The Consumer Debt Burden:

A Perpetual Struggle

A report based on financial counselling interviews conducted in New South Wales in 2003, prepared for the Financial Counsellors' Association of NSW Inc. (FCAN).

Dr Margaret Griffiths

University of Newcastle

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EXECUTIVE SUMMARY

This is the fourth report based on a series of research studies utilising data from "full initial financial counselling interviews" conducted by members of the Financial Counsellors' Association of NSW Inc. throughout New South Wales. The primary aim of the research has been to provide relevant statistics to financial counsellors to assist them in their counselling, educative and consumer advocacy roles. Client profiles have been developed based on age, household type and level of household income.

This is the final report in the first stage of the project. The initial four-year study has enabled a clear profile of New South Wales financial counselling clients to be established and has also provided a progressive view of the changing circumstances of the successive client groups. The intention is to revisit this project in future years to monitor the situation, utilising the initial research as a benchmark for comparison.

This most recent report presents the results of the analysis of the client group studied in 2003 and also consolidates the findings over the four years of the project. The clients have typically been in receipt of low incomes relative to the population and the majority shared a number of other pertinent characteristics (*ie* single-adult households, renting or board/sharing, and considerable reliance on government cash benefits). Reflecting the demands placed on household finances at particular stages of the household life cycle, the largest sub-group of clients was aged between 25-44 years and the next largest sub-group was aged between 45-64 years.

In total the 2,322 clients presenting for financial counselling in 2003, whose data are presented here, owed credit providers over $68 million. A further $12 million was owed to other organisations and individuals. Aside from consumer credit debt, the most reported other debts were telephone bills and rent. However, there was no evidence that, *in aggregate*, the client group spent recklessly. To the contrary, the clients' actual circumstances made them prone to get into financial difficulty.

The number of business entity clients seen by financial counsellors is small. Last year, results were presented for this group for the first time (covering the period 2000-2002). The present report provides an analysis of this group based on data from the four years of the study.

Over the period of the study a positive trend has been observed in clients seeking earlier assistance with their financial problems. Early intervention can improve the likelihood of successful outcomes for both the client and the creditor. The provision of counselling services works to reduce both the economic and social costs of consumer financial over-commitment.

This report draws attention to the need for strategies to assist consumers to better manage their financial affairs and recognises that positive outcomes will require the combined efforts of many groups. In addition, several areas where further research is needed have been highlighted.

FOREWORD

Minister for Fair Trading
Minister Assisting the Minister for Commerce

It is a great pleasure for me to provide the foreword to *The Consumer Debt Burden: A Perpetual Struggle*, by Dr Margaret Griffiths of the University of Newcastle. This is the fourth and final publication in the series investigating consumer indebtedness based on financial counselling interviews in NSW.

As with the preceding three published reports in this study, this report is the result of a collaborative effort between its academic author and the Financial Counsellors Association of NSW. It provides us with an excellent example of the value of combining academic rigour and empirical evidence.

Raw data on debt, bankruptcy, and poverty tells us only part of the story. Likewise, anecdotal case studies provide us with the human face of debt but cannot adequately reflect the true nature and extent of the financial problems experienced by so many in our community.

This report will provide a valuable resource for financial counselling services and provide them with a 'big picture' understanding of their client group to complement their already in-depth knowledge of the face-to-face, day-to-day problems they encounter.

Importantly, the report will also raise community awareness and understanding of issues around consumer debt.

This report provides both a considered and detailed insight into the significant problem of current consumer debt faced by so many within our society, and an invaluable benchmark by which future economic and societal changes can be measured.

I congratulate Dr Griffiths and members of the Financial Counsellors' Association of NSW on their productive partnership in producing this report.

Reba Meagher MP
Minister for Fair Trading

ABOUT THE AUTHOR

Dr Margaret Griffiths has published and presented conference papers related to consumer credit. Her PhD studies explored consumer credit in Australia. Margaret is presently a lecturer in marketing at the Central Coast School of Business, University of Newcastle, Ourimbah Campus.

WHAT IS FINANCIAL COUNSELLING?

Financial counselling is a community service offered free of charge to consumers who are experiencing financial problems with the aim of assisting them to regain control of their financial affairs. During the counselling process financial counsellors are also able to educate and pass on skills to consumers as to their rights and responsibilities when using credit and other marketplace services. Counsellors aim to empower the consumer through this knowledge.

Financial counsellors in New South Wales are accredited with the Financial Counsellors' Association of NSW Inc. (FCAN). Accreditation is subject to the successful completion of an accredited training program and specified ongoing annual training.

Financial counsellors accredited with FCAN work in not-for-profit community organisations and, holding no allegiance to the credit industry, act solely out of interest for the well being of the consumer. In addition to providing general support for their clients, financial counsellors provide:
- a full assessment of their financial situation, including regular income and expenditure, assets and liabilities;
- information about entitlements to government and non-government forms of assistance;
- information and options for change and improvement;
- the ability to negotiate on behalf of the client with credit providers, Government agencies and other service providers; and
- information on credit laws, the debt recovery process, bankruptcy and other areas of legislation, such as superannuation, insurance and harassment to name a few.

Consumers in financial crisis will often require emergency assistance and financial counsellors work closely with other welfare providers to meet their clients' needs.

Aside from the role of the financial counsellor in crisis intervention, counsellors work as consumer advocates and maintain an active role in consumer financial education.

ACKNOWLEDGMENTS

The Salvation Army Moneycare – Greater West Division

The Salvation Army Moneycare – Newcastle

The Smith Family Financial Counselling Service

The Salvation Army Moneycare Sydney East Division
(A program of The Salvation Army Eastern Territory)

The project is the result of the interest and commitment of past and present FCAN Executives and members in learning more about their clients. Special thanks go to Narelle Brown. As President of FCAN in 1999-2000 Narelle instigated the project, provided a substantial contribution in the design stages, and continued to assist in the implementation process.

The current President of FCAN, Jim Connolly, and past Presidents, Elizabeth Terry and Russell Franks, together with the other members of the FCAN Executive since 1999 have supported the project throughout its implementation.

Jim Connolly, Jeff Holten and Elizabeth Terry kindly reviewed the draft report and provided valuable comments. Emeritus Professor Frank Clarke provided additional comments. Dr Mark Bunt, past lecturer at the University of Newcastle, contributed to the design and implementation of the project. Nevertheless, any errors are mine.

I would also like to thank Pat Matthews and Maureen Townley-Jones, Research Assistants. My thanks also to members of the administrative support team from my School, Judy Atkins and Louise Santangelo for their contribution. The Central Coast School of Business, University of Newcastle, provided infrastructure support and financial support for the printing of the report.

I would like to particularly thank and acknowledge the magnificent contribution of my friend and past colleague Bill Renwick who worked with me on the project from early 2000 until the commencement of this year. Bill and I produced the first three publications together, and we jointly presented those reports to FCAN. Bill's contribution was immeasurable.

Finally, very special thanks go to my husband, Kevin, who has encouraged me throughout the project. Kevin is well known to many FCAN members as being always by my side to support me at countless conferences and activities.

Margaret Griffiths
Central Coast School of Business,
University of Newcastle.
November, 2004.

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Appendix 3 – Additional Tables (cont.)

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INTRODUCTION

This report presents the results of a study of financial counselling interviews conducted in New South Wales by members of the Financial Counsellors' Association of NSW Inc.

The report results from a joint research study conducted by the Financial Counsellors' Association of NSW Inc. and staff of the University of Newcastle. The research commenced in 2000. The findings presented here relate to the 2003 research and also present an overview of the four years of the project.

The aim of the initial research has been to provide counsellors with statistical information related to their clients that will assist them to better understand their client group and enable them to advocate more successfully for their clients. The results of the four-year study will now be used as a benchmark to compare trends in future years.

Age, household type and income groupings of clients have been used to highlight variations between sub-groups of clients and identify those most in need of assistance.

As in previous years, the 2003 questionnaire has again been extended in response to findings. Additional response categories have been added to questions related to causes of financial crisis and income levels. A separate analysis of business entity clients presenting for counselling sessions first presented in the 2002 report is presented again, and covers the period 2000 to 2003.

All percentage figures shown in the report are rounded to the nearest whole percent.

It needs to be borne in mind that the four years covered by the overall study may well be atypical by virtue of interest rates being stable and at an historically low level. It would be reasonable to expect that were interest rates to rise debt levels would likewise rise and the profile of clients may change.

A – Profile of 2003 Client Group

Over all interviews in 2003, the clients' ages were identified in 2,306 cases. The youngest client was aged 17 years[1] and the oldest 89 years.

The average age within the client group was 40 years. Seventy-five percent of the client group were under 48 years of age, while only 10% of the client group were older than 56 years.

The age distribution of clients was as follows:

Table Aa: Age Distribution of Clients

Age	Number	%
18-24	190	8
25-44	1,322	57
45-64	702	30
65 and over	91	4
Not stated	16	1

Exhibit A1: Age Distribution of Clients
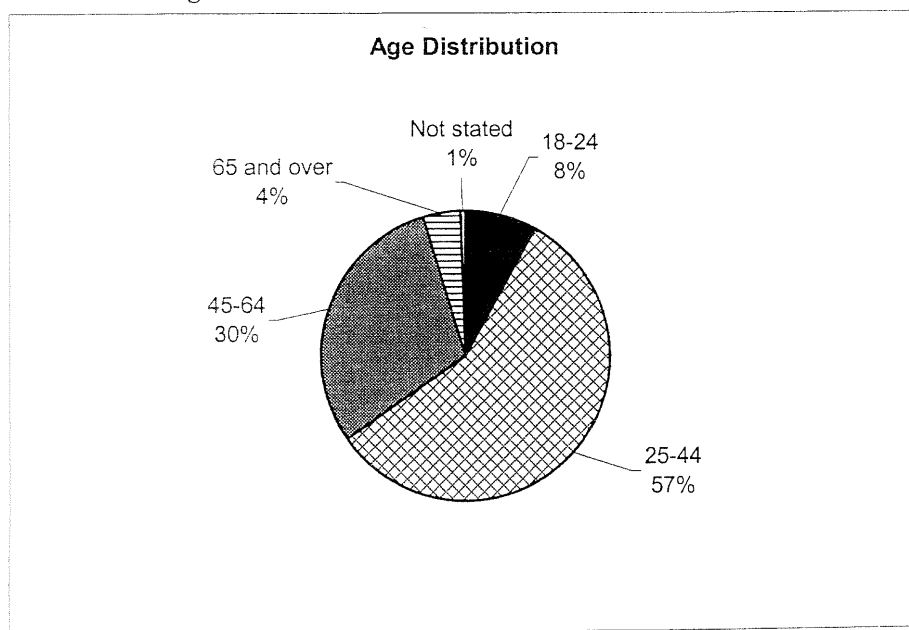
The age profile of clients has been quite similar over the four years of the study. Client numbers peak in the 25-44 years age group[2]. This age group has accounted for between 57 and 62 percent of clients over time. The next largest group has been clients aged between 45-64 years which has accounted for between 23 and 30 percent of clients.

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[1] This client has been removed from statistical analysis involving age groupings, but included in all other analyses.
[2] Within the 25-44 years age group: 49% were aged 25-34 and 51% were aged 35-44.

The household composition distribution of clients was as follows:

Table Ab: Household Composition of Clients

Household Composition	Number	%*
Single	1,059	46
Couple	250	11
Single with Child/ren	528	23
Couple with Child/ren	390	17
Other	95	4

*Total %s do not add to 100 due to rounding

Exhibit A2: Distribution of Clients by Selected Household Composition
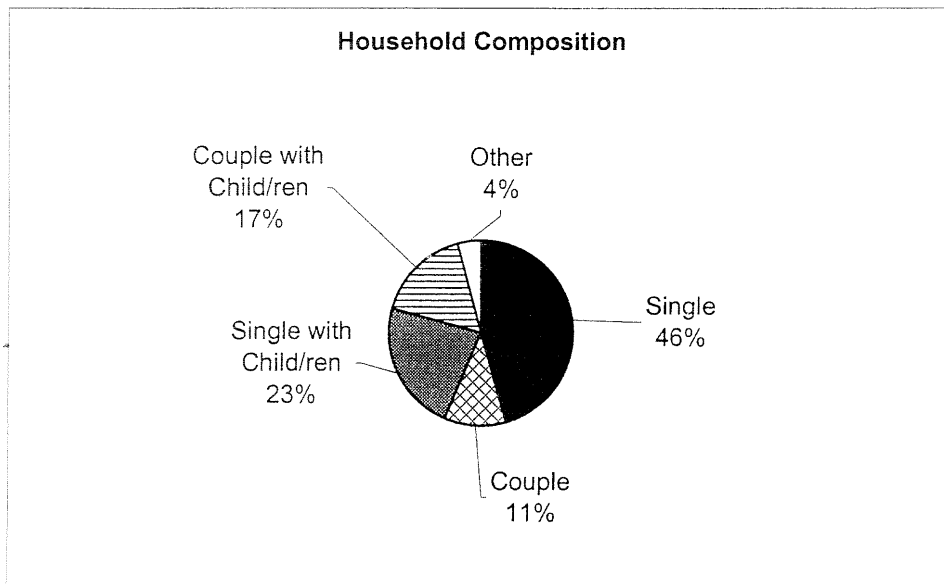
To date, the predominant household profile of clients remains the single adult, with or without children. In the 2003 client group, these two household groups accounted for 68% of clients.

The income distribution of clients was as follows:

Table Ac: Income Distribution of Clients

Annual Income	Number	%*
Up to $10,000	425	18
$10,001-$20,000	873	38
$20,001-$30,000	481	21
$30,001+	528	23
Not stated	15	1

*Total %s do not add to 100 due to rounding

Exhibit A3: Distribution of Clients by Selected Income Groups
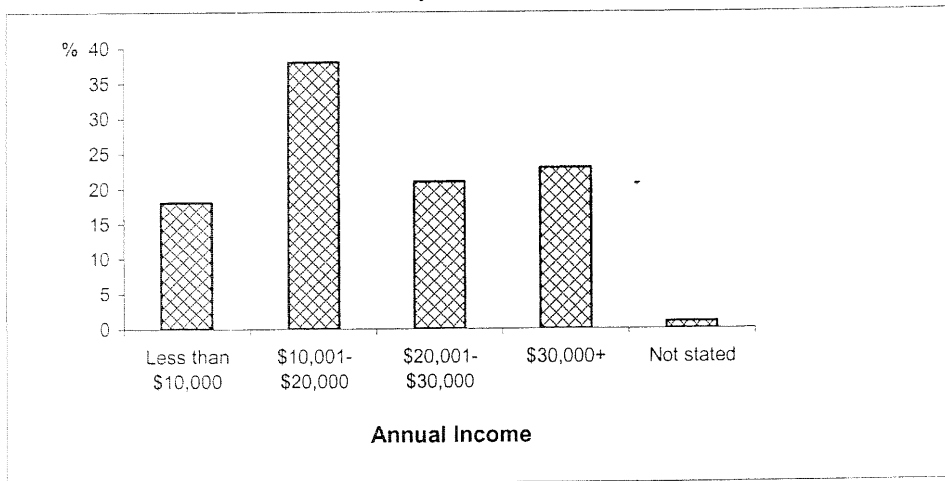
A decline in the proportion of clients earning annual incomes up to $10,000 was noted when comparing the 2000, 2001 and 2002 studies (down from 33% in 2000 to 27% in both 2001 and 2002). In 2003 the proportion has declined again to 18% while the $10,001-$20,000 has moderately increased. More detailed analysis of the income distribution in the $10,001-$20,000 range showed that just over two-thirds of the clients earning in this range received an annual income of $10,001-$15,000 per annum. Over time the proportion earning over $30,000 has also gradually increased (15% in 2000 compared to 23% in 2003).

These observed changes appear to illustrate bracket creep as the general level of incomes (and/or government support) has increased over time. Nevertheless, the majority of clients (76% in 2003) are still in the lower income groupings earning $30,000 or less per annum.

B – Consumer Credit and Other Debt Levels

Aggregate amounts of debt for the client group:

- Eighty-one percent of clients presented with consumer credit debts. These clients owed credit providers over $68 million.

- Sixty-three percent presented with debts other than consumer credit debt (hereafter, other debt). These clients owed organisations and individuals nearly $12 million.

- In total the clients owed consumer credit providers, other organisations and individuals $80 million.

- Forty-four percent of clients presented with both consumer credit debts and other debts totalling just over $38 million of the $80 million. These clients owed consumer credit providers almost $31 million, and other organisations and individuals over $7 million.

- When the debts of all clients studied were analysed, the median[3] consumer credit debt was $16,000 and the median other debt was $3,000.

Distribution of consumer credit debt and other debt:

Exhibit B1 shows the distribution of consumer credit debt by age group at the 50% and 75% levels[4].

- Fifty percent of the 18-24 years age group had consumer credit debts of $10,000 or less (thus, 50% had consumer credit debts of $10,000 or more). Twenty-five percent of this age group had consumer credit debts of $19,500 or more.

- Fifty percent of the 25-44 years age group had consumer credit debts of $16,000 or less. Twenty-five percent of this age group had consumer credit debts of $32,000 or more.

- Fifty percent of the 45-64 years age group had consumer credit debts of $18,000 or less. Twenty-five percent of this age group had consumer credit debts of $45,000 or more.

- Fifty percent of the 65 and older age groups had consumer credit debts of $11,000 or less. Twenty-five percent of this age group had consumer credit debts of $20,000 or more.

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[3] Due to outliers (a few clients with large debts relative to the sample population who distort the average debt size) the median (*ie* the middle number), rather than the mean, is used as a better indicator of the size of debts.

[4] At the 50% level, 50% of the clients have debts equal to or less than the amount indicated. At the 75% level, 75% of the clients have debts equal to or less than the amount indicated.

Exhibit B1: Consumer Credit Debt Distribution by Selected Age Groups (50% and 75% level)
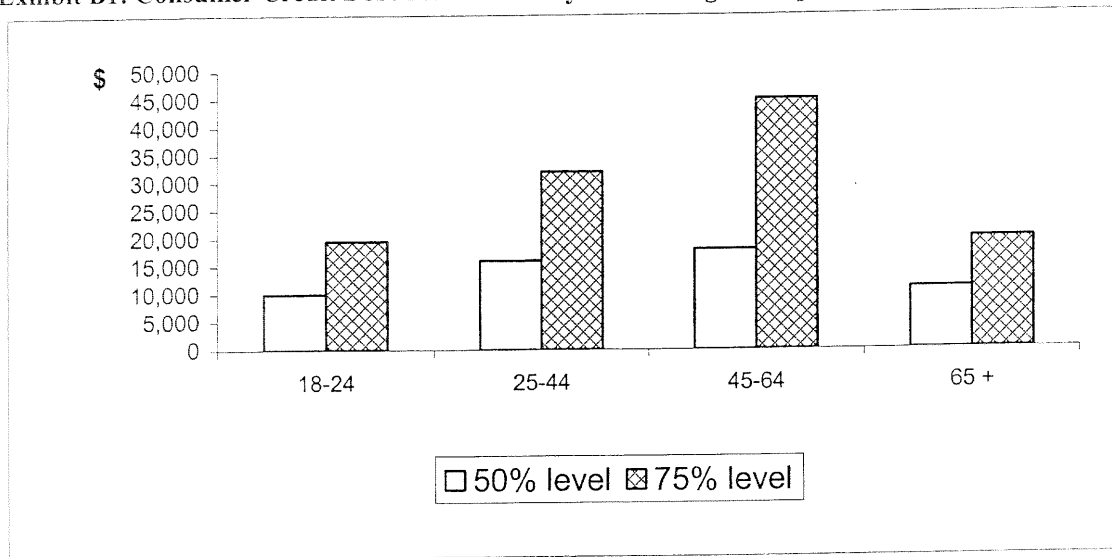
The median level of other debt ranged from $2,000-$3,000 across age groups [see Exhibit B2 following].

Exhibit B2: Other Debt Distribution by Selected Age Groups (50% and 75% level)
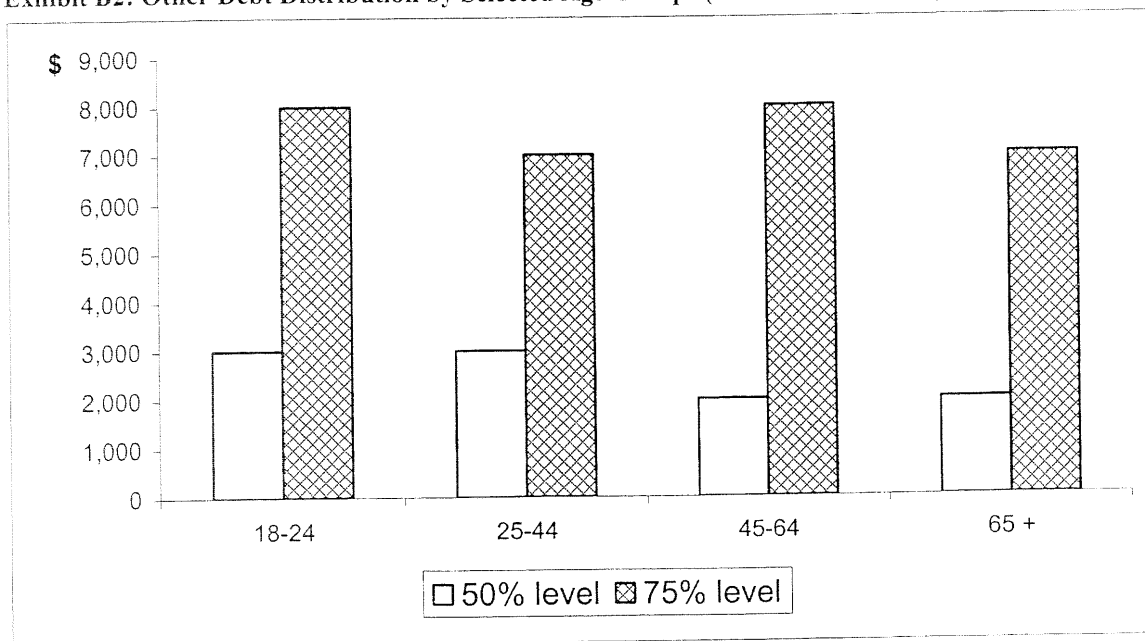
Couples and couples with child/ren presented with the greatest amounts of consumer credit debt [see Exhibit B3 following].

Exhibit B3: Consumer Credit Debt Distribution by Selected Household Composition Groups (50% and 75% level)
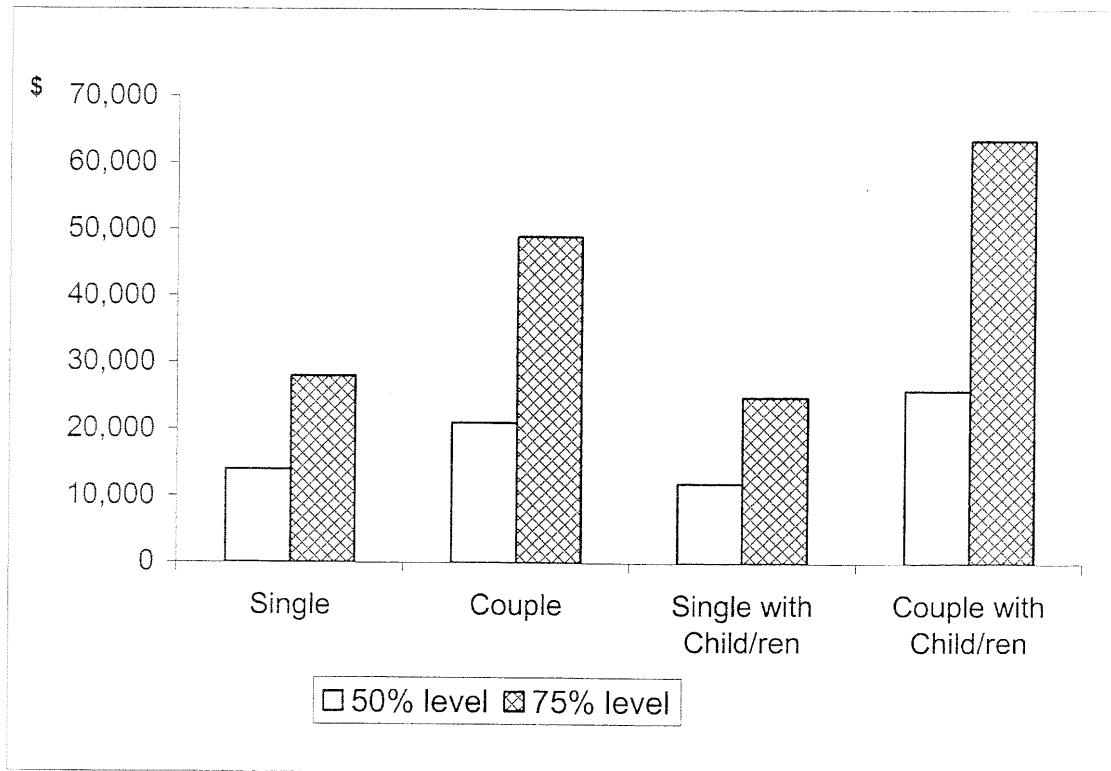
Single-adult households presented with lower levels of other debt than two-adult households [see Exhibit B4 following].

Exhibit B4: Other Debt Distribution by Selected Household Composition Groups (50% and 75% level)
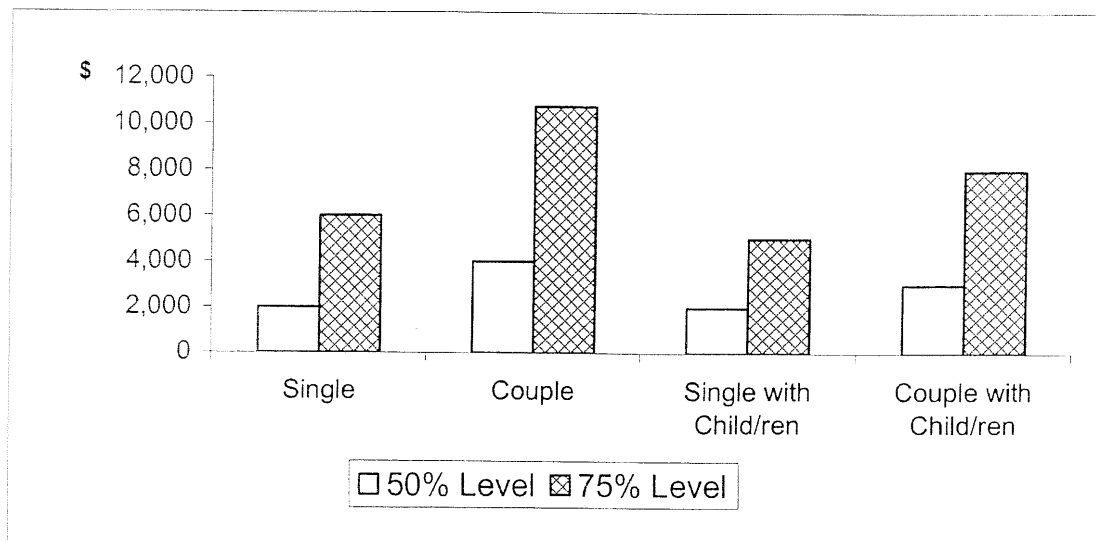
Consumers with relatively higher levels of income also presented with higher levels of consumer credit debt. A higher level of consumer credit debt was observed for those consumers presenting in the $20,001 - $30,000 income range, compared to consumers receiving lower levels of income. Considerably higher levels of consumer credit debt were evident in the analysis for the group receiving income of more than $30,000 per annum[5] [see Exhibit B5 following].

Exhibit B5: Consumer Credit Debt Distribution by Selected Income Groups
(50% and 75% level)
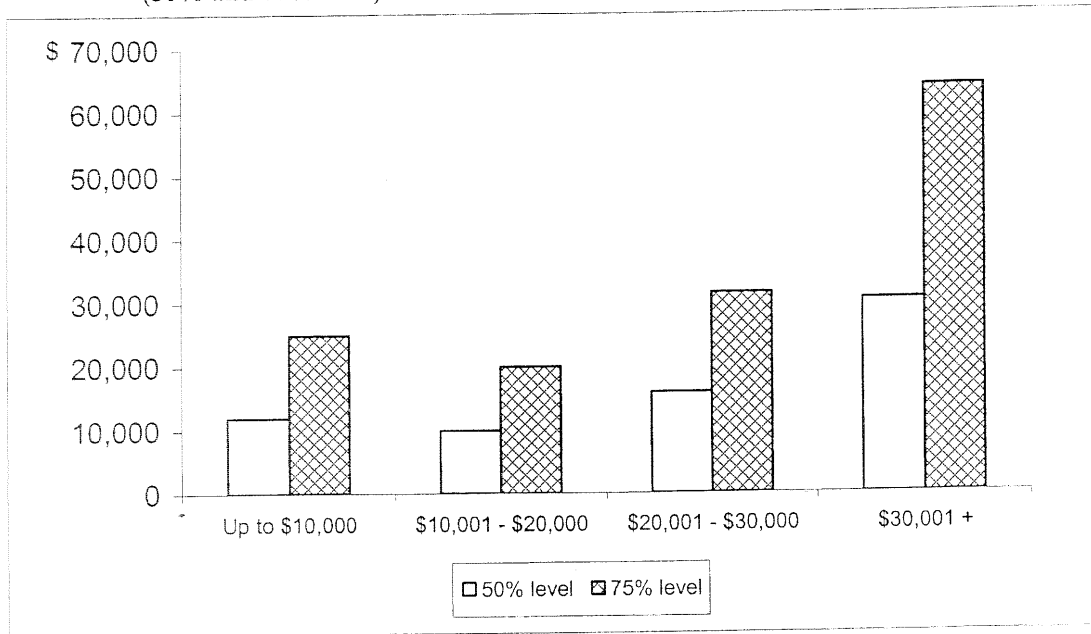
The median level of other debt ranged from $2,000 - $4,000 across the income groups [see Exhibit B6 following].

Exhibit B6: Other Debt Distribution by Selected Income Groups (50% and 75% level)

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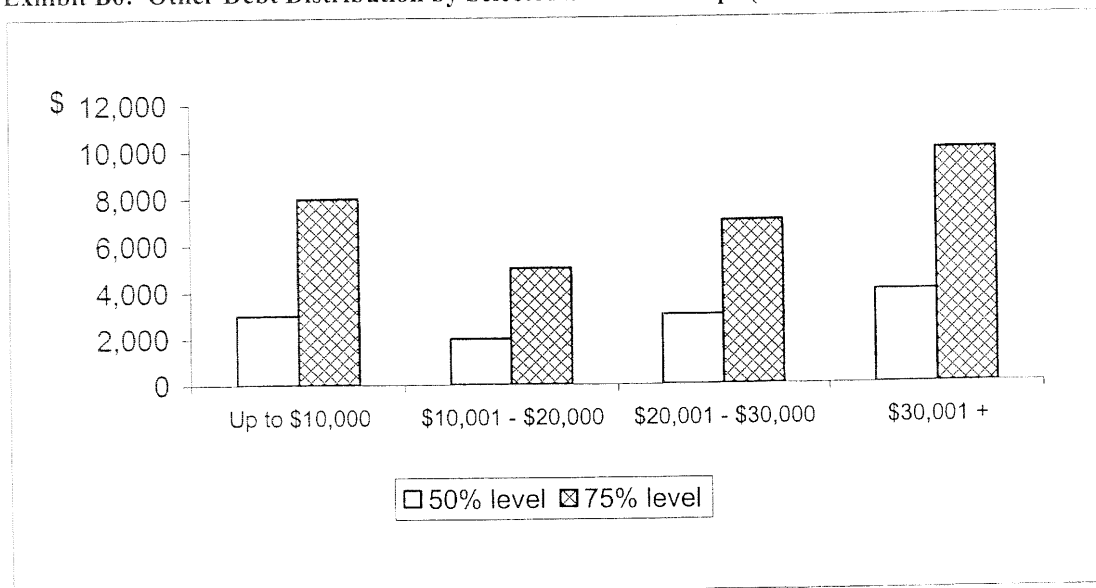
[5] This perhaps reflects commercial lending practice.

Proportions of sub-groups presenting with consumer credit and/or other debts:
Lower income groups presented less frequently with consumer credit debt, and more frequently with other debt, compared to higher income groups. Seventy-five percent of clients with incomes up to $20,000 had consumer credit debts compared to ninety percent of clients with income levels over $20,000. As noted, the reverse was true for other debt where sixty-six percent of clients earning up to $20,000 presented with other debt, compared to 58 percent of clients earning over $20,000.

Only 55% of 18-24 year olds presented with consumer credit debt compared to 81%-89% for other age groups. The proportion of each age grouping presenting with other debt was more closely aligned ranging from 53% to 65%.

The proportions of each household group presenting with consumer credit debt were similar. The proportions ranged from 78% and 80% [for one-parent (single with child/ren) and single-adult households respectively] to 85% for couples with child/ren and 87% for couples. Compared to consumer credit debt, the majority of household groups presented less frequently with other types of debt. The proportions ranged from 53% to 61% for each group except one-parent (single-adult with child/ren) households, 71% of whom presented with other debt.

The proportion of clients by income group presenting with consumer credit debt was higher in the higher income groups (83% and 95% for the $20,001-$30,000 and over $30,000 income groups respectively) compared to the lower income groups (74%-75%). A lower proportion of each income sub-group presented with debts other than consumer credit. Only 52% of the income group receiving in excess of $30,000 per annum presented with other debt; the proportion for the remaining income sub-groups ranged from 63% to 68%.

The median level of consumer credit debt and other debt for presenting clients has changed over the period of the study, as shown in the following summary Table:

Table Ba: Median level of consumer credit and other debt by year: 2000-2003;
(in dollars, whole client group for each year).

	2000	2001	2002	2003
Consumer Credit	$12,000	$15,000	$15,000	$16,000
Other Debt	$ 2,000	$ 2,000	$ 2,000	$ 3,000

There was a statistically significant increase in the level of consumer credit debt in 2001 for the overall client group (Griffiths and Renwick, 2002: 16). While the higher level of consumer credit debt was again seen in 2002, no further growth was observed. In 2003, there was a moderate rise in the median level of consumer credit debt, however, the rise was not statistically significant. In the first three years of the study no significant increase in the level of 'other debt' was observed. However, in 2003 there was a statistically significant increase in the level of 'other debt'[6].

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[6] Consumer 'other debt' level statistical results: t-test (*p-value=.008*) and Wilcoxon Sum Rank Test (*p-value=.01*). [*nb* debt other than consumer credit is referred to in this report as 'other debt'].

While the proportion of clients aged 25 and older presenting with consumer credit debt and other debt was fairly consistent across the four years there was a notable change observed for the 18-24 years age grouping. The proportion of clients in the 18-24 years age group presenting with consumer credit debt was considerably lower in both 2002 and 2003 (68% and 55% respectively) compared to the years 2000 and 2001 (76% and 77% respectively). The proportion of this same age group presenting with other debt increased from 71% in 2000 to 78% in 2001 and then increased again to 81% in 2002. However, in 2003 the proportion was only 59%. Thus, only a relatively small number of this age group presented with both consumer credit debts and other debts in 2003.

Across the four years the proportion of single adult households with/without child/ren presenting with consumer credit debt was lower compared to two adult with/without children households.

When proportions of income sub-groups presenting with consumer credit and other debt were reviewed over the four years, clients in higher income groups presented more frequently with consumer credit debt and less frequently with other debts.

C – Causes of Consumer Credit and Other Debt Problems

Unemployment was the most frequently reported primary and secondary cause of clients' credit and other debt problems, being reported in 27% and 28% of cases respectively [see Exhibits C1 and C2 following].

Exhibit C1: Primary Cause of Credit and/or Other Debt Problems - all groups
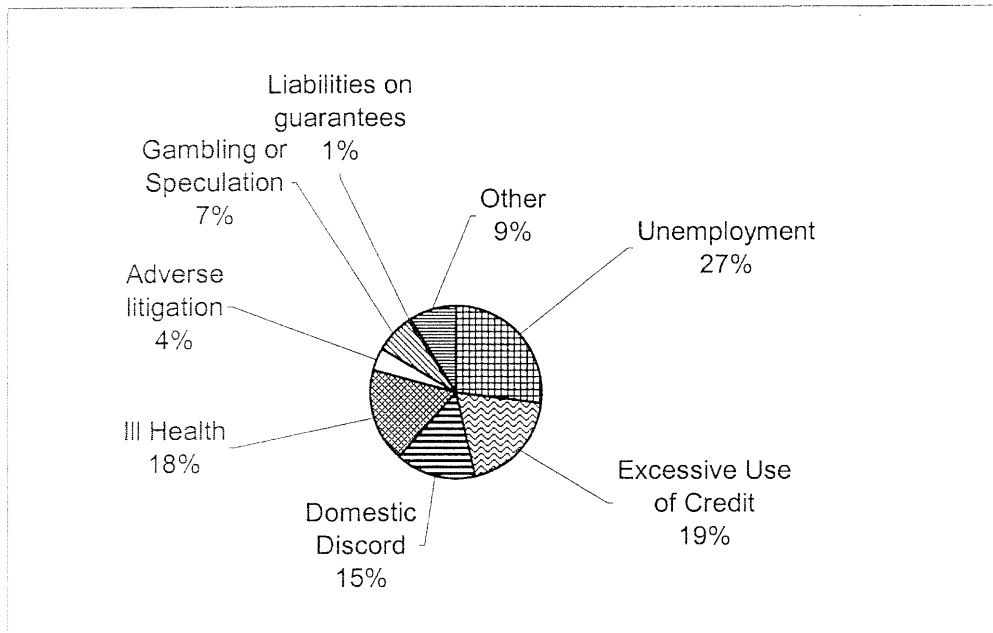
Overall, four causes were predominant when clients attributed the primary and secondary cause of their credit and debt problems. Aside from unemployment, these causes (and the level of reporting as the major cause and secondary cause respectively) were: excessive use of credit (19% and 16%), ill-health (18% and 14%), and domestic discord (15% and 12%).

Exhibit C2: Secondary Cause of Credit and/or Other Debt Problems - all groups
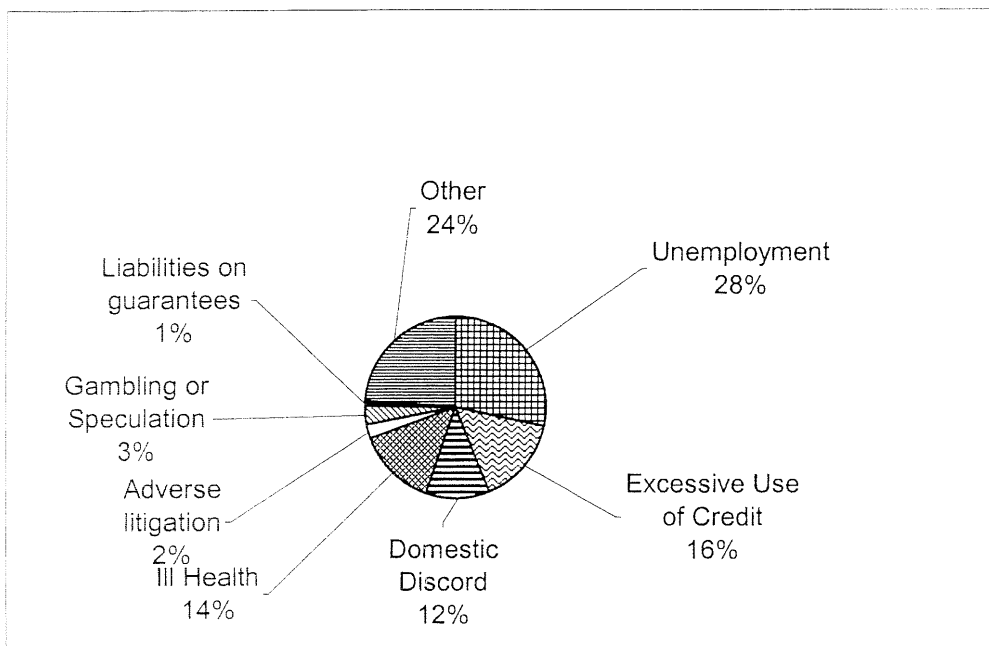
Analysis by age groups revealed that while the same four major causes of consumer credit and other debt problems remained predominant, there was some variation based on age groupings. [Exhibits C3 and C4].

Unemployment was the most frequently identified primary cause within the 18-64 age groups (38%, 27% and 26% respectively); however, in the case of the 45-64 years age group, ill-health was reported almost as frequently (at 25%). Clients aged 65 and older most frequently identified excessive use of credit (34%).

Excessive use of credit was the second most frequently identified primary cause of credit and debt problems in the 18-24 years age group (identified by 21% of this group). In the case of clients presenting in the 25-44 years age group, excessive use of credit was also the second most frequently identified cause (at 20%), although domestic discord (18%) and ill-health (15%) were not far behind. As already noted, ill-health was highlighted in the 45-64 years age group, being reported almost as frequently as unemployment. After reporting excessive use of credit as the primary cause, clients presenting in the 65 years and older age group reported ill-health, gambling or speculation, and adverse litigation in quite similar proportions (at 15%, 14%, and 12% respectively).

Exhibit C3: Primary Cause of Credit and/or Other Debt Problems by Selected Age Groups (% within each group)
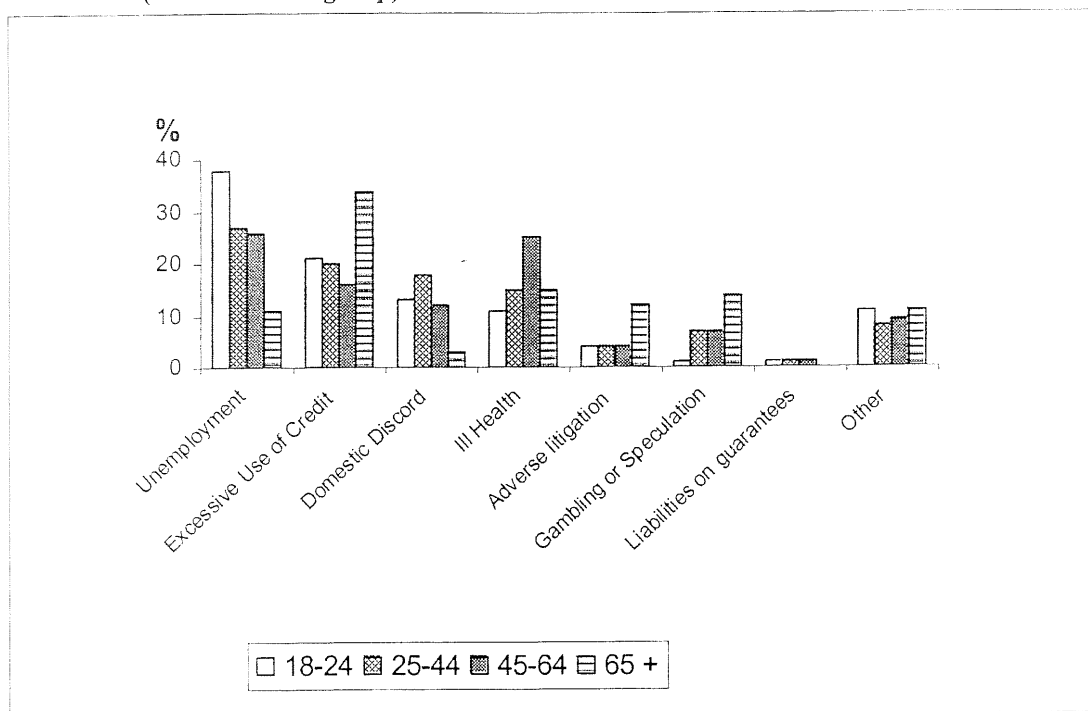
Unemployment was the most frequently identified secondary cause in all age groups. The next most identified secondary cause in the 25-44, and 65 and older age groups was excessive use of credit (17% and 19% respectively), and in the 45-64 age group ill-health (17%). In the case of the 18-24 years age group, domestic discord, excessive use of credit and ill-health were all reported similarly (14%, 13% and 11% respectively). [See Exhibit C4 following].

**Exhibit C4: Secondary Cause of Credit and/or Other Debt Problems by Selected Age Groups
(% within each group)[7]**
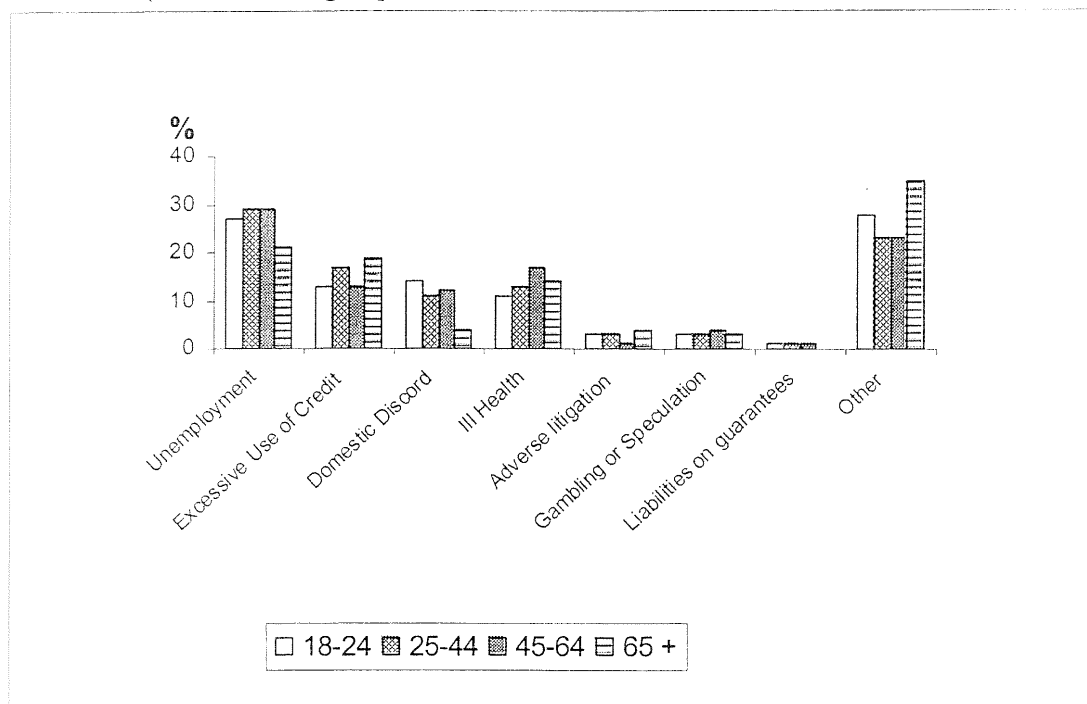
Exhibits C5 and C6 depict clients' primary and secondary causes of credit and debt problems based on selected household composition groups.

One-parent (single with child/ren) households reported domestic discord (35%) as the primary cause of their credit and debt problems. Between 24-29% of the remaining household groups reported unemployment. However, in the case of couples, excessive use of credit and ill-health were reported almost as frequently at 23% in both cases. Similarly, couples with child/ren reported excessive use of credit almost as frequently as unemployment (at 27%).

Both one-parent (single with child/ren) and couple with child/ren households reported a lower incidence of ill-health (12% in each case) as a primary cause than the remaining household groups (21-23%). Compared to one-parent (single with child/ren) households (3%), other household groups reported gambling and speculation as a primary cause with twice the frequency (between 7-10%). [see Exhibit C5].

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[7] The high reporting of 'other or not stated' in ExhibitsC4 and C6 may reflect the nature of the question *ie* asking for a secondary cause, which may either not exist or not be apparent at the time of the initial interview.

Exhibit C5: Primary Cause of Credit and/or Other Debt Problems by Selected Household Composition Groups (% within each group)
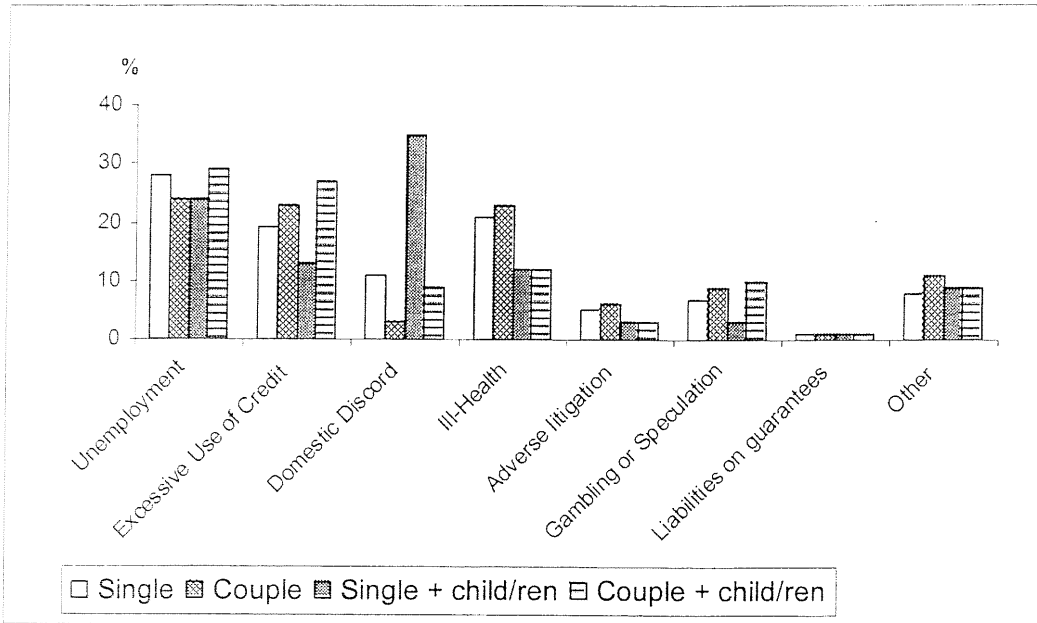
As a secondary cause, unemployment was the most frequently identified cause across all household groups [see Exhibit C6 below].

Exhibit C6: Secondary Cause of Credit and/or Other Debt Problems by Selected Household Composition Groups (% within each group)
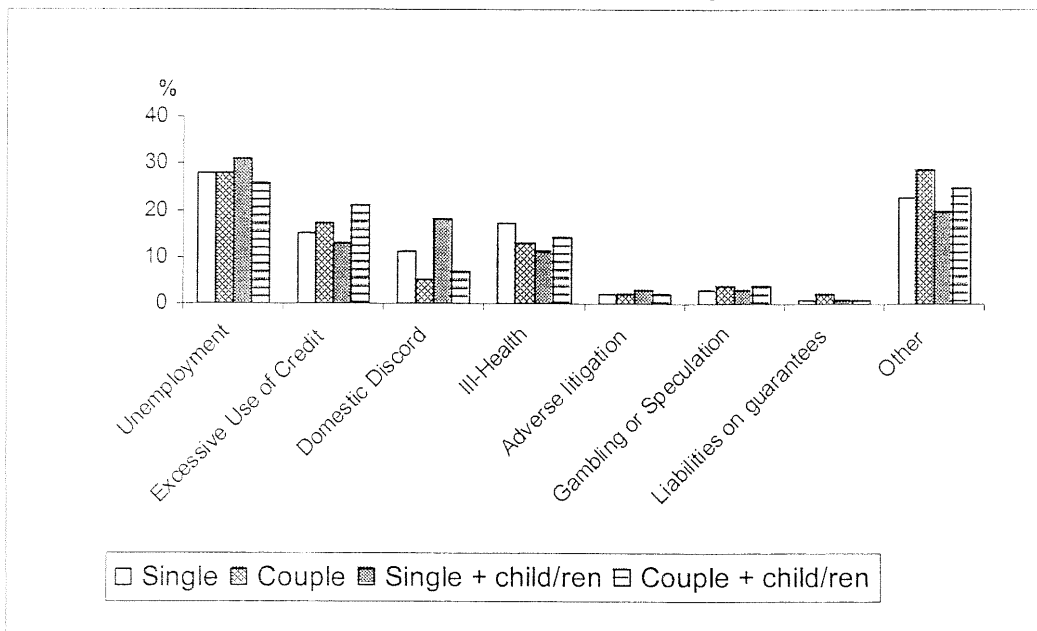
Aside from unemployment, the next most frequently identified secondary cause by one-parent (single with child/ren) households was domestic discord (18%). The 18-24 years age group next reported ill-health (17%), while couples and couples with child/ren next reported excessive use of credit (17% and 21% respectively).

The interview data was analysed across selected income groups for primary and secondary causes of credit and other debt problems [see Exhibits C7 and C8 following][8].

Unemployment was the most frequently identified primary and secondary cause of credit and debt problems in income groups earning up to $30,000. Excessive use of credit was most frequently identified as the primary and secondary cause by income groups earning more than $30,000 per annum. Excessive use of credit was particularly prominent as a primary cause (52% incidence) in the small proportion of the total client group (ie 3%) who reported earning more than $60,000 per annum.

Domestic discord was more frequently identified as a primary cause of credit and other debt problems in income groups receiving more than $20,000 per annum. Ill health was reported more frequently as a primary and secondary cause in income groups up to $20,000. The incidence of gambling or speculation as a primary cause of credit and debt problems was higher in the income groups earning more than $20,000 per annum.

Exhibit C7: Primary Cause of Credit and/or Other Debt Problems by Selected Income Groups (% within each group)

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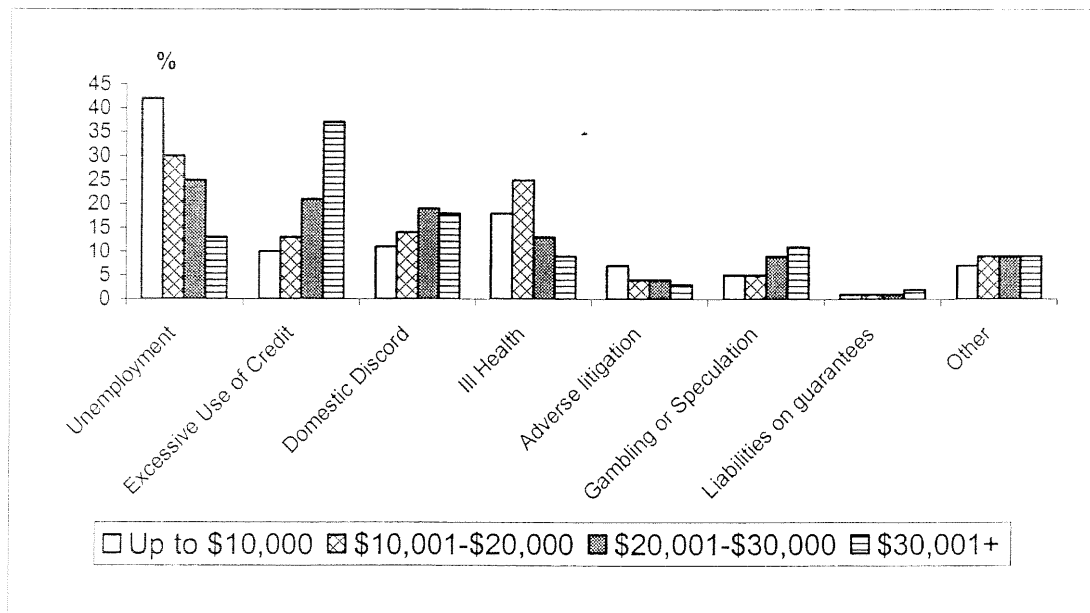
[8] See also Appendix 3, Table C7/C8, where a further income breakdown for clients earning more than $30,000 has been provided.

Exhibit C8: Secondary Cause of Credit and/or Other Debt Problems by Selected Income Groups (% within each group)
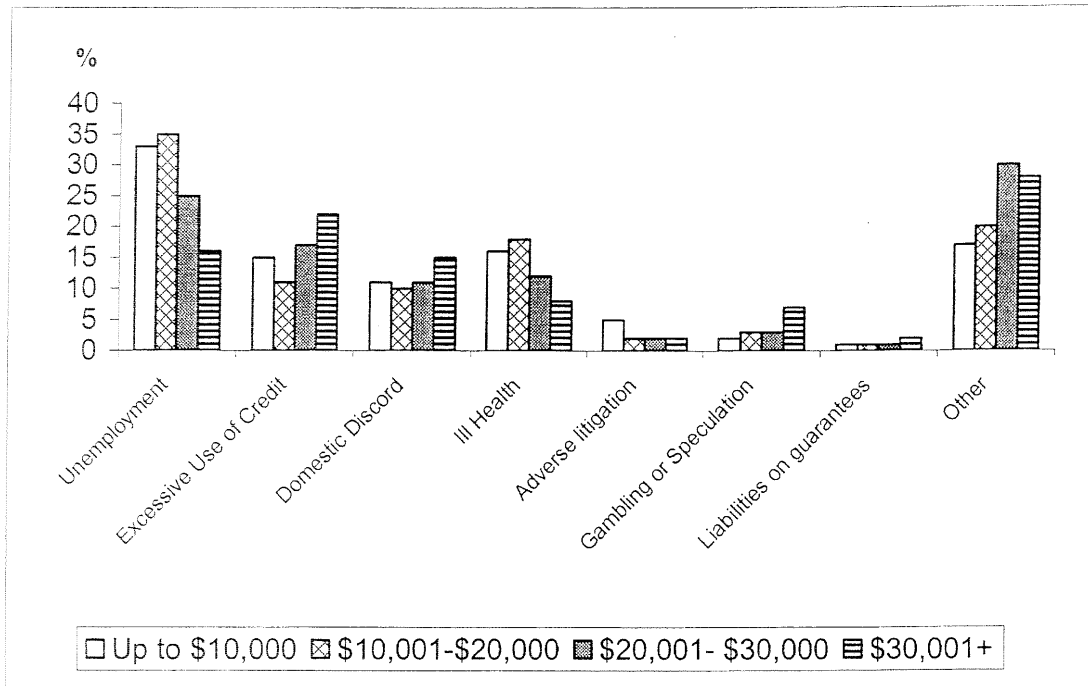
The *primary cause of credit and debt problems has remained constant over the four years of the study for the aggregate client groups, namely unemployment, excessive use of credit, ill-health and domestic discord.*

A slight change was evident when selected age groupings were compared over the four years. Unemployment remained the primary cause of credit and debt problems identified by age groupings up to 44 years. However, it was noted in the 2002 study that the 45-64 years age group identified ill-health slightly more frequently (26%) than unemployment (24%). The increased reporting of ill-health was evident again in the 2003 study. While unemployment was identified by 26% of the 45-64 years age group, ill-health was quite similarly reported (at 25%). Excessive use of credit has been the most frequently identified cause for the client group aged 65 years and older since the 2001 study.

The most frequently identified cause of credit and other debt problems by the selected household groups was stable over the four years. Each selected household group, with the exception of one-parent (single with child/ren) households, identified the same cause – unemployment. One-parent households continued to identify domestic discord most frequently. However, in the last two years, couples have identified ill-health, and both couples and couples with child/ren excessive use of credit, to the point where these causes have reached a point of equal prominence with the unemployment cause for these household sub-groups.

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In the first three years of the study the most frequently identified primary cause of consumer credit and other debt problems by clients receiving income up to $20,000 per annum has been unemployment. Those clients receiving in excess of $20,000 consistently identified excessive use of credit. In 2003 clients in the $20,001-$30,000 income group identified unemployment (25%) slightly more frequently than excessive use of credit (21%).

D – Types of Consumer Credit Involved

Eighty one percent (1,884 clients) of the 2003 client group surveyed presented with consumer credit debt. Overall, between 64-71% of clients in the age groupings over 24 years presented with consumer credit debt, compared to 43% of clients in the 18-24 years age group.

The proportion of clients presenting with credit card debt peaked in the 65 and older age group (71%). A relatively small proportion of this same age group presented with other types of consumer credit debt. Personal loan debt was most prevalent in the client groups aged between 18-24 and 25-44 years (49% and 50% respectively). The highest incidence of housing loan debt occurred in the 25-44 and 45-64 years age groups (10% and 16% respectively). The lowest incidence of consumer credit debt (43%) occurred in the 18-24 years age group [see Exhibit D1 following].

Exhibit D1: Type of Consumer Credit by Selected Age Groups (% within each group with the particular type of credit)
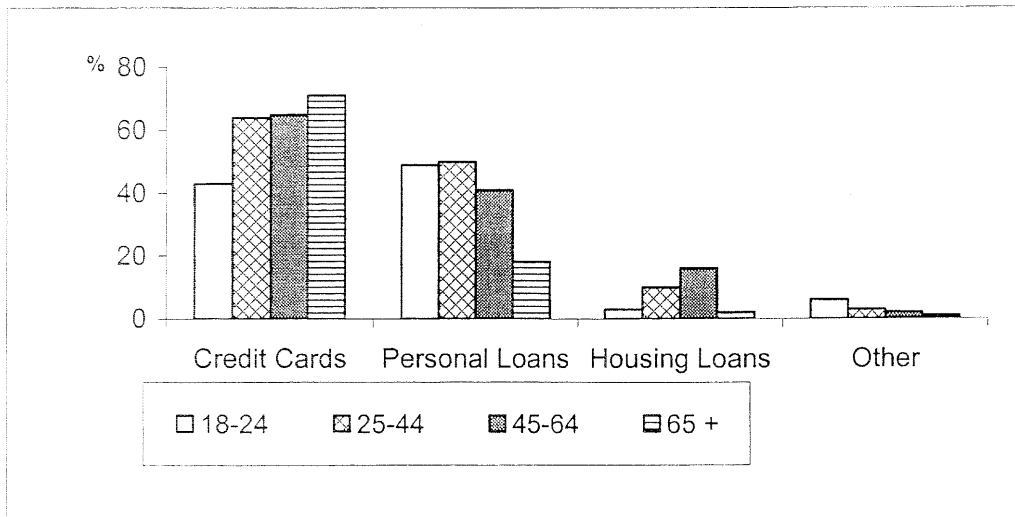
Consumer credit debts were most frequently identified by the single, couples, and couples with child/ren household groups (64%, 70% and 65% respectively). Clients in the one-parent (single with child/ren) household group presented with the lowest incidence of credit card debt (54%).

Couples with child/ren reported the highest incidence of personal loan debt (54%) and housing loan debt (22%). Credit card debt was the most frequently reported type of consumer credit across each household group studied [see Exhibit D2 following].

Exhibit D2: Type of Consumer Credit by Selected Household Composition Groups (% within each group with the particular type of credit)
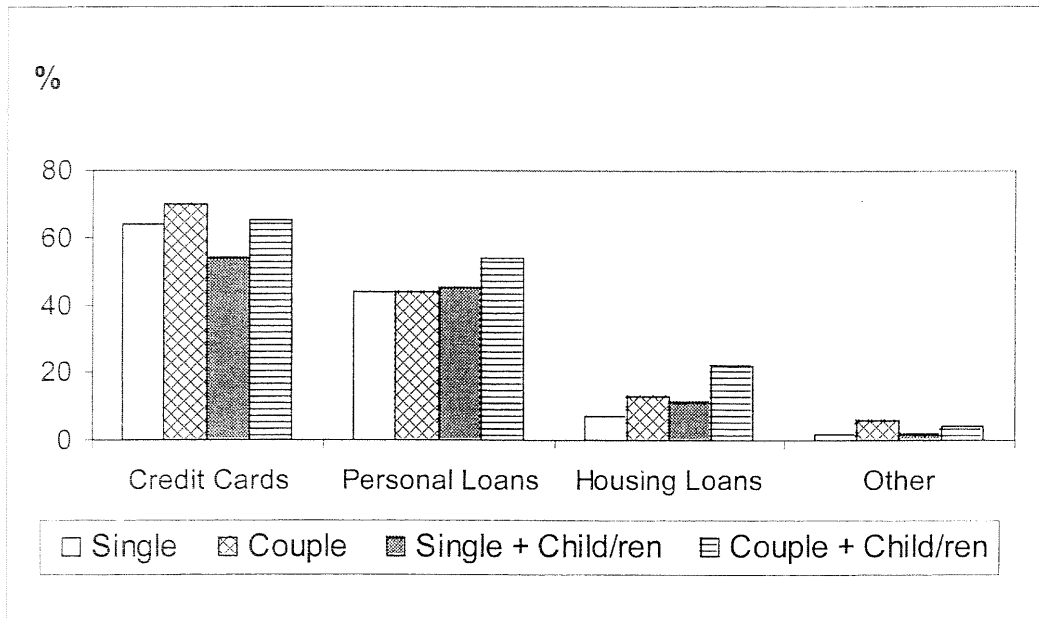
The proportion of clients presenting with credit card debt was highest in the income group $30,000 and over. The proportions of each remaining lower income groups presenting with credit card debt was lower, ranging between 57% and 62%. Compared to credit card debt, the incidence of personal loan debt was lower across all reported income groups. The lowest incidence occurred in the income groups up to $20,000 (between 38% and 39%) and the highest incidence was in the remaining higher income groups (ranging between 51% and 61%). Home loan debt was higher in income groups over $20,000 and most prevalent in the group receiving income in excess of $30,000 [see Exhibit D3].

Exhibit D3: Type of Consumer Credit by Selected Income Groups (% within each group with the particular type of credit)
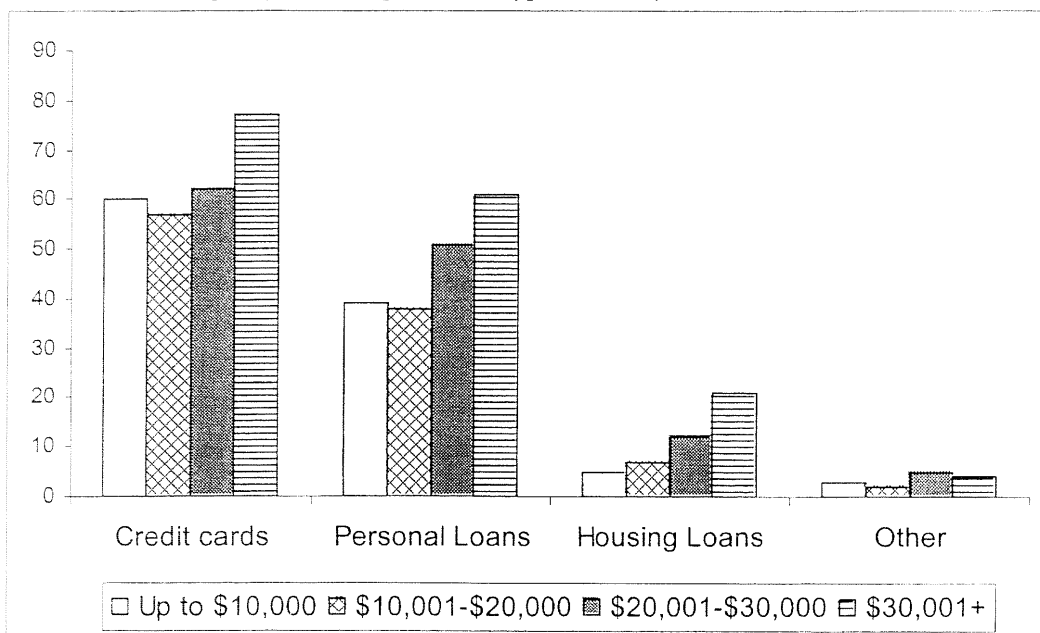
Growth in the proportion of clients in each selected age, household and income grouping presenting with credit card debt was observed in the 2001 study compared to the 2000 study. However, there was a notable decrease in the proportion of clients in the 18-24 years age group, and increase in the proportion of clients aged 65 and older, presenting with credit card debt in both the 2002 and 2003 studies. One-parent households (single with child/ren) had the lowest incidence of credit card debt.

Throughout all four years of the study, couples with child/ren presented with the highest proportion of personal loan debt. The proportion of clients presenting with personal loan debt was considerably lower in the 65 and older age group.

Housing loan debt was concentrated in the 25-64 years age group. Single-adult households (without child/ren) presented with the lowest incidence of housing loan debt.

Across all four years of the study, clients in receipt of income over $20,000 per annum presented with a higher incidence of credit card, personal loan and housing loan debt compared to clients receiving income up to $20,000.

E – Types of Other Debt Involved

Sixty-three percent (1,455) presented with debts other than consumer credit debt. Eight hundred and ninety-nine clients (39%) had at least two other debts and 557 clients (24%) had more than two types of other debt. The most frequently identified primary and secondary other debts across all groups (in order of frequency) are identified in Tables Ea and Eb below:

Table Ea: Primary Other Debt Involved

Telephone (17% of cases)
Rent/Rental (7%)
Fines and Court Costs (7%)
Loans from friends/associates (5%)
Taxation (5%)
Other (each type less than 5%) (22%)

Table Eb: Secondary Other Debt Involved

Telephone (12% of cases)
Other Utilities (6%)
Other (each type less than 5%) (21%)

Overall, recognising that clients may present with multiple types of telephone accounts outstanding, the types of telephone accounts involved have also been investigated since 2002. At the aggregate level, as shown above in Table Ea the proportion of each type of telephone account was: 50% landlines, 48% mobile phones, and 2% Internet Service Provider (hereafter, ISP). For secondary debts, as shown in Table Eb, the proportions were similar: landlines 51%, mobile phones 48% and ISP 1%.

When other debt was studied based on age groups [see Exhibit E1 following], the incidence of other debt was highest in the 18-24 years age group.

Exhibit E1: Primary Type of Other Debt by Selected Age Groups (% within each group with the particular type of other debt)
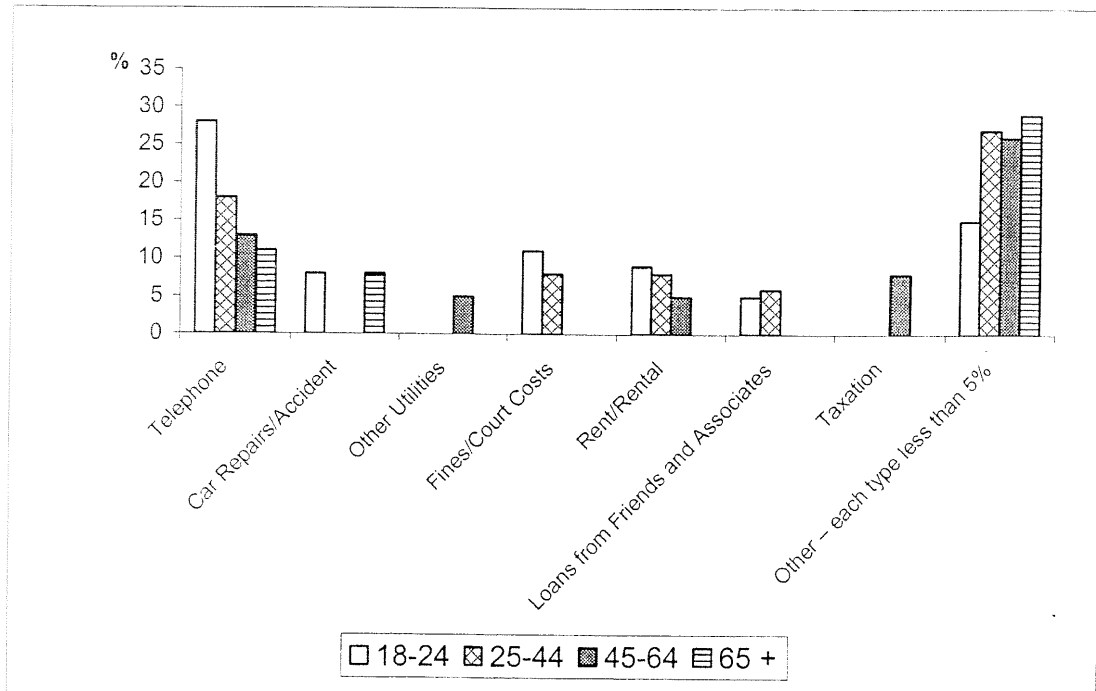
Telephone debt was the most frequently reported primary other debt across all age groups. The category 'fines and court costs' (11%) was the second most highly reported primary other debt for clients aged 18-24 years. The age group 25-44 next reported fines and court costs, and rent in equal proportion at 8% while the 45-64 years group reported taxation (8%) and the 65 and older group reported car repairs and accidents (8%).

The highest incidence of telephone debt was reported in the 18-24 years age group. Seventy percent of these debts were for mobile phone accounts. In the older age groups land lines accounted for 49-60% of telephone debts.

Within household groups, telephone debt was the most frequently reported other debt across all household groups [see Exhibit E2 following]. Further analysis of telephone debt revealed a higher incidence of mobile phone debt for the single - adult (without child/ren) household group. Fifty-four percent of this group's telephone debt related to mobile phones compared to only 35-46% for other household groups.

Exhibit E2: Primary Type of Other Debt by Selected Household Composition Groups
             (% within each group with the particular type of other debt)

□ Single   ⊠ Couple   ▧ Single + Child/ren   ⊟ Couple + Children
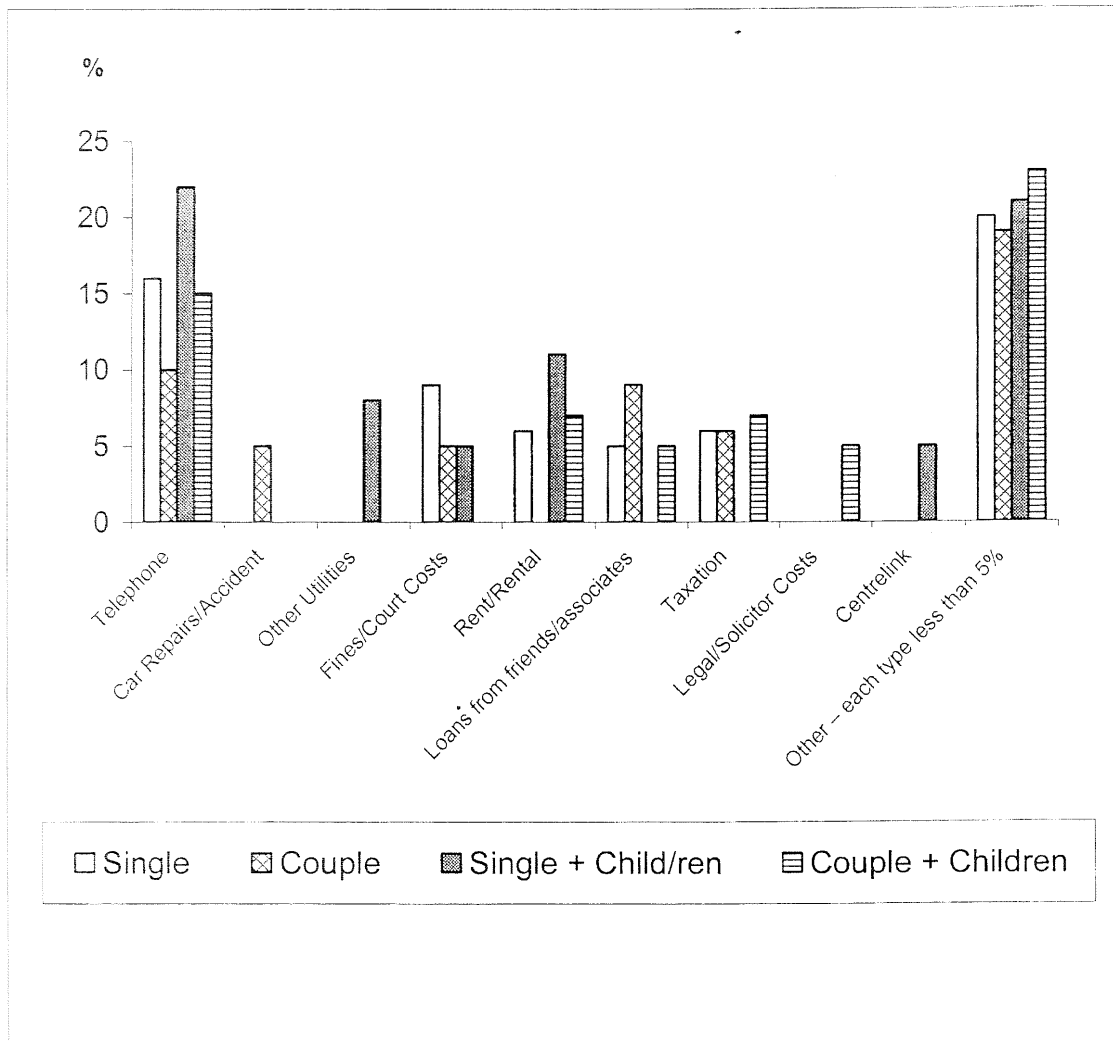
The next most frequently reported primary debts were: fines and court costs (9%) for single-adult household; loans from friends/associates (9%) for couples; rent (11%) for the one-parent (single with child/ren) household; and rent and taxation (equally at 7%) for couples with child/ren.

When examining the data based on income groups, once again the most frequently reported primary other debt was telephone debt. Between 18-20% of clients presenting in the income groups up to $30,000 per annum reported telephone debt, while only 10% of clients receiving more than $30,000 presented with telephone debt. The next most frequently reported debt by presenting clients was: fines/court costs (11%) by the group receiving up to $10,000 per annum; fines/court costs and rent in equal proportion (8%) by clients in the $10,001-$20,000 income group; rent (8%) by clients in the $20,001-$30,000 income group; and taxation (9%) by those receiving in excess of $30,000 per annum [see Exhibit E3 following].

Exhibit E3: Primary Type of Other Debt by Selected Income Groups (% within each group with the particular type of other debt)
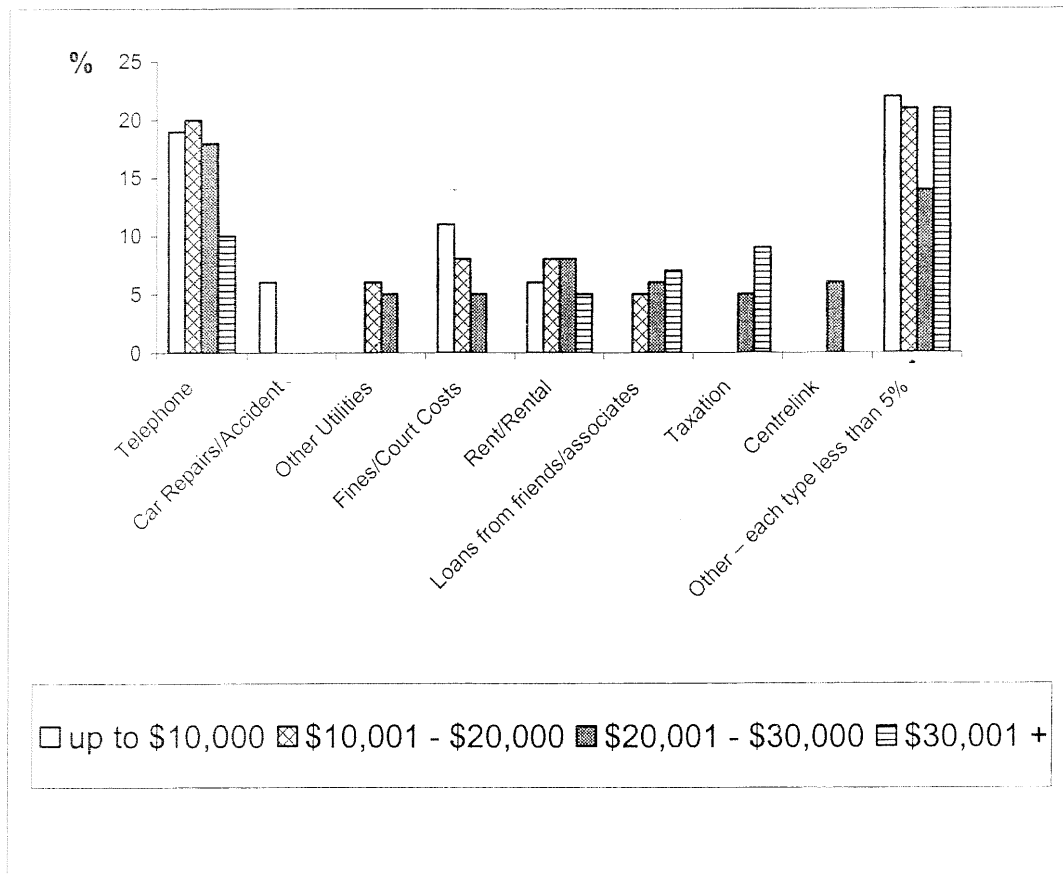
When telephone debt was disaggregated for income groups, mobile phone accounts were the most frequently noted debt by the lowest reported income group, *ie* those receiving up to $10,000 per annum (59%). Only clients receiving income in the $10,001-$20,000 range presented with more land line telephone debts (56%) than

mobile debts (42%). The proportion of clients in each of the remaining income groups presenting with mobile phone debts was 51-52%.

An analysis of secondary other debt showed that telephone debt was the most frequently reported secondary debt across all age groups. Other utilities was the next most frequently reported secondary other debt by clients aged over 25 years, while 18-25 year olds next reported fines and court costs [see Exhibit E4 following].

Exhibit E4: Secondary Type of Other Debt by Selected Age Groups (% within each group with the particular type of other debt)
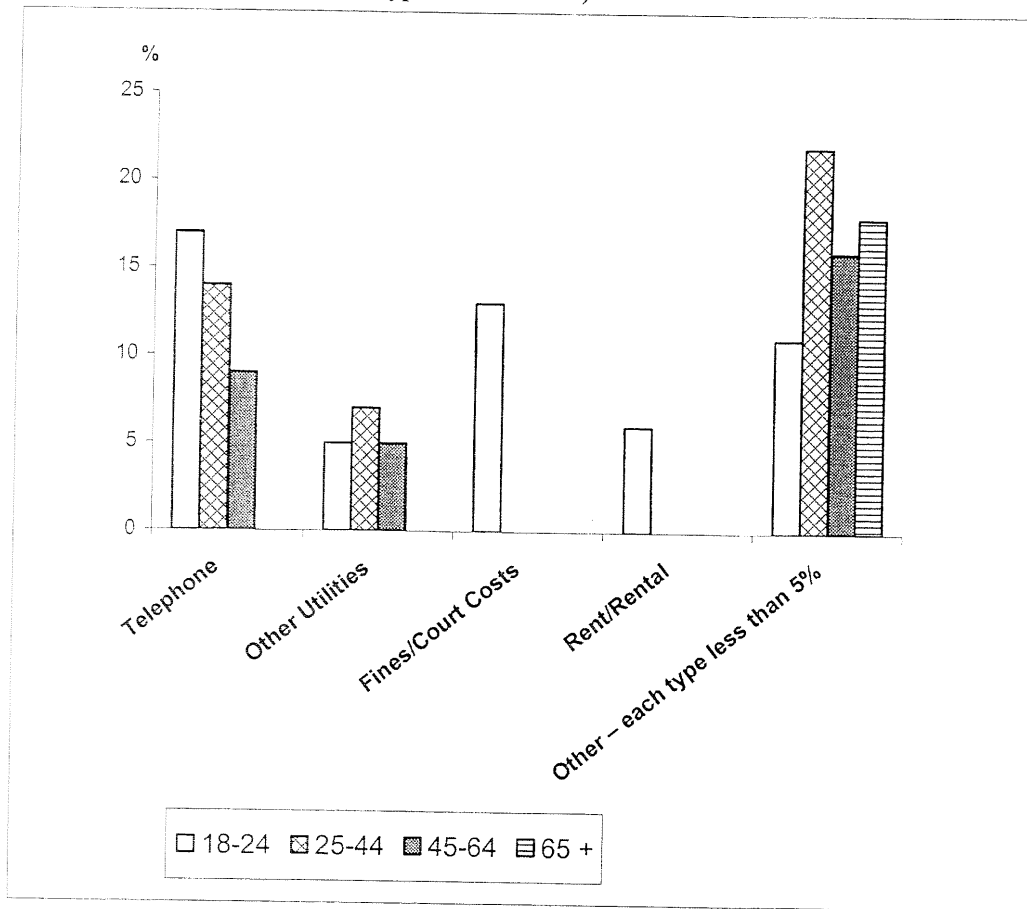
Telephone was also the most frequently reported secondary debt across each of the selected household composition groups [see Exhibit E5 following] and income groups [see Exhibit E6 following]. However, other utilities were also prominent (compared to telephone debt) in both households with children and income groups earning in excess of $10,000.

Exhibit E5: Secondary Type of Other Debt by Selected Household Composition Groups (% within each group with the particular type of other debt)

Legend: □ Single ☒ Couple ▨ Single + Child/ren ☰ Couple + Children
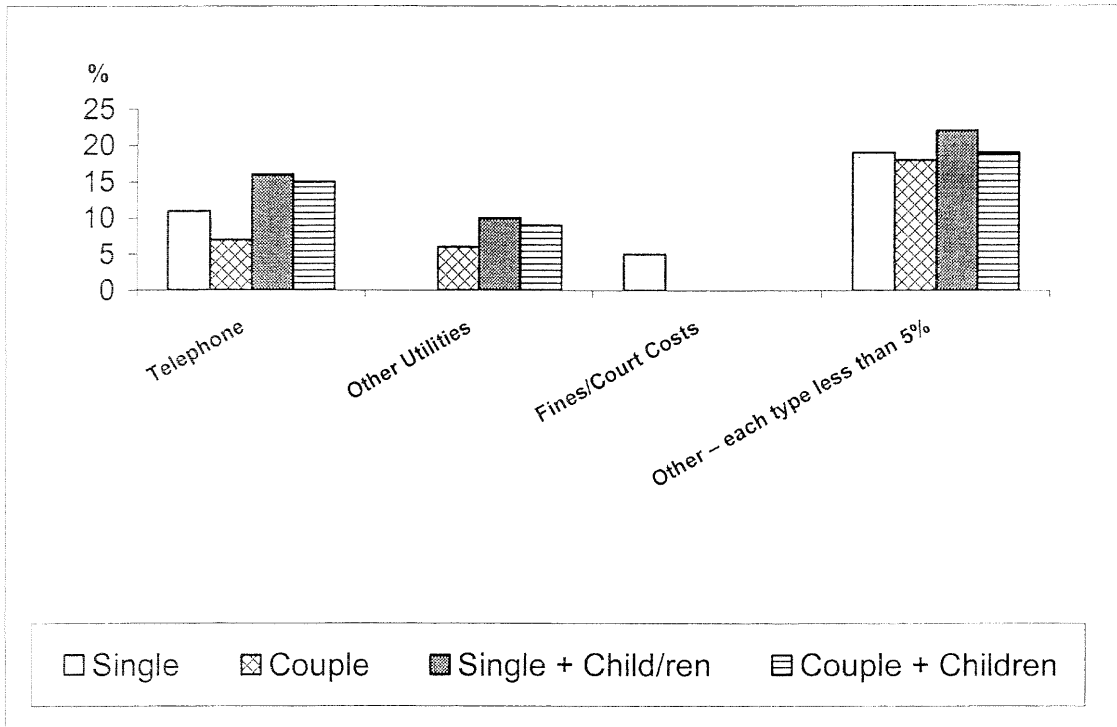
Exhibit E6: Secondary Type of Other Debt by Selected Income Groups (% within each group with the particular type of other debt)

Legend: □ up to $10,000   ☒ $10,001 - $20,000   ▨ $20,001 - $30,000   ☰ $30,001 +
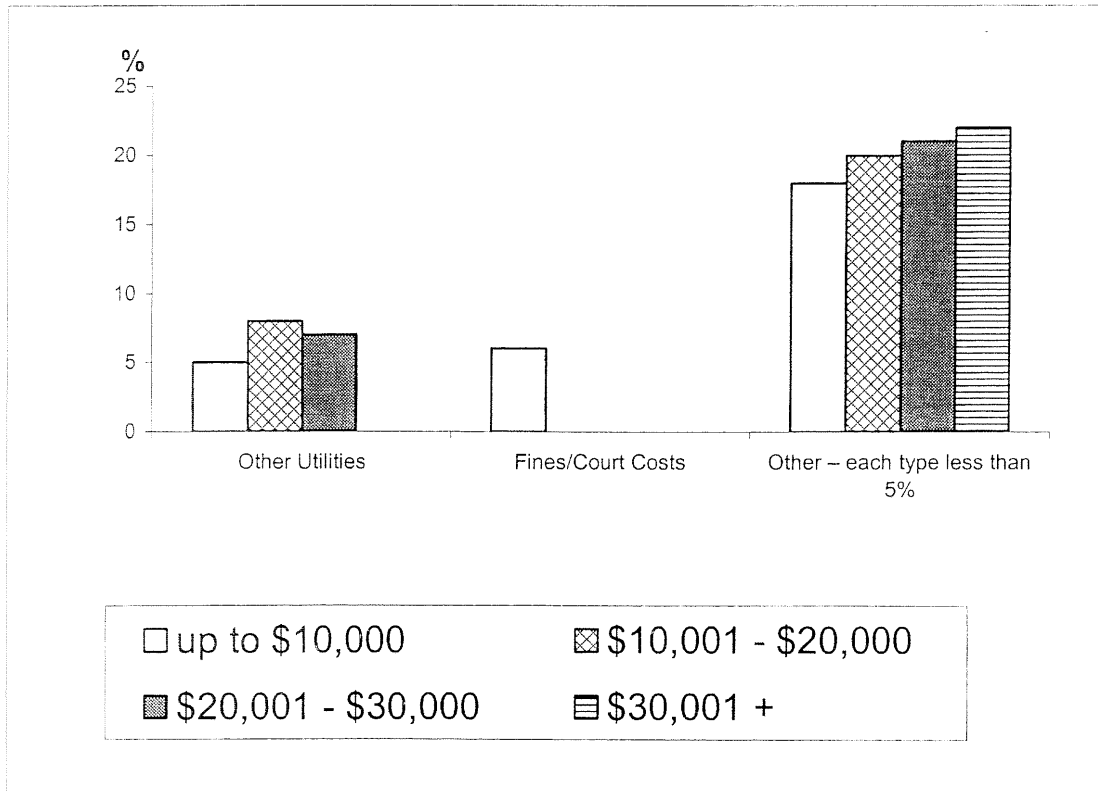
Over the four years of the study telephone debt, followed by rent, were consistently the most prominent debts for each aggregate client group. Utilities, other than telephone, appeared in the list of most frequently identified 'other debts' (ie identified in 5% or more cases of other debt) in the first three years of the study. However, in the 2003 study, the importance of other utilities has decreased while the identification of taxation debt is more prominent.

Telephone was the most frequently identified other debt across all age, household and income groups. However, in the income group receiving in excess of $30,000 per annum, taxation was identified almost as frequently as telephone debt.

Fines and court costs have grown in prominence within the 18-24 years age group. For the one-parent (single with child/ren) households rent and other utilities are prominent. As already noted, the identification of taxation as the primary other debt has increased in that it now appears as one of the most frequently identified debts for the aggregate group. The 2003 data highlights the prominence of taxation, particularly for clients receiving income above $20,000 per annum.

F – Accommodation by Selected Client Groupings

The majority of clients (63%) reside in rented accommodation. Private rental accommodation was reported by 40-47% of clients up to 64 years of age, and 26% of clients aged 65 years and older. Overall, only 4% of clients live in fully-owned accommodation while a further 10% have a mortgage.

The highest incidences of board/share accommodation occurred in the 18-24 and 25-44 years age groupings (43% and 18% respectively). The highest incidence of State/Public rental occurred in the 65 and older age grouping (36%); 19% of clients in the 25-44 and 23% of the 45-64 years age groupings reported State/Public rental. The 45-64 age group also had the highest incidence of mortgages (15%) and, after the 65 years and older age grouping (at 22%), the next highest incidence of home ownership (8%) [see Exhibit F1 following].

Exhibit F1: Accommodation by Selected Age Groups (% within each group)
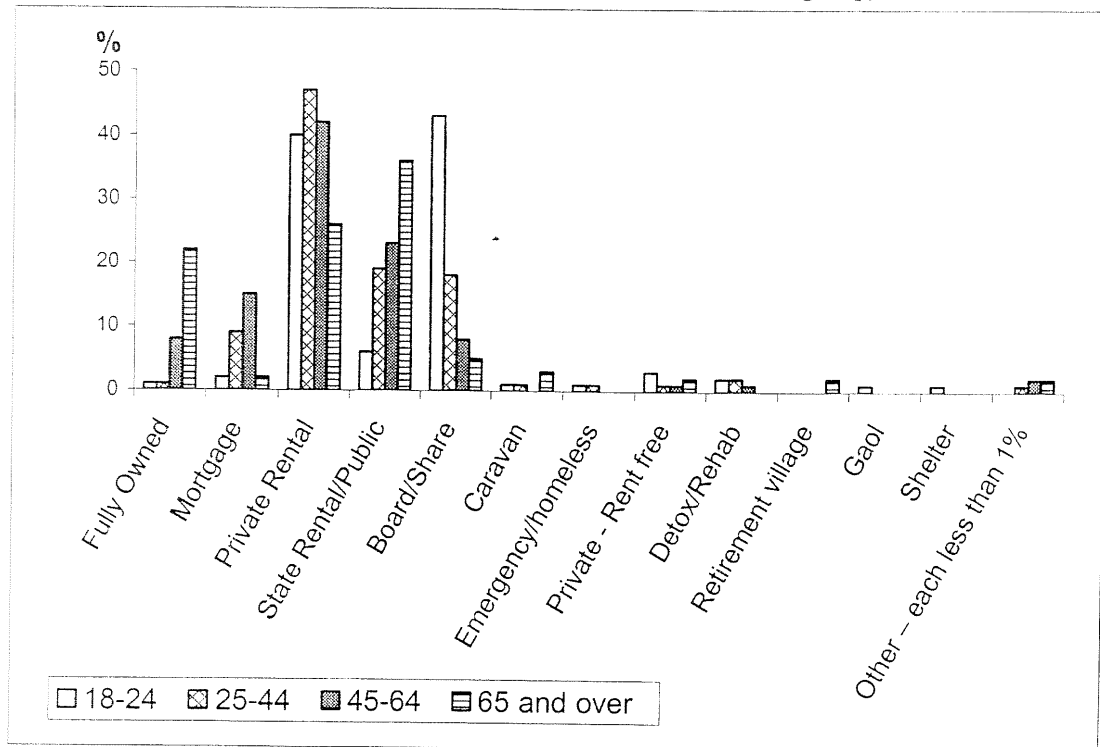
Households living as couples resided in fully-owned accommodation at least twice as frequently as each other household group. Very few (5%) of single adults lived in mortgaged accommodation. Eleven percent of one-parent (single with child/ren) households had a mortgage compared to 14% of couples. At 22%, couples with child/ren had the largest proportion of mortgages. Single-adult households had a lower incidence of private rental accommodation (39%) than other household groups

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(47-53%) and lived in board/share accommodation (25%) with three times the incidence of any other household group studied [see Exhibit F2 following].

Exhibit F2: Accommodation by Selected Household Composition Groups (% within each group)
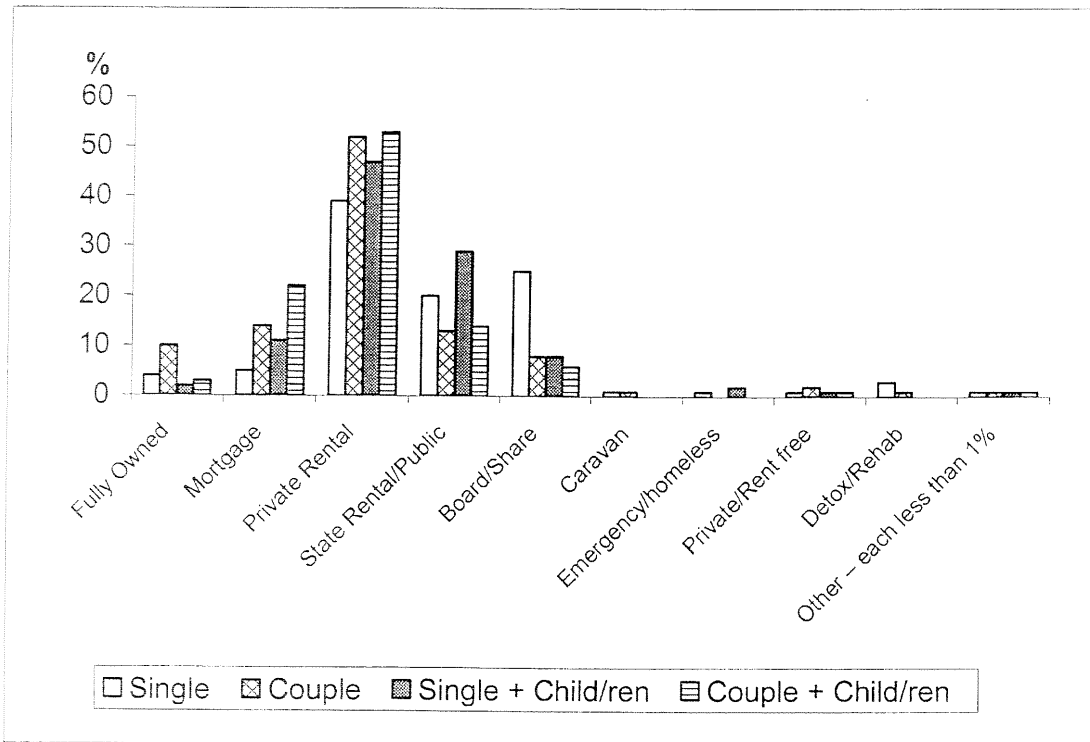
While clients presenting in income groups earning up to $20,000 exhibited the highest home ownership (largely retirees, see Exhibit F1), those receiving income in excess of $20,000 reported having a mortgage with twice the incidence (12-19%) of the lower income groups (5-6%). State rental/public accommodation was more prominent for income groups receiving up to $30,000 per annum (18-29%) than those earning in excess of $30,000 (6%) [see Exhibit F3 following].

Exhibit F3: Accommodation by Selected Income Groups (% within each group)
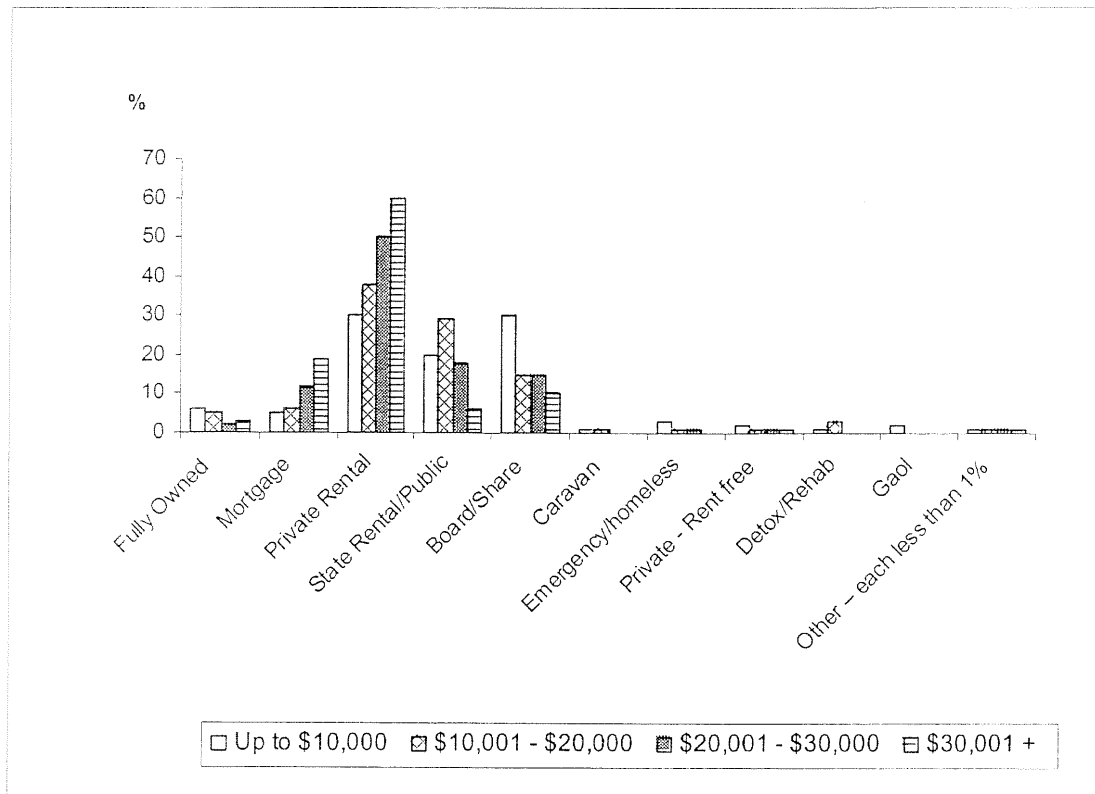
In each of the four years of the study the majority of clients have stated that they live in either public or private rental accommodation. A similar, yet smaller [except in 2002], proportion of 18-24 year old clients live in a board/share accommodation situation. Mortgages continue to be concentrated in the 25-64 years age groups, particularly in the 45-64 years age group. Home ownership is concentrated in the 45 and older age groups and is most prevalent in the 65 and older group. The 65 years and older group is the only one where the incidence of public rental accommodation has equalled or exceeded private rental accommodation each year.

When household groups were compared, the incidence of mortgages was most frequent in two-adult households (with/without children), and particularly so in the couple with child/ren households. One-parent (single with child/ren) households reported the greatest incidence of public rental accommodation. This same group reported mortgaged accommodation in quite similar proportions to couples without child/ren. The prevalence of private rental accommodation and mortgages increased as clients' income levels increased.

G – Income Source by Selected Client Groupings

The majority of clients (56%) relied on government cash benefits as their source of income. Only 33% of clients reported wage or salary as their income source.

The majority of clients across all selected age groups were reliant on government cash benefits as their income source (54-56% for age groups under 65 years and 93% for clients aged 65 years and older) [see Exhibit G1 following].

Exhibit G1: Income Source by Selected Age Groups (% in each group)
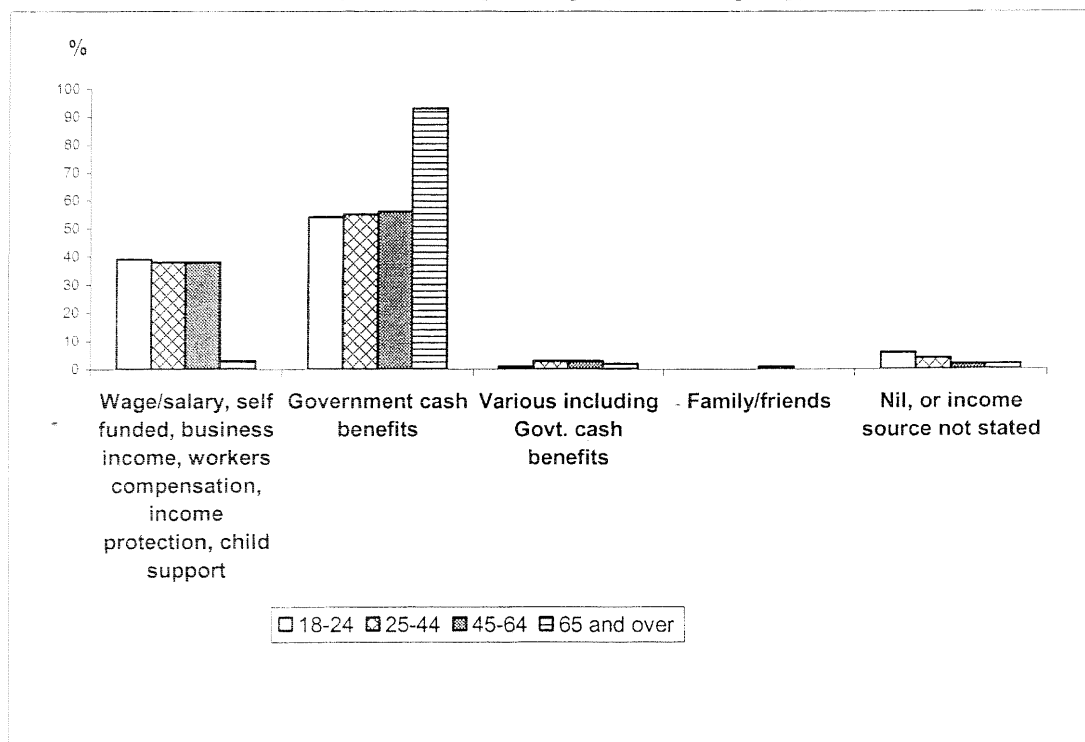
A minimum 37% of clients in each of the household groups analysed were reliant on government cash benefits. Couples, and couples with child/ren appeared to rely less upon government cash benefits (47% and 37% respectively) than singles (60%) and one-parent (single with child/ren) households (71%)[9]. Couples with child/ren were the only household group where a larger proportion of clients (56%) relied on wage/salary *etc.* than government benefits [see Exhibit G2 following].

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[9] Although the existence of "hidden" benefits, such as Family Tax Benefits, should be noted.

Exhibit G2: Income Source by Selected Household Composition Groups (% in each group)
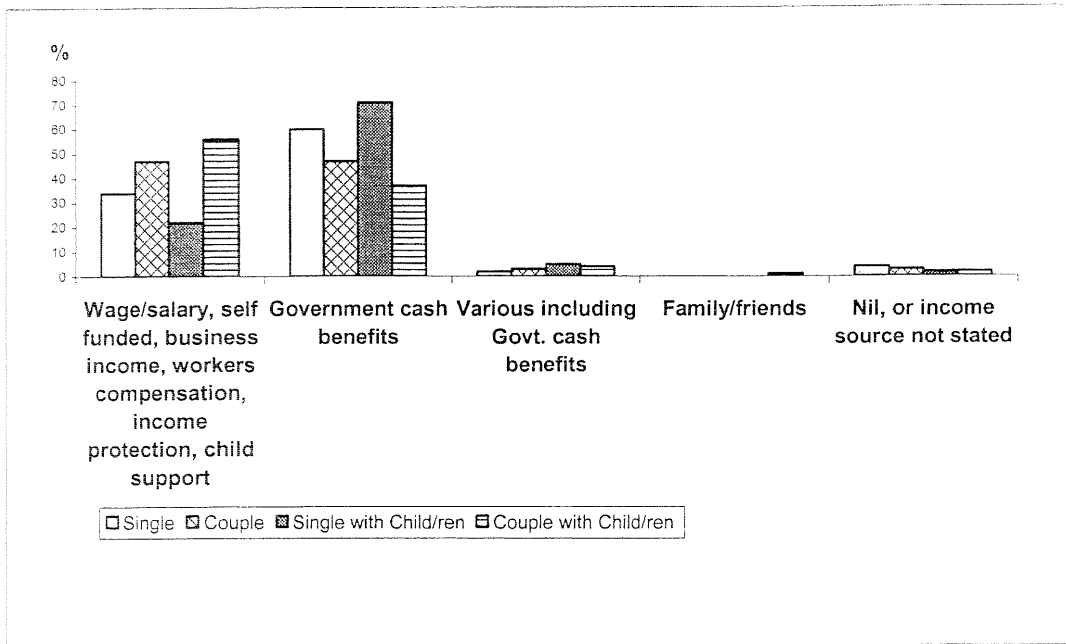
Clients presenting in the two lower income groups - up to $10,000 and $10,001-$20,000 - were heavily reliant on government cash benefits (77% and 84% respectively). A much smaller proportion of clients in the higher income groups - $20,001-$30,000 and over $30,000 - were reliant on government benefits (43% and 7% respectively)[10] [see Exhibit G3 following].

Exhibit G3: Income Source by Selected Income Groups (% in each group)

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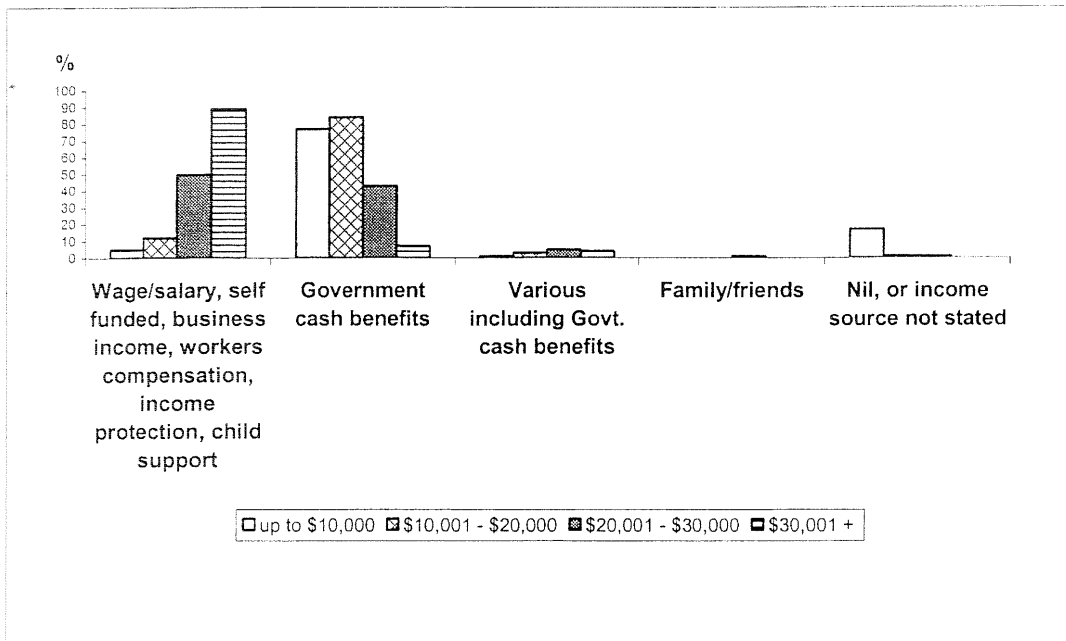
[10] See fn 9. Again the potential of "hidden" benefits should be noted.

In each year of the study the majority of clients in the selected age groups were reliant on government cash benefits. Only two-adult households had an equal, if not greater, reliance on other sources of income than government benefits and couples with child/ren were the least reliant on government benefits. Each sub-group within age, household and income groups reported receiving some government benefits.

As would be expected, the lower the level of income, the greater the reported reliance on government cash benefits.

H – Income by Selected Age and Household Composition Groups

The client group can be profiled as consisting largely of low income earners. Overall, 56% of the clients received annual incomes of $20,000 or less and 77% received annual incomes of $30,000 or less. The concentration of the clients in lower income groups is highlighted in Exhibits H1 and H2 (below).

Exhibit H1: Total Annual Income by Selected Age Groups (% in each group)
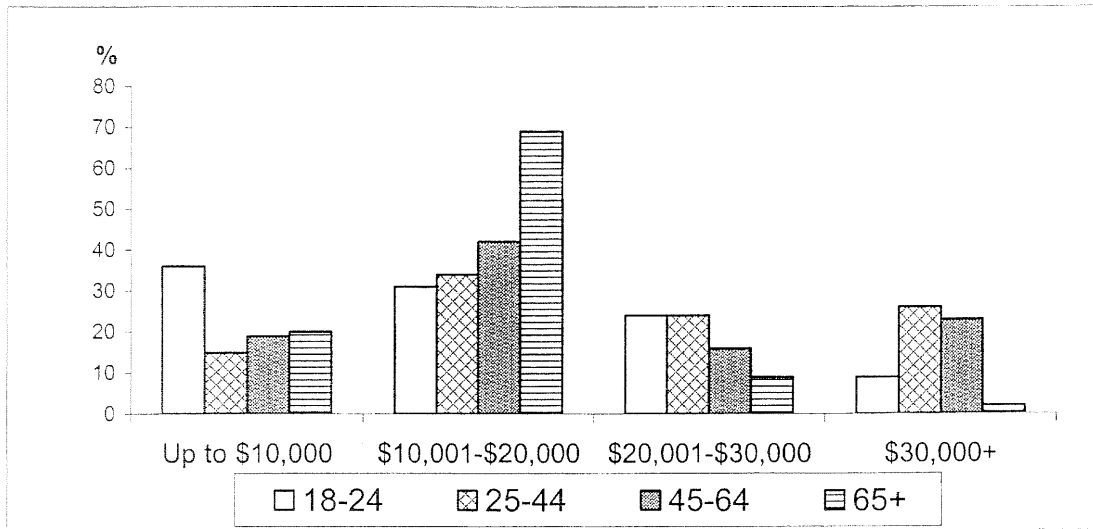
Exhibit H2: Total Annual Income by Selected Household Composition Groups (% in each group)
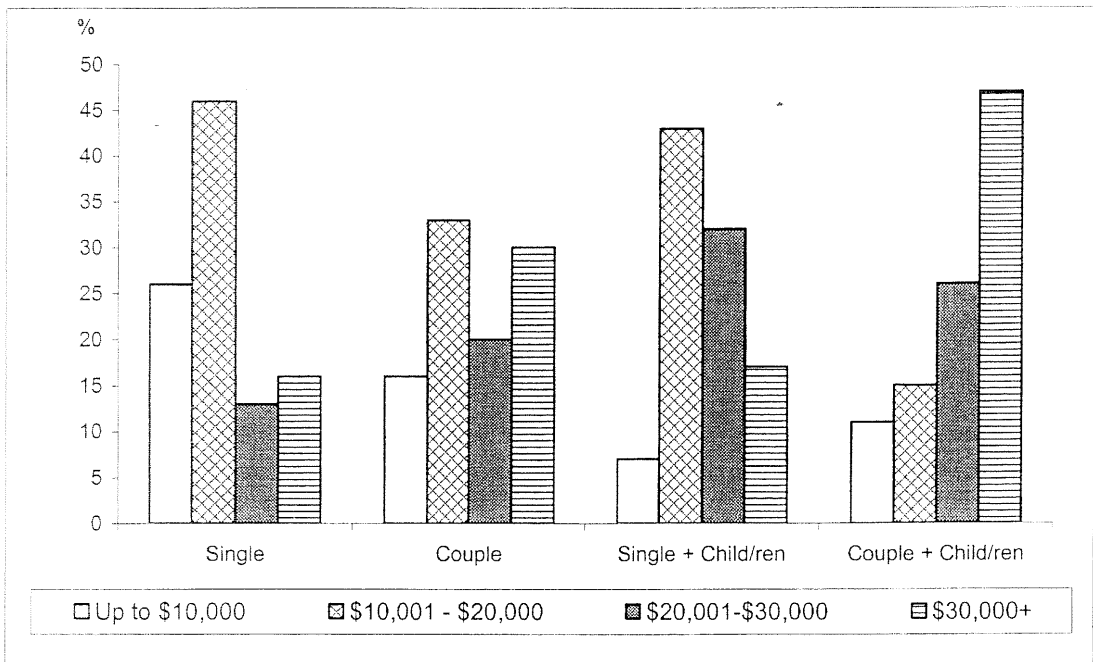
The income level of clients has increased slightly over the period of the study. This has been most evident in the decreasing proportion of clients presenting in the income grouping 'up to $10,000' and the increasing proportion of clients in the grouping 'over $30,000' [see final comments in Part A]. Despite the growth in the level of

income of presenting clients, in each year most people in each age group received an income of $20,000 or less.

Couples with child/ren were prominent each year in the higher income groupings receiving more than $20,000 per annum. While the proportion of other household groups in the same higher income groupings has increased over the period of the study, the change has been far less evident in the single-adult (without child/ren) household.

I – REFERRALS

Source of client referrals:

Seventy-five percent of the client group came from three broad referral categories: self, family, friend, or former client [*ie* personal sources] (30%); voluntary, welfare, and emergency agencies [*ie* non-government social welfare organisations] (24%); and government organisations (21%) [including the Insolvency and Trustee Service Australia [ITSA] (8%)] (see Exhibit I1 following)

Exhibit I1: Source of Referrals (All Client Group)
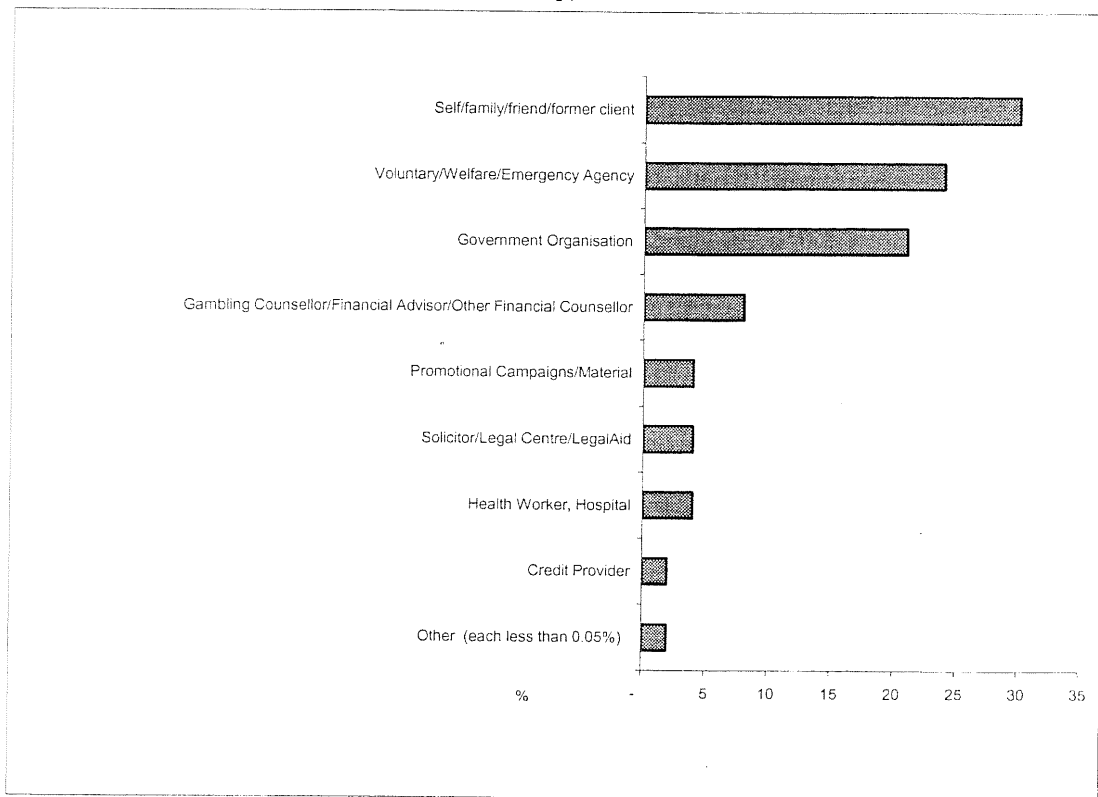
Recipient of client referrals:

In some instances it is necessary for financial counsellors to refer their clients elsewhere to obtain additional services or communicate with other relevant organisations. This may be done with or without continuing to provide further financial counselling. Exhibit I2 shows the proportion of clients who were not further referred following the initial interview and also, when a referral was made, to what organisation or person the client was referred. Forty-seven percent of clients were not referred elsewhere after the first interview. When clients were referred elsewhere, the main recipients of client referrals were government organisations (30%) [including the Insolvency and Trustee Service Australia (20%)], credit providers (10%), and voluntary, welfare, and emergency agencies (6%).

Exhibit I2: Recipient of Referrals (All Client Group)
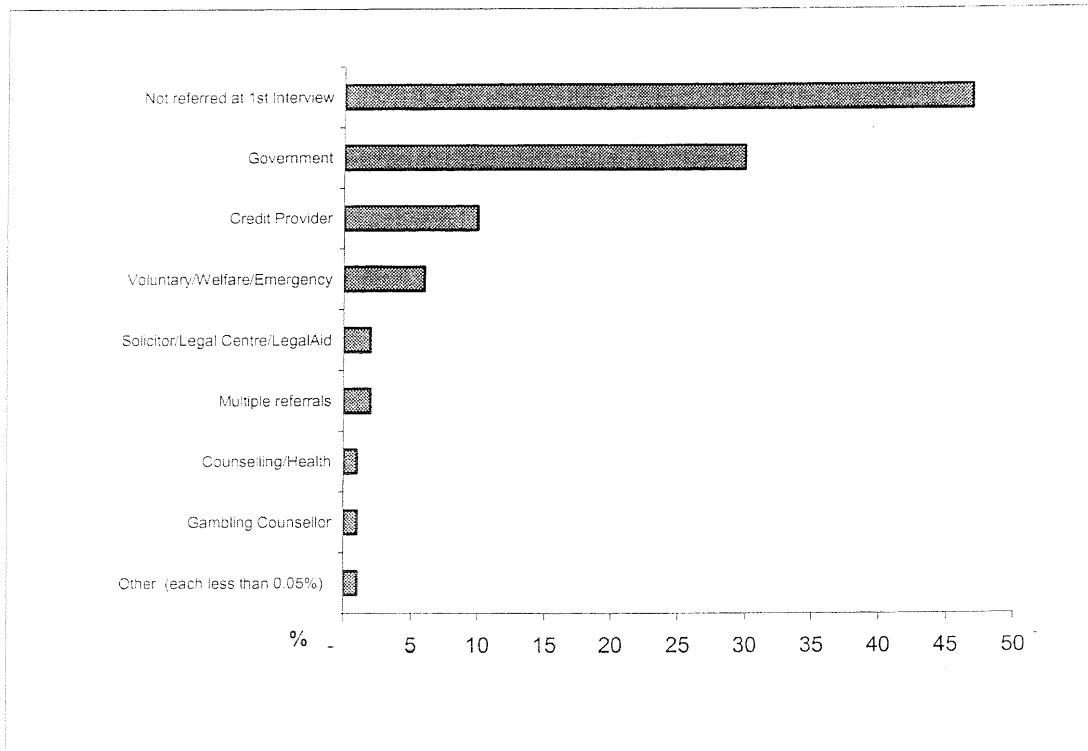
The number of clients not being referred elsewhere following the first interview has increased over the period of the study (34% in 2000, 45% in 2001, 48% in 2002 and 47% in 2003).

J – Repayment Arrears, Net Monthly Income and Rental Costs

The findings in this section are based on data from a sub-group of the 2003 clients.

Four additional questions were added to the study in 2001 requesting the following details:
- total minimum monthly credit repayments;
- the number of credit payments in arrears;
- total monthly (net, after-tax) income, and
- monthly rent amount, if renting.

Data was available at this detailed level for 699 clients at the time of the first interview. The results presented in this section are based on analysis of the data provided by these 699 clients.

Minimum monthly credit repayments

Half of this group had total minimum monthly credit repayments accounting for 32% or more of their net income. On average, this client group spent 42% of their net income meeting minimum monthly credit repayments. Twenty-five percent of the group spent more than 53% of their net income meeting these minimum repayments.

The average total minimum monthly credit repayment by an individual[10] was $820. The first 50% of clients paid up to $582 monthly. The next 25% paid between $583 and $1,030 monthly. The final 25% paid over $1,030 monthly to meet their minium repayments.

As housing loans would tend to increase the overall level of minimum monthly repayments, these calculations were repeated excluding the 17% of clients who had housing loans. In this instance, the average total minimum monthly credit repayment by an individual was $683. The first 50 percent of clients paid up to $494 monthly. The next 25% paid between $495 and $899 monthly. The final 25% paid over $899 monthly to meet their minimum repayments.

Monthly (after-tax) income

Fifty percent of the clients received a monthly after-tax income of $1,800 or less. A further 25% of clients received between $1,801 and $2,600 and the remaining 25% received over $2,600 monthly.

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[10] This number is based on the total of all minimum monthly credit repayments for each individual. It should be noted that respondents may have numerous repayments. The input for each individual is therefore the sum of their separate minimum repayments.

Monthly rent

Seventy-two percent of these clients paid rent. Rent payments averaged 35% of monthly after-tax income for this group. Fifty percent had rental costs of $585 or more, representing 30% or more of their after tax income. Of these, half had rental costs of $855 or more, representing 45% or more of their after tax income.

Credit repayments in arrears at the time of the initial interview

In 677 cases this question was answered with a specific number[11]. Where clients were in arrears the median was two months. The overall pattern of arrears for these clients, at the time of the initial interview, was:

- 43% were not in arrears on credit repayments,
- 44% were between one and three months in arrears,
- 10% were between four and six months in arrears, and
- 3% percent were more than six months in arrears.

Further analysis of data related to clients not in arrears on credit repayments at the time of interview revealed that 52% had other debts. The most reported other debts for the group were: telephone (19%); Centrelink (14%), loans from friends/associates (13%), and taxation (9%). Where clients had a second debt (25% of cases), the most frequently reported debts were: telephone (24%), other utilities (14%) and loans from friends and associates (14%).

Residual income after taxation, rent and minimum monthly credit repayments

Seventy-two percent of the clients paid rent and also had credit repayments. After deducting taxation, rent, and minimum credit repayments:

- 50% of these clients had residual disposable income of $600 or less per month (*ie* $138.46 or less per week);
- 25% of these clients had residual disposable income of between $601 and $1,130 per month (*ie* between $138.69 and $260.77 per week); and
- the remaining 25% had residual disposable income of at least $1,130 per month (*ie* $260.77 or more per week)

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[11] Zero or greater, as opposed to unknown or comments such as 'many' or 'several'.

Source of referral related to number of consumer credit repayments in arrears

This analysis is based on the number of credit repayments in arrears at the time of the initial interview. The two main sources of referral were 'self/family/friend/former client' and 'voluntary/welfare/emergency agencies' as shown in Table Ja:

Table Ja: Source of Referral by Number of Payments in Arrears at the initial counselling interview (% identifying each source)

Source of Referral	Payments in Arrears			
	0	1-3	4-6	Over 6
Self/family/friend/former client	39	31	39	25
Voluntary/welfare/emergency agency	20	22	23	15
ITSA	Incl. Other	11	6	10
Centrelink	5	5	Incl. Other	0
Credithelpline	5	8	8	10
Government organisation (n.o.s *)	8	Incl. Other	Incl. Other	5
Hospital/health worker	5	Incl. Other	Incl. Other	10
Legal Aid	Incl. Other	Incl. Other	Incl. Other	0
Other (each less than 5%)	18	23	24	25

* not otherwise specified

Some changes have been observed in the levels of minimum monthly credit repayments, monthly after-tax income, and monthly rental costs presented in this section over the last three years of the study (reporting commenced for this section in 2001). Statistical tests were calculated using median levels (due to outliers). The changes and results are shown below:

- *In the case of minimum monthly credit repayments the level decreased significantly[12] in 2002 and returned to the higher (2001) level in 2003[13].*

- *Monthly after-tax income increased slightly in the 2002 group and rose significantly for the 2003 group[14].*

- *Monthly rental costs increased slightly in the 2002 group and rose significantly for the 2003 group[15]*

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[12] Wilcoxon Sum Rank Test *(p-value=.044)*.
[13] Wilcoxon Sum Rank Test *(p-value=.0004)*.
[14] Wilcoxon Sum Rank Test *(p-value=.0064)*.
[15] Wilcoxon Sum Rank Test *(p-value=.0059)*.

Further analysis was completed to determine whether the relative proportion of income needed to meet minimum monthly credit repayment demands and monthly rental costs had changed over the three years. The results for these comparisons are shown below:

- *Minimum monthly credit repayments as a proportion of monthly income followed the same trend as credit repayments. The proportion decreased significantly[16] in 2002 and returned to the higher (2001) level in 2003[17].*

- *Monthly rental costs as a proportion of monthly income did not change significantly over the three years of the study.*

Over the three years, slight changes were observed in the level of residual income after taxation, rent and minimum monthly credit repayments. However, these changes were not significant.

An increase has been observed in the proportion of clients seeking earlier assistance with their financial problems.

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[16] Wilcoxon Sum Rank Test (*p-value=.0033*).
[17] Wilcoxon Sum Rank Test (*p-value=.039*).

K – Analysis of Clients with Business Entities: 2000-2003

As the number of clients with business entities presenting for financial counselling is small, this section was first introduced in the 2002 report and incorporated data from the first three years of the study. The data presented here [from 647 data sets] reflects the data accumulated over four years. The results for this combined group follow.

Exhibit K1 below shows the type of business ownership. Sole traders accounted for nearly half of all business client interviews (48%), followed by proprietary limited companies (29%) and partnerships (21%).

Exhibit K1: Type of business ownership
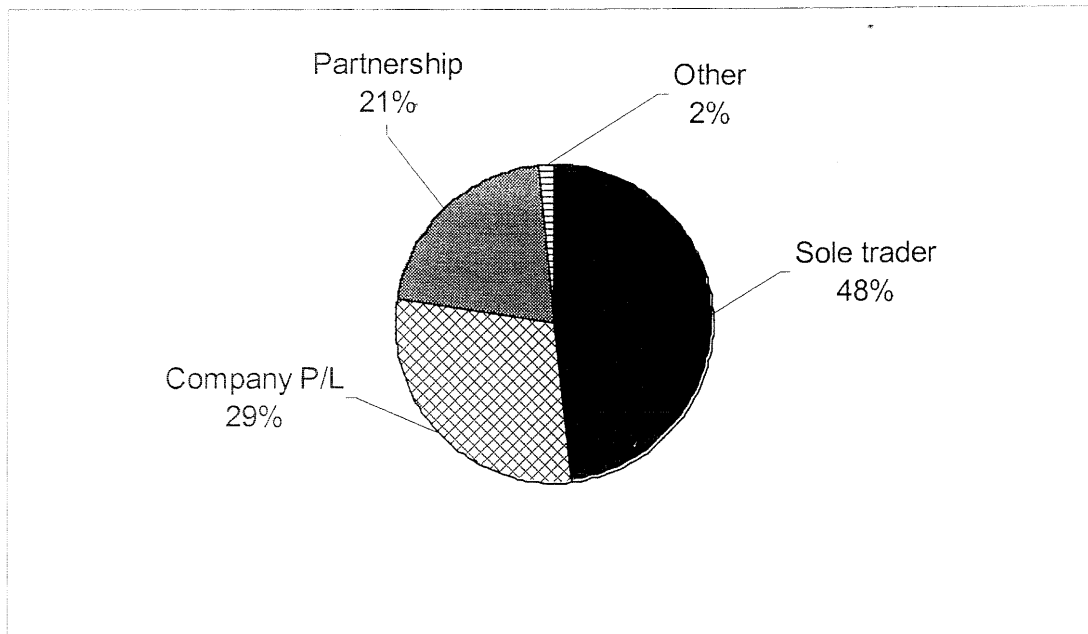
The median level of debt across all the business entities was $30,000. Sole traders presented with the lowest levels of debt (median $22,000), compared to partnerships and proprietary limited companies (at $41,000 and $40,000 respectively) [see Exhibit K2 following].

Exhibit K2: Business Debt Distribution by Type of Business Ownership
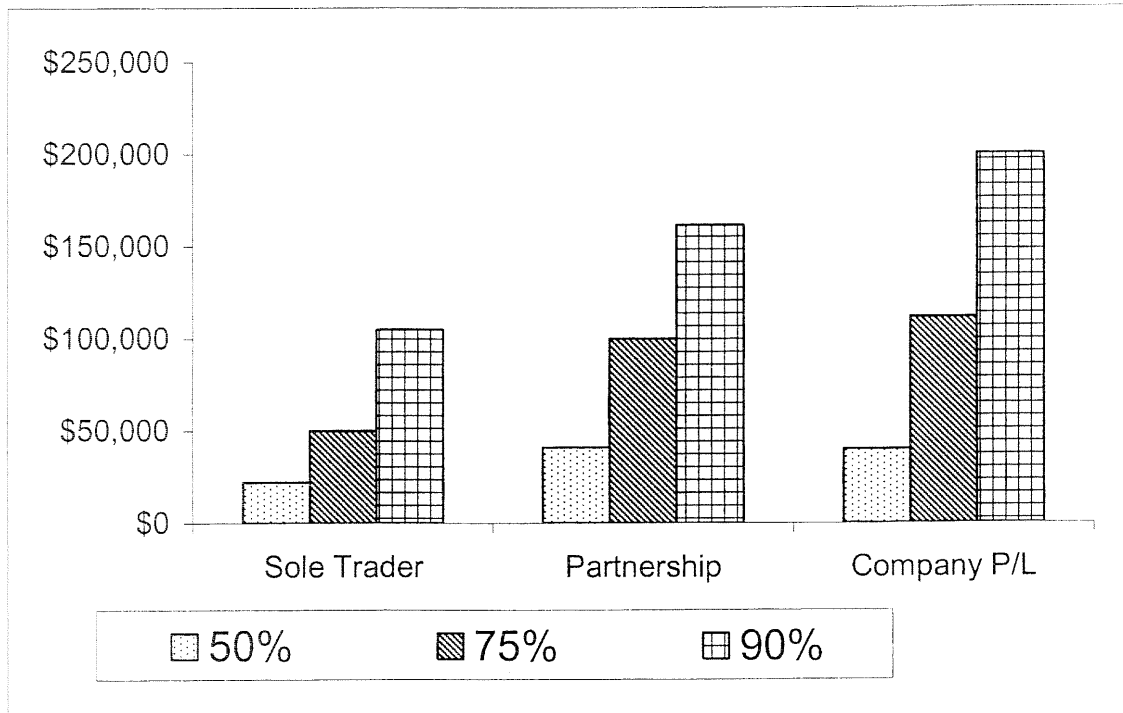
Seventy-one percent of the clients had borrowed from credit providers and presented with business credit debts. Exhibit K3 following shows the proportion of the business entities presenting with particular types of credit from financial institutions.

Exhibit K3: Type of Credit from Financial Institutions (% presenting with the particular type of credit)
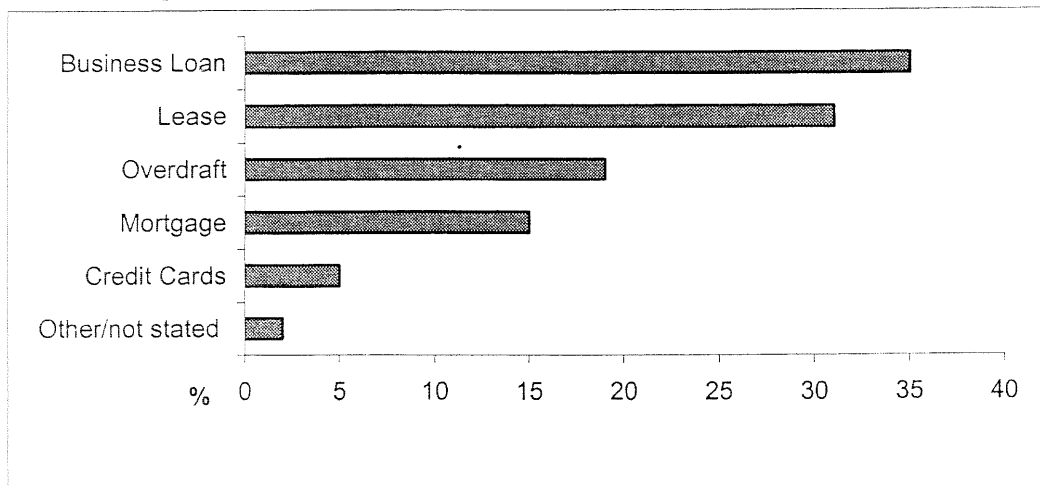
Sixty percent of the clients with business entities presented with debts other than credit from financial institutions. The two prominent types of other debt were suppliers and taxes (see Exhibit K4 following). For the purposes of discussion the term 'suppliers' in this context consists of providers of goods and services on credit to the clients' business entities.

Exhibit K4: Types of Other Debt (% presenting with the particular type of other Debt
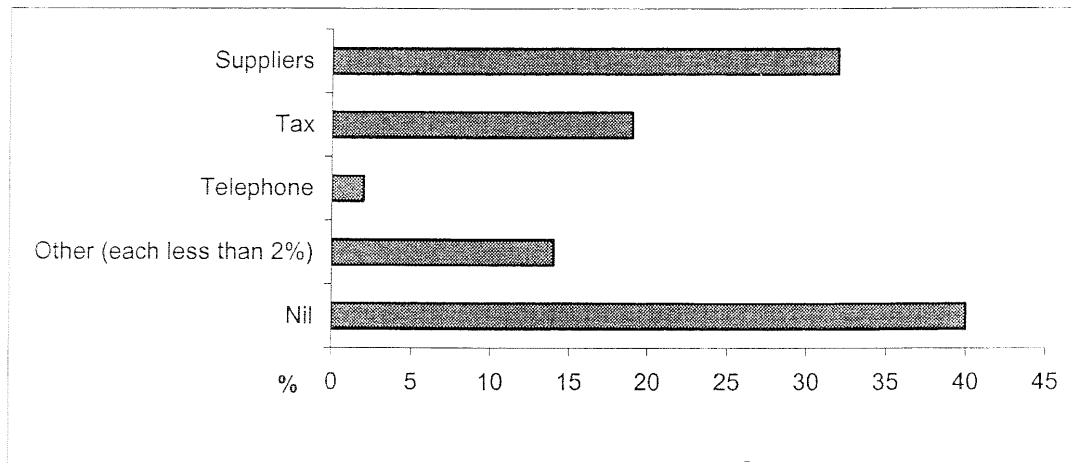
The clients with business entities most identified lack of business ability (25%) and economic conditions (24%) as the primary causes of their business entity's credit and debt problems. These causes were also highlighted when secondary causes, if any, were identified (see Exhibits K5 and K6 following).

Exhibit K5: Primary Cause of Credit and/or Debt Problems 2000-2003
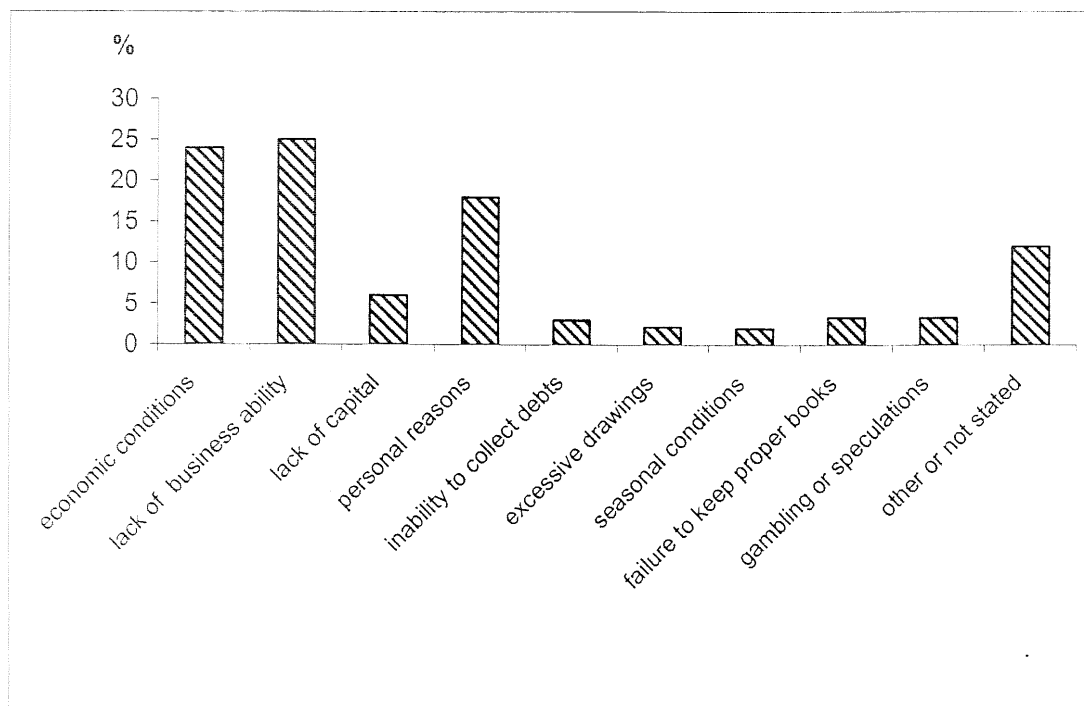
Exhibit K6: Secondary Cause of Credit and/or Debt Problems 2000-2003
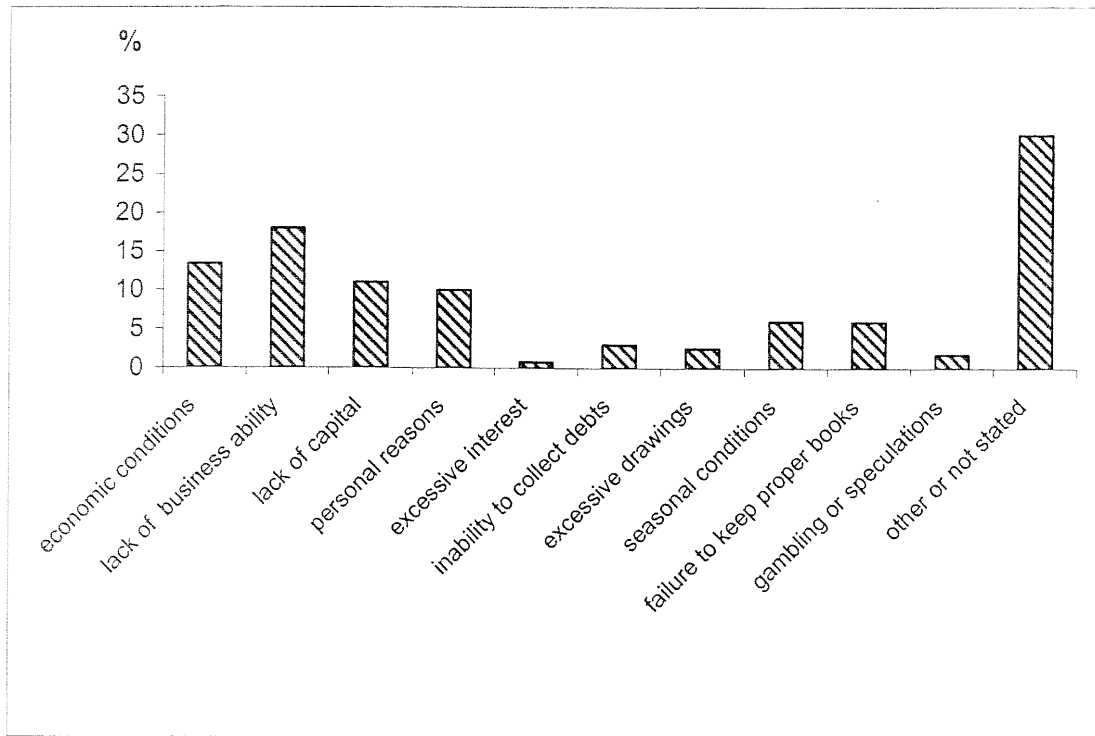
Exhibits K7 and K8 following highlight the median, 75% level and 90% level of personal debts of proprietors of the business entities. The personal debts are separated into consumer credit and other debts.

Exhibit K7: Personal Debts of Owners ($) - Consumer Credit (by Selected Types of Business)
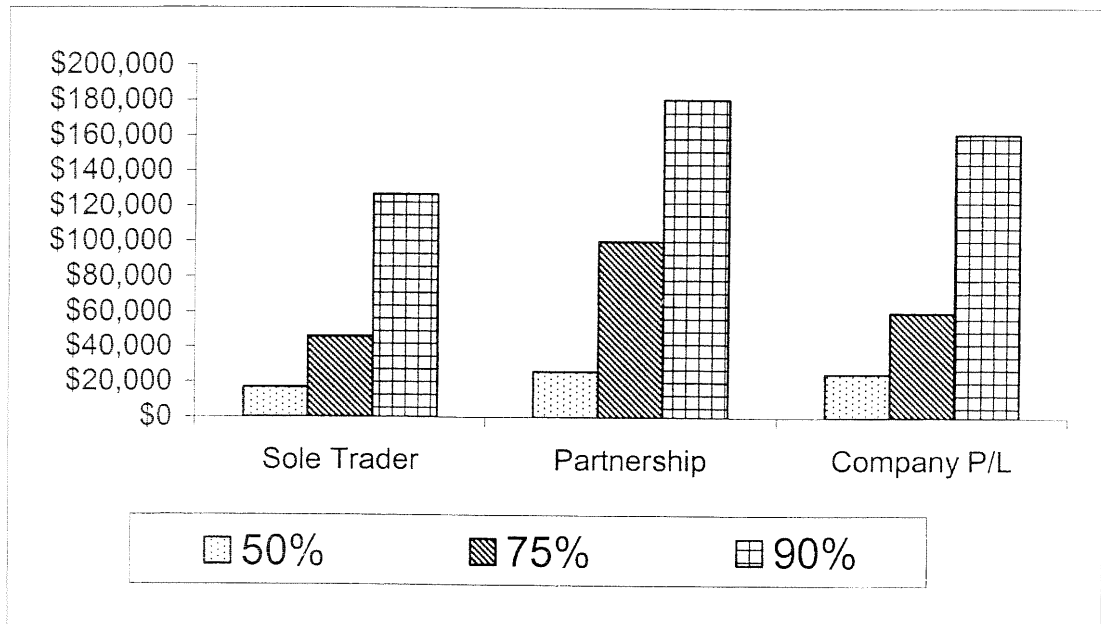
Exhibit K8: Personal Debts of Owners ($) – Other Personal Debt (by Selected Types of Business)
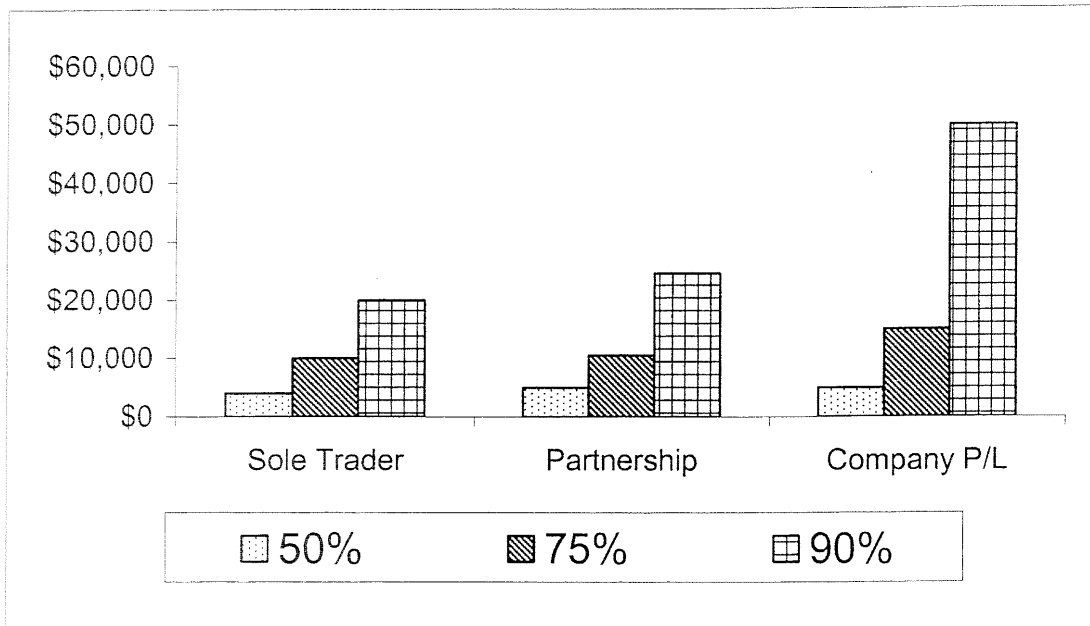
DISCUSSION AND CONCLUSIONS

Before discussing and summarising various observations made in this and previous reports, it is important to draw attention to a particular issue. *Some* of these observations need to be considered within the context of the socio-economic profile of the consumers involved in the research and the example below will serve to illustrate this point.

The second observation made below is that the financial situation for the successive client cohorts does not appear to have significantly deteriorated over the four years of the study. While the amount of consumer credit, other types of debt, and rental costs have increased, income levels have also risen. The socio-economic circumstances of consumers receiving low incomes is far more complex than a simple comparison of income versus debts reported to financial counsellors. The fact remains that low-income consumers continue to have difficulties managing their financial affairs. These consumers suffer many deprivations and struggle to achieve a lifestyle vaguely similar to that which many of us take for granted. Only the combined efforts of financial counsellors, social welfare organisations, and government departments will work to improve their circumstances.

It is to be recalled that the following observations are made against a background of historically low interest rates.

The majority of clients presented as low-income consumers [Part H] who lived in single-adult households [Part A] and resided in rental or other accommodation not owned or being purchased [Part F].

Over the four years of the study 61% of clients received income of $20,000 or less and a further 20% received between $20,001 and $30,000 per annum. Sixty-eight per cent of the clients resided in single-adult households (with/without children). Clients living in rental or other accommodation not owned or being purchased outnumbered home owners/purchasers by a ratio of more than 4:1.

Viewing the financial position of each successive client group up to the present time, an increase in level of income [Parts A and J], amounts of credit and other types of debt [Part B], and rental costs [based on the sub-group analysis in Part J] have been observed.

There is no evidence to suggest that the financial situation of each successive aggregate group has deteriorated. Instead, parallel moderate growth in income, debts, and costs of accommodation has been observed.

There is no apparent evidence that, in aggregate, these lower income clients are using credit excessively relative to the population at large.

To the contrary, the majority of these clients appear to have their access to credit limited by sound commercial lending practice. Three comparisons are provided to support this observation. The lack of access to additional credit is evidenced by the relatively small levels of debt, other than consumer credit [Part B], that could be refinanced if the consumers had access, or additional access, to consumer credit from credit providers. In addition, the average amount of credit [all types combined] for the presenting financial counselling clients grew by 20% between 2000 and 2003. By comparison, the average credit growth observed for Australian households was higher. Between June 2000-2003:

- housing debt in Australia grew by 53%;
- other personal [credit] debt grew by 21%; and
- the combined total grew by 47%.
  (Australian Bureau of Statistics [ABS], 2004a:152 and 2004b:62; Reserve Bank of Australia [RBA], 2004a).

Finally, Reserve Bank data has been available since August 2002 on total credit card balances accruing interest. In the shorter period August 2002 to December 2003 17% growth in total balances accruing interest was observed (RBA 2004b).

These consumers are financially over-committed.

Many cannot meet their present debt repayment commitments without major lifestyle adjustments. Others will never be able to repay their debts and are destined to join the bankruptcy statistics. In aggregate they lack access - or additional access - to funds through increased borrowing from credit providers. This is a fact of [commercial] life and indeed any easing of credit assessments would be strongly criticised in the public arena.

The debt levels for the majority of clients were relatively small [Part B] compared to average household debt in Australia.

Average household debt in Australia was approximately $79,000 in June 2003 (ABS, 2004a; RBA, 2004a). By comparison, the average consumer credit debt was just over $29,000 for the clients surveyed in 2003. In Australia, the liabilities of debtors who became bankrupt or entered into Debt Agreements in 2001/2002 were also low. Fifty-four percent of these debtors had liabilities of less than $20,000 and a further 26% had liabilities between $20,000 and $49,999 (Insolvency and Trustee Service Australia [ITSA], 2002:12).

*Unemployment, excessive use of credit, ill-health and domestic discord were the most
identified causes of clients' consumer credit and/or other debt crisis for the aggregate
client groups [Part C].*

The prevalence of these four causes is consistent with the annual bankruptcy statistics
provided by ITSA (1999-2003). However, an examination of the sub-groupings
identified variations. Clients aged to 44 years most frequently identified unemployment.
Results for clients aged 45-64 years oscillated between unemployment and ill-health.
Clients aged 65 years and older most frequently identified ill-health in 2000 but excessive
use of credit in each subsequent year.

All household groups with the exception of one-parent (single with child/ren) households
most frequently attributed their financial crisis to unemployment. One-parent households
consistently attributed their difficulties to domestic discord.

Unemployment was the most frequently attributed cause by clients receiving income up
to $20,000. Excessive use of credit was the most frequently attributed cause for clients
receiving income above $20,000 (with the single exception of the $20,001-$30,000
income group who in 2003 more frequently reported unemployment).

One anomaly highlighted in the 2002 report (Griffiths and Renwick, 2003:51) was
evidence that some clients attributed their financial crisis to unemployment, yet were
employed at the time of the financial counselling interview. The discussion of this point
concluded that:

> ... even re-entering the workforce will not necessarily enable consumers to
> resolve their financial difficulties. There is also the possibility that, even if
> work is found, the position may be casual as opposed to full-time or that the
> level of pay is lower than previous employment (Griffiths and Renwick,
> 2003:51).

The high incidence of unemployment as the major cause of financial crisis tends to make
us ready to assume that, for the majority, steady employment is all that is needed to solve
the problem. Given the sustained low unemployment figures for Australia we should be
cautious of thinking that a 'job of any description' will automatically solve all problems.
While regular employment is certainly a good starting point, a myriad of other social
issues, including for example distribution of wealth, remain unresolved.

*The typically low income of the majority of the clients [Parts B and J] makes them
vulnerable to uncontrollable factors such as loss of employment, domestic discord, and
ill-health.*

Where clients have experienced a temporary loss of, or long-term deterioration in income
source through one or more of these causes, there may be the potential for the negative
financial situation to be reversed. The speed with which the impending crisis is

acknowledged and appropriately addressed will impact on the likelihood of a successful outcome. However, in some cases the situation will be irreversible. The impact of uncontrollable factors on the ability of consumers to repay debts supports additional efforts to educate consumers in money management skills. Consumers should consider a range of issues before incurring debts. In particular, they should consider whether, in the event of a decrease in their income, they would be able to meet the required debt repayments (Consumer Affairs Directorate [UK], 2001: 14 and 43). Such consideration should occur *before* the debt is incurred. This is one of the risks taken up by *consumers* when they borrow into the unknown future.

The ability of clients to successfully manage their financial affairs is exacerbated by the relatively large proportion, 67-70% over the period of the study, of single-adult households present in the client group compared to the population at large (53%) (ABS, 2002). As noted in the previous reports (Griffiths and Renwick, 2001, 2002, and 2003) single-adult households are more exposed to financial crisis due to external factors. In the single-adult household there is no actual or potential second income to alleviate increased financial pressures due to a loss of income (*eg* unemployment) or greater demands on income (*eg* medical costs or car repairs) (Harding and Szukalska, 2000).

One further issue related to single-adult households is relevant to both this discussion and other areas of the report. Single-adult households may not be able to achieve the same economies of scale present in larger households (ABS, 2004c:1).

Higher income groups and clients aged 65 and older most reported excessive use of credit, compared to other possible causes, as the primary reason for their financial over-commitment [Part C].

Like other major causes of financial over-commitment, some consumers in each of the client sub-groups attributed their financial crisis to excessive use of credit. Nevertheless, financial over-commitment due to excessive use of credit is much more prevalent for clients receiving more than $20,000 per annum and becomes the major cause of financial crisis for clients receiving in excess of $30,000 per annum. Since the 2001 study, excessive use of credit has also been the prominent attributed cause by clients aged 65 years and older.

There is sometimes a tendency to assume that all consumers who cannot meet their debt repayments have borrowed, and then spent, recklessly. Notwithstanding the obligation to use credit prudently, further research is necessary to ascertain the nature of both the provision and use of credit in these circumstances. Not only are there a number of reasons why credit may be used excessively (Griffiths and Renwick, 2003:51), there is also the need to examine the *whole financial picture* - not just the use of credit - to establish whether sound financial management has been practised.

Clients are concentrated in the 25-64 years age range [Part A]. This concentration is indicative of financial stress due to demands of the household life cycle over these years.

Over the period of the study between 85-88% of clients were aged between 25 - 64 years of age. Approximately two-thirds of these clients were aged between 25-44 years. This 25-44 years age grouping is over-represented in the client group (at 59%) compared to its proportionate representation in the New South Wales population (approximately 30%) (ABS 2004d). Consumers are subject to considerable financial demands as they set up house and/or start families. As time progresses assets are accumulated, and debts are reduced or repaid (see *eg* RBA, 2003:6). The predictable financial demands of the household life cycle, coupled with the age profile of the successive client groups, highlight the increased financial vulnerability of consumers during this time of life. In each successive client group studied the levels of consumer credit debt were higher in the 25-64 years age groupings than in the younger and older age groups.

While the proportion of clients in the 18-24 years age group presenting with credit card debt has declined over the period of the study, the proportion of the 65 years and older group presenting with credit card debt has increased [Part D].

In 2000 and 2001 the proportions of 18-24 year olds presenting with credit card debt were 49% and 53% respectively. In 2002 the proportion was 42% and in 2003 it was roughly the same at 43%. However, in the case of the 65 years and older age grouping, the proportion presenting with credit card debt has grown over the four years from 53% in 2000 to 71% in 2003. There are no obvious reasons for these observations except, perhaps, commercial lending practice. For the older age group it would be interesting to know whether the adoption of technology or a fear of carrying cash had any impact on this change. Alternatively, the increased proportion may reflect an inability of older clients to successfully manage their continuing credit arrangements.

By contrast, the situation for these two age groups was reversed in the case of debt other than consumer credit. This reversal is highlighted in the next item.

A higher proportion of 18-24 year olds (76% in 2003) and a lower proportion of clients aged 65 and older (48% in 2003) presented with debts other than consumer credit [Part E].

Similar results were evident throughout the study and contrast directly with the results, presented above, in relation to credit cards. Perhaps the younger group has less access to consumer credit due to commercial lending practice. This result, which has no immediately obvious rationale, highlights yet again how little we know about consumers' consumption behaviours in relation to financial instruments.

The reporting of excessive use of credit [Part C] and the ownership of credit cards [Part D] are not necessarily directly linked.

When we think of excessive use of credit, we tend to focus on the 'fantastic plastic' credit cards. However, in household groups, couples with child/ren most frequently reported excessive use of credit, presented with the highest levels of consumer credit debt, and had the highest incidence of personal loans and housing loans. Couples with child/ren (except in 2002 when they reported a slightly higher incidence) also presented with a similar incidence of credit card debt to single-adult and couple households. It would be reasonable to speculate that, in the case of these successive groupings of couples with child/ren, their excessive use of credit relates to both life cycle issues *and* an abundance of a *variety of credit products*. Again, this issue for further research.

The low incidence of home ownership and high incidence of unemployment are indicative of the potentially low wealth accumulation of many of the clients [Part F].

Renters have "considerably lower net wealth than home owners …[and on average have] … lower incomes than home owners" (RBA, 2004c:3).

Owner-occupied dwellings and superannuation assets are the major assets for many households (ABS, 2004c:7). Over the four years of the study, only 3-4% of presenting clients owned their home. A further 10-14% of clients had a mortgage. The remaining clients predominantly lived in either public or private rental accommodation, or a board/share arrangement.

A very small number of clients were referred to their superannuation fund by financial counsellors. In addition, the high incidence of unemployment and the large proportion of clients relying solely on social security benefits (54-57% across the four years) [Part G] suggest that superannuation assets would be low for the client groups.

The ability to sell assets, borrow on assets, or potentially access accumulated superannuation assets in times of financial hardship, provides a potential buffer for consumers in times of financial crisis. Additionally, only a small proportion of clients reported borrowing from friends and associates. It would appear that clients generally had limited, if any access to alternative sources of financial support when hardship struck. However, access to possible sources of funds would have been of benefit only if it enabled a crisis to be prevented, rather than merely delayed.

Apart from consumer credit debts, telephone bills and rent were the most frequently reported other debts by the aggregate client groups. Telephone bills were particularly prevalent for the 18-24 years age group [Part E].

Additional questions were added to the questionnaire from 2002 onwards to isolate the type of telephone involved. The incidence of mobile phone debt was highest in the 18-24 years age group. At least 70% of this age group's telephone debt related to mobile

phones across the two years. Mobile phone debts of young Australians have received a lot of publicity in recent times. It would appear that young consumers lack the skills necessary to wisely use the technology when the contracts involve open-ended agreements. (Incidentally, this does not augur well for their ability to wisely manage continuing credit agreements). However, mobile phone bills do not appear to be a particular concern for the overall client group. In older age groups a minimum of 49% of telephone debt was attributed to land lines in 2002 and 2003. As mentioned in earlier reports, "the telephone is an important medium to prevent social isolation – particularly given the high proportion of single-adult households within the overall client group" (Griffiths and Renwick, 2003:54).

The incidence of rent debts is of particular concern. Evidence from the sub-group analysed in Part J of this report indicates that a large proportion of clients' after-tax income is needed to meet rental costs. On average, rent payments averaged 35% of after-tax income. The median rent payment was 30% of after-tax income. Of course the impact of rental costs depends on the level of income available. As a large proportion of the client group has relatively low incomes *and* rent their accommodation, rent is a constant drain on financial resources and a likely early casualty when consumers are experiencing financial difficulties.

In the aggregate results for the 2003 client group, taxation debt was identified by at least five percent of clients for the first time since the study commenced [Part E].

Sub-groups in previous reports have identified taxation debt. However, in 2003, the incidence of taxation debt owed by clients has grown to the point where taxation is identified in the aggregate results. It is possible to speculate that at least some of these taxation debts resulted from overpayments due to the family benefit changes that took effect in July 2000 which have been the cause of many families accruing taxation debts (Dunlevy, 2004:11). A further possibility is that the casualisation of the workforce has altered/disrupted the nexus between PAYE withholdings and the eventual taxation liability for a year.

Early intervention by financial counsellors enables effective and/or timely assistance to be provided [Parts I and J].

Two promising statistics have been identified that illustrate the benefits of clients seeking early assistance with financial difficulties. The proportion of clients presenting with arrears of three months or less has progressively increased over the three years this item has been reported; from 80% in 2001 and 84% in 2002 to 87% in 2003. In addition, the considerable growth in the number of clients not in arrears at the time of the first interview, that was identified from the 2002 research (Griffiths and Renwick, 2003:55) appears to have been maintained (46% in 2002 and 43% in 2003). Simultaneously, the proportion of clients being referred elsewhere following their first interview has decreased. In 2000 only 34% of clients were not referred elsewhere following the first interview, but this figure has grown to 47-48% in the last two years. When financial

counsellors are able to provide substantial assistance to clients they are more likely to see the client again before, if necessary, referring the client elsewhere.

It would appear that many of the owners of business entities presenting for financial counselling over the four years of the study largely lack the requisite skills to establish and/or operate a business (Part K).

If the range of primary causes of financial crisis directly related to management skills are combined (*ie* lack of business ability, lack of capital, failure to keep proper books, inability to collect debts, excessive drawings, and seasonal conditions), they accounted for 41% of all causes. Only 3% of the clients attributed their financial difficulties to an inability to collect debts. This low figure provides further support for the assertion that the problems relate to ability to operate the business rather than a flow-on effect from other organisations. In addition, 25% of all business entity clients specifically attributed their difficulties to a lack of business ability. Furthermore, the high attribution to economic conditions (24%) may, in *some* cases, evidence a lack of understanding of the market and competitive activity or, perhaps, an externalisation of causation.

It would appear that more education and support mechanisms are necessary to assist such business proprietors. In addition, the ability to obtain business loans needs to be more closely assessed and based on a good business plan, as opposed to being based upon the ability of the credit provider to secure loans against other assets of the borrower. While borrowers in a commercial lending market are free to risk their personal assets as they please, a major concern is the flow-on effect to both customers and suppliers if the business fails.

Sole traders account for nearly half of all business entity clients presenting for financial counselling (see Part K).

Based on type of ownership, sole traders (48%) were the prevalent business entity presenting for financial counselling sessions; followed by proprietary limited companies (29%) and partnerships (21%). The training needs of financial counsellors need to incorporate the necessary skills to assist such businesses.

The most prominent business debts were business loans (35%) and leases (31%) from credit providers, debts to suppliers (32%), and taxation debts (19%) (Part K).

Debts owed to suppliers indicate the potential flow-on effect of the problems from one business to another. This suggests that suppliers need to remain vigilant when granting credit to other business entities.

Taxation debts are a cause for concern. As noted in the previous report:

> Income tax is assessed on net income - revenue less expenses; this means there must be a profit to accrue an income tax liability. However, goods and services tax (GST) legislation requires businesses to act as collection agencies and remit GST owing when due ...... GST collected is not business cash revenue and a concern would be that it has been treated in this manner (Griffiths and Renwick, 2003:57).

A number of financial institutions now provide accounts which automatically set aside one-eleventh of the deposit in a corresponding GST account. Perhaps, this innovation may act to reduce the prevalence of taxation debts.

Assessments made on the basis of publicly available aggregated statistics can lead to mistaken assertions concerning the true situation for various market segments. The reports have highlighted the additional information available when it is possible to work with disaggregated data. Nevertheless, this research is only one small contribution towards greater understanding of consumer financial behaviour. There is a need for additional data to be available and further research to be conducted to inform policy makers and other stakeholders concerned with consumer affairs.

RECOMMENDATIONS

As a result of this study, the following recommendations are made:

1. **The combined efforts of financial counsellors, social welfare organisations, and government departments are necessary to provide effective support for low-income consumers in their struggle for day-to-day survival.** While there are already close links between these organisations, a strategic alliance is necessary to address the specific issues faced by low-income persons as consumers.

2. **Training in the judicious use of credit is critical.** Consumers need to understand the risks of borrowing into the unknown future and the consequences of failing to meet debt repayment demands.

3. **Consumer education programs targeting money management skills are essential.** Money management skills are particularly important as we move closer to a cashless society. The ability to perceive the extent of expenditure relative to income is less apparent, and is reduced by the absence of tangible evidence present when money is taken from a wallet and physically handed to another party.

4. **Further research on the state of the consumer credit market is necessary to better understand the current behaviour and future needs of the various market segments.** The presentation of credit statistics in aggregate form does not enable an detailed assessment of the actual situation for individual market segments to be performed.

5. **The positive behaviour of many consumers in seeking help before their debt repayments fall into arrears needs to be further encouraged.** Early intervention can often lead to a more successful outcome. An empathetic non-judgemental approach will not only encourage such pro-active behaviour but may also serve to mitigate the magnitude of bad debts.

6. **Utilising credit, particularly high-interest credit facilities, as a medium to long-term replacement for inadequate income should be discouraged.**

7. **Young consumers need to be better educated in the prudent use of mobile phones.** The ease with which large debts can be accumulated while using mobile phones, and the potentially devastating consequences of a bad debt record on future borrowing capacity, must be effectively communicated to young consumers.

[In addition, two recommendations from the previous report (Griffiths and Renwick, 2003: 58) related to small businesses remain current and are restated verbatim below].

8. **More educational and mentoring programs are needed to assist potential small-business owners, many of whom lack the necessary skills to operate a business.**

9. **Further investigation of the nature of the tax debts of failing businesses is needed.** If it is found that GST funds are being utilised as business cash revenue, then this issue needs to be considered by policy makers.