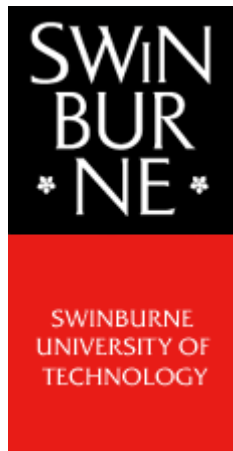


**‘I wish I’d known sooner!’**

**The impact of financial counselling  
on debt resolution and personal  
wellbeing**

Dr Nicola Brackertz

Swinburne Institute



# What is Financial Counselling?

- A free and confidential service
- Financial counselling assists with
  - Money management
  - Advocacy
  - Access to hardship programs and government assistance
  - Information and education
  - Referral to legal, social and other required services
- Is based on a community development approach and social justice principles
- In 2011-12 The Salvation Army provided financial counselling to around 10,000 people Australia-wide

# Does Financial Counselling Work?

- Is financial counselling effective in helping people alleviate or resolve their financial difficulties?
- Are there health and wellbeing benefits?
- In July 2012, a month-long short, anonymous survey was administered with recipients of The Salvation Army financial counselling services Australia-wide

# Key Concepts

- Financial capability (managing money, planning ahead, choosing products, staying informed)
- Causes and symptoms of debt and deprivation (stressors)
- Financial Exclusion
- Health and wellbeing

# Financial Counselling is Effective

- 94% of respondents agreed or strongly agreed that they would be willing to seek help sooner as a result of attending the financial counselling service
  - *I am happy and appreciative about this financial counselling ... I feel I can handle my finances better and I have a more positive outlook in relation to my future financial life.*
  - *I only wish that I had come here sooner.*
  - *[The service is] very friendly and warm, which makes me feel less embarrassed about having to ask for help.*
  - *I have been really down for a long time and I have got myself into an impossible position where I feel trapped. The counsellor is positive and caring and I now feel I have a ray of hope for the future. I don't know what I would have done if left to my own devices. I no longer feel alone.*



A woman with short blonde hair is captured in a joyful spin, her arms outstretched. She wears a black long-sleeved top and a full, pleated grey skirt. The scene is set in a vibrant green meadow filled with numerous small yellow wildflowers. In the background, majestic blue-grey mountains with patches of white snow rise against a clear sky. A small cluster of evergreen trees is visible on the right horizon. The text "The End" is superimposed in a large, white, sans-serif font across the middle of the image.

# The End

# Who Seeks Financial Counselling?

- 225 completed surveys were returned
- Respondents were representative of TSA financial counselling clients nationally
- Respondent profile
  - 79% received a government allowance payment or pension
  - 7% identified as Aboriginal or Torres Strait Islander
  - 39% were in private rental and 22% lived in public or community housing, and 21% were paying off a mortgage
  - 67% were female
  - 55% had been experiencing persistent financial stress for two years or more
  - 61% either lived alone or were sole parents



# Respondent Debt Profile

- The median amount of debt owed was \$5,000 - \$10,000
- A third of respondents had debts in excess of \$20,000

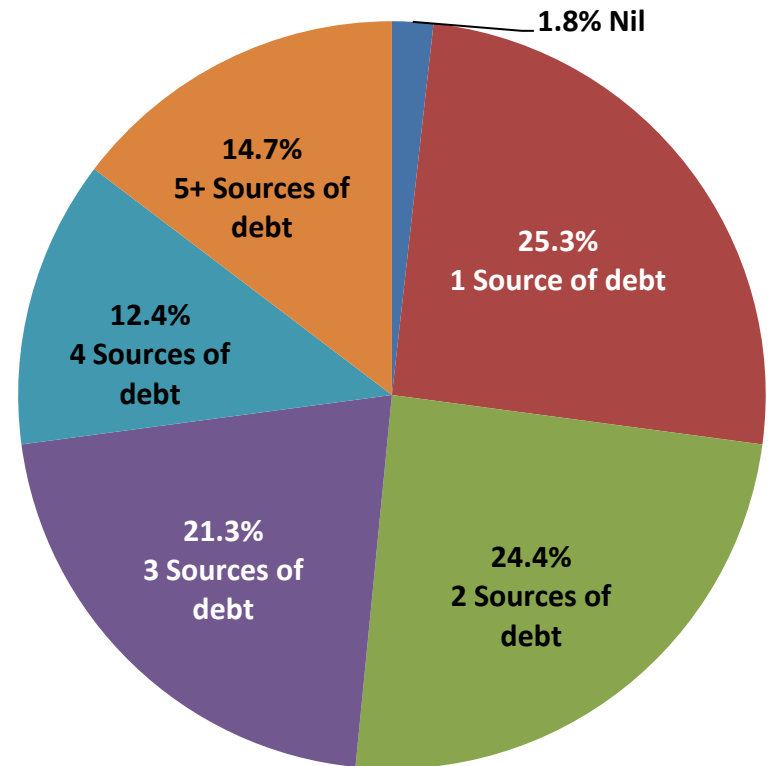
| Amount of debt owed |        |
|---------------------|--------|
| None                | 2.7%   |
| \$500 or less       | 3.6%   |
| \$501 - \$2,000     | 13.3%  |
| \$2,001 - \$3,000   | 5.8%   |
| \$3,001 - \$5,000   | 10.7%  |
| \$5,001 - \$10,000  | 16.4%  |
| \$10,001 - \$20,000 | 14.7%  |
| More than \$20,000  | 32.9%  |
| Total               | 100.0% |



# Sources of Debt

**Most respondents have multiple sources of debt, usually between 2 and 4**

- 15% had five or more sources of debt
- Most common sources of debt
  - 56% Utilities
  - 42% Credit card or store card
  - 28% Telephone or internet
  - 21% Personal loans
  - 20% Mortgages



# **Main Reason for Financial Difficulty**

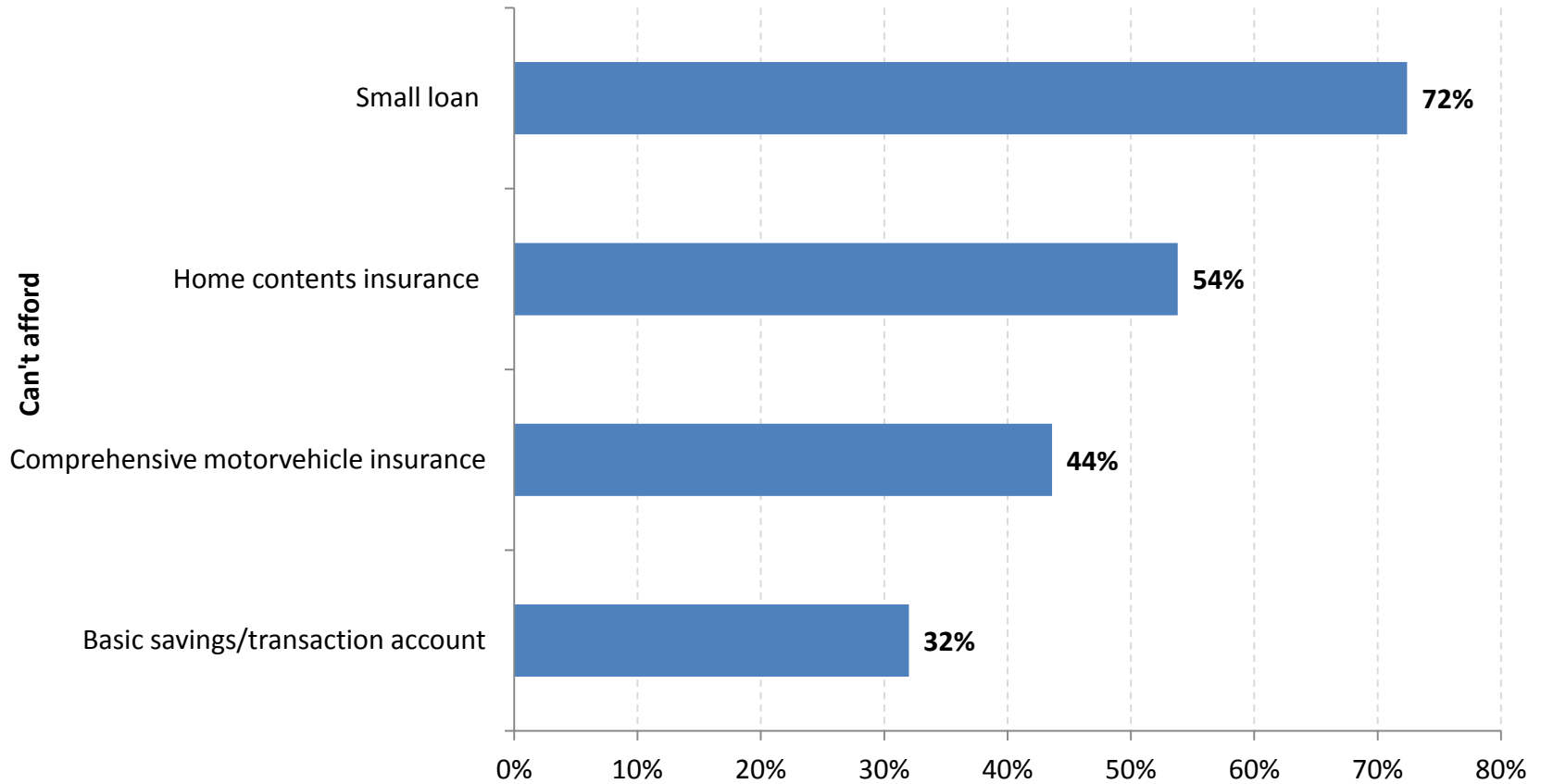
- Retrenchment/unemployment (40)
- Government allowance too low / insufficient income (33)
- Health, disability, mental health issues (24)
- Credit card/store card debt (21)
- Bills (utilities, phone) (21)
- Family break up, death of partner or close relative (20)

# Financial Exclusion

Do you have

- A basic savings or transaction account
  - Home contents insurance
  - Comprehensive Motor Vehicle Insurance
  - Ability to get a small loan from a bank, building society or other financial institution (**not** a payday loan).
- 14% were fully financially included
  - 16% were fully excluded

# Financial Exclusion



# Men and Women have Different Debt Profiles

Women make up over two-thirds of respondents, which mirrors the general client base of The Salvation Army financial counselling

- 43% of men reported having high levels in excess of \$20,000, compared to 27% of women, a statistically significant difference
- 20% of men reported having experienced persistent financial stress lasting for more than five years compared to 12% of women

The prevalent sources of debt also differed

- Women were more likely to owe money for bills associated with running a household (e.g. utilities and information communication technologies)
- Men more often struggled to repay money owing on loans (payday and personal) and mortgages

# Duration of Financial Stress

- 56% of respondents were experiencing persistent financial stress lasting more than 2 years
- Men were almost twice as likely to be in long term financial stress than women (20% and 11.9% respectively)

## How long have you been experiencing financial difficulties?

|                   |      |
|-------------------|------|
| Less than 1 year  | 18%  |
| About 1 year      | 26%  |
| 2-3 years         | 28%  |
| 3-5 years         | 12%  |
| More than 5 years | 15%  |
| Not stated        | 1%   |
| Total             | 100% |



# **Time Elapsed Before Help Sought**

- **Many people wait a long time after the onset of financial difficulties before seeking help**
  - 15% of survey respondents had waited for approximately one year
  - 29% of respondents had waited for longer than one year before seeking help
- This means that 44% of people waited for a year or more before seeking assistance

# Why Does This Matter?

- There is a statistically significant correlation between the duration of financial difficulty experienced and the likelihood that financial difficulties were able to be resolved
- Overall 66% of respondents agreed or strongly agreed that financial counselling had helped to resolve their financial difficulties
- When examined in relation to duration of financial difficulty experienced before help sought
  - 60.3% of those who had experienced long-term financial stress answered favourably
  - 72% of those who had experienced financial difficulties for a year or less
- This demonstrates that seeking financial counselling early on in a financial crisis increases the likelihood of resolving the debt problem

# Why Is This So?

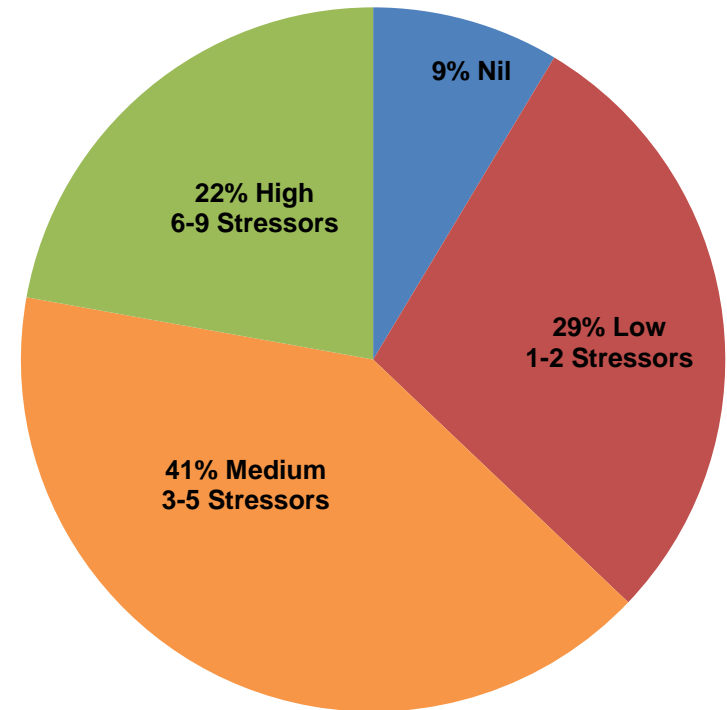
**Financial stress is a complex problem with interlinked and sometimes mutually reinforcing causes and effects (stressors). These can mount and worsen over time, leading people to become trapped in a cycle of debt**

- **Examples of stressors:**
  - Reduced income: loss of job; reduction in working hours
  - Health: accident or illness; disability; mental health issues; stress
  - Family issues: family/relationship break up; birth of a child; death of a partner; family conflict
  - Addiction: substance dependency/abuse; gambling
  - New credit/ dissaving measures: borrowing to repay loans; pawning or selling possessions; creditor harassment

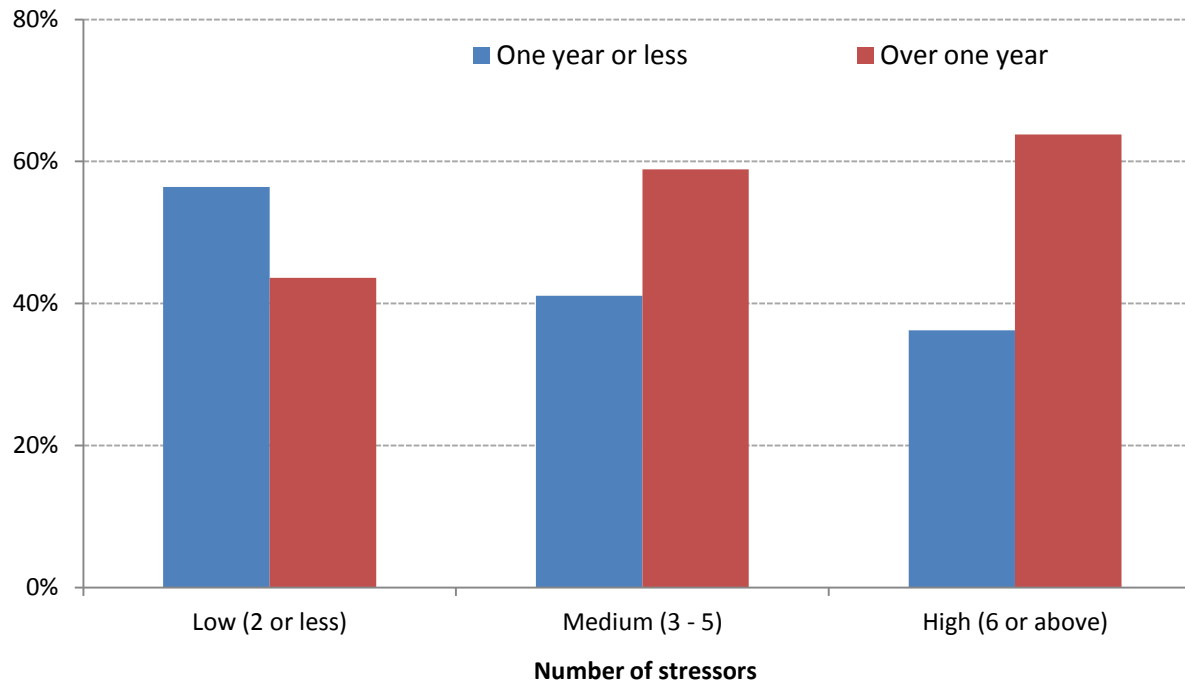
# Stressors

## In the past 12 months

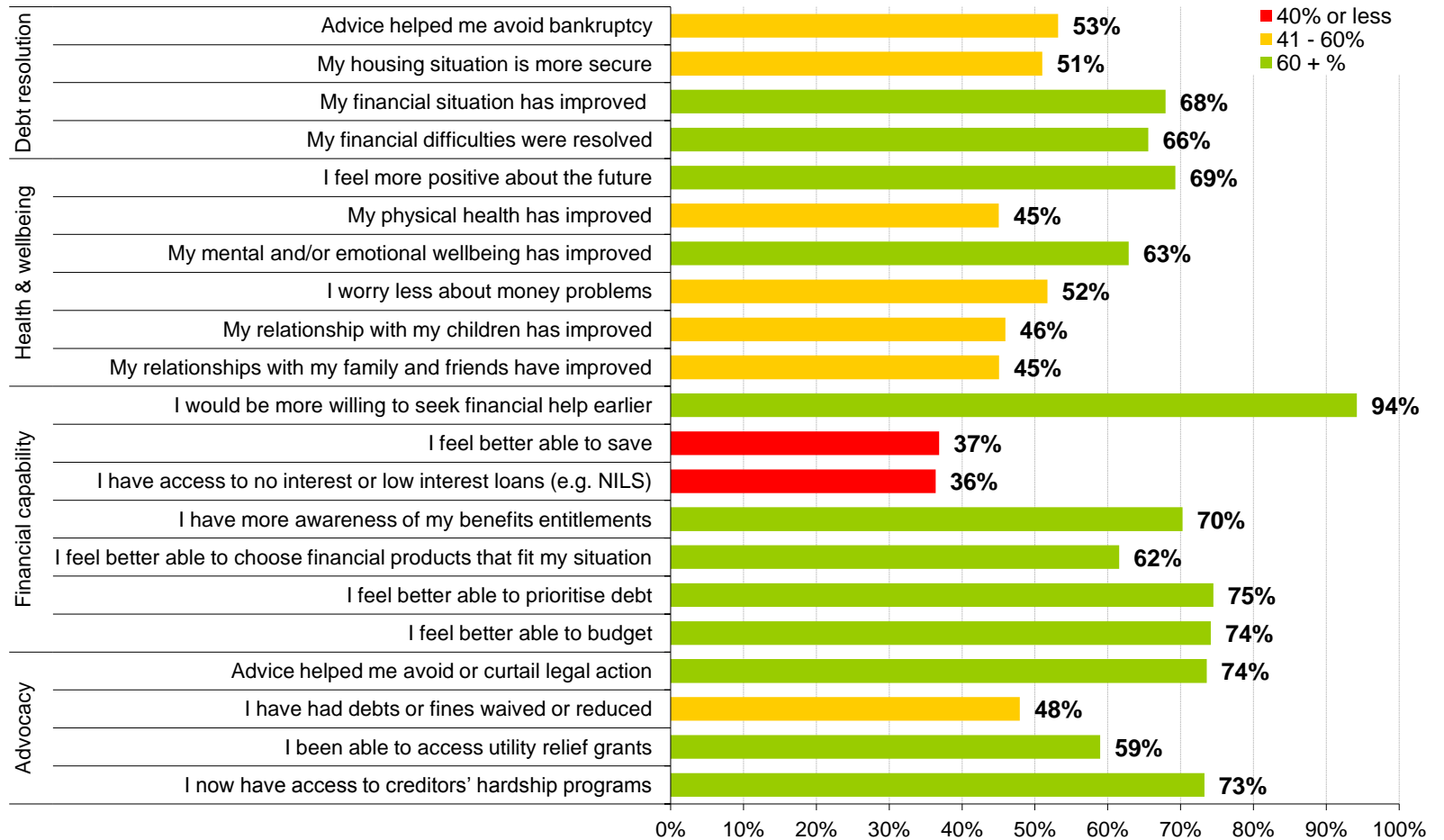
- 68% felt stressed about the future
- 29% experienced mental illness
- 41% experienced harassment from creditors
- 29% borrowed to repay debt
- 24% experienced relationship/family break up
- 24% experienced new conflict with their families
- 22% had experienced a reduction in working hours
- 12% had been retrenched



# Relationship between Stressors and Duration of Financial Difficulty



# Financial Counselling Outcomes





# Health and Wellbeing Outcomes

**Financial counselling contributes to positive health outcomes, especially in alleviating the stress and anxiety associated with financial difficulties**

- 68% of respondents had felt stressed about the future in the past year
- 69% now felt more positive about the future following financial counselling
- 63% of respondents felt their mental and emotional wellbeing had improved as a result of financial counselling
- 52% of respondents worried less about money problems
- 45% stated their physical health had improved

# Effect on Stressors

**Financial counselling helped reduce the negative impact of environmental stressors, such as interpersonal relationships and housing security, which if left unchecked may exacerbate financial stress**

- 51% of respondents indicated that their housing situation was more secure
- 45% of respondents indicated that their relationships with family and friends and their children (46%) had improved

# **Financial Counselling is Effective and Provides Measurable Positive Outcomes**

- **Seeking financial counselling sooner increases the chances that financial difficulties can be resolved**
- Early intervention is more effective in resolving debt issues and can prevent stressors from accumulating
- Survey respondents who had been in financial difficulties for a year or less
  - experienced fewer stressors
  - were statistically more likely to report that their financial difficulties had been resolved (72%)
- Conversely, people who have been in financial difficulties for longer tend to experience a higher number of stressors that negatively impact on their finances and their ability to resolve financial stress

# Limitations

- This study presents a snapshot in time only, and as such suggests the need to better understand the reasons why people delay accessing financial counselling and the ongoing impacts of the service. The fact that many clients experience long-term financial stress may indicate that not all of the benefits of financial counselling endure or accrue to the same degree for all individuals.
- The survey also highlights the reality of debt and financial problems for individuals and families on constrained incomes. Whilst financial counselling can assist to alleviate acute financial crises, it cannot solve the broader structural issues of social and economic disadvantage that contribute to the exacerbation and impact of financial stress.

# Recommendations

1. To maintain and expand current financial counselling services.
2. To advocate for and continue to work towards integrating financial counselling into a holistic approach to meeting the needs of individuals and families as demonstrated by The Salvation Army Doorways philosophy.
3. To support financial counselling as a tool for early intervention and individual capacity building within a holistic case management approach to social and economic disadvantage in line with The Salvation Army Doorways philosophy.
4. To address the barriers that prevent people from accessing financial counselling:
  - a) Develop and facilitate a communication and media strategy that promotes greater awareness of the nature, benefits and accessibility of financial counselling services.
  - b) Undertake research to better understand the barriers that delay and prevent people from accessing financial counselling services and develop strategies to overcome these. This may include different approaches for different cohorts, for example, men and women and people in long- and short-term financial stress.
  - c) Undertake research to better understand the long-term impacts of financial counselling.