Dealing with Debt and Financial Stress

Edited by Justin Healey

ISSUES IN SOCIETY
Dealing with Debt and Financial Stress

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Dealing with Debt and Financial Stress is Volume 430 in the ‘Issues in Society’ series of educational resource books. The aim of this series is to offer current, diverse information about important issues in our world, from an Australian perspective.

KEY ISSUES IN THIS TOPIC
The Australian economy has experienced a record quarter-century of sustained growth without recession, however alarm bells are ringing over climbing levels of household debt. Are Australians heading towards a debt crisis?

Many Australians are struggling to meet their repayments for mortgages, investments, personal debt, student debt and credit card debt. It has been estimated that two million Australians are experiencing high financial stress which prevents them from coping in difficult situations and in the face of unexpected expenses. What is financial stress, and how do factors like housing affordability, higher debts and overspending on low incomes contribute to financial pressure? How does stretching the bottom line affect people’s health, relationships and financial security?

This book is a helpful guide for young people to understand their personal finances, featuring ample fact sheet-style advice on how to deal with debt, manage money through budgeting and savings, and develop financial literacy. Make the most of your money and learn how to manage debt, without the stress.

SOURCES OF INFORMATION
Titles in the ‘Issues in Society’ series are individual resource books which provide an overview on a specific subject comprised of facts and opinions.

The information in this resource book is not from any single author, publication or organisation. The unique value of the ‘Issues in Society’ series lies in its diversity of content and perspectives.

The content comes from a wide variety of sources and includes:

- Newspaper reports and opinion pieces
- Website fact sheets
- Magazine and journal articles
- Statistics and surveys
- Government reports
- Literature from special interest groups

CRITICAL EVALUATION
As the information reproduced in this book is from a number of different sources, readers should always be aware of the origin of the text and whether or not the source is likely to be expressing a particular bias or agenda.

It is hoped that, as you read about the many aspects of the issues explored in this book, you will critically evaluate the information presented. In some cases, it is important that you decide whether you are being presented with facts or opinions. Does the writer give a biased or an unbiased report? If an opinion is being expressed, do you agree with the writer?

EXPLORING ISSUES
The 'Exploring issues' section at the back of this book features a range of ready-to-use worksheets relating to the articles and issues raised in this book. The activities and exercises in these worksheets are suitable for use by students at middle secondary school level and beyond.

FURTHER RESEARCH
This title offers a useful starting point for those who need convenient access to information about the issues involved. However, it is only a starting point. The 'Web links' section at the back of this book contains a list of useful websites which you can access for more reading on the topic.
AUSTRALIANS’ HOUSEHOLD DEBT NEARS HIGHEST WORLDWIDE

Australia’s personal debt is some of the “highest in the world”, but what does this really mean? The following article from finder.com.au explains

Australian household debt has steadily risen over the past three decades as more of us aim to own homes and continue to rely on products such as car loans and credit cards. In fact, the ratio of household debt to income has more than doubled between 1995 and 2015, going from 104% to 212%, according to the OECD data released in 2015. This means if the average person earns $80,000 net, they are spending $169,600 per year.

While many other developed countries have seen a decline or “leveling out” of personal debt since the 2008 global financial crisis, Australia’s debt levels have continued to increase. As a result, Australia is now reported to have some of the highest personal debt levels in the world.

How does Australia’s household debt compare to other countries?

Global comparisons of household debt usually look at the total owed as a percentage of net income. Australians rank fourth highest in the world next to Denmark, the Netherlands and Norway.

What is Australia’s personal debt?

As of 2016, Australia’s total personal debt is around $2 trillion and the average Australian household owes $250,000.

This debt can be broken down into the following categories:

- Mortgages. Australian Bureau of Statistics (ABS) data analysed in the AMP.NATSEM report showed that mortgages for owner-occupier housing makes up 56.3% of all personal debt in Australia.
- Investor debt. Debt associated with investments such as rental properties or shares makes up 36.5% of our household debt.
- Personal debt. Personal loans make up 3.1% of Australian household debt and are commonly used to buy cars, other consumer items or to pay for holidays.
- Student debt. Debt from student loans, particularly Higher Education Loan Program (HELP) loans (formerly known as HECS), makes up 2.1% of Australian household debt. The AMP.NATSEM report says this figure reflects the time it takes to pay off these loans, with repayments typically deducted from your salary when you reach the threshold ($54,869 for the 2016-17 tax year).
- Credit card debt. While there are often reports on the sheer volume of credit card debt in Australia, it only makes up 1.9% of all household debt.

The difference between “good” and “bad” debt

While Australia’s total personal debt is usually reported in a negative light, it’s important to distinguish between the different types of debt that make up the $2 trillion we collectively owe.

On a very basic level, these debts can be defined as either “good” or “bad”:
- Good debt. This type of debt is taken on as a way to build wealth in the long term. For example, a home loan allows you to work towards owning your own home, and an investment property mortgage allows you to earn income from property you rent out or re-sell at a higher price.
- Bad debt. This type of debt diminishes your wealth over time. This means it is not attached to an asset, and usually indicates you have paid for items or...
services you would not be able to afford based on your income. For example, relying on a credit card for non-essential items, or those that diminish in value over time, would lead to bad debt.

When it comes to Australia’s personal debt, it’s important to note that the majority of it can be defined as good debt, with 56.3% going to home loans and 36.5% to investments. That’s a total of 92.8% of our personal household debt spent on potential wealth creation.

There is also the other 8.2% of household debt to consider. If each Australian household owes an average of $250,000, then $20,500 of it is “bad debt”.

As a comparison, data from the Federal Reserve Bank of New York shows that non-housing personal debt (i.e. “bad debt”) made up 26.3% of America’s personal debt in the first quarter of 2016. Further information also shows that household debt in the US is increasing due to a rise in credit cards and car loans, both of which are considered “bad debts”.

The role of income and interest rates

Whether we have good or bad debt, there is always a degree of risk involved. If circumstances change, or if you have borrowed beyond your means, then it could be difficult to sustain any debt over the long term. This can lead to defaults and more serious issues such as bankruptcy. If that happens, any “good” debt will quickly go “bad”.

So as well as considering the types of personal debts Australians carry, it’s important to look at factors such as our income and interest rates. Significantly, Australia’s personal debt levels have outstripped income growth and led to a debt-to-income ratio of 88%.

On the other hand, declining interest rates have helped keep repayments at a relatively manageable level. As the AMP.NATSEM report shows, the typical ratio of debt interest repayments to disposable household income is sitting at around 6%.

However, the high debt-to-income ratio means that an increase in interest rates or changes to housing prices could have serious consequences. With income growth predicted to remain low and ongoing speculation about supply-and-demand issues in the housing market, Australia’s personal debt is often viewed as a major risk for both individuals and the country’s economy.

Top three tips for managing household debt

While stats and data can help put things in perspective on a national and global scale, it doesn’t necessarily affect us on an individual level. When compared to the national averages, some households will have higher levels of debt and more repayment stress and others will have less.

The bottom line is that if you have debts, it’s important to find a way to manage them. So here are three strategies to keep in mind:

• Consolidate “bad” debts. If you have several credit cards and personal loans you’re currently repaying, it may be worth consolidating them into one account. This simplifies your repayments and means you only have to deal with one interest rate. Depending on the types of debts and how much you owe, you may be able to take advantage of a 0% balance transfer credit card or a low rate personal loan to help save money on interest charges.

• Create a budget. Budgets are a useful tool for seeing what money is coming in and going out of our accounts. This makes them essential for managing your money if you have ongoing debts. You can use our free budgeting tool (www.finder.com.au/budgeting) to get a detailed summary of your current income and expenses, then make adjustments to your spending or savings based on your individual circumstances and needs.

• Set up a regular savings account. Savings are an important part of your household finances, allowing you to pay for larger purchases and acting as a safety net when unexpected costs arise. By regularly contributing to a savings account, you’ll increase your wealth without taking on any more debt. Savings can also help you keep non-essential loans to a minimum so that you don’t end up taking on more “bad debt”.

Australia’s personal debt may be among the highest in the world when compared to GDP, but the majority of it is from home loans and investments. This means that as long as you can find ways to manage your wealth-building debts based on your circumstances and income, you could end up better off in the long run.


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ARE AUSTRALIAN HOUSEHOLDS ON THE EDGE OF A DEBT CRISIS?

Too many Australians are experiencing financial stress, warns David Taylor in this ABC News Analysis

You know that feeling when you lose your wallet? You feel it in your gut, and in your chest, and the back of your throat. You’re in a state of stress.

The reason we feel so much stress is that we need money to live, and when you don’t have control over your wallet, someone else may have.

For many Australians, similar feelings arise when they discover they are unable to meet a rent or mortgage payment, and quite a number of people are in, or are close to that position. According to research group Digital Finance Analytics, around 20 per cent of “middle income” Australians have no room in their budget for unexpected expenses.

Financial Counselling Australia said that the slightest wind – a metaphor for rising unemployment or higher interest rates – could produce something like a catastrophe for households.

What on earth is going on?
The big picture is pretty clear. The world binged on dodgy debt between 2003 and 2007, producing a credit crunch and a financial crisis.

Australia sidestepped much of the economic fallout because of the nation’s ties to China. There was a huge surge in the demand for iron ore and coal, something Australia happens to be very good at producing.

Fast-forward to July 2014, and the price of iron ore was in the middle of a worldwide sell-off. Commodities prices crashed, as did Australia’s terms of trade. The Reserve Bank moved to stem the financial bleeding by dropping interest rates. The idea was to prop up the economy by stimulating the housing market, and in turn, construction.

It worked and Australia avoided a recession.

The cost has been two capital city housing bubbles (NB: there’s no official definition for the term ‘bubble’) as interest rates have remained at record lows and investors have seized a rare cheap debt opportunity.

The problem is that too many Australians are not leaving any room for a rainy day, and in some cases that rainy day has already arrived.

In addition, low- and middle-income families are taking advantage of some of the cheapest borrowing rates in history.

The problem is that too many Australians are not leaving any room for a rainy day, and in some cases that rainy day has already arrived.

Many Australians already in financial distress
Let me throw a statistic at you: the latest Reserve Bank data shows household debt makes up 187 per cent of total disposable income. That puts Australia right at the top, globally, in terms of how much debt...
households are carrying. For many it’s already become too much.

The Salvation Army told the ABC earlier this year that there was a four-week wait time to speak with a financial counsellor.

The National Debt Helpline has also been overwhelmed with calls. In January last year around 11,000 people tried to get through to a counsellor, and this January, that number shot up to 14,000 people.

Many calls went unanswered with the helpline officially “at capacity”.

Financial Counselling Australia, which helps coordinate the helpline, said it experienced its highest-ever number of calls on January 17, with some callers distressed to the point of desperation.

Australia has a mild inflation problem. It’s too low. Prices are rising, but only at a snail’s pace.

When I paid them a visit last week, a counsellor was speaking with a man from regional NSW who, through illness, had run out of money. But the counsellor told me that for most people, it begins with an unexpected bill, or you lose your job and miss a mortgage payment.

The stress of that takes a toll on your relationships, leading to separation, and finally, you fall ill.

It’s at that point many Australians reach out for assistance in the form of government-funded financial counselling.

Many Australians are financially underwater.

In Western Australia, for example, the market prices of many folks’ homes have now fallen below the value of their mortgages.

It’s the opposite end of the scale in Sydney and Melbourne, where those who have bought at the peak of the property cycle are struggling with their mortgage repayments.

Diagnosing the problem
If you kept on experiencing bouts of nausea, you’d go to the doctor, wouldn’t you? Well, the economy is experiencing its own sort of nausea. Allow me, if you will, to diagnose the problem.

Australia has a mild inflation problem. It’s too low. Prices are rising, but only at a snail’s pace. That’s because overall demand in the economy is weak and consumers aren’t showing much enthusiasm.

For instance, over Christmas retailers decided to slash their prices to bring more customers through the door. They were successful, but not successful enough to make up for their massive discounts.

As a result, profits came down. While profits are under pressure, employees stand little chance of successfully bargaining for a pay rise. Those same employees, then postpone their own spending decisions ... and the cycle continues.

You end up with low inflation, low wages growth, and a subdued economy.

Enter record-low interest rates, like the flashing lights of a slot machine. It’s never been cheaper, or more enticing, to borrow money.

So, that’s what Australians are doing. The problem is that while borrowers have taken on more and more debt, their wages haven’t moved much at all and the end result is a python-style financial squeeze.

Financial pressure points
Experts warn of two major financial pressure points: unemployment and interest rates.

If you lose your job, it won’t be long before you can’t pay your mortgage, so the unemployment rate is obviously a key economic issue for policymakers.

Fortunately it doesn’t look like it’ll be rising significantly higher from where it currently stands – between 5.5 and 6 per cent – in the short term.

But the outlook for interest rates is not so positive.

Despite reassurances from the Reserve Bank that it’s going to keep the record-low official cash rate on hold, the commercial banks may be forced to raise their mortgage rates independently of the central bank.

That depends on the outlook for “wholesale” or overseas rates, including US interest rates, which are expected to rise.

Digital Finance Analytics principal, Martin North, has warned that if the average standard variable mortgage rate increased by 0.5 to 1.0 per cent, 30 per cent of households could be pushed over the edge financially.

As it stands, around 20 per cent of households have already pushed their budgets as far as they will go.

I’ve got bills, I gotta pay ...
Recent heatwaves spanning several states no doubt saw air conditioning systems and fans being cranked up to full blast right across the country, and the cost of energy and utilities more generally in Australia is rising.

Financial Counselling Australia and the Salvation Army said energy bills were all too often the financial commitment that pushed many households over the edge. For those who are on a financial knife’s edge, the next utility bill could produce some anxiety.

More generally, though, households need to step back from debt. It has the potential to cause an enormous amount of disruption to the economy, and at a human level, many thousands of Australians are already feeling its sting.

Having too much debt is a bit like flying an old Boeing 747 plane with just one engine. You’ll be OK, for a while, but lose that second engine, and you’re moments away from a free-fall.
Two million Australians don’t have the financial resilience to pay unexpected bills, according to research academics Rebecca Reeve and Kristy Muir

A new study shows two million Australians are experiencing high financial stress which prevents them from coping in difficult situations, for example, in paying unexpected expenses such as a big mobile phone bill or the fridge breaking down.

Adults face these sorts of scenarios frequently. When they arise, people usually turn to savings, a credit card, or a friend or family member to help out.

Our report, *Financial Resilience in Australia*, funded by the National Australia Bank, quantifies the amount of Australians: experiencing problems paying debts; meeting the costs of living; and accessing appropriate, affordable and acceptable financial products and services.

It also shows some Australians have trouble accessing social support in times of crisis and may have low levels of financial knowledge.

Our research measured financial resilience by the four key resources that support it: personal economic resources (such as savings), financial products and services (such as insurance), financial knowledge and behaviour (including financial literacy), and social capital (having social support in times of crisis, including friends and families).

Many Australians simply don’t have the resources to bounce back. For example, around:

- One in two adults have limited to no savings
- One in two only have a “basic understanding” of financial products and services
- One in ten have unmet need for credit and/or insurance
- One in five have limited or no social connections
- One in 30 stated they needed but did not have access to any form of government or community support.

This has implications for the short- and long-term impact on individuals and their families.

**Who is most at risk?**

Our research found secure housing, steady income, education, being employed and good mental health are strongly associated with financial resilience.

On average, financial resilience is significantly lower among people who are homeless, living in social housing, are short-term renters or live in student accommodation.

Financial resilience increases with the level of education and, unsurprisingly, people with very low personal incomes fare poorly.

Employment status is a key marker. People who are unemployed, underemployed, not in the labour force and those who only work odd jobs are more likely than their full-time employed counterparts to have lower levels of financial resilience.

People with a serious mental illness are significantly more likely to be in severe or high financial stress, are less likely to be financially secure and fare worse on each of the individual resource groups than people without mental illness.

The gender split in financial resilience is fairly even overall. However, the four components of financial resilience are influenced by gender. Women have lower general levels of economic resources than men, but men have lower levels of social capital than women.

People who were born overseas in a non-English speaking country have lower levels of resilience than those who were born in Australia. Finally, the influence of age on financial resilience varies and is often affected by other factors.

One in four study participants reported difficulties accessing financial services. The barriers are varied, but include cost, trust, poor and inadequate services, and (for a few) language, disability and discrimination.

This underscores the importance of making financial information, products and services more user-friendly and accessible. This will ensure these resources
Dealing with Debt and Financial Stress

On average, financial resilience is significantly lower among people who are homeless, living in social housing, are short-term renters or live in student accommodation. The factors influencing financial security are not surprising. People who own their own homes, have a university-level education and have a personal yearly income of more than A$100,000, for example, have higher levels of financial resilience. However, only 35.7% of Australians are financially secure.

The prevailing attitude around financial problems is that individuals are solely responsible for their situation. Our research challenges this ideas as it shows multiple aspects to financial resilience, some out of the individual's control.

The diagram above shows how interlocked the different components of financial resilience are and when pieces of the puzzle are removed, the most vulnerable people are at risk.

At the moment social sector leaders are lobbying the government to scrap proposed budget cuts that will reduce the amount of certain welfare payments. Our research shows these same people have the least resilience to bounce back if they were to lose some financial support.

This is an example of how the government needs to play a more active role in understanding financial resilience and where support is needed. By understanding the often interrelated elements of financial resilience, tipping points and who is most at risk, prevention and intervention can be better tailored.

Rebecca Reeve is Senior Research Fellow, Centre for Social Impact, UNSW.

Kristy Muir is Professor of Social Policy/Research Director, Centre for Social Impact, UNSW.

RBA governor warns household debt has weakened economy

Reserve Bank governor Philip Lowe has warned that wage growth will need to catch up to housing inflation if the Australian economy is to become more resilient to the problems caused by burgeoning household debt. Stephen Letts from ABC News reports

Speaking at an Economic Society lunch in Brisbane, Dr Lowe said the recent increase in household debt relative to incomes has made the economy less resilient to future shocks.

“The resilience of our economy would be enhanced by an extended period in which housing prices and debt outstanding increased no faster than our incomes,” Dr Lowe said in the keynote address, which focused on two of the big issues in the current housing debate – debt and house prices.

The latest house price survey from CoreLogic found capital city house prices rose 11 per cent in the past 12 months, with Sydney and Melbourne prices up 16 and 15 per cent respectively.

Credit data published by the RBA last week reported lending for investment property was up 7.1 per cent and 6.2 per cent for owner occupiers in the past year.

The growth in the load of debt has been rapid. Dr Lowe pointed out in 2002 around 12 per cent of households had debt that was over three times their income. By 2014, this figure had increased to 20 per cent of households, while there has also been a substantial increase in households with even higher debt loads.

Meanwhile, wage growth remains mired at historic lows barely above 2 per cent a year.

HIGHER INTEREST RATES COULD STRANGLE CONSUMER SPENDING

Dr Lowe said the tougher macro-prudential response from the Australian Prudential Regulation Authority – and supported by the RBA – was not about targeting house prices, because they do little to resolve the underlying shortage of housing supply.

“But they [macro-prudential rules] can provide some breathing space while the underlying issues are addressed,” Dr Lowe said.

The tightened standards include reducing the proportion of interest-only loans the banks sell and requiring banks to ensure higher deposits are laid out before purchase.

The big problem the RBA has identified is the fragile nature of household balance sheets and what would happen when interest rates start heading up.

“When the interest rate cycle turns and rates begin to rise, the higher debt levels are likely to make spending more responsive to interest rates than was the case in the past,” Dr Lowe said.

“Double-digit growth in debt owed by investors at a time of weak income growth cannot be strengthening the resilience of our economy, nor can a high concentration of interest-only loans,” he noted in a blunt reference to the banks’ lending practices.

The concern is the response from households when they realise they have borrowed too much and the impact that would have on the broader economy.

“This could prompt a sharp contraction in their spending, as they try to get their balance sheets back into better shape,” he warned.

“An otherwise manageable downturn could be turned into something more serious.”

CBA economist Gareth Aird said the governor failed to mention that a current problem with economic resilience was due to record low interest rates.

“A cash rate sitting at a record low of 1.5 per cent is partly what makes us ‘less resilient to future shocks’ because there isn’t much left in the rate cut chamber,” Mr Aird observed.

“Therefore our less resilient situation is not just down to the record level of household debt relative to income, it is also due to the fact that the cash rate is at a record low and can probably only go down another 75 basis points if required.”

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THREE CHARTS ON MORTGAGE STRESS: IT ISN’T AS BAD AS YOU MIGHT THINK

Surprisingly, the latest data from Australia’s financial services industry regulator reveals the average balance on housing loans has barely trended upwards over the last five years, observes Rodney Maddock

The current debate about housing muddles two separate issues: the affordability of housing, and the risk in the banking system of any significant fall in house prices. Clearly, they are both important issues and the link between them is the potential for a lot of home owners to overreach in their finances, to not be able to repay their loans, and so to bring down their banks.

But when you look at the data on mortgage stress the systemic risk of this overreach looks small. Data from the Australian Prudential Regulation Authority (APRA) reveals the average balance on housing loans has barely trended upwards over the last five years (see our first chart below).

What is clear is that for most new loans people are borrowing between 60% and 80% of the value of their houses.

This was during a period when house prices have risen quite strongly. In effect, this means that, on average, people have more equity in their houses to stand behind their borrowings.

This is not just true for the average but also if you look at investor loans or for low documentation (low-doc) loans (these are aimed at those who cannot provide the usual required paperwork, for example self-employed people). The same trends emerge. It’s not clear from this that people are taking on excessive risk – and certainly not recently.

Even for new loans you get the same basic picture. The chart above shows the loan to valuation ratios for new loans. What is clear is that for most new loans people are borrowing between 60% and 80% of the value of their houses.
The proportion of people who have very high exposure to a fall in house prices – those with loan to valuation ratios above 90% – has been declining over time. Once again, the basic picture is one of prudent households, rather than a community of people gambling on house price rises.

A lot of the confusion about housing arises because people make inappropriate comparisons. One common mistake is to compare the amount of housing debt with national income. This is highly misleading. A more correct comparison is between your income and the amount of your income needed to service your loan. At a national level, this means we should look at the size of national income and the amount of income needed to service the debt (not the amount of debt).

An alternative that the Reserve Bank uses is to compare the amount of debt people have with the amount of assets they hold. As we can see in the chart above, the value of household liabilities has been increasing but the total value of assets held by households appears to have been rising faster. Again, there is no clear case that the household sector has borrowed excessively.

None of this is to deny that house prices can fall, or that some people are finding it very hard to buy somewhere to live in Sydney. Houses are much cheaper in other parts of Australia and property prices have even been falling recently in some regions.

Rodney Maddock is Vice Chancellor’s Fellow at Victoria University and Adjunct Professor of Economics, Monash University.

Housing affordability: how did we get here, and do first-time buyers ever stand a chance?

ABC NEWS ANALYSIS BY BUSINESS REPORTER IAN VERRENDER

There’s a nasty little secret about housing affordability. For all the furrowed brows, the sombre looks and the public handwringing from policymakers, no one is actually serious about fixing the problem because they all fear the potential fallout.

The Government is running in circles on the issue while the Reserve Bank is praying the mess will slowly evaporate over time.

It’s become a regular event; a politician conjures up an outlandish idea to again make housing affordable to the masses.

If it’s not a cash splash to first home buyers, it’s a harebrained scheme to allow younger Australians to dip into their superannuation. Last week, it was a plan to force banks to lower lending standards.

In each case, the net effect would be to lift demand and raise the cost of housing.

Unfortunately, at this point in the economic cycle, there are only two mechanisms that could solve the social and political issue of our time.

The first is for housing prices to experience a dramatic fall. And the second is for wages to rise substantially.

The first comes with a nasty side-effect: it would create economic chaos and send many of our banks to the wall.

Achieving, or at least promising, the second might get you elected but ultimately would prove disastrous with spiralling inflation and, you guessed it, a probable spike in housing prices.

Would you prefer a housing market crash, or a slow burn decline over several years? Both are unthinkable.

With the second option off the table, the question then becomes: Would you prefer a housing market crash, or a slow burn decline over several years?

Both are unthinkable. A crash could be catastrophic because our banks essentially have morphed into glorified building societies, with the bulk of their earnings geared towards residential mortgages.

And therein lies the problem with asset price bubbles. All that joy and exuberance on the way up comes with an equal dose of pain and hardship when it all unravels.

The two biggest lenders, Commonwealth and Westpac, have around 60 per cent of their loan books devoted to housing.

What’s the problem with asset price bubbles?

Real estate is baked into the Australian psyche. We talk about it ad nauseam, owners obsess over upgrades and renovations and those outside the owners’ club fret about how to enter.

All up, Australians are in hock to the tune of more than $1.4 trillion on housing. That’s a hell of a lot of debt just to keep the wind and rain out. Of that, more than half a trillion is on loan to property investors.

If you want an example of just how painful a property market crash could be, cast your minds back to 2007 when a meltdown firstly in the American and later the European property markets were the catalysts for the greatest ever crisis in global finance.

It would be a similar story here and once again, it would be taxpayers riding to the rescue.

So how about the slow, grinding house price slide? Unfortunately, that could be just as debilitating.

That’s because modern economies are completely geared to growth. At the micro level, profits, wages and taxes all ideally should steadily increase, feeding into a moderate inflation rate and modest rises in asset prices that feeds into an expanding economy.

When asset prices – like housing – slowly deflate over many years, investment freezes, confidence evaporates, consumers spend less, and the economy becomes moribund.

Think Japan. It’s been in almost a constant state of recession since the great 1980s real estate bubble began unwinding in the early 1990s.

And therein lies the problem with asset price bubbles. All that joy and exuberance on the way up comes with an equal dose of pain and hardship when it all unravels.

Governments and central banks will do almost nothing. They’ve already done it once and they’ll probably do it again because it’s always cheaper to kick the can down the road than to address the root causes of the problem.
anything to avoid a bubble bursting, which is why no one is serious about housing affordability.

**Australia’s obsession with real estate reflected in tax system**

So how have we arrived here? Australian housing was already among the world’s most expensive before the Reserve Bank began hacking into interest rates in 2012.

But in the years since the financial crisis, Sydney and Melbourne real estate has almost doubled along with strong gains in most capitals.

Our obsession with property is reflected in our tax system. The family home, now the biggest asset for most Australians, is tax-free.

For investors, a punt on another dwelling allows you to reduce your income – and your annual income tax – and as an added bonus delivers the ultimate gift: a profit that’s taxed at half the rate your normal income attracts.

Despite what anyone tells you, the tax system bears a great deal of responsibility for our current predicament.

Investors have plunged into the housing market during the past five years and, in terms of new loans, have regularly accounted for around half the money lent for real estate.

It wouldn’t be a problem if they were investing in new housing. That would increase the overall housing stock, increasing supply, providing a counter to the increased demand.

But until recently, investors overwhelmingly favoured existing houses, with about 93 per cent of investor loans bidding against owner-occupiers.

Unwinding those incentives would be a first step in fixing the problem.

But when a partial wind-back of negative gearing was proposed at the last election, it took no time at all for the politics to kick in with Prime Minister Malcolm Turnbull quick to deride the policy, arguing it would “smash home prices”.

**Despite what anyone tells you, the tax system bears a great deal of responsibility for our current predicament.**

**Even if prices drop 10 per cent, housing remains unaffordable for many**

Last week, reports surfaced the Prime Minister had formulated his own plan, to scale back the discount on capital gains tax.

As a policy, it could have been even more efficient at tidying up the property investment problem than the ALP’s.

But, as has become the norm, it was a policy floated anonymously in the media before the inevitable back-flip and official denials.

As a tax change proposal, it lasted all of four hours, shot down within the party room.

In the ensuing policy vacuum – and with the tax system geared to turbocharge prices – the Government and the Reserve Bank are praying for a moderate but relatively quick property market slump; a minor correction and a plateauing in national prices at the lower levels.

They’ve got all their chips loaded onto the supply argument. Rather than curbing demand by eliminating investment distorting tax policies, they’re hoping that all those new apartments coming on stream in Brisbane, Sydney and Melbourne, will flood the market and put a lid on price growth and maybe even cause prices to fall.

Investors, they hope, will be taught a valuable lesson: that prices don’t always rise. And the handy side-effect will be that all that construction in the past few years has provided a lot of new jobs.

The problem is, if prices drop – say 10 per cent – in a correction, they’ll still be way above where they were just five years ago.

Even if they stagnate from then on, as everyone hopes, it will take decades before housing becomes affordable for first-time buyers.

Unfortunately, it appears the great Australian dream is coming to an end.

Future generations increasingly will only be able to afford real estate through inheritance – creating class divisions – unless there is a major overhaul of the tax system, or a collapse in prices.

In the meantime, don’t believe anyone who claims they have an easy and painless way to make housing affordable.

It just doesn’t exist.
Dealing with Debt and Financial Stress

Rising property values, income and asset growth since 2003-04. 

Just over half of all households with a mortgage were over-indebted in 2015-16. Just under half of all households with a mortgage were over-indebted in 2015-16.

In 2015-16, based on the ratio of debt to either income or assets, around three in ten households (29%) were classified as ‘over-indebted’.

Household debt and over-indebtedness in Australia

Key findings from the latest Australian Bureau of Statistics report on household income and wealth

- In 2015-16, based on the ratio of debt to either income or assets, around three in ten households (29%) were classified as ‘over-indebted’.
- Debt growth has outpaced that of incomes and assets during the same period, helping to drive the proportion of households who are over-indebted up from 21% in 2003-04 to 29% in 2015-16.
- Owners with a mortgage were the most likely households to be over-indebted (47%) based on tenure type. Households with a reference person aged between 25-34 years (33%) and 35-44 years (34%) are among those most likely to be over-indebted based on age group. Of those households with a property debt, 62% of 25-34 year olds and 51% of 35-44 year olds were over-indebted.
- High income households were also more likely to be over-indebted. One quarter of the households in the top income quintile were over-indebted compared to one-in-six (16%) low income households (in the bottom 20%).
- Sydney and Melbourne had the highest number of over-indebted households at 407,000 and 419,600 households, respectively. Over-indebted Sydney households who held property debt owed $269,000 more on average than over-indebted Melbourne households who held property debt.
- Average home loans for over-indebted households were over four times the size of home loans held by other households carrying debt ($286,400 compared to $59,500), and other property loans were over 11 times the size on average ($219,800 compared to $18,500).
- Most over-indebted households (77%) lacked sufficient ‘liquid’ assets to cover a quarter of the value of their debts. Liquid assets are assets which can be easily converted to cash and include bank accounts, shares, own businesses, and superannuation (age permitting). Lack of liquid assets may place over-indebted households at risk of defaulting on their loans if their incomes are not sufficient to meet repayments.
FINANCIAL STRESS AND SPENDING

LATEST DEFINITIONS AND DATA FROM AUSTRALIAN BUREAU OF STATISTICS

Measures of income and wealth provide information on the main economic resources available to households to support their spending. However, these measures do not necessarily tell the full story of how households are coping financially. When households are not coping financially, the stress caused can impact the wellbeing of household members.

Defining financial stress

A household can be said to be in financial stress if they experience four or more indicators of financial stress within a 12-month period. There are two types of financial stress indicators: financial stress experiences and missing out experiences.

Financial stress experiences

• Unable to raise $2,000 in a week for something important
• Spend more money than received
• Could not pay gas, electricity or telephone bill on time
• Could not pay registration or insurance on time
• Pawned or sold something
• Went without meals
• Unable to heat home
• Sought assistance from welfare/community organisations
• Sought financial help from friends or family.

Missing out experiences

• Could not afford holiday for at least one week a year
• Could not afford a night out once a fortnight
• Could not afford friends or family over for a meal once a month
• Could not afford special meal once a week
• Could only afford secondhand clothes most of the time
• Could not afford leisure or hobby activities.

Financial stress and household characteristics

In 2015-16, 15% of Australian households (approximately 1.3 million) met this criterion for financial stress. As in previous years, the most commonly reported indicators of financial stress were the inability to afford a holiday for at least one week a year (23%), followed by an inability to afford a night out once a fortnight (17%).

Households in financial stress tended to be lone person households (28%) or couple families with dependent children (26%). They were more likely to be renting (57%) compared with those who did not report experiencing financial stress (21%).

The majority of households in financial stress relied on either employee income (45%) or government pensions and allowances as their main source of income (48%). In comparison, 17% of households who did not experience financial stress derived their main source of income from government pensions and allowances.

Households in financial stress also tended to be younger than those who did not experience financial stress, and than the national average (51 years). The average age of the household reference person was 49 years for households in financial stress, compared with 53 years for those not in financial stress.

Changes in the age profile of Australian households may help to explain longer term changes to financial stress. From 2003-04, the number of Australian households headed by someone 65 years or over increased by 40%, whilst the number of households headed by someone aged 15 to 24 decreased by 15%.

Similarly, from 2009-10 to 2015-16, the number of households headed by someone 65 years or over increased by 23%, whilst the number of households headed by someone aged 15 to 24 decreased by 12%.

Since 2003-04, the proportion of households who did not report experiencing any indicators of financial stress has steadily increased.

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WHAT IS FINANCIAL PRESSURE?

These are hard financial times for many individuals and families. There are things you can do that may help, according to this guide from Lifeline

Financial pressure arises from any situation where money worries are causing stress. It may relate to debts you are facing now, or financial concerns you have about the future. It could be about actual or feared changes in work or personal circumstances that affect your income. It might be about unexpected expenses for you or your family. These are hard financial times for many individuals and families. There are things you can do that may help.

Signs that you may need help with finances and debt include:

• Late bill payments or often seeking extensions
• Minimum or missed payments on credit cards
• Spending less money on necessities, e.g. food
• Increasing debt from credit cards or loans
• Legal action for debt recovery
• Fear of eviction from being behind in rent or loan repayments.

How does financial pressure affect wellbeing?

Financial pressure can seriously affect your relationships and your health.

For example:

• Arguing with loved ones because of money worries.
• Difficulty sleeping – unhealthy eating, skimping on meals.
• Feeling anxious about money.
• Feeling guilty when spending money on non-essential items.
• Limiting your spending on necessities or enjoyable activities.
• Being afraid to open mail with new bills.
• Financial stress can also cause physical signs of tensions such as headaches or feeling sick. Check these out with a doctor if they persist.

Some people may think about suicide, but also hope that they can find ways to keep safe and get help immediately. Get help if you have thoughts of suicide.

What helps?

Be realistic about your financial situation.

You can take control:

• Write down the total owing on all bills and expenses.
• Work out your monthly budget to pay all bills and cover your living expenses – include everything, even monthly, quarterly or annual payments (e.g. rent, food, electricity and phone bills, car loan repayments, petrol etc).
• Deduct your expenses and regular payments from your income.

If you have less income than expenses you can:

1. Contact a financial counselling service for free, confidential help.
2. Set aside money in a savings account each month for emergencies if you can – every little bit helps.
3. Contact people to whom you owe money. Tell them you are having difficulty – ask for time to work things out, make progress payments or seek help. If you don't get a helpful response, speak to the Hardship Team of the lender or provider (e.g. power, gas, water, phone).
4. If you don't feel you have had a fair hearing, make a complaint to the Ombudsman.
5. Consider approaching a welfare service in your area for help with bill payments e.g. power, gas, phone.

FIND OUT MORE

Call Lifeline – 13 11 14 if you have financial worries and need emotional support. Lifeline can also connect you with information about helpful services in your area. Visit www.lifeline.org.au to find a range of self-help resources and information.

Economic and social impacts: the hard road

Executive summary from a Salvation Army report which finds that food security, mental health, and financial difficulties are daily challenges for many of its clients

Key findings

This year’s ESIS (2017) found that a large proportion of individuals and families who accessed Salvation Army Emergency Relief support services experienced:

- Housing issues including housing stress, homelessness and transience
- Financial difficulties, managing on inadequate income and resulting from prolonged unemployment
- Persistent hardship, financial pressure due to cost of living in Australia and multiple deprivations
- Limited opportunities and exclusion for individuals and their families
- Reduced participation and access, disconnectedness and inequity for children.

The national Economic and Social Impact Survey (ESIS) 2017 is the sixth consecutive report by The Salvation Army exploring the challenges, barriers, and levels of disadvantage experienced by those who access our Emergency Relief (ER) services. It again confirms unacceptably persistent disadvantage and exclusion experienced by individuals and their families. The Salvation Army operates an expansive network of Emergency Relief centres, social programs and employment services, and corps (churches) that respond to individuals and communities who experience hardship and disadvantage. As one of the largest providers of Emergency Relief services in Australia, The Salvation Army supports many Australians who struggle to maintain a basic standard of living for themselves and their families.

The Salvation Army raises more than $20 million each year to support Emergency Relief centres that deliver practical assistance to individuals and families facing hardships. In 2016, The Salvation Army supported more than 144,000 clients across Australia and delivered approximately 470,000 sessions of ER and case work support. This means that, on average, Emergency Relief services assist nearly 600 people and delivers more than 1,950 support sessions every day.

Data for this report was captured by an eight-part questionnaire that was distributed nationally to service users through 272 Salvation Army Emergency Relief and community support centres, and to randomly selected individuals who had received mail-out assistance in 2016. A total of 1,380 respondents completed the questionnaire during early February 2017.

Top three challenges

Being able to afford enough food to eat 69%
Managing their mental health and emotional wellbeing 43%
Managing financial stress and difficulties 36%

‘I do not access the service often, but when I do, it is when I am in genuine need or desperate.’ – Respondent

Housing and homelessness has been a critical issue this year for many respondents. Individuals and families continue to face severe housing stress due to insufficient financial resources, with the majority (86%) of respondents struggling on government income support payments as their primary source of income. Our data revealed that home owners and private renters spent $200 per week on accommodation expenses. This is more than half (56%) of their equivalised disposable income per week for housing and accommodation expenses; nearly double the standard benchmark in Australia. Individuals faced increasing financial pressures due to

Daily challenges were evident for many disadvantaged individuals and families who experienced multiple and complex needs such as: managing disabilities and physical health ailments, addictions, homelessness, family violence, trauma, difficult family relationships, and carer responsibilities.

The top three day-to-day challenges for ESIS respondents, included:

1. Being able to afford enough food to eat (69%)
2. Managing their mental health and emotional wellbeing (43%)
3. Managing financial stress and difficulties (36%).

Maintaining a basic standard of living was a daily challenge for the majority of our respondents. The research confirms that Salvation Army Emergency Relief centres play a pivotal role as a first point of contact for many marginalised Australians.

‘The Salvation Army has always been a light in any dark spot. They have always been friendly, non-judgmental and understanding ...’ – Respondent

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Dealing with Debt and Financial Stress

rising accommodation and housing costs. After paying for housing expenses, recipients of income support were left with approximately $120 a week of equivalised disposable income or $17.14 per day to live on. Single parents with children were the worst affected; they were left with only $14.35 per day to live on, which is well below the poverty line.

‘Life is hard and the bills get bigger and [the] pay packet smaller.’ – Respondent

Housing and homelessness

$200 per week on accommodation – more than half disposable income

$17.14 per day^ for income support recipients to live on

$14.35 per day^ for single parent income support recipients to live on

^ Equivalised disposable income.

Insecure housing tenure featured again this year, 44% of all respondents moving, on average, at least three times in 12 months. Family violence continued to be the main reason that people moved house, and effected almost a quarter (23%) of respondents. Nearly half (46%) of children and young people had to move schools due to family violence. These situations were likely to negatively impact the children’s safety, their overall development, physical and emotional health, and their ability to form supportive social networks. Consequently, these changing and adverse living conditions may have longer term effects on their ability to participate in education, employment, socioeconomic and community aspects of their adult lives. Similar to last year’s findings, 16% of respondents were homeless or living in temporary accommodation; of these individuals, 16% moved at least six times over the past 12 months.

Financial hardship and disadvantage was experienced by the majority of respondents through a lack of financial resources, presence of multiple deprivations, disconnection from others and absence of future opportunities. This year’s ESIS found that the cost of living added further pressures for many individuals and their families. Respondents reported they went without food, struggled to pay utilities and bills on time, and went without health and medical care. Our data revealed that, due to financial hardship, more than one in two respondents cut down on basic necessities (56%), borrowed money from friends or family members (54%), and nearly a third sold goods to pawn brokers (31%). For our respondents these are tough times. Many disadvantaged Australians face a stark future.

‘It is estimated that four to six per cent of our society experience chronic or persistent disadvantage – that is 1-1.5 million people. Given that Australia has been such a prosperous nation over the last two decades, this is a significant number of people who have not shared the benefits.’ – Professor the Hon. Stephen Martin, Chief Executive, the Committee for Economic Development of Australia (CEDA)

A number of respondents were actively looking for work, although they faced numerous barriers preventing them from securing employment. Forty-three per cent of job seekers reported their long-term unemployed status as the main barrier to finding and securing a job, and 41% reporting that their level of education, training, skills and work experience prevented them from being more competitive in the job market. Respondents managed multiple challenges which impacted on their ability to manage day-to-day living, with almost half (49%) of respondents reported that their personal and financial situation had deteriorated in the past 12 months. This means many people accessing Salvation Army Emergency Relief services are impacted by complex needs and continue to face severe economic and social disadvantage that place them at the margins of our communities.

Entrenched poverty and persistent disadvantage require a collective response and commitment from all levels of government, the private sector, and the wider community. The Salvation Army again calls for a shift in social policy direction, and less punitive action led by...
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The Australian Government, to adequately address the causes of persistent disadvantage and inequality across our communities. This would enable all Australians to enjoy full social participation.

‘While we have policies in place or in development to address disadvantage, it is not clear that we have recognised the need to address the deeper problem of long-term, persistent and chronic disadvantage. As a rich and successful society, we can clearly do better – others do.’ – CEDA

Children were well represented in this year’s ESIS data. Results indicated that children in these households experienced significant hardship, disadvantage and multiple levels of deprivation. Of the 1,495 children, 54% were affected by severe deprivation, suggesting that more than half of those children went without basic necessities due to inadequate economic resources within their family. Approximately one in five respondents could not afford medical treatment or medicine prescribed by the doctor, and one in three could not afford a yearly dental check-up for their child. Many respondents commented that they would go without for themselves, so that their children did not have to. Unfortunately, sometimes this effort still was not enough to meet the basic needs of their children and family.

‘It was refreshing today to see FRESH fruit and vegetable vouchers available ... it means that my children will have fresh fruit and vegetables for school in the coming week.’ – Respondent

Digital inclusion is now recognised as one of the key social justice issues in Australia and worldwide. ESIS 2017 explored digital participation and accessibility for respondents and their families. This year’s report revealed that digital participation and access for many disadvantaged individuals remains inadequate. Fifty-seven per cent of children did not have access to the internet, and approximately one in three did not have a computer or tablet (iPad) in their household.

It is well established that computer literacy and digital participation enhances improved school performance, educational outcomes, and provides increased opportunities for employment. For many individuals and families in this research, access and affordability hinder these opportunities. This raises concerns for an already disadvantaged group of individuals and their children, who are further marginalised and excluded from online opportunities, access and connections with their peers. The Salvation Army supports initiatives which provide low cost internet connections and devices for disadvantaged individuals and families to be able to improve their skills, accessibility and participation online.

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KEY FINDINGS

Daily challenges
The biggest challenges respondents faced on a daily basis were:
• 66% being able to afford enough food to eat
• 43% managing their mental health and emotional wellbeing
• 36% managing financial stress and difficulties.

Housing, homelessness and mobility
• 66% of homeowners and private renters experienced extreme housing stress, and used more than half (56%) of their income for accommodation expenses and housing
• 44% of all respondents moved house at least three times in the past 12 months

In summary, this report shares the social, financial and family circumstances for many struggling individuals who travel the hard road, affected by multiple barriers, hardships and disadvantage. This report advocates for marginalised individuals, groups and communities; and calls for multi-sector action to tackle persistent social issues and work towards policy changes and improvements that lead to a fairer, more inclusive Australia.

‘It is so easy to become homeless. It doesn’t take much at all, it is the second time in 10 years it has happened to me. I hate it.’ – Respondent

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17
• 16% of respondents were homeless or living in temporary accommodation, and more than one in five remained persistently homeless, for at least two years.

Income source/employment
• 54% were looking for work experienced persistent unemployment and had been out of work for more than 12 months
• Two in five job seekers stated that prolonged unemployment made it harder for them to find a job
• 41% of job seekers indicated their lack of skills, knowledge or experience prevented them from entering the workforce
• ¼ job seekers, and 64% of those completely out of the labour force, attributed a mental or physical health condition as a main barrier to gaining work
• 14% are underemployed and looking to increase hours.

Cost of living
• $17.14 Government income support recipients had to live on $17.14 per day
• $14.35 Single parents with children were left with $14.35 per day
• $109 Spent $109 per week on groceries
• $73 Spent $73 per week on utility bills.

Due to financial hardship:
• 56% cut down on basic necessities
• 54% borrowed money from friends/family
• 49% were unable to pay, or delayed paying, bills.

When respondents ran out of money:
• 51% accessed vouchers/Emergency Relief
• 45% had gone without meals
• 31% sold or pawned their belongings.

Respondents faced cost of living pressures, and were not able to afford:
• 90% $500 in savings for emergencies
• 67% dental treatment
• ½ medical treatment or medicines prescribed by a doctor
• 66% an internet connection
• 54% regular social contact
• 23% a substantial meal at least once a day.

Children
Households with children aged 17 or younger could not afford:
• ½ medical treatment or medicine prescribed by the doctor for their child
• ½ a yearly dental check-up for their child
• ½ up to date school items and 56% did not have the money to participate in school activities
• ½ fresh fruit or vegetables every day
• ¼ three meals a day for their child.

Children facing increased risk of poverty and exclusion:
• 89% live in households in the bottom income quintile (less than $415/week)
• 90% in jobless households
• 96% facing high rent and low income situation

Technology
• ¾ households do not have access to the internet
• ½ did not have a computer or tablet (iPad)
• ½ rated their computer skills (22%) and internet skills (18%) as poor.

Wellbeing
• 25 points ESIS respondents experienced significantly lower personal wellbeing compared to the national average by more than 25 points.
Dealing with Debt and Financial Stress

IFI you are worried about money, you are not alone. It’s a very common worry. Financial stress can affect your relationships and your health, so it’s very important to seek help and support as early as possible.

Lots of situations can cause financial stress. You might have lost your job or been retrenched, you might be unemployed or unable to find sufficient work, you might have debts you cannot pay or you might feel worried about expected financial pressures. Your financial problems might be a result of problem gambling.

Be realistic and take control of your changed financial situation. A good step is to seek help from a free financial counselling service (see below for more details).

Some signs that financial stress is affecting your health and relationships include arguing with the people closest to you about money, difficulty sleeping, feeling angry or fearful, mood swings, tiredness, muscle pain, loss of appetite, lower sex drive and withdrawing from others.

While these are normal reactions, they can affect your health if they continue for more than a few weeks. You could be at risk of developing anxiety or depression. Some people use drugs or alcohol to help them cope. Some have thoughts of self-harm or suicide.

People from all walks of life experience problems with money. It’s important not to bottle it all up and try to deal with it alone.

TIPS TO DEAL WITH THE HEALTH IMPACTS OF FINANCIAL STRESS

If financial stress is impacting your health and relationships, here are some tips to help you through this difficult time.

• Stay on top of your emotions – Write down your worries to help you work out which issues to tackle first.
• Look after your health – Eat a healthy, balanced diet and exercise regularly. Talk to your doctor if you have a pre-existing medical condition that could be aggravated by stress.
• Share your feelings with supportive friends and colleagues – Identify people you can talk to about how you are feeling and who will help you remain positive.
• Be honest with your family – Tell them about the situation and how it might affect the household budget. If your relationship with your partner is under stress, contact Relationships Australia on 1300 364 277 for support, advice and counselling.
• Draw up a budget – Write down a summary of your finances and work out how much money you need to cover your costs. You may need to limit your spending for a while.
• Contact your bank – Most financial institutions have policies in place to assist customers experiencing financial problems. The Australian Bankers’ Association website has lots of information about dealing with banks.
• Contact a Department of Human Services social worker – They can give you extra support and advice on coping with financial stress. Call 132 850 or visit a Department of Human Services customer service centre.

Need help in planning, budgeting and better managing your financial issues?

Try these services:

• The Australian Securities & Investments Commission (ASIC) provides tips and advice on managing money through MoneySmart. Call them on 1300 300 630.
• Financial Counselling Australia has a consumer website with tips on juggling household bills and debt. You can call their national helpline on 1800 007 007 for free, confidential financial counselling.
• The Salvation Army Moneycare services also offers free, confidential financial counselling.
• The Department of Human Services website has lots of information about free services to help you manage your money.

COPING WITH UNEMPLOYMENT
Losing your job or being unemployed long-term is very stressful and can easily have an effect on your mental and physical health.

Here are some tips for getting through:
• Assess your financial situation – Work out how much money you have and how long it will last. You may have to change your spending habits until you get back on your feet. Try not to use your credit card, because the high interest rate and repayments can add to your financial stress in the long run.
• Find out about your entitlements – These may depend on your circumstances and some benefits have waiting periods, so call the Department of Human Services on 132 300 as soon as you can.
• Contact your bank or financial institution if you owe them money – You may need to discuss different repayment options.
• Contact your superannuation fund – You may be able to access your superannuation early or access benefit entitlements if you are retrenched.
• Don’t be afraid to ask for help – There are lots of services that provide everything from emergency relief if you’re in crisis to emotional and practical support. The Australian Securities & Investments Commission’s MoneySmart website lists a range of organisations that can assist you through difficult times.
• Talk to your doctor – They can help you care for your physical and mental health and refer you to services that offer help and support.

SOURCES:
• Australian Psychological Society (Psychology topics), www.psychology.org.au
• Lifeline, What is financial pressure?, www.lifeline.org.au
• beyondblue, Unemployment, www.beyondblue.org.au
• Lifeline, Substance abuse & addiction, www.lifeline.org.au
• Financial Counselling Australia, www.financialcounsellingaustralia.org.au
• ASIC, Life events, www.moneysmart.gov.au

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BORROWING AND CREDIT

LEARN ABOUT BORROWING AND CREDIT TO HELP YOU MANAGE YOUR MONEY, WITH THIS GUIDE FROM THE DEPARTMENT OF HUMAN SERVICES

Before taking a loan or using credit

Taking a loan or using credit from a lender can be expensive. If you’re thinking about borrowing money, there are a few things you should think about before you decide.

Understand how it will affect your budget

Your budget is an estimate of your income and expenses for a time period. Borrowing money can hurt your budget.

If you borrow money, you have to make repayments. It’s important to manage your budget so you can make your repayments and still be able to pay for essential expenses like rent and food.

Before you borrow money, you should ask yourself:

• Am I borrowing money for a non-essential expense or something I can save for and purchase later? – If this is the case you should consider saving instead
• Is borrowing my best option? – There may be other options such as saving
• Can I afford the repayments? – Borrowing money is not a good idea if you can’t afford the repayments and buy food or pay rent
• Is now the right time to borrow? – Once you have a budget it’s easier to decide when you can afford things
• How will it affect my day to day life? – Make sure you have enough money left over after repayments for the other things you need.

Check the terms and conditions

There are different types of loans and credit, different fees, charges and interest rates. You should make sure you know what you’re signing up for before you go ahead. Find out if there are penalties for missed repayments or paying off the loan early.

Talk to an expert

Don’t feel pressured to sign a contract if you still have questions about it. Legal documents can be very hard to read. Consider talking to someone independent before making a decision or get information on free legal advice at ASIC’s MoneySmart website (www.moneysmart.gov.au/managing-your-money/managing-debts/free-legal-advice)

Our free and confidential Financial Information Service provides information on financial issues for all Australians. You can attend a seminar to learn more about making smart decisions with your money. Seminars are held across Australia (www.humanservices.gov.au/individuals/services/financial-information-service).

Types of loans and credit

Learn more about loans, debt services or getting credit before signing up to any sort of loan or credit arrangement.

Visit MoneySmart for advice about:

• Small amount loans, also known as pay day loans – their fees and charges could be much higher than you think
Dealing with Debt and Financial Stress

Issues in Society | Volume 430

- Credit cards and how to manage repayments
- Debt agreements and how they affect your ability to borrow in the future
- Rent to buy or consumer leases – if you’re thinking about renting household goods, use the rent vs buy calculator to compare rent and buying costs
- Consolidating your loans and what to consider when you refinance
- Bankruptcy and its impact not just on your ability to borrow in the future, but on future jobs
- Loan rejection and what to do if your loan or credit application is rejected.

MoneySmart has advice about no or low interest loans (www.monesmart.gov.au/borrowing-and-credit/other-types-of-credit/no-or-low-interest-loans). These

Why do people get into debt?

People get into debt for lots of reasons:

- Job loss
- Getting sick
- Relationship breakdown
- Rising interest rates
- Business failure
- Living so close to the limit of your financial ability that one emergency purchase pushes you into debt
- Borrowing more than you can afford to repay on loans, credit cards and store cards
- Spending more than you can afford because of bad shopping habits or problem gambling
- Taking out a big loan to pay for something you can’t afford now such as house or car.

The important thing to remember is that if you are in debt, there are ways to get out of it again.

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Loans and credits have to be paid back and you need to make regular repayments.

If you can’t make your regular repayment, contact the organisation immediately to negotiate new arrangements. Many organisations offer payment plans to help you pay off your debt without increasing it.

If you need assistance you can find a financial counsellor on the Financial Counselling Australia website (www.financialcounsellingaustralia.org.au).

MoneySmart’s advice about trouble with debt can help you better manage particular debt issues, such as credit cards or bills.


Protection

There’s a number of risks associated with borrowing and credit. If you take out a loan or arrange credit, it’s a good idea to protect yourself. This may mean taking the time to choose the right loan or credit provider.

There are laws that licensed lenders must abide by when lending money to you. Find out more about consumer credit laws on the MoneySmart website (www.monesmart.gov.au/borrowing-and-credit/consumer-credit-regulation).

To check whether a credit provider or credit assistance provider is licensed, search Connect’s Professional Registers on the ASIC website (connectonline.asic.gov.au).

If you’re unhappy with the decisions or action taken by a lender, the MoneySmart website also has information on how to complain (www.monesmart.gov.au/tools-and-resources/how-to-complain). There are external dispute resolution schemes available for complaints about financial services and products.

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Why do people get into debt?

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The important thing to remember is that if you are in debt, there are ways to get out of it again.
MANAGING DEBT

Debt occurs when you owe more money than you have. When you can’t pay your debts you can find yourself in financial hardship. Debt can easily get out of control if you don’t know how to manage it.

When there isn’t enough money in your budget to pay all your debts, you need to put together a plan. The steps below can help.

Step 1 – identify and prioritise your debts
Identify and prioritise your debts by:
- Who you owe money to
- How much you owe, and
- The interest rates you’re paying.

Step 2 – identify your expenses
When you know what you spend your money on, you can work out where you can spend less while you pay off your debts. Read more about how to budget: www.humanservices.gov.au/customer/subjects/how-budget).

Step 3 – decide on your spending priorities
Once you know your debts and expenses, you can decide on your priorities. Think about which items you really need and which are extras you could do without.

Step 4 – take action
Take action as soon as you know you are in debt. Talk to the people you owe money to. Many businesses have options that can help you get out of debt. By taking action, you can stop a small debt from getting bigger.

Talk to your creditors
Talking to the people you owe money to can be stressful. Using a financial counsellor may help you. ASIC’s MoneySmart website provides practical information and tips about managing debt. Read their tips on:
- What to do when you have problems paying your mortgage(www.moneysmart.gov.au/managing-your-money/managing-debts/problems-paying-your-mortgage)

Ask about payment plans
Many businesses offer payment plans to help you pay off your debt without increasing it. MoneySmart’s approach to trouble with debt (www.moneysmart.gov.au/managing-your-money/managing-debts/trouble-with-debt) can help you better manage your debt issues for things like utility bills and credit cards.

OVERDRAWN BANK ACCOUNTS

An overdrawn bank account is when more money is taken out than you have. This may lead to a debt or fees you have to pay.

We have an agreement with many financial institutions including major banks, building societies and credit unions to protect you from having to pay too much at one time if you overdraw your account.

The Code of Operation agreement (www.humanservices.gov.au/organisations/about-us/publications-and-resources/code-operation) sets out how much your financial institution can take from the money that goes into your account. This makes sure you have enough money left over to cover essential living costs such as food and rent.

Example
If you get a pension payment of $200 a fortnight, the Code of Operation says you should get at least $180, or 90%, of your payment. This means your financial institution should only take up to $20 to repay any overdrawn amount, including fees.

You’ll need to talk to your financial institution to see how they can help you manage an overdrawn account.

Read more about what to do if your account is overdrawn (www.humanservices.gov.au/customer/enablers/my-bank-account-overdrawn).

OVERDRAWN ACCOUNTS AFTER 60 DAYS

If you don’t make arrangements to pay your debt, financial institutions may take action seeking payments for overdrawn amounts or debts. After 60 days they could:
- Report your debt to a credit reporting body, which
could affect your credit rating, or
• Take legal action against you for the amount you owe.

You can avoid getting a Centrelink debt by keeping us up to date with your income and any changes in your circumstances.

If you owe us money, we have arrangements in place to repay a Centrelink debt. Read more about owing money to us and the options you have (www.humanservices.gov.au/customer/enablers/owing-money).

AVOIDING DEBT
There are things you can do to avoid debt. You can:
• Start a budget to track your spending, it can help identify the things you can afford, and
• Find out whether you can reduce your bank, building societies and credit unions account fees.

If you get one of our payments or have a concession card, you may be eligible for a fee free account with your financial institution. If your situation changes, use this time to check your banking arrangements are right for you.

Find out which Australian banks offer basic bank accounts on the Australian Bankers’ Association website (www.affordablebanking.info/Which-Australian-banks-offer-a-basic-bank-accounts-.html).

Before making changes, make sure they will meet your needs. Find out more about loans, debt services or getting credit before you make a purchase.

Read articles on ASIC’s MoneySmart advice about:
• Small amount loans, also known as pay day loans – their fees and charges could be much higher than you think
• Credit cards and how to manage the repayment schedule
• Debt agreements and their effect on your ability to borrow in the future
• Rent to buy or consumer leases – use the rent vs buy calculator to compare the cost of renting versus buying goods
• Consolidating your loans and what to consider when you refinance
• Bankruptcy and its impact not just on your ability to borrow in the future, but on future jobs.

PROFESSIONAL HELP
Getting out of debt or financial hardship may take some time. You may find it useful to talk with a financial counsellor, and in some cases, you may need to seek legal help.

Financial counselling
Financial counsellors provide a free, confidential and independent service. They can suggest ways to improve your financial situation, negotiate repayment options and can refer you to other services such as a gambling helpline, personal counselling or community legal aid.

Financial counsellors can provide advice about:
• Repaying debts
• Debt collectors
• Debt recovery through the courts
• House eviction, disconnection of utilities such as gas, electricity or phone
• Uninsured car accidents
• Tax debts, and
• Unpaid fines.

There are counsellors near you that are provided by community organisations and community legal centres. You can find a financial counsellor on the Financial Counselling Australia website (www.financialcounsellingaustralia.org.au).

The Department of Agriculture and Water Resources Rural Financial Counselling Service supports primary producers, those in the fishing industry and small rural businesses that are suffering financial hardship.


Legal help
If your debt becomes unmanageable you may receive a court order, summons, statement of claim or liquidation claim. You must take these legal notices seriously. Do not ignore the notice or you may get a judgement against you. This may mean that your goods could be sold to settle your debt.

HOW TO CHOOSE THE RIGHT CREDIT CARD
AND AVOID FALLING INTO THE CREDIT CARD TRAP

Advice by Andy Kollmorgen from CHOICE

MAKE IT A PAYMENT FACILITATOR,
NOT A BORROWING TOOL

Credit cards come with more moving parts than ever these days, from rewards schemes to travel insurance to frequent flyer points. In fact, credit card companies seem to be running out of precious metals to name their cards after – silver and gold are old hat by now, and platinum doesn’t have the ring it once did. Titanium, anyone?

Outright trickery in the credit card market seems to have a hit a high point as of late. In mid-2016, the federal government proposed a raft of reforms to help prevent consumers from falling prey to a range of tactics (see below).

CHOICE fully backs the reform of the credit card industry, which has been responsible for getting more consumers into dangerous debt than perhaps any other form of finance (though irresponsible home loans would also be in the running).

Read and learn about:
- Some credit card basics
- Our collective credit card debt
- Confusing interest calculations
- The dangers of minimum payment
- Balance transfer traps
- Rewards cards ripoffs
- Picking the right card
- Credit card reforms.

Getting you in debt

Credit card companies market their products aggressively and sometimes even cleverly, but it’s important to keep your eye on the fundamental purpose of these ubiquitous financial products from the card issuer’s standpoint – getting you to borrow money and pay interest.

Using your credit card to borrow money so you can buy something is about as unsound a financial decision as you’re likely to make, unless of course you pay off the balance before the interest kicks in.

If you end up paying interest, you’ll be paying interest rates that are bound to be far higher than those available outside of the credit card market, say with a personal loan.

And the card issuers can really stick it to you when it comes to interest rates. In an earlier investigation, CHOICE reviewed credit card interest rates from 55 major credit card issuers between November 2011 and May 2015 and found that only 16% of the issuers dropped their rates in line with the steady decline in the RBA cash rate over that period.

Instead of interest rates and annual fees going down as borrowing costs got progressively cheaper for the banks, both went up.

A few good things to know

Credit card issuers (mainly banks and other deposit taking institutions) are keen on getting money out of you one way or another.

Here are a few basics to bear in mind:
- Credit cards with low interest rates generally charge higher annual fees, but they certainly make sense if you’re going to use your card as a borrowing tool and wear the interest. Paying an annual fee makes better financial sense that paying a high interest rate, especially if you only make the minimum payment.
- Rewards cards can also give with one hand and take away with the other. They generally come with high annual fees that can easily nullify the rewards unless you spend a lot and earn a lot of rewards points.
- Interest-free credit cards or balance transfer deals are always tempting and can make a lot of sense – but remember that the interest-free offer is for a limited time only. If you still have an unpaid balance on your credit card after the offer ends, your interest will likely jump into the stratosphere (or at least hover around 20% or so).

Our collective credit card debt

Whether or not you end up paying interest on the loan depends on whether you pay off the balance during the interest-free period, which can be as high as 55 days. The credit card people really hope you don’t, since interest payments are central to how they make their money.

Their master plan for getting us into debt seems to be working out. As of January 2017, the average credit card holder in Australia had an unpaid balance of about $4,262 and was paying $734 in interest per year.
Total credit card debt stood at $32 billion in January, with Australians paying a cumulative $5.5 billion in annual interest. You can see why financial services providers really like credit cards.

**Mind-bending interest calculations**

If you really want to beat the system, simply pay off your balance before the interest-free period ends. Otherwise, knowing how much interest you’ll be charged if you pay late can be especially tricky, since credit card providers all seem to be operating on a different space/time continuum and using different calculators.

The result is that you could have two cards with exactly the same interest rate and use them in exactly the same way, yet one may end up charging twice as much interest as the other if you pay late. (Tip: stick with the card that charges half as much.)

The underlying issue is that most credit card issuers charge daily interest – once it kicks in – all the way back to the date of your original transactions if you go past the interest-free period. This means that for being one day late on a minimum payment, you could be charged daily interest retrospectively on all transactions for up to 55 days, not just on the amount you still owe.

For example, if your credit card bill is $2,000 and you repay $1,900 on time, most companies will charge interest on the full $2,000 balance, backdated for up to 55 days, not the $100 in arrears.

To make matters worse, if you fail to pay your full bill on time, most card providers cancel your interest-free period for any new purchases you make from that point until you clear the balance owing in full. Yes, credit card companies have many ways of making sure you end up paying interest.

As one CHOICE member pointedly told us: “The way my credit card provider uses one instance of late payment to effectively remove the 55-day interest-free period on new purchases is shameful. Their description of how they apply interest is ambiguous and defies rational understanding.”

**Minimum payment ruse**

Credit card issuers dearly hope that you only make the minimum payment each month, thus drawing out your debt and the amount of interest you’ll end up paying for as long as possible. Paying more than the minimum each month can have dramatic effects over the long term.

The numbers tell the story best. If you owed $5,000 on your credit card at 18% interest and made only the minimum monthly payment starting at $102 (about average for minimum payments on a $5,000 balance at that interest rate), you would end up paying $17,181 over the 33 years it would take you to pay off the card.

If you paid $246 per month, you would end up paying $5,902 over the two years it would take you to get out of credit card debt, saving $11,279 along the way.

**Balance transfer credit cards**

Credit card companies just love to advertise low or no interest rates for debts transferred from other cards, purportedly to help you get out of debt. But it’s really a ruse to bring new customers on board and get them paying interest down the road.

The interest rate applying to the balance transfer generally ranges from 0% to 5%, for a period of four months up to as long as it takes you to repay the debt. It can seem like an offer too good to refuse.

One big thing to bear in mind, though, is that the low-interest or no-interest offer generally applies to the amount you transfer over from another card only – not to any new purchases with your new card – and you will likely be charged a fee based on the amount you’re transferring, one that can go as high as 3% (meaning you would pay $30 to transfer over $1,000 and $300 to transfer over $10,000).

The longer the interest-free period, the higher the balance transfer fee.

Switching to a no-interest or low-interest balance transfer credit card can be a good way to get a handle on your debt or to avoid making repayments for a certain period of time. But for the unsuspecting or undisciplined, balance transfer cards can go terribly wrong.

And bear in mind that flipping your debt to a low-interest or no-interest promo deal too often can affect your credit rating, as can having multiple credit card applications rejected.

**The top five balance transfer credit card traps**

1. The ‘payment hierarchy’ con

When you make repayments, they’re firstly applied to the balance transfer amount – even if the card has a 0% interest rate, and even if other purchases and cash advances are accumulating interest at higher rates. In other words, the credit card people have rigged it so you’ll end up paying as much interest as possible.

As one credit card provider puts it: “Payments made to your credit card account are first applied to any amounts transferred from other credit cards, charge cards or store cards under this promotion, before they are applied to any other purchase or cash advance amount. This means that the portion of your outstanding account balance that is subject to a lower interest rate will be paid off first.”

Katherine Lane, Principal Solicitor with the Consumer Credit Legal Centre in NSW, told us this payment hierarchy technique “is a trick most often used in interest-free deals to trigger interest being charged. It is completely unfair.”
2. **High interest on new transactions**

After you transfer your debt to a low-interest card, any new transactions you make usually attract interest immediately at the standard rate, which is invariably much higher than the low introductory rate. You may have no interest-free period with such transactions.

As one 2.9% balance transfer card disclaimer puts it: "Any transactions made other than with this offer are at the standard Credit Card rate, currently 20.39% pa."

Another disclaimer says: "You will not gain the benefit of the interest free period on credit purchases until the full balance (including any balance transfer and any other promotional amount) is paid by the statement due date each month."

3. **Luring you into a bad deal**

The balance transfer might simply be the hook that lures you into a card that’s otherwise poor value in terms of fees and standard interest rates. Many have standard annual interest rates close to 20% or even higher that will kick in after the introductory, or teaser, rate comes to a close.

4. **Percentage fees**

A fee may apply to transfer the balance. The fine print of one balance transfer card puts it nicely: "A 1% Balance Transfer Handling Fee to a maximum of $50 applies to each balance transferred." If you’re transferring a lot of debt, that can really add up. And 3% fees are not uncommon, especially with longer interest-free offers.

5. **Double trouble**

You might be tempted to keep spending on the old credit card, increasing your debt problems and creating even bigger debt repayments. We recommend cutting up the old card.

**Credit card reward schemes**

Credit card reward schemes are mostly a gimmick unless you’re a big spender, since rewards cards nearly always charge hefty annual fees and high interest rates. Credit card reward programs deliver little or nothing to consumers who don’t spend generously via their credit cards.

A CHOICE investigation of 63 rewards credit cards found that consumers would need to spend at least $2,000 a month to get any return, while those who spent $1,000 a month or less would pay more in annual fees than they got back in rewards.

Our research has also shown that cards that reward you with frequent flyer points are a far better deal than gift card or cash back rewards cards, where rewards accumulate at a much slower rate.

**Picking the best card if you always pay your balance on time**

- **Annual fees:** Look for cards with no annual fee and one that offers a generous number of interest-free days on purchases.
- **Number of interest-free days:** You should have at least 14–25 days after the statement to clear your bill, thereby giving a maximum of 44–55 interest-free days on purchases.
- **Overseas transactions:** Look for low currency conversion costs.
- **Rewards programs:** You generally need to spend at least $2,000 each month on your card to justify the annual fee for a rewards scheme. The schemes deliver little or nothing to consumers who spend less than $24,000 a year on their cards.

**Picking the best card if you may not pay your balance on time**

- **Consider flicking your debt to a card with a low or no interest rate for balance transfers.** These cards can give you some breathing space to get your finances back on track.
- **If you transfer your debts to a low-interest card, don’t use it for new transactions as they’ll attract interest from day one.** Cut up your old card if the temptation to keep spending and racking up debts is too great.
- **Consider using a debit card instead.** EFTPOS is a convenient and low-cost way to access money from your bank account. And MasterCard and Visa Debit cards let you transact online and overseas just like a credit card. Many financial institutions now offer debit/ATM cards with combined EFTPOS and MasterCard or Visa functionality.

**Credit card reforms**

The government’s proposed reforms to the credit card industry are well in line with the recommendations we put forward in our submission to the credit card inquiry.

- **Credit limits should be deemed too high if the borrower can’t afford to pay within a reasonable time.**
- **Unasked-for credit limit increases should be prohibited.**
- **A standard approach should be established for the application of interest to unpaid balances at the end of an interest-free period.**
- **Credit card customers should be able to easily reduce credit limits or cancel a card online rather than having to deal with bank staff charged with keeping their business.**
- **Annual credit card costs should be clearly disclosed instead of buried in the fine print.**
- **Annual rates and fees should be clearly disclosed in advertising and marketing materials, not deliberately hidden.**
- **Customers should be provided information about how much they can save with other credit cards from the same issuer, such as genuine low-rate cards.**
- **Customers should be regularly informed by email, text or other electronic communication about the expiry of special offers and how much credit they’ve used.**
- **Credit card issuers should offer customers the option of making higher repayments and proactively contact customers who are making minimum payments and drawing out their debt.**

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Credit cards:
• Are a form of short-term finance
• Are a convenient way to pay for things, reducing the amount of cash we have to carry around, including when we travel
• Provide an easy method for making purchases by phone and over the internet
• May have attractive rewards programs associated with them (e.g. frequent flyer points)
• Can be a useful source of emergency funds
• Need to be managed carefully so that we don’t spend more than we can afford.

Credit and loans are essentially the same thing. We just tend to think of credit cards as separate from car loans, personal loans and housing loans because we use them differently.

Buying on credit
You should always be aware of how much you’re paying for the privilege of buying now and paying later. Interest rates on credit cards are usually much higher than other types of loans.

Before purchasing on credit, ask if it’s something you really need or if it’s just something you really want. Can you afford to pay it off sooner rather than later?

Control your credit cards, don’t let them control you!
Here are some important tips to help you control your credit cards:
• Cash advances – beware! Even if you have an ‘interest-free days’ card, you pay interest immediately for cash advances. Any payments you make will not repay the cash advance until all previous credit advances have been repaid in full. You will also lose the benefit of the interest-free period until you clear your account of the cash advance.
• Keep fees down: Manage your card carefully. Try to avoid unwanted fees for exceeding your credit limit, failing to pay the minimum monthly payment on time, having a rewards program you don’t need, or allowing your payments to be dishonoured.
• Low or no fee payment methods: Find the cheapest and easiest way to pay off your card. Phone and internet banking are almost always cheaper than paying over the counter. It may be convenient to have monthly payments deducted automatically from your account, but this is unsuitable if you want to pay off the balance owed each month.
• Leave it at home: If you’re going out or shopping and think you might be tempted to buy something on credit, leave your cards at home.

Managing your credit cards
More than one card?
Most people only need one card. The more you have, the more fees and charges you have to pay. If you’re experiencing financial hardship, having more than one card may tempt you to use cash advances from one card to pay off another, or increase your debt further causing further financial problems.

Paying off your balance
The best policy is to pay your balance in full each month or before the end of your interest-free period. By doing this, you avoid paying interest charges on your purchases.

If you can’t manage this, clear your debt within a couple of months. If you find yourself borrowing up to your limit every time you make a payment, consider cancelling your card, and taking out a personal loan at a lower interest rate to pay off the debt. This is called ‘debt consolidation’.


A financial counsellor can offer the best advice for your unique situation and help you create a realistic budget you can stick to. See our ‘Budgeting’ page for more detail (www.youthcentral.vic.gov.au/managing-money/saving-spending/budgeting).


HELP WHEN YOU’RE IN DEBT

People get into financial difficulties for many reasons. If you find yourself in debt, there is help available, according to this guide from the Australian Competition and Consumer Commission (ACCC)

Make a repayment plan

If you cannot meet your financial commitments, contact the creditor (the business or person you owe money to) as soon as possible to discuss a repayment plan. When negotiating a repayment plan, be realistic about what you can pay, taking into account your other financial commitments. Be honest with the creditor or debt collector about your situation.

Prepare and stick to a budget to avoid debts building up and taking you by surprise.

Keep copies of bills, payment receipts or receipt numbers, any letters you send or receive, and notes of any conversations you have with the creditor.

Contact the National Debt Helpline

Call the National Debt Hotline on 1800 007 007 for free and confidential advice from professional financial counsellors. The hotline is open from 9.30am to 4.30pm, Monday to Friday.

You can also visit the National Debt Helpline website (www.ndh.org.au) for step-by-step guides explaining how to fix common debt problems, such as what to do if you can’t pay your energy bills, internet or phone bills, mortgage, credit cards, or payday loans.

Seek financial counselling

A free and independent financial counselling service may be able to help you if you are having trouble paying your debts or managing your budget.

Free financial counselling services are available in every State and Territory – find out more on ASIC’s MoneySmart website (www.moneysmart.gov.au).

Seek legal advice

If you’re threatened with legal action, get advice about your options as soon as possible. Free legal aid and community legal services are available in every State and Territory.

Consider using a dispute resolution scheme

Many industries (such as banking, telecommunications, energy, water and insurance) have their own ombudsmen and dispute resolution schemes. Legal proceedings against you generally cannot be started while a matter is being considered by an ombudsman.

The Financial Ombudsman Service (www.fos.org.au) handles complaints about banking, credit, loans and debt collection, life insurance, superannuation, financial planning, insurance broking, stockbroking, investments, managed funds, timeshares, general insurance, finance and mortgage broking. They cover complaints where the value of the claim is $500,000 or less.

Check your credit report

Your credit report has information about your credit history and is used by credit providers to work out whether you can afford a loan.

You should check your report to confirm the information is accurate and fix any mistakes. For more information on credit reports, including where to obtain a copy of your report and how to make sure it is accurate, visit the ASIC MoneySmart website.

Other services

A debt consolidator can provide services to help people struggling with debt. However they will charge a fee, either up front or as a commission on a new loan.

Be cautious and find out what services you’re getting from such a business and how much it will cost you. You may be able to get the same services from a financial counsellor for free.

Bankruptcy

For some people in debt crisis, bankruptcy or a Bankruptcy Act agreement may be an option, although this has serious consequences.

If you are thinking about filing for bankruptcy, it’s very important that you get advice from a free and independent financial counsellor or a qualified financial adviser. You can also get information on personal bankruptcy from the Australian Financial Security Authority (www.afsa.gov.au).

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CAN’T PAY YOUR DEBTS?

FACT SHEET INFORMATION FROM ASIC’S MONEYSMART WEBSITE

Are your debts getting out of control? Maybe you’re struggling to make ends meet because of unemployment, ill health, economic conditions or a relationship breakdown.

Perhaps this is the first time you’ve run into trouble with your finances. You might not know what to do if you can’t pay your bills or meet your repayments, or where to go for help. Whatever your situation, it’s important to act quickly. There is help available.

It’s a juggling act for Steve and Nicky

Steve and Nicky have two children, aged two and five. Recently Steve’s carpentry business has been slow and the family’s income has dropped. For the first time in their lives, Steve and Nicky find themselves with no available cash and have to juggle credit cards to pay their bills. They’ve reached the limit on three out of their four credit cards and are using the fourth card to make minimum monthly repayments on the other cards, repayments on their home loan and to pay bills. Steve is confident that business will pick up. In the meantime, they’re contacting their credit providers to ask if they can reduce repayments on their credit cards for a short time. They plan to try and keep up with home loan repayments because their mortgage is their most important loan.

TIP: AVOID DOING NOTHING

Talk with your credit provider

- If you can’t keep up with repayments on a credit card or loan (including a home loan), talk with your credit provider as soon as possible and let them know you are experiencing financial hardship.
- If you can’t come to an agreement with your credit provider, ask them to review their decision if you think it’s unfair. If you’re still not happy, you can complain to the Financial Ombudsman Service (FOS) or the Credit and Investments Ombudsman (CIO).

Apply for a hardship variation

- If you want to repay your debts but can’t, and you haven’t been able to negotiate an arrangement with your credit provider, you have a legal right to seek a hardship variation. This is a formal process where you ask your credit provider to vary the terms of your loan contract.
- Without any change being made to your current interest rate, you can ask your provider to extend your loan period, so that you make smaller repayments over a longer period of time, OR postpone your repayments for an agreed period, OR extend your loan period AND postpone your repayments for an agreed period.
- After you apply for a hardship variation, the credit provider must respond to your request in writing within 21 days.
- If your credit provider refuses your hardship application, it must give reasons. If you think the reasons provided are unfair, you can complain to an independent dispute resolution scheme, such as FOS or CIO.

Prioritise your debts

- Not all debts are created equal! Prioritise secured debts like your home and car loan over ongoing payments on unsecured debts like credit cards, so you don’t risk making yourself and others more exposed.
- If all of your unsecured debt (for example, debts incurred on credit cards and store cards) is turned into a secured debt over the family home, then you’ve created some extra risk that your home could be on the line if things go wrong.
- If your home is owned with someone else, they will also be 100% liable for any new loan that’s secured over the whole property. Similarly, if you have to ask someone to be a guarantor for your new loan, you’ll be exposing them to financial risk.

DEALING WITH MULTIPLE CREDIT CARD DEBTS

While it makes sense to pay off the debt with the highest interest rate first, if you’re having trouble managing several debts – for example, you’re struggling to meet even minimum repayments on multiple credit cards – here are two payment options you could consider:

Option 1

- Continue making minimum payments on all cards, while aiming to clear the card with the smallest debt first.
- Then work your way up to the next smallest debt. This way you will reduce the risk of incurring multiple charges for late or missed payments, save on annual fees and be in a position to direct this money to clearing your other debts.
- You’ll also be encouraged by having managed to
clear a debt. This can be very motivating if you feel like your debts have become out of control.

**Option 2**
- Continue making minimum payments on all cards.
- Pay off the credit card with the highest interest rate first and then keep working your way through your cards. This may have the advantage of saving money you’re paying in interest.

Whatever option you choose, stop using all but one of your credit cards (the one you want to end up with at the end). Try to use it only for emergencies.

As you clear each card, cut them up and close the account. This is important because, if you don’t close the account, you may still have to pay fees on an account you don’t use.

Lower the limit on the last remaining credit card to an amount that is manageable to repay within three months – say, $2,000.

**TIP: DON’T BORROW TO PAY BILLS**

If you are having trouble paying a water, phone, gas or electricity bill, contact your water, phone or energy company. Most companies have hardship officers who can help you work out a plan to pay the bill in instalments. If the provider won’t help you, you can complain to one of the ombudsman schemes.

- For phone bills, contact the Telecommunications Industry Ombudsman or phone 1800 062 058.
- For energy and water bills, contact one of the ombudsman schemes in your State or Territory:

**WHAT ABOUT REFINANCING?**

If you have a problem managing your repayments, it can sound like a good idea to roll all of your loans into one – for example, using a personal loan or home loan.

Consolidating or refinancing your loans can work for some people if it means they will be paying less in fees and interest. For others, it may be only a short-term fix, especially if you can’t meet the repayments on your new loan.

There will often be extra fees and charges to pay as well, and some people end up paying more interest on their new loan. Even if the interest rate is lower on the new loan, paying a short-term debt (like a credit card or personal loan) over a very long term (such as with a 25-year home loan) means you will still pay more in interest and fees in the long run.

Another thing to consider is that consolidation may allow you to borrow even more money. For example, if your existing credit card balances are transferred onto your home loan, as part of the debt consolidation, you might be tempted to put new debt onto your credit cards. Or, if you get a line of credit, your borrowing limit may be more than your current debts. If you use the consolidation loan simply to increase your overall level of debt, you’ll probably make your financial problems even worse.

**Tip**

Get independent legal advice or see a financial counsellor before you make any refinancing decisions to make sure you’ll be better off.

**BEWARE PREDATORY BROKERS AND CREDIT PROVIDERS**

Avoid brokers who make unrealistic promises about getting you out of debt or who use advertisements claiming they can help no matter how desperate your financial situation is. Anyone who asks you to sign blank documents, refuses to discuss repayments, rushes the transaction, or won’t put all loan costs and the interest rate in writing before you sign up, is not to be trusted.

Equity is the proportion of your property that you own outright. If there is no mortgage outstanding on a property in your name, you own 100% of the equity. If you sold the property, all the sale proceeds would belong to you.

For example, if you owe $100,000 on your mortgage and your home is worth $200,000, you own 50% of the equity. If you sold the property, half the sale proceeds ($100,000) would belong to you and half would go to repay your mortgage.

Equity stripping is when someone takes advantage of borrowers in difficulty and exploits their desire to save their home by:
- Charging high fees, sometimes more than 20% of the equity in the home.
- Arranging for a refinancing arrangement where it is extremely unlikely the borrower will be able to afford the new repayments.

Be realistic about whether you can afford repayments under a new refinancing arrangement if you are already under financial stress. You may need to consider making the tough decision to sell your home or downsize rather than tapping into your equity in an attempt to keep your home.

If you do refinance but can’t afford the new repayments, you may end up being forced to sell anyway – and there will be less equity left to repay your debts and make a new start.
SIX STEPS TO SMARTER BORROWING

**Step 1: Work out if you can afford to borrow**
- Before you borrow money or consider refinancing, use our budget planner (www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/budget-planner) to see exactly where you spend your money and how much you can afford in repayments.
- Allow for interest rate rises and anything that might affect your future income (such as changing jobs).

**Step 2: Shop around for the best deal**
- Before you take out a new loan, take time to compare interest rates, product features and fees and charges and how these stack up against your existing loan. Even a small difference in the interest rate can make a big difference to what you have to pay.
- Research published by the independent consumer group CHOICE (www.choice.com.au) can also help you find the right product for your particular needs and budget.

**Step 3: Know who and what you’re dealing with**
- Anyone who wants to engage in credit activities (including brokers) must be licensed with ASIC, or be an authorised representative of someone who is licensed. If they aren’t, they are operating illegally.
- There is currently an exemption from licensing for credit assistance provided through some businesses (for example, retail stores and car yards). While the store may be exempt, the actual credit provider must still be licensed. If you are unsure who the credit provider is, ask the person you are dealing with to point out the name in your credit contract.
- To find out if a credit provider is licensed, visit our consumer credit regulation page (www.moneysmart.gov.au/borrowing-and-credit/consumer-credit-regulation) or call ASIC’s Infoline on 1300 300 630.
- Anyone engaging in credit activities (for example, by providing credit or assistance to you) must give you either a credit guide (with information such as their licence number, fees and details of your right to complain) or a written notice with details of how to complain about their activities.

**Step 4: Keep up with your repayments**
- If you can’t keep up with repayments on a credit card or loan (including a home loan), talk with your credit provider as soon as possible.
- Don’t forget to tell your credit provider that you are in financial hardship and why.
- Many credit providers will try to help you if you can’t make repayments because of illness, unemployment or other financial difficulties. It’s important to contact them as soon as you can. They will assess your situation and work out with you what kind of help is available, depending upon how long you are likely to have difficulty making repayments.
- Remember to only make repayment arrangements you can afford. There is no point in agreeing to pay an amount if you don’t have the money to do so.
- If you have come to a new agreement with your credit provider, make sure you stick to the new repayment arrangements. If you can’t, keep paying as much as you can afford, even if it is not as much as the credit provider is asking for. Don’t stop paying because that will only make it harder for you in the long term.

**Step 5: Get help if you can’t pay your debts**
- Get help from a financial counsellor or community legal service to discuss your options.
- Financial counselling is a free service offered by community organisations, community legal centres and some government agencies. A financial counsellor can help you get a clear picture of your situation, provide information about your options and work out a budget. Visit the Financial Counselling Australia website (www.financialcounsellingaustralia.org.au) to find a financial counsellor, or call the National Debt Helpline on 1800 007 007 during business hours.
- Free legal advice is also available from community legal centres and Legal Aid offices. They can help you with credit disputes and debt recovery through the courts.
- For confidential telephone crisis support services, call Lifeline on 13 11 14 (available 24 hours a day) or try their crisis support chat service.

**Step 6: Complain if things go wrong**
- Try to resolve your problem with your credit provider first.
- If you aren’t satisfied, take your complaint to your provider’s independent dispute resolution scheme such as the Financial Ombudsman Service (FOS) or the Credit and Investments Ombudsman (CIO) – 1800 138 422. Both schemes can be reached by calling 1800 367 287.
- If you think a credit provider has acted unlawfully or in a misleading way, you can complain to ASIC online (www.asic.gov.au) or call 1300 300 630.

SHOULD I CONSIDER BANKRUPTCY?

Fact sheet information from the Financial Rights Legal Centre, which offers advice and advocacy for consumers in financial stress

This fact sheet is for information only. It is recommended that you get legal advice about your situation.

Case study
Tony was in his late forties when he lost his job. After twelve months of looking for work he began to lose all hope. His creditors had also lost patience. Despite several hardship variations in the first 6-8 months he was now facing letters of demand, court documents and now the sheriff had tagged his household goods for seizure. He owed money on three credit cards, a car loan, a big mobile phone bill he couldn’t pay and a tax debt. His rent was about the only payment he was up to date with. The sheriff suggested he talk to a financial counsellor about going bankrupt.

What is bankruptcy?
Bankruptcy involves an exchange. You hand over control of your property and finances to a trustee in exchange for protection from legal action by your creditors (the people/companies you owe money to). You do not have to have a minimum amount of debts or property to enter bankruptcy, but you need to be insolvent (unable to pay your debts when they fall due). You get to keep some basic personal property. Bankruptcy can give you relief from debt collection and a fresh start (release from your debts), but it also involves many drawbacks.

The following is a brief summary of the advantages and disadvantages of bankruptcy. You need to get advice about your particular circumstances.

ADVANTAGES OF BANKRUPTCY
There are many advantages to going bankrupt:
• You will stop being harassed by most of your creditors
• Legal action against you to recover many types of debt will stop
• The sheriff will not be able to take your essential household goods (except for new debts incurred after bankruptcy)
• Any garnishee of your wages or bank account will stop (except certain garnishees by the Australian Tax Office)
• You will be able to keep some protected property such as essential household goods and a cheap motor vehicle (See Protected property below)
• Generally, you can still earn an income (with some exceptions – see disadvantages below)
• You will be released from most debts when you are discharged from bankruptcy (most commonly after 3 years and 1 day).

Protected property
• Ordinary clothing
• Necessary household property (Not antiques or items of exceptional value)
• Tools of trade up to the prescribed limit ($3,750 as at January 2017 – go to www.afsa.gov.au and select indexed amount for the latest amount)
• A car worth no more than the prescribed amount ($7,700 as at January 2017 – go to www.afsa.gov.au and select indexed amount for the latest amount)
Dealing with Debt and Financial Stress

• Superannuation (still in your super fund)
• Life insurance policies
• Payments from life insurance or superannuation received on or after the date of the bankruptcy. Payments received before the date of the bankruptcy are not protected!
• Compensation received directly by you for personal injury (or property purchased almost entirely with compensation money).

DISADVANTAGES OF BANKRUPTCY
• Property/assets taken – Most of your assets (property you own) may be sold to pay your debts, including your home if you own or are paying off a mortgage (except protected property).
• Money taken – If you have money over a modest amount to live ($1,000-$2,000) in a bank account or in cash, it will be taken to pay your debts.
• Paying contributions – You may have to pay contributions (payments) towards your debts if your annual income is over a certain amount ($54,736.50 for a person with no dependents as at January 2017 – see www.afsa.gov.au for latest amount).
• Not all debts included – You will not be released from all types of debt. For example, you will not be released from court fines, most HELP debts and student loans, Child Support debts, family law maintenance payments or debts incurred by fraud. You will still have to pay these debts. You will also not be released from unliquidated debts (See below).
• Employment restrictions – You may not be able to continue working in some professions or licensed trades.
• Overseas travel restrictions – You cannot travel overseas without the permission of your trustee in bankruptcy. You may have to surrender your passport. If you need to travel, you need to apply for permission and pay a fee.
• Problems accessing credit, rental property and other services – Bankruptcy will be listed on your credit report for 5 years or longer, and will be listed on a public record (which can be searched for a fee), called the National Personal Insolvency Index, forever. This will make it difficult for you to borrow money, particularly while the listing is on your credit report. It may also have an affect on your ability to rent property, access telecommunications and other services or purchase insurance.
• Restrictions on borrowing and trading – You cannot borrow over a certain amount, accept goods on credit or hire purchase worth more than a certain amount, or offer to supply goods or services worth more than a certain amount without disclosing to the lender or customer that you are an undisclosed bankrupt ($5,574 as at January 2017 – go to www.afsa.gov.au and select indexed amount for the latest amount).
• Company director ban – You cannot be a director of a company or otherwise actively involved in the management of a company.
• Money or property received while you are bankrupt may also be taken – If you inherit or win money or property while you are bankrupt it will be taken by the trustee in bankruptcy (up to the amount required to pay all your debts, interest and the costs of administering your bankruptcy – this can be much more than the total amount of your debts).
• Limits on legal proceedings – You will not be able to take or continue legal proceedings without the permission of your trustee except in relation to personal injury to you or your family.

Warning: Travelling overseas without the trustee’s permission is an offence under the Bankruptcy Act for which you may be prosecuted.
Unliquidated debts
Some debts are not included in bankruptcy until they have been “liquidated” – liability admitted and the amount agreed upon. The most common example is a debt arising from a motor vehicle accident – such as damages to another person’s vehicle. If you are considering bankruptcy and some of your debts are from an accident, or otherwise don’t arise from a contract (like a loan contract, for example), then you should get legal advice before going bankrupt.

How long does it last?
Bankruptcy usually lasts 3 years and 1 day but can be extended in some circumstances to 5 or 8 years. How long it lasts depends on whether you behave honestly (tell the truth about all your property and debts): abide by the rules and co-operate with your trustee. Your bankruptcy can also be extended for non-payment of income contributions.

Secured debts
You may continue paying secured debts in bankruptcy unless the trustee in bankruptcy decides to take and sell the asset (and repay the secured creditor). This will usually only happen when your equity in the asset is enough to cover the costs of the sale and provide a return for creditors. Your equity is the value of the asset (e.g. your home) less the amount owed to the secured creditor (e.g. the amount of your mortgage). This can happen at any time both during bankruptcy and for a long time afterwards. Sometimes, where there is no equity in an asset the trustee will allow you to retain it (for example where your mortgage is almost the same as, or more than, the value of your home). Be aware that the home may still be sold later if the value goes up and/or the mortgage goes down. If the home has not been sold by the trustee by the time you are discharged from bankruptcy, you may be able to buy it back from the trustee.

Warning: Your home may be taken and sold by the trustee at any time, even after you have been discharged from bankruptcy.

When you own property with someone else
You may own property with another person or other people (such as your spouse, de facto spouse or another family member, for example). In this case the other owner(s) will be given the option to buy your share of the property from the trustee in bankruptcy. If the other owner(s) cannot afford to do this the property may be sold and the other owner(s) will be refunded an amount reflecting their share.

Property you previously owned
A trustee in bankruptcy has extensive powers to look back in time to recover property you may have given away or sold for less than they were worth. You cannot simply give away property and then go bankrupt to avoid paying your creditors. Even innocent transactions, such as a large sum of money or property given to a family member when times were better, may be undone if it occurred in the years leading up to your bankruptcy. If you have given away money or property or sold property for less than it was worth, particularly in the last 5 years or so, you need to get legal advice before going bankrupt. Even transactions which occurred longer than 5 years ago can be challenged by the trustee if it can be shown you were trying to hide wealth from your creditors.

Other things you need to know
Whilst currently there is no minimum amount of debt required for a debtor to present their petition for bankruptcy the Official Receiver will have the discretion to reject a debtor’s petition if the Official Receiver considers that the debtor:
• Would be able to pay the debts within a reasonable time; and either
  – Is unwilling to pay one or all of his/her debts, or
  – Has been previously bankrupt on a debtor’s petition at least 3 times or at least once in the past 5 years.

Warning: You should think very carefully before going bankrupt for very small debts because of the long-term consequences.

Case study
Jodhi went bankrupt on a $5,000 credit card debt. Two years later she inherited $40,000 when her grandfather died. By then the cost of annulling the bankruptcy (paying debt including interest, plus all the expenses and fees of the trustee) was over $30,000, meaning that she got less than $10,000 from her inheritance. She also found that she continued to have problems with getting pay TV services connected and getting further loans.

Declaring yourself bankrupt is not difficult but it is a big step with potentially serious consequences.
Dealing with Debt and Financial Stress

When should I consider bankruptcy?

- You will not have sufficient money to live on if you make all the monthly repayments you are required to make to your creditors.
- You do not have assets that could be sold to repay the debts (for example you rent your home and your only other asset is a car worth about $4,000).
- You have sought advice from a free and independent financial counsellor and explored other alternatives, and
- You understand and can live with the restrictions that bankruptcy will bring now and in the future.

Remember: If you earn over the prescribed amount you will need to pay income contributions during bankruptcy. The amount of income you can earn without having to pay contributions increases with each dependent you support.

Warning: Beware anyone charging a fee for service. Some people offer services to assist people in debt for a fee. They may offer to negotiate with your creditors, help you with bankruptcy or with alternatives to bankruptcy such as a Debt Agreement. Paying a fee will not help you when you are already in financial difficulty. Worse, these people are often not particularly skilled or qualified and can make your situation much worse. You should know that you can get free, independent advice from an accredited financial counsellor by calling 1800 007 007 for a referral in any State or Territory.

What about a declaration of intention to file a debtor’s petition?

If you are facing urgent enforcement action by your creditors (such as a garnishee which is not leaving you with enough money to live on, or the seizure of your essential household goods), but you are not sure if bankruptcy is for you, you can file a Declaration of Intention to File a Debtor’s Petition. This will freeze all enforcement action for 21 days to give you time to get advice about bankruptcy. Unfortunately filing a Declaration of Intention to Present a Debtor’s Petition is an act of bankruptcy and there is a risk that it will be used by your creditors to make you bankrupt even if you choose not to go ahead. This is a big risk if you own a house or assets.

Important note: You can also try to stop the seizure of goods, or reduce the amount payable under a garnishee by making an application to pay by instalments. See our fact sheet: ‘Making an application to pay by instalments’.

What if I am being forced into bankruptcy?

If you owe more than $5,000 and you are unable to pay your debts as they fall due (keep up with your repayments), your creditors may be able to force you into bankruptcy. You should get legal advice if you receive any of the following:

- A statement of claim
- A bankruptcy notice
- A creditor’s petition.

See also our fact sheet: Help I’m being made bankrupt!

This is only a brief guide and it is recommended that you speak to a financial counsellor to discuss the best option for you in your circumstances. See our fact sheet: Getting help for a list of additional resources.

Offences

For most bankrupts, the process goes quite smoothly and they are discharged at the end of 3 years and 1 day. It is important to note, however, that there are offences associated with bankruptcy for which debtors may be prosecuted. Most offences relate to dishonesty or failure to tell the trustee about income or property. There is also an offence related to gambling or hazardous speculation, and another for incurring credit which it was clear you could not pay. Both relate to the two years immediately prior to bankruptcy. If you are concerned about either of these issues, talk to your financial counsellor or get legal advice.

APPLYING FOR BANKRUPTCY

Declaring yourself bankrupt is not difficult but it is a big step with potentially serious consequences.

The Australian Financial Security Authority (AFSA) regulates bankruptcy, including processing the paper work and acting as the trustee in bankruptcy in some bankruptcies. You should also read the information AFSA provides at www.afsa.gov.au.

**Step 1**

It is strongly recommended you get free advice from a financial counsellor (you can find a financial counselling service near you by ringing 1800 007 007). If you are in NSW you can use our Find a Financial Counsellor Tool. You may have other alternatives. If you are sure this is the right course of action for you, proceed to Step 2.

**Step 2**

Obtain the relevant forms from AFSA. AFSA can be contacted on 1300 364 785 or all the forms you need are available at www.afsa.gov.au. Read all the information available on the website.

**Step 3**

Complete and lodge the forms with AFSA. Make an appointment to see a free financial counsellor if you are having difficulty completing the forms (see Step 1 above). You should list all your debts even though you may not be released from some of them. You must list all your assets even though you may believe the property is protected in bankruptcy. Include a note about why you think the property is protected. You will need to supply evidence.

*Remember: Make sure all of your debts and property are listed in the Statement of Affairs.*


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Dealing with Debt and Financial Stress

Issues in Society | Volume 430
MANAGING YOUR MONEY DAY TO DAY

If you would like to find out more about dealing with money, the Department of Human Services recommends the following tools and resources that may help:

Checking your bank statement
Checking your bank statement regularly can help you better manage and understand how you spend your money.


Understanding your bank statements can help you improve how you manage your money over time, because checking your bank statement can help you spot spending patterns and keep track of how you’re spending your money.


Budgeting
Managing money can be tricky. Together with the resources on ASIC’s MoneySmart website (www.moneysmart.gov.au), we can help you make better decisions about how to manage your money from day to day. Putting a budget together may sound like a lot of work but it’s easier than you think. A budget will help you to stay on top of bills. You can start putting money towards the things you want to buy in the future or to help with an unexpected expense.

Read more about how to budget or use ASIC’s Simple Money Manager (www.humanservices.gov.au/customer/subjects/how-budget). You can complete a budget in 9 languages, including English.

You can do your budget yourself or get help from a friend who is good with money, or a financial counsellor. Find a financial counsellor near you on the Financial Counselling Australia website (www.financialcounsellingaustralia.org.au).

If you get into debt
Following your budget will help you avoid getting into debt. Sometimes the unexpected can happen and the money going out is more than the money coming in. It doesn’t take much to reach a point where you are in trouble financially. If this happens, help is available. Read more about managing money and debt (www.humanservices.gov.au/customer/subjects/managing-money-and-debt).

It’s also good to have some savings put away in case of an emergency.

Read more about how to manage your money to build savings (www.humanservices.gov.au/individuals/subjects/managing-your-money-build-savings).

Help managing your money
Centrepay (www.humanservices.gov.au/individuals/services/centrelink/centrepay) is a free voluntary bill paying service. Deductions come from your Centrelink payments and can be used to pay many types of bills, such as child care, electricity bills or rent.

If you are interested in using our Centrepay service, you will need to ask your provider or business if they accept Centrepay deductions.

If they do, you can set up Centrepay deductions by:
- Using your Centrelink online account through myGov
- Completing a Centrepay the easy way to pay your bills form
- Contacting the business to discuss starting a
Centrepay deduction, or

- Phoning us or visiting your nearest service centre.

Our Rent Deduction Scheme (www.humanservices.gov.au/individuals/services/centrelink/rent-deduction-scheme) is also a convenient, secure and free service that allows you to pay your State or Territory housing authority rent through regular deductions from your Centrelink payments.

If you receive a Centrelink payment, our Income Management service can also help you manage your money to meet essential household needs. Check to see whether Income Management (www.humanservices.gov.au/individuals/services/centrelink/income-management) is available in your area.

Bills

Be aware of how your bills will affect your budget in the long term. For example, when you shop for a mobile phone, think about the ongoing costs. Deciding between a pre-paid or contract service can affect what else you can buy. Get some tips on choosing a phone plan from ASIC’s MoneySmart website (www.moneysmart.gov.au/life-events-and-you/under-25s/mobile-phone-deals-and-plans/choosing-a-plan).

Banking

You may be eligible for a fee-free bank account. Find out which banks offer basic bank accounts on the Australian Bankers Association website (www.affordablebanking.info/Which-Australian-banks-offer-a-basic-bank-accounts-.html). You can also ask your credit union or building society to identify the best product for you and your situation. If your situation changes, it’s a good time to check your banking arrangements are right for you.

Household goods

Renting household goods can be very expensive. If you’re thinking about renting household goods, use the Rent vs buy calculator (www.humanservices.gov.au/individuals/enablers/rent-vs-buy-calculator) to find out the real cost to you. When you rent an item like a television, fridge or washing machine, you enter into a consumer lease. You’re expected to make regular payments over an agreed timeframe. At the end of the lease, you may have paid more than it would have originally cost you to buy. This type of lease might also be called a ‘Rent to own’ or ‘Rent to buy’ agreement. It can seem like an easy way to get goods that you can take home straight away but you should still check all the costs. You may also have to pay fees and charges on top of regular rental payments.

Check out other ways to get your product sooner. You may be able to apply for an advance payment or use lay-by. You may qualify for a loan through the No Interest Loan Scheme or StepUP. Choosing which loan is right for you is easy on the Good Shepherd Microfinance website (www.goodshepherd microfinance.org.au/compare-loans).

Information services

Our Financial Information Service (www.humanservices.gov.au/individuals/services/financial-information-service) can provide you with information to help you make sound financial decisions. They can show how your choices may affect you in the short, medium and long term. It’s never too early to start planning.

Skills for education and employment

If your speech, reading, writing or math skills need improvement, you may be eligible for training to improve your skills for education and employment (www.humanservices.gov.au/individuals/services/centrelink/skills-education-and-employment). The program will give you more confidence when looking for work. It will make it easier for you to fill in forms, write letters, and prepare résumés and job applications.

Reporting your income

Our payments can help support you at different times of your life. With most of our payments, you may still get some money from us even if you have a job.

Reporting your income correctly will help make sure you are paid the right amount. When you report your income using your online account or Express Plus mobile app, there are special features to help you to get it right. If you are overpaid, you may have to pay money back.

To make reporting simpler you can record details of your employment with us using your Centrelink online account through myGov or by using the Express Plus Centrelink mobile app as you go.

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TIPS FOR MANAGING MONEY
MONEY MANAGEMENT ADVICE FROM FINANCIAL COUNSELLING AUSTRALIA

Step 1 – Work out where you stand

There is no getting away from actually sitting down and doing a quick budget. You need some idea of what your bills are and where you’re spending your money.

There are some great tools on the MoneySmart website that can help with this including a budget planner and an expense tracker – www.moneysmart.gov.au (This website is run by the Australian Securities and Investments Commission).

Step 2 – Work out what your money goals are

Where do you want to be in the next 12 months, five years, 50 years? Being clear about your money goals gives you a sense of purpose, while at the same time, helping to change mindsets and behaviours about money.

Step 3 – Work out your own personal money management strategy

After you’ve got some idea of where your money is going, and what your goals are, the next step is to make sure you manage your money – and not the other way round. You need to find a money management strategy that works for you.

We’re all different and different people have different strategies. Some people like to track their expenditure against their budget and can keep meticulous records. But that strategy doesn’t work for everyone as it requires a fair bit of time and effort.

Lots of people use what is sometimes called an “anti-budget”, which is essentially putting aside funds each pay period for the big, important things like regular bills and savings and then having the peace of mind knowing that you can spend the rest.

An example would be to do something like this:

• First step – Work out what you need to set aside each pay period to cover your fixed bills (rent, electricity, car registration and so on). Set up a separate account to cover these bills and organise to put that money aside each pay period (e.g. by automatic transfer).
• Second step – open a second and separate account for regular savings. A good rule of thumb is 10% of your net income. Again, put in place some form of automatic transfer.
• Third step – any money left over is for day-to-day living expenses.

But a word of caution – this strategy won’t work if you instead use a credit card to spend more money than you have.

Watch out for debt traps

As consumers, we’re very conscious of the need to only buy safe products. You wouldn’t buy a car that had bald tyres or was so risky there was a good chance of an accident.

We need to think about financial products in the same way, through a product safety lens. Sadly, there are too many dangerous financial products in the marketplace and we need to steer clear of them. Financial products can also be complex and hard to understand, and unfortunately you can’t rely on the lenders spruiking them to always act in your best interests.

Some tips to stay safe are below:

• Avoid high-cost credit products such as “rent to buy” for goods like fridges and washing machines, as well as short-term cash loans (payday loans). Because these forms of credit are so expensive, after making payments many people find that they’re “caught short” and can never get out of debt.
• Resist ‘Buy Now – Pay Later’ products such as interest-free deals. If you don’t repay the debt in the agreed time period, it could be ‘Buy Now – Pay
Forever! Deferred payment products, where you take the goods at the checkout and then pay them off in say four equal instalments can also be a trap. You'll be much better off saving up instead.

- Don’t assume that because a bank or finance company will lend you money, they know you can afford it – their assessment processes can be very poor.
- Be wary of balance transfer offers on credit cards. If you don’t close off your old card, you’ll just end up in further debt. And once the interest-free period on the new card ends, the deal may not look quite so good.
- Credit card debt is expensive – for example, if you only paid the minimum monthly payment on a debt of $10,000 at 18%, it will take over 40 years to repay – see the calculator on the ASIC MoneySmart website (www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/credit-card-calculator)
- Don’t sign up for anything you don’t fully understand whether it’s a mobile phone, a credit card, insurance or a refinance of your mortgage – ask questions until you do understand – take a day to think about it – take the contract away with you – get independent advice.
- If you are going to buy on credit, shop around for the best deal for the credit just as you would for other goods. And remember that credit offered by department stores and car dealers usually has a higher interest rate. Always get another quote.
- Car dealers will also try and sell you lots of additional products, often of very little value, compared to the price, such as interior protection. Car dealers will also try and sell you lots of different forms of insurance – car insurance (always shop around as you are likely to get a better deal) as well as various “add on” insurances, such as consumer credit insurance or tyre and rim insurance. Add on insurances are almost always poor value for money.
- If it sounds too good to be true it probably is! 12 months interest-free – No payments for 2 years – Pay off your home loan in 5 years – there’s likely to be a sting in the tail – they want to sell you the product but they won’t tell you what’s in the fine print.
- Be wary of ‘credit repair’, ‘credit fix’ or ‘debt solution’ companies that say they can ‘improve’ your credit report. They usually charge large fees for services you can do for free.

Credit reports
You can get a FREE copy of your credit report by contacting any of the credit reporting agencies listed below. The information in the report may vary depending on the agency. It’s a good idea to start with the largest, Equifax.

Be aware that if you request your credit report, your current contact details will then become available to any lenders, creditors or debt collectors who check your report.

**Equifax (formerly Veda Advantage)**
Complete the online form at www.mycreditfile.com.au or follow the steps on the website, or write to Equifax.

**Illion (formerly Dun & Bradstreet)**
Complete the online form called ‘Application for personal credit report’ at www.checkyourcredit.com.au and tick the box marked ‘standard service’, or call Illion and request an application form.

**Experian Credit Services Australia**
Refer to www.experian.com.au/credit-services/credit-reports/order-credit-report.html
You’re entitled to a free copy of your credit report once a year, or more often if you ask within 90 days of being refused credit.
Your credit report must arrive within 10 days.

If you are in trouble with debt – seek help – ring the National Debt Helpline on 1800 007 007 and talk to a free, non-judgmental and independent financial counsellor.

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Managing your money to build savings

THE AUSTRALIAN GOVERNMENT’S DEPARTMENT OF HUMAN SERVICES OFFERS TOOLS AND INFORMATION TO HELP YOU TO BUILD YOUR SAVINGS

How to save

After you have paid your bills and necessary expenses, you can put any money you have left over towards savings.

Setting a plan is easier when you have a goal in mind. It might be short term like paying off a debt or buying a household appliance. It might be longer like saving for a car, a house or for retirement.

Step 1 – do a budget

To start building savings, you need to know where you spend your money. The easiest way to do this is to put a budget together and track your spending. Budgeting helps you manage your money day to day. You can stay on top of bills and work out what expenses you can reduce.

By learning to check your bank statements, you can improve how you manage your money day to day.

Example

Valerie was trying to make some small savings so she could purchase new school shoes for her daughter. She checked her bank statements and found a direct debit for a gym she hadn’t been to for a year. Valerie cancelled her gym membership, which she no longer needed, saving herself $25 per week. She bought the new school shoes and put the rest of the money into an online savings account.

Tips for success

Make sure you write down your savings goal and plan.

A few tips for successfully achieving your goal are:

- Save regularly and stick to your plan
- Track your progress
- Tell your family and friends about your goal so they can help you stay on track
- If you fall short one week, try to make it up the next – don’t give up.

Those who regularly review and remind themselves of their goals are more likely to achieve them.

Visit ASIC’s MoneySmart website and learn more about saving (www.moneysmart.gov.au/managing-your-money/saving), including how to achieve your savings goals.

Step 2 – come up with a savings plan

A savings plan will help you reach your savings goals. Keep it clear and simple so you can review it regularly.

ASIC’s MoneySmart savings goals calculator shows you how long it will take and how much you will need to save to reach your goal. Visit: www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/savings-goals-calculator

Our Financial Information Service (www.humanservices.gov.au/individuals/services/financial-information-service) is free and confidential and provides education and information on financial issues.

Watch your savings grow

Savings build over time as you add to them. Once you have a plan in place you’ll be able to see how fast they can grow. You don’t have to have a large savings goal – smaller goals are just as good.

Short-term goals

You might have a short-term goal like:

- Paying off a debt
- Saving for bills you know are coming up, such as car registration, or
- Buying a TV or household appliance.
You may reach your short-term goals sooner if you:

- Cut back on things you don’t really need
- Use cash or a debit card instead of your credit card when shopping – when you run out of cash, you’ll know it’s time to stop spending.

**Long-term goals**

Long-term savings are usually for larger saving goals, such as a car, house, or retirement. For long-term savings you may want to think about getting professional advice.

Our video (www.youtube.com/watch?v=t5i3vZGG308) provides information on what you need to know when choosing a financial adviser.

ASIC’s MoneySmart webpage ‘Savings accounts’ (www.moneysmart.gov.au/managing-your-money/banking/savings-accounts) helps you to find the best possible product for you.

Talk to your bank or credit union to find the best product for your situation.

**Earning extra money**

In some circumstances, you can earn money from paid work without it affecting your income support payment or benefits.

If you’re working age, you can build up Working Credits (www.humanservices.gov.au/individuals/enablers/working-credit).

If you’re a full-time student or Australian Apprentice, you can use Income Bank (www.humanservices.gov.au/individuals/services/centrelink/income-bank) to build up income credits.

If you’ve reached age pension age, but still want to work, the Work Bonus (www.humanservices.gov.au/individuals/services/centrelink/work-bonus) may mean your wages have little or no effect on your pension.

It’s important that you report your income correctly so you are paid the right amount and don’t incur a debt.

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Department of Human Services.
Managing your money to build savings.
BUYING STUFF

Shopping can be fun, but it can also sometimes be confusing and stressful. When there’s more than one kind of the thing you want, how do you know which one you should buy? Where do you find the cheapest one? And is the cheapest one really the best one to buy? Advice from YouthCentral

Informed consumers know how to shop around and how to compare prices and quality. They also understand what after-sales service they have a right to expect and how to complain if things go wrong. This article offers some tips on taking some of the stress out of shopping expeditions.

DO YOU REALLY NEED IT?

We buy things we don’t need all the time. For instance, nobody needs an MP3 player, but most people still want one. Try asking yourself why you want the thing you’re going to buy. Is it just because everybody else has one? If so, you might end up regretting your purchase down the track.

Think about whether the thing you’re buying is still going to be cool in three months, or even useful. It also helps to have a think about whether you can afford it. For more tips on budgeting, check out our ‘Budgeting’ page: www.youthcentral.vic.gov.au/managing-money/saving-spending/budgeting

BEFORE YOU BUY, DO SOME RESEARCH

Before you start shopping, research the kind of item you want to buy. Make a checklist of what you want and what you’re willing to pay. That way you can ensure you’re getting the features you want (including things like a warranty) for the best possible price.

Here’s a few things to think about when doing your research:
• Shop around – if you can, check out more than one store to compare brands, features and prices
• Talk to people who already have the thing you’re planning on buying – are they happy with it?
• Ask staff at the store about other makes and models of the same product
• Check out product reviews in magazines and websites
• When possible, consider alternative, cheaper versions.

It might help to take a notebook when comparing products so you can remember everything that you find out.

A couple of good places to start your research are:
• CHOICE (www.choice.com.au), which offers lots of advice to consumers, including a comprehensive directory of product reviews that compare lots of different brands and make recommendations based on various criteria
• The Whirlpool Forums (http://forums.whirlpool.net.au), which mainly discuss the internet and technology, but they also host discussions about the merits of other consumer products.

TIPS FOR GETTING A GOOD DEAL

Here are some tips that can help you spend less when you’re shopping:
• Remember that advertised items are not necessarily the cheapest – just because something’s on sale it doesn’t mean it’s the best price
• A lot of shops have regularly scheduled sales – find out when they are and hold off buying things if you know a sale is coming up soon
• Because they get discounts from manufacturers for ordering in bulk, larger stores are often cheaper than smaller ones
• Ask for a discount if you pay with cash
• Shop at markets, second-hand stores, garage sales and warehouses
• Find out if the product you’re buying comes with a warranty

Informed consumers know how to shop around and how to compare prices and quality. They also understand what after-sales service they have a right to expect and how to complain if things go wrong.
warranty and how long that warranty lasts for.

- Ask if the store offers any student or other concessions – some computer stores, for example, offer generous discounts to full-time students or unemployed people.

If you don’t feel comfortable negotiating the price of the product with the salesperson, you might consider taking an assertive friend or family member with you who has your best interests at heart and let them do all the talking for you.

YOUR BUYING OPTIONS

As well as using cash or cards, there are other ways you buy things. Each comes with their own conditions and restrictions and consequences, so consider very carefully before choosing one of these options.

LAY-BY

Some stores offer the choice of paying for things over time and collecting it once you’ve paid for it in full. Keep in mind that there are usually minimum deposit amounts and penalties for not paying deposits often enough.

RENT TO BUY/INTEREST-FREE DEALS/ CONSUMER LEASING

If you can’t afford to buy something outright, like a computer or a new TV, some stores will let you take things home without paying for them in full. For example, it’s possible to rent a product, like a new stereo or TV, for a set period of time.

Some rental arrangements specify that you end up owning the product after a set number of payments, but other rental contracts are ongoing – you pay the same amount every month for as long as you have the thing you’re renting. Some stores also let you take things home and pay for them in instalments.

If you don’t have the money for the things you want upfront, and you think you can meet the monthly payments, then this is an option to consider. The thing to keep in mind, though, is that these arrangements usually mean you’ll end up paying more over time compared to buying the product up front.

MoneySmart has a lot more information, including things to watch out for when it comes to ‘Consumer leasing’, ‘Rent to buy’ and ‘Interest-free deals’.

BORROW MONEY

If you’re planning on buying something big, like a car or a laptop, you could consider taking out a loan, but make sure that you are able to repay the loan on time and in full. Check out our ‘Credit cards & loans’ page for more about loans: www.youthcentral.vic.gov.au/managing-money/saving-spending/credit-cards-loans

WHAT RIGHTS DO I HAVE AS A SHOPPER?

Knowing your rights when you’re buying stuff and how to exercise them can help you avoid mistakes, and save you time and money.

You have the right to expect:

- Certain quality, performance and safety standards from goods and services purchased
- Protection from misleading and deceiving practices like false advertising claims and high-pressure selling tactics
- Any information provided with goods and services to be accurate and to include any information required by law (e.g. price, content and weight of package, care labels on garments and textiles, safety instructions on dangerous products).

If you feel like a store has ripped you off, you don’t have to put up with it. Contact the store or take the product back to where you bought it, with the receipt, and politely explain the problem, and tell them how you would like it solved (e.g. refund, exchange, or repair). If you aren’t happy with what they offer you, you should contact Consumer Affairs Victoria on 1300 55 81 to discuss your options.

RETURNS AND REFUNDS

Sometimes what you buy isn’t what you want after all. Sometimes it doesn’t work the way it should or the way you thought it would. But if you’ve bought something and wish to return it, can you? The answer is: Maybe!

Note that if you just changed your mind after you bought something, damaged it by misusing it, or you don’t have a receipt, you aren’t necessarily entitled to a refund.

You’re more likely to get a refund if your purchase:

- Has a fault you didn’t know about when you bought it
- Doesn’t do the job you were told it would do
- Is different from a sample on display
- Is different from how it was described to you.
Some stores might offer you an exchange or a credit note instead of a refund. If so, remember to check the expiry date of the credit note!

For comprehensive information on returns and refunds including what your rights are if you want to return something or get a refund, check out the Consumer Affairs Victoria ‘Returns and refunds’ page.

Our ‘Consumer rights’ page also has further information and advice about your rights when you buy stuff: www.youthcentral.vic.gov.au/know-your-rights/consumer-rights

WARRANTIES
Some products come with a warranty, which is a guarantee from the manufacturer to replace or repair the product if it’s faulty.

Some warranties specify that this repair or replacement offer is only valid for a set period of time, or if you have filled in a warranty card and returned it to the manufacturer. If a product you buy turns out to be faulty, you might still be entitled to repair or replacement, even if the warranty is expired or no longer valid. Check out Consumer Affairs Victoria’s Warranties information for details: www.consumer.vic.gov.au/products-and-services/refunds-repairs-and-returns/warranties

SHOPPING ONLINE
Online shopping comes with its own particular advantages and disadvantages. The trick is how to do it without getting ripped off. To find out more about your rights when shopping online, check out the ‘Online shopping’ section of our ‘Consumer rights’ page or our ‘Online shopping’ page.

LINKS
Consumer Affairs Victoria (CAV) – shopping
A guide to all aspects of shopping, from advertising and product safety to warranties and returns.

CHOICE
www.choice.com.au
Advice to consumers, including a directory of product reviews that compare the quality and price range of lots of different products and services.

Whirlpool Forums
http://forums.whirlpool.net.au
Mainly focused on internet and technology, with some limited discussion of other consumer products.

SIMPLE WAYS TO SAVE MONEY
MONEY-SAVING TIPS FROM ASIC’S MONEYSMART

Saving made easy
Making small changes in your life can fatten your savings and help you budget better. Follow these tips to save more money.

• Change one habit and save
• Start saving with a friend
• Save on clothes
• Find savings on food, groceries, electricity and water
• Reduce your bank fees
• Try the Saver Plus Program.

Change one habit and save
Small changes can make a big difference to your bank balance. Change one thing you do regularly and you could save money. Some examples are:

• Give up drinking coffee or cut down on alcohol – it may sound scary but it will save you money and can have health benefits.
• Cancel your gym membership and walk to work instead.
• Make your lunch at home.
• Have people over for dinner rather than going out and ask everyone to bring a plate of food.
• Borrow books and DVDs from the library.
• Get into the habit of checking your bank statements.
• Set a limit for birthday and Christmas presents or give homemade gifts.
• Share gardening tools and equipment with your neighbours rather than each buying one of everything.

Record your everyday expenses to work out where you can make changes. Download the TrackMySpend app at: www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/mobile-apps/trackmyspend

Start saving with a friend
It can be harder to save money when the people around you are keen to spend. Try and find a friend who also wants to save money. You can share tips, enjoy cheap nights out and borrow from each other rather than buy new things.

You could even have a competition to see who saves the most money over a set time.


Save on clothes
With fashion changing every season, you don’t really need to buy new clothes all the time:

• If you’re buying clothes, check if you can wash them to avoid dry cleaning bills.
• If you buy something, make sure it goes with at least two other things in your wardrobe so you can get a few different outfits out of one item.
• Check op-shops and local markets for bargains.
• Take advantage of stocktake sales or end-of-season clearances to pay less for the things you need.

Find savings on food, groceries, electricity and water
There are lots of ways to cut costs at the supermarket checkout without going hungry or sacrificing quality. See our webpage on how to save money on food for some great ideas to help stretch your grocery dollars at: www.moneysmart.gov.au/managing-your-money/budgeting/simple-ways-to-save-money/how-to-save-money-on-food

If you’re looking for ways to reduce how much water or electricity your household uses, you might be surprised at the difference just a few small changes can make.


Reduce your bank fees
Some financial institutions offer basic bank accounts with:

• No account keeping fees
• Free monthly statements
• No minimum deposit amounts
• No overdrawn fees.

You can find which financial institutions offer these basic bank accounts on the Australian Bankers’ Association’s ‘Affordable Banking’ website (www.affordablebanking.info/Which-Australian-banks-offer-a-basic-bank-accounts-.html).

Try the Saver Plus Program
Saver Plus helps families on low incomes develop a savings habit and improve financial skills. Saver Plus can help you set a savings goal and help you reach it.

When you reach your goal, your savings are matched, dollar for dollar, up to $500. Find out more about Saver Plus (www.bsl.org.au/services/money-matters/saver-plus).

It’s easy to save money by cutting out or reducing some things you buy. Try one or two of these money-saving tips and watch your savings grow.

WHY IS AUSTRALIAN 15-YEAR-OLDS’ FINANCIAL LITERACY DECLINING?

TEENAGERS DON’T KNOW AS MUCH AS THEY SHOULD ABOUT MONEY, WRITES CARLY SAWATZKI

Around a fifth of 15-year-olds in Australia do not have basic financial literacy, according to a new OECD Programme for International Student Assessment (PISA) financial literacy assessment results report.

Financial literacy is defined by the OECD as:
Knowledge and understanding of financial concepts, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial wellbeing of individuals and society, and to enable participation in economic life.

This topic has an elevated status in the Australian curriculum, particularly within maths and humanities. However, the report showed that young people are doing worse in this area now than previously. In particular, students struggled to read payslips and detect financial scams.

Low socioeconomic background, attending a rural and remote school, and indigeneity influenced students’ financial literacy performance. Interestingly, girls outperformed boys.

So why the gaps and why is performance declining?

CONVENTIONAL APPROACHES ARE DRIVEN BY THE FINANCE INDUSTRY

OECD guidelines on financial education in schools argue that the younger generation face increasingly complex financial problems. This is why there is a need to teach students skills and knowledge related to finance from a young age, to help them engage in society in later life.

The most important financial decisions people face involve choices – about work, study, transport, housing, insurances and investments. These choices are influenced by complex and changing economic and financial realities. This means there is a need to focus on basic skills and capabilities that will equip students to be critically informed in managing their money.

Since the 2007 global financial crisis, the Australian government has invested more than A$10 million in the Helping our Children Understand Finance policy and other related initiatives.

This work is led by the Australian Securities and Investments Commission (ASIC). Key to ASIC’s work in this area has been creating the MoneySmart brand.

ASIC’s MoneySmart website is marketed as a “one stop shop” for all things money-related and includes resources for schools and teachers.

The Commonwealth Bank’s Start Smart program takes a similar approach, with guest workshops facilitated by bank employees. The Commonwealth Bank has a long history of recruiting customers at a young age through its school banking program.

This approach to financial literacy education, which provides “one size fits all” lessons, has been critiqued as missing the mark. Sure, some topics are generic, but local real world problems can vary significantly.

For example, a teacher recently explained to me that some of his secondary students were trading bitcoin. Meanwhile, teacher colleagues in rural communities were concerned about their students’ family farms and financial futures. These stories show that teachers are tuned in to their students’ financial literacy learning needs and interests.

A recent evaluation exploring the potential of MoneySmart in low socioeconomic schools recommended that teaching resources should be reviewed. The report highlighted the value of working with teachers to develop real world mathematics lessons that fit local needs and interests, while exploring ways teaching practice might be enhanced.

With declining financial literacy results, it’s time to question whether conventional approaches are working. New initiatives that do more to involve teachers in thinking about and planning for student financial literacy learning may have a greater impact.
STUDENTS WANT LESSONS THEY CAN RELATE TO

Around 79% of Australian students have a bank account. What students then need to know about are the types of financial products and services available, and the risks and rewards they might bring.

My research has shown that even primary school students value real world financial literacy learning experiences where they deem the tasks to be useful to their lives beyond school.

Such lessons involve practical tasks like applying literacy and numeracy to making sense of information that is presented in different formats.

Depending on the school, lessons that involve making decisions about takeaway menus, public transport pricing and mobile phone plans can be explored in Years 5 and 6, when students are beginning to think about using these services themselves.

In secondary school, teaching and learning should continue to be dynamic and timely. For example, students need to learn to keep track of their money electronically, pose questions and think critically when interacting with banks, and protect their personal information from scams.

SCHOOLS AND TEACHERS NEED SUPPORT

Behavioural economics research shows that financial behaviour may depend as much on intrinsic values and attitudes learned at home as the knowledge and skills acquired at school.

This explains why the real impact of high school financial education on financial decision-making beyond school is difficult to measure.

There is little Australian educational research exploring how teachers make sense of this subject area – and how they approach it.

Australia is a diverse society in which socio-economic marginalisation and low educational achievement tend to go hand in hand. This means that “one size fits all” approaches don’t always fit local circumstances.

My work with teachers has revealed that feeling financially literate and being able sensitively to teach financial problem-solving and decision-making to students are two different things.

For example, in a project involving more than 30 primary school teachers, the majority agreed that they were financially literate. But only about half indicated being confident about teaching financial literacy.

Teachers want access to quality professional learning to help them navigate the Australian curriculum and develop their teaching. Teacher associations do a great job at supporting teachers in this work.

Carly Sawatzki is Lecturer, Monash University. Dr Sawatzki is a teacher-educator with expertise in curriculum and pedagogy across the Victorian and Australian curricula (VCE, Victorian Curriculum, Australian Curriculum). Carly’s subject areas include upper primary Mathematics, middle school Economics & Business, senior school Business Management and senior school Psychology.

Young people don’t expect to rely on the ‘bank of mum and dad’: study

Young people see their financial future as their responsibility, but they need to be comfortable talking about it, new research shows. Authored by Kathleen Riach

Despite the stereotypes of young people as a generation focused on spending with no consequences, young people actually see their money decisions (as well as their mistakes) as their responsibility, our research shows. They aren’t reliant on the “bank of mum and dad”.

We spoke to 123 Australians aged between 16-26 across a variety of socioeconomic groups. We asked them about their beliefs, perceptions when it comes to finance and how they made, spent and saved money.

Although parents “helping out” was mentioned – whether through direct money allowances or indirect support such as staying at home and paying marginal rent – it was clear young people saw their financial security as their responsibility.

However, many spoke of the desire to help out their families, particularly if their parents were struggling financially themselves. As a result, some young people chose to forego opportunities such as further study or training in favour of earning money in the present.

This has longer term consequences for their earning power. For example, they may be stuck in occupations characterised by precarious working conditions, low superannuation contributions and limited opportunities for promotion.

Many participants picked up on the gloomy sentiments around their generation’s prospects of home ownership, increasing precariousness of the labour market and the inevitability of working into their older age.

Young people faced a range of challenges, including lower wages in line with their age, unpaid overtime, delayed wages as casual part-time workers and exposure to exploitation and the cash economy. These all could undermine their attempts to save money and control their cash flow.

WHY WE NEED TO TALK ABOUT MONEY

In Australia we often think about money-talk as uncomfortable, boastful or even vulgar, even with intimate partners or close friends. Our study suggests this has significant consequences for future generations’ financial practices.

Although we may like to think our own positive money practices transmit to our children through a process of osmosis where they automatically model good financial practices, this was not the case for our participants.

Many found it difficult to art-
iculate how their parents had been successful in saving, planning and spending beyond very general impressions.

However, others did describe how witnessing their parents deal with financial struggles influenced their own behaviours, particularly if they had made significant money mistakes. For these young people, early experiences of their family having no money for food, or memories of the electricity cut off due to late payment of bills influenced them in the long run. They had thought about strategies for budgeting and were clear about prioritising essentials such as rent.

But the cultural hangover of a hesitance to talk about money meant young people rarely reported discussing salaries, savings or longer-term financial goals with their friends. Although they felt pressure to conform or keep up with activities or new products, many were perplexed that friends could afford something and they couldn’t, despite perceiving themselves to be in similar financial positions.

This may of course have dangerous consequences in terms of setting expectations about lifestyle or consumption choices that do not correlate with their financial practices.

**TRANSLATING FINANCIAL LITERACY INTO ACTION**

Our research suggests the current focus on financial literacy, which favours intervention and education at the individual level, only partially helps to support young people. Unlike previous generations, they face a complex terrain of around superannuation, predatory lending practices (such as payday loans) and new, poorly regulated financial products on the market.

Among financial literacy initiatives, clear information is needed about the medium- to long-term management of investments, the implications of debt and the importance of discussing their money decisions with others.

Most importantly, more needs to be done to ensure systems and practices around spending and financial commitments are accessible and transparent. This includes making it easy for people to “read the fine print” in agreements, and being clear about the longer-term consequences of financial decisions.

Young people have a clear idea what they want their futures to look like and they know it requires significant financial compromises and sacrifices in the short and medium term. The least we can do is provide enabling structures to support this.

**Kathleen Riach** is Associate Professor in Management, Monash University.

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**THE CONVERSATION**

WORKSHEETS AND ACTIVITIES

The Exploring Issues section comprises a range of ready-to-use worksheets featuring activities which relate to facts and views raised in this book.

The exercises presented in these worksheets are suitable for use by students at middle secondary school level and beyond. Some of the activities may be explored either individually or as a group.

As the information in this book is compiled from a number of different sources, readers are prompted to consider the origin of the text and to critically evaluate the questions presented.

Is the information cited from a primary or secondary source? Are you being presented with facts or opinions?

Is there any evidence of a particular bias or agenda? What are your own views after having explored the issues?

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WRITTEN ACTIVITIES 53
RESEARCH ACTIVITIES 54
MULTIPLE CHOICE 55
Brainstorm, individually or as a group, to find out what you know about debt and financial stress.

1. What is financial stress? Provide some examples of ‘financial stress experiences’ and ‘missing out experiences’?

2. How does financial pressure affect wellbeing? (Provide examples)

3. What is bankruptcy?

4. What is financial literacy?
Complete the following activity on a separate sheet of paper if more space is required.

While many other developed countries have seen a decline or “levelling out” of personal debt since the 2008 global financial crisis, Australia’s debt levels have continued to increase. As a result, Australia is now reported to have some of the highest personal debt levels in the world.

Research the latest household debt figures online (www.abs.gov.au), and explain what the current level of household debt is in Australia. What are the reasons for this growth in household debt; how does Australia’s household debt compare to other countries?

In 2015-16, based on the ratio of debt to either income or assets, around three in ten households (29%) were classified as ‘over-indebted’.

While Australia’s total personal debt is usually reported in a negative light, it’s important to distinguish between the different types of debt that make up the $2 trillion we collectively owe. What is the difference between “good” and “bad” debt? (Provide examples for both types of debt)
Complete the following activity on a separate sheet of paper if more space is required.

People get into financial difficulties for many reasons. If you find yourself in debt, there is help available.

Australian Competition and Consumer Commission, *Help when you’re in debt*.

In the spaces provided below, explain in 1-2 paragraphs how each of the following actions could help you to manage your debts if you are under financial pressure.

MAKE A REPAYMENT PLAN:

________________________________________________________________________

________________________________________________________________________

CONTACT THE NATIONAL DEBT HELPLINE:

________________________________________________________________________

________________________________________________________________________

SEEK FINANCIAL COUNSELLING:

________________________________________________________________________

________________________________________________________________________

SEEK LEGAL ADVICE:

________________________________________________________________________

________________________________________________________________________

USE A DISPUTE RESOLUTION SCHEME:

________________________________________________________________________

________________________________________________________________________

CHECK YOUR CREDIT REPORT:

________________________________________________________________________

________________________________________________________________________

BANKRUPTCY:

________________________________________________________________________

________________________________________________________________________
Complete the following multiple choice questionnaire by circling or matching your preferred responses. The answers are at the end of the following page.

1. Based on the ratio of debt to either income or assets, around how many Australian households were classified as ‘over-indebted’ in 2015-16?
   a. 1 in ten households
   b. 2 in ten households
   c. 3 in ten households
   d. 4 in ten households
   e. 5 in ten households

2. Which of the following are defined as being financial stress experiences? (Circle all that apply)
   a. Unable to raise $2000 in a week for something important
   b. Spend more money than received
   c. Could not pay gas, electricity or telephone bill on time
   d. Could not pay registration or insurance on time
   e. Pawned or sold something
   f. Could not afford a holiday for at least one month of each year
   g. Could not afford a new car
   h. Went without meals
   i. Unable to heat home
   j. Sought assistance from welfare/community organisations
   k. Sought financial help from friends or family

3. Which of the following are common reasons for why people get into debt? (Circle all that apply)
   a. Job loss
   b. Getting sick
   c. Winning the lottery
   d. Relationship breakdown
   e. Rising interest rates
   f. Business failure
   g. Receiving a family inheritance
   h. Living so close to the limit of your financial ability that one emergency purchase pushes you into debt
   i. Borrowing more than you can afford to repay on loans, credit cards and store cards
   j. Spending more than you can afford because of bad shopping habits or problem gambling
   k. Taking out a big loan to pay for something you can’t afford now such as a house or car

4. Which of the following are NOT signs that you may need help with finances and debt:
   a. Late bill payments
   b. Often seeking extensions to pay bills
   c. Using an offset account linked to your home loan
   d. Overdrawn on bank account
   e. Sticking to a savings plan
   f. Minimum or missed payments on credit cards
   g. Spending less money on necessities, e.g. food
   h. Increasing debt from credit cards or loans
   i. Legal action for debt recovery
   j. Fear of eviction from being behind in rent or loan repayments
5. Respond to the following statements by circling either ‘True’ or ‘False’:

a. Australian household debt has steadily risen over the past three decades as more of us aim to own homes and continue to rely on products such as car loans and credit cards.  
   **True / False**

b. Australia’s personal debt may be among the highest in the world when compared to GDP, but the majority of it is from home loans and investments.  
   **True / False**

c. According to the ABS, 27% of households with debt had debt equal to five or more years’ worth of their disposable household income in 2015-16.  
   **True / False**

d. An overdrawn bank account is when more money is taken out than you have. This may lead to a debt or fees you have to pay.  
   **True / False**

e. Credit cards with low interest rates generally charge higher annual fees.  
   **True / False**

f. Rewards cards generally come with high annual fees that can easily nullify the rewards unless you spend a lot and earn a lot of rewards points.  
   **True / False**

g. Cash advances using credit cards are interest-free if you pay your credit card bill on time.  
   **True / False**

h. Bankruptcy usually lasts 3 years and 1 day but can be extended in some circumstances to 5 or 8 years.  
   **True / False**
i. If you request your credit report, your current contact details will then become available to any lenders, creditors or debt collectors who check your report.  
   **True / False**
Australian household debt has steadily risen over the past three decades as more of us aim to own homes and continue to rely on products such as car loans and credit cards. In fact, the ratio of household debt to income has more than doubled between 1995 and 2015, going from 104% to 213%, according to 2015 OECD data. This means if the average person earns $80,000 net, they are spending $169,600 per year (finder.com, **Australians’ household debt nears highest worldwide**). (p.1)

Australians rank 4th highest in the world for household debt (total owed as a percentage of net income) next to Denmark, the Netherlands and Norway (ibid). (p.1)

As of 2016, Australia’s total personal debt was around $2 trillion and the average Australian household owes $250,000 (ibid). (p.1)

When it comes to Australia’s personal debt, it’s important to note that the majority of it can be defined as good debt, with 56.3% going to home loans and 36.5% to investments. That’s a total of 92.8% of our personal household debt spent on potential wealth-creation (ibid). (p.2)

The latest Reserve Bank data shows household debt makes up 187% of total disposable income. That puts Australia right at the top, globally, in terms of how much debt households are carrying (Taylor, D, Are Australian households on the edge of a debt crisis?). (p.3)

Two million Australians are experiencing high financial stress which prevents them from coping in difficult situations, e.g. paying unexpected expenses such as a big mobile phone bill or the fridge breaking down (Reeve, R and Muir, K, **Two million Aussies are experiencing high financial stress**). (p.5)

Secure housing, steady income, education, being employed and good mental health are strongly associated with financial resilience (ibid). (p.5)

Future generations increasingly will only be able to afford real estate through inheritance – creating class divisions – unless there is a major overhaul of the tax system, or a collapse in prices (Verrender, I, Housing affordability: How did we get here, and do first-time buyers ever stand a chance?). (p.11)

In 2015-16, based on the ratio of debt to either income or assets, around three in ten households (29%) were classified as ‘over-indebted’ (ABS, Household debt and over-indebtedness in Australia). (p.12)

Financial pressure arises from any situation where money worries are causing stress. It may relate to debts you are facing now, or financial concerns you have about the future. It could be about actual or feared changes in work or personal circumstances that affect your income. It might be about expected expenses for you or your family (LifeLine, What is financial pressure?). (p.14)

Lots of situations can cause financial stress. You might have lost your job or been retrenched, you might be unemployed or unable to find sufficient work, you might have debts you cannot pay or you might feel worried about expected financial pressures. Your financial problems might be a result of problem gambling (Healthdirect, Financial stress and your health). (p.19)

Some signs that financial stress is affecting your health and relationships include arguing with the people closest to you about money, difficulty sleeping, feeling angry or fearful, mood swings, tiredness, muscle pain, loss of appetite, lower sex drive and withdrawing from others (ibid). (p.19)

Debt occurs when you owe more money than you have. When you can’t pay your debts you can find yourself in financial hardship. Debt can easily get out of control if you don’t know how to manage it (Department of Human Services, Managing money and debt). (p.23)

Credit card companies market their products aggressively and sometimes even cleverly, but it’s important to keep your eye on the fundamental purpose of these ubiquitous financial products from the card issuer’s standpoint – getting you to borrow money and pay interest (CHOICE, How to choose the right credit card). (p.25)

Credit card issuers dearly hope that you only make the minimum payment each month, thus drawing out your debt and the amount of interest you’ll end up paying for as long as possible. Paying more than the minimum each month can have dramatic effects over the long term (ibid). (p.26)

If you cannot meet your financial commitments, contact the creditor (the business or person you owe money to) as soon as possible to discuss a repayment plan. When negotiating a repayment plan, be realistic about what you can pay, taking into account your other financial commitments. Be honest with the creditor or debt collector about your situation (ACCC, Help when you’re in debt). (p.29)

Not all debts are created equal! Prioritise secured debts like your home and car loan over ongoing payments on unsecured debts like credit cards, so you don’t risk making yourself and others more exposed (Moneysmart, Can’t pay your debts?). (p.30)

Bankruptcy can give you relief from debt collection and a fresh start (release from your debts), but it also involves many drawbacks (Financial Rights Centre, Should I consider bankruptcy?). (p.33)

Putting a budget together may sound like a lot of work but it’s easier than you think. A budget will help you to stay on top of bills. You can start putting money towards the things you want to buy in the future or to help with an unexpected expense (Department of Human Services, Managing your money day to day). (p.37)

A savings plan will help you reach your savings goals. Keep it clear and simple so you can review it regularly (Department of Human Services, Managing your money to build savings). (p.41)

Small changes can make a big difference to your bank balance. Change one thing you do regularly and you could save money (Moneysmart, Simple ways to save money). (p.46)

Around a fifth of 15-year-olds in Australia do not have basic financial literacy, according to an OECD PISA financial literacy assessment results report (Sawatzki, C, Why is Australian 15-year-olds’ financial literacy declining?). (p.47)
Bankruptcy
A process for individuals to be legally declared as being unable to meet their debt obligations.

Compound interest
Interest paid on the initial principal and the accumulated interest on money borrowed or invested.

Credit rating
An assessment of the credit-worthiness of individuals and corporations, based on their borrowing and repayment history.

Credit report
Also called a ‘credit reference’, it details your credit history, including when you have applied for credit or defaulted on a repayment. It is held by a credit reporting agency and a lender must ask you for permission to get this report.

Creditor
Any entity to which the consumer owes money, such as a bank, mortgage lender, payday lender, utility company, local authority or government department.

Debt agreement
Legal agreement for the repayment of unpaid debts that is less formal and intrusive than bankruptcy. The agreement is between you and all of your unsecured creditors and allows you to pay back your debts over an extended period of time at an amount per week you can afford.

Debt consolidation
When several loans are combined into one, with the aim of reducing repayments. Also known as loan consolidation.

Financial counsellor
Someone who gives free, confidential and independent assistance to people with financial problems. Financial counselling services are usually provided by community or welfare organisations.

Financial hardship
Difficulty in meeting the repayments on your loans and debts when they are due.

Financial literacy
The combination of financial knowledge, skills, attitudes and behaviours necessary to make sound financial decisions, based on personal circumstances, to improve financial wellbeing.

Financial plan
A plan, usually created with help from a financial planner or adviser, that defines your financial goals and sets out investment strategies to reach your stated goals, with reference to your personal circumstances.

Financial resilience
The ability to access and draw on internal capabilities and appropriate, acceptable and accessible external resources and supports in times of financial adversity. Financially stressful events may include unemployment, divorce, disability and health problems.

Gearing
Borrowing to invest, such as when you buy a house using a mortgage or buy shares using a margin loan. Negative gearing is when you borrow money to invest where the return from the investment is less than the borrowing costs. For example, the rental income from your investment property is less than the interest payments on the loan used to purchase the property.

Housing affordability stress
Households which are in the bottom 40% of income distribution and which are paying more than 30% of their gross income on mortgage or rent payments experience housing affordability stress.

Interest
Payment for the use of money over time. You earn interest by lending your money. If you borrow money, interest is the amount you pay to borrow the money. The rate of interest can be fixed or variable. It is usually calculated as a percentage of the amount lent or borrowed.

Liability
A debt or money owed e.g. a bank loan or credit card debt.

Mortgage
A form of security (usually over real estate) that is used to secure repayment of a debt (usually a home loan).

Over-indebtedness
Term used to describe debt which has become a major burden for the borrower. There is no agreed definition, but potential indicators of over-indebtedness may include: missing two or more consecutive payments, having four or more credit commitments, spending more than 25% of gross monthly income on unsecured credit repayments, spending more than 50% of gross monthly income on total credit repayments, and reporting that unsecured debts are a ‘heavy burden’.

Personal loan
Low-value loan for personal use such as to buy a car or take a holiday. These loans are usually not secured by an asset and are usually payable over 2-7 years.

Problem debt
A debt, or accumulation of debts (including arrears), that impacts on a consumer adversely, either because they are unable, or struggling, to repay the debt itself and/or because it has, or potentially will have, adverse consequences for them in another market.

Secured loan
A loan that is backed by an asset. The lender may sell the secured asset to get its money back if you cannot repay the loan. Opposite of unsecured loan.

Unsecured loan
A loan for which no asset has been used as security. The interest rate is usually higher than for a secured loan as there is a higher risk to the lender of not getting their money back.
Websites with further information on the topic

Financial Counselling Australia  [www.financialcounsellingaustralia.org.au](http://www.financialcounsellingaustralia.org.au)
Lifeline  [www.lifeline.org.au](http://www.lifeline.org.au)
Money Stuff  [www.moneystuff.net.au](http://www.moneystuff.net.au)
The Salvation Army  [www.salvos.org.au](http://www.salvos.org.au)

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