Brotherhood of St Laurence
Working for an Australia free of poverty

RESEARCH SUMMARY

Losing traction

Lessons in financial wellbeing from the COVID crisis

Emily Porter and Dina Bowman

2021

As Australia reopens, it is easy to feel that the worst of the COVID-19 crisis is over. However, our analysis suggests recovery for many will be slow, with ongoing struggles making ends meet. For some the financial impacts from COVID will last a lifetime. At the same time, the potential for new COVID strains remains and risks from global instability and climate change are accelerating. In this context, we outline vital lessons from the COVID crisis to enable economic security for all in uncertain times.

Key points

The growth of insecure employment and an inadequate social safety net have reduced public protection from shocks while making it harder for many individuals to save. This meant more people on low incomes entered the pandemic with financial wellbeing well below the Australian average, leaving them vulnerable. Our analysis shows:

- **Income support recipients got a brief reprieve from poverty:** Increased government support through the crisis allowed income support recipients to meet everyday commitments.
- Unemployed workers on the JobSeeker Payment reported a 10% improvement in meeting commitments in the 2020 COVID peak. Financial stress returned for this group as government support was wound back, with Meeting Commitments scores falling by 19% and their Resilience scores declining by 14%.
- Single parents not in employment entered the crisis with Meeting Commitments scores 43% below the Australian average. With the increased government support, scores rose by a modest 2%, before falling by 16% as the Coronavirus Supplement was gradually removed. The impact of COVID will be long-lasting for this group, with the percentage with any superannuation declining by 9 points.
- Disability support pensioners (not in employment) benefited from lump sum economic support payments. Their ability to meet commitments improved by 14% during the high COVID period of 2020, but fell by 15% as government supports were wound back.
- **Low-income workers missed out on support, with long term consequences**: 52% of workers in the lowest 20% of households by income reported losing employment, work hours or income due to COVID, compared to 28% of workers in the top 60%. This led to a 19% fall in ability to meet commitments from the pre-COVID period, with these impacts persisting throughout the period of economic recovery from October 2020 to March 2021.
- The percentage of male workers with debts in the bottom 20% of households by income increased by 18 points to 58%. Women in the same group showed a 5-point increase in the percentage with debt to 48% and a net decline in those with superannuation by 7-points.

Our findings highlight the additional risks faced by those on low incomes. Protecting people from shocks and stopping the downward spiral of financial stress requires a decent social safety net, access to quality employment that allows people to build their own resilience and a robust social infrastructure base that delivers dignity and opportunity.

The ANZ Financial Wellbeing Indicator is made up of three components based on the work of Kempson and colleagues (2017):

- **The Meeting Commitments score estimates ability to consistently meet everyday commitments, using questions on whether paying bills on time or buying groceries and other essentials is a struggle due to lack of funds.**
- **The Feeling Comfortable score captures people's feelings about their current financial situation and whether it has improved in the past year. It also considers perceptions of future financial wellbeing and economic security.**
- **The Resilience score estimates ability to manage a drop in income by a third, based on savings, as an indicator of a financial buffer to cope with economic shocks.**

Background

Decades of financialisation have shifted risks from governments to individuals (Banks & Bowman 2017). Employment has become less secure, particularly for those on low incomes (Stanford 2021), leading to increased underemployment and unpredictable incomes. At the same time, our social safety net provides less protection from shocks. Inadequate payment levels and increased conditionality have resulted in high rates of poverty for those on working age payments.

These changes have weakened people's protection from social risks, while making it harder for individuals to build their own savings buffer. People relying on low or variable incomes struggle to make ends meet, with nothing left over to accumulate savings (Choi et al. 2020). Poor housing affordability and low wage growth compound these challenges.

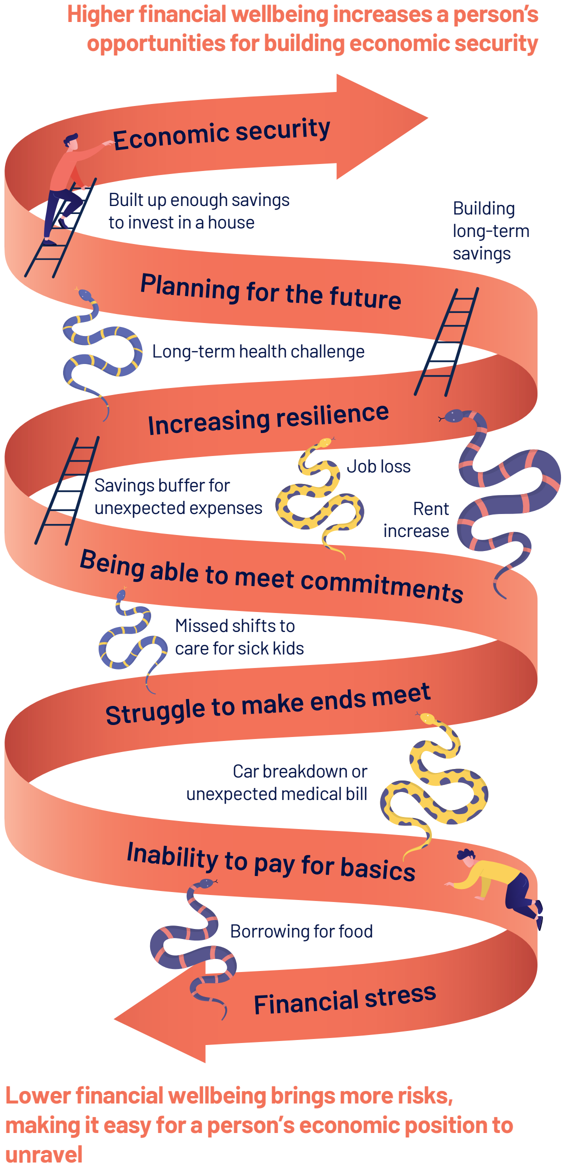
Moreover, when these groups do manage to put money aside this is likely to be used to manage future expenses or income fluctuations, rather than build economic security for the longer term. The *2021 ANZ Financial Wellbeing Survey* found that a person's socioeconomic context and the events which shape their lives are likely to play a larger role in their financial wellbeing than previously thought, with their financial behaviours playing a smaller role (ANZ 2021).

The socioeconomic context also influences the opportunities and risks an individual is likely to confront, shaping their future financial lives (Morduch & Schneider 2017). Yet, these risks and opportunities are not distributed evenly (Figure 1). Those with inadequate or insecure incomes have fewer opportunities to build savings and are more exposed to risks. Those with higher incomes or assets are protected from smaller shocks and more able to face the larger challenges. However, as COVID has shown this can leave resources depleted, making people vulnerable.

Without a savings buffer, even minor shocks such as a car breaking down or an unexpected illness can lead to tough choices, such as between falling behind on rent or taking on debt. A lack of savings or other resources may also limit access to affordable forms of credit, increasing reliance on high-cost forms like credit cards or payday loans (Friedline, Chen & Morrow 2020).

These tough choices that come with poor financial wellbeing can have a cumulative effect (Shildrick, MacDonald & Furlong 2016). Even small financial shocks can create a downward spiral; without support this can leave people trapped in disadvantage. As an example of a large financial shock, COVID has shown how easy it can be to lose traction on the path to economic security, and the need for policies which build resilience.

Figure 1 Building economic security is an uphill battle with many risks



The research

Drawing on the three reports in the *Financial Lives in Uncertain Times* series we consider who gets to build economic security in our society and how the crisis impacts vulnerable groups. Using measures developed by ANZ based on the continuous Roy Morgan Single Source Survey[1], we explore financial wellbeing trends across three key periods:

- **pre-COVID** – from April 2018 to March 2020
- **high-COVID** – the 2020 peak of the crisis from April 2020 to September 2020
- **low-COVID** – the period of eased restrictions from October 2020 to the end of March 2021

Starting behind and going backwards after a shock

Lockdowns left many without work and struggling to meet everyday commitments, resulting in superannuation accounts being emptied and higher debt levels to get through the crisis. Those who entered the crisis with poor financial wellbeing were particularly at risk. Poor financial wellbeing and the lack of savings or other resources can make it harder to both prepare for a shock and rebuild once a crisis happens. Yet many Australians entered the crisis with financial wellbeing scores well below the Australian average (Figure 2).

A common factor across these groups is their more limited access to work, particularly full-time, secure work, resulting in lower incomes and high expenditures relative to income. As a result, these groups also have high rates of poverty, particularly those relying on income support. Financial wellbeing measures help us understand how those living in poverty cope with everyday expenses and plan for the future, while also highlighting how those with incomes above the poverty line manage financial risks and decisions.

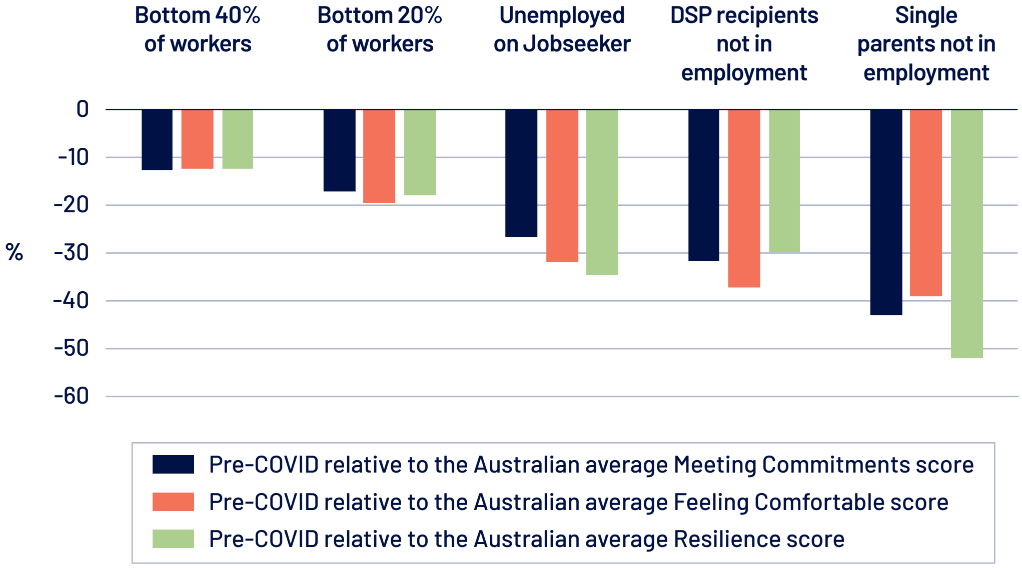
Low pay and insecure work undermine financial wellbeing

Non-standard work has become much more common, leaving close to a third of the workforce without paid leave entitlements and with irregular incomes (ABS 2020b). This makes it hard to save and provides little protection in a crisis. Low wage growth compounds this problem.

Figure 2 shows that this led to Meeting commitments scores for workers in the lowest 20% of households by income that were 17% below the Australian average in the pre-COVID period (April 2018 to March 2020). Resilience scores were 18% lower, indicating this group had limited resources available to weather a crisis.

1 More information on this data and our analysis is available in previous research reports in the Financial Lives series.

Figure 2 ANZ Roy Morgan Financial Wellbeing scores by dimension, percentage difference from Australian average – Pre-COVID period (April 2018 to March 2020)



Source: Roy Morgan Single Source, pre-COVID averages, April 2018 – March 2020. Base: Low income workers, DSP recipients not in employment, single parents not in employment, and unemployed workers likely to receive JobSeeker Payment, 18 to 64 years.

Inadequate income support undermines financial wellbeing

Other groups that are unable to find suitable work or have care responsibilities or health conditions that limit their ability to work have even lower financial wellbeing. These groups may have to rely on Australia's increasingly inadequate and conditional social safety net. Before the pandemic, 88% of households on JobSeeker and Parenting Payments and 45% of disability support pensioners were living in poverty, with many skipping meals or forgoing heating (Phillips & Narayanan 2021).

This is reflected in our financial wellbeing data. In the pre-COVID period, Meeting Commitments scores for unemployed workers likely to be receiving income support (based on low household incomes) were 27% lower than the Australian average, while scores for DSP recipients not in employment were 32% lower. Ability to meet commitments for single parents not in employment was 43% lower than the Australian average, while their resilience scores were more than 50% lower, leaving them exposed to the coming crisis.

Government support helped low-income groups absorb the shock

As the first wave of the pandemic hit and Australia went into lockdown, the federal government responded, implementing a package of supports worth around 6% of GDP (ACOSS 2020) from April 2020, including:

- JobKeeper – an employment subsidy, set at $1,500 per fortnight to the end of September 2020, for employees of businesses affected by the pandemic, excluding some casuals
- Coronavirus Supplement – an additional payment, initially $550 per fortnight, to recipients of JobSeeker Payment, Youth Allowance, Austudy and Parenting Payment. From the end of September 2020, the payment was gradually reduced to $150 before ceasing on 31 March 2021
- Economic Support Payments – one-off payments of $750 paid in March 2020 and July 2020 to people on age and disability support pensions and carer payments, followed by two further payments of $250 paid in December 2020 and March 2021

- early access to superannuation – from late March 2020 to 31 December 2020, allowed people impacted by the pandemic to withdraw up to $10,000 per financial year from their superannuation.

This resulted in effective doubling of some income support payments and provided a lifeline to the most disadvantaged. Where vulnerable groups received additional support, this reduced negative impacts of the crisis on financial wellbeing.

However, other groups, such as casual workers who had been in their role for less than 12 months, were unlikely to receive assistance. Importantly, these supports were temporary, with initiatives progressively withdrawn from September 2020 to the end of March 2021. Moreover, major supports were not reimplemented when the surge of new COVID-19 cases resulted in more lockdowns in mid-2021, re-exposing many to the risks of the market.

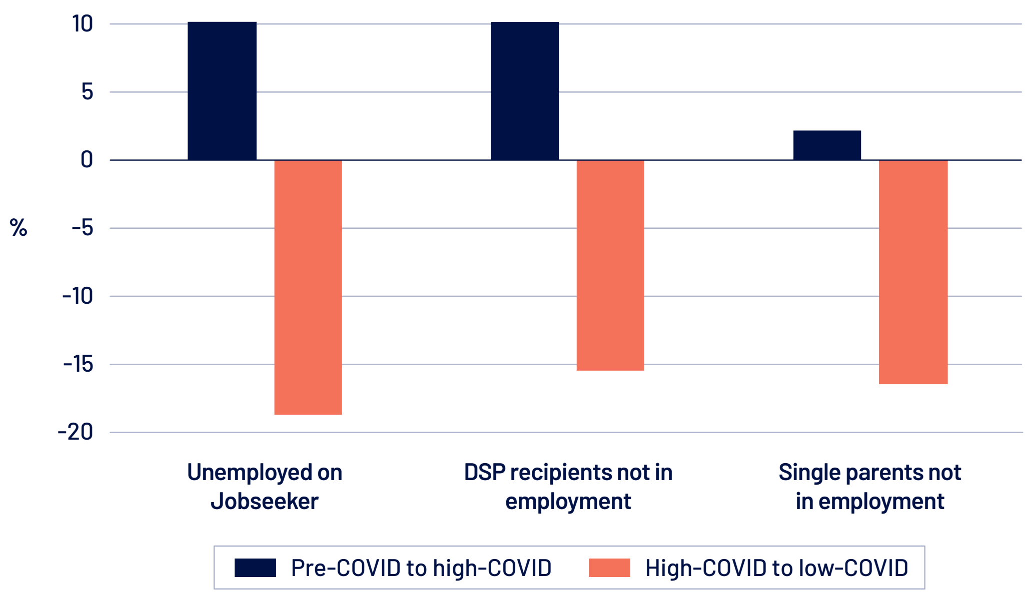
The brief reprieve provided by government support highlights underlying inadequacies

Many social security recipients saw their financial wellbeing increase during the peak of the 2020 COVID crisis (April 2020 to September 2020), due to the life-changing Coronavirus Supplement and economic support payments.

These changes were driven by an improved ability to meet everyday commitments relative to the pre-COVID period (dark columns in Figure 3).

However, these improvements didn't last: Meeting Commitments scores fell sharply as government supports were wound back in the low COVID period (lighter columns). While the brief reprieve for those relying on income support was welcome, the changes observed highlight the current inadequacy of regular payment levels, with the social security system failing to provide a real safety net for people who are unable to work.

Figure 3 Percentage change in ANZ Roy Morgan Meeting commitments scores for groups with high rates of social security receipt – pre-COVID to high-COVID and high-COVID to low-COVID periods



Note: JobSeeker Payment eligibility is based on household income below $80,200, when adjusted to September 2020 prices using ABS (2020a) data.

Source: Roy Morgan Single Source, pre-COVID, high-COVID and low-COVID averages, April 2018 – March 2021. Base: DSP recipients not in employment, single parents not in employment, and unemployed workers likely to receive JobSeeker 18 to 64 years.

Unemployed workers

With the Coronavirus Supplement, unemployed workers who were likely to have access to JobSeeker Payments[2] showed a 10% increase in their ability to Meet Commitments during the 2020 COVID peak compared to the pre-COVID period. This improvement was most notable for those without savings to fall back upon.

However, as the Coronavirus Supplement was gradually removed during the low COVID period scores fell back by 19%, leaving unemployed workers more vulnerable than before-COVID. This was reflected in their Feeling Comfortable scores, which declined by 10% in the low COVID period, after remaining relatively unchanged during the peak of the crisis. Resilience scores for this group also declined by 14% as unemployed workers on JobSeeker drew upon savings.

Single parents (not in employment)

Although a high proportion of single parents not in employment are likely to receive Parenting Payment or JobSeeker Payment and therefore would have received the Coronavirus Supplement, their Meeting Commitments scores only increased by 2% in the high-COVID period. This weak change compared to other groups may result from lower rates of income support, different expenses during COVID or the impact of lost employment. Nonetheless, Meeting Commitments scores for this group fell by a substantial 16% in the low-COVID period. This left their scores around 50% lower than the Australian average.

The percentage of single parents not in employment who had a superannuation account declined by 9 points, leaving just 46% reporting any superannuation in the low COVID period. This is likely to reduce the resources available later in life, for a group with already low rates of superannuation.

Disability support pensioners

DSP recipients who were not in employment also showed an improvement in meeting commitments. Their scores increased by a considerable 14% between the pre-COVID and high COVID periods, likely because of the economic support payments. Their scores then fell by 15% as government supports were wound back.

Low-income workers missed out on support, with long-term consequences

Low-income workers, including many young people and part-time workers, bore the brunt of the COVID crisis. Data from Roy Morgan shows that among workers in the lowest 40% of households by income, 43% reported losing employment, work hours or income due to COVID.[3] For workers in the bottom 20% of households by income, this increased to 52%, similar to the rate experienced by DSP recipients in employment.

By contrast, just 28% of higher income workers (in top 60% of households by income) reported negative work impacts. These differences are likely to stem from low-income workers' higher participation in insecure and/or part-time work, highlighting the increased risks borne by vulnerable workers. Moreover, many workers employed casually or through labour hire arrangements were ineligible for JobKeeper payments, leaving this group financially exposed to the crisis.

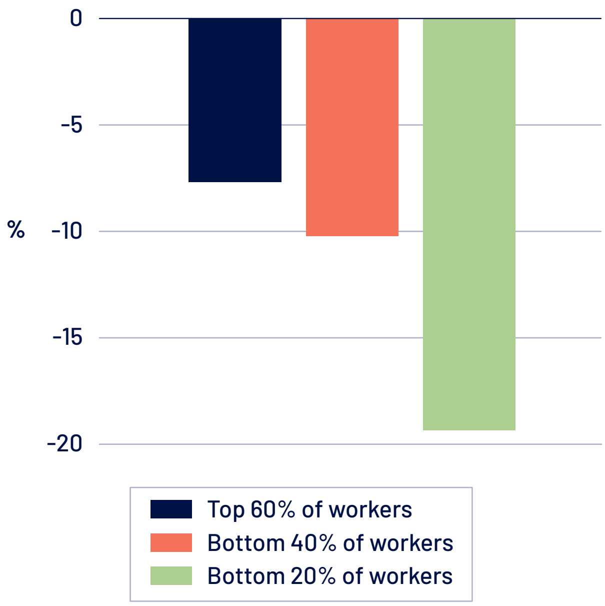
Low-income workers struggled to make ends meet during COVID

Unsurprisingly, reduced employment led to financial wellbeing for low-income workers declining sharply, particularly their ability to meet commitments. Meeting Commitments scores for workers in the lowest 40% of households by income were still 10% below the pre-COVID average by the low COVID period even as the labour market improved, highlighting the slow recovery faced by many impacted workers. The decline was even larger (19%) for workers in the bottom 20% of incomes (Figure 4). This is in line with reports of increased demand on foodbanks as a result of the pandemic (Foodbank Australia 2021).

2 JobSeeker Payment eligibility is based on household income below $80,200, when adjusted to September 2020 prices using ABS (2020a) data.

3 Based on survey responses indicating being stood down or made redundant or having reduced work hours, reduced pay or no work available. Missing data for these variables were excluded in line approaches used for other variables.

Figure 4 **Percentage change in ANZ Roy Morgan Meeting commitments scores by workers by household income group – pre-COVID to low-COVID periods**



Source: Roy Morgan Single Source, pre-COVID and low-COVID averages, April 2018 – March 2021. Base: All Australians in employment, 18 to 64 years.

Low-income workers are likely to face long-term consequences from the COVID crisis

With reduced employment and limited government support, many low-income workers traded off long-term economic security to get through the COVID crisis.

Women in particular drew on superannuation: the percentage of female workers in the lowest 20% of households by income with any superannuation initially fell by 12 points from the pre-COVID to the high-COVID period, before increasing in the low-COVID period as individuals returned to work, resulting in net 7-point decline. Men and women workers in the lowest 40% of households by income reported a net 6-point decline over the same period, with the funds likely used to pay down debt.

The partial rebound in superannuation coverage is encouraging. However, with a national average withdrawal of over $7,000 (APRA 2021), replenishing lost super is likely to be slow, particularly for women with part-time work and time out of the workforce. Moreover, as we do not have data to show how many people reduced their balances without closing their account, these findings are likely to understate the overall impact of the crisis on superannuation.

Male low-income workers (in lowest 20% of households by income) were less likely to have superannuation initially[4] and reported weaker changes across the COVID crisis. However, this group saw a substantial increase in debt. In the pre-COVID period, 40% reported having loans and/or carrying forward a credit card balance; this increased to 58% in the low-COVID period. Female workers in the lowest 20% of households reported a weaker 5-point increase in debt, leaving 48% with loans or a credit card balance in the low-COVID period.

These changes suggest that the COVID crisis will leave long-term financial scars for low-income workers, with reduced savings and superannuation accompanied by more debt. Many low-income workers will have entered the 2021 lockdown in a vulnerable financial position. The more limited financial support offered in the third wave is likely to compound these challenges.

Creating pathways to economic security

The COVID crisis, and the long-term financial scars it left, illustrate the need for a stronger role of government in protecting people from risks. Yet without reforms, the low wage growth, increasing underemployment and inadequate social safety net observed in the decade prior to the COVID crisis are likely to continue. This was illustrated in the fleeting recovery between the lockdowns of 2020 and 2021, when most new jobs created were casual, and income support recipients were plunged back into poverty. This will leave many low-income households unable to build a savings buffer to protect against short-term shocks, and many more will struggle to build longer term economic security.

4 ABS data shows that in the lowest income quintile, 77% of male workers reported superannuation compared with 88% of female workers, due to higher rates of independent contracting in lower skill, male-dominated occupations (ABS 2020b).

As the risks from climate change intensify, and rapid technological and geopolitical shifts continue to transform our economy, the need for government to invest in resilience, fairness and opportunity is greater than ever. Protecting people from shocks and stopping the downward spiral of financial stress requires:

- a decent social safety net that provides adequate income and enables resilience;
- access to quality employment that allows people to build their own resilience; and
- a robust social infrastructure base that delivers dignity and opportunity.

References

ABS 2020a, *Consumer Price Index*, December 2020, Australian Bureau of Statistics, Canberra, viewed February 2021.

—— 2020b, *Working arrangements*, August 2020 (First release), Australian Bureau of Statistics, Canberra.

ACOSS 2020, *Poverty in Australia 2020. Part 1: overview*, ACOSS & UNSW, Sydney, viewed 21 October 2020.

ANZ 2021, *Financial wellbeing: a survey of adults in Australia*, ANZ, Melbourne.

APRA 2021, *COVID-19 Early Release Scheme – issue 36*, Australian Prudential Regulation Authority.

Banks, M & Bowman, D 2017, *Juggling risks: insurance in households struggling with financial insecurity*, Brotherhood of St. Laurence, Fitzroy, Vic.

Choi, S, Heo, W, Cho, SH & Lee, P 2020, 'The links between job insecurity, financial well-being, and financial stress: a moderated mediation model', *International Journal of Consumer Studies*, vol. 44, no. 4, pp. 353–60.

Foodbank Australia 2021, *Foodbank Hunger Report 2021*, North Ryde, NSW.

Friedline, T, Chen, Z & Morrow, SP 2020, 'Families' financial stress & well-being: the importance of the economy and economic environments', *Journal of Family and Economic Issues*. Published online 15 July.

Morduch, J & Schneider, R 2017, *The financial diaries: how American families cope in a world of uncertainty*, Princeton University Press.

Phillips, B & Narayanan, V 2021, *Financial stress and social security settings in Australia*, ANU Centre for Social Research and Methods, Canberra.

Shildrick, T, MacDonald, R & Furlong, A 2016, 'Not single spies but in battalions: a critical, sociological engagement with the idea of so-called "troubled families"', *The Sociological Review*, vol. 64, no. 4, pp. 821–36.

Stanford, J 2021, *Shock troops of the pandemic: casual and insecure work in COVID and beyond*, Briefing paper, The Australia Institute, Canberra.

About the project

This research into patterns of financial wellbeing in Australia was made possible by the generous support of ANZ through their funding of the ANZ Tony Nicholson Fellowship and the provision under licence of Roy Morgan Single Source Program data that forms the basis of this report.

Please note that the views expressed in this publication are not necessarily those of Roy Morgan and Roy Morgan takes no responsibility for those views.

The authors would like to thank Natalie Paine, Financial Inclusion Manager at ANZ, Suela Qemal at Roy Morgan Consulting and Simone O'Carroll at Roy Morgan Research Institute for their support of the project.

For further information

The *Financial Lives in Uncertain Times* series of publications may be downloaded from the Brotherhood of St. Laurence website.

Published by

Brotherhood of St. Laurence
67 Brunswick Street, Fitzroy, Victoria 3065
Australia

ABN 24 603 467 024

ARBN 100 042 822

T: (03) 9483 1183

www.bsl.org.au

Brotherhood of St Laurence
Working for an Australia free of poverty