

**Response to the inquiry into the extent and nature of poverty in Australia**

**About Way Forward**

Way Forward is an Australian debt relief charity that supports people in financial difficulty. We are currently working with over 1,000 people in the negotiation and management of repayment plans on behalf of our clients. Our purpose is to assist our clients out of hardship and help them to regain control of their finances.

We work alongside our clients until their debts are cleared, offering a specialised service using a case manager to provide one-on-one support by:

1. Establishing a workable budget
2. Negotiating affordable arrangements with creditors
3. Facilitating debt repayments – clients make one repayment to Way Forward that we then disburse to all their lenders

**Who Way Forward represents:**

- Way Forward’s clients are best identified as being part of middle-income Australia
- Our clients are located across all states and territories
- 35% of our clients are aged between 25–39 and 49% between 40–55

**GRAPH 1: Where our clients are located**



The median income (by quartile) of Way Forward’s clients represents a broad spectrum of middle-income Australia.

<i>Client by income quartile</i>	0-25%	25-50%	50-75%	75-100%
<i>Median gross income pa</i>	\$47,676	\$78,624	\$112,632	\$178,788
<i>\$ Debt at first discussion</i>	\$34,524	\$49,324	\$54,362	\$64,858
<i># debts</i>	4.5	5	5.3	5.4
<i># creditors</i>	3.5	4	4.1	4

Our clients are best described as:

- Overwhelmed by trying to co-ordinate different payment dates and amounts
- Overwhelmed by dealing with multiple creditors and the resultant volume of phone calls
- Struggling to repeatedly articulate their situation to creditors
- Lacking the ability to negotiate with multiple creditors and to develop a holistic solution that will strengthen their whole financial situation and not just service an individual debt.

### **Our observations as to the nature and extent of poverty in relation to financial hardship**

Way Forward supports people in the 'middle-income' bracket who do not have the capacity to meet their debt repayments and, as a result, are experiencing financial hardship.

Our clients generally fall into one of four categories that have led to their financial hardship: financially overcommitting; reduced income or underemployment; illness or disability; and separation or divorce.

Way Forward has been operating for 6 years. Over this time, we have observed the following trends in relation to people we support:

1. Anyone is at risk, regardless of their income
2. Shame and embarrassment are two of the biggest barriers to seeking help
3. Unmanageable debt and poor mental health are connected
4. The buffer between realising there is a problem and needing external help is rapidly decreasing

For the purpose of this submission, we have drawn upon this broad [definition of poverty](#), which describes a lack of means to live and the experience of existing in a state of deprivation. For people experiencing poverty, their standard of living falls far below a minimum acceptable standard.

It is important to recognise that people who have income can still experience financial hardship. Financial hardship means that a person is unable to meet their expenses and debt repayments with their current income. If this continues for a long period of time, a person is at risk of falling into poverty. *Therefore, prolonged financial hardship is a precursor to poverty.*

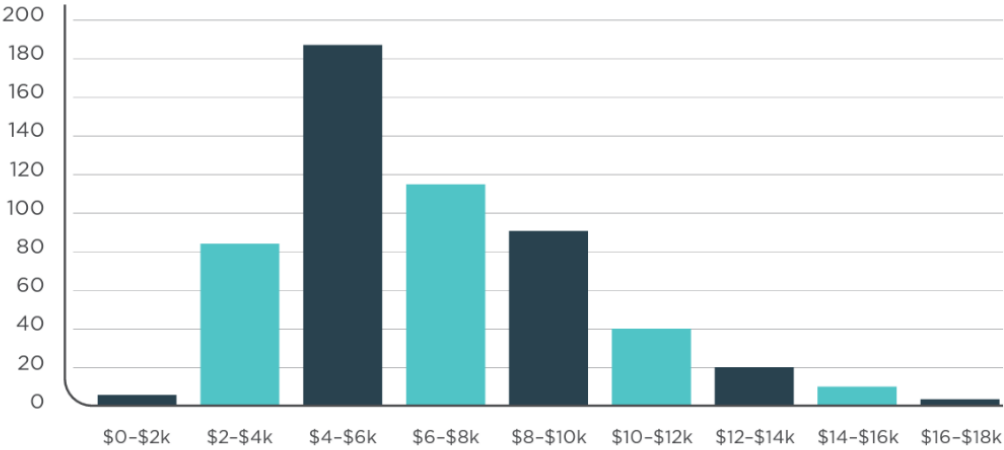
Preventing people who are risk of falling from financial hardship into poverty, requires an approach that considers the unique and individual circumstances that people face in different areas of Australia. These challenges include: a lack of employment and educational opportunities in some regional areas, low housing availability and the comparatively high cost of living in cities like Sydney. Overall, [there is an affordability crisis across the county that is caused by a range of factors](#), which continues to drive people into hardship.

**Trends in relation to financial hardship**

**1. Anyone is at risk of hardship, regardless of income**

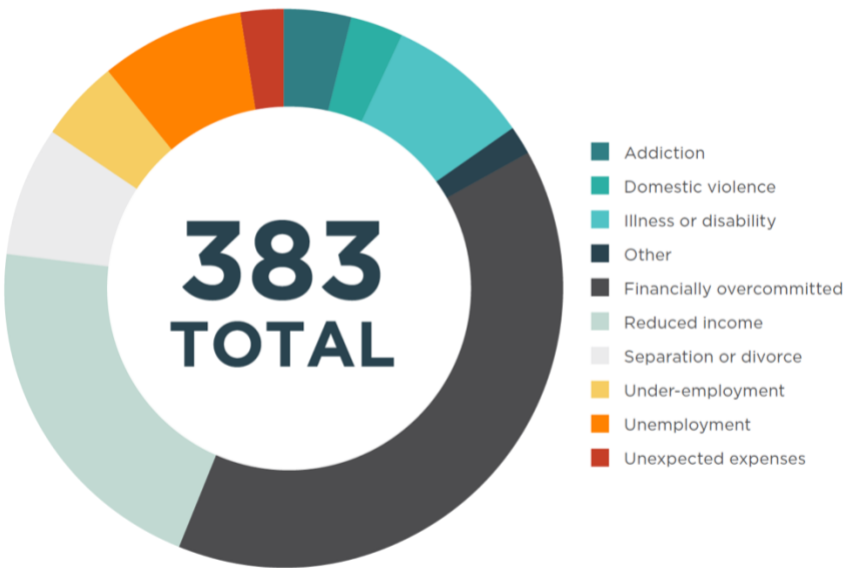
Way Forward’s client cohort earn an annual income (\$77,000 per year in 2022) that is higher than the national average ([\\$65,000 per year in 2022](#)). This shows that regardless of income, anyone can be at risk of financial hardship.

**GRAPH 2: Distribution of average monthly income**



There are a multitude of factors that can impact a person’s ability to repay their debts. We have found that the reasons for hardship are varied, with the most common being ‘overcommitted’. Further, the number of people seeking our assistance who are ‘overcommitted’ has increased markedly over the last 2 years, accounting for 2 out of 3 people in 2022, compared to 1 in 4 in 2020.

**GRAPH 3: Reasons for Hardship 2021/22**



## 2. Shame and embarrassment are two of the biggest barriers to seeking help

Many of our clients have previously not sought help from external organisations such as financial counsellors or support services like Way Forward because they assume:

- a) their income is too high to receive any further support
- b) they are too ashamed to talk to anyone about their problems
- c) they think they can afford the repayments but can't.

The reason for this lies in the demographic we represent – people who typically wouldn't (or as they perceive 'shouldn't') be in unmanageable debt. [Documented in case studies we have collected and published](#), our clients shared their feelings of shame and embarrassment at being in a situation they can no longer manage without external support. Some clients identified the societal perception that someone on a decent income should earn enough to service their debts as a barrier to initially seeking assistance. This prolonged the time between needing help and acting, which typically compounded their problem. As we have seen in all cases, the ability of our clients to pay off their debts is not determined by their income entirely, but by a range of factors including: the size of their debt, the amount of interest owed, and their cost-of-living pressures.

*“There is a lot of shame that comes from being in this situation, you feel like you are not good enough because I am in debt.” - Way Forward client, Amanda*

*“It wasn't something that we wanted to talk about either, because it feels like failure on your part. It goes beyond embarrassment.” Way Forward clients, Chris and Heather*

*“In the beginning, I wanted to manage it on my own because it was quite embarrassing for me. Although I would make debt payment plans, I always knew I wasn't going to be able to afford the payments.” Way Forward client, Annika*

## 3. Unmanageable debt and poor mental health are connected

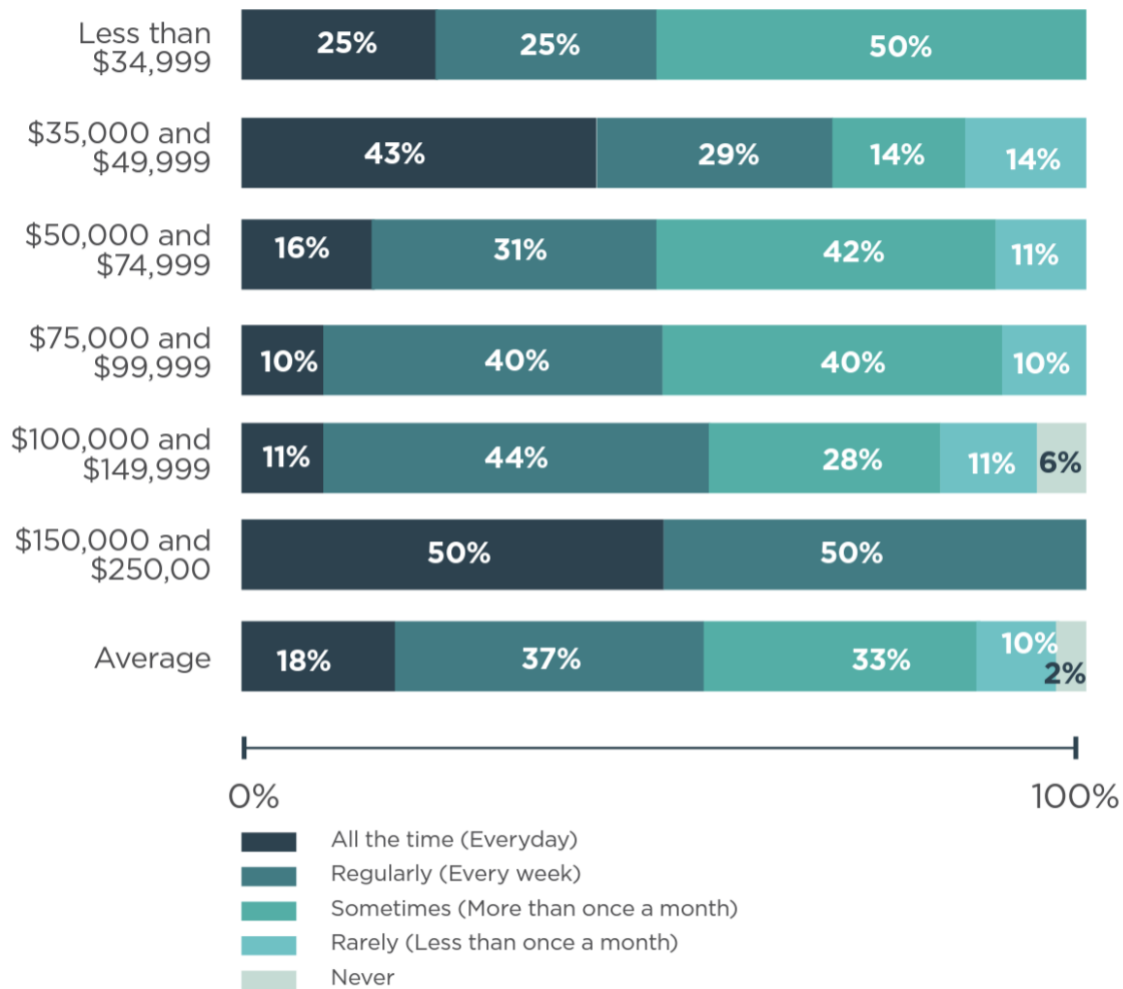
[The findings of our 2020 report](#) identified a correlation between poor mental health and complex debt, insufficient savings and financial vulnerability, regardless of income.

Having a manageable plan to get out of debt can provide the hope to press forward despite the challenges of worry and impact on a person's mental health.

People in financial difficulty are more likely to suffer from poor mental health due to their difficult financial situation. As such, debt in all its forms, be it credit cards, payday loans or BNPL repayments, has the potential to create worse outcomes for the person's mental health.

We advocate that lenders implement a holistic approach to customer support, which includes offering tailored solutions and identifying at-risk customers. Further, caring for these customers means providing access to efficient but compassionate customer service channels. This could mean referring people to free services like a financial counsellor or Way Forward before their financial problem becomes a crisis. Early intervention can support someone who is at-risk of financial hardship and likely experiencing emotional distress as a result.

GRAPH 4: Way Forward client survey – income and impact on mental health



**4. The buffer between realising there is a problem and needing external help is decreasing**

Over the last 2 years, we have observed an overall decrease in the total amount of unsecured debt that a person seeking assistance from Way Forward holds. The average debt people have when coming to us has reduced from \$43,347 in December 2020 to \$29,660 in December 2022. However, this decrease in the total amount of debt has not been offset the number of people who are struggling to make ends meet. We have seen a 58% increase in the number of clients between 2020/21 and 2021/22.

Increasingly, we are seeing a larger number of people who we support being squeezed by the rising cost of living and interest rates pressures. Their financial situations have deteriorated *simply because they are overcommitted, regardless of the amount of debt they owe*. This means that what was once a manageable situation has now become unaffordable.

Prior to approaching Way Forward, some of our clients end up in a desperate state, having tried to manage their situation on their own. Being unable to increase their income and reduce expenses significantly and without some form of intervention, they end up in crisis. Our observation is that financial pressures deteriorate the quality of almost all aspects of a person’s life: their relationships, employment, and mental health.

**Further information**

To explain this in greater detail, we have developed a matrix to describe the categories of risk.

For those who are experiencing hardship, their financial situation can improve only if they are willing to seek assistance. This might mean overcoming both shame and embarrassment before seeking help.

When grouping Way Forward clients, some of the common traits unique to each group have been highlighted below.

On the edge	One the edge – trouble coming	Tipping point 1 – In Trouble	Tipping point 2 – Ready to seek help	No income, no prospects
<ul style="list-style-type: none"> <li>• Doing ok but one small mishap can push them over</li> <li>• Not willing to change lifestyle or spending habits</li> <li>• May not be aware of closeness to financial hardship</li> <li>• ‘She’ll be right’ approach</li> </ul>	<ul style="list-style-type: none"> <li>• Too embarrassed to admit to others</li> <li>• Can see it coming but might not be able to stop it</li> <li>• Mental health impeding decision-making</li> <li>• Too embarrassed to ask for help</li> </ul>	<ul style="list-style-type: none"> <li>• Financial stress impacting mental health and family</li> <li>• Relationships impacted</li> <li>• Distractions and complications</li> <li>• Stress manifests in multiple ways, i.e., violence or addiction</li> </ul>	<ul style="list-style-type: none"> <li>• Realise they need external assistance and start looking for it</li> <li>• Unable to meet basic living expenses</li> <li>• Access to credit limited to high-risk lenders</li> <li>• Prepared to make changes but need support in understanding what the options might be</li> </ul>	<p>Way Forward is unable to support this profile of client and thus unable to provide insights</p>