Key words: financial hardship, financial literacy, financial counselling

Financial hardship and financial literacy: a case study from the Gippsland Region

Our research indicates that while inadequate financial literacy is a contributing factor to financial hardship, other factors such as inadequate income are important. We find no significant relationship between 'sex' and 'financial literacy'. Our study also indicates that financial counsellors play an essential role in the provision of appropriately targeted financial advice and education.[1]

JUDY TENNANT is a Lecturer in the School of Business and Economics at Monash University. Email: Judith.Tennant@buseco.monash.edu.au

JILL WRIGHT is a Lecturer in the Department of Econometrics and Business Statistics at Monash University. Email: Jill.Wright@buseco.monash.edu.au

JANET JACKSON is a Lecturer in the School of Business and Economics at Monash University. Email: Janet.Jackson@buseco.monash.edu.au

IN RECENT YEARS, there has been considerable governmental focus on increasing the financial literacy of Australians, notably the work undertaken by the Financial Literacy Foundation (2007). This paper examines the extent to which, and among which demographic groups, inadequate financial literacy plays a role in perpetuating financial hardship. It investigates the causes of financial hardship among individuals with low incomes and the role played by financial counsellors in providing financial literacy advice. Gippsland, a rural and regional area comprising south-eastern Victoria, was chosen as the focus for this study.

The term 'financial hardship' is used synonymously in the literature with terms such as financial distress, financial constraint, financial fragility or difficulty (for example, Allen Consulting Group 2008; State Services Authority 2008; La Cava and Simon 2005; ABS 2004; and Worthington 2006). Those likely to suffer from financial distress include: individuals with low incomes; one-parent families; indigenous Australians; and those with no earned income (ABS 2004). La Cava and Simon (2005) list various dimensions of financial stress related to the inability to pay household bills (utility, registration and insurance) and to a shortage of money leading to households pawning or selling items, going without meals, being unable to heat their homes, seeking assistance from welfare organisations or seeking assistance from family or friends.

A definition of 'financial literacy' widely used in the literature (ANZ and ACNielsen 2008 and 2005; Hartley and Horne 2006; Coben, Dawes and Lee 2005) is 'the ability to make informed judgments and to take effective decisions regarding the use and management of money' (Noctor, Stoney and Stradling 1992). However, as Balatti (2007) points out, the 'ability required' differs between individuals according to the real-life situation each faces. For example, it may be different for low and high-income situations.

Individuals more likely to exhibit inadequate financial literacy skills include: those with education below Year 10; unskilled and non-workers; people with household incomes less than $400 per week; younger adults (18 to 24 years); those over 70 years; people who are renting; and marginalised women (Consumer and Financial Literacy Taskforce 2004; ANZ and ACNielsen 2005; RPR Consulting 2007).

This paper reports on a study of the clients of a financial counselling agency, Anglicare Victoria, Gippsland. As only individuals who 'sought assistance from a welfare organisation' are included, all are classified as financially stressed under La Cava and Simon's (2005) definition. The data set also includes those most likely to lack adequate financial literacy skills, as identified by the Consumer and Financial Literacy Taskforce (2004).

Financial counselling in Victoria is undertaken by a wide range of organisations, including Anglicare Victoria. Such organisations frequently operate as an agency for a government financial counselling program. Financial counsellors are required to provide their services free of charge, and to have no conflict of interest (Pentland 2006). In Victoria, separate financial counselling agencies are designated to serve generalist clients and those with gambling problems. The Government requires its financial counselling agencies to collect demographic data about clients and details relating to the causes of financial distress. Client data is recorded by the counsellor at the initial interview. The accuracy of such data collection methods is examined in this paper. To this end, a detailed examination of case notes is undertaken for a selection of cases and used to assess the accuracy of the data collected at the initial client interview.

The data

This study uses data collected from 1,265 individuals who sought substantive financial counselling assistance from Anglicare Victoria, Gippsland, between 2001 and 2004. In addition, a representative sample of 103 cases was selected for detailed analysis. At the time of data collection, financial counselling in Victoria came under the auspices of the Department of Human Services (DHS) Victoria. Standard data collection forms *(DHS forms)* were used to collect demographic and financial data on financial counselling clients.

The DHS forms include questions relating to the underlying causes of financial distress. Answers to these questions may not be as reliable as the demographic information since clients might not divulge, or be aware of, the true reason for financial distress at the initial interview. There is also some degree of subjectivity on the part of the counsellor in interpreting client information.

Demographic profile: DHS forms

Does the demographic profile of Anglicare Gippsland clients fit with the profile presented in the literature of those most likely to suffer financial hardship and/or have inadequate financial literacy?

Household type and tenure

With respect to household type, the Anglicare Gippsland clients fit the risk profile for *financial hardship*, as belonging to a 'one-parent family' is a risk factor. These and other non-traditional families are vastly over-represented among Anglicare Gippsland clients compared with their prevalence in Gippsland as a whole. This supports findings in the literature that one-parent families are more likely to suffer financial hardship (ABS 2004). Couples with or without children are extremely under-represented as illustrated in Figure 1.

A total of 69% of clients live in rented accommodation (a risk criterion for financial literacy) (Consumer and Financial Literacy Taskforce 2004), as against only 19% of all Gippsland households (ABS, 2001 *Census, Basic Community Profile*).

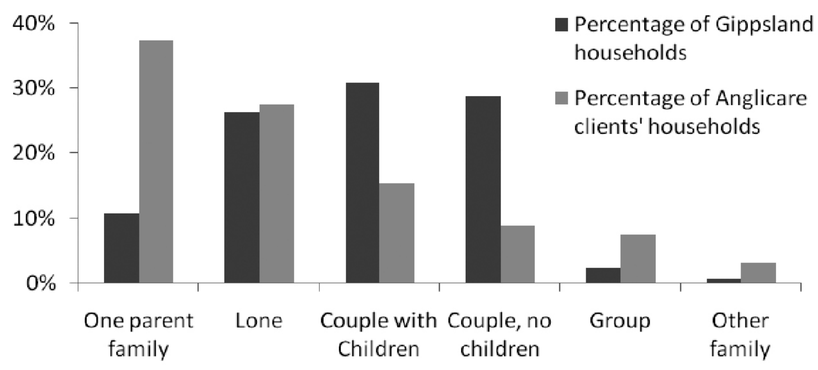
Age profile

Around 78% of clients are aged between 25 and 64 years. The age-groups that, according to the Consumer and Financial Literacy Taskforce (2004), exhibit low financial literacy skills (18–24 and over 70) are not strongly represented in this client group. Therefore the data provided do not shed light on claims in the literature about financial literacy in relation to age.

Sex

Approximately 67% of Anglicare Gippsland clients are female. The Australian Bureau of Statistics (ABS 2004) does not make comparisons between men and women in terms of *financial hardship*; however, the fact that 87% of one-parent families in this study are headed by women suggests a strong link between sex and financial hardship. According to the ANZ (2005) and RPR Consulting (2007), there is a correlation between being female and inadequate financial literacy, particularly in relation to marginalised women. In the current study, many of the women fall into the category 'marginalised' as they are single parents and live in a rural region.

FIGURE 1. **Household type**



Source: DHS 2001, *DHS Community Care Division, Financial counselling program data collection forms*, Gippsland, 2001–04; ABS 2001, *Census, Basic community profile*, Gippsland, B30, B32.

Income

Those on low incomes (less than $400 per week) and/or no earned income are at greater risk of both *financial hardship* and *financial literacy* difficulties (ABS 2004, Consumer and Financial Literacy Taskforce 2004). Anglicare Gippsland clients fit this profile, with 67% receiving less than $400 per week and 86% receiving no earned income. Most clients are dependent on some type of government or other payment, the most prevalent being: Government parenting, single (31%); Family Tax Benefit (A or B), (23%); and Government Disability Support Pension (21%).

Financial literacy as a cause of financial hardship: Case notes

Case notes were examined to determine if a relationship exists between the level of *financial literacy* and indicators of *financial hardship*: the level of debt incurred; household type; the age of clients; and the sex of clients. A client was deemed to have inadequate financial literacy (70 cases) if they could not 'make informed judgments and take effective decisions regarding the use and management of money', as evidenced by the need to seek budgetary advice, advice on setting up periodic repayment plans, or if the level of indebtedness appeared to be the result of a lack of awareness of how to manage their finances. Clients were regarded as having adequate financial literacy (25 cases) if the case notes indicated that their debt levels were due to circumstances either beyond their control or not related to financial literacy, such as illness, accident, relationship breakdown or retrenchment. There was insufficient information to make a judgment as to the financial literacy of eight of the cases.

Financial literacy and debt

In 64 cases, both the level of debt and the adequacy of financial literacy could be determined. In 50 of these cases, there were indications of inadequate financial literacy, with 16 of these seeking help with bankruptcy applications. It was apparent from the case notes that inadequate financial literacy was a contributing cause of their financial difficulty leading to bankruptcy. In the 14 cases with adequate financial literacy, other factors were responsible for the client's financial problems. Eight of these 14 also sought assistance with bankruptcy applications. Those with adequate financial literacy were declaring bankruptcy with much higher debt levels than those with inadequate financial literacy. There were no applications for bankruptcy from clients with adequate financial literacy where the debt was less than $10,000. However, eight of the 16 bankruptcy clients with inadequate financial literacy had debts of less than $10,000.

According to the literature, an increasing debt level, in and of itself, does not necessarily indicate financial fragility (for example, La Cava and Simon 2005; Worthington 2006). Financial fragility is more dependent on the inability to service or repay debt. Although the sample size is small, the data indicate quite strongly that the average debt level was considerably lower for clients with inadequate financial literacy ($16,700) compared to those with adequate financial literacy ($33,634). Table 1 illustrates the concentration of debt levels at the lower end of the scale among those with inadequate financial literacy. There was no link in the data between income and level of debt.

TABLE 1. **Financial literacy and debt levels**

					(in $000s)			
Debt up to:	**1**	**5**	**10**	**15**	**60**	**100**	**115**	**360**
Clients with inadequate financial literacy: cumulative %	14	38	56	74	92	94	98	100
Clients with adequate financial literacy: cumulative %	7	14	36	57	79	93	100	100

Source: Anglicare Gippsland, selected individual case files, 2001–04.

TABLE 2. **Financial literacy and household type**

Household type	Percentage with inadequate financial literacy
Couple without children (8 households)	63
Couple with children (19 households)	74
One parent family (28 households)	75
Other family (2 households)	100
Group household (6 households)	100
Lone household (31 households)	68

Source: Anglicare Gippsland, selected individual case files, 2001–04.

Financial literacy and household type

Each of the case studies could be classified according to household type. Table 2 shows the percentage of clients with inadequate financial literacy for each household type. While 'household type' is a risk factor for financial distress, there is no clear link here between household type and financial literacy. A hypothesis test for differences between proportions did not indicate a significant difference between any pair of household types.

Financial literacy and age

In the sample of case notes, the average age of those with adequate financial literacy was 49 years. For those with inadequate financial literacy, the average age was 39 years. This difference is statistically significant (p-value = 0.003), and remains so even if the seven clients in the risk category 18–24 are removed from the sample. All seven clients in the 18–24 age group were judged to have inadequate financial literacy, which supports the literature (Consumer and Financial Literacy Taskforce 2004). The case files did not include any clients over 70 years. This reflects the fact that there were few clients in this age group who attended Anglicare Gippsland during this time period.

Financial literacy and sex

The difference between the proportion of males (62%) and female (72%) clients with inadequate financial literacy skills is not statistically significant (p-value = 0.24). Although no conclusion can be drawn from a sample this size, it might be expected that a higher proportion of females would exhibit inadequate financial literacy as many of them are single mothers, a recognised risk category. The findings of RPR Consulting (2007) that marginalised women have relatively low levels of financial literacy may also be interpreted in this manner.

While 'household type' is a risk factor for financial distress, there is no clear link here between household type and financial literacy.

Other causes of financial hardship

According to the Consumer and Financial Literacy Taskforce, a wealth of information exists to help Australian consumers, '[H]owever, a good proportion of that material is not known, not properly targeted or not used…' (2004, p. xiv). A range of financial literacy education programs are also available, such as the Australian Saver Plus matched savings program (Fry, Mihajilo, Russell and Brooks 2008), and the MoneyMinded program (Russell, Brooks and Nair 2006). A lack of financial skills, however, is not always the reason why people experience financial hardship. According to the literature, factors such as a lack of income, lack of opportunity, low self-esteem, job loss, poor health and relationship breakdown, all contribute to financial hardship (ANZ and AC Nielsen 2005; Pentland 2005; Brotherhood of St Laurence 2004; Consumer and Financial Literacy Taskforce 2004).

Causes of financial hardship: DHS forms

In the initial interview with a client, the financial counsellor identifies, from the list of possibilities shown in Table 3, what they see as the underlying cause of the client's financial difficulty. More than one cause may be selected.

Consistent with the low incomes of most clients, 'income inadequate' is the most commonly selected cause

TABLE 3. **Causes of financial difficulty**

Cause	Instances	Cause	Instances
Income: inadequate	635	Addictive behaviour	21
Over-commitment	358	Gambling issues, self	21
Divorce, separation	128	Death in family	20
Creditor inadequate, non negotiation	121	Reduction Benefit, Pension	18
Health: mental health issues	112	Delay Benefit, Pension	13
Unemployment, retrenchment	101	Child support, maintenance,	13
Illness, accident	91	Motor vehicle accident	13
Housing issues	68	Guarantor, STD liability	12
Domestic, family violence	43	Gambling issues, other	9
Business, farm collapse	31	Discontinued Benefit, Pension	7
Mortgage, rental issues	29	Loss of investments, money	6
Income: irregular	24		

Source: DHS 2001, *DHS Community Care Division, Financial counselling program data collection forms*, Gippsland, 2001–04 for 1,265 clients.

Note: During the study period, Anglicare Gippsland operated a separate financial counselling service for those with gambling problems.

of financial difficulty. This cause is selected where the client indicates that debts cannot be met, or where no other immediate cause can be identified at the initial interview. 'Overcommitment' is only selected in cases of entrenched problems.

Anomalies between DHS data and the case notes

DHS consolidates information from DHS Forms from each region, to provide statewide figures relating to causes of financial difficulty. The accuracy of the statewide figures depends on the accuracy of figures fed in from each region. Taken at face value, Table 3 gives a good indication of the financial issues facing Gippsland clients. It can be a difficult task, however, for financial counsellors to interpret information provided by clients. For example, 'income inadequate' is often cited as a single cause. However, this is often too simplistic. Some clients lack insight into the true causes of their difficulties, or are unwilling to reveal them.

Anomalies between 'cause of financial difficulty' nominated on the DHS form and that revealed by the case notes are listed in Table 4. Discrepancies between the citing of 'Divorce/separation', for example, highlight this problem. Only eight of the 103 selected cases cited this cause at their initial interview. However, a *further* 18 clients subsequently indicated that a relationship breakdown contributed to their financial problems.

Financial literacy and financial counsellors

In over 80% of cases, the outcome for clients seeking financial assistance from Anglicare Gippsland included the provision of basic financial literacy training. This illustrates the important role financial counsellors play in providing financial literacy skills. As Balatti (2007) points out, '[E]xercising financial literacy in real life situations requires interactions with people in networks' (p. 7). Pentland (2005) argues that financial counsellors are best placed to provide this interaction as they are 'aware of the cultural constructs which support low income and disadvantaged people' (p. 8). In 64% of the cases analysed in detail, Anglicare Gippsland counsellors liaised with relevant networks to assist clients to achieve appropriate outcomes. This supports the findings of the Review of Government Funded Financial Counselling Services (State Services Authority 2008) that many clients indicated that as a result of dealing with financial counsellors 'they had developed skills and knowledge that would allow them to manage longer term financial adjustment and stability' (p. 12). The review also reported that, according to financial counsellors, 'clients who return to the service … often present with smaller scale financial issues' (p. 13).

Further research

This paper focuses on the nature and causes of financial difficulty of those clients presenting at Anglicare Gippsland, with particular emphasis on financial hardship and financial literacy. In doing so, it exposes a deficiency in the way in which DHS data is collected. Exploration of the ways in which data collection could be improved is an avenue for further research. The paper also highlights the importance of the provision of financial literacy education by financial counselling services. An evaluation of the way in which financial counsellors provide financial education and whether or not they are reaching those suffering financial hardship across all age groups is an important next step.

Conclusions

The paper examines the relationship between financial literacy and financial hardship using Anglicare Gippsland's Financial Counselling Service as a case study. All clients presenting for financial counselling face some degree of financial hardship. The demographic profile of clients was compared with the profile described in the literature for clients with financial hardship and for inadequate financial literacy. The case study supports findings in the literature that one-parent families are more likely to suffer financial hardship, as are those living in rented accommodation.

More than two-thirds of the sample was female, yet 'female' is not identified in the literature as a risk factor for *financial hardship*. In our study, the prevalence of women in one-parent families (a risk factor) leads to a correlation between being female and *financial hardship*.

TABLE 4. **Anomalies between citations in DHS forms and case notes**

Cause	Cited on DHS forms	Cited in case notes but not on DHS forms
Divorce/separation	8	18
Mental health	15	6
Gambling	13	2
Illness or accident	8	4
Addictive behaviour	5	6
Domestic/family violence	3	1

Source: DHS 2001, *DHS Community Care Division, Financial counselling program data collection forms*, Gippsland, 2001–04, and Anglicare Victoria Selected individual case files, 2001–04.

Individuals on low incomes and/or with no earned income were at greater risk of having financial hardship and financial literacy difficulties. The age profile of the sample did not include sufficient numbers in the age groups at high risk of inadequate financial literacy to allow any conclusion to be drawn.

A sample of case notes was examined to determine if there was a clear link between financial literacy and risk factors for financial hardship: debt, household type, age and sex. Those with inadequate financial literacy tended to have lower levels of debt. A possible interpretation of this finding is that those with a higher level of financial literacy are better equipped to cope with moderate levels of debt. From the sample examined, no link between debt and income levels was apparent. Financial literacy and household type were also unrelated.

Although factors such as inadequate income play a key role, inadequate financial literacy does contribute to financial hardship. Appropriately targeted financial literacy education can alleviate financial hardship. However, this relies on accurate identification of the causes of financial hardship. An examination of the case notes highlights discrepancies between the reliability of 'causes of financial difficulty' as noted on DHS forms and actual causes as indicated in the case notes. This has implications for policy makers who rely on aggregated data for planning purposes. It also highlights the important role played by financial counsellors in providing appropriately targeted financial advice and education.

Although factors such as inadequate income play a key role, inadequate financial literacy does contribute to financial hardship. Appropriately targeted financial literacy education can alleviate financial hardship. However, this relies on accurate identification of the causes of financial hardship.

Note

1 Data used in this paper was obtained as part of a project 'An exploration of the causes and nature of financial constraint in Gippsland', 2006, undertaken by the authors. The funding for this project was approved by the Victorian Minister for Consumer Affairs from the Consumer Credit Fund. The authors would also like to acknowledge the reviewers for their helpful comments on the paper.

References

Allen Consulting Group 2008, *Review of the provision of financial counselling services*, internal document commissioned by the Victorian Department of Justice, not publicly available.

ANZ 2008, *ANZ survey of adult financial literacy in Australia*, October.

ANZ and ACNielsen 2005, *ANZ survey of adult financial literacy in Australia*, November.

ANZ and ACNielsen 2005, *Adult financial literacy, personal debt and financial difficulty in Australia, summary report.*

Australian Bureau of Statistics (ABS) 2004, 1370.0 *Measures of Australia's Progress 2004*, www.abs.gov.au

Australian Bureau of Statistics (ABS) 2001, *2001 Census, Basic community profile, Gippsland.*

Balatti, J. 2007, 'Financial literacy and social networks – what's the connection?', presentation at the ALA National Conference, Cairns, November.

Brotherhood of St Laurence 2004, 'Response to Australian consumers and money', a discussion paper by the Consumer and Financial Literacy Taskforce.

Coben, D., Dawes, M. and Lee, N. 2005, *Research report: financial literacy education and skills for life*, National Research and Development Centre for Adult Literacy and Numeracy, Institute of Education, University of London.

Consumer and Financial Literacy Taskforce 2004, 'Australian consumers and money', a discussion paper by the Consumer and Financial Literacy Taskforce, Commonwealth of Australia.

Department of Human Services (DHS) 2001, *Department of Human Services Victoria community care division: financial counselling program data collection forms.*

Financial Literacy Foundation 2007, *Financial literacy: Australians understanding money*, Commonwealth of Australia.

Fry, T., Mihajilo, S., Russell, R. and Brooks, R. 2008, 'The factors influencing saving in a matched savings program: goals, knowledge of payment instruments, and other behaviour', *Journal of Family and Economic Issues*, vol. 29, iss. 2, pp. 234–250.

Hartley, R. and Horne, J. 2006, *Social and economic benefits of improved adult literacy: towards a better understanding*, Australian Council for Adult Literacy, National Centre for Vocational Educational Research.

La Cava, G. and Simon, J. 2005, 'Household debt and financial constraints in Australia', *The Australian Economic Review*, vol. 38, no. 1, pp. 40–60.

Noctor, M., Stoney, S. and Stradling, R. 1992, *Financial literacy: a discussion of concepts and competences of financial literacy and opportunities for its introduction into young people's learning*, report prepared for the National Westminster Bank, National Foundation for Education Research, London.

Pentland, J. 2006, 'Can financial counsellors add value to financial literacy initiatives?', Financial literacy, banking and identity conference, *RMIT, 25–26 October.*

Pentland, J. 2005, '*Financial literacy: part of an answer, not the answer*', presentation to the Financial Counsellors Association of Western Australia Conference, Perth, October.

RPR Consulting 2007, *Financial literacy among marginalised women*, Australian Government Office for Women.

Russell, R., Brooks, R. and Nair, A., 2006, 'Evaluating a financial literacy program: the case of the Australian MoneyMinded program', *Proceedings of the financial literacy, banking and identity conference, RMIT University, October 25–26.*

State Services Authority 2008, *Review of government-funded financial counselling services: final report*, State Government of Victoria.

Worthington, A. 2006, 'Debt as a source of financial stress in Australian households', *International Journal of Consumer Studies*, vol. 30, no. 1, pp. 2–5.