

Money matters in times of change

Financial vulnerability through the life course

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This research identifies some of the needs that financially vulnerable people in Australia are facing around the following four life events or transitions: moving from school to work, being out of work, becoming a single mother, and retiring and ageing. It also captures some of the strategies people apply to deal with those needs. It is based on interviews and focus groups with forty-eight low-income Australians.

Key points

Moving from school to work

- Insufficient income to cover basic costs was the main financial challenge for participants in this group who were living independently and relying on the Youth Allowance.
- Extra costs such as public transport, course fees, driver's licence and car registration were the main sources of financial pressure, influencing how participants balanced work, study and educational opportunities.
- The most common strategy to deal with a shortage of money was to go without and avoid situations in which participants might feel pressured to consume.
- Those living with no financial assistance from their family were more cautious about accessing credit. They associated credit with debt and saw it as a risk they should avoid.
- Positive relationships with family, peers, teachers and service providers; recognition of individual capacity; and non-judgemental treatment when looking for support services brought more personal satisfaction to participants than money.

Being out of work

- Single men in particular were exposed to high risk of social isolation and perceived a lack of support services to address their needs.

- Short periods of only a couple of months without work were sufficient to push participants from a state of no debt to one of accumulated debt.
- Lack of regular income immediately affected participants' plans and had the potential to create cumulative disadvantages. For example, a decision to live in the outer suburbs where rents are cheaper could increase an individual's risk of being socially isolated as well as reduce their access to a larger pool of job opportunities.
- Health issues such as stress and depression were frequently mentioned by interviewees, either as a driver for their decision to leave their jobs or as a barrier to finding another job.

Becoming a single mother

- The participants in this group felt a constant need to balance financial considerations with their carer responsibilities. Most placed their children's needs and wellbeing at the top of their priority list above financial considerations.
- Most mothers were in part-time or casual work and could not afford to save for the long term. Any small savings were to cover an upcoming expense, like school supplies or car registration.
- Many were aware of the importance of long-term financial planning but felt they had to fulfil immediate needs before more-abstract future ones.
- Participants had difficulties finding clear, easily accessible financial information that was relevant to their specific circumstances.

Retiring and ageing

- For those living on a government pension, financial needs were mainly related to having sufficient income to pay for essentials such as rent, transport, medical costs and utility bills. Extra expenses created a high degree of financial vulnerability.

- For those who owned their own home, had other assets, were not entirely dependent on a government pension and had a tertiary education, access to transparent and trustworthy financial information was a key financial need.
- Financial considerations were linked to participants' broader life goals and values. Seniors placed a high value on social participation and were keen to volunteer and share their practical knowledge.

Background

Life transitions and events that impact adversely on our finances can happen to any of us. Material and emotional support at times of financial vulnerability are essential to reduce the risk that predictable events, such as the transition into retirement, or more unpredictable events, such as job loss, lead to financial hardship and cumulative or persistent forms of disadvantage.

This study relied on the experiences of forty-eight individuals from Melbourne and regional Victoria. The information gathered indicated that most participants experienced lack of assets, poor access to fair and adequate mainstream credit, and difficulties in accessing financial information, which point to their high risk of financial exclusion.

Participants

The people who participated in this study were recruited through Brotherhood of St Laurence services and community organisations specialised in working with the targeted groups (seniors, single mothers, those involved in vocational education and training, and apprentices). To recruit unemployed individuals, we distributed flyers in public housing complexes and had the support of an agency that works with homeless people. In addition to partners in Melbourne, we received the collaboration of organisations in Ballarat and Geelong, which enabled us to reach participants in regional Victoria. The recruitment and collection of primary data occurred between May and October 2010.

The majority of the sixteen young participants (six women and ten men) who were moving from school to work had left home and did not count on their family for financial assistance.

There were considerable differences in the degrees of financial difficulty and needs faced by the ten participants (three women and seven men) who were out of work. A key explanation for these differences was the kinds of social relations and networks that individuals could access for both material and emotional support.

All lone parents interviewed were women. Their socioeconomic background, although not a selection criterion, was a distinguishing factor, with the financial implications for professional, more-educated single mothers differing from those for single mothers with lower levels of education on very low incomes.

Socioeconomic background was the main variable that differentiated the financial needs of the ten senior participants (four women and six men).

The research

The study was designed as qualitative research which aimed to identify some of the financial needs of financially vulnerable individuals during selected life events, and the strategies they apply to deal with their financial challenges. Three broad questions guided the focus groups and individual interviews:

- What are the specific financial needs associated with the life events or transitions covered in this research, namely, moving from school to work, being out of work, becoming a single mother, and retiring and ageing?
- Which solutions were people adopting to deal with those emerging financial needs (for example, accumulated debt, asset liquidation, access to new credit lines or savings) and what were the difficulties they identified?
- What does the information collected indicate about the types of financial exclusion that participants were experiencing?

The analysis was based on triangulation of data from (i) a review of relevant literature, (ii) focus groups and (iii) face-to-face, semi-structured interviews.

The common themes that emerged during all four transitions or events were:

Financial needs and resources: Insufficient and unsteady income was the most common trigger of financial vulnerability across different life transitions.

Because of my health and my son's health I have to go down to part-time and I have to put my career back because of it ... Right now, like, I owe \$20,000. From starting out with no debt when I was pregnant to \$20,000 debt because [I was] just trying to live and exist and [pay] rent and child care ... (Ana¹)

¹ The names of all participants have been changed to protect their anonymity.

Although participants worried about their future, financial limitations generated a context in which they had to make multiple financial decisions on a day-to-day basis to meet their most pressing financial needs:

You need it more now than you do for then, if you can't do what you need to—like educate yourself and stuff like that, so that you can have the next little bit of your future—there's no point thinking of the future beyond that. (Jo)

Rent, transport, utilities and child care were some of the costs that could not be 'postponed' and were increasingly a source of financial concern:

Trying to save at least \$20 for petrol is hard because there's just not enough time or money while trying to study and get by. (Stephanie)

Non-material resources such as education and support from family, partner or social groups, as well as good mental and physical health, played a determinant role at times of change. These resources helped reduce the risk that vulnerability at one stage would be converted into disadvantage in the long run.

Coping mechanisms and strategies: The most common 'solution' that participants in this study mentioned implementing was to live without what they could not afford and separate needs from wants. This was not an easy process, since it often meant that they reduced activities that would enhance their sense of social inclusion. These could be as simple as a 'coffee out with a friend' or a night out with mates.

If I haven't got enough money, I just don't go out—don't put yourself in a position where you know you'll be in trouble. (Luke)

But you manage. You just cut down ... I like to go to the pictures but then that's getting too dear but I've now decided that once a month I can go to the pictures. I might go on a senior's ticket but that's up to \$10 now. (Anna)

In some cases, people were coping with stressful situations and even with abuses—for example, in lease agreements—because they believed that in their financial circumstances they did not have other options.

Financial exclusion indicators: The majority of participants did not have either liquid or fixed assets that they could draw on in the case of a financial emergency. Home ownership was only common among the retirees. Most people were not accessing mainstream loans and if possible used 'credit' from family at times of need.

We've been trying for a loan for a while because we wanted a new car earlier because the other one was really dodgy. And at first the banks wouldn't allow us to have a loan. You have to have a steady job to be able to get a loan, or if you wanted to go through another company the interest rate is really, really high, which makes it also harder. (Clare)

They also lacked access to appropriate financial information, that is, 'hands-on' financial information that they perceived as relevant to their context, offered by impartial sources in accessible places and communicated in a simple way.

Maybe one or two per cent may understand what interest rate is, but it's difficult for them because we don't have that system in Africa. Like there is no bank that will give you a credit card. (Samir)

Policy and practice recommendations

- **Public policies and rules should improve incomes and facilitate asset accumulation.**

Employment policies need to be better integrated with the income support system to reduce financial vulnerability and maximise the opportunities for individuals' social and economic participation. Apart from the benefits that it will bring to the Australian economy, this participation is a fundamental step to building a fairer society.

Many individuals who receive income support payments are working in casual jobs with variable workloads each fortnight. Currently the rules guiding the government income support system tend to create financial risk for those undertaking extra paid work on an irregular basis. Moreover, the very low threshold of the liquid assets test that is applied to some types of government income support payments operates as a disincentive to saving.

Employment policies should not only focus on the acquisition of new skills but should enable people to apply their existing skills to pursue the life path they consider will be rewarding in the long run.

- **Financial information needs to be accessible at and relevant to the individual's life stage.**

There is an excessive amount of generic financial information in the market, which often makes people feel overwhelmed and confused. In order to be effective, financial information for the most financially vulnerable groups should be:

- **clear.** Financial information needs to be translated into clear and simple language, with a central message for each topic.
 - **accessible.** Financial information needs to be channelled through places and organisations that the targeted groups are likely to visit.
 - **independent.** Information needs to come from independent sources. Community organisations and government agencies could benefit from training peer facilitators to deliver workshops with a participatory approach.
 - **relevant.** In order to capture attention, information needs to speak to people's most common challenges surrounding particular life transitions and events.
- **Access to fair and adequate financial products and services should be universal.**

Australia is advancing its financial inclusion agenda. In the past two years, the federal government has partnered with the community and private sectors to help expand microloans, community development financial institutions and asset building programs, as well as financial education programs. This collaboration between sectors allows the benefits to go beyond a small group of individuals to reach others in society. It also helps to show that despite the publicity that the financial market provides us with many choices, for the most financially vulnerable Australians the problem is lack of choice.

Due to the central role of income and assets in preventing financial vulnerability, priority should be given to improving access and availability of fair and basic financial services and products, such as loans, insurance and basic bank accounts. Access and availability of integrated and simple automatic payment systems should also be improved, drawing on the positive experience of low-income groups with Centrepay.

- **Hardship responses and policies should be promoted and access facilitated.**

Financially vulnerable groups are struggling to pay for essential services such as electricity and telephones. There is an opportunity to improve access to and operation of financial hardship policies across a range of industries, including the financial sector, and telecommunications and utilities providers.

Since many service providers such as banks and utilities companies have introduced hardship policies to support those in financial hardship, government and industry should promote the best practices and broadly disseminate information on their existence. Within hardship policies, more emphasis needs to be placed on measures that address those experiencing longer term hardship.

In the energy sector, there have been moves to regulate hardship policies to improve standards and monitor effectiveness. Regulators should consider ways to stimulate similar developments for other essential services.

For many people experiencing financial hardship, personalised assistance and advocacy are needed to deal with service providers. With adequate government funding, financial counsellors can be pivotal in assisting people to escape the debt cycle and gain control of their finances.

Acknowledgements

The Brotherhood of St Laurence acknowledges the support this research received through Consumer Affairs Victoria's Consumer Credit Fund.

For further information

The full report, *Money matters in times of change: financial vulnerability through the life course* (PDF file, 654 KB) by Zuleika Arashiro, may be downloaded from the Brotherhood of St Laurence website.

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Summary published in April 2011 by

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