Social Policy & Parliamentary Unit
Working for the eradication of poverty in New Zealand
Te Ope Whakaora

THE STRUGGLE IS REAL: A snapshot of financial hardship post-Covid-19

BY RONJI TANIELU, SOCIAL POLICY ANALYST

People are catching flights, rugby stadiums are full and public gatherings and festivals are all happening again. Things seem to be coming back to some form of normal in post-Covid-19 Aotearoa. This is reassuring, given the ongoing impact of the pandemic around the world. In this context, The Salvation Army believes it is crucial to keep monitoring the levels of hardship in our communities, particularly for poorer and potentially vulnerable New Zealanders.

In 2020, The Salvation Army released six Covid-19 Social Impact Dashboards that tracked the impacts of Covid-19 and lockdowns on housing, food security, addictions, income support and employment and financial hardship. These Dashboards also focussed on telling the stories of the real-time effects of Covid-19 on the poorer and those often marginalised in our societies. This intentional focus is central to the mission of The Salvation Army to **care for people, transform lives and reform society by God's power**.

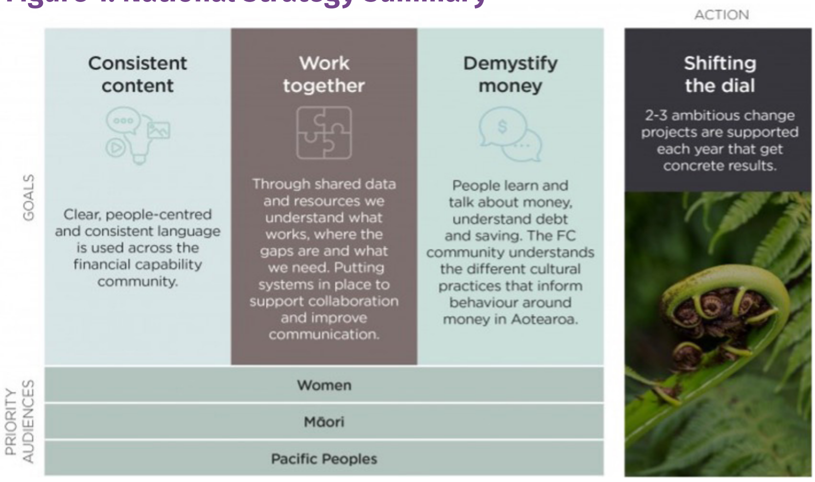
This short advocacy paper picks up on the work of these Dashboards to give a brief snapshot of financial hardship in Aotearoa, looking at specific public and Salvation Army data. The purposes of this paper are to highlight key areas of financial hardship and talk about policy ideas and recommendations that we believe could help alleviate, and maybe even prevent, financial hardship for New Zealanders. This is a snapshot as we see things in mid-2021, focussed on key indicators of financial hardship. But this paper is also part of a wider movement of advocacy, research, frontline work, high-level strategy and public discourse on money, debt, lending and financial hardship that has been strongly moving forward in recent years.

This focus and energy on the usefulness and issues connected with money, debt, hardship and lending is encouraging. This recalls the ancient biblical proverb from Ecclesiastes 7:11,12 (NIV), *'Wisdom, like an inheritance, is a good thing and benefits those who see the sun. Wisdom is a shelter as money is a shelter, but the advantage of knowledge is this: Wisdom preserves those who have it'*. Money can act as a shelter, safety-net and enabler for all of us. But, as this biblical proverb highlights, we *all* need wisdom and knowledge in how we handle money. The challenge for those on lower and/or fixed incomes is that they have less money (compared with those with more money/income/wealth) and, therefore, have smaller financial buffers in their lives in which to cope with the realities and challenges of life. Consequently, these people and whānau have less *shelter*, stability or protection when financial shocks come. This financial knowledge and wisdom for all New Zealanders is, therefore, vital.

CONTEXT: What's happening in the wider building financial capability (BFC) sector?

There is a lot of energy and work currently taking place in the BFC sector. In April 2021, the Commission for Financial Capability (CFFC) released the *National Strategy for Financial Capability: 2021–2024*.[1] This strategy has three key goals: consistent content, work together and demystifying money. It also has three priority audiences: Māori, Pacific Peoples and Women.[2]

Figure 1: National Strategy Summary[3]



FinCap continues to forge ahead in its support of the over 200 budgeting and financial mentoring services around the country, with a revamped Client Voices data management system, the Money Talks helpline, mentor training and ongoing public advocacy. Other parts of the sector continue their advocacy and frontline support, advice and products. These include Ngā Tāngata Microfinance Ltd, Christians Against Poverty, DebtFix and Good Shepherd, to name a few. In the public sector, there seems to be a new or renewed focus on the BFC sector.

Various government departments have funding arrangements with community organisations for different BFC-related services. In Budget 2020, the Ministry of Social Development (MSD) released $25.2 million of new funding in relation to Covid-19 for two years to support budgeting and financial mentoring services working with New Zealanders impacted by Covid-19. This was effectively a doubling of funding for these services. Budget 2021 was much lighter on funding and support for these services. Finally, other key players in the BFC sector also have a positive focus on financial hardship: the four Financial Dispute Resolution schemes continue their work in supporting people with complaints; the actions from the Electricity Price Review continue to roll out;[4] and corporate bodies—like banks, insurance and power companies—also have specific programmes around financial hardship. The activity in this BFC sector is constant and seemingly increasing.

NUMBERS: What are the numbers telling us?

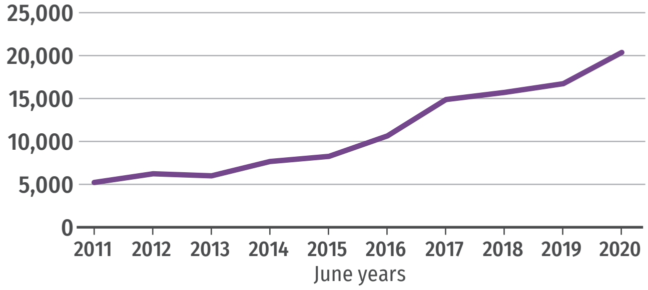
With this context in mind, we turn to some of the indicators or data that The Salvation Army has tracked in recent years, to get a brief snapshot of what financial hardship looks like one year after Covid-19 and the national lockdowns were in place.

KiwiSaver hardship withdrawals

An indicator we monitored in our six Dashboards was the number of KiwiSaver hardship withdrawals during 2020. These figures helped inform how many people were tapping into their KiwiSaver savings because of financial hardship reasons. According to Inland Revenue Department (IRD), the standard for significant financial hardship includes people who cannot meet minimum living expenses; cannot pay the mortgage on the home they live in, and their mortgage provider is seeking to enforce the mortgage; need to modify their home to meet special needs or those of a dependent family member; need to pay for medical treatment for themselves or a dependent family member; have a serious illness; or, need to pay funeral costs of a dependent family member.[5] Clearly, the reasons are broad for when people can draw down these savings funds.

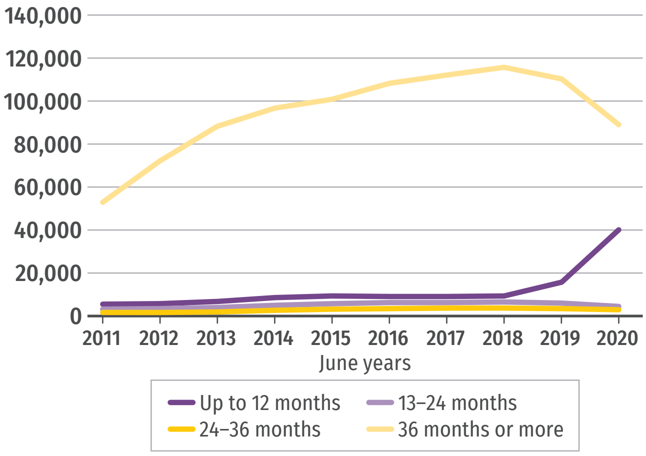
Figure 2 shows the number of KiwiSaver fund withdrawals for Financial Hardship from 2011 to 2020. This graph captures some of the impact of Covid-19 for New Zealanders.[6] The number of fund withdrawals has increased by a whopping 290% between 2011 and 2020. Between June 2019 and June 2020, the number of withdrawals for financial hardship increased by 22%, indicating some of the impacts of Covid-19 in that one-year period. By June 2020, the total amount of funds withdrawn came to $126,296,915.[7] This data is a good gauge of the growing financial hardship for many New Zealanders over the last decade.

Figure 2: Number of KiwiSaver fund withdrawals for financial hardship—2011–2020



Another potential indicator of this growing financial hardship, particularly in recent years, is the number of people putting temporary suspensions on contributions to their KiwiSaver funds. All employees who have contributed and been a member for 12 months or more can apply for a savings suspension for 3 months to 1 year. Savings suspensions are illustrated in **Figure 3**. Suspensions of 36 months or more, consistently make up most payment suspensions. But these dropped by 19% between 2019 and 2020 after changes to the suspension rules were made. At the same time, suspensions for up to 12 months have increased steadily since 2018, and surged between 2019 and 2020. This indicates that more New Zealanders are opting for shorter suspensions to their KiwiSaver payment contributions.

Figure 3: Number of saving suspensions by duration—2011–2020



In recent months, the public debate about KiwiSaver and financial hardship has heated up. The Salvation Army has gone on record to state our concern about the increasing numbers of people tapping into their KiwiSaver funds, effectively trading off their future retirement or first-home funds for the immediate need and hardship they are facing.[8] But for many New Zealanders who struggle to make ends meet, their KiwiSaver is their last resort to draw down savings for the immediate hardship.

In May 2021, economist Rosie Gallen looked at the gaps in the KiwiSaver policy, particularly for poorer Kiwi.[9] Gallen argued that the design of the policy is better suited for top and middle earners and is not working for poorer Kiwi living week to week. Gallen also posed some innovative adjustments to the policy, including deterring withdrawals for hardship, making the first $6000 of a KiwiSaver account accessible twice a year to those on low income or benefits for financial hardship and a new government contribution for benefit recipients. Additionally, other mechanisms, such as mandatory engagement with financial mentors before a hardship withdrawal is made, or having a financial mentor work alongside any payment suspension application, could also help support those facing financial hardship.

The Salvation Army affirms that changes are needed to the KiwiSaver policy, because the one-size-fits-all approach of the current scheme seems not to be working for those facing financial hardship. Exploring the ideas of Gallen and others around modifying KiwiSaver is crucial in order to move forward and ensure the policy is working for all New Zealanders.

FROM THE FRONTLINES

• Salvation Army budgeters and financial mentors report they only support hardship withdrawals as a last resort for clients. They've seen clients make the withdrawal to stop having their car repossessed, or being evicted.

Attachment orders

In 2019, The Salvation Army released a discussion paper titled 'Debt Collection and Repossession in Aotearoa'.[10] A key argument raised in this paper was that the civil debt recovery process through the Courts, particularly for debtors facing financial hardship, can be just as stressful as debt recovery through debt collection and other debt recovery measures. In New Zealand, debt repayment can be enforced through the Disputes Tribunal (if debts are less than $15,000), District Court (debts less than $350,000) or the High Court (debts $350,000 or more).

Within these Court processes, there are financial assessment hearings to determine the debtor's ability to repay this debt. Following that, an attachment order can be made which is a court order to make deductions from the debtor's income for the civil debt repayment. The central element that is not well known by many New Zealanders is that attachment orders can be made against the welfare benefit payment of a beneficiary, or on the incomes of other lower, fixed-income earners. In fact, **Figure 4** shows that attachment orders are predominantly taken out against beneficiaries. It is important to note that the figures below detail the numbers of attachment orders (and their variations) issued in these years. We do not have the data detailing the number of *active* attachment orders in place during these years. Therefore, the total number of attachment orders per year, those already active and new ones imposed, is likely to be significantly higher.

Figure 4: Attachment orders—people receiving benefits and wages—2018–2020

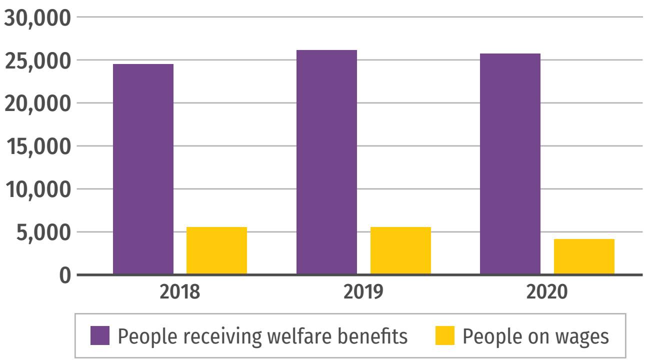


Figure 4 shows that most attachment orders being made by Courts is on people with fixed and low incomes through government benefit payments.[11] In 2020, only 14% of attachment orders were placed on people receiving wages, leaving a massive 86% of attachment orders being imposed on beneficiaries. This has been the pattern for attachment orders for the last three years. It is fair to assume that those receiving wages are likely to be in better positions to repay this civil debt compared with people receiving a benefit as their main source of income.

It is worth noting that between 2019 and 2020, there were slight declines in attachment orders imposed on both beneficiaries and wage earners. But these were minimal declines. This indicates that despite the increased financial hardship for many New Zealanders during 2020 because of Covid-19, especially for beneficiaries, Courts stayed busy in imposing these attachment orders on New Zealanders, particularly on beneficiaries. As of 4 June 2021, the Ministry of Justice (MOJ) reported that 12,344 attachment orders had been issued. A massive 85% of these orders (10,569) were imposed on beneficiaries. It seems the trends for attachment orders from 2018–2020 are continuing in 2021.

The Salvation Army believes it is unacceptable that such a large proportion of attachment orders made by the Courts over the last three years are on beneficiaries. We understand that debts should be repaid to ensure our financial system continues to function well. But to be imposing often restrictive and challenging repayment orders on people with low, fixed incomes will likely lead many of these beneficiaries into new or worse debt traps and spirals. This is turn impacts on the wellbeing of these people and whānau. There needs to be urgent changes in this system, particularly for beneficiaries. We propose a policy idea that is proven in Australia and has been implemented to some extent recently in New Zealand—a judgement-proof debtor policy. We discuss this at the end of this paper.

Within the Court rules, there is the ability to suspend, cancel or adjust the payment plan of the attachment order. Either party can apply for these changes, which are free. These variations can come because of changes to the arrangement, but particularly if the debtor is having difficulty repaying the debt or there has been a request for a re-hearing.

Table 1 breaks down the variations to attachment orders from 2018–2020. Like the numbers of attachment orders given in this period, the details of the variations to orders have remained constant in this period. The numbers for cancellations and suspensions (both successful and unsuccessful) are very modest. However, the huge number of orders that are varied to some extent from their original form is significant and has been consistent, especially in the last two years. This is not surprising, given most attachment orders are being imposed on beneficiaries who are usually in precarious financial positions already. Data is limited in telling us the reasons for these decisions, the income levels of those applying for and receiving these variations and the amounts of debt in these cases. But again, these numbers have remained constant across all these variation categories for the last three years. The final numbers for 2021 will help confirm if these trends are continuing. As of 4 June 2021, over 6000 attachment orders had been successfully altered.

Table 1: Variations made to attachment orders—2018–2020

	2018	2019	2020
Cancellation successful	218	174	172
Cancellation unsuccessful	78	51	52
Suspension successful	27	29	37
Suspension unsuccessful	27	23	18
Variation successful	13,819	15,300	15,229
Variation unsuccessful	415	350	258

FROM THE FRONTLINES

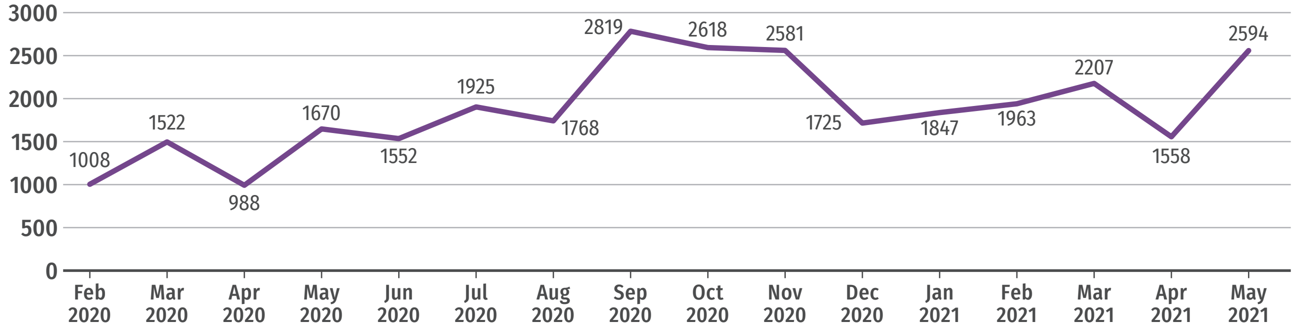
- ***Financial mentors report that in practice many people have no idea about the whole judgement debt and attachment order process until they suddenly have money taken out of their benefit payment, because they have not engaged in the financial assessment process.***
- ***Mentors report cases where clients have multiple attachment orders to the same company; for example, one client with three active attachment orders ($20 each) to one company.***

Money Talks (operated by FinCap)

In our Covid-19 Dashboard series in 2020, we tracked the number of contacts that people were making to different communications channels (phone, email, text) on the Money Talks helpline. This indicator helped illustrate the hardship people were facing as they sought free budgeting advice and were connected to a budgeting or financial mentoring service in their area, or other social supports they might need. **Figure 5** shows the total monthly contacts made to the helpline since February 2020. The surge during the most restrictive lockdown period from March to May 2020 is clear. Contacts spiked significantly in September and decreased during the summer period. However, the most recent data in May 2021 indicates a return to the September to November 2020 levels.

The Money Talks team reports that in May 2021, the three biggest reasons for contacting their services were people seeking budgeting advice/support (34%), issues with a debt or debtor (19%) and people being concerned for the welfare of others (19%). These numbers seem to signal significant increases in those seeking assistance post-Covid-19 lockdowns that have remained steady and consistently higher than pre-Covid-19 (February 2020) numbers.

Figure 5: Total contacts (monthly) to Money Talks—February 2020–May 2021[12]



FROM THE FRONTLINES

- ***The changes to the Credit Contracts and Consumer Finance Act (CCCFA) are helpful. But many people, in reality, don't know their rights under the CCCFA. And people face many barriers in pursuing redress through complaints/resolutions systems, even with the help of a financial mentor.***
- ***There are still many people dealing with old debts that existed before the recent CCCFA changes.***

MOVING FORWARD: What recommendations will impact financial hardship in our communities?

In closing, we present the following policy ideas and recommendations to the relevant government ministers and their departments to help further alleviate and prevent the financial hardship that many Kiwi are facing since Covid-19, especially poorer and vulnerable people and whānau.

KiwiSaver hardship withdrawals

The Salvation Army recommends:

- **Rethinking KiwiSaver.**
  A comprehensive review of KiwiSaver with a particular focus on the impact of the policy for poorer New Zealanders. Some ideas from Rosie Gallen and our own thoughts were listed in the KiwiSaver section of this paper. But an urgent review of KiwiSaver is needed to modify the policy so that poorer New Zealanders can receive support from financial mentors, access funds when facing urgent financial hardship, but also be discouraged from tapping into their savings too early so as not to jeopardise their future wellbeing and stability. We specifically recommend:
  - making it mandatory for all people applying for a KiwiSaver Hardship Withdrawal to engage with a qualified budgeter or financial mentor *before* the withdrawal. This can help ensure the person looks at alternative options before withdrawing, and means a detailed, manageable plan can be developed for the client
  - developing an option that hardship withdrawal payments are paid directly to the creditor for the amount stated in the application to ensure the payment is made directly and completely for the stated hardship.

Attachment orders

The Salvation Army urgently recommends:

- **Implementation of a judgement-proof debtor policy in relation to civil debts.**

  In Victoria, Australia, Section 12 of the Judgment Debt Recovery Act provides that an installment order will not (unless the debtor consents) be made if the income of the judgment debtor is derived solely from a pension, benefit allowance or other regular payment under the Social Security Act 1947 or section 24 of the Children, Youth and Families Act 2005 (Vic).[13] The Victorian policy has some specific criteria, including that the potential judgment-proof debtor cannot own a house or have too many assets. With most attachment orders, this kind of policy will help protect beneficiaries who face these orders from going into deeper debt traps or spirals.

  In June 2021, our own government showed their ability to pass these kinds of impactful laws when the District Court (Protection of Judgment Debtors with Disabilities) Amendment Bill passed the Committee of the Whole House stage in Parliament and is now scheduled for its Third Reading.[14] This Bill amends the District Court Act 2016 to prohibit the seizure of goods from a judgment debtor with a disability where the item proposed to be seized is necessary for the judgment debtor's care, support or independence. The Salvation Army made a written and oral submission (on 15 February 2021) supporting this Bill, but imploring the Select Committee to extend this Bill to beneficiary debtors who are imposed with attachment orders.[15]

  Other specific policy ideas:

  - limiting the amount of attachment orders a debtor/client can have to a single company at any one time
  - if a creditor applies for an attachment order, make it compulsory that the debtor must engage with a financial mentor to ensure a thorough affordability assessment is done, the Court has more information available to them for making a decision, the debtor has support during this complex process and the repayment amounts are manageable and even challenged.

Budgeting and financial mentoring

We've detailed above the growing contacts to the Money Talks helpline for assistance, and some of the realities that our Salvation Army budgeters and financial mentors on the frontlines are facing in the community. In this context, we recommend:

- **Embedding the Covid-19 relief funding** from Budget 2020 into the baseline funding for budgeting and financial mentoring services. These services were already underfunded by central government. The Budget 2020 injection was a doubling of funding for these services. But with the impacts and tail of Covid-19 likely to continue for a while for many New Zealanders, ensuring these services are well-supported and resourced to support clients is vital moving forward.
- **Advocacy issues** have framed lots of work in the BFC sector in recent years. We submit there are still vital issues—such as debt collection, buy now pay later schemes, payment protection insurance and cryptocurrency and similar schemes—that need urgent attention, regulation or investigation. These were not covered in this snapshot. But many in the BFC sector, including The Salvation Army, have consistently recommended further policy action and work in these areas.

ENDNOTES

1 CFFC (2021). *National Strategy for Financial Capability: 2021-2024*. Retrieved from https://cffc.govt.nz/about/national-strategy/

2 Ibid.

3 Ibid.

4 MBIE (2021). *Electricity Price Review*. Retrieved from https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/energy-consultations-and-reviews/electricity-price/

5 IRD (2021). *Getting my KiwiSaver funds for significant financial hardship*. Retrieved from https://www.ird.govt.nz/kiwisaver/kiwisaver-individuals/getting-my-kiwisaver-funds-early/getting-my-kiwisaver-funds-for-significant-financial-hardship

6 Figures developed using IRD datasets. IRD (2021). *Datasets for KiwiSaver statistics*. Retrieved from https://www.ird.govt.nz/about-us/tax-statistics/kiwisaver/datasets

7 Ibid.

8 Retrieved from https://thespinoff.co.nz/money/28-05-2021/heres-why-kiwisaver-is-not-designed-for-the-poor-and-struggling/

9 Rosie Gallen (2021). *Here's why KiwiSaver is not designed for the poor and struggling*. Retrieved from https://thespinoff.co.nz/money/28-05-2021/heres-why-kiwisaver-is-not-designed-for-the-poor-and-struggling/

10 Paper available at https://www.salvationarmy.org.nz/article/debt-collection-and-repossession-aotearoa

11 Figures developed using data from an Official Information Act request from Jake Lilley at FinCap trust. The MOJ response to the request was received on 08 June 2021.

12 Figure provided by FinCap.

13 Justice Connect (2021). *Is the client judgement proof?* Retrieved from https://hlip.justiceconnect.org.au/practice-areas/credit-and-debt/first-steps-to-take/is-the-client-judgment-proof/

14 District Court (Protection of Judgment Debtors with Disabilities) Amendment Bill. Retrieved from https://www.parliament.nz/en/pb/bills-and-laws/bills-proposed-laws/document/BILL_99174/district-court-protection-of-judgment-debtors-with-disabilities

15 Submission available at https://www.salvationarmy.org.nz/article/submission-district-court-protection-judgement-debtors-disabilities-amendment-bill

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Please contact the author at ***social.policy@salvationarmy.org.nz***