pensionbriefing

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THE UNIVERSITY OF AUCKLAND
BUSINESS SCHOOL

Household wealth in Australia and New Zealand

RPRC *PensionBriefing* 2010-5

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The debate in New Zealand about compulsory private provision has re-started. Advocates for compulsion point to Australia as a success story; it has had full compulsion for 18 years and a lesser version for a further six years. Despite claims to the contrary, households' assets and liabilities in the two countries seem to share more overall similarities than differences.

In summary

PensionBriefing 2010-2 (*What do New Zealanders own and owe? News from SoFIE 2004-2006*) looked at 2006 data from the Survey of Family, Income and Employment (SoFIE). This is the most recent information from an eight-year longitudinal study that, every two years, looks at what New Zealanders own and owe. The *PensionBriefing* (available here) noted that New Zealanders as a whole had (in 2006):

- a lot less in housing of all kinds than many suppose (about 46% of all net assets);
- less debt than statistics often represent (about 14% of total assets);
- more in businesses and financial investments than critics suggest.

Australia has its equivalent to SoFIE – the Household, Income and Labour Dynamics in Australia (HILDA). In 2009, the Australian Government published a commissioned report on data from the latest wealth module of the HILDA Survey, conducted in 2006. *Families, Incomes and Jobs, Volume 4: A Statistical Report on Waves 1 to 6 of the HILDA Survey* (Wilkins, Warren et al. 2009) looks at households as a whole in 2006 to see what they owned and owed.

This *PensionBriefing* looks at the Australian equivalent numbers to SoFIE's. Superannuation assets are clearly greater in Australia as a proportion of household's net assets but business and other assets in New Zealand are greater. There are other differences but the overall similarities are striking. Given the comparatively similar makeup of populations and institutions, compulsion aside, the similarities should probably be expected.

Background

SoFIE is a longitudinal survey conducted by Statistics New Zealand over an eight year period, 2002-2010. It collects financial data about individual New Zealanders every two years during that period, starting in 2004. Because the same individuals supply information during the whole period, the collection of 'snapshots' at each collection date can be 'joined together' to give a picture of how participants change their position over the period.

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[1] This is a revised version of *PensionBriefing 2010-5* because the original drew on the wrong data set from the Australian HILDA survey; our thanks to Andrew Coleman for drawing our attention to the error. In summary, the detailed information from the correct HILDA data is different from that originally used but the conclusion of the original version of this *PensionBriefing* is broadly the same.

HILDA is Australia's equivalent.

Comparisons of any kind between any two countries are problematic because of the very different environments. For example, with respect to retirement saving and income issues, New Zealand has a universal state pension whereas Australia's is both income- and asset-tested. That affects the way Australians make saving decisions over and above those they are forced to make through the compulsory Tier 2 scheme. If comparisons of retirement saving wealth were to be made, the net value of State entitlements would form an important part on both sides of the Tasman but more so for New Zealanders (relatively more generous pension; no income or asset tests).

Even line-item comparisons of asset ownerships between HILDA and SoFIE are difficult because of different data classifications. With those qualifications uppermost, there seem to be lessons from even a cautious comparison.

Longitudinal surveys

Longitudinal surveys like SoFIE and HILDA are complex to organise and analyse but can give rich insights into behaviour, particularly changes in behaviour. For example, although SoFIE was not planned around KiwiSaver, the eight years of data gathering (2002-2010 for the information about assets and liabilities) straddle the period before KiwiSaver started, during its introduction and will cover the first three years of KiwiSaver after it started in 2007.

SoFIE's sample size started in 2002 at more than 22,000 individuals living in 11,500 households. Every two years, SoFIE collects financial information. The most recently analysed data relate to 2006. This *PensionBriefing* uses an analysis of the SoFIE 2006 data from a recent Motu report of "means and medians of assets and liabilities"[2].

HILDA originally (2001) covered 7,682 households and 15,127 adults (age 15+). By 2006, the covered population had reduced to 10,085 individuals. The wealth module was added for the first time in 2002 and became Australia's first large-scale survey of household wealth since 1915.

Both surveys are in relatively early days and the quality of the information and confidence in conclusions will improve over time. Any analysis of this kind must be subject to a number of caveats and these were noted in the Treasury paper that first reported saving and wealth information from 2006 (Scobie and Henderson 2009). Also, though both SoFIE and HILDA are longitudinal studies, this *PensionBriefing* compares two 'snapshots' – the assets and liabilities in both countries for just 2006.

Australia is a richer country

Before looking at the comparisons, it must first be emphasised that Australia is a somewhat wealthier country than New Zealand and so its households own somewhat more than New Zealand's equivalents. In 2006 according to HILDA, the mean Australian *household* had net assets of $A664,867. New Zealand's SoFIE, on the other hand, measures wealth at an *individual* level and the 2006 mean was $NZ223,022.

[2] Le, Gibson and Stillman Le, T., J. Gibson, et al. (2010). Household Wealth and Saving in New Zealand: Evidence from the Longitudinal Survey of Family, Income and Employment. Motu Working Paper, Motu Economic and Public Policy Research. 10-09.

The two numbers are obviously not comparable but even on a household basis[3], the New Zealand total will be rather lower, especially after allowing for the currency difference. That extra wealth is, like the higher incomes Australians earn, the result of a number of things. However, the different measurements are not material to the comparisons used in this *PensionBriefing* because we look at all assets and all liabilities across all respondents in each survey to analyse patterns of behaviour.

Overall household assets and liabilities: HILDA vs. SoFIE

Table 1 puts the 2006 results from HILDA and SoFIE side by side. It uses the mean numbers from each of the surveys – this is the arithmetic average and so disguises the dispersion of assets and liabilities around the medians. However, the mean numbers show what all respondents in each of the surveys as a group own and owe. It is as though we are looking down on the whole of each country from an 'economic helicopter': that is the purpose of this analysis. Table 1 does not illustrate what *each* household/individual owns and owes on average but rather the mix of assets and liabilities for *all* households/individuals as a group. Given that both HILDA and SoFIE collect similar information in similar ways, the strengths and weaknesses underpinning Table 1's analysis for each country (and each category of asset/liability) should, subject to definitional issues discussed below, be reflected across both.

Median numbers on the other hand show the 'mid point' respondent; where 50% of respondents are above that point and 50% below. In Australia, the *median* total household net value is only 57% of the *mean*. SoFIE cannot supply an equivalent because it measures by individuals, rather than by households. However, the New Zealand household median is also likely to be somewhat lower than the household mean.

Table 1 also focuses on percentage holdings in the various asset classes to understand patterns of ownerships and borrowings across all respondents as a group.

Table 1: HILDA and SoFIE side-by-side

	HILDA 2006		SoFIE 2006	
Asset class (see notes)	**As % gross assets**	**Net as % total net**	**As % gross assets**	**Net as % total net**
Primary residence	42.6%	39.8%	40.1%	46.2%
Real estate (not businesses)	18.0%	17.0%	11.2%	
Pensions/superannuation	15.8%	19.1%	1.8%	2.1%
Businesses & farms (note 9)	7.7%	7.6%	19.2%	22.2%
Shares, managed funds etc	5.6%	6.8%	8.0%	9.3%
Bank accounts	10.4%	9.7%	4.1%	4.6%
Cars other vehicles			2.5%	16.6%
Other assets			13.0%	
Liabilities (see notes)				
Housing	9.7%	n.a.	11.5%	n.a.
Other real estate	4.0%			
Businesses/farms	1.5%	n.a.	See note 9	n.a.
Student debt	n.a.	n.a.	0.6%	n.a.
Credit card debt	0.2%	n.a.	0.3%	n.a.
Finance companies etc	2.2%	n.a.	1.5%	n.a.
Total as % gross assets	**17.6%**		**13.9%**	

3 There were an average 1.91 'adults' (age 16+) in each SoFIE 'household'. Only those over age 15 were included.

Notes on asset and liability categories: HILDA vs. SoFIE

Each of the two surveys categorises some assets in different ways. Generally, SoFIE is more explicit in the different types of assets covered[4].

A first general observation on the analysis for each country is that Table 1 attempts to match specific asset categories with the appropriate liability category in order to calculate net assets. That relationship is not always clear. For example, SoFIE separates out cars/vehicles as an asset class but not the debt used to finance them.

A number of other aspects justify comment:

1. **Primary residence:** In the report, the HILDA data distinguish between the primary residence and other types of property (both the asset and the debt in respect of each) but SoFIE's separates only the asset. Of the 51.3% of gross assets in SoFIE's 'Housing and other property' (46.2% of net assets), the primary residence represents 40.2 percentage points and 'investment and other property' 11.1 percentage points.
2. **Pensions and superannuation:** This is where HILDA records the compulsory Tier 2 SG scheme's assets. Mistakes in SoFIE's questionnaire mean this category "…understate[s] total net worth by an estimated 2% on average…" (Le, Scobie et al. 2009). The table amalgamates what SoFIE describes as 'Workplace pension' and 'Personal pension'.
3. **Businesses and farms:** The HILDA and SoFIE numbers are as reported.
4. **Shares, managed funds etc.:** Here, the HILDA report includes short term and equity investments, trust funds and life insurance. For Table 1, SoFIE's equivalent is the total of the separate categories of life insurance, mutual funds and other financial assets.

   For comparison purposes, Table 1 also includes SoFIE's 'Trusts' in this category: that was 2.3% of gross assets in 2006. SoFIE's 'Trust' assets are in fact amounts owed to families by their family trusts, normally as part of the gifting programme required to shift the family's assets into the trust. SoFIE did not record the value of assets held by the trusts themselves (they would have to be reduced by the debt owed to the families) so this net asset is unreported in the New Zealand numbers. There are no data on the actual composition of the assets of family trusts.

   SoFIE's 'Trust' assets also do not include assets held by Maori trusts or other Maori organisations. These were estimated to be worth $16.5 billion in 2005/06 *(The Maori Commercial Asset Base*, Te Puni Kokiri, 2007, available here). That is a little over 2% of SoFIE's total assets of all individuals.
5. **Bank accounts:** The HILDA report does not detail bank accounts in the assets so they are part of 'other assets'. The SoFIE number deducts what are described as 'Bank accounts' in the liabilities section.
6. **Cars and other vehicles:** SoFIE's gross number is as reported. Because it did not distinguish vehicle financing from other liabilities, to calculate the net value of this asset class, Table 1 adds together the car assets and 'Other assets' before deducting what seem like all consumer finance liabilities.

[4] Scobie & Henderson Scobie, G. and K. Henderson (2009). Saving Rates of New Zealanders: A Net Wealth Approach, New Zealand Treasury report in more detail on how assets and debt looked for different types and groups of households in SoFIE at both 2004 and 2006; also how they had changed between those years.

7. **Other assets:** These are as reported in HILDA. For SoFIE, Table 1 totals what are described as Leisure equipment (0.9% of gross assets), Household items (11.5%) and Other assets (0.6%).

8. **Liabilities – Primary residence and other real estate:** The report on SoFIE does not distinguish between loans taken out to finance the primary residence in which respondents live from loans raised for investment purposes. The New Zealand data will include loans raised to finance family businesses but secured on the primary residence. SoFIE does not record the extent of that debt. HILDA, on the other hand, shows 1.5% of gross assets as being borrowing for 'businesses and farms'; also 4.0% of gross assets being for 'other property'.

9. **Liabilities – Businesses and farms:** The HILDA report separately records business and farm loans – SoFIE does not. SoFIE asked respondents only what the net value of business assets was so there is no separate record of the amounts that households have borrowed for business purposes. This gap distorts SoFIE's gross percentages. It is likely that part of what SoFIE showed as "Mortgage" in liabilities is in fact a business loan, even if secured on the primary residence. That category will also almost certainly include mortgages raised to buy what SoFIE calls 'Investment property'.

   In summary, SoFIE understates not only 'business loans' but also the gross value of businesses. The net totals are probably more robust.

10. **Liabilities – student debt, credit cards and other liabilities:** Table 1 shows these as reported by SoFIE. Table 1 excludes what SoFIE reports as a liability in respect of 'Bank accounts' but instead nets that off the asset shown in SoFIE as bank accounts. The report on HILDA identified credit card and other debt but not student debt.

Comments on overall assets and liabilities

Notes 1. to 10. above on the assets and liabilities highlight the difficulties inherent even in one country's analysis, let alone in cross-country comparisons. Individual aspects of the results cannot be examined too closely which is why Table 1 focuses on percentages rather than absolute values to detect patterns across all respondents as a group. That said, there are some striking aspects to the side-by-side comparison:

(a) Primary residence

As a proportion of all gross household assets, Australians seem to have more invested in their primary residence than do New Zealanders (42.6% vs. 40.1% of gross assets).

SoFIE shows the primary residence in 2006 to be 40.1% of the gross value of respondents' assets and 33.2% of net assets on the assumption that all 'mortgage' debt is in fact housing debt (Notes 8 and 9 above suggest that some mortgage debt is in fact business debt). So, when commentators suggest that New Zealanders have too much invested in their homes, at least at an aggregate level, that cannot be so unless 40.1% gross (33.2% net) is judged to be too much. As well, if Australians are the comparator group, the case again seems not to have been made[5].

[5] In the UK, "[a]round 40% of UK households' £9,000bn net wealth is held as housing wealth." Silcock, D., S. James, et al. (2010). Retirement income and assets: outlook for the future, Pensions Policy Institute.

(b) Other real estate (not businesses)

As a proportion of all household assets, Australians also seem to have more invested in their other real estate assets than do New Zealanders (18.0% vs. 11.2% of gross assets).

Because SoFIE does not identify debt that is specifically taken on to buy 'other real estate', it is not possible to compare net 'other real estate' between the two surveys.

(c) Pensions and superannuation

Australians have, unsurprisingly, a lot more invested in pensions/superannuation: 19.1% of net assets vs. 2.1%[6] in New Zealand. Australians have no (or not much) choice about that; New Zealanders do.

(d) Business investment

By contrast, New Zealanders have a much greater proportion of their net assets invested in businesses and farms: 7.6% in Australia vs. 22.2% in New Zealand.

(e) Other financial assets

SoFIE shows that New Zealanders have more in the other main financial assets (in relation to total net assets): shares and other equity investments total 9.3% in SoFIE and 6.8% in HILDA.

(f) Other assets

There is quite a large difference between the results from the two surveys in the 'other assets' category. HILDA shows a total of 9.7% of net assets whereas SoFIE shows 21.2% (including bank accounts of 4.6%). HILDA does not show 'household items' as an asset class; SoFIE shows 11.5% of gross assets in this category. That is probably where the difference lies but available data cannot confirm that.

(g) Total liabilities

Based on the two surveys, HILDA shows higher debt levels than does SoFIE. HILDA records debts as 17.6% of gross assets (up from 14.4% in 2002); SoFIE shows 13.9%.

The two surveys show that, at least at an aggregate level, New Zealanders had (at 2006) borrowed a smaller proportion of total assets than Australians. Because Australians have no choice about the amount they have in compulsory Tier 2 superannuation, we might expect Australians to have more in debt than New Zealanders to partly compensate for that lack of choice/liquidity in long-term savings.

The story will be different for individual groups but, for the country, SoFIE data suggest we should perhaps be less concerned than some suggest about overall debt levels.

Financial assets as a whole

From a retirement saving perspective, what really matters is the net wealth of a retiree at 'retirement' and through the retirement period. Aside from the primary residence, contents and other 'lifestyle' assets (car, boat, etc), the ability to convert other assets to

[6] We have already noted that, because of under-reporting, the reported 'pensions and superannuation' assets of New Zealanders are probably roughly half their actual value.

cash (along with state-provided incomes) will drive an individual's standard of living in retirement[7].

Table 1's analysis from the reports on both HILDA and SoFIE are just snapshots of all households'/individuals' assets and liabilities in 2006 and do not show whether respondents in either country are saving 'enough' for retirement. As they are both longitudinal studies, we may get some indication in that regard over the lifetime of each survey, and particularly as to changes in that behaviour. For example, it will be interesting to see how the two sets of numbers change in response to the global financial crisis. The two surveys will also mean that guesses about future behaviour in the period running through to retirement may be a bit more reliable.

With those qualifications, it is interesting to see the broad split in each country (in 2006) of the assets that might be available to support respondents' retirement income needs, if retirement had occurred in 2006.

The assets that might therefore be used to fund spending in retirement are the totals of the net values of 'other real estate', superannuation, businesses, directly owned investments and other financial assets.

In 2006, those totals were:

- Australia: 50.5% of total net assets;
- New Zealand: 49.4% of total net assets.

The New Zealand number is understated because, as already noted, superannuation is under-reported, while family trusts' holdings (except to the extent there is debt owed by the household to the trust) and Maori assets are both ignored. The split also takes no account of the relative differences in the two state pensions. From a total retirement income perspective, New Zealand retirees need relatively lower amounts of private 'retirement assets' than Australians for a given target retirement income.

With those qualifications, as at 2006 (before KiwiSaver started in 2007), the relative similarity of the two overall numbers is notable. Between 1987[8] and 2006, public policy in New Zealand on saving was almost completely 'hands-off' (no compulsion or tax incentives of any significance). The public policy contrast with Australia could not have been more marked and yet the outcomes, at least as a proportion of the total net assets of all respondents, are relatively similar after about 15 years of consistent public policy (to 2006) in each country.

Conclusion

We caution against drawing too much from a comparison of snapshots of household assets and liabilities in two different countries at about the same time. The data should, however, raise some questions that need debating in each country about the ability of governments to fundamentally change citizens' behaviour.

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[7] Even the primary residence can enter this equation if trading down to a cheaper retirement home is a realistic option. Lifestyle assets could also be sold. Leaving these possibilities aside is a more conservative approach.

[8] When tax incentives for retirement saving started their phase-out (completed in 1990).

The comparison shows that governments can affect the different types of assets and liabilities held and the way they are held: the difference between the two 'superannuation' numbers is stark (19.1% of net assets in Australia vs. 2.1% in New Zealand[9]).

On the face, it looks as though New Zealanders have responded to the 'hands-off' policy on formal saving schemes by having a much higher proportion of their household wealth invested directly in businesses (22.2% in New Zealand vs. 7.6% in Australia). The implication is that Kiwis, left unconstrained, have invested in businesses to a greater extent. It suggests that any public programmes that either 'force' (compulsion) or bribe (incentives) people to shift to forms of saving and away from their 'preferred' position implies a loss of welfare and an inefficient allocation of capital.

If we were interested in just retirement saving policies (that's what the Australian Tier 2 compulsory saving scheme is about) then the question should be which overall strategy is likely to be better for the income security of future retirees in either country. Given similarly larger proportions of retired populations in each country, what in fact really matters is economic activity and growth, rather than the size of dedicated 'retirement savings'. Only a larger, more prosperous economy than otherwise will allow the larger income claims of the retired (and others) to be met from tomorrow's production.

Compulsory saving schemes in Australia are 'trusteed'[10] arrangements where investments are made in the shares and other securities of large organisations, both in Australia and overseas. The same applies to long-term saving schemes in New Zealand, like KiwiSaver. Those schemes are then subject to regulatory and fiduciary supervision and reporting. Family businesses on the other hand tend to be smaller, unlisted, less regulated entities where the capital is eventually released on the sale of the business. Farms and other agricultural investments are examples. Relatively speaking, New Zealand seems to have more of those types of assets in household balance sheets.

From the perspective of the future security of retirement incomes in each country, the question that the coming debate in New Zealand should focus on is which broad type of investment is more likely to grow the economy. Looking at just the amounts invested in superannuation assets, as commentators often do, is a simplistic analysis of what really matters. There are acknowledged limitations in the comparisons between the SoFIE and HILDA data but nothing like the difficulties with headline comparisons of just superannuation assets.

The main finding, from a retirement savings perspective, of this *PensionBriefing*'s analysis is that overall, the respondents from both countries had, in 2006, relatively similar proportions of their net assets in things that can be realised at retirement (50.5% in Australia vs. 49.4% in New Zealand) and had borrowed roughly the same proportions of gross assets (17.6% in Australia vs. 13.9% in New Zealand). That is what *all* respondents as a group in each country own and owe – not what *each* respondent on average could use at retirement or has borrowed at present.

Again, it must be emphasised that the percentages are only indicative of the patterns of household behaviour on each side of the Tasman in response to public policy settings.

However, it seems notable that such different policy settings could produce broadly similar overall outcomes. It will be interesting to compare the outcomes of more recent

[9] Though, as already noted, the New Zealand number is understated.
[10] That is, held by trustees for their beneficiaries and invested in assets that comply with the fiduciary responsibilities between the legal and beneficial owners.

analyses under the two longitudinal surveys, particularly in the context of the global economic crisis.

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