

Finance: what choices can we make to best manage our money?

'Lunch & Learn'

Wednesday, 5 August 2020

Dr. Richard Iles

Senior Lecturer – Federation Business School

Disclaimer

- *Dr. Richard Iles is not a financial adviser. You should consider seeking independent legal, financial, taxation or other advice to check how this information relates to your unique circumstances.*

Outline

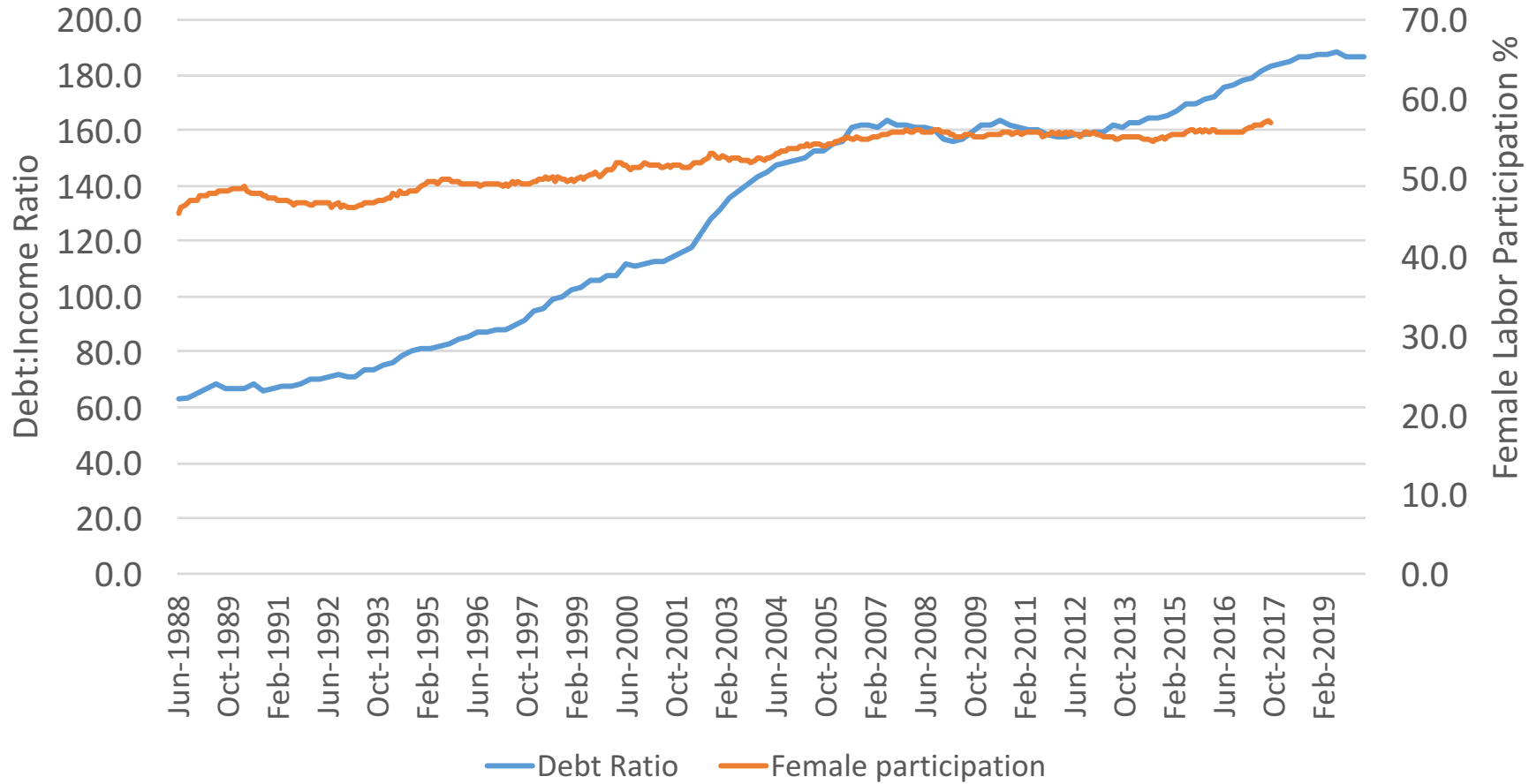
1. Motivation – Australian household debt
2. Behavioural Challenges to reducing debt
3. Collective Strategies
4. Individual Strategies
5. Questions

Motivation – Australian
household debt

Household debt to Income ratio

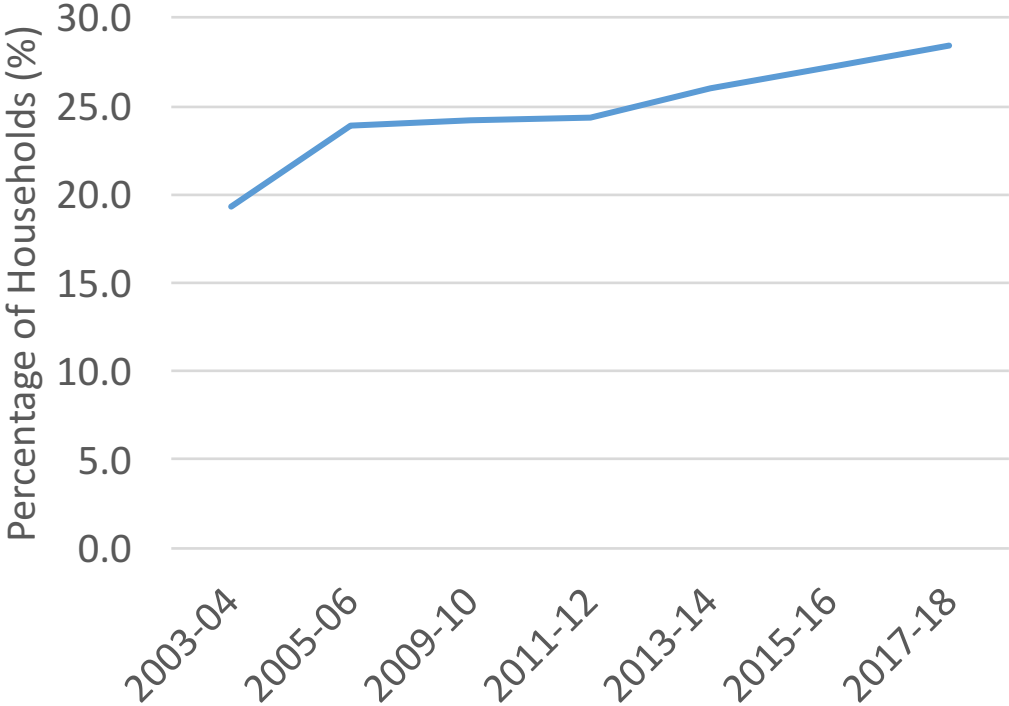
Australia 1988- 2020

(Source: RBA, 2020)

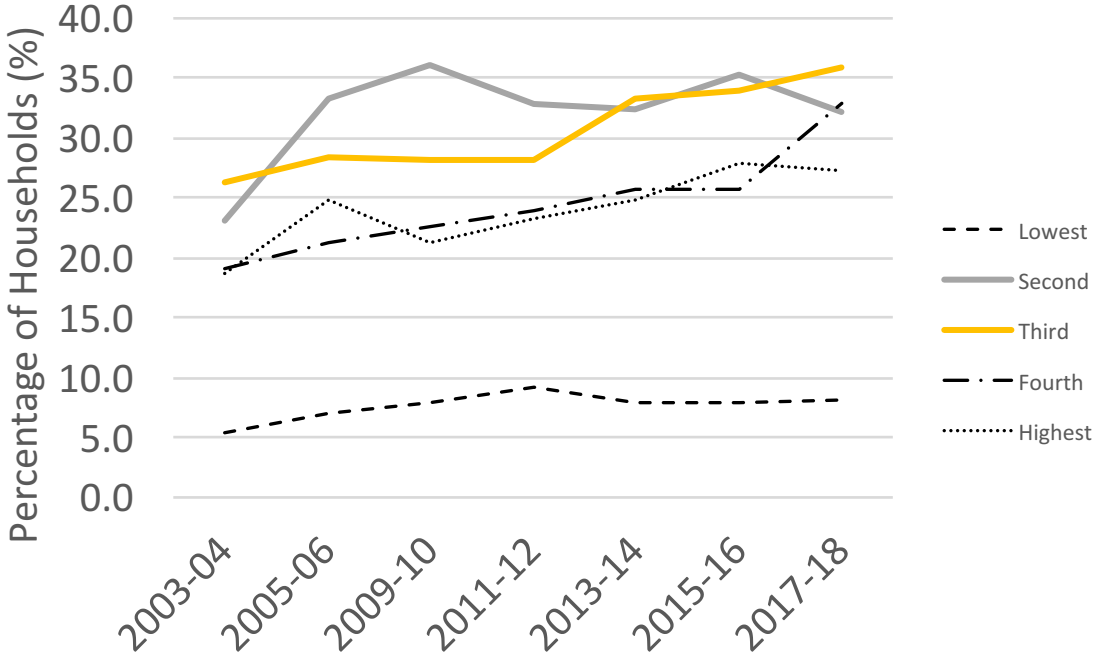


Motivation

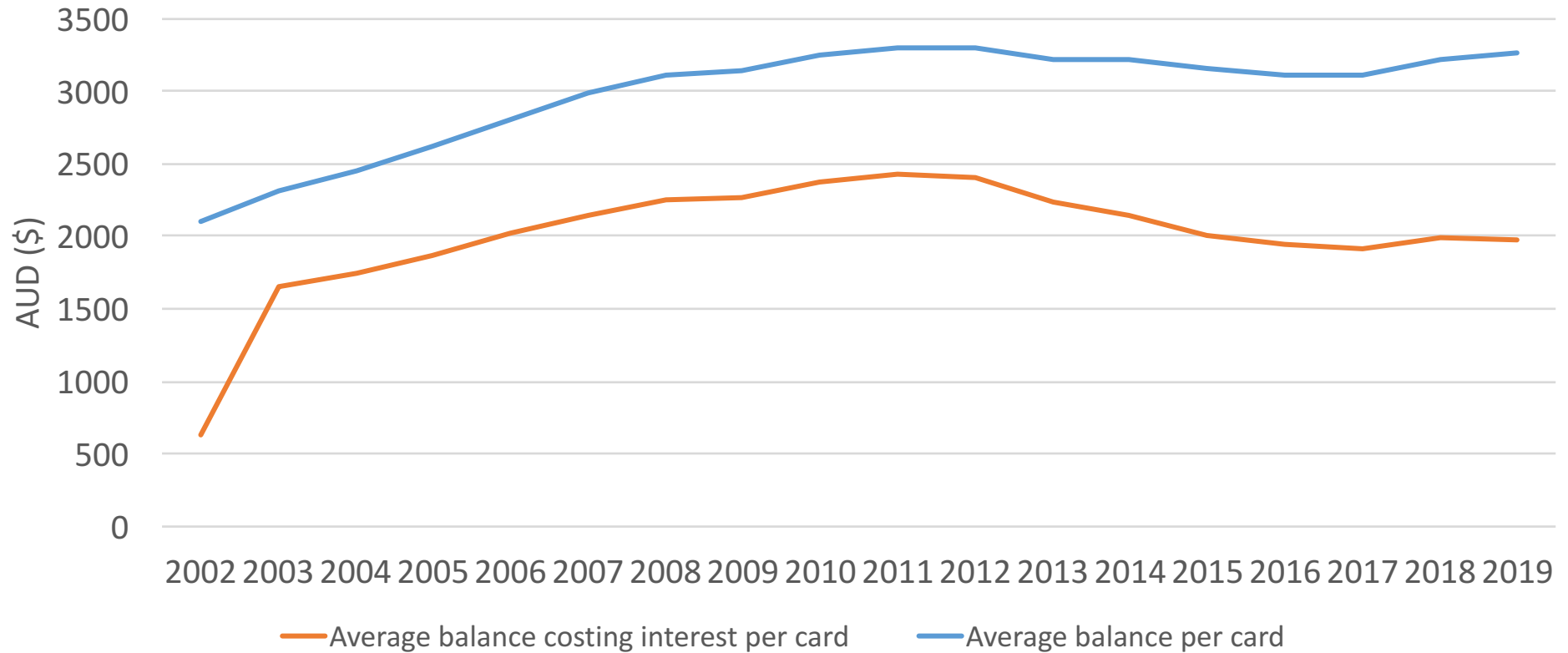
Households with debt 3 or more times income:
Equivalised disposable household income
(Source: ABS)



Households with debt 3 or more times income,
by quintile:
Equivalised disposable household income
(Source: ABS)

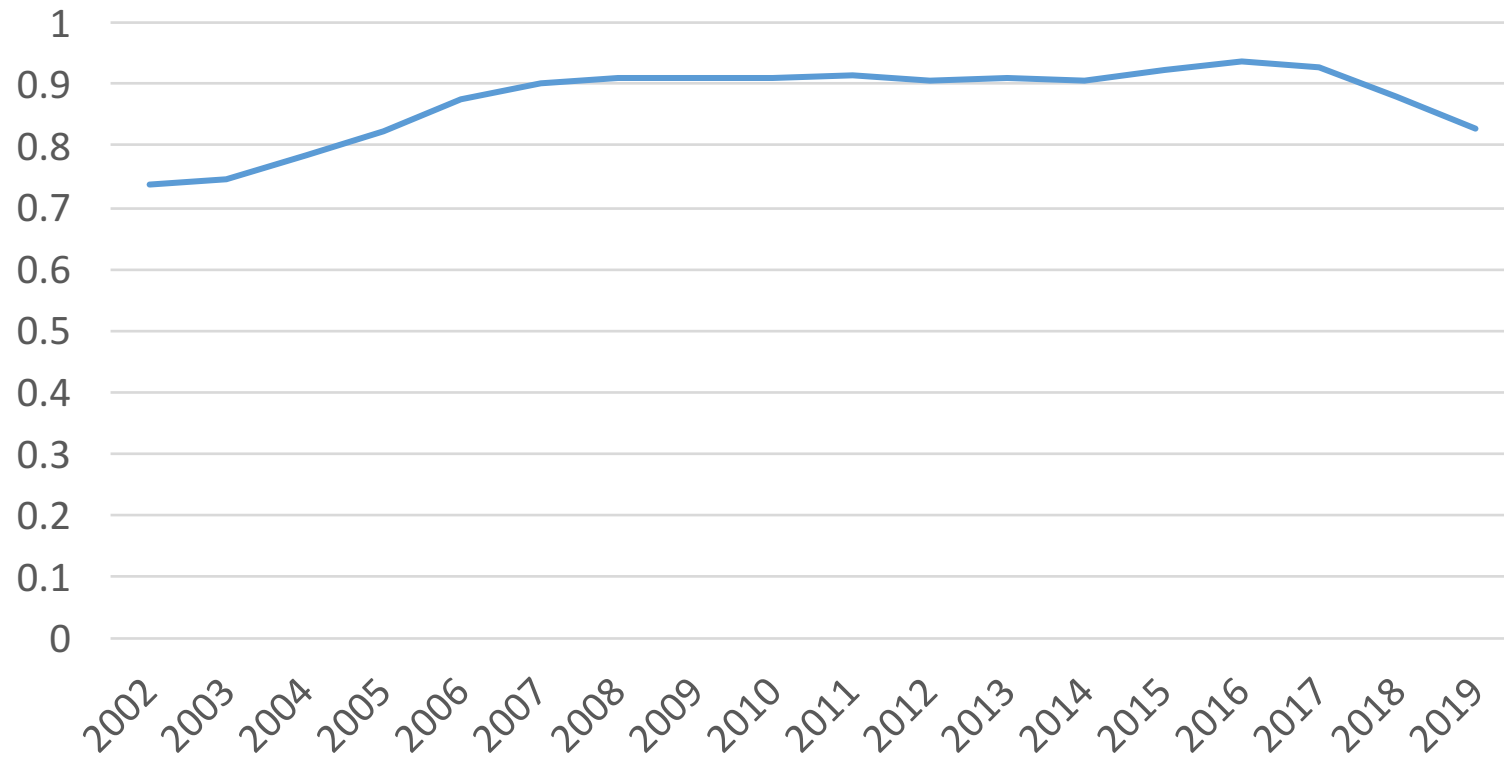


Interest bearing Credit & Number of Credit Card accounts
Australia 2002 - 2019
(Source: Finder)



Credit Card accounts to Adult population Ratio Australia 2002 - 2019

(Source: ABS, Finder)





APRA

COVID-19 Superannuation Early Release Scheme

CURRENT STATUS OF PAYMENTS

\$28.0bn

Payments Made

3.3

Average Business Days to Payment*

\$7,719

Average Payment

96%

Apps Paid within Five Business Days

INITIAL APPLICATION

2.9M

Applications Received#

\$7,407

Average Application Amount

REPEAT APPLICATION

1.0M

Applications Received

\$8,619

Average Application Amount

Behavioural Challenges

Challenges

Findings from behavioural research.

1. Disproportionately favour present over the future
2. Procrastinate
3. Anchoring – normalise current experiences

People are different.

1. Personality types may respond different

Collective Strategies

Borrow Less Tomorrow – study 1

Karlan, Dean S. and Zinman, Jonathan, 'Borrow Less Tomorrow: Behavioral Approaches to Debt Reduction' (May 1, 2012). Available at SSRN: <https://ssrn.com/abstract=2060548> or <http://dx.doi.org/10.2139/ssrn.2060548>

BoLT – study 1

Design

Randomised study – 238 people offered BoLT

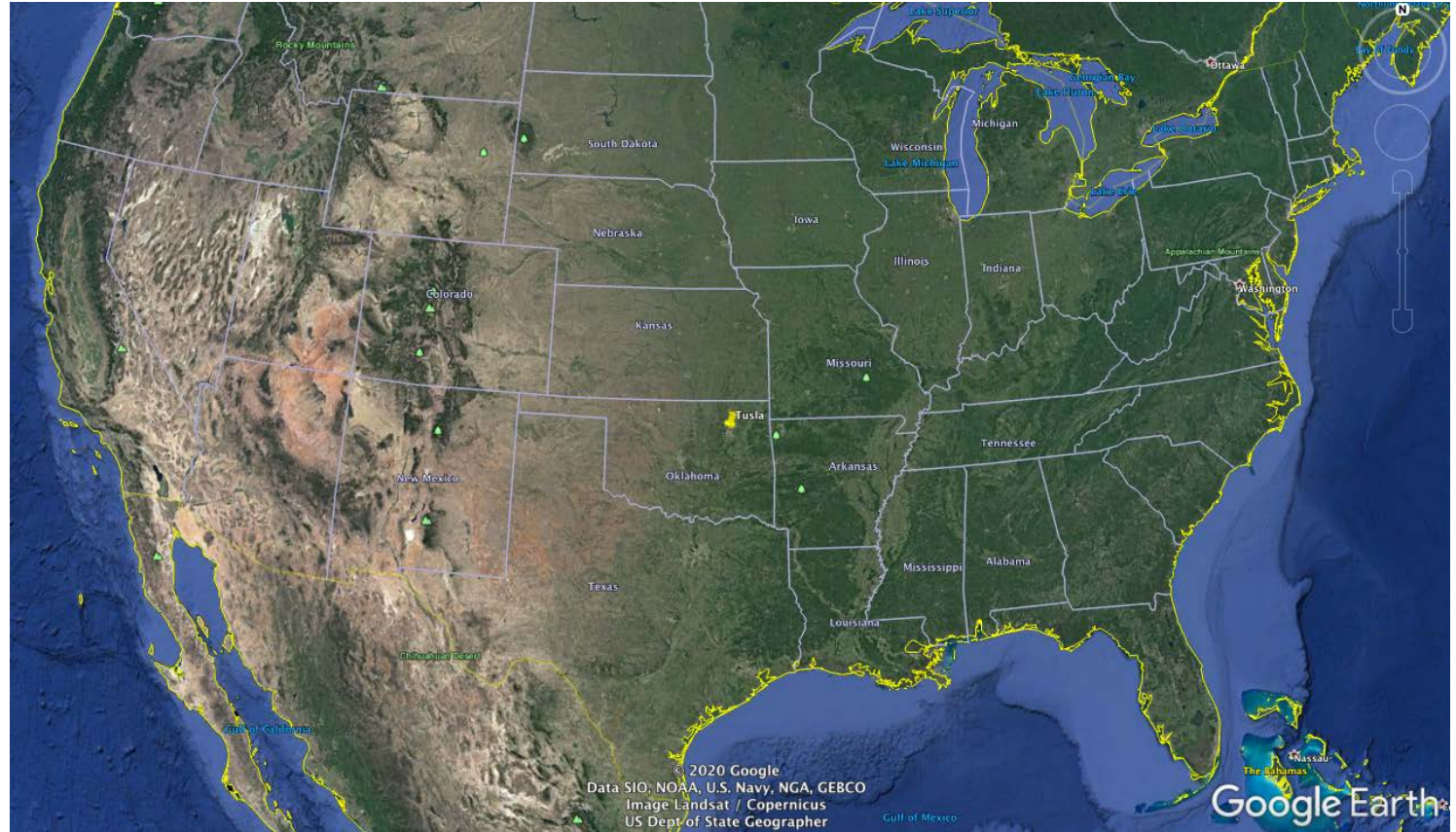
One intervention design, that included:

1. Goal setting
2. Peer-support
3. Reminders

BoLT – study 1

Context

1. Tulsa, Oklahoma (USA)
N = 465
low income



- seeking tax advice; had debt on car and credit card
- willing to answer survey questions (\$5 gift card)

BoLT – study 1

Results

- 51% of BoLT participants were ‘on-schedule’ with their repayments after 12-months

❖ Weak evidence of success

Collective Strategies

Lower Interest for Timeliness—

study 2

Collins, J.M., Gjertson, L. and Sydnor, J. (2018), Incentives for Loan Repayments: Evidence from a Randomized Field Study. *Journal of Consumer Affairs*, 52: 197-208. doi:[10.1111/joca.12142](https://doi.org/10.1111/joca.12142)

LifT – study 2

Design

Randomised study – 277 people offered LifT

One intervention design, that included:

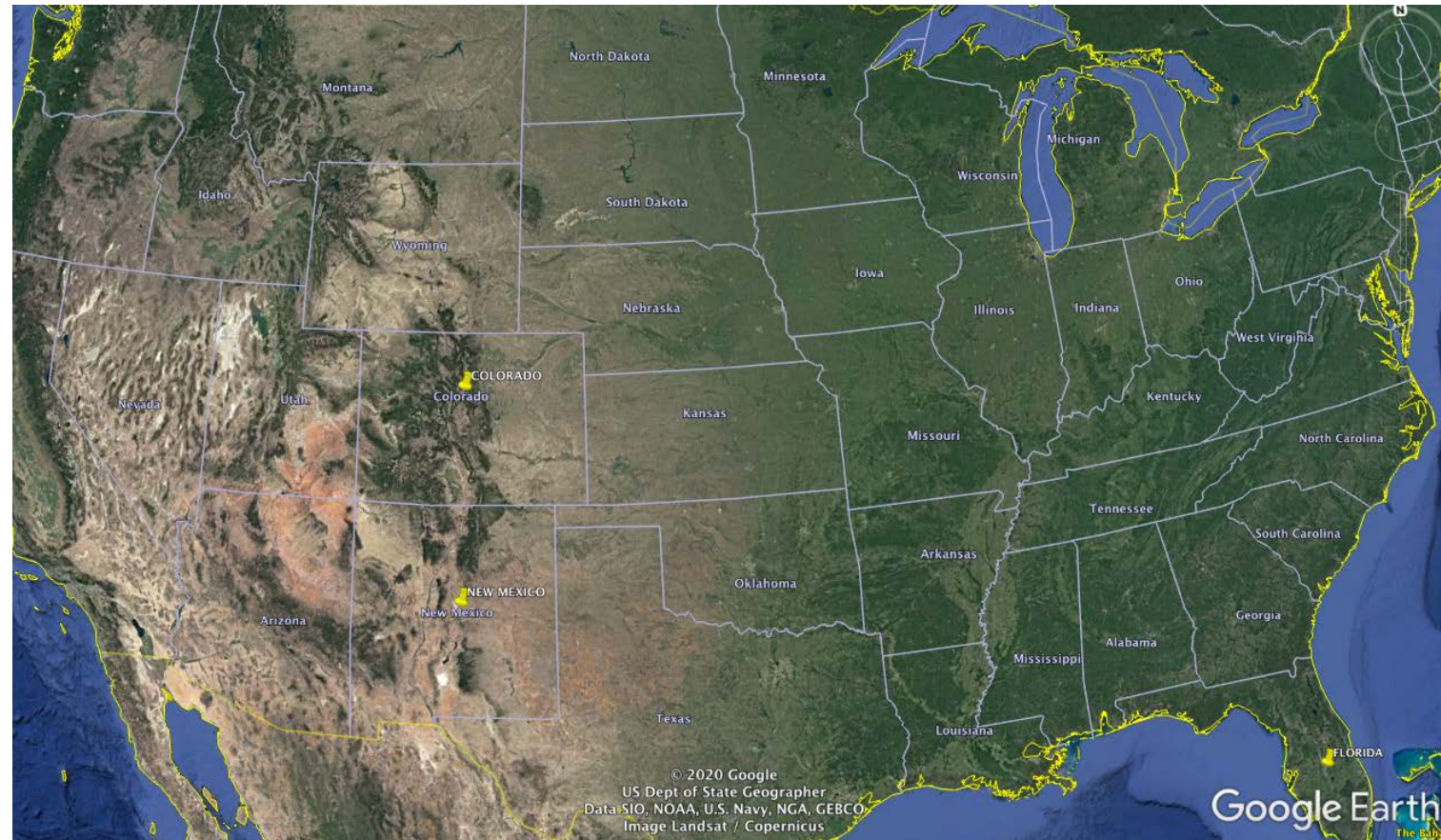
1. Reduced interest rates for on-time repayments
2. Maintain lower interest rates for sustained on-time repayments

LifT – study 2

Context – Credit Unions

1. Colorado
2. Florida
3. New Mexico

N = 557



LifT – study 2

Results

- LifT group received 0.37 % reduction in interest rate

[On a \$2000 debt this equates to a saving of \$7.40 per month]

❖ moderate evidence of success

Individual Strategies –

debt reduction

Individual Strategies

1. Increase the “*pain of paying*” (easiest)
 - i. Avoid using credit cards & debit cards
 - ii. Use cash and set yourself a budget (per day discretionary money)

Individual Strategies

2. Re-evaluate your mobile phone and insurance contracts (pretty easy)

Individual Strategies

3. Evaluate your past 3 monthly bank statements – *where is your money going? (hardest)*

Conclusion

“Meanwhile, companies are only getting cleverer—[Amazon](#), for instance, earlier this year opened a retail store in which customers can pay for their purchases by simply walking out of the store with them, thanks to a system of cameras that notes what came off the shelf. In other words, regardless of whether consumers are thinking about it, paying is only going to get less painful. And the less it hurts, the more people spend”.

(Joe Pinsker, September 7 2018, [The Atlantic](#))

Questions

Resources

Resources

- <https://www.anz.com.au/about-us/sustainability-framework/financial-wellbeing/moneyminded/>
(Berry Street, Smith Family & Brotherhood of St. Laurence supported)
- <https://www.ato.gov.au/Individuals/Lodging-your-tax-return/Tax-Help-program/>
(Free Tax advice through the Australian Tax Office)
- <https://moneysmart.gov.au/covid-19/financial-assistance>
- <https://moneysmart.gov.au/covid-19/living-on-a-reduced-income>