

## Submission to Senate Community Affairs Legislation Committee

Social Services Legislation Amendment (Miscellaneous Measures) Bill 2015

### Schedule 1 – Special Benefit

7<sup>th</sup> March 2016

To the Senate Community Affairs Legislation Committee:

Our current research which relates to Income Maintenance Periods (IMPs) raises the following issues that might be relevant to the Committee's deliberations:

- There is very little research into the experiences of people serving IMPs. We simply do not know how many people suffer financial hardship whilst serving an IMP or what happens to them during and after this period. We *do* know that some people only find out they are required to serve an IMP on applying for income support, when their redundancy funds may already be depleted.
- The reasons why people run out of funds and suffer financial hardship whilst serving IMPs are many and varied, but some common features can be identified. They include individual-level factors (such as poor financial capability and spending behaviour that is 'present-biased') and more 'structural' factors (lack of access to financial advice/guidance and lack of access to suitable financial products).
- Subsequent adverse life events (such as relationship breakdown and the on-set of health problems) and existing problems (such as gambling and mental health issues) also seem to be contributory factors.
- Spending behaviour which might seem 'wise' (such as paying off debts or a mortgage) can leave insufficient funds for on-going living costs and are also not generally considered 'unavoidable or reasonable' expenses in the IMP waiver provisions.

## Background

We are currently undertaking research which relates to people excluded from income support because they are serving an Income Maintenance Period (IMP) or Compensation Preclusion Period (CPP) and who are in financial difficulty. This research was commissioned by the National Welfare Rights Network (NWRN.) Our research is relevant to Schedule 1 of the Social Services Legislation Amendment (Miscellaneous Measures) Bill 2015 which is proposing to close off Special Benefit to people serving IMPs.

The primary aim of our research is to explore innovations that may prevent people falling into financial hardship (preventative measures) or help return people to financial health once in financial difficulty (remedial measures.) The research is largely a piece of desk-based research and policy analysis, informed by discussions between the researchers and relevant experts. We have undertaken a literature review and drawn from case-studies provided by NWRN.

To inform our analysis of these options, we have examined why people get into financial difficulty whilst serving an IMP and the extent of current supports that might help people in these circumstances. We have yet to complete our research, but we thought this background analysis might be helpful to the Committee.

We should first make the important point that there has been very limited research specifically into the experience of people serving IMPs. To our knowledge, our research is the first to analyse why people serving IMPs can end up in financial hardship. We have been reliant on parallels in other research (and have therefore drawn extensively from financial inclusion/capability and behavioural finance literature) and limited qualitative data. It is clearly an issue which requires further empirical study.

## **Why do people get into financial difficulty?**

Our preliminary analysis of why people get into financial difficulty whilst serving an IMP suggests three inter-related contributing factors:

- Lack of awareness of IMPs
- Spending behaviour
- Adverse life events and on-going problems

### **Lack of awareness of IMPs**

Under the *Fair Work Act 2009*, employers are required to provide written notice to Centrelink if 15 or more employees are being made redundant. People who are made redundant individually (or in groups less than 15) will not be contacted by Centrelink to be warned of a waiting period nor be linked to other DHS support such as the Financial Information Service. People in these circumstances will only be made aware of an IMP on applying for an income support payment. The Financial Information Service can provide information on IMPs, but as stated above, there is no referral process which links people to DHS services in these circumstances.

The important factor here is that there is no system in place to ensure that people know about an IMP *before* they are subject to it. Clearly many people who receive a redundancy payment may go on to find new employment quickly and so will not seek income support nor be required to serve an IMP. But for those that don't, this systemic feature means they will not know they will be denied access to income support prior to actually applying for income support. Some people spend their redundancy payments without knowing that they will have to serve a waiting period. A proportion of these may have changed their spending behaviour if they had known.

It is also the case that some people may be more at risk of financial hardship (for example, because of pre-existing mental health or gambling problems), but there is currently no system in place to identify those at risk.

### **Spending behaviour**

A major reason why people get into financial difficulty is related to spending behaviour and in particular the challenges of managing a 'lump sum' redundancy payment. Most people do not have any experience of managing a lump sum nor the financial capability required to do so (which

requires assessment of future risks and uncertainty). Behavioural finance research literature tells us that most of us are 'present-biased' and find it difficult to restrain current consumption to fund future consumption (hence why we have compulsory superannuation). Our research also suggests that these individual-level factors are compounded by 'structural' factors – lack of access to financial guidance or advice (other than perhaps from friends and family, who may have little relevant experience) and lack of access to suitable financial products to help individuals' manage funds (and to convert lump sums into an ongoing income stream).

It is also the case that what normally seems like 'wise' spending behaviour may be inappropriate in the context of IMPs. Spending behaviour which includes paying off debts or paying down a mortgage, or buying a house, can leave insufficient funds for on-going living costs. Paying off debts (including a mortgage) or buying a house are generally not considered 'unavoidable or reasonable' expenses in relation to the IMP waiver provisions. (An IMP may be waived or reduced if the individual can prove that they are experiencing 'severe financial hardship' because they have used leave payments for 'unavoidable or reasonable expenses'.)

A number of other factors also seem to contribute to financial behaviour that accelerates the running down of funds, including:

- pressure from friends and family
- possible exploitation
- poor investments or bad financial advice.

### **Adverse life events and on-going problems**

Whilst rarely the only factor, subsequent adverse life events also seem to play a role in the experience of severe financial hardship. This might include a relationship breakdown or the on-set of a health problem. These adverse life events can increase costs (e.g. medical costs) and seem to affect financial resilience and thus make it more likely that funds will be exhausted.

On-going problems, such as mental health issues, gambling, drug or alcohol addiction, also make 'responsible' spending behaviour challenging. The degree to which people have control over their financial situation in these circumstances is debatable.

## **Conclusion**

Our research is beginning to shed some light on the experiences of people serving IMPs and why people who receive lump sum employment payments may end up in financial hardship. It appears there are both individual-level and structural forces at play here.

As stated earlier, it is an issue which would seem to require further empirical study and policy analysis.

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