FACT SHEET

Why people find themselves in financial difficulty

FINANCIAL DIFFICULTY COULD AFFECT ANYONE OF US

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Financial counsellors are based in community agencies in every State and Territory in Australia. They have an extensive knowledge of a range of areas of law and policy, which enables them to provide information, support and advocacy to assist people in financial difficulty.

This information sheet outlines a number of the more common ways in which people can find themselves in financial difficulty. It is based on case studies from financial counsellors. Through the case studies, we invite you to take a walk in the shoes of a typical client[1].

At some point in our lives, nearly anyone of us might find ourselves in financial difficulty. We might lose a job, become ill or a relationship might breakdown. Others may face financial problems as a result of a scam or exploitation or small business failure. Some people are simply poor and find it hard to make ends meet.

What these case studies show is that financial difficulty can happen to any of us. None of us are immune from job loss, sickness, injury or relationship breakdown. Some of us have larger saving buffers than others or might get assistance from friends and family, enabling us to overcome a temporary problem. For others, even the smallest of events, such as a cold winter, a sick child and increased utility bills, may be enough to tip them over the edge. Other people, particularly those on Centrelink benefits, will inevitably struggle to make ends meet.

If an individual for family find themselves in financial difficulty occurs, access to a free, independent and confidential financial counsellor can make the difference between financial difficulty and financial recovery.

1 For privacy reasons, the names of clients and financial counsellors are not included. Case studies have been edited for clarity, but are otherwise as provided.

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Dispelling the Myths

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1. Sudden or chronic illness

None of us plan to get sick or injured. If this happens it can cause unexpected financial difficulty. Some people have insurance that may help to some extent, but even then, it can be inadequate if the recovery period is long.

I have recently worked with a client who had a heart attack and was in hospital for several weeks. After being discharged from hospital he had a two-month recovery period and could not return to work until he was given a medical certificate from his heart specialist. My client is a casual labourer and therefore had no sick leave or annual leave to fall back on.

He applied for a sickness allowance but this took some time to be processed. He has a mortgage and a rental contract plus the usual utilities, living and travel costs. He is also a single father of a teenage boy.

We were able to support him with hardship assistance, grants and some emergency relief and he has now returned to full time work. He is still struggling to keep on top of things and manage his stress levels, so we are still in contact. He is making fantastic progress though."

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A recent client was a forty seven year old woman with one child. She had multiple chronic health issues, including an upcoming operation which would leave her with a substantial 'gap' payment. The client worked four days per week and was just above the income cut-off for any assistance from Centrelink. She did not qualify for subsidised medications and was not bulk billed by her specialist.

As a result of having to cope with ongoing pharmaceutical costs and doctors' bills, she had fallen behind with several other bills and had run up a credit card debt. She also needed urgent dental treatment that she simply couldn't afford to pay for. The client was adamant that she wanted to try and continue working despite the difficulties she faced and her rising anxiety. She described things as being "so out of control I can't see a way out" at one stage. The client was not receiving child support for her child and had let her attempts to get any lapse as it was too hard.

We were able to discuss her situation with the Child Support Agency and obtain regular child support payments for her. We helped her to negotiate a repayment plan for her credit card and, with her permission, discussed her financial situation with her medical specialist (who subsequently reduced her "gap" fee). We also provided her with information about the Medicare Chronic Disease Dental Scheme for people with chronic and complex health needs. As well, the client did not realise that her teenage child was eligible for dental treatment under Medicare – she then made a booking for her child to access their preventative dental check."

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2. Change in relationship status

Approximately forty percent of marriages in Australia will end in divorce. In addition, and despite increasing life expectancy, many people find themselves unexpectedly alone due to the death of a partner. Any change in relationship status has the potential to significantly reduce household income, leading to financial hardship.

The client was a parent with three young children and she had left a domestic violence situation. Initially she was working full-time and during this period entered into a secured loan contract for the purchase of a vehicle to transport her children and to travel to her work, which was some distance away from home. It was not practically possible for her to use public transport.

As a result of the relationship break up, two of the children developed behavioural issues that impacted on the client's capacity and availability for work. One year after entering into the loan contract, her employer's company went into receivership and she lost her job. As a result she was unable to meet the repayments on the vehicle loan. This loan was in arrears when the client first attended our office.

In addition to the financial pressures, the client was also struggling to manage a whole range of ongoing complex issues with regards to her children and in respect to the breakdown of the relationship.

In relation to her car loan, we were able to negotiate a reduced repayment arrangement for a period of time. A portion of a tax return was paid and this allowed for an extension of the repayment arrangement for a further term. We also worked with the client to put together a detailed budget, to help her manage her ongoing expenses and we referred her to a specialist service for support around the ongoing relationship issues and behavioural concerns with the children."

We advised a 39 year-old man whose wife passed away after a long illness. Two months after his wife passed away he lost his job as a result of ill health.

While he is currently on a Disability Support Pension, the total household income is significantly less than it was two years ago. As a result he has had difficulties in meeting his mortgage repayments and the financial institution started legal action to repossess the property.

We helped him to complete an income and expenditure statement, to get a clear picture of his financial situation, and we wrote to the financial institution to request a second period of financial hardship assistance. The request was for half payments for a three-month period. This request was refused, so we lodged a dispute with the Financial Ombudsman Service. Following this, the financial institution agreed to a period of three months of half payments.

After discussing longer-term options, the client decided to access his superannuation to pay out the arrears on the mortgage. We assisted the client to complete the application in order to access his superannuation on compassionate grounds.

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3. Job loss

While overall unemployment is low in Australia, approximately 2.5 million Australians ceased a job during the year ending February 2012 and one in six of these lost their last job because they were retrenched, made redundant or their employer went out of business. Job loss can create almost immediate financial hardship for some households.

The clients first approached our office in December 2011 as they were being inundated with phone calls from debt collectors. In fact, the wife was no longer answering her phone and was worried about the sort of Christmas her young family would have.

The couple had been running a small cleaning business, but many of their clients had been affected by a natural disaster in the State and had either stopped trading or could no longer afford the cleaning service. As a result, their income had dropped suddenly by around 75%.

By the time they sought help, the couple had mortgages on their home and an investment property, four credit cards (all maxed out) and two vehicle loans totalling $36,500. They were also in arrears on their council rates and water rates.

We prepared a statement of financial position as at December 2011, which showed a deficit of $2,200 per fortnight. We went through the options list and explained the advantages and disadvantages of each. They tried to sell their properties but there was no interest and the valuations were so low it would have added to the debts if a property was sold. They did not want to consider bankruptcy.

We were able to arrange hardship variations on the mortgages and moratoriums on the credit cards. As well, repayment arrangements were put in place for council rates and water rates. These measures were to allow time for the husband to find new employment.

A variation to the car loan had been received by the clients but the paperwork was very confusing and they mistakenly thought they had six months time out with the repayments. Unfortunately, the creditor had included previous non payments, so they were in arrears and repossession proceedings had commenced. We lodged a dispute with the Financial Ombudsman Service, requesting repayments as per original agreement. This is still being negotiated.

The couple did need to surrender their van to the creditor who in turn sold the vehicle. However their properties are safe and mortgages are now up to date. The husband has now found work and they have regained their confidence.

4. Exploitation

Financial literacy in Australia is improving - although according to the most recent ANZ survey of adult financial literacy in Australia there are still 36% of people who find dealing with money is stressful, even when things are going well. While financial literacy is on the rise, though, so too is the complexity of financial products. To this extent, a lack of financial literacy can be used as an excuse by industry to blame the victims.

As an example, ASIC's shadow shopping study of financial advice, released in March 2012, found that while the majority of advice examples reviewed were adequate (58%), over one third of the advice examples were poor (39%) and in fact there were only two examples of good quality advice (3%). Faced with such barriers to obtaining good quality advice, some Australians can easily find themselves the victims of poor advice and suffer financial difficulty as a result.

Our service's core client group is on low incomes. However over the past few years we have noted the increase in clients who are on larger incomes but still in significant financial stress…

One current client is a 61 year-old lady who works full time and is on an income of $85,000 per year. She lives alone but has an unemployed adult daughter. When she first came to see us she was in mortgage arrears and had a default notice on her house. She had significant credit card debt, a primary and secondary mortgage against her house and another mortgage against an investment property (an office). Her mortgages totalled $361,000 – with repayments around 55% of her net income.

These mortgages were organised by a broker who encouraged her to buy the investment property with a line of credit and borrow additional money against the house to pay the deposit.

Other debts included body corporate fees of $4,000, rates arrears, electricity and gas arrears and $29,400 in credit card debt spread across six credit cards. Two of these credit cards (with limits of $10,000 and $8,000 respectively) were issued at the time of establishing the mortgages. She also has a car loan and very high petrol costs as her work travel each day is over 150 kilometres.

Working with the client, we completed an income and expenditure statement to get a clear picture of her financial situation. We then wrote on the client's behalf to the financial institution which held her house mortgage, to request holding any action while options were investigated – we also arranged for reduced payments on the investment property.

An option open to the client was to apply for a payment from her superannuation fund to clear the arrears on her mortgage; the client also completed tax returns for three years and we used the tax refund to negotiate a lump sum payment to clear one credit card and to reduce rates, electricity and gas arrears.

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Two credit cards were placed into long term hardship arrangements, one is in a short term arrangement and two small credit cards are up to date.

We also discussed with the client options to increase her income. As a result the client has organised a reduction in voluntary contributions to superannuation to increase her disposable income, has taken on a second small job and is taking in a boarder. She has also recently organised a job closer to home to reduce her petrol costs.

The original advice by the mortgage broker was very poor.

Couple were 69 and 60 years of age. They had a line of credit close to $900K against their home. Their financial planner had advised them to invest these funds in sharemarket options. This was a highly risky strategy and most of the money has been lost. The couple had been paying "margin calls" for a number of months exacerbating their financial position. They will need to sell their home in order to reduce their debt. Apparently there are a number of other people who have lost money through the same advice from this financial planner.

5. Providers unwilling to negotiate

The collections and hardship teams of telcos and credit providers can sometimes make things worse for consumers, by rejecting what are quite sensible arrangements suggested by consumers. It is only after a financial counsellor gets involved, or a dispute is lodged with an Ombudsman service, that an agreement is reached - the same agreement that should have been accepted in the first place.

My client had approached her telco seeking time to repay her large phone bill. It was much larger than normal as she had had to make a number of international calls when her daughter ran into problems travelling overseas. It was only after I got involved that the telco accepted her offer.

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6. Chronic poverty

Another common way in which people can find themselves in financial difficulty is through chronic poverty. According to "Poverty in Australia" a report from the Australian Council of Social Service (August 2012), 2.2 million people - 12.8% of the population - live below the poverty line. That number of people would fill the MCG, at its 2012 Grand Final capacity, over 45 times.

The client is a forty three year old male living in a shared group house. His income is Disability Support Pension (DSP) which he has been receiving for twelve years. He has a diagnosed mental illness which has a profound impact on his quality of life and on his ability to work. Despite his poor health, he tries to work two shifts a week in a supermarket whenever he can, but expresses frustration that he cannot do more work and get off the DSP. He has a supportive employer who has been a family friend for many years. The client has stated that without this understanding he would not be able to work at all. The client's mother lives on the Age Pension and has a number of health issues and the client helps her with money or food when he can.

Over time, the client has built up two credit card debts and has been unable to pay them off. He also has a utility account with small arrears, a phone bill and had recently had gone to a payday lender to get a couple of hundred dollars to go to a private dentist as he was in a lot of pain. He was not aware that there was an emergency dental service for concession card holders. He had not been to a dentist for over fifteen years.

We completed two income and expenditure statements; the first including all debts and the money the client uses to support his mother, which showed a deficit. The second with basic and essential living costs only, no debt repayments and no money to support his mother: this showed a small surplus. In order to deal with the situation, the client said he would probably have to stop the assistance he gives his mother. The client felt very upset about this it would mean his mother would have to go to charities for help which she (and he) felt ashamed of doing.

We assisted the client to contact the credit card providers to request they stop the over limit fees and charges and interest accruing; and accept a small payment each month. The client said he would cut up the cards and close the accounts.

The phone bill could not be resolved with an amount that is affordable to the client, and this has now become a dispute to the Telecommunications Industry Ombudsman. The client has three months left on his current contract and intends to use a 'pre-paid' phone service in future.

The client decided to access a Centrelink Advance to pay out the payday lender; this would let him pay off the amount over a longer period at a rate he could afford. Negotiations are continuing with the utility for him to pay his fortnightly usage plus a few dollars off his arrears each fortnight.

Although the client is pleased to have a plan in place to deal with his debts, he is very distressed that he cannot support his mother and says that he may need to go bankrupt in the future if she begins to suffer because he can't help her out.