Family Finances Report December 2016

Research to investigate current family finance
attitudes, priorities, issues and needs

Where is the recovery?

Contents

Introduction & overview

It is almost three years to the day since Ireland exited the EU - IMF programme and the Troika departed our shores. While we are some distance from being out of the woods, the headline macroeconomic indicators such as rising Gross Domestic Product and falling unemployment tell a story of an economy well into recovery.

But how is it for families in Ireland? This is Aviva Ireland's first Family Finances Report and its purpose is to provide a snapshot of the financial wellbeing of Irish households. We look at the income, expenditure, borrowings, savings and investments of Irish families; and we delve into their attitudes and priorities to seek to establish how they feel about their economic and financial prospects and what concerns them most about their future.

The research finds a widespread insecurity among households about the extent of economic recovery in Ireland and a consequent caution as families face into an uncertain 2017.

While many acknowledge a recovery in the general economy is underway, a majority say it has not benefited them personally and a significant number worry about holding on to their jobs. Across a range of measurements – job security, salary expectations, cost of living, work-life balance, future finances – our findings suggest uncertainty and wariness at household level.

Undoubtedly some are faring well, but for every one household that sees the glass half full, there are three for whom it is half empty. In none of the provinces was there a majority of respondents who believed a recovery was underway. Given the global economic uncertainty as a result of Brexit, it is not surprising that many families were cautious.

On the other hand, our research suggests some of the tough lessons of the financial crisis have been learned. Families are demonstrating more prudence about their finances as they re-build savings and prepare a buffer against a future downturn.

Research finds a significant number worry about **holding on to their jobs**

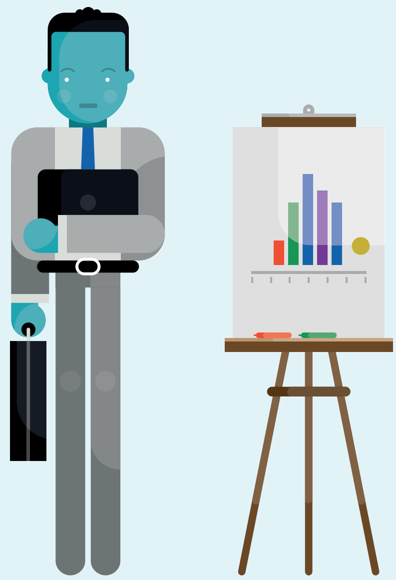
In our Spotlight section, we take a close look at home ownership and property. Our findings show that the quest to own a home will continue to be a leading topic of public discourse over the next few years.

The aim of the Aviva Family Finances Report is to provide a barometer of emerging trends and patterns at a household level by measuring and tracking family finances across the country. We plan to conduct this research biannually.

We hope the primary economic data we generate offer credible and reliable insights for families, policy makers, businesses, media and opinion formers.

For the purposes of our research, Aviva employed Red C to deliver a large sample size that is thorough, representative and which provides robust statistical insight. Between 7-13 October 2016, they interviewed 1,280 adults in an online survey.

Across a range of measurements – job security, salary expectations, cost of living, work-life balance, future finances – our findings suggest **uncertainty and wariness at household level**



Attitudes to general financial wellbeing

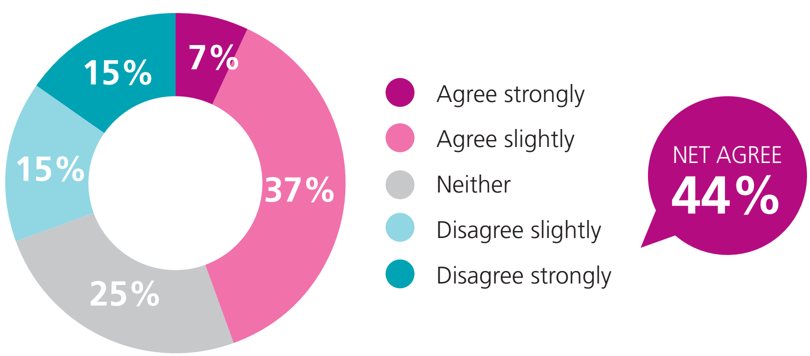
The recovery in the Irish economy is underway

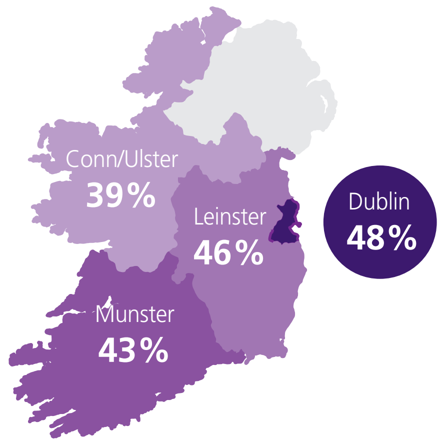
National economic indicators, such as GDP growth and falling unemployment over the last couple of years, suggest an economy that is well into recovery. At an individual household level, the picture is more complex.

Asked if the recovery in the Irish economy is underway, 44% agreed. However, only 7% strongly believed so, while almost one in three households disagreed.

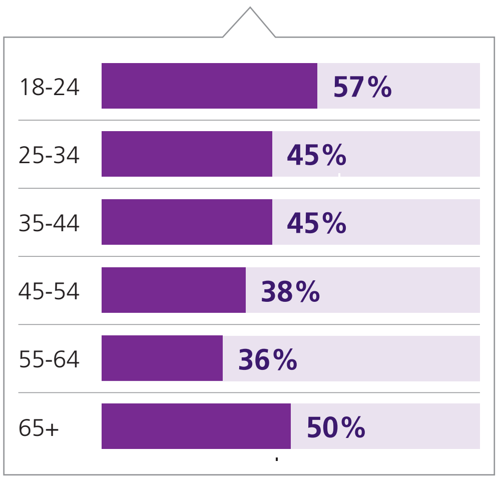
These numbers illustrate the unevenness of the experience of the economic upturn among Irish families. In none of the provinces did a majority believe a recovery was underway with Connacht / Ulster being the most sceptical.

The recovery in the Irish economy is underway:

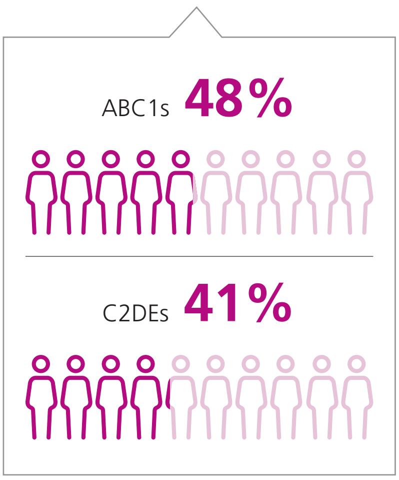




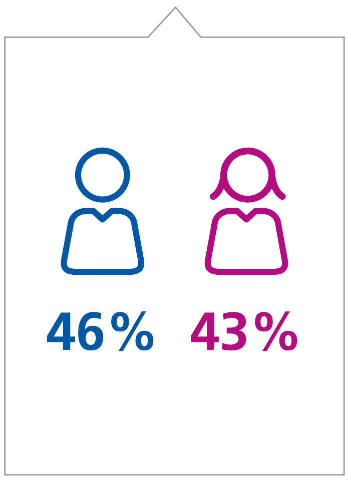
Age



Social Class



Gender



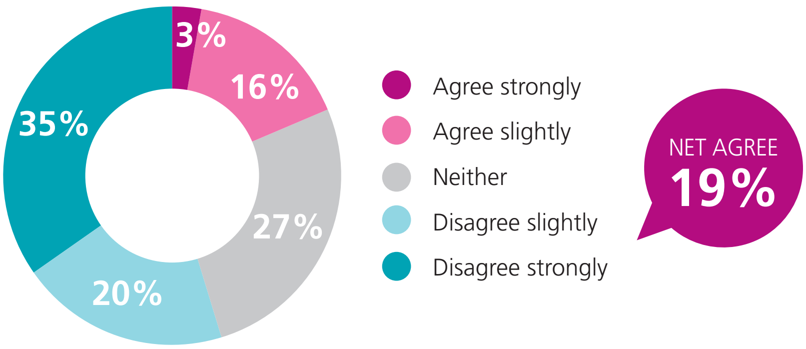
Base: All adults, n=1,280. Conn/Ulster: Connacht, Donegal, Cavan and Monaghan.

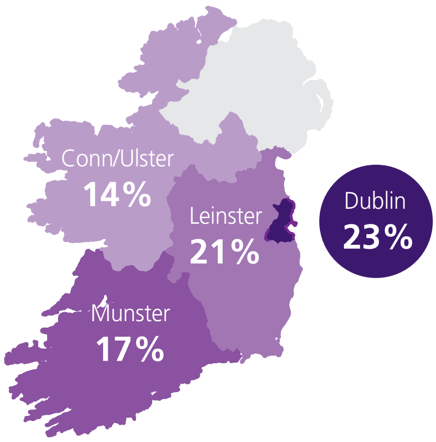
Ireland's economic recovery has been beneficial to me personally

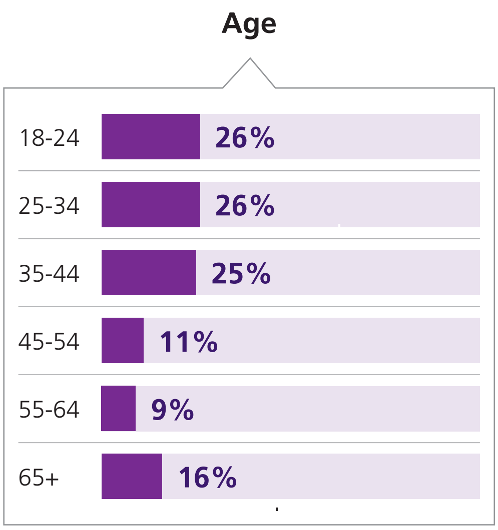
If there is disagreement about the recovery in the general economy, families are more clear-cut when asked if the recovery has benefitted them personally. A clear majority of 55% said they had not experienced a benefit, while 19% confirm they had personally experienced the recovery.

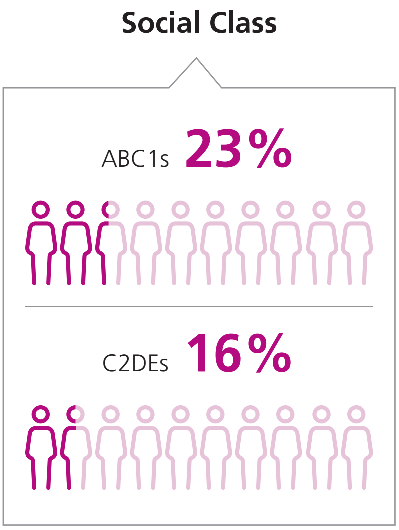
Our findings show that households in the more affluent social demographic AB (26%) were twice more likely to say they were enjoying the benefits of recovery than their counterparts in the DE category (13%). Breaking down by age, only 9% in the 55 to 64 bracket were feeling the recovery, compared to 26% of 18 to 24 year olds. There was a noticeable gender imbalance with more males (24%) than females (14%) saying the recovery had found its way into their households.

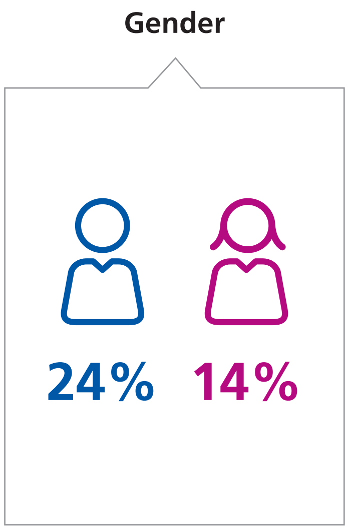
Ireland's economic recovery has been beneficial to me personally:









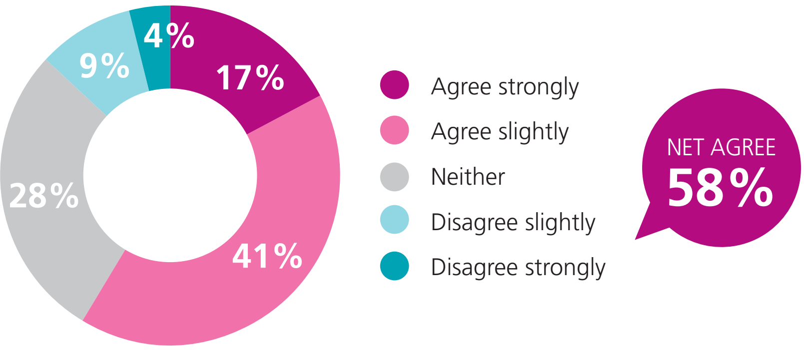


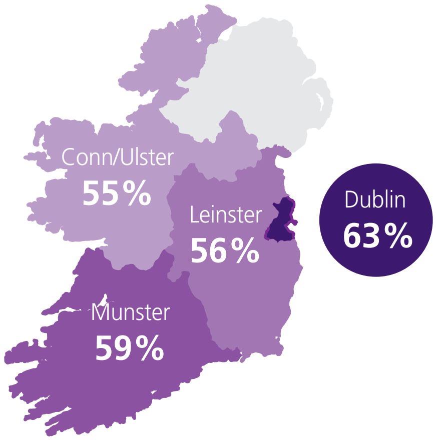
Base: All adults, n=1,280. Conn/Ulster: Connacht, Donegal, Cavan and Monaghan.

Fear about future uncertainty has made me more likely to save

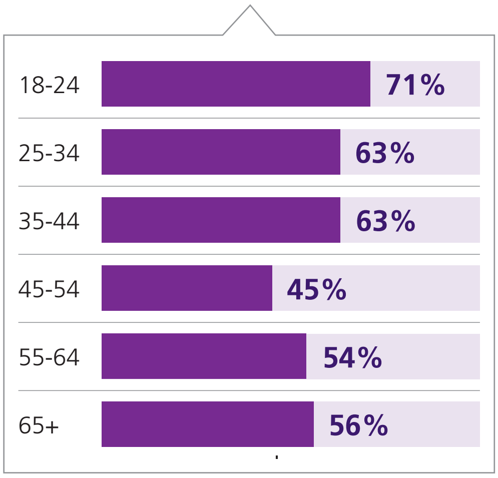
Our survey suggests that the experience of the most severe economic and financial crisis in our history has made us more conservative in our outlook and perhaps heightened our awareness of our susceptibility to external economic shocks such as the UK vote to leave the EU. This manifests itself in a positive attitude towards precautionary saving and building a nest egg. Six out of ten said fear of future uncertainty made them more likely to save and this finding was strongest among those under 45 years of age. Over half (52%) of respondents felt they were in control of their finances, double the amount who felt they were not. Asked if they were knowledgeable about their finances, 53% said they were while 19% were not. Taken together, these findings suggest that families are taking control of their finances and making prudent preparations to protect themselves from future uncertainties. We take a deeper look at savings in our Savings and Investments section.

Fear about the future uncertainty has made me more likely to save:

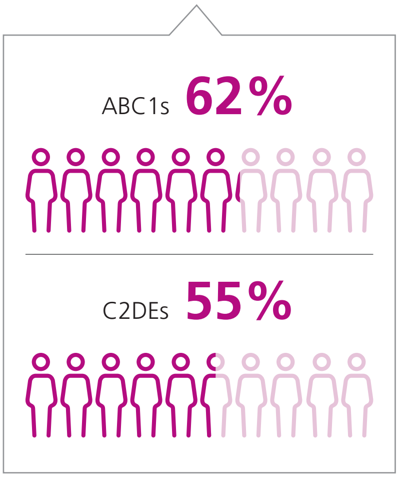




Age



Social Class



Gender

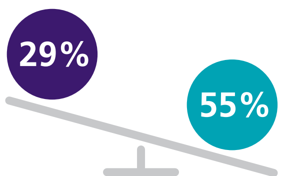
Base: All adults, n=1,280. Conn/Ulster: Connacht, Donegal, Cavan and Monaghan.

Attitudes to jobs and work-life balance

Overall, respondents were more negative than positive in their attitudes towards their jobs and work-life balance. Although unemployment continued to fall over the last 12 months and has now reached its lowest level since 2008[1], our survey reveals that confidence about job security is fragile. Those worried about losing their jobs (45%) outnumbered those who had a lot more job security (39%).

Respondents were evenly split on their expectations about pay: 40% of the workforce was worried about pay cuts, while the same percentage expected a salary increase. Meanwhile, a clear majority said it would be difficult to move to another company, while a third was confident about moving on. The survey took place in the second week of October against the backdrop of widespread coverage of threatened public sector strike action in pursuit of pay restoration or pay increases.

Given the evident job insecurity and pessimism about pay, it is not surprising that a majority said they were feeling more stressed in their jobs. Half (50%) said their work-life balance was worse now than a few years ago, while 55% said they were feeling more stressed in their jobs. Just three in ten said they felt less stressed. The uncertainty and insecurity emerging from these findings run counter to the employment growth and the broadly based recovery in most sectors of the economy.



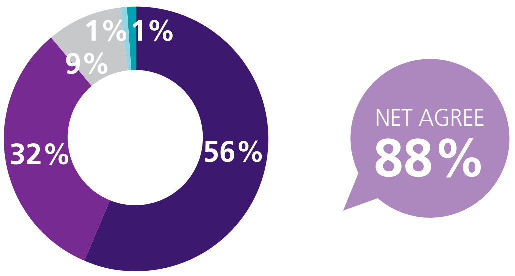
55% feel more stressed in their job despite recovery in the economy and recruitment by employers

Base: All working full/part-time, n=778. [1] CSO – Monthly Unemployment November 2016: Irish seasonally adjusted unemployment rate fell to 7.3% in November 2016, down from 9.2% a year earlier. It is the lowest rate since October 2008.

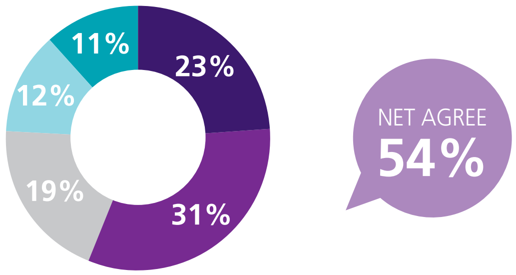
Attitudes to savings and investments

Protection and reassurance are recurring themes in our survey results with an increasing number of families engaged in prudent, precautionary saving for the future. Saving emerged as a priority in the personal finances of the vast majority of respondents even if half of them felt they were not very good at it. Almost nine out of ten said that being good at saving money was an essential life skill, yet most were not saving as much money as they would like to. Only half were 'proud' of their savings habits, while 54% said they were already saving for things that would happen well into the future. Aviva believes more education about personal finance at second level would equip and empower people to manage their financial position more effectively throughout life for the protection of themselves and their families.

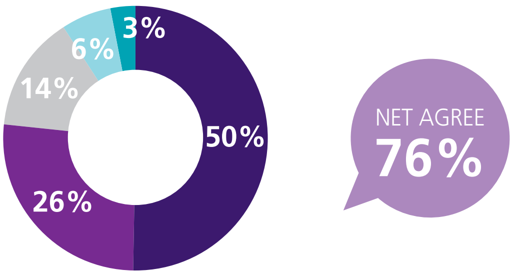
Being good at saving money is an essential life skill



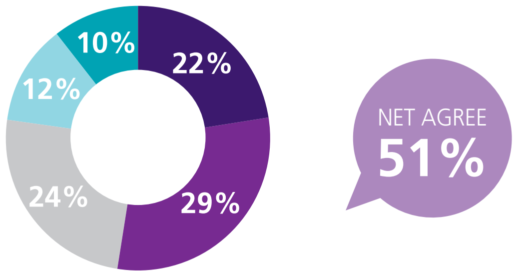
I'm already saving for things that will happen well into the future



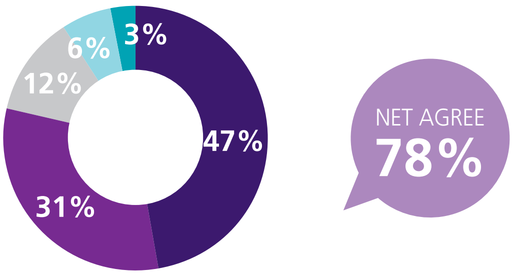
I do not save as much money as I would like to



I am proud of my savings habits



I would usually save up if I need to buy something expensive rather than borrow for it



- Agree strongly
- Agree slightly
- Neither
- Disagree slightly
- Disagree strongly

Base: All adults, n=1,280.

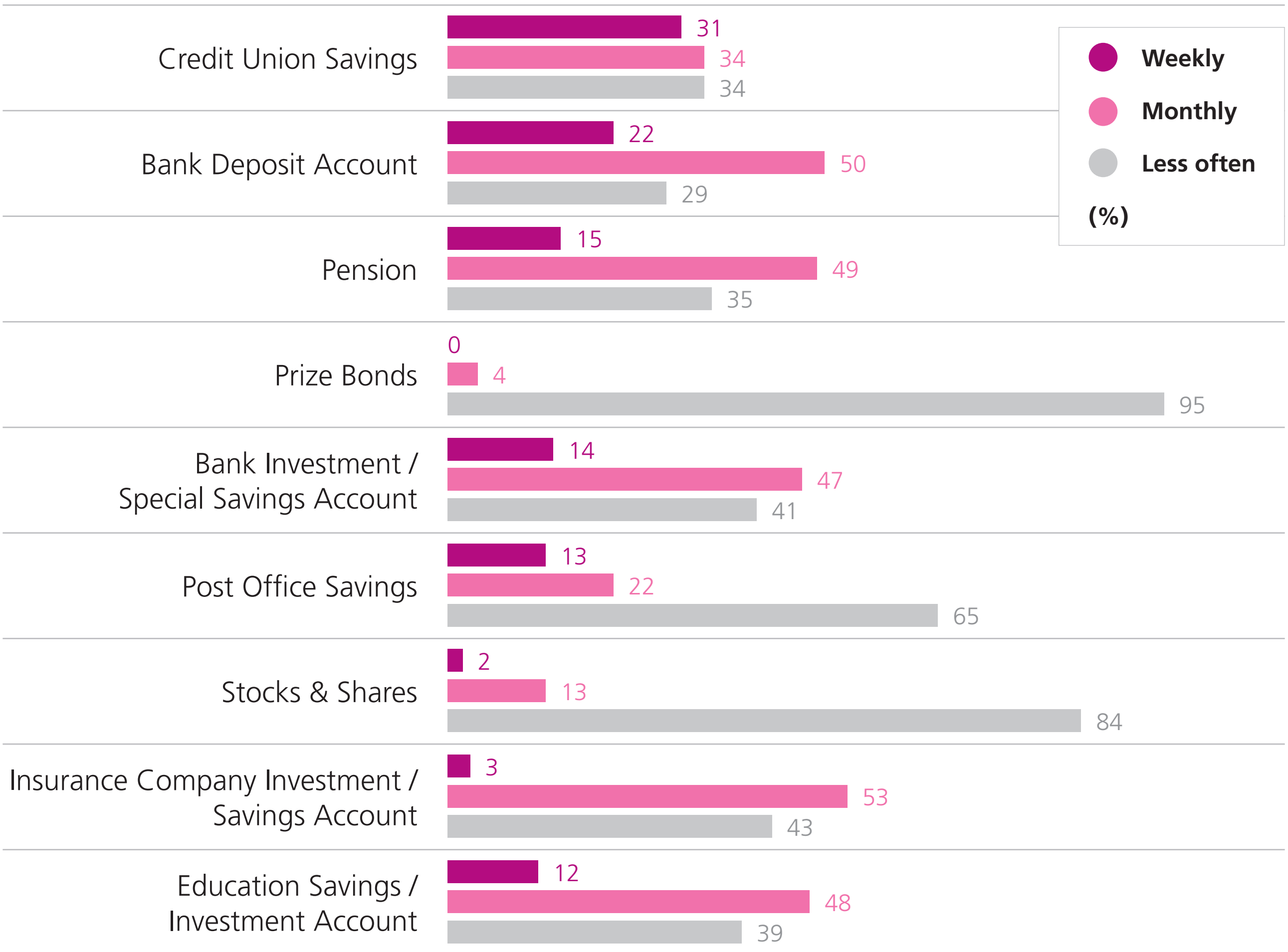
How much are people saving?

Our survey showed that over 80% had at least one form of savings or investments, while one in seven had neither. Credit unions and bank deposit accounts were the most popular savings and investment vehicles and although interest rates and returns on savings accounts are at historic lows, they remained a far more popular choice than risk based investments such as stocks and shares.[2] Just over a quarter of respondents (27%) held prize bonds. It is clear from the survey that there is a strong preference for financial certainty over risk.

Throughout the boom, Irish households saved considerably less than their European counterparts. However, since 2011 they have been steadily rebuilding their savings. In 2015, the Irish household savings ratio was slightly higher than the EU average. A rational and prudent approach to personal finances could be the silver lining in the legacy of the boom and bust years.[3]

Excluding pensions, households were saving on average €4,727 per annum as they continued to build a financial buffer against future uncertainties.

Frequency of deposit / invest / put money in:



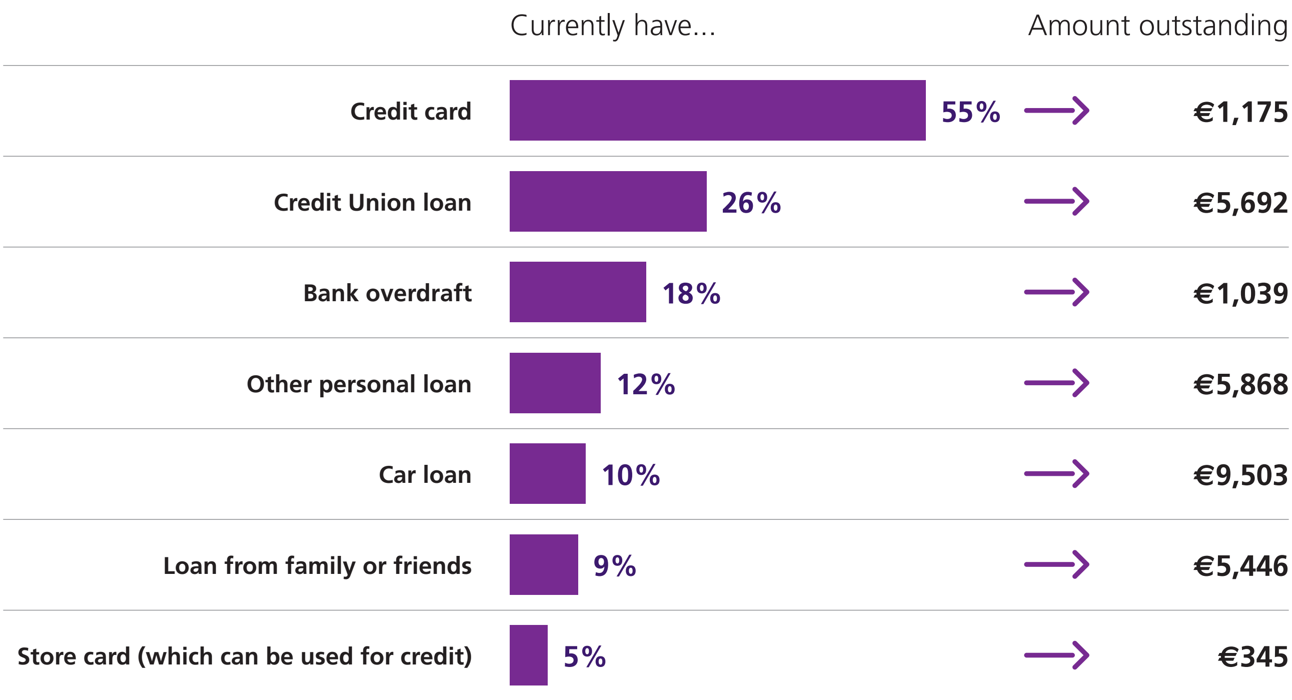
Base: All adults aged 18+, n=1,280. [2] The Irish League of Credit Unions says it has 3.3 million members on the island of Ireland who have total savings of €11.83 billion www.creditunion.ie. [3] CSO: Institutional Sector Accounts Non-Financial and Financial 2015. In 2006 Irish households savings amounted to €6.3bn; in 2015, that number had increased to €10.5bn. The Irish savings ratio in 2015 was 10.7%; the EU average was 10.1%.

How much debt are families in?

With over 1.4 million personal accounts in Ireland, our survey found that credit cards were the most widely held form of debt. The average amount outstanding on credit cards among respondents was somewhat lower than other forms of loans and debt. This finding corresponds with recent data from the Central Bank of Ireland which showed little evidence of credit card stress.[4]

Overall, car loans accounted for the largest amount of outstanding household debt, reflecting buoyant new car sales in the first half of 2016, which were back to pre-economic crash levels.

Just under 10% said they had received a loan from family or friends with an average amount of €5,500 outstanding.

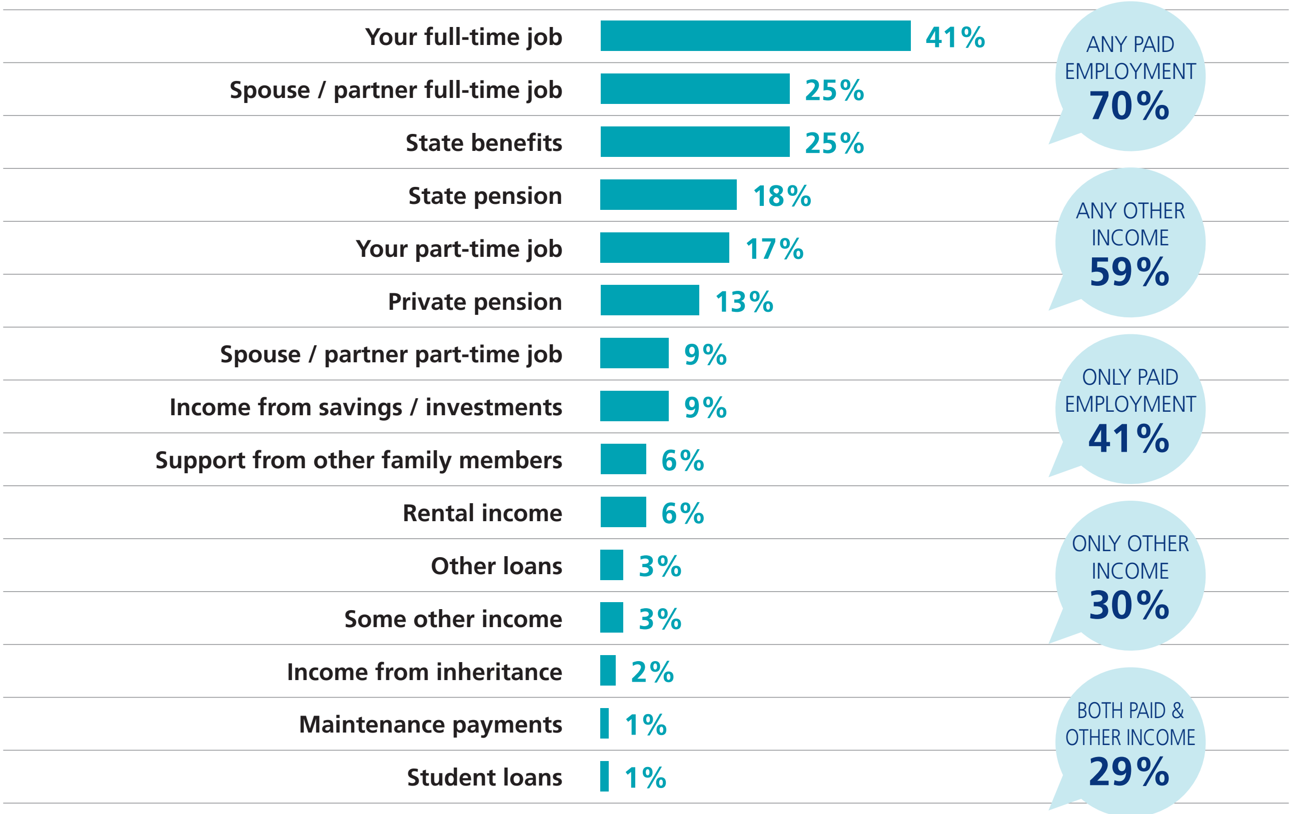


Base: All adults aged 18+, n=1,280. [4] Central Bank of Ireland, 'Credit Card and Debit Card Statistics, September 2016' – 8% of credit card users were exceeding their limits in September 2016, down from 9% in September 2015.

Sources of household income

The average family in our survey had an annual, after tax income of €42,000. Seven out of ten listed paid employment, full-time or part-time, as a source of income. Just over half of families (54%) had income from a full-time job, while just under a quarter (24%) had income from part-time work.

The average annual income from paid employment was €44,000, while the average annual income from other sources was €27,000: 30% said their income was from sources other than paid employment. Two in five households were in receipt of State benefits including the State pension. Just under 30% of households said they had income from both paid employment and other sources.



Average total net monthly – **€3.5k**
Average monthly income from paid employment – **€3.6k**
Average monthly income from other sources – **€2.3k**

Base: All adults aged 18+, n=1,280.

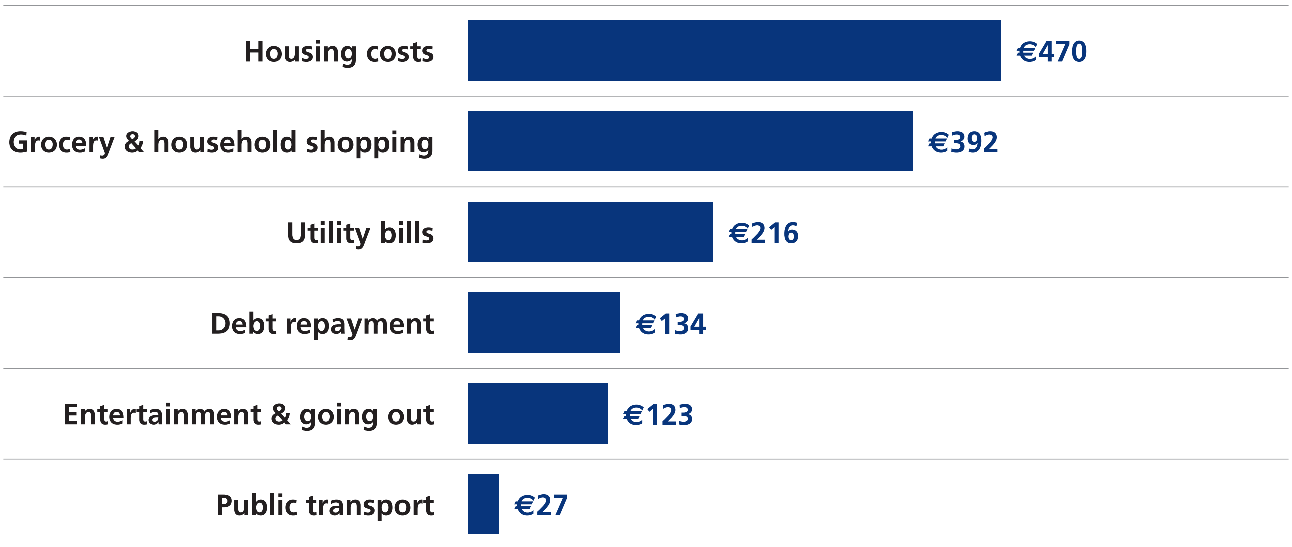
Spend each month

Unsurprisingly housing costs, whether rent or mortgage, accounted for the highest average monthly household outgoing. The average was reduced by the fact that one in every three homeowners own their property outright.

The average monthly spend on grocery and household shopping was €392 with consumers finding a measure of relief from lower inflation. According to recent inflation data, Irish consumer prices fell by 0.3% in the year to October 2016, with food prices falling at a faster pace (down 2.2% year on year) partly due to intensified competition in the retail sector in recent years.[5] Over the last year, prices fell in certain categories such as non-alcoholic beverages, furnishings, household equipment, routine household maintenance, recreation and culture.

The vast majority of respondents (90%) said the cost of living was too high.

Average spend monthly...



90% of respondents said the cost of living was too high

Base: All adults aged 18+, n=1,280. [5] CSO – Consumer Price Index October 2016.

Spotlight:
Home ownership and property

Home ownership and property

- **Demand from first time buyers for 220,000 homes over the next five years**
- **Average outstanding mortgage is €126,000**
- **Almost 1 million say they plan to move homes in coming years**

It is the obsession of our time: property, home ownership, renting, homelessness – the national conversation is dominated by the place we call home.

In choosing home ownership and property for our Spotlight section, we sought to put an empirical framework on an economic and social phenomenon.

Over the next five years, we estimate that as many as 220,000 properties could be needed to meet the aspirations of those in our survey who said they were ‘planning’ to buy between now and 2021.

There is a wall of pent-up demand from the first time buyers sector whose participation in the housing market has fallen from 53% in 2010 to just 24% in 2015.[6]

During the last five years, the population grew by 169,724 to 4,757,976.[7] Those in the 25 to 34 age bracket, typically the age group buying a home for the first time, number some 633,000.[8]

But while the population has been growing, housebuilding has been in the doldrums. Between 2011 and 2015, just over 10,000 houses were built each year.[9] A recent study by Property Industry Ireland found an increase in activity this year with a prediction that the number of new completions will reach 14,000 in 2016.[10]

In July, the Government set a target of 25,000 new homes to be built per annum by 2020. However, our research suggests indicative demand from first time buyers alone for 40,000 properties per annum over the next five years. Given the low rate of activity in the second home market and the government incentive for first time buyers to buy new builds, it can be assumed most of the demand will be for new houses.

And with rents spiralling over recent years, the housing conundrum has taken on a new twist.[11] If renting is now becoming more expensive than having a mortgage, surely the option of owning their own home becomes more compelling for our young population. The housing problem looks set to endure into the next decade.

At the other end of the market, there is a growing cohort of households who may seek to trade down. All told, our survey found that almost 1 million people could be seeking to move homes over the next five years.

[6] CSO – Residential Property Price Index. [7] CSO – Census 2016. [8] CSO – Population and Migration Estimates April 2016. [9] Department of Housing – Construction Activity: Completions 1996 - 2016. [10] Property Industry Ireland’s report on the state of the property sector September 2016. [11] Daft.ie – Rental Report: Rents in Q3 2016 grew at their fastest pace since the report commenced in 2002.

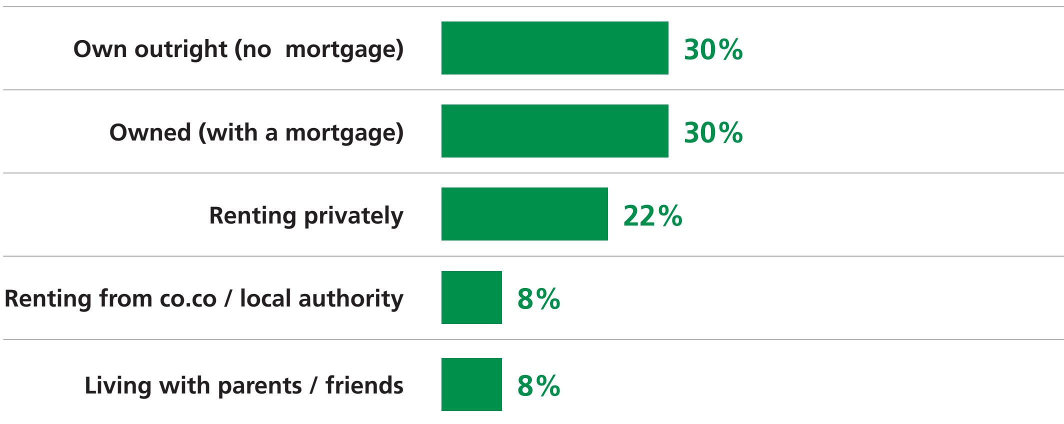
Ownership versus renting

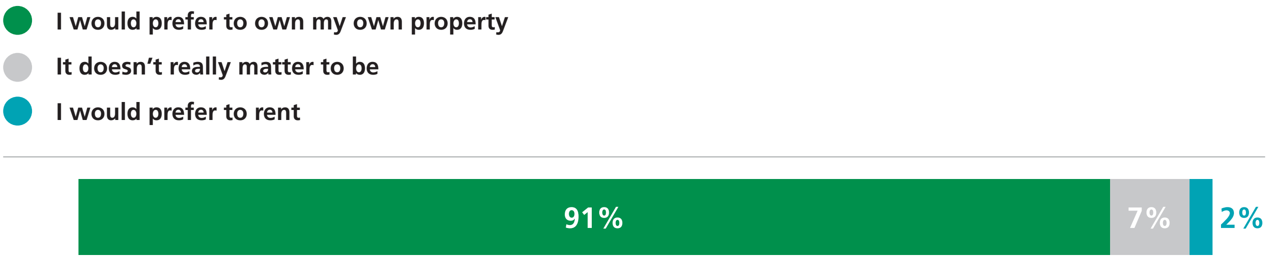
According to our survey of homeowners, 30% owned their homes outright with no mortgage; another 30% owned their homes with a mortgage; just over a fifth (22%) was renting privately; while just 8% rented from a local authority. These results broadly accord with previous studies.[12]

The average value of a home nationally was €223,000 with an outstanding mortgage of €126,000. The Dublin equivalent was €329,000, with an outstanding mortgage of €183,000. There was an average of 16 years left on outstanding mortgages.

The experience of one of the world's worst property collapses, which has left many hobbled in negative equity, has done nothing to dampen the Irish love affair with home ownership. Our survey found that 91% prefer to own their own property. The ever upward trend in rent prices, which rose nationally by an annual 11.7% in Q3 2016, will copper-fasten home ownership as the leading housing preference for at least another generation.[13,14]

Our survey showed that 22% of people were currently renting, although it also found that only 2% said renting was their preferred option. It is a reasonable assumption that a sizeable proportion of those renting will seek to buy in the coming years.





Base: All adults aged 18+, n=1,280. [12] Central Bank of Ireland – Household Finance and Consumption Survey (2013): own home outright (36.6%), own home with mortgage (33.9%) and rent / other (29.5%). [13] Daft.ie Rental Report Q3 2016 – the highest rate of rental increase since the Rental Report in 2002. [14] EBS DKM Irish Housing Affordability Index November 2016 – A typical FTB mortgage repayment of €1,364 against a typical rent of €1,351 in west Dublin.

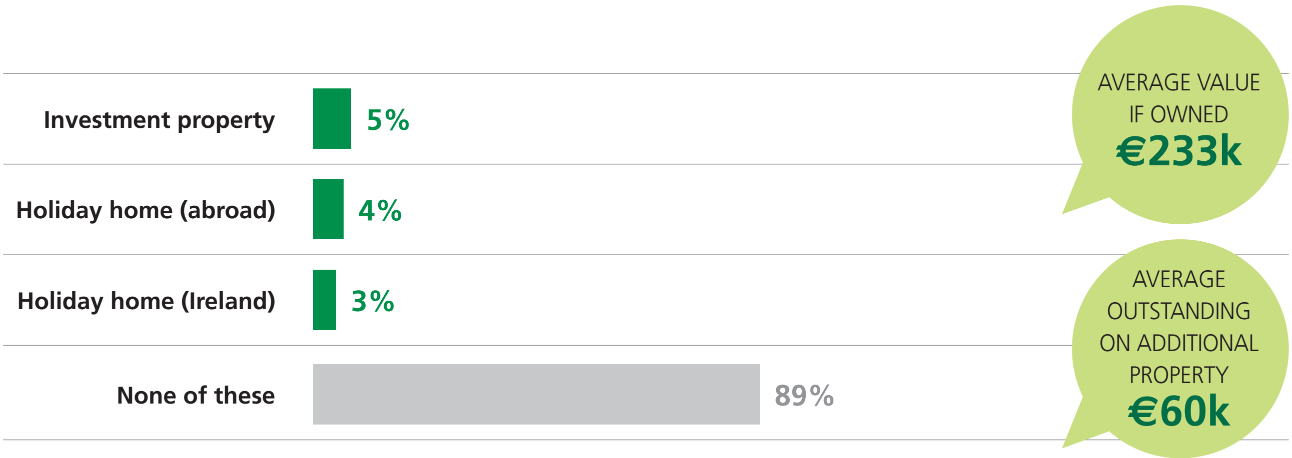
Investment properties

A favourite tale from the wreckage of the property crash was the ordinary worker who, lured by easy access to cheap credit, had bought investment properties in exotic locations.

A decade on from the peak of the boom, the overall picture on investment properties is surprisingly benign. The average value of investment properties is €233,000 with an average amount outstanding of just €60,000.

These strong equity ratios and modest servicing demands point to a segment no longer in distress. True, many of the most distressed borrowers may have been forced to sell, but those who were able to stick it out now have a valuable asset on an average basis.

In addition to owning their own home, 11% own a second property.



The average value of investment properties is **€233,000**
with an average outstanding mortgage of **€60,000**

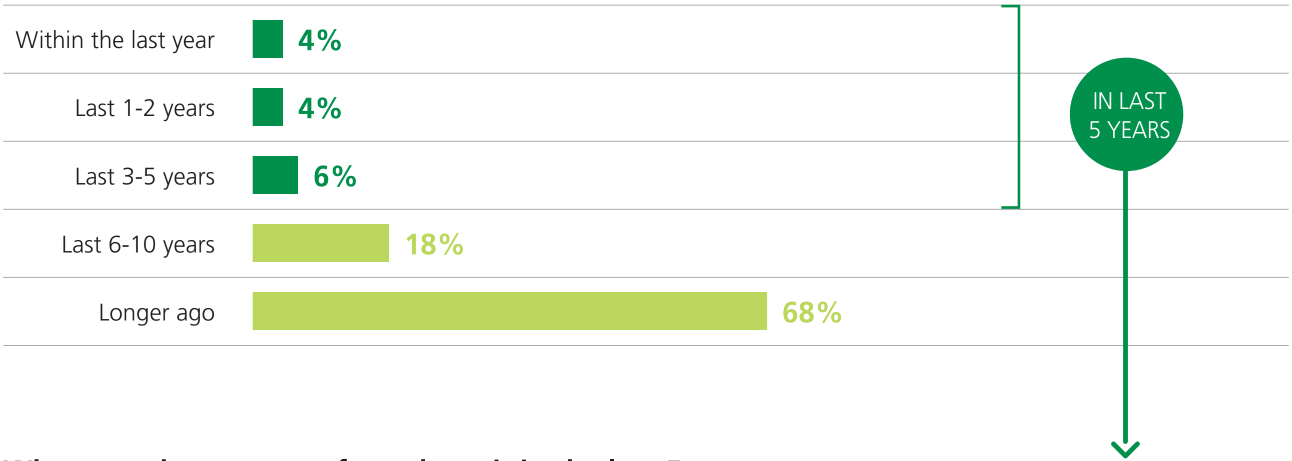
Base: All adults aged 18+, n=1,280.

Purchasing of home

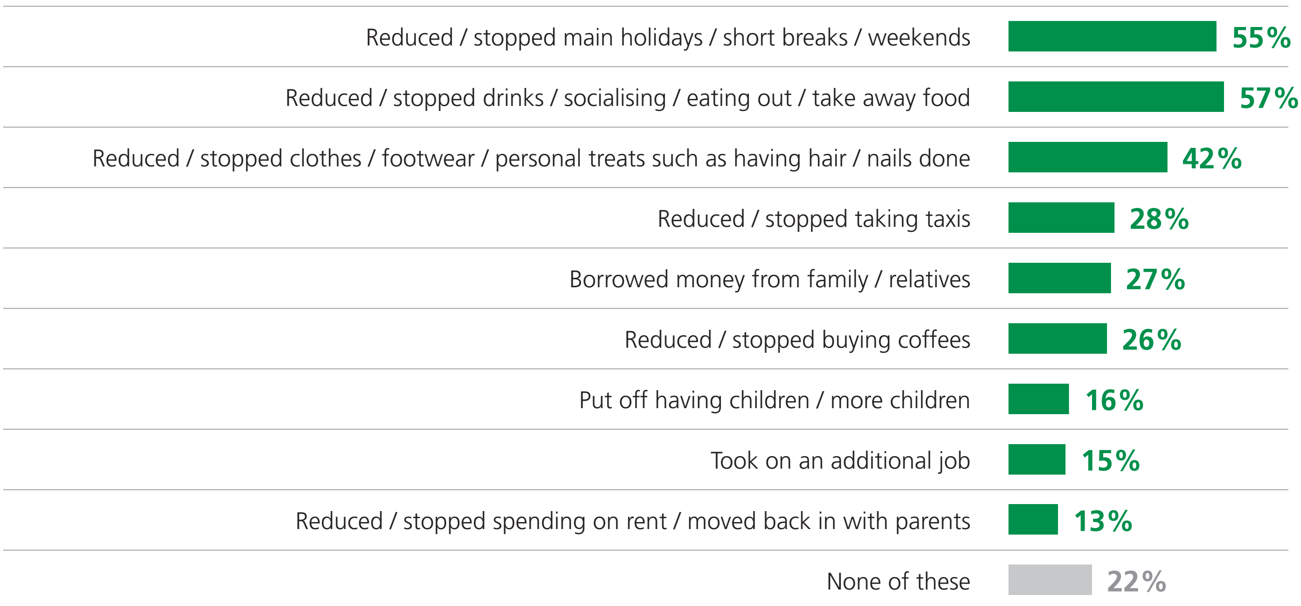
As property prices rise and fall, the date of purchase can have a material financial impact. Those who purchased their homes in the last five years (14%) have benefitted from increasing property values.[15]

Our survey also examined the sacrifices made by people as they saved for a deposit. The bulk of savings were made by cutting back on holidays and socialising. One in four cut back on their daily coffee spend as part of their efforts to get on the property ladder.

When purchased home:



What was done to save for a deposit in the last 5 years:

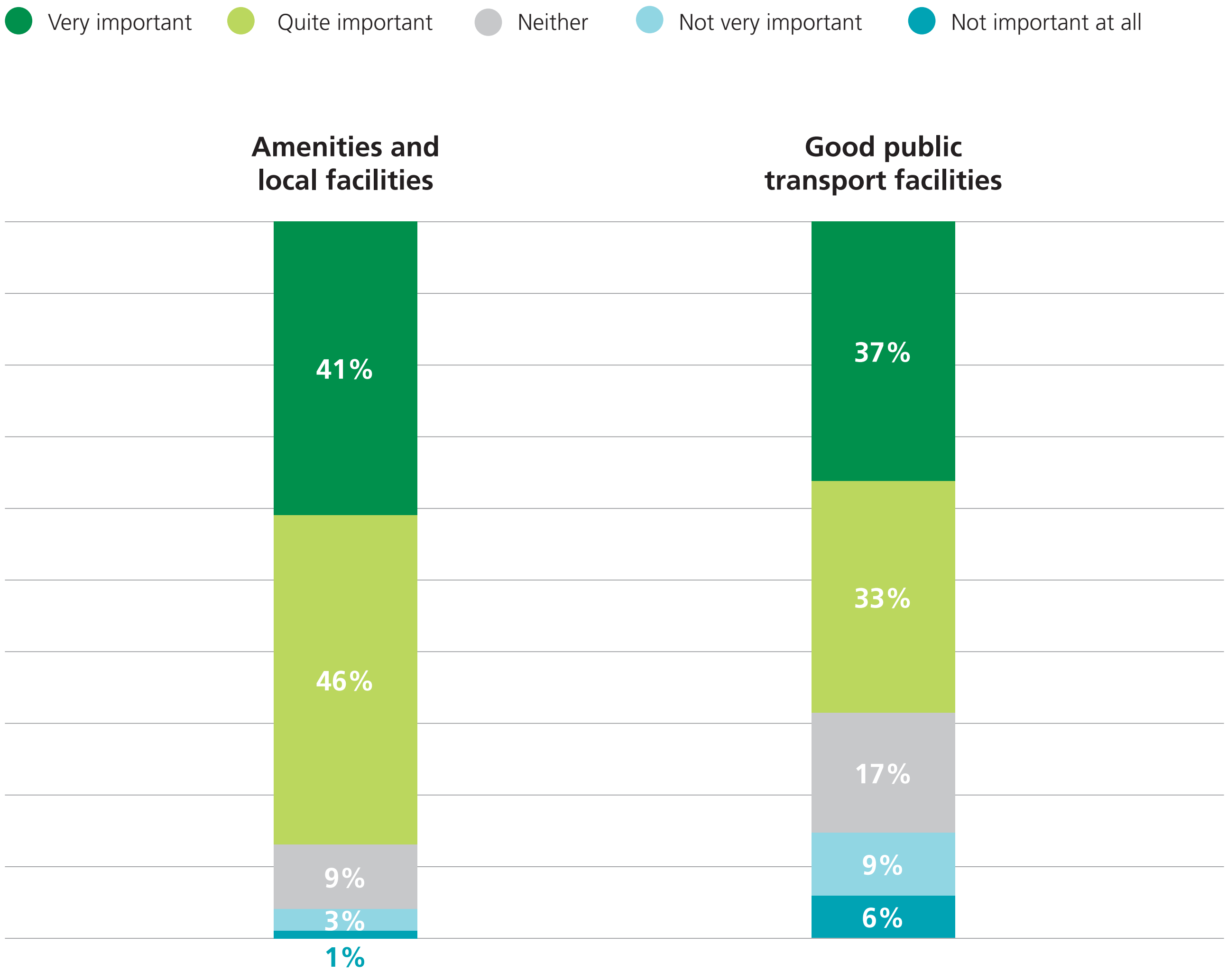


Base: All with own property, n=775. [15] CSO – Residential Property Price Index September 2016: Residential property prices rose by 7.3% in the year to September 2016

Deciding where to live

For most of us, buying a home is the most substantial investment of our lives. Where we buy or rent can shape the quality of our lives. So what factors other than cost influence where we choose to live?

Ranked number one, according to our research, was access to good amenities and local facilities. Access to good public transport facilities was second. Two out of three would like to live close to friends, while living close to family came fifth in importance as a factor in deciding where to live.



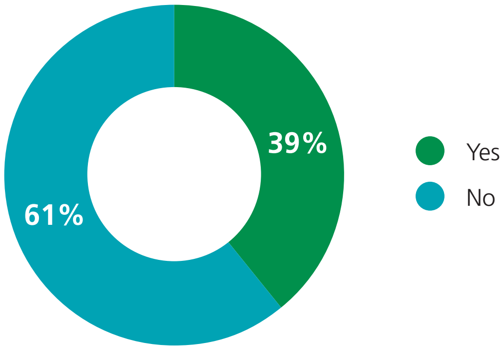
Base: All adults aged 18+, n=1,280.

Plans to buy a property

With nine out of ten preferring to own their property rather than rent, we attempted to gauge the level of demand among first time buyers in the short to medium term. Of those who do not own their own property, two in five said they would like to buy over the next five years which is in line with recent surveys.[16]

From this data, we estimate that indicative demand for houses over the next five years could be as high as 220,000. With the Government target of 25,000 new homes to be built per annum by 2020, demand looks set to outstrip supply in the housing market.[17]

Plans to buy in the next 5 years:



Intend to do to save for deposit:

Reduced / stopped drinks / socialising / eating out / take away food	63%
Reduced / stopped main holidays / short breaks / weekends	60%
Reduced / stopped clothes / footwear / personal treats such as having hair / nails done	52%
Reduced / stopped taking taxis	34%
Reduced / stopped buying coffees	34%
Took on an additional job	25%
Put off having children / more children	22%
Reduced / stopped spending on rent / moved back in with parents	17%
Borrowed money from family / relatives	14%
Other	3%
None of these	9%

Base: All who do not own their own property; n=499. [16] 123.ie Irish House & Home Survey April 2016 – 33% planning on buying a home over next 3-5 years; 23% say it will take six years or more; 19% think they will never own their own home. [17] Department of Housing – Rebuilding Ireland: Action Plan for Housing and Homelessness.

Plans to upsize / downsize

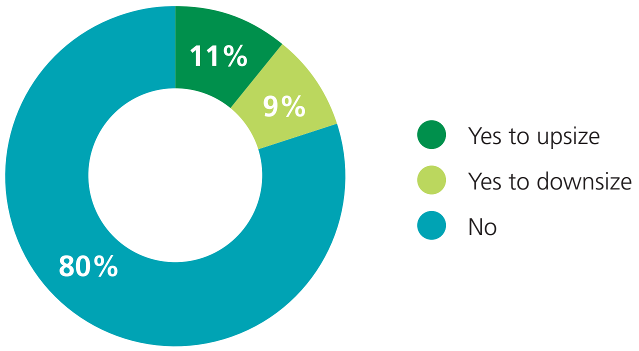
With the plight of first time buyers dominating public discourse, the second time buyer section of the property market has received little attention. Mobility has been seriously constrained in recent years by a combination of reduced incomes, restricted access to finance, negative equity, and a stressed property market.

In 2015, there were 43,428 property transactions compared to a high of 150,000 at the height of the boom.[18] Only 2.2% of our housing stock changed hands last year, less than half the accepted normalised rate of 4% to 5%.

In our survey, only one in five property owners said they were planning to move homes over the next five years. Of those planning to move, slightly more (11%) want to trade up than want to downsize (9%).

When added to the large number of potential first time buyers, we calculate that almost 1 million will be house hunting over the next five years.

Plan to upsize / downsize:



Base: All with currently own a property, n=775. [18] GeoDirectory – www.geodirectory.ie

So **what** does this tell us?

Conclusion

Irish households have been on a financial rollercoaster over the last decade. From boom to bust and then to recovery, many are worried about what is coming next.

At Aviva, we wanted to get an insight into what the recovery means for the average family and how the experience of the economic and financial crash has affected their personal financial behaviour.

Economic recovery has yet to permeate the finances of the average Irish family which remains cautious and sceptical about the future. Our Spotlight on the property market suggests the quest to own a home will remain a socio-economic juggernaut that will pre-occupy policymakers and households alike well into the next decade.

On a positive note, we found ample evidence that households have used the last few years of rising incomes to rebuild their finances and pay down debt. In particular, families have returned to the habit of regular saving with a majority putting money away, on at least a monthly basis, into credit unions, banks deposit accounts, special savings accounts, insurance company savings accounts or education savings accounts.

It is also clear that the harsh lessons of the economic collapse have been learnt: our research shows that nine out of ten families had some form of an additional savings or investments that were not dependent on property.

Yet, in line with other recent national surveys and data, our research found little by way of consumer confidence or buoyancy at a household level.[19,20] Time will tell whether this is merely a glitch in the momentum of the recovery or a deeper malaise in the financial wellbeing of the Irish family.

As we approach the third anniversary of the post-Troika era, the snapshot emerging from our first Family Finances Report is of a nation underwhelmed by the real and measurable improvement in our economy over the last five years, whose confidence in the recovery is undermined by a sense of foreboding in a world of geo-political and economic upheaval. We will update this snapshot in 2017.

Fall in consumer confidence: **a glitch or a deeper malaise** in the financial wellbeing of the Irish family?

[19] KBC Bank Ireland / ESRI Consumer Sentiment Index – The index fell in October 2016 to 97.3, its lowest reading in 20 months.
[20] SIMI – New car sales declined by 12.43% in October 2016 compared to October 2015. The year on year increase in new car sales has slowed each month since January 2016.

About **Aviva**

- Aviva Ireland provides retirement income, life cover, protection, general insurance, and investment and savings products to almost 1 million customers.
- We employ 1,060 people across our three locations in Dublin, Galway and Cork.
- We are one of Ireland's largest insurers and part of Aviva Group, which has 33 million customers, across 16 markets in Europe, Asia and Canada.
- Aviva's asset management business, Aviva Investors, provides asset management services to both Aviva and external clients, and currently manages over £289 billion in assets.
- Aviva helps people save for the future and manage the risks of everyday life; across the Group we paid out £30.7 billion in benefits and claims in 2015.
- By serving our customers well, we are building a business which is strong and sustainable, which our people are proud to work for, and which makes a positive contribution to society.
- For further information please contact Cathy Herbert, Head of Communications on **087 239 5393**.

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