



Essays on the impacts of household financial decision making

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Glossary

ANZ	Australian and New Zealand Banking Group
APRA	Australian Prudential Regulation Authority
ATO	Australian Taxation Office
AUD	Australian Dollar
CBD	Central Business District
HAS	Housing Affordability Stress
HILDA	Household, Income and Labour Dynamics in Australia
OECD	Organisation for Economic Co-operation and Development
RB	Rural Bank
RFCS	Rural Financial Counselling Service
ROA	Return on Assets
SAM	Shared Appreciation Mortgage
SIS	Superannuation Industry (Supervision)
SPAA	SMSF Professionals' Association of Australia
SMAE	Small-to-medium sized agricultural enterprise
SME	Small-to-medium sized enterprise
SMSF	Self-managed Superannuation Fund
VIF	Variance Inflation Factor

Declaration

I certify that this work contains no material which has been accepted for the award of any other degree or diploma in my name, in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text. In addition, I certify that no part of this work will, in the future, be used in a submission in my name, for any other degree or diploma in any university or other tertiary institution without the prior approval of the University of Adelaide and where applicable, any partner institution responsible for the joint-award of this degree.

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Abstract

The thesis examines the consequences of household and individual financial decision making in three different areas: mortgages, superannuation and family businesses. The questions posed in each case cannot be tackled using conventional financial databases. I therefore address each case by applying survey methods.

First, I examine the socioeconomic impacts of households choosing to take out shared appreciation mortgages (SAMs). Tax and regulatory barriers have impeded the development and use of SAMs in many mortgage markets. Empirical studies on household impacts stemming from SAMs have therefore also been limited. However, the State Government of South Australia has implemented SAMs as a means of enabling and encouraging low-income homeownership, thereby creating a unique dataset of SAM financed households. I survey this population, finding that SAM borrowers benefit from increased budgetary expenditure on discretionary items following take-up, while simultaneously saving on some non-discretionary items relative to control samples of renters and other homeowners from the general population. Furthermore, SAM homeownership also appears to be associated with increased levels of neighbourhood satisfaction and community involvement for borrowers. The results from this study indicate that SAM financed homeownership leads to changes in household behaviour and deserves further consideration by the housing industry and research community.

Second, I examine the influence of investor knowledge and the cognitive bias which arises from overconfidence on the advice seeking behaviour of investors in self-managed superannuation funds (SMSFs). I trace whether overestimating one's own technical and financial abilities can hinder the willingness to seek advice. I identify a subset of investors

who are not knowledgeable and yet do not seek advice to compensate for this. These investors appear to be overconfident in their ability to manage their SMSF, despite holding under-diversified and less financially sophisticated portfolios when compared to their peers. Given the global rise in investors choosing to manage their own retirement funds and the importance of seeking advice in this context, there are direct policy implications from these findings. They suggest a need to identify and target self-managed retirement investors who display overconfidence since they are the most likely to manage under-performing SMSFs in the longer term.

Third, I examine links between the succession planning decisions, operational management and financial performance of small-to-medium sized agricultural enterprises (SMAEs). I differentiate between written, verbal and other succession arrangements to investigate how each type embeds within the broader operational environment of SMAE households. Further tests are performed to see if differences in financial outcomes can be linked with a particular approach to succession. The results indicate that succession planning decisions are positively associated with the use of written business plans and crop insurance, but that this is only true for SMAEs with professionalised written succession arrangements. This was also the only cohort associated with improved return on assets relative to peer agricultural businesses with alternative succession arrangements in place. Given the critical role of succession in the long-term sustainability of family business households, these results have direct implications for farmers and practitioners advising the private agricultural sector. They suggest that the value in planning succession at least partly lies in the value of going down pathways for professionalization.