



My Favourite Things: the relationship between asset classes and satisfaction

Marcia Keegan, Rebecca Cassells, Cathy Gong

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Dr Marcia Keegan

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Abstract

Many studies have been dedicated to studying the relationship between material wellbeing and life satisfaction. Broadly speaking, much of the research finds that higher levels of income and higher levels of wealth are weakly associated with life satisfaction. While some studies separately consider the impact of, for example, home ownership or debt, little existing research considers the relationship between satisfaction and the type of wealth held and any associated debt.

This paper uses the 2010 Household, Income and Labour Dynamics in Australia (HILDA) Survey to assess whether certain types of assets or debt are more strongly associated with life satisfaction than others, focusing on the most widely-held asset and debt types. Broadly speaking, the asset classes considered are the family home, other real property, superannuation, shares and savings held in bank accounts. Also, the debt classes of mortgages, credit card debt and other personal debt are considered. The impact of the value of these assets and debts on general life satisfaction and financial satisfaction are considered. It finds that all asset types have a positive association with financial satisfaction and nearly all debt types have a negative association. However only some asset and debt classes have an impact on general life satisfaction, and there is considerable difference in the size of these effects.

Introduction

The relationship between individual happiness and material wellbeing has been studied extensively in economics and psychology. Much of the focus has been on the relationship between income and happiness or subjective wellbeing (SWB), although it appears that some researchers use the terms 'wealth' and 'income' interchangeably (Biswan-Deiner 2008). Findings have generally shown that there is a small positive association between income and SWB (Cassells, et al. 2010, Cummins, et al. 2003, Guilbert and Paul 2009), however the results are mixed. Brickman, et al (1978) found that recent lottery winners were not substantially happier after their wins. Some research suggests that the relationship is minimal above levels at which income meets basic needs (Ahuvia 2008, Hamilton 2003). Other research has found that relative income, that is, how much income a person receives relative to their peer group as opposed to the absolute amount, is more closely related to life satisfaction (Cassells, et al. 2010, Clark and Oswald 1996, Hagerty 2000).

More recently, the availability of extensive household surveys has allowed the correlation between self-reported happiness or life satisfaction and wealth to be considered. Heady and Wooden (2004) analysed the relationship between overall life satisfaction and satisfaction with one's financial situation using 2002 HILDA data, and found that wealth was at least as important as income in a person's satisfaction with their life and finances. A study of panel data from Australia, Britain, Germany, Hungary and the Netherlands (Heady, et al. 2004) found that the association between wealth and life satisfaction is stronger than the association between income and satisfaction. However, although Brown et al (2005) found that regular savers were less likely to report psychological distress than non-savers, they did not find any relationship between psychological wellbeing and other assets.

The relationship between debt and satisfaction is a complex one. Debt is simply consumption brought forward, which must be paid for with future income. Higher levels of non-mortgage debt are associated with poorer levels of wellbeing, and that debt-free persons and households reported lower levels of psychological distress than those with nonzero debt (Brown, et al. 2005), however perceived and actual debt burdens vary by gender, expenses, income and expected future income (Keese 2012).

That wealth should be associated with happiness is sensible, as wealth is capable of generating income through capital gains, an income stream or offsetting expenses. An owner-occupied dwelling offsets rent, another property creates a rental income stream, shares provide dividends, savings provide interest and all except the last provide the opportunity for capital gain. There is an intuitive appeal to the idea that wealth is more important to happiness than income. Firstly, wealth is inclined to be more stable than income – a home, a share portfolio or a large savings account are much less likely to completely disappear in a short period of time than the income from employment. Secondly, the income stream, potential capital gains or store of value assets provide can act as a buffer against the risk of an unfortunate life event – unemployment or disability are less dreadful if assets can be drawn upon. Thirdly, as well as providing an income stream or store of value, some assets provide other utility. The sentimental value of owning one's own home is usually far greater than the value of avoided rent; a holiday home renovated by its owner is much more satisfying to visit than rented accommodation; and some assets such as art or collectibles provide an engaging hobby as well as a way to potentially turn a profit.

Data

The data for this research is taken from the 2006 and 2010 Household, Income and Labour Dynamics in Australia (HILDA) Survey – Waves 6 and 10. This survey was first collected in 2001, and has run for ten waves. In 2002, 2006 and 2010 a special survey on wealth was collected.

For this research, we have focused on respondents aged 15+, a total of 6410 males and 7109 females. A total of 6913 households are represented.

Measures of happiness

For this research, we have focused on responses to two questions in the HILDA survey. The first, which is used as a measure of general or overall satisfaction, is “All things considered, how satisfied are you with your life? Again, pick a number between 0 and 10 to indicate how satisfied you are.” The second, which is used as a measure of how satisfied a person is with their finances, asks users how satisfied or dissatisfied they are with their financial situation. In both cases, the responses are given on a scale of 0 to 10, where 0 is ‘totally dissatisfied’, 5 is ‘neither satisfied nor dissatisfied’ and 10 is ‘totally satisfied’.

In HILDA, happiness or life satisfaction is recorded at the individual level, but assets and debts can be owned by the individual or the household. A couple family will typically hold the family home in the names of both members of the couple, and other property may be treated the same way, even if only one spouse’s salary contributes to the mortgage payments. Shares and savings accounts may be held by one member of a couple or both. Superannuation in the contributions phase always accumulates to the individual who earns the income. However, even if an asset is legally owned by one member of the household only, the benefits are often shared. Older teenagers who are surveyed in HILDA on their satisfaction levels receive the benefit of living in their parents’ house, and income from financial assets may be spent on them in ways that improve their life satisfaction. A married or partnered person might reasonably expect that their spouse’s superannuation will assist in supporting them in retirement. Because the benefits of wealth (and burdens of debt) are likely to be shared to a substantial extent among household members, we will consider the impact of the total household’s wealth on the individual’s satisfaction.

Assets and debt considered

HILDA asks questions about a broad range of assets. Not all of them can be feasibly modelled in this paper, as some classes of assets are only owned by a very small number of people. Also, some assets might be considered consumer items rather than assets in the financial sense (for example cars and household durables, these are purchased solely for consumer use, with no prospect of an income stream or capital gain from the asset). For this reason, this paper focuses on five types of assets – bank accounts, superannuation, shares, the family home (owner-occupied home) and other real property (investment properties or holiday homes). These were chosen because at least 20 percent of surveyed households owned this class of asset. Other assets reported in HILDA, such as business assets, collectibles and trust funds, were owned by less than 20 percent of households. The types of debt focused on were home mortgage debt, other real property mortgage debt, credit card debt and other personal debt. Other debts, such as business debt and HECS, were not considered as less than 20 percent of households held that form of debt (an exception was made for investment property debt, as investment properties were included in assets).

The assets and debts modelled are listed below, along with a brief definition and the HILDA variable name in brackets.

- Family home: the owner-occupied dwelling in which the household resides (*jhwhmvai*)
- Bank accounts: all savings and transactions accounts with financial institutions, including joint accounts (*jhwbtbani*)

- Equities/Shares: the value of shares in businesses, excluding own incorporated business (*jhweqini*)
- Superannuation: All household superannuation accounts, including government, private and self-managed, whether in the accumulation or pension phase (*jhwupeil*)
- Other real property – real estate that is not owner-occupied, for example holiday homes, rental properties or commercial premises (*jhwopvai*)
- Home mortgage: outstanding principal on the mortgage secured over the family home (*jwhmdti*)
- Other property mortgage: outstanding principal on the mortgage secured over other real property (*jwhhopdti*)
- Credit card debt: Amount owing on all credit cards in household, including joint cards (note that a number of respondents who regularly pay off their card every month reported themselves as having no credit card debt, underestimating total debt) (*jhwccdti*)
- Other personal debt: includes other loans taken out by a household, including car loans, personal loans, investment loans, amount owing under hire purchase agreements and overdue bills (but not HECS or credit card debt) (*jhwthdi*)

Table 1 shows the percentage of households in the survey who reported holding each asset, and the mean value of the asset for those that owned it. The third row shows the mean values of each asset from the Australian Bureau of Statistics (ABS 2011) for comparison. Likewise, Table 2 shows similar information for debts held by households responding to HILDA.

Table 1 Asset distribution of HILDA respondents

	Family home	Bank accounts	Equities	Superannuation	Other real property
Mean value (\$000s)	378.36	38.92	37.35	143.74	125.99
% owning asset	63.80	97.59	34.05	80.84	20.25
Mean value (\$000s) (ABS)	364.9	32.9	22.3	115.9	136.4

Reference: Author's calculations based on HILDA 2010 survey data, ABS (2011).

Table 2 Debt distribution of HILDA respondents

	Home mortgage	Other property mortgage	Credit card debt	Other personal debt
Mean value (\$000s)	86.28	34.64	1.84	16.27
% owing debt	34.74	9.87	26.85	34.78
Mean value (\$000s) (ABS)	68.4	36.6	2.6	10.2

Reference: Author's calculations based on HILDA 2010 survey data, ABS (2011).

The assets that made up the greatest share of gross household worth were the family home, other real property and superannuation. Around two-thirds of households owned their home worth an average in the high \$300 000s, and around one third of these households owned it with a mortgage. More than 80 percent of households reported having some money in superannuation, with an average amount of \$143 000. ABS data suggests that other real

property represents a greater share of household wealth than superannuation, but fewer households own other real property. Almost all households held bank accounts, around a third owned shares, and just over one fifth owned other real property.

Fewer debt classes than asset classes were surveyed in HILDA. A similar method of selecting debts for analysis was used; any debt class held by more than 20 percent of households was included in the analysis. For this reason, business debts and HECS debts were excluded. However, mortgages over other property were included despite fewer than ten percent of households holding such debts, because it would be misleading to consider the impact of other real property on assets without taking into account associated debts.

Methodology

The analysis uses a series of ordinal probit models to determine the relationship between various forms of wealth and happiness, with the satisfaction variable as the dependent variable. This model was estimated with survey data analysis techniques using the jackknife method.

Equation 1 shows the form of the model used to estimate the relationship between assets, debt and satisfaction. The probability that the individual j will give themselves the satisfaction score i corresponds to the probability that the linear function shown in Equation 1, plus a random error term, is within the range of the cutpoints estimated for that particular level of satisfaction:

Equation 1

$$\Pr(\text{outcome}_j = i) = \Pr(n_{i-1} < \beta_1 x_j + \beta_2 \ln(a)_j + \beta_3 \ln(d)_j + u_j \leq n_i)$$

where x is a vector of individual characteristics, a is a vector of the individual's household asset values, d is a vector of individual's household debt values and u is the error term. The log of assets and debt was used as the literature in this area suggests the relationship between wealth and satisfaction is curvilinear.

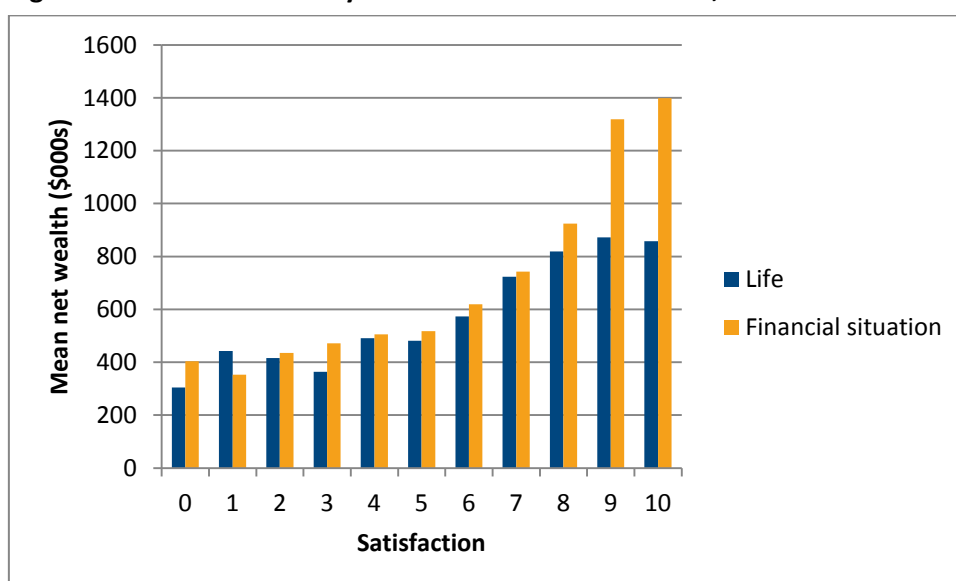
The vector of explanatory variables x includes age, age-squared divided by 1000 ($jhgage$), a dummy variable for females ($jhgsex$), dummy variables for highest qualification achieved (university, diploma or certificate, no post-school education - $jedhigh$), dummy variables for employment and unemployment ($jesdtl$), long term health conditions as a continuous variable on a scale of 0 to 10, where 0 = perfect health and 10 = very poor health ($jhelth$), whether a person is partnered (married or de facto) or unpartnered ($jmrcurr$) and if they are a single parent ($jhhtype$). In addition, a variable for equivalised household disposable income is used. This takes a HILDA measure of financial year income after tax ($jhifdi$) and divides it among members of the household, where additional adults have a weighting of 0.5 and additional children have a weighting of 0.3, to account for the fact that the benefit of household income may be affected by the number of people it must be shared amongst.

Results

Prima facie, happier people tend to have higher net wealth than sadder people. Figure 1 shows mean net wealth by satisfaction with life in general, and satisfaction with financial situation, without controlling for other factors that are known to be associated with satisfaction levels. There is a positive relationship between both life satisfaction and financial satisfaction and mean net wealth. As one might expect, net wealth has a stronger relationship with financial satisfaction than general life satisfaction. People who rate their life satisfaction as a 9 or 10 out of ten are not much wealthier than those who rate 7 or 8, but people who rate their satisfaction with their financial situation as 9 or 10 are much wealthier than those at 7 or 8.

On average, people were happier with their lives in general rather than their finances. The median life satisfaction score was 8, while the median financial satisfaction level was 7. The averages differed slightly between sexes, with women being slightly happier with their lives overall than men (7.89 vs 7.85). Average satisfaction with financial situation was 6.38 for men and 6.39 for women.

Figure 1 Mean net wealth by financial and life satisfaction, HILDA 2010



Reference: Author's calculations based on HILDA survey data

Table 3 shows the relationship between the log value of total assets and overall life satisfaction, and satisfaction with one's financial situation, controlling for other personal characteristics.

There were no surprises in the relationship between satisfaction and other personal characteristics. Age showed a negative relationship while age-squared showed a positive relationship. Being female was positively associated with higher levels of happiness. People with lower levels of education tended to show higher levels of overall life satisfaction, but lower levels of financial satisfaction, possibly due to the lower job security and wages associated with lower-skill jobs. Long term health conditions were associated with lower life

and financial satisfaction. Employment had a positive association with financial satisfaction but not life satisfaction. In contrast, unemployment has a strong, statistically significant negative association with both life satisfaction and financial satisfaction. Equivalised household income (in thousands of dollars per year) has a small, positive and statistically significant relationship with life satisfaction, and a stronger relationship with financial satisfaction.

The value of total assets has a significant positive relationship with overall life satisfaction, and a much greater relationship with satisfaction with one's financial situation.

Table 3 Total assets and satisfaction

	Overall life satisfaction		Satisfaction with financial situation	
	Coefficient	Standard error	Coefficient	Standard error
Age	***-0.054	0.005	***-0.044	0.004
Age-squared/100	***0.061	0.006	***0.058	0.004
Female	**0.047	0.020	**0.049	0.019
Diploma/trade qualification	0.053	0.043	***-0.126	0.030
No post-school	***0.115	0.034	***-0.108	0.031
Health status	***-0.421	0.035	***-0.261	0.035
Partnered	***0.249	0.032	**0.085	0.032
Single parent	-0.094	0.066	***-0.223	0.065
Employed	-0.058	0.039	**0.082	0.041
Unemployed	***-0.186	0.064	***-0.679	0.089
Equivalised income (\$000 pa)	***0.001	0.000	***0.005	0.000
Assets	**0.025	0.010	***0.085	0.010
/cut1	***-3.841	0.192	***-1.692	0.134
/cut2	***-3.557	0.170	***-1.372	0.126
/cut3	***-3.216	0.152	***-1.008	0.126
/cut4	***-2.882	0.147	***-0.683	0.122
/cut5	***-2.585	0.149	***-0.395	0.126
/cut6	***-2.107	0.147	0.096	0.123
/cut7	***-1.739	0.145	***0.497	0.122
/cut8	***-1.002	0.146	***1.058	0.123
/cut9	-0.064	0.140	***1.768	0.123
/cut10	***0.723	0.141	***2.307	0.129

Reference: Author's calculations based on HILDA 2010 survey data

However, debt is also likely to show a relationship with satisfaction, as noted by Brown (2005) and Keese (2012); and this is expected to be negative. It is reasonable to assume that if assets and debt are both associated with happiness, then a person with \$2 million in assets is probably going to be happier if these assets are owned outright, than if those assets are accompanied by \$1.5 million in debt. While estimating the relationship between net wealth and satisfaction seems intuitive, the fact that this model uses log values means that this method would not incorporate the association with negative net wealth (ie debts exceed assets). Rather than exclude households with negative net assets, an ordinal probit with log assets and log debt as explanatory variables was used. Table 4 shows the results.

Debt is negatively associated with both life satisfaction and financial satisfaction. It is statistically significant at the 99% level of confidence in both cases, although the relationship with financial satisfaction is larger. Incorporating debt into the equation increased the coefficients for total assets slightly. The coefficient for assets in both models is around three times larger than that for debt; however this does not mean that taking out a 100% loan to buy an asset, resulting in equivalent increases in both assets and debt, will be associated with greater levels of happiness. These models consider the log of assets and debt, and since most households have more assets than debt, an increase in debt of \$50 000 will have more of an impact on the logged value of household debt than an increase in assets of \$50 000 will have on the logged value of total assets.

Table 4 Total assets, total debt and satisfaction

	Overall life satisfaction		Satisfaction with financial situation	
	Coefficient	Standard error	Coefficient	Standard error
Age	***-0.054	0.005	***-0.042	0.004
Age-squared/100	***0.059	0.006	***0.051	0.004
Female	**0.048	0.020	***0.053	0.018
Diploma/trade qualification	0.050	0.043	***-0.139	0.031
No post-school	***0.112	0.034	***-0.122	0.032
Health conditions	***-0.419	0.034	***-0.253	0.035
Partnered	***0.261	0.033	***0.125	0.033
Single parent	-0.091	0.066	***-0.211	0.067
Employed	-0.041	0.039	***0.143	0.038
Unemployed	***-0.178	0.065	***-0.659	0.092
Equivalised income (\$000 pa)	***0.001	0.000	***0.005	0.001
Total assets	***0.032	0.010	***0.109	0.010
Total debt	***-0.011	0.003	***-0.039	0.004
/cut1	***-3.850	0.191	***-1.727	0.133
/cut2	***-3.567	0.170	***-1.404	0.126
/cut3	***-3.226	0.152	***-1.035	0.125
/cut4	***-2.891	0.147	***-0.708	0.121
/cut5	***-2.593	0.149	***-0.416	0.125
/cut6	***-2.114	0.146	0.081	0.122
/cut7	***-1.745	0.144	***0.486	0.121
/cut8	***-1.007	0.145	***1.054	0.122
/cut9	-0.069	0.139	***1.773	0.123
/cut10	***0.719	0.140	***2.320	0.129

Reference: Author's calculations based on HILDA 2010 survey data

The first two tables have shown that in Australia in 2010, life satisfaction and financial satisfaction are positively associated with household asset values and negatively associated with household debt. This confirms earlier research from Australia and overseas on the relationship between assets, debt and satisfaction.

Satisfaction by asset and debt type

The next stage of this paper assesses how relationships between satisfaction and various asset and debt classes differ. As discussed in the introduction, the correlation between debt and life satisfaction varies depending on the type of debt held, with some research finding that unsecured debt is detrimental to satisfaction while secured debt has no effect. The nature of the assets under consideration is that while all can be considered stores of value, some assets simply provide an income stream, some provide the prospect of capital gains, some are extremely liquid and others not so, and others have intrinsic benefit in addition to their financial benefits. Table 5 examines this further, by modelling the relationship between major asset and debt classes, financial satisfaction and life satisfaction.

Table 5 Conditional association between wealth types, financial and life satisfaction

	Overall life satisfaction		Satisfaction with financial situation	
	Coefficient	Standard error	Coefficient	Standard error
Age	***-0.055	0.005	***-0.039	0.004
Age-squared/100	***0.060	0.006	***0.048	0.005
Female	**0.048	0.020	***0.053	0.019
Diploma/trade qualification	0.063	0.041	**0.077	0.029
No post-school	***0.121	0.033	*-0.055	0.030
Health status	***0.414	0.034	***-0.233	0.036
Partnered	***0.256	0.033	***0.114	0.034
Single parent	-0.092	0.068	***-0.214	0.069
Employed	-0.035	0.037	***0.142	0.036
Unemployed	**0.176	0.067	***-0.623	0.097
Equivalised income	***0.001	0.000	***0.004	0.001
Family home	***0.014	0.004	***0.018	0.004
Superannuation	0.005	0.005	*0.008	0.005
Savings	0.000	0.006	***0.073	0.007
Shares	0.003	0.002	***0.011	0.003
Other real property	0.004	0.004	***0.011	0.003
Home mortgage	**0.009	0.003	***-0.012	0.003
Other property mortgage	-0.004	0.005	-0.006	0.006
Credit card debt	**0.009	0.004	***-0.039	0.004
Other debt	-0.004	0.003	***-0.016	0.003
/cut1	***-4.085	0.162	***-2.069	0.124
/cut2	***-3.800	0.143	***-1.740	0.118
/cut3	***-3.457	0.118	***-1.361	0.122
/cut4	***-3.121	0.111	***-1.023	0.118
/cut5	***-2.823	0.114	***-0.723	0.122
/cut6	***-2.343	0.113	*-0.213	0.120
/cut7	***-1.972	0.113	*0.206	0.117
/cut8	***-1.232	0.112	***0.794	0.119

/cut9	***-0.291	0.106	***1.533	0.116
/cut10	***0.498	0.106	***2.089	0.119

Reference: Author's calculations based on HILDA survey data

Housing wealth and debt

The log value of owner-occupied dwellings had a statistically significant, positive association with both overall life satisfaction and financial satisfaction. The relationship between financial satisfaction and the family home value is stronger than relationship with life satisfaction. However, there is no statistically significant relationship between the log value of other real property and life satisfaction. It has a positive, statistically significant relationship with financial satisfaction, but the relationship is weaker than that with the family home.

Likewise, the relationship between satisfaction and mortgage debt varies whether the mortgage is over the family home or other property. Coefficients are negative for mortgage debt in both life and financial satisfaction. However, mortgages over other property do not have a statistically significant relationship with satisfaction. The home mortgage has a negative and statistically significant association with both life and financial satisfaction, and has a bigger association with financial satisfaction. Note that the absolute value of the coefficients for home mortgage debt are less than those of the home mortgage.

Financial wealth and non-property debt

The log value of shares and savings do not have a statistically significant relationship with overall life satisfaction, but they do have a positive relationship with financial satisfaction. Dollar for dollar, savings has the strongest association with financial satisfaction, with a coefficient more than four times the value of that of the family home. Superannuation had no impact on life satisfaction, and only a small, barely statistically significant impact on financial satisfaction.

Credit card debt has a much stronger negative relationship with financial satisfaction than debt secured over real property, and has a negative relationship with overall life satisfaction. Other debt, while having a negative and statistically significant association with financial satisfaction, has less of an impact than credit card debt, and has no significant association with life satisfaction.

Discussion

Although some analysis has been conducted on the relationship between wealth and satisfaction, to the author's knowledge none has tried to isolate the relationship between asset class and happiness. It also compares the asset's association with life satisfaction and financial satisfaction.

Of the five asset and four debt classes considered in this analysis, only one asset type and two debt types had a statistically significant relationship with life satisfaction; namely, the family home, the associated mortgage and credit card debt. The value of the family home had the strongest relationship. Savings, superannuation, shares, other debt, other real property and associated mortgages had no statistically significant association with life satisfaction.

These findings are perhaps not surprising – the family home provides threefold benefits. It not only offsets rental expenses and provides the opportunity of capital gain, it also holds sentimental value. In contrast, savings, shares and investment properties, while they are important financial assets, do not represent a cornerstone of a person's lifestyle.

The comparatively minor relationship between superannuation and life or financial satisfaction was an interesting finding, as it is one of the most widely-held assets and the second largest in value after the family home. It may be that superannuation has a weak association with satisfaction because for most respondents, it cannot be accessed for years if not decades, and so does not provide the prospect of income or any other utility in the short to medium term. This may be important from a policy perspective, as if a healthy superannuation balance gives no satisfaction to a 40 year old, they may be inclined to invest or spend money outside of the superannuation system.

Of the four debt types considered, the two that can never be tax-deductible are the two that have a negative relationship with life satisfaction. That credit card debt is associated with lower life satisfaction is not surprising – the interest on credit card debt reduces the amount of disposable income available for consumption, and credit card debt often regarded as 'bad debt' by financial advisers as it is typically used to purchase consumption items that lose value very quickly. Mortgage debt is associated with less dissatisfaction than credit card debt, but owning one's home outright appears to be more satisfying than owning it with debt. Mortgages also typically take up a large chunk of the homeowners' income, and it may make them vulnerable in the event of job loss. Other debt shows a relationship with financial satisfaction but not life satisfaction. It is difficult to draw conclusions from this as other debt is made up of a range of debt types.

We can draw from this that owning one's home may be satisfying financially and in general, more so if it is debt-free. However, if a person purchases a home with a mortgage, the additional satisfaction they receive from owning a home more than offsets the loss of satisfaction from having a mortgage. That is, using a loan to buy a home may have a net positive effect on satisfaction.

For decades throughout Australian history, before compulsory superannuation, purchasing and paying off a house was a principal way of providing for one's retirement. Cultural factors in favour of home ownership may contribute to the high satisfaction ratings of home ownership – it is possible in cultures where home ownership is less common and rental accommodation more stable, home values may have less of an impact on satisfaction. Controlling for dwelling value, a property is not as satisfying if it is an investment or holiday house instead of an owner-occupied dwelling. It is interesting that a mortgage over the family home is associated with lower satisfaction, but a mortgage over another property is not. This may be because interest on the latter is tax-deductible and can be used as part of a wider investment strategy, so it has less of an impact on the household budget.

All assets and debt types, with the exception of other property mortgages, had a larger and more statistically significant relationship with financial satisfaction than overall life satisfaction. Interestingly, while the value of savings had no significant relationship with overall life satisfaction, savings had a stronger relationship with financial satisfaction than any other asset. This may be because having a substantial asset in a very liquid form contributes to a feeling of financial flexibility and security, compared to having wealth in risky or illiquid assets. It may also be because savings can easily be used for consumption – a holder of a large sum in cash savings has the option of a luxurious lifestyle for some years, compared to a person who has the same amount of wealth tied up in a house or superannuation. Finally, it must be remembered that this survey was conducted in the second half of 2010, when financial markets were looking shaky and the possibility of a ‘double-dip’ recession was at the forefront of investors’ minds. It is possible that some holders of large sums of cash may have converted other assets to cash before the crisis, and as a result felt very satisfied with their financial ingenuity.

Conclusion

This analysis considers the relationship between total asset wealth and debt and life satisfaction and satisfaction with one’s financial situation. It then considers the association between five major asset classes and four debt classes on life satisfaction and financial satisfaction, using Wave 10 of the Household, Income and Labour Dynamics in Australia Survey, using a panel data regression.

The findings confirm previous studies which identified a weak but statistically significant positive relationship between wealth and satisfaction or subjective wellbeing, and a negative relationship between debt and satisfaction, with unsecured debt having a stronger effect.

Of all the assets, the family home has the strongest association with life satisfaction and the second-strongest association with financial satisfaction. The family home provides benefits in three ways – financial benefits through the prospect of capital gains and removing the need to pay rent, plus the sentimental value of having one’s own home to enjoy, decorate and use as one sees fit. Savings is strongly associated with financial satisfaction, but not associated with general life satisfaction, suggesting that the financial security associated with cash savings does not flow over into more general satisfaction.

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