Impact of the covid-19 crisis on financial wellbeing in New Zealand

Preliminary data from an international study

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Study of the impact of the covid-19 crisis on financial wellbeing
Questionnaire designed by Prof. Elaine Kempson (University of Bristol, Personal Finance Research Centre)
International comparative study (participating countries include Australia, Norway, UK, Canada and others; data from UK and Norway currently available)
The New Zealand component implemented by the Commission for Financial Capability
New Zealand sample: 3,085 individual responses (online panel, using quotas & weighting to representative of New Zealand's adult population); 2,788 household-level responses
Data collection: 14-28 Apr 2020
Questions are welcome at any point during the presentation – please use the chat. I will stop after each section to read and answer questions.

Widespread loss of income even after accounting for the wage subsidy

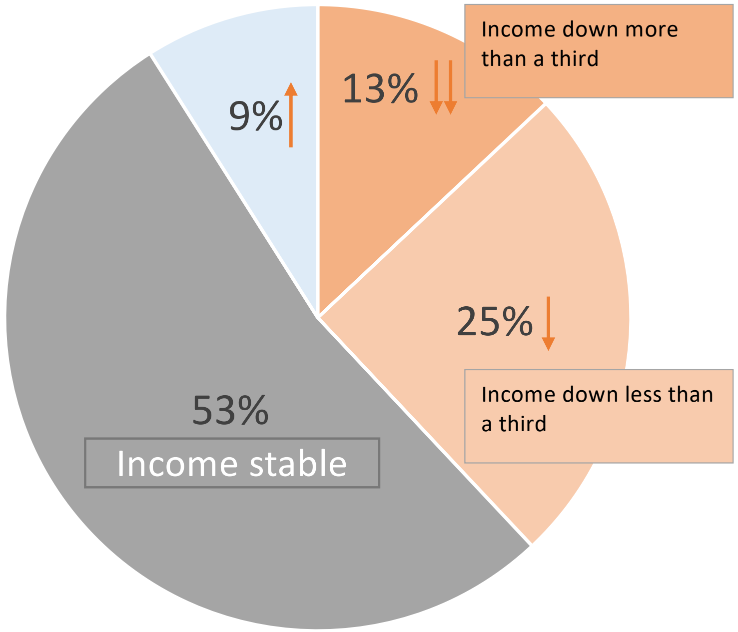
13% of households (*estimated 232,500 households)* had lost either a substantial part (more than one third) or all of their earned income as a consequence of the COVID-19 crisis.

A further 25% of households (*estimated 447,000 households)* have experienced a reduction in income of less than a third.

These losses are after accounting for the wage subsidy (40% of households report that someone in the household is receiving a wage subsidy).

One in four households (26%) reported being in arrears on at least one payment (including consumer loans, utility bills and housing costs).

One in ten households (*estimated 179,000 households*) missed a rent or mortgage payment.



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Change in income does not tell the whole story: high-income households with sufficient savings can weather a financial shock well, less resilient households can experience hardship even if the loss of income is limited or temporary

Using a set of detailed questions about the levels of financial stress experienced and the financial reserves they have to deal with financial shocks, it was possible to segment the New Zealand population into three broad groups:

- 26 per cent (*an estimated 447,000 households*) appeared to be financially secure; they were showing no signs of any financial difficulty and had enough money in savings to meet financial shocks in the future.
- 40 per cent (*equivalent to 715,000 households*) had little financial resilience and were potentially exposed to financial shocks. These households were not in financial difficulty yet but were at risk of financial difficulty in the future if they experience a drop or further drop in income; 40% of these exposed households said they expect a loss of income in the next 3 months.
- 34 per cent (*equivalent to 608,000 households*) were experiencing financial difficulties.

The segmentation of households is based on scores from a principal component analysis of nine survey questions that cover the extent to which households could meet their financial obligations and the resources they had for dealing with an economic shock. Full details of the methodology employed can be found in Kempson, Finney and Poppe (2017), *Financial Well-Being: A Conceptual Model and Preliminary Analysis*, Oslo and Akershus University.

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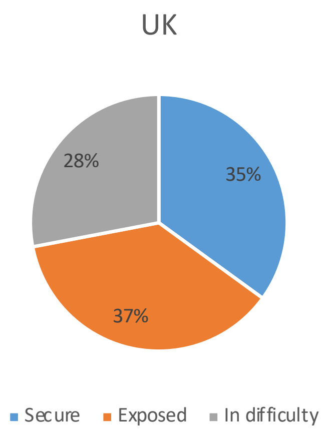
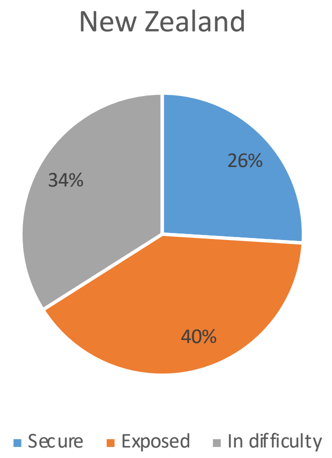
International comparison with countries for which data are available at this time (UK and Norway)

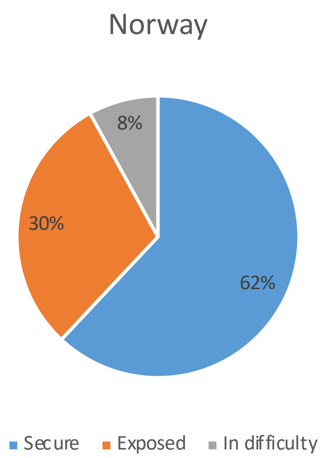
Factors affecting the New Zealand outcome:

- low levels of household savings before the crisis (low financial resilience)
- low social welfare benefits
- tourism and international education provided many jobs and a substantial part of GDP
- high levels of insecure employment*

* Defined as: casual, online platform (Uber), self-employed, temporary contract, labour hire agency







Financially secure households (we will not go into much detail) – 26% of households
They still have jobs: one in four (27 per cent) had lost income as a result of the COVID-19 crisis, but this was mostly due to a fall in earnings rather than job loss or the loss of all self-employed income.
They have savings to tide them over: almost all had more than one month's income in February in savings, and more than half had more than 12 months' income in February in savings • Almost all said they could cope more than 3 months without borrowing if income were to fall by a third or more
All paid bills without any difficulty (99%)
Demographic profile: European, Own house with no mortgage, Aged 50 and over, Couples with no dependent children, Professional, Scientific and Technical Services; Public Administration and Safety; Education and Training; Health care and social assistance; Retirees*
*This is a list of characteristics that are over-represented in this group of households; it does not mean all households in this group have these characteristics

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Households in financial difficulty (34%)

Struggle to pay bills is their defining characteristic

- Almost all of them said that it was a struggle to pay bills and meet other commitments
- More than half (52 per cent) admitted to owing money in missed payments on household bills or credit commitments; 17 per cent are in arrears on rent or mortgage payments; 36 per cent are in arrears on unsecured credit or car finance.

This group was the most affected by job and income losses: 51 per cent of these households reported a drop in income or loss of income; for 23 per cent this drop was substantial (more than one third).

Very few had savings to fall back on: eight in ten (79 per cent) said that they currently had no savings at all to draw on or that the amount they had in savings was the equivalent of less than their household income had been in February.

Borrowing money to get by: half (49 per cent) had borrowed money to buy food and other essentials over the last 4 weeks.

Demographic profile: Māori (22 per cent of this group); Pacific Peoples; Aged 35 to 54; Renting (50 per cent); Single or Single with dependent children; Casual workers and other forms of insecure employment (1 in 5 of these households relied mainly on exclusively on income from insecure employment); Construction; Accommodation and Food services; Transport, Postal and Warehousing; Agriculture, Forestry and Fishing; Other services ; Beneficiaries

Households in financial difficulty (34%) ctnd.

They are pessimistic about the future and feeling anxious, with 48 per cent expecting a further drop in income in the next 3 months.

They are using a range of options to replace income:

- 24 per cent have applied to Work and Income for support since the crisis started, and a further 23 per cent plan to apply in the near future.
- 23 per cent plan to apply for KiwiSaver hardship withdrawal (3 per cent have already applied)
- 14 per cent planned to take out new loans to cover expenses (and 4 per cent have already done so)
- 9 per cent sought advice from budgeting services and 2 per cent called the MoneyTalks helpline
- 30 per cent have contacted their creditors to make new arrangements; 28 per cent of those who contacted their creditors were turned down by at least one of the creditors

Questions for now:
How can we help them access financial guidance in greater numbers?
How can we stop them from using high interest loans?
How can we protect them from eviction after the current protection is over?
How can we help them to negotiate with creditors?
Impact on children/child poverty?
Many worked in industries that are not going to recover soon - how to help them recover their incomes?

Households in financial difficulty (34%) ctnd.

Questions for later:

Many households in New Zealand have no savings – how can we improve the resilience of New Zealand households to financial shocks in the future?
Insecure forms of work seem to be concentrated among ethnic minorities, low-income industries and households with low financial resilience – do we need to review the rules to protect these households better?

Other comments:

For many, their hardship predates the covid-19 crisis so financial difficulty is not new to them - many are familiar with help that is available from WINZ and charities. They are not ashamed to ask for help. Many have developed coping strategies for dealing with financial difficulty. However, this segment also includes some of the "new poor" for whom hardship is recent and who might need a more proactive outreach; ethnic minority households relying on insecure work seem fall in this category.

Households that are exposed (40% - the largest group)
Not facing financial hardship yet but have low level of financial resilience and face potential exposure to financial difficulties in the coming months: average to good earning pre-covid, have mortgages and consumer debt, limited savings
Only half (51 per cent) could cope more than 3 months without borrowing if their income were to fall by a third or more.
Although their finances were not as stretched as the previous two groups, almost half (47 per cent) said that they struggled to pay bills from time to time
Out of those who have a mortgage (43 per cent of households in this group), approximately 1 in 9 (12 per cent) applied for a mortgage holiday (5 per cent of all households in the exposed segment).
Demographics: aged 18-34 years; Couples with children at home; Own house with a mortgage (43 per cent) or renting (32 per cent); Asians (14 per cent of this group); highest employment rate pre-covid (78 per cent employed, self-employed or business owner); Retail trade; Construction; Financial and Insurance services; Administrative and Support services; Arts and recreation services

Households that are exposed (40%) – ctnd.

With 4 in ten (40 per cent) anticipating loss of some or all income in the next three months, it is estimated that up to one in 4 (*25 per cent, 179,000 households*) from this group could slide into financial difficulty in the next few months.

- 27 per cent have already lost less than one third of their income due to the covid crisis and a further 9 per cent lost more than one third of their income.
- 31 per cent already dipped into their savings in the last 4 weeks to make ends meet

Wage subsidy is reaching them; this segment reports the highest utilisation of wage subsidy (46 per cent of households). *What happens after the wage subsidy runs out?*

First signs of hardship: 1 in 5 (19 per cent) are in arrears on at least one bill or financial commitment
13 per cent have contacted creditors, with better outcomes than the previous segment
10 percent plan to apply for KiwiSaver hardship withdrawal and 3 per cent already applied
8 per cent applied to WINZ for help
Not many utilise free financial guidance (shame / lack of familiarity with what is available?)

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Households that are exposed (40%) – ctnd.

Questions for now:

What after the wage subsidy?

“New poor” not used to asking for help – how to proactively reach out to them with guidance? E.g. can we require all who apply for a mortgage holiday to get in touch with budgeting / financial mentoring services?

How to help them get rid of the financial commitments they can no longer uphold and lower their consumption which was often high pre-covid?

Conditions of receiving welfare benefits exclude many of them (household income, assets) yet many start struggling – do we need to review who is eligible for help?

Questions for later:

Young and upwardly mobile pre-covid – the crisis can cripple their whole financial plan for life – how do we help them bounce back?

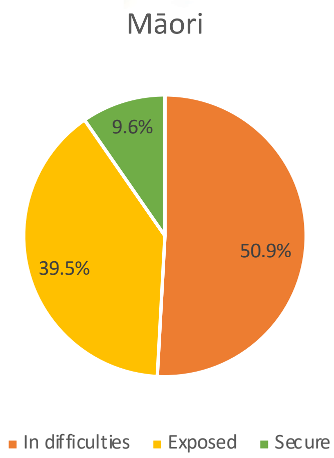
What happens to their retirement, especially if they withdraw their KiwiSaver?

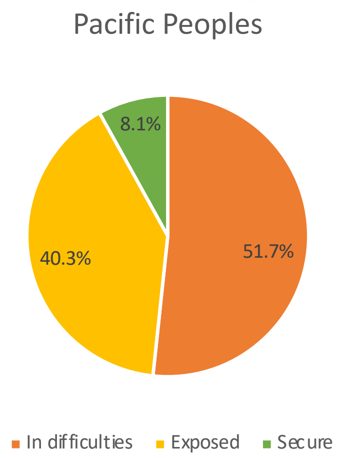
What will happen to this group will play a defining role for post-covid New Zealand.

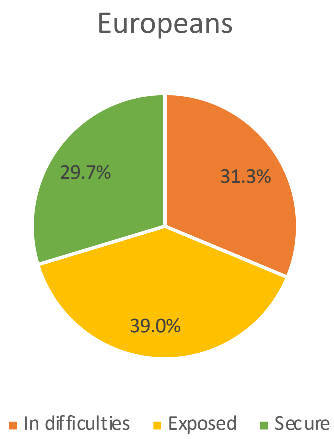
Segment	In difficulty	Exposed	Secure
Defining characteristic	Struggling to pay bills	Low savings, high commitments	High savings, secure incomes
Predominant housing type	Renting	Own with mortgage	Own with no mortgage
Predominant family type	Single, single with dependent child(ren)	Couple with dependent child(ren)	Couple with no dependent children
Connection to labour market pre-crisis	Weak – high percentage of beneficiaries, stay at home parents and casual/ insecure workers	Strong – high levels of employment	Medium (because of high percentage of retired people in this group; for those aged less than 65, high levels of employment)
Overrepresented industries worked in before crisis	Construction Accommodation and Food services Transport, Postal and Warehousing Agriculture, Forestry and Fishing Other services	Retail trade Construction Financial and Insurance services Administrative and Support services Arts and recreation services Media/IT	Professional, Scientific and Technical Services Public Administration and Safety Education and Training Health care and social assistance

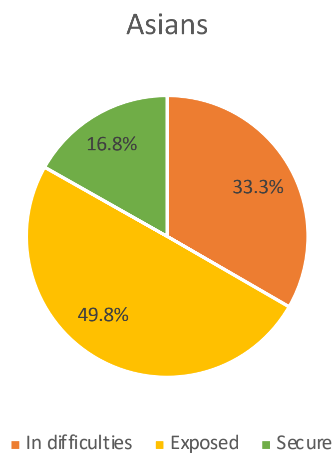
Māori and Pacific Peoples worst affected

- Many in hardship before the crisis
- Low savings and low incomes
- Low home ownership
- High prevalence of insecure work
- Young population
- Turning to borrowing money at high interest rates to make ends meet puts these households at risk of further worsening their situation.
- One in 5 have missed a credit card repayment, and 7% of Māori and 5% of Pacific Peoples households reported that they owe money due to missed payments on a payday lender loan.









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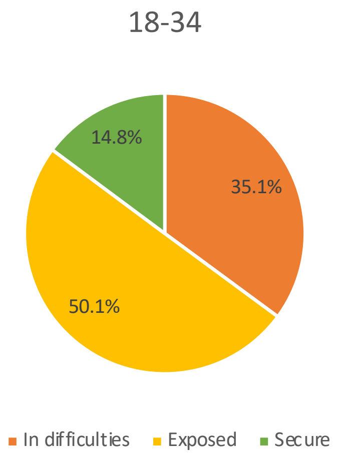
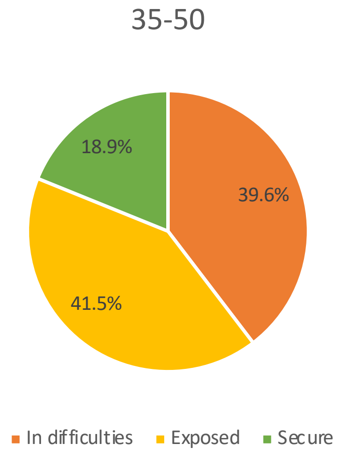
Young people most exposed, least secure

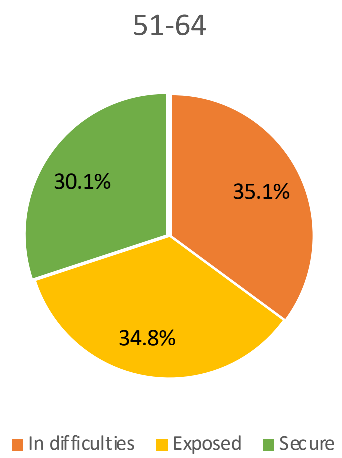
- At risk of sliding into hardship
- Likely to have insecure work in most affected industries

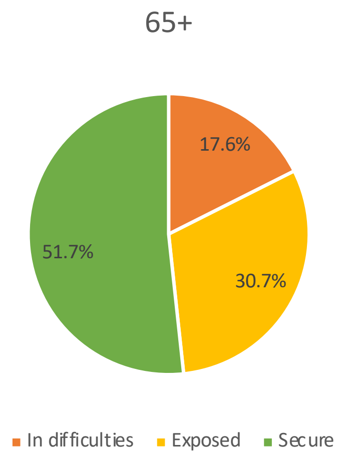
- 35-50 age group have a higher % of secure households but also higher % of households in difficulty

- 65+ best off
  - NZ Super
  - High mortgage-free home ownership









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Housing is correlated with financial wellbeing at all ages

However, in the pre-retirement group (51-64) the gap in financial wellbeing between owners and renters is the widest

Housing tenure	I live in my own home with a mortgage	I live in my own home without a mortgage/freehold	I live in a rented home/flat
In difficulties	32.1%	12.1%	50.8%
Exposed	48.4%	30.4%	37.9%
Secure	19.6%	57.5%	11.4%

Age and housing tenure	Age 51-64 own home with a mortgage	Age 51-64 own home with no mortgage	Age 51-64 renting
In difficulties	37%	13%	**63%**
Exposed	43%	31%	28%
Secure	20%	56%	9%

Households with dependent children more likely to be in difficulty

Age of dependent children (Households with children in different age groups were counted in each respective category.)	0-4 years	5-12 years	13-17 years	no children under 18
In difficulties	45%	39%	43%	31%
Exposed	43%	44%	40%	38%
Secure	12%	17%	17%	31%

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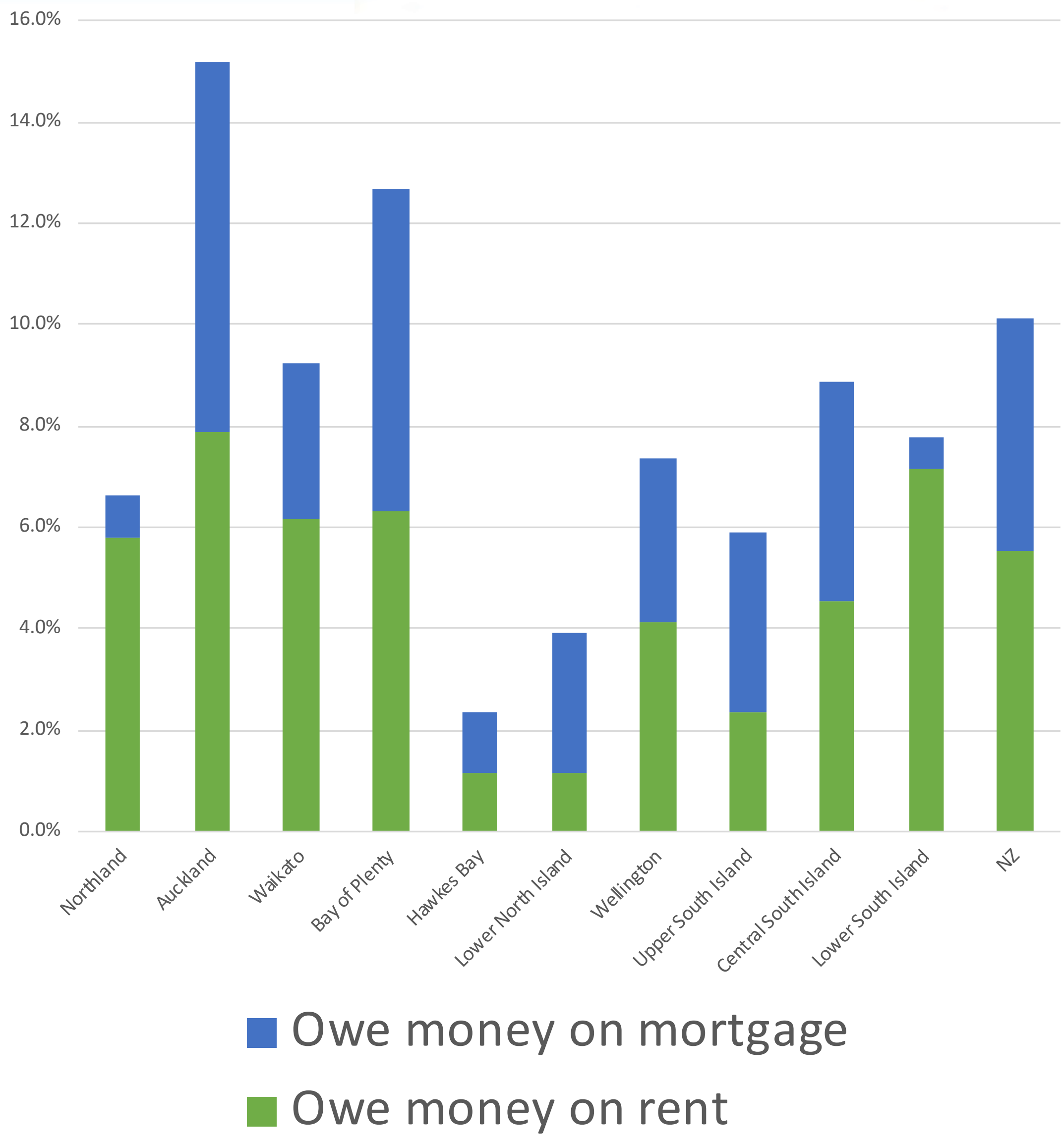
1 in 10 households have missed a rent or mortgage payment.

- This differs by region
- Auckland is most affected
- In some regions, renters are experiencing difficulty but mortgage holders are doing okay for now
- Several factors account for the differences, from dependence of the region on tourism/students to the demographics of the population



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Insecure workers have been disproportionately affected

	Respondent or partner in insecure work	Respondent or partner not in insecure work
Income fallen by more than a third	25%	9%
Income stayed stable	37%	59%
Missed at least bill or loan payment	28%	11%

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Respondent	% of households where the respondent or their partner were in insecure work
All	31%
Asian	43% (Chinese: 37%; Indian:45%)
Age 18-30	42%
Industries worked in:	
Construction	56%
Accommodation and food services	47%
Rental, Hiring and real estate services	56%
Arts and recreation services	53%
Information, media and Telecommunications	40%

Comment: This table highlights the precarious situation of many migrants (the survey did not ask if respondent was born in New Zealand, but we can assume based on Statistics NZ data that many of the Chinese, Indians and other Asian respondents are migrants).

As a result of the covid-19 crisis, have you done, or considered doing any of the following? (shifting now to individual level data, not household data)

	% who have done it/ have started the process	% who are considering doing it	Notes
Withdrawing your KiwiSaver funds (hardship withdrawal)	3%	16%	These are percentages of those in KiwiSaver (n=2,424); as % of adult population, 2.5% and 13% respectively
Reducing or suspending your KiwiSaver contributions	7%	15%	percentages are of those in KiwiSaver
Moving your KiwiSaver to a lower risk fund	7%	11%	percentages are of those in KiwiSaver
Seeking free financial advice, for example, from budgeting services	5%	12%	Percentage of adult population

Comment: We can expect increasing pressure on KiwiSaver as a source of relief. The rules of access will be challenged, and policymakers will be faced with the question of what is the best balance between harm to future retirement income and current harm of debt/foreclosure

Moving KiwiSaver to lower risk fund shows limited understanding of what KiwiSaver is

Groups with a high rate of considering a KiwiSaver hardship withdrawal (compared to 16% across all KiwiSaver members)	
Māori	30% considered hardship withdrawal
Pacific Peoples	29% considered hardship withdrawal
Renters	22% considered hardship withdrawal
People who have missed at least one loan/bill payment	37% considered hardship withdrawal
Comment: Groups with a high percentage of considering hardship withdrawal are those who have, on average, low KiwiSaver balances. Even withdrawing all their allowed funds may not solve their current financial problems permanently. Counting on access to KiwiSaver funds and then being denied access may negatively affect trust in KiwiSaver and the willingness of entrants to the labour market to join	

Gendered impacts: important to remember than on household level, the effects of individual income loss is often not limited just to the respondent, or to people who share the respondent's gender.
Men were more affected by loss of income than women, because they were more likely than women to be employed before the covid-19 crisis and were also more likely to be self-employed, contractors or business owners – groups that suffered larger losses of income.
Women were overrepresented both in the most secure industries (health care, social assistance, education and training) and those most affected (retail and accommodation/food services).
In unpartnered households, women were doing worse than men.

	Single male households	**Single female households**
In difficulties	37.8%	52.1%
Exposed	41.3%	31.6%
Secure	20.9%	16.3%

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The survey was done in the last 2 weeks of level 4 lockdown, when many businesses stopped operating, and before the extension of the wage subsidy was announced – in many ways it is a snapshot of New Zealand at the most difficult moment
Nonetheless, the lack of financial resilience that the survey exposed existed before the covid-19 crisis and going forward, improving the financial resilience of NZ households is an important challenge for us

Consider now

How to help people stay in their houses

How to help Exposed households meet their commitments when wage subsidy runs out

How to increase use of free financial guidance

Review the consequences of KiwiSaver hardship withdrawals

Review KiwiSaver withdrawal rules?

Consider in the future

- How to increase the financial resilience of New Zealand households
- How to ensure insecure work provides adequate protection and rights
- How to increase people's understanding of the purpose and mechanics of KiwiSaver

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Slides added post-presentation as a result of comments and questions from the audience

Māori by age and region

A look at regions

Income distribution

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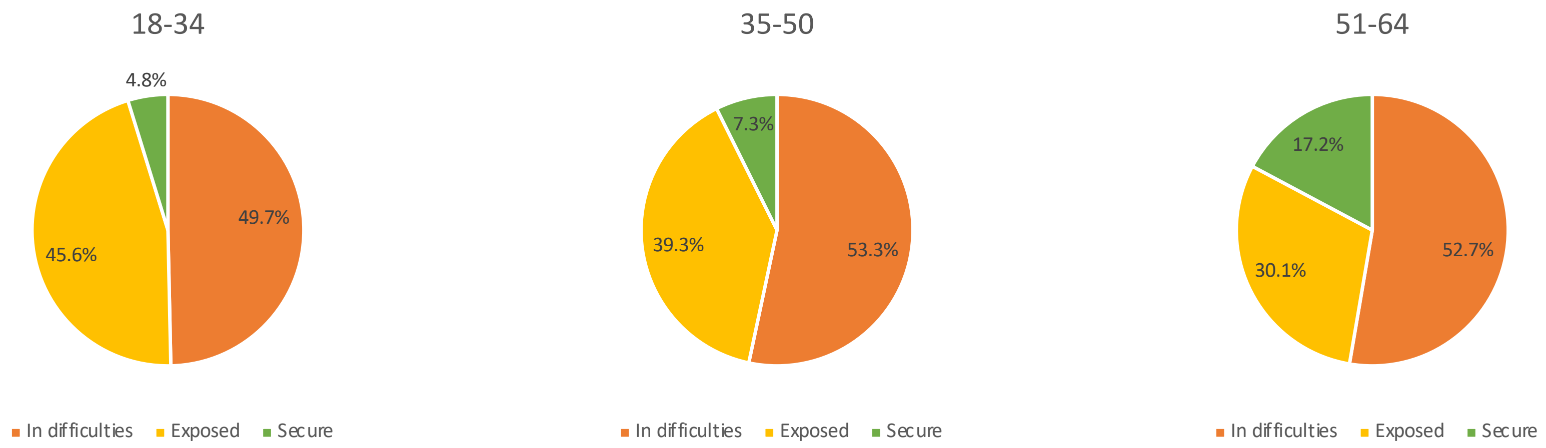
Maori by age group

Notes: The total count of households where the respondent was Maori was N=405. The 65+ age group had a sample size too small to be representative.

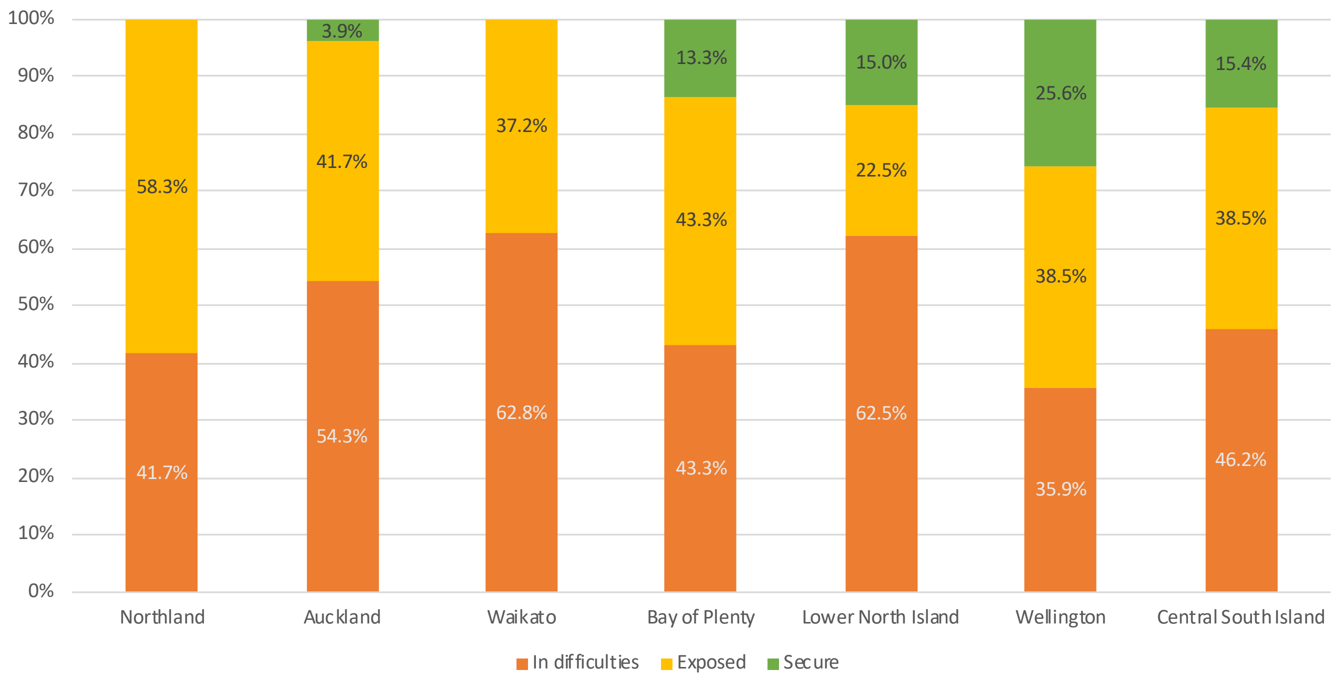
The percentage of Maori households in difficulty is similar in all age groups. The percentage of secure households increases with age but remains much lower than in the total population (shown in previous slides).



Maori by region

Notes: The total count of households where the respondent was Maori was N=405.
Hawkes Bay, Upper South Island and Lower North Island had insufficient sample sizes of Maori households and therefore are not shown.

In Northland and Waikato, no Maori households were in the "secure" category.
In Waikato and Lower North Island the highest percentage of Maori households were in difficulty.



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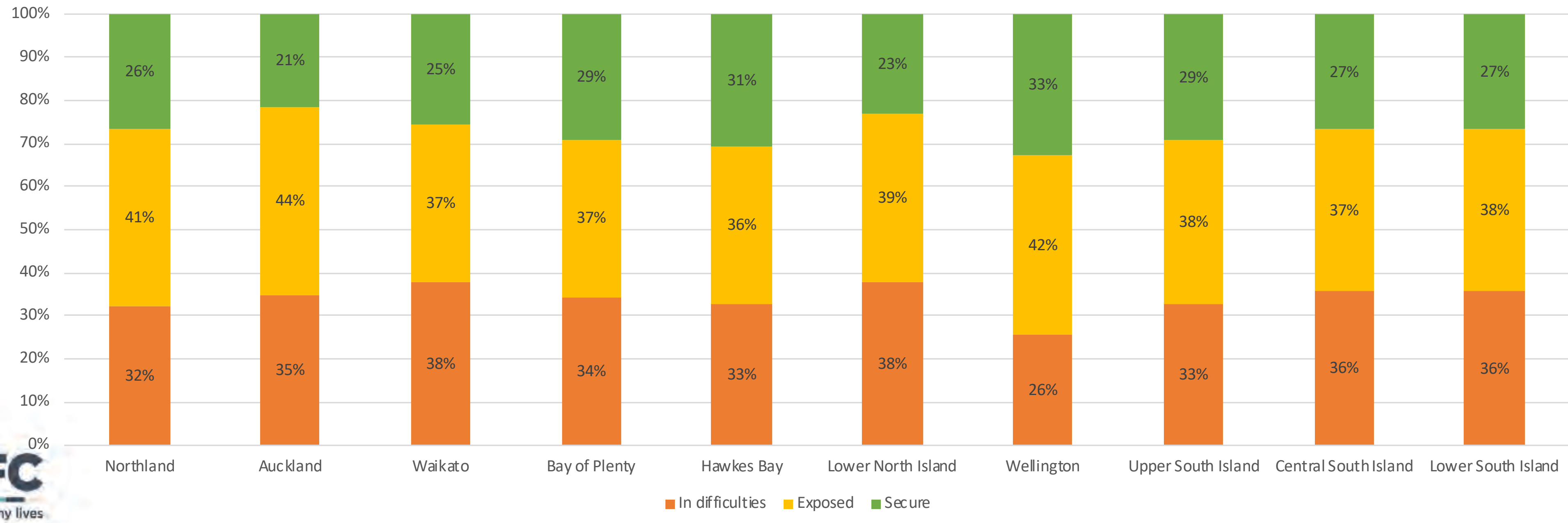
Financial wellbeing segments by region

These outcomes are a combination of how resilient households were before the crisis and how much they were impacted by the crisis.

Regions with higher percentage of superannuitants and beneficiaries, even if poorer in terms of income, are generally less affected by the crisis (in terms of change for worse) because these incomes have not decreased

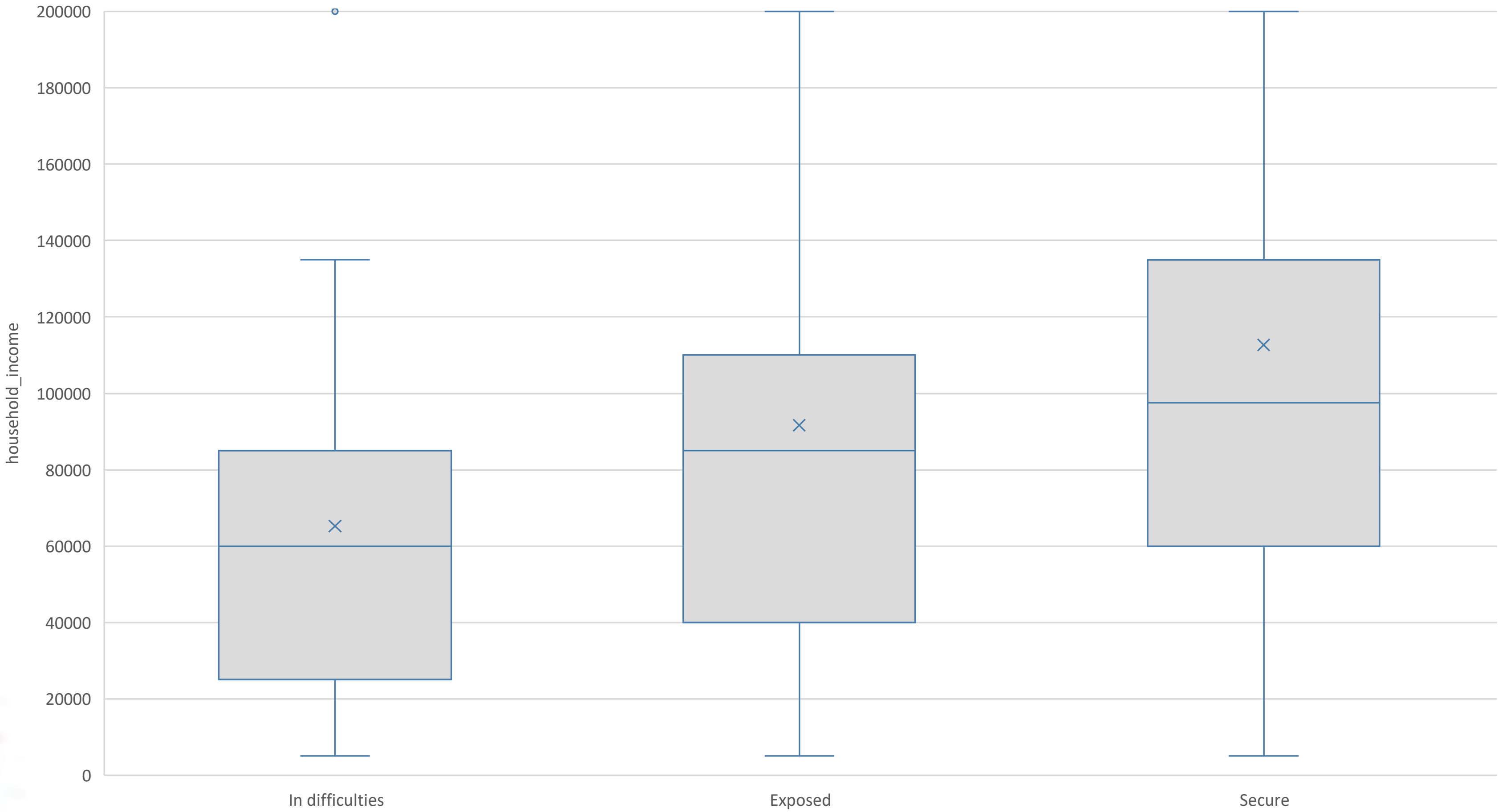
Percentage of region's pre-covid jobs in least affected (e.g. public administration) and most affected (e.g. hospitality) industries is an important factor in how much the region was affected by the crisis

Despite some regional differences (e.g. Wellington is in the best situation), these differences are not dramatic



Box plots of household income (annual, $NZD) by wellbeing segment

There is a clear difference in median and average income levels in the three segments. At the same time, in each segment we can find a broad range of household incomes.



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