disposable incomes in the ACT, it appears there is a greater tolerance to debt with a debt to disposable income ratio of 1.5 (Table 6). This level is equal to the highest in the country and ensures ACT households have the greatest debt.

The high disposable income in the ACT allows a higher proportion of households to buy a home and incur mortgage debt. As Table 7 shows, 45 per cent of households in the ACT have a mortgage whereas it is only 31 per cent in NSW, and 32 in Tasmania.

Table 7. Proportion of households with debt by type and state/territory, 2002

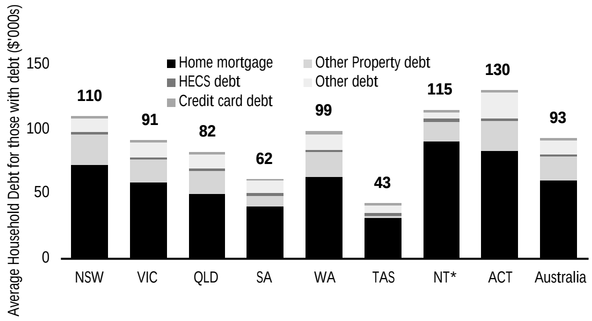
	Proportion of households with some debt					
	Home mortgage	Other property debt	HECS debt	Credit card debt	Other debt	Any of these types of debt
	%	%	%	%	%	%
NSW	31.3	7.4	10.1	29.1	27.2	61.0
VIC	34.8	7.5	14.6	28.6	27.9	64.3
QLD	35.6	9.9	13.9	34.0	36.9	68.9
SA	32.5	5.2	14.3	26.6	31.7	61.9
WA	39.5	8.5	13.2	32.6	32.5	68.1
TAS	31.9	4.0	14.0	29.4	35.1	63.3
ACT	45.4	7.6	11.4	31.2	34.9	72.7
Australia	**34.3**	**7.8**	**12.8**	**30.2**	**30.6**	**64.5**

Source: HILDA Wave 2 confidentialised dataset

Note: NT not shown because of sample size.

Overall in Australia, two-thirds of households (64.5 per cent) have some form of debt. As mentioned, the ACT has the higher proportion with mortgages. Queensland households are most likely to have other property loans, with those from Western Australia not far behind. The highest proportions of households with HECS debts are found in Victoria while Queenslanders have the highest proportion of credit card debt.

Figure 4. Average debt for those households with debt by type and state/territory, 2002



* NT is not considered reliable because of the small sample taken in that territory.

Data source: HILDA Wave 2 confidentialised dataset

An average full-time worker buying a home in 2004 is taking on a debt that is 50 per cent larger in comparison with their wages than those buying a home in 1994.

2. Housing **loans**

Household debt in the form of a home mortgage has increased significantly in the last decade. The average mortgage for owner-occupation taken out in August 2004 was $205,600. This is more than double the average mortgage a decade before in 1994 of $91,200. Even if increasing wages are taken into consideration, the burden of a mortgage has increased. In 1994 the average home mortgage represented 2.8 years of full-time wages ($617.50 per week).[9] In 2004 the average mortgage represents 4.2 years of wages ($949.50 per week). An average full-time worker buying a home in 2004 is taking on a debt that is 50 per cent larger in comparison with their wages than those buying a home in 1994.

In some states the levels of debt are even greater (see Table 8). For example, in New South Wales the average mortgage represents 5.1 times the average wage and in the ACT it represents 4.6 years of wages.

It could be argued that interest rates were higher in 1994 than now and so the table is not giving an accurate picture. It is true that interest rates were higher in 1994 but not that much higher (the average home loan interest rate was 8.75 per cent in August 1994 compared with 7.05 per cent in August 2004). Using the average loan, the appropriate interest rate and average income at the time, in 1994 a home loan repayment was 1.21 times the average wage. Today it is 1.52 times the average wage.

Table 8. Owner-occupied mortgage commitments, 1994 and 2004

	Average Mortgage		Increase 1994-2004	Mortgage to Wage ratio	
	1994	2004		1994	2004
	$'000s	$'000s	%	X avg wage	X avg wage
NSW	106.7	252.6	137%	3.3	5.1
Vic	81.7	203.4	149%	2.5	4.1
Qld	88.1	198.2	125%	2.7	4.0
SA	77.1	151.9	97%	2.4	3.1
WA	90.5	165.1	82%	2.8	3.3
Tas	64.2	134.5	110%	2.0	2.7
NT	93.6	171.5	83%	2.9	3.5
ACT	97.3	225.3	13%2	3.0	4.6
Australia	**91.2**	**205.6**	**125%**	**2.8**	**4.2**

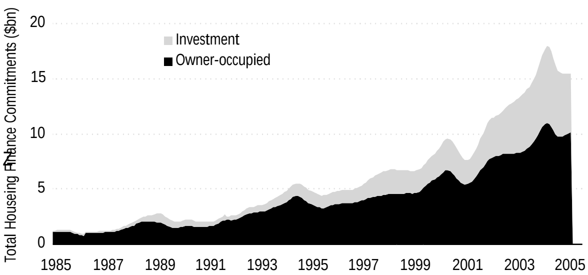
Note: Amounts refer to the financial commitments in the months of August 1994 and August 2004. The final two columns show the average mortgage in each state and territory as a multiple of the national average full-time wage (not the average wage within each state and territory).

Source: Author's calculations based on ABS 5609.0 Housing Finance Tables 9a, 9b and ABS 6302.0 Earnings, Australia Table 10g Average Weekly Ordinary Full-time Earnings

[9] Average weekly earnings in August 2004 (ABS 6302.0 Table 10g - Full Time Adult Ordinary Time Earnings)

According to the Australian Bureau of Statistics (ABS), $10.5 billion was committed to housing and renovation loans in the month of August 2004, up 158 per cent on the $4.1 billion committed ten years earlier (see Figure 5 for trend). And loans for residential property investment have increased by 325 per cent over the same period (from $1.3 billion to $5.6 billion). This growth in investment loans has resulted in the proportion of housing loans being used for investment purposes rising from one-quarter of all loans in 1994 to 35 per cent in August this year. The peak proportion of 40 per cent of all housing loans being for investment properties was reached in the second half of 2003.

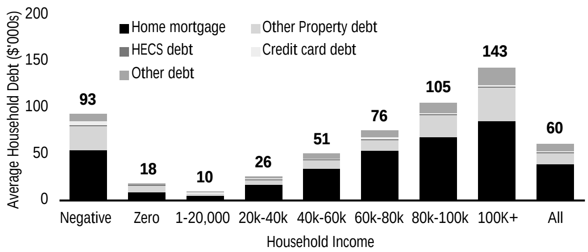
Figure 5. Monthly housing finance commitments, January 1985 to August 2004



Source: ABS 5609.0 Housing Finance Commitments, Table 11, Trend values.

As Figure 6 shows clearly, the home mortgage remains the key source of debt for Australian households, amounting to between about 60 and 70 per cent of total debt across all incomes. As household income increases, the appetite for investment properties also grows. The total value of loans for residential investment property rises from around 12 per cent of disposable income for households whose gross incomes ranges between $1 and $40,000 to about 26 per cent of disposable income for those whose incomes exceed $80,000.

Figure 6. Household debt by disposable income and type of debt, 2002



Source: HILDA Wave 2 confidentialised dataset and Table 1

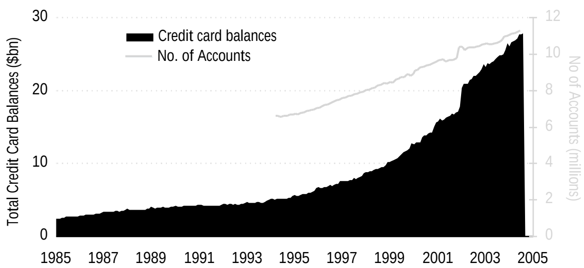
Note: The negative income values are unreliable due to a small number of observations in the survey.

The first illusion that is shattered is that every young person has a credit card.

3. **Credit** cards

In August 2004, Australians owned 11.3 million credit cards – and there are only 15 million people aged 18 and over. These cards have a combined credit limit of $74.8 billion. Fortunately not everyone has 'max-ed out' their credit card and the amount outstanding in August 2004 was a little over one-third of the limit at $27.8 billion; with interest being paid on $19.5 billion.

Figure 7. Number of accounts and total credit card balances, January 1985 to August 2004



Note: The RBA statistics shows all credit cards, including those owned by businesses. For this reason the totals shown in this figure are higher than the **household** credit card debt values quoted in the text.

Data source: RBA Statistics Bulletin Table C01 Credit and Charge Card Statistics

These numbers suggest that the average credit card has a limit over $6,000, and a balance owing at the end of August of nearly $2,500 of which $1,700 will accrue interest. But as will be shown averages can be quite deceptive.

Who's got a credit card?

According to the HILDA survey (see technical notes for a description) there are 8.8 million Australians who have a credit card and use it at least monthly (61 per cent of the adult population). While it is perhaps not unexpected that over half of the adult population has a credit card, the proportions by age shown in Table 9 are a bit surprising. The first illusion that is shattered is that every young person has a credit card – the reality is that only one-third of those aged 18-24 have one. It seems that the biggest owners of credit cards are those aged 35 to 54 years – almost three out of four in this age group have a credit card and use it at least monthly (71 per cent of those aged 35 to 44 and 72 per cent of those aged 45 to 54).

Table 9. Credit card holders by age, 2002

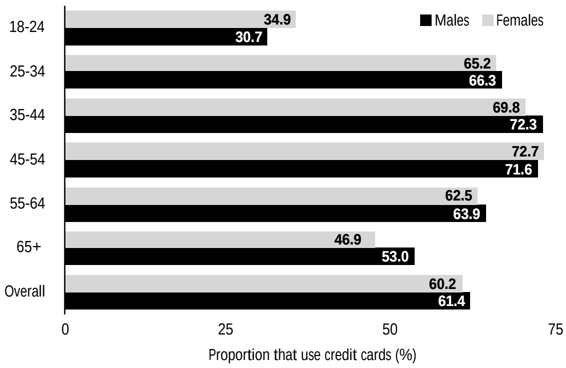
	Have a credit card or store card and use it at least monthly	Do not have a card
	%	%
18-24	32.8	67.2
25-34	65.7	34.3
35-44	71.0	29.0
45-54	72.2	27.8
55-64	63.2	36.8
65+	49.7	50.3
Total	**60.8**	**39.2**

Source: HILDA Wave 2 confidentialised dataset

The other surprising feature of Table 9 is that half of all people aged 65 and over have a credit card and use it regularly. Not only does a large proportion of this age group have a card but, as we shall see in the next section, they use it very wisely.

Are women born to shop and use credit cards, as so many husbands allege? No doubt surprising many, men are slightly more likely to own a credit card than women. Sixty-one per cent of men hold a credit card versus 60 per cent of women. Within certain age groups, however, there are greater differences. For example, the credit card appears to be more popular with young women than young men (only 31 per cent of men aged 18-24 versus 35 per cent of women of the same age). For older Australians the difference is reversed, with 53 per cent of men aged 65 years and over having a card against 47 per cent of women of the same age.

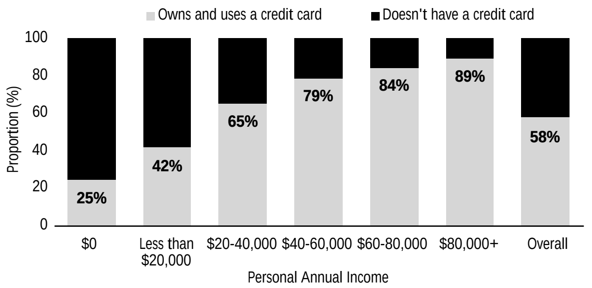
Figure 8. Users of credit cards by age and gender



Data source: HILDA Wave 2 confidentialised dataset

As might be expected, the proportion of people with a credit card rises in line with income. Figure 9 shows the proportion owning and using credit cards by annual income. Only 38 per cent of those with no personal income owned and used a credit card while 89 per cent on incomes of $80,000 and above used a credit card.

Figure 9. Proportion of adults with credit cards by income, 2002

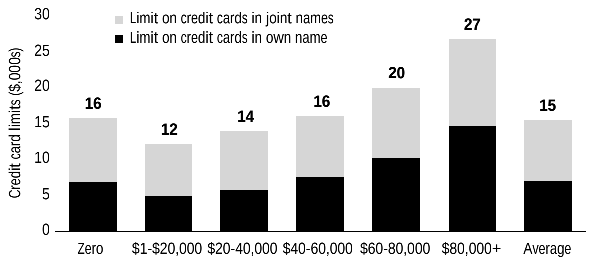


Source: HILDA Wave 2 confidentialised dataset

Credit card limits

Earlier we stated that the average credit card limit was $6,600, but many people have access to more than one card – they either have more than one in their own name or they hold cards jointly.

Figure 10. Total credit card limits (own name and joint) by personal income, 2002



Source: HILDA Wave 2 Confidentialised Dataset

Figure 10 shows the sum of the average credit card limits to which a person has access (that is it adds cards in their own name and cards in joint names) and presents a very different total credit limit – almost more than double the original figure at $15,000. Figure 10 plots the credit card limit against income and finds that in the lower income ranges credit limits are equal to more than six months salary for many people.

More than half of those with credit cards pay off the entire balance every month.

Who’s paying off their credit card balance?

The high levels of credit card usage isn’t all good news for credit providers as ownership of a credit card does not necessarily imply a person is in debt. More than half (56 per cent) of those with credit cards pay off the entire balance every month. These people are gaining the benefits of a credit card without incurring the associated costs or allowing a debt to build up.

Those with the best record of paying off their credit card are men and older Australians. Table 10 shows that 57 per cent of males ‘always’ pay off the entire balance of their credit card, while only 54 per cent of females always do (or is it just that women are more honest in answering survey questions). Table 10 also shows that almost 18 per cent of females ‘hardly ever’ pay off the entire balance of their credit card, compared with 16 per cent of males.

Table 10. How often entire credit card balance is paid off by gender, 2002

	Male	Female	Persons
	%	%	%
Hardly ever or never	16.1	17.6	16.8
Not very often	10.5	11.4	10.9
About half the time	6.2	7.0	6.6
Most months	10.2	9.9	10.0
Always or almost always	56.9	54.2	55.6

Source: HILDA Wave 2 confidentialised dataset

People aged 65 and over are nearly twice as likely to ‘always’ pay off the entire balance of their credit cards than people aged between 18-24 years. As the final column of Table 11 illustrates, there is a positive relationship between age and people that ‘always’ pay off the entire balance of their credit card. This relationship suggests that the elderly are less likely to take on debt than younger generations.

Table 11. How often entire credit card balance is paid off, by age, 2002

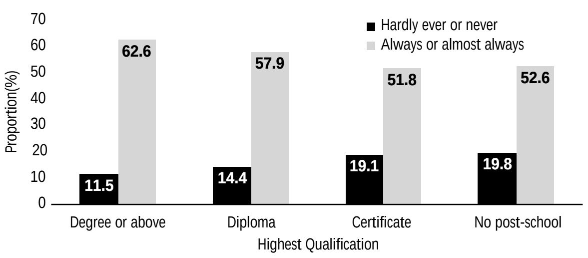
Age of credit card holder	Frequency of paying off entire balance of all credit cards				
	Hardly ever or never	Not very often	About half the time	Most months	Always or almost always
	%	%	%	%	%
18-24	20.3	13.2	7.2	15.1	44.1
25-34	20.6	13.9	8.5	11.1	45.9
35-44	20.2	13.1	7.3	12.2	47.1
44-54	15.8	11.1	7.5	9.2	56.4
55-64	12.7	7.1	5.4	8.1	66.7
65+	8.2	4.2	1.5	4.8	81.3
Overall	**16.8**	**10.9**	**6.6**	**10.0**	**55.6**

Source: HILDA Wave 2 confidentialised dataset

This reluctance to incur debt by older Australians is also evident in the very low proportion (one in twelve or 8.2 per cent) that ‘never’ pay off their credit card. This compares with one in five for younger people.

There seems to be a clear link between education and the proportions of people paying off their credit card. From the survey data, people who do not have post-secondary school qualifications are at greater risk of going into debt than those with post-school qualifications. For example, Figure 11 shows that the proportion who ‘always’ pay off the entire balance of their credit card is highest for those with a degree or higher qualification (63 per cent) and lowest for those with certificates and no post-school qualifications (52 per cent). Similarly, only about one-tenth of those with degrees ‘hardly ever’ pay off the balance of their credit card (12 per cent) - while one-fifth of those with no post-school qualifications ‘hardly ever’ manage to pay off their credit card debt.

Figure 11. Highest education level for those who ‘hardly ever’ and those who ‘always’ pay off entire credit card balance



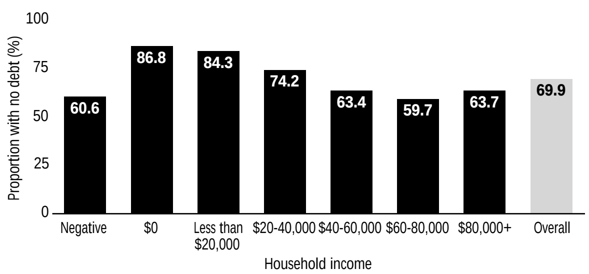
Source: HILDA Wave 2 Confidentialised Dataset

The distribution of credit card debt

The story so far – Australia has a huge credit card debt with 61 per cent of adults using a credit card, but more than half of those people with cards almost always pay the entire balance off. This suggests that the picture could be quite bleak for those who don’t pay off their card. However, the picture may be distorted because we are analysing individuals rather than households. We’ll now look at debt levels at the household level.

When households are considered, the proportion with no credit card debt increases to 70 per cent (see Figure 12); that is multiple credit cards in debt tend to be in one household. However households with debt are influenced by age, income and household type.

Figure 12. Households with no credit card debt by household income, 2002

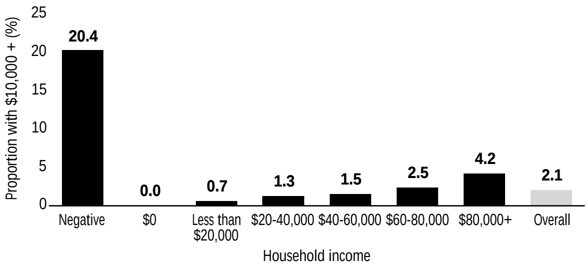


Source: HILDA Wave 2 Confidentialised Dataset

Note: The negative income values are unreliable due to the small number of observations in the survey.

Somewhat surprisingly, Figure 12 shows that the proportion of households with no credit card debt decreases as household income increases (with the exception of households with incomes greater than $80,000 pa). This may reflect the easing of restrictions on credit as income increases.

Figure 13. Households with $10,000 or more credit card debt by household income, 2002



Source: HILDA Wave 2 Confidentialised Dataset

Note: The negative income values are unreliable due to the small number of observations in the survey.

The proportion of households with a credit card debt over $10,000 (Figure 13) also reflects the higher availability of credit and debt as income increases. Less than one per cent of households with an income of less than $20,000 had a credit card debt of over $10,000. However, this proportion grew steadily with increasing income to 4.2 per cent for households with incomes over $80,000.

Table 12. Household credit card debt by age of head of household, 2002

	Level of credit card debt				
Age of head of household	**No Debt**	**<$1000**	**$1-5,000**	**$5-10,000**	**$10,000+**
	%	**%**	**%**	**%**	**%**
15-24	71.5	12.1	14.5	1.8	0.1
25-34	62.5	9.3	20.6	5.3	2.3
35-44	60.2	10.2	20.1	6.3	3.2
44-54	64.8	9.3	16.8	6.0	3.1
55-64	74.2	6.6	13.0	3.7	2.4
65+	89.3	5.0	4.4	1.1	0.1
Overall	**69.9**	**8.5**	**15.2**	**4.4**	**2.1**

Source: HILDA Wave 2 confidentialised dataset

The distribution of credit card debt by age of household shows a similar picture to the earlier personal distribution. The majority of households of all ages do not have any credit card debt (Table 12) and heavy credit card debt is particularly rare with the young and old. Households in the 35 to 54 age range are most likely to have moderate ($5,000 – $10,000) or heavy debt ($10,000+).

This may reflect the easing of restrictions on credit as income increases.

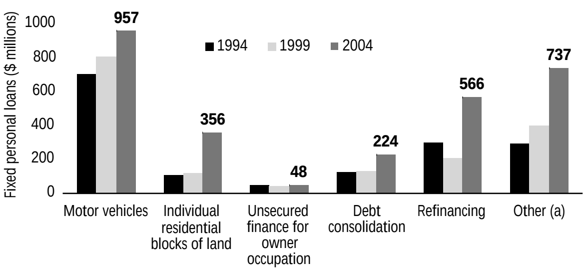
Over one-third of women aged 18-24 have a HECS debt, in comparison with only one-quarter of men of the same age.

4. Other forms of **debt**

Personal loans

In addition to the growth in housing loans and credit card debt, there has also been significant growth in personal (fixed) loans. The uses of these loans are varied but loans for motor vehicles, blocks of land, debt consolidation and refinancing are common. In August 2004, a total of $2.8 billion was committed to personal fixed loans - up 84 per cent on 1994 ($1.5 billion). In 1994 almost half of these loans (45 per cent) were for car purchases, but in 2004 only one-third (33 per cent) were motor vehicle related. The proportion used for debt consolidation and refinancing stayed the same, at just over one-quarter (27 per cent) while the proportion used for 'other' purposes such as travel and household goods increased from 18 to 26 per cent over the decade.

Figure 14. Personal financial commitments (fixed loans), selected months



(a) Other includes boats, caravans and trailers, household goods, travel and holidays and other purposes.

Source: ABS 5671.0 Lending Finance, Australia, Table 4, Original values.

As shown in Table 1 and Figure 4, other debt amounts to a relatively low proportion of total debt, accounting for just under 12 per cent of the total debt burden of the average household. There is relatively little variation in personal loans across the income spectrum. But there are pronounced differences by age, with both the very young aged 18 to 24 and mature Australians aged 55 and over being much more likely to accrue this form of debt than those during their peak working years (Table 4).

HECS debts

Many of those who have undertaken tertiary studies are also facing another type of debt – HECS or the Higher Education Contribution Scheme. Some students – or their parents – pay this debt 'up-front', so that they do not graduate with large debts owing to the Federal Government. Others repay part or all of their HECS debt after they have completed their studies and when their income reaches particular thresholds. Table 13 reveals that over one-third of women aged 18-24 have a HECS debt, in comparison with only one-quarter of men of the same age.

Why are women more likely than men of this age to have a HECS debt? This partly reflects the 'feminisation' of many undergraduate studies, with women outnumbering men in many undergraduate courses. It may also be possible that more men than women pay 'up-front' or that they pay off their HECS debts sooner, due to their higher average salaries. The gender gap is less pronounced by the time graduates enter their late 20s and early 30s, with about 15 per cent of males and just under 20 per cent of females still paying off HECS debts. Later in the lifecycle, by the time graduates reach 45 years, only about one in every 100 are still paying off their HECS debts.

Table 13. Proportion of Australian adults with a HECS debt, 2002

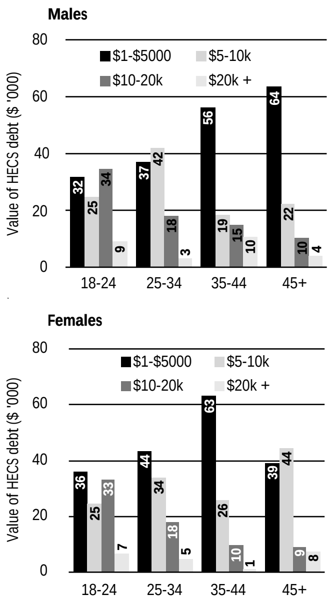
	Proportion with a HECS debt		
Age Range	**Males**	**Females**	**Persons**
	%	**%**	**%**
18-24	24.4	35.0	29.6
25-34	14.5	19.2	16.8
35-44	4.2	6.1	5.2
45+	1.0	1.2	1.1
Overall	**7.6**	**10.1**	**8.8**

Source: HILDA Wave 2 Confidentialised Dataset

How much is owed by those who still have a HECS debt?

At age 18 to 24, men are more likely than women to owe $20,000 or more and women are more likely than men to have smaller HECS debts of between $1,000 and $5,000. By age 25 to 34, the proportion of males still facing a HECS debt of more than $20,000 has plummeted, reaching much the same level as for women. At these ages graduates have made substantial inroads into their debt, with the proportion of men and women with HECS debts of less than $10,000 being about 12 to 15 percentage points higher than for graduates in their early 20s. By the time graduates reach age 35 to 44, about six in every 10 have worked hard to reduce their remaining debt to less than $5,000. As shown earlier, by age 45 and over only about one per cent of Australian adults have a HECS debt – but about one in every six or seven of these still owes more than $10,000.

Figure 15. Distribution of debt for those with a HECS debt



Data source: HILDA Wave 2 Confidentialised Dataset

5. Conclusions

In aggregate, the amount of debt owed by Australians is high. If housing loans, credit card debt, other personal forms of debt and HECS debts are added together, Australians owed an estimated $431 billion in 2002. This represents just under 60 per cent of the value of all economic activity in Australia. If all Australians suddenly decided that they wanted to go on a spending spree, they could put about another $50 billion on their credit cards in a single month. No wonder consumers are such a powerful group within the economy!

While these figures may sound large, the total debt of the average household is about 1.3 times their average income after paying income tax. So long as sickness or unemployment doesn't strike, most households will be able to cope with this level of debt.[10] For the government, however, the high levels of debt among some baby boomers heading for retirement is a concern and there is an urgent need to increase household saving as we face the fiscal challenges associated with population ageing.[11]

Despite total household debt being at much higher levels than in the past, many Australians appear to be using their credit cards very responsibly. Half pay off their entire credit card bill each month and the majority of households within each income range do not have any credit card debt.

On the other hand, about five per cent of those with household incomes above $60,000 owe $10,000 or more on their credit card and the proportion reporting that they 'almost never' pay off their credit card debt is higher for the young and the less well educated.

10 The links between health and income were explored in Walker, A., Kelly, S., Harding, A., and Abello, A., 'Does Your Wealth Depend on Good Health? Health and Income in Australia', AMP-NATSEM Income and Wealth Report, Issue No 4, March 2003.

11 Treasury, 2002, Budget Paper No. 5, Intergenerational Report 2002-03, May.

5. Technical notes and definitions

The HILDA Survey

The Household, Income and Labour Dynamics in Australia (or HILDA) Survey is a household-based panel survey conducted by the Melbourne Institute at the University of Melbourne for the Department of Family and Community Services. The survey tracks all members of an initial sample of households over an indefinite life. It is intended that the HILDA Survey will collect data in three main areas: economic and subjective wellbeing, labour market dynamics and family dynamics. The first wave of the survey was conducted in the second half of 2001 and the second wave in 2003. More details are available from www.melbourneinstitute.com

Who is the household responding person?

Each member of a household over the age of fifteen is a 'responding person'

A household

A household is defined as a group of people living under the same roof who share meals.

A user of a credit card

A person is defined in this report as using a credit card if they have a credit card or store card and use it at least monthly.

Household savings ratio

The ratio of household net saving to household net disposable income is called the household saving ratio. Net household disposable income is the amount of income that households have available for spending after deducting from total income any taxes paid, interest and property payments, current transfers, and consumption of fixed capital. Household net saving is calculated by deducting household final consumption expenditure and consumption of fixed capital from household disposable income.

If total net saving in the domestic economy and consumption of fixed capital is not enough to cover planned investment, then the nation must borrow from foreign countries to finance its investment. Historically, Australia has relied heavily on foreign borrowing to finance its investment.

AMP.NATSEM Income and Wealth Reports:

- Money, money, money, – is this a rich man's world?
- Trends in taxable income (February 2002)
- Live long and prosper? – The income and wealth of those about to retire (May 2002)
- All they need is love…and about $450,000 – The costs of children in Australia today (October 2002)
- Does your wealth depend on good health? – Health and income in Australia (March 2003)
- You can't rely on the old folks' money – Wealth and Inheritance (June 2003)
- Generation Xcluded – Income and wealth of Generation X (November 2003)
- The lump sum: Here today, gone tomorrow – Income, superannuation and debt pre and post retirement (March 2004)

All the above reports are available from www.amp.com.au/ampnatsemreports

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