National Welfare Rights Network commissioned research: Measures to address poverty traps caused by Income Maintenance Periods and Compensation Preclusion Periods

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Executive Summary

Project scope and method

Some people who receive a redundancy or compensation payment need to serve extended waiting periods before they become eligible for income support. This research relates to people serving an Income Maintenance Period (IMP) or a Compensation Preclusion Period (CPP), specifically those who are in financial difficulty because they have exhausted their redundancy or compensation funds before the end of their exclusion period.

The research brief was to explore a range of innovations that might reduce the incidence of people running out of money before the end of their IMP or CPP, or that might help people access equity in housing assets (if they have any.) We have considered sources of information and guidance, financial services and products and policy tools. The research was *not* a review of the appropriateness or fairness of IMP and CPP policy settings or of the use of lump sums in compensation and redundancy policy. However, we have gained some insights from our research into these broader questions which we share in this report.

Our primary focus has been people who receive medium-to-large lump sum redundancy or compensation payments and who therefore serve longer than average IMPs and CPPs. The National Welfare Rights Network (NWRN) report it is these cases that tend to seek help because of financial hardship. The research was primarily a piece of desk-based research and policy analysis, informed by discussions between the researchers and relevant experts. It also drew on around 30 case-studies compiled by members of NWRN.

Research findings

Our literature review revealed very little research into the experiences of people serving IMPs and CPPs. We do not know how many people get into financial difficulty whilst serving an IMP or CPP nor what subsequently happens to them. More generally, we know little about how people spend compensation or redundancy lump sums and how this might affect their wellbeing and their future employment prospects.

We do know from the compensation and redundancy literature that when people receive a lump sum, they can be cut off from other support systems – for example, employment services and rehabilitation support – that may help facilitate a return to work, in addition to being unable to access income support.

A core conclusion of the behavioural finance literature is that human beings are not wholly rational decision-makers and that people exhibit biases that make it less likely they will behave in their own stated best interests. For example, there is ample empirical evidence showing that humans are 'present-biased' and find it difficult to stick to plans and to make sacrifices in the current period for future gain. This explicitly shapes settings in other areas of Australian social policy, such as having compulsory superannuation. We also know that people use 'heuristics' or 'rules of thumb,' largely based on past experience, to help make complex decisions. A lump sum payment is a highly unusual event for which individuals have few heuristics to guide decision-making. Overall, the behavioural finance literature serves to illuminate the many challenges individuals face in managing lump sums.

It also, however, provides some useful insights into how individuals might be guided or 'nudged' in their actions through framing of communications and improved 'choice architecture'.

From an analysis of the case-studies, it would seem that the reasons why people get into financial difficulty are many and varied but commonly relate to the challenges of managing a lump sum and to adverse life events that put additional financial and emotional pressure on individuals. Causes of financial difficulty seem to be based on both *individual* factors (such as financial management and 'present-biased' spending behaviour) and on *structural* factors (limited availability of financial advice/guidance and lack of access to suitable financial products).

The case-studies illustrate a wide range of spending behaviours that have contributed to funds running out, such as paying off debts (including mortgages), re-paying loans to family/friends, medical and care expenses, and luxury purchases, in addition to daily living costs. Subsequent adverse life events and/or 'bad luck' (e.g. relationship breakdown, the onset of further disability, failed investments) seem to increase the risk of depletion of funds. On-going mental health issues, gambling and drug/alcohol addictions also seem to make financial mismanagement more likely. In the case of IMPs, there is no systemic mechanism to ensure people are aware of a likely waiting period (except in cases where there have been 15 or more redundancies made by a firm) – the IMP case-studies illustrate this point, with a number of IMP cases being unaware that they would have to serve a waiting period until they approached Centrelink having already run out of funds.

Our research involved a high-level review of existing services, products and supports to identify gaps and possible innovations. The main gaps include:

- a system to ensure individuals are aware of IMPs as early as possible
- a system to identify 'high-risk' individuals (for example, people with a history of gambling or drug/alcohol addictions who receive large compensation lump sums)
- many individuals not accessing professional financial planning in the market and government-sponsored financial information/guidance services not seeming to meet the needs of many in our target group
- a weak annuities market which makes it difficult for individuals to structure lump sums into income streams and which inhibits the development of 'structured settlements' (which depend on a healthy annuities market) in compensation cases
- a weak equity release market which means that people who do have housing wealth find it difficult to access and use that wealth
- barriers to accessing superannuation wealth

There are complex reasons why these gaps exist and all require further examination. In this report, we suggest a number of possible innovations to be considered in future research and analysis.

Conclusions and future work

We draw two broad conclusions from our research. The first cuts across the specific terms of reference we address and is a comment on the policy of lump sum payouts and associated IMP/CPP policy. It has become clear to us in doing this work that, for some people, the current policy settings involve a too high transfer of risk to individuals. We effectively leave people 'high and dry' through the combination of a lump sum payout, lack of access to income support, associated exclusion from

rehabilitation and employment support and poor availability of financial management support. This suggests an imperative to offer further assistance to people bearing this risk.

Our second conclusion is that a number of promising avenues do exist to provide this support. These include ways of improving awareness of IMPs and of flagging high-risk CPP cases within the Centrelink system. We think there is scope to improve communications and financial information for people serving IMPs and CPPs, and to target this at various points in time. Given the gaps in financial services and products for people in receipt of lump sums, the government should reconsider its role in this domain and further explore ideas such as a government-administered annuity.

1. Introduction

1.1 Project scope

This research was commissioned by the National Welfare Rights Network (NWRN) and relates to people excluded from income support because they are serving an Income Maintenance Period (IMP) or Compensation Preclusion Period (CPP) and who are in financial difficulty.

IMPs apply when a person receives redundancy, annual leave, sick leave, maternity or long service leave payments. CPPs apply where a person receives a lump sum compensation payment for personal injury which includes a component for lost earnings or lost capacity to earn ('economic loss'). The average duration of an IMP in 2014-15 was 40 days (Senate Community Affairs Legislative Committee, 2015) whilst CPPs tend to be longer and can run for a number of years.

The focus of the research is individuals who have received a lump sum payment and who have run out of money before the end of their IMP or CPP. In this situation, NWRN report that the consequences for individuals can be extreme as they are unable to access income from other sources and can end up in absolute poverty.

The research was aimed at exploring how individuals in these circumstances might be helped, broadly within existing policy settings. It was *not* a review of the appropriateness or fairness of IMP and CPP policy or the use of lump sums to compensate people after injury or redundancy. Having said that, much of the material we discuss is relevant to these broader questions.

The research brief was to explore a range of innovations that may reduce the incidence of people running out of money before they can access income support, or increase their ability to access equity in assets (if they have any). Specifically, we were asked to cover:

- existing home equity market options and practical barriers to people on IMPs and CPPs accessing these options;
- whether an extension of the pension loan scheme might be viable, and any possible pros and cons;
- analysis of structured settlements as a tool to help people manage their compensation payments, together with pros and cons of this approach;
- a short review of the practicality, if any, of using income management systems as a voluntary tool for these circumstances, together with pros and cons of this approach; and
- an assessment of financial products that might be developed, or existing products that may be better utilised or modified, to help vulnerable people at risk to manage their redundancies or compensation.

To inform our analysis of these options, we have examined why people get into financial difficulty whilst serving an IMP or CPP and the extent of current supports that might help people in these circumstances. This analysis has resulted in the consideration of some other options (in addition to those listed above) that might either help prevent financial difficulty or support a return to financial health.

Bearing in mind the relative vulnerability and barriers faced by many NWRN clients, we have given consideration to issues of availability, accessibility, likelihood of uptake, factors influencing uptake,

interest, fees and charges, and other incentives. Whilst the focus of the research is those in, or at risk of, extreme financial difficulty, much of the analysis is relevant more generally to people who receive a redundancy payout or compensation settlement.

There are significant differences in the context and experiences of people serving either an IMP or a CPP. These differences are considered throughout this report. However, much of the analysis is relevant to both IMP and CPP cases as they share a distinguishing characteristic of being excluded for a period of time from income support, have no (or very little) income from other sources and assets (usually housing wealth) that may be held, are difficult to access. In addition, they may have some similarities of background – for example, anyone entitled to a large redundancy or lump sum compensation is likely to have a fairly substantial work history and low previous exposure to the income support system.

1.2 Methods

The research was largely a piece of desk-based research and policy analysis, informed by discussions between the researchers and relevant experts. It covered existing supports in the Australian system as well as selected international examples.

In additional to a literature review, our analysis has drawn from around 30 case-studies collated by NWRN of clients with an IMP or CPP and who were in financial difficulty. The case-studies are qualitative and are not representative of people serving an IMP or CPP nor representative of NWRN clients. They may, however, be typical of NWRN clients for whom NWRN member centres provide casework legal services – that is cases (following a tight triage process) that NWRN members have identified as both a) the most serious cases of financial hardship and b) have some merit (i.e. their IMP or CPP has a chance of being amended on appeal.)

1.3 Structure of the report

Section 2 sets out our understanding of the problem:

- How IMPs and CPPs work and data on people serving IMPs and CPPs
- Why people get into financial difficulty when serving an IMP or CPP, drawing from the following sources of information:
    - A literature review (including on compensation/redundancy payments, financial behaviour, financial stress/resilience, financial inclusion and capability)
    - Case-studies provided by NWRN

Section 3 sets out elements of a guiding framework, which includes:

- The need to understand the client journey and critical points on that journey.
- The desirability of 'early intervention' to prevent people reaching crisis point, but recognising that solutions need to be both preventative and remedial.
- Recognition that possible 'solutions' include both public policy responses and market options.
- An understanding of behavioural responses and behavioural tools

Section 4 sets out current tools/support and possible policy innovations:

- The role of information and financial guidance/advice

- Preventative tools to help people manage their funds better
- Remedial tools to help people back to financial health

Section 5 draws some conclusions and sets out some priorities for future work.

2. Understanding the problem

2.1 Income Maintenance Periods and Compensation Preclusion Periods

Data on IMPs and CPPs and how they work

Income Maintenance Periods (IMPs) apply when a person receives redundancy, annual leave, sick leave, maternity or long service leave payments. The IMP is calculated by Centrelink and applies for the period that the termination payments relate to. For most people, this will result in a waiting period during which they cannot receive an allowance (such as Newstart Allowance) or the Disability Support Pension (DSP). In 2013-14, 101,152 IMPs were applied, and the average waiting period imposed was 27 days (Senate Community Affairs Legislative Committee, 2014). The number of Income Maintenance Periods applied in the 2014-15 financial year was 54,160 and the average Income Maintenance Period imposed was 40 days (Senate Community Affairs Legislative Committee, 2015). There is very limited published data on IMPs and CPPs.

The focus of this research is primarily people who are made redundant and receive a significant lump sum redundancy payout, and therefore serve longer than average IMPs. In NWRN's experience, it is this group of people of people who seek help because of severe financial difficulty.

The IMP must still be served even if an individual has spent or invested their leave or termination payment. An IMP may be waived or reduced if the individual can prove that they are experiencing 'severe financial hardship' because they have used leave payments for 'unavoidable or reasonable expenses'. (Both 'severe financial hardship' and 'unavoidable or reasonable expenses' are defined in legislation – section 19C of the Social Security Act – and there is a statutory power to determine that certain other expenses are also unavoidable or reasonable.) Expenses that might be considered 'unavoidable or reasonable' include essential car or home repairs or essential medical expenses. Paying off debts (including a mortgage) or buying a house are not normally considered 'unavoidable or reasonable' expenses. (https://www.humanservices.gov.au/customer/enablers/severe-financial-hardship-provisions)

Compensation Preclusion Periods (CPPs) apply where a person receives a lump sum compensation payment which includes a component for lost earnings or lost capacity to earn ('economic loss'). CPPs tend to be longer than IMPs and may run for many years depending on the size of the lump sum. In 2013-14, there were 5,096 CPPs applied. Around half of all CPPs are for periods of less than 12 months, with around one quarter being applied for 2 to 5 years. As of October 2014, there were 18,372 people serving a CPP (Senate Community Affairs Legislative Committee, 2014).

A rule of thumb (the 50 per cent rule) is used to help calculate the preclusion period in most cases. The number of weeks in a preclusion period is calculated by dividing the compensation part of the

lump sum payment (in most cases this will be 50 per cent of the lump sum) by the cut-off limit for a single rate pension under the income test that applies at the date of settlement. (For more information refer to humanservices.gov.au/customer/enablers/income-test-pensions).

There is no 'severe financial hardship' provision for people serving CPPs. Centrelink does have the discretion to disregard all or part of a compensation payment in 'special circumstances' during a review or appeal process. The phrase 'special circumstances' is not defined in social security legislation and NWRN report that, in practice, it is hard to show a case is special. Severe financial hardship alone is not enough to get a CPP waived. The DSS guide summarises the factors that should be taken into account when considering the special circumstances provision. (See http://guides.dss.gov.au/guide-social-security-law/4/13/4/20).The DHS Compensation Kit states that the special circumstances discretion will only be used if "a person's overall situation is so unusual, uncommon or exceptional it makes the usual application of the statutory preclusion period unduly harsh or unfair". (https://www.humanservices.gov.au/business/compensation-kit-what-you-need-know).

Policy rationale

The policy rationale for IMPs and CPPs relates to a general principle in the Australian social security system that entitlement to income support is based on need, and that this is assessed with reference to the income and assets of applicants. So for example in relation to redundancy, an individual is usually entitled to redundancy pay for a period after leaving employment. The Income Maintenance Period ensures that individuals are not receiving income for this period from both the employer (redundancy pay) and the government (through an income support payment.)

Likewise, in relation to compensable injury, the principle upheld is that individuals should not receive income support from both compensation systems and the social security system (this is often referred to as 'double compensation'). It could be considered a basic architectural principle of social security legislation that primary responsibility for support of people unable to work because of compensable injury or illness rests with the relevant compensation scheme and not with the federal social security system.

When a preclusion period is imposed, it commences from the date of injury or, if the person was in receipt of regular compensation payments in the interim, from the date of the last of those payments. For a person who did not receive regular compensation payments post-injury, the backdating to the date of injury often results in a debt repayable to Centrelink. This is because they may have received a social security payment to support them in that period and that payment is no longer payable because they are taken to have been compensated for it. This debt is known as a compensation charge. In practice, it is generally recovered directly from the compensation payer (almost always an insurer) before the balance of the compensation money is paid to the person. Centrelink is aware of this as it administers a scheme in relation to insurers, supported by a statutory obligation for them to advise Centrelink if they become liable to pay compensation to someone.[1]

The existence of this scheme enables Centrelink to become aware when someone is to receive compensation. This is unlike redundancies where Centrelink is only informed when there is a 'mass'

[1] Section Sections 1182-1184, Social Security Act.

redundancy of 15 or more staff at once (this is discussed further below). Centrelink then advises the compensation recipient in writing of the existence and end date of the lump sum preclusion period.

When the preclusion period extends into the future, it then functions like a non-payment period. A person can only be paid an income support payment during this period if the discretion to shorten the period in special circumstances is exercised favourably.

As mentioned above, this risk of being compensated twice – once through a compensation settlement and again through receipt of social security payments is often referred to as 'double compensation.' Double compensation can also occur when a compensation lump sum is intended to cover care and support costs and an individual also accesses tax-payer funded services (Productivity Commission, 2011). State and territory governments have similar compensation recovery processes and lump sum preclusion periods to avoid double compensation in relation to services. Another example of avoiding double compensation relates to Medicare – there is often a payback to Medicare as well as Centrelink when a compensation settlement is received.

In the Productivity Commission's inquiry into disability and care services in Australia (Productivity Commission, 2011), they considered the practicalities of avoiding double compensation. They point to "inherent difficulties in managing preclusion periods for access to safety-net services, especially when it may be unrealistic to refuse essential care and support needs in the not uncommon event that a person's lump sum was insufficient or prematurely exhausted" (Productivity Commission, 2011, pp 811.) This, the Commission reports, makes it complicated to ensure the rules designed to avoid double compensation are consistently applied. The Commission was told during their inquiry that, therefore, "there is significant need for discretion and fine judgement in the application of the rules" (Productivity Commission, 2011, pp 811.)

The 50 per cent rule used to calculate most CPPs is clearly a blunt tool and can lead to "unfairness, undue hardship, or in some instances, over or double compensation" (Productivity Commission, 2011, pp 813.) This use of a 'rule of thumb' is one reason why the review and appeal process is of vital importance. An individual can:

- ask Centrelink to provide a full explanation of a IMP or CPP decision
- request an internal review of the decision if, following this, the person stills thinks the decision is incorrect
- lodge an appeal with the Administrative Appeals Tribunal (AAT) - the AAT is independent and has the power to change decisions, but can only do so in accordance with the law and only after the case has been first reviewed by Centrelink.
- lodge an appeal through the court, if the person thinks the law has not been correctly applied

This general policy *rationale* of trying to avoid double compensation (in case of CPPs) and receiving income from two sources (in case of IMPs) appears logical. However, the experience of NWRN (and others) suggests that the policy *outcome* for some people serving an IMP or CPP can be very poor. The following section examines why this might be the case.

2.2 People serving IMPs and CPPs in financial difficulty

We have been unable to locate any previous research into the experience of people serving IMPs or CPPs, and none specifically on the characteristics of people serving an IMP or CPP who get into

financial difficulty. In order to understand why some people with IMPs and CPPs get into financial difficulty, we have drawn from the following sources:

- Existing literature on lump sums, compensation and redundancy payments, financial hardship/stress; financial behaviour (behavioural finance and behavioural economics); and financial literacy, capability and inclusion
- Case-studies provided by NWRN

Literature review

Lump sums

In this section, we consider the limited research into 'lump sums' and spending behaviour. We have been unable to find any research into how people spend their redundancy payouts. There is some work exploring compensation lump sums and other research that considers the spending of lump sums in other circumstances, such as superannuation lump sums in retirement or inheritances. Some of the behavioural finance literature also investigates (usually in experimental settings) how people behave in relation to 'windfall gains' (an 'unexpected' or 'unearned' lump sum).

As part of their inquiry into disability care and support, the Productivity Commission (2011) examined existing arrangements for injury in Australia and considered how beneficiaries managed lump sum compensation payments. They highlight the advantages of lump sum payments in allowing individuals to make their own choices about investment strategies and about how and when to spend funds, pointing out this principle is consistent with the value of self-directed funding (in relation to disability services.) However, their report (Productivity Commission, 2011) flags the challenges people face managing compensation payments, including:

- the difficulty people can face managing large amounts of money particularly given most will have little or no previous experience of doing so. The Commission quote Luntz (2002) "the dissipation of awards is not always because the recipient chooses to spend it unwisely, but because they are inadequately equipped to invest it safely, or they are unlucky, often due to the financial climate and especially in the early years if capital growth is minimal (pp. 25-6).
- the possibility of exposure to fraud by others which may exhaust funds
- that people may face pressures to give money to relatives
- that people may make short-sighted decisions, including holidays, gambling, drink and drugs
    - decisions of the Administrative Appeals Tribunal of Australia relating to the enforcement of a preclusion period for access to social security found that "misuse of lump sum compensation for personal injury was frequently linked to gambling and drinking problems and illicit drug use, taking extensive holidays; and payments and repayments to friends and family (O'Neill, AATA 619, 21 August 2009; Page AATA 370, 21 May 2009)". A caveat should be mentioned here in relation to published AAT decisions – this is the final level of review (after the internal Centrelink review and the second review by the first tier tribunal, whose decisions are not published) and so will tend to show the less 'meritorious' factors such as large levels of discretionary spending.

The Productivity Commission (2012, p 808) refers to previous surveys (e.g. the NSW Law Reform Commission (1984) report) that examined how funds have been spent, reporting "lump sums are commonly spent quickly, discharging debts that have accumulated between the accident and the resolution of the claim on purchases of motor vehicles and household appliances, and occasionally paying the mortgage on a house." The Commission comments "that while not all are necessarily inappropriate expenditures, it does mean that the capital sum remaining to generate a return and draw-on for ongoing expenses is less likely to be sufficient." (Productivity Commission, 2011, page 808).

A contested research literature exists which investigates the outcomes (mainly health outcomes) of people going through a compensation process (e.g. see Spearing and Connelly (2010) who undertook a meta-review of the literature.) We do not cover this research here, but just note that many people serving CPPs will have gone through a long and often stressful compensation process which may be a contributing factor in their financial behaviour and overall wellbeing.

However, one study worth covering here is by PricewaterhouseCoopers (2003) because it looks at health, return to work, social and *financial* outcomes associated with different compensation pathways (in NSW) and includes data on how people spend their compensation payments. The aim of the study was to examine the experiences and outcomes of workers on statutory benefits, compared with those receiving lump sum payments as 'commutations' or Common Law settlements (i.e. differences between three pathways – weekly benefits; commutations; and common law) and involved a quantitative survey of claimants.

Their overall findings showed inter-relationships between health, return to work, social and financial outcomes. So for example, perhaps unsurprisingly, poorer health was associated with lower rates of return to work. More interestingly, low levels of social contact were associated with reduced financial outcomes. In relation to financial behaviour of claimants receiving a lump sum payment, the majority (67%) of participants reported that they used the lump sum payment to 'assist with the cost of daily living'. Two in five participants reported that they used the payment to pay off part or all of their mortgage, to 'pay off any other type of loan' or to 'put towards some type of investment'. (PricewaterhouseCoopers, 2003, pp 111- 112)

Other findings of some interest include:

- Neither injury severity nor time since claim closure had a noticeable impact on the use of lump sum payments.
- 66 per cent of the sample was in some form of debt that involved types of cash flow problems and consumer debt including a home loan. (They did not compare with results from general population as the General Social Survey data was not available at the time.)
- Two thirds of the sample reported recently taking at least one type of "saving-reducing action". The risk of some financial savings reducing action was significantly associated with the type of compensation pathway.
- All of the factors from the other outcome domains (durability of return to work, social participation and number of savings reducing actions), were significantly associated with poor mental health and with "elevated levels of psychological stress" (PwC, p 126.)

The main conclusions of the report are that outcomes for people from common law and commutations groups were worse than for the weekly benefit group, and this includes financial outcomes. (They comment that this may reflect poor financial management or inadequacy of lump sum, or neither – e.g. weekly benefit participants were more likely to have returned to work. PwC, pp 152.) Whilst there might be theoretical arguments in favour of lump sums, in terms of the welfare benefits of autonomy, this empirical evidence suggests lump sums tend to lead to poorer outcomes.

We have explored whether we can learn anything from research into the use of 'lump sums' received for other purposes or reasons. In the following paragraphs, we consider lump sums at retirement (withdrawn from superannuation balances), inheritances and lotteries.

Individuals have flexibility in how they draw down their superannuation, with around 30% of superannuation assets being taken as lump sums (Productivity Commission, 2015.) Whilst there has been some debate about people spending superannuation lump sums recklessly, the evidence tends to suggest that people are generally 'prudent' in their drawdown behaviour. Many people take a small proportion of their superannuation balances and some take it all (particularly single women, low wealth households and non-homeowners). The Productivity Commission's recent research (2015) into retirement incomes analysed results from the ABS' Retirement and Retirement Intentions Survey which suggests that around one quarter of lump sums taken are used to repay mortgages, purchase new homes or make home improvements. They report that in a further 20 per cent of cases, lump sums are used to purchase or pay off a car or to retire debt.

This is not dissimilar spending behaviour to many people with redundancy or compensation payments. However, the impact of this behaviour on entitlement to the Age Pension is different to the impact on entitlement to income support payments for someone who has received a lump sum payment because of redundancy or compensation. For example, if someone uses their superannuation lump sum to pay down a mortgage or do home improvements, this is a positive in relation to Age Pension entitlement as it moves the super from being an assessable to a non-assessable asset under the income/assets test. As we have discussed, if someone uses their redundancy or compensation funds to reduce their mortgage or improve their home, this is irrelevant to the calculation of their exclusion period and they are assumed to have these funds for income purposes. In general, any analogy with superannuation funds is limited as the Age Pension remains as a safety net. For example, if someone ends up with little superannuation because of poor investment decisions, they are still able to access the Age Pension.

Another time when an individual might receive a lump sum is through an inheritance. Zagorsky (2013) reports that there is little empirical research which has looked at how people spend their inheritances. His research uses US survey data and he shows that for people in their 20s, 30s and 40s, roughly half of all money inherited is saved and the other half is spent or lost investing. Lottery prizes have similar characteristics to inheritances as both represent unearned windfall gains to recipients (Clotfelter and Cook 1990.) Other research shows lottery winners saved just 16 cents for every dollar won (Imbens et al, 2001) and bankruptcy rates soared for lottery winners 3-5 years after winning (Hankins et al. 2009.) In the lottery case, the selection bias should be noted - all lottery winners are gamblers.

A number of financial planners and financial advisers offer services to help people manage inheritances and other abrupt financial changes, suggesting there is a demand for help in managing

lump sums. For example, the Sudden Money Institute (in the US) trains financial advisers and other professionals in 'Financial Transitions Planning' to advise people through major financial change.

The Sudden Money® Institute (SMI), a resource center for Life Transitions and Good Decisions. The Institute trains financial advisors and other professionals in Financial Transitions Planning, a unique set of process and tools for managing the human dynamics of financial change. SMI recommends a 'decision-free zone' where recipients should 'process their emotions and refrain from making any big moves'. In short, an inheritance is a responsibility that shouldn't be rushed. "There's not a right answer…there's a right process.'

Other financial planners advocate 'financial transition planning' –'When life changes, money changes. When money changes, life changes.' http://theenrichmentgroup.com/transition-planning-services/financial-planning-services-for-transitions/

Financial stress and hardship

Financial 'stress' is defined by Wilkins and Warren (2009) as when, due to a shortage of money, someone is unable to meet their basic financial commitments. Financial 'hardship' is a wider concept that encompasses income, assets, debt and the ways in which finances are managed, and is preferred by some authors (e.g. Homel and Ryan, 2012). Both concepts are wider than income poverty, but some studies consider income poverty alongside measures of financial stress (e.g. Marks, 2007) to provide a broader understanding of financial 'disadvantage'.

A (brief) review of this extensive literature (see for example, Bray (2001), Breunig and Cobb-Clark (2005) and Marks (2007)) shows that the causes of both financial stress and hardship are often complex and multiple, but particularly significant is the loss of income associated with adverse life events for example the on-set of illness, redundancy, or relationship breakdown. In Homel and Ryan's review (2012) of why people present at emergency relief centres, they show people in financial hardship often have complex and multiple problems, some directly related to financial issues, others to wider issues such as health or relationship problems.

This literature is consistent with some of the case-studies that show the role of subsequent adverse life events and the complex range of factors that are contributing to some people's experience of financial hardship. It should be remembered though that what is distinctive about people serving IMPs/CPPs (whose redundancy or compensation funds have depleted) is that their financial hardship is particularly severe because they have no source of income – from private or public/state sources. We turn now to the 'financial behavioural' literature to try to get a better understanding of how individuals' financial decision-making and spending behaviour is contributing to their financial difficulties.

Financial behaviour

There is a growing body of research in the fields of behavioural finance and behavioural economics concerned with how people make financial decisions and which is being applied by policy-makers in an attempt to shape decision-making and outcomes. The research literature uses behavioural models, and increasingly empirical evidence, to challenge an underlying assumption (of standard economic models) that individuals are rational, self-interested and consistent in their preferences

(Leicester et al, 2012, IFS paper). What follows is not a full review of the large and quickly growing literature, but aims to provide some insights that might be worthy of further exploration.

The overarching insight from this body of work is that humans deviate markedly from a model of *Homo Economicus* and that our behaviour is led by "our very human, sociable, emotional and sometimes fallible brain" (Dolan et al, 2010, pp 13.) However, whilst we are not completely rational, neither is our behaviour entirely random. It is increasingly clear from the research literature that "people exhibit predictable biases that make it less likely that they will achieve their own stated desires" (Biddle, 2014, pp2). Some of these biases are discussed below.

Much recent attention has focused on the recent 'nudge' agenda initiated by the work of Thaler and Sunstein (2008) which posits that people can be 'nudged' into changing their behaviour through indirect suggestions and changes to the 'choice architecture'– see below. However, the interest in applying psychological insights to economic theory and to public policy has a rich pedigree and extends beyond nudge. In this section, we set out some of the most important insights from this broader literature relevant to this project. We also explore how these insights might be relevant to people on IMPs/CPPs.

- **Bounded rationality**

  The concept of bounded rationality first highlighted by Herbert Simon (1955) is the idea that individuals are constrained in their decision-making by a range of factors – for example the cognitive limits of their minds, the time available to make a decision and the availability of information. In light of these constraints, individuals tend to 'suffice' and limit their efforts to find 'optimal' solutions.

- **Heuristics**

  Kahneman (2011) has developed these ideas further and identified how individuals use simple rules or 'heuristics' to make decisions. These simple rules may sometimes lead to poor choices, particularly when faced with complicated decisions. Iyengar and Leppe (2000) provide evidence of the costs associated with decision-making and the existence of 'choice overload.' This can impede rational decision-making and lead individuals to desire – in some situations – less choice. This 'choice overload' can also explain why people do not make decisions and why 'default' options (i.e. the option which requires individuals to take no action) can be so powerful. Kahneman (2011) also shows how many decisions are not made through a process of careful, considered deliberation but rather via quicker cognitive processes that are more impulsive and emotional.

- **Mental accounting**

  Thaler (1990) initiated the idea of mental accounting which suggests people do not put all financial decisions together but rather mentally separate and assign their incomes and expenditures to separate accounts, and are reluctant to move money between these mental accounts even if it were to improve their wellbeing to do so. This cognitive process means people treat resources differently depending on how they are grouped or labelled. Mental accounting is linked to the concept of 'framing' – discussed further below. This suggests that income could be spent very differently depending on whether it was received in a way that

framed it as belonging to one mental account or another. Leicester et al (2012) give the example of spending behaviour of income being affected by attaching the label of ‘bonus’. Another example (O’Curry, 1999) considers how money perceived as being earned through hard work is considered different (and spent differently) to a lottery win. Individuals tend to label both resources (income and assets) and consumption, and group them into accounts such as regular income versus windfall gain or consumption on necessary expenses versus luxury goods. Moreover, people match particular resource accounts to expenditure accounts e.g. assigning windfall gains to luxury goods (Kivetz, 1999).

In relation to people serving IMPs/CPPs, the broad concept of ‘bounded rationality’ suggests that people are not well equipped (cognitively) to cope with the complexity of managing a lump sum payment (particularly given the inherent degree of uncertainty this involves.) Moreover, having a lump sum presents individuals with a range of financial decisions that have to be made for which they lack any heuristics. As mentioned earlier, a lump sum is a highly unusual financial responsibility. The concept of ‘mental accounting’ raises questions about how people perceive their redundancy or compensation payments – do people think their lump sums are a ‘reward’ or a ‘windfall gain’? Do they consider it ‘earned’ or ‘unearned’? What do people believe redundancy or compensation payments are *for*? And how does this influence how they are spent? (People who are injured often feel they have fought hard for their compensation, and this might affect their spending decisions i.e. if it is ‘earned’?)

- **Social norms**

  The standard economic model assumes that people are self-interested. However, there is now extensive evidence which suggests individuals care about the outcomes of others and about how these interrelate with their own outcomes. This partly explains, for example, why people care about fairness. Studies have also shows that people adjust their behaviour to take into account the impact on others’ welfare. A related idea is that people conform to social norms. As Leicester et al (2012) point out, this may be to do with individuals not wanting to stand out from the crowd or a reflection of ‘bounded rationality’ – what most people do is perceived to be reasonable and is therefore a good option in a complex decision environment.

What ‘most people do’ may not be appropriate for people serving IMPs/CPPs. People serving IMPs/CPPs may take action that is consistent with prevailing social norms (such as paying off debt or buying a home) but which is not the best course of action whilst serving an exclusion period (where a source of on-going income needs to be the priority).

- **Present-bias and time discounting**

  A large body of evidence illustrates that most humans are ‘present-biased’, valuing consumption or leisure in the current period more than in future periods. We prefer immediate gratification and are happy postponing future rewards. An important implication of this is that people find it difficult to stick to plans, whether that is giving up smoking or saving for retirement. This often leads people to seek out ‘commitment devices’ – a tool which restricts choice so that self-control is not required to such an extent. This present-bias is related to the concept of ‘temporal myopia’ - we have clear-vision in the short-term but this gets fuzzier as we look to the future.

Typically an individual will respond to this future uncertainty by reducing the importance of the future in decision-making. This effect is known as hyperbolic discounting (Frederick et al., 2002).

This present-bias combined with a lump sum of liquid assets can be a dangerous cocktail for some people, leading to excessive present consumption. This means that long-term planning is cognitively very difficult. In other social policy domains, this is well recognised and a range of devices are used to compensate, such as compulsory superannuation and compulsory school attendance.

- **Stress and scarcity**

Mullainathan and Shafir (2013) explore the circumstances in which people approximate 'rational' decision-making and the circumstances under which people exhibit some of the known biases (considered above). They provide evidence from a range of experiments to show that people are more likely to exhibit biases in times of stress and high cognitive load (i.e. multiple or complex decision-making required.) They argue that poverty or 'scarcity' is such a situation and can lead to less 'rational' decisions.

Being under 'stress' or having a 'high cognitive load' is perhaps common when serving an IMP or CPP (given an individual has been made redundant or suffered an injury) and so may make it more difficult for people to make rational long-term decisions.

- **Framing and choice architecture**

Framing is the idea that how choices are presented matters significantly to decision-making. Standard economic models had assumed that individual preferences and economic constraints (e.g. incomes or price of goods) solely governed choices. Much recent behavioural public policy has employed the importance of framing by aiming to alter decisions simply by changing the way choices are presented.

Adapting the framing of choices includes shaping the choice set (additional options might vary the outcome) and the prominence of different options in the choice set and changing *who* presents choices (government officials giving information can produce different outcomes to information received from peers or trusted community professionals). The wider environment in which choices are made also matters. These ideas are at the heart of Thaler and Sunstein's book Nudge (2008) which discusses how public policy should be putting greater focus on 'choice architecture' and how choices are framed.

The importance of 'framing' and 'choice architecture' (and the way information is presented and communicated) can be used in the design of 'behavioural tools' that might help people serving IMPs/CPPs to manage their finances better. This is discussed further below. This analysis shed some light on our understanding of why people may get into financial difficulty and suggests some questions that might help in exploring policy responses:

- Is information needed to communicate the *purpose* of redundancy or compensation payouts?
- Is it possible to improve communications to 'frame' decisions differently, and so improve the chances that information will lead to action?
- Who should provide information, given the importance of the messenger?
- Can 'commitment devices' or 'defaults' be deployed to improve financial outcomes?

The behavioural finance literature provides some insights into how the 'choice architecture' might be improved. However, more fundamentally, this body of research illuminates how ill-equipped humans are to manage lump sum payments and how IMPs and CPPs are perhaps underpinned by a flawed behavioural assumption that individuals are entirely rational decision-makers, able to plan over the long-term. Moreover, this research literature can be interpreted as reinforcing the case for a strong social safety net given the biases that are exhibited and the challenges of individual risk management (Curchin, 2016.)

Financial literacy, capability and inclusion

The financial literacy, capability and inclusion literature is a conceptual and definitional minefield, and the meaning of different terms have evolved over time. We do not linger on this here, but we have scanned the literature for material that might provide insights into the financial behaviour of people serving IMPs and CPPs, and how that financial behaviour might be influenced. Our general conclusion is that much of the literature is not relevant for the reason highlighted above that lump sums require unusual financial skills and much of the research relates to general money management issues. However, it still provides a useful perspective.

In addition to cognitive biases (discussed above), the financial literacy and financial capability literature in particular tends to emphasise the role of emotions, context and personal history in financial decision-making. Bramley and Collard (2015) point to a wealth of evidence that shows how emotions affect the quality of our decisions, and how cognitive biases interact with emotions and attitudes to shape decision-making. The National Financial Literacy Strategy (2014-17) led by the Australian Securities and Investments Commission (ASIC) discusses decision-making in the context of financial literacy. The strategy discusses how financial decisions are 'complex and contextual' and, in addition to cognitive biases, emotional factors and framing, also highlight the significance of personal knowledge and skills, life stage and past experience, psychological, social and cultural factors and the external environmental factors (ASIC, 2014.)

As mentioned above, the terms financial literacy and financial capability have been defined in the literature in numerous ways. For the purposes of the financial literacy strategy, ASIC define financial literacy as "a combination of financial knowledge, skills, attitudes and behaviours necessary to make sound financial decisions, based on personal circumstances, to improve financial wellbeing". It is widely recognised that financial knowledge is not sufficient to drive behaviour change, and that the connections between knowledge and behaviour are mediated by individual-level factors and the context in which decisions are taken, which includes family, friends, community, upbringing and home-life (CFPB, 2015).

A closely related concept to financial literacy/capability is 'financial ability' which tries to encapsulate a set of skills which lead to financial behaviour supportive of financial wellbeing (CFPB, 2015). Financial ability encompasses: knowing when to seek out and where to find reliable information to make a financial decision; knowing how to process financial information to make sound financial decisions; and knowing how to execute financial decisions, including monitoring and adapting as necessary to stay on track (Consumer Financial Protection Bureau, 2015). This idea that financial literacy/capability has an 'action' component – the ability to put skills and knowledge into use - is increasingly prevalent in the financial literacy/capability literature (Atkinson, McKay, Collard and Kempson, 2007).

The National Financial Literacy Strategy (ASIC, 2014) suggests a number of practical examples (drawing from behavioural and social marketing research) of how to help individuals take action and positively influence financial decision-making, which include promoting single-step, action-orientated behaviours; addressing known barriers to decision-making; providing immediate benefits to consumers; and providing information at the point of decision-making. This last point – targeting decision-making points – has been a factor in a number of countries adopting a 'life events' focus in financial information/guidance services and providing information tailored to particular life events, such as having a child, being made redundant, and retiring. (See for example MoneySmart, NZ Sorted and the UK Money Advice Service.)

A note of caution is perhaps needed here in relation to this acceptance of using 'life events' as a target for informing financial decisions. Ralston (2015) discusses how life events are not necessarily good financial decision-making points given the 'noise' often surrounding these times. This perhaps indicates the need to delay major financial decisions following some major life transitions.

A number of Australian studies have looked at financial literacy. The ANZ Adult Financial Literacy in Australia survey has been undertaken five times between 2003 and 2014 (see, ANZ, 2015). The survey identifies groups who have low levels of financial literacy, and trends in attitudes to finances, and does reveal a low level of understanding of key concepts relating to investment. However, we know little about the financial literacy or financial capability specifically of people serving IMPs/CPPs who are in financial difficulty, because we know little about their individual characteristics.

The National Financial Literacy Strategy (ASIC, 2014) refers to the link between financial literacy and financial wellbeing, making the point that a range of other factors (beyond financial literacy) contribute to financial wellbeing. One of these other factors is 'financial exclusion' – essentially lack of access to affordable and appropriate financial products and services from mainstream services (Muir et al, 2015 and Connolly at al., 2011). Financial exclusion considers structural factors that may be inhibiting people from securing their financial wellbeing. In the Australian studies, financial exclusion is measured on the basis of ownership of three basic financial services and products – a transaction account, general insurance and a credit card. Financial *inclusion* is defined broadly in the literature as the ability to access appropriate and affordable financial services or products.

One message that can be taken away from the financial capability/literacy/exclusion literature in the context of this research is that we seem to often have a problem of both financial capability and financial inclusion. People with lump sum redundancy or compensation payments often lack financial capability (i.e. do not have the "financial knowledge, skills, attitudes and behaviours necessary to make sound financial decisions") and exhibit financial exclusion (i.e. do not have "access to appropriate financial services or products".) A further message is that there, as yet, seems little robust evidence that financial literacy programs lead to improved outcomes (Hung et al, 2009), perhaps providing further argument that policies designed to improve individual decision-making should be seen in the context of possible structural impediments.

IMP and CPP case-studies

In this section, we draw out some themes from NWRN case-studies that help shed some light on why people get into financial difficulty when serving an IMP/CPP. It is worth repeating that we know very little about the experience of people serving IMPs/CPPs in general, given the lack of existing research, and that the case-studies are qualitative and so cannot tell us anything about the *scale* of

the problem or identify *typical* characteristics of people serving IMP/CPPs who get into financial difficulty. The case-studies do, however, help illustrate possible explanatory causes and this can inform our analysis of possible solutions.

From the case-studies, we have identified the following main factors which may have contributed to people getting into financial difficulty:

- Knowledge and understanding of IMPs and CPPs
- Spending behaviour
- Role of adverse life events
- Complex and multiple problems

Knowledge and understanding of IMPs/CPPs

Compensation recipients are notified of their preclusion period prior to receiving their compensation. Insurers and compensation payers are required under law to notify DHS when compensation will be paid. Conversely, employers are only required to alert DHS to redundancies if 15 or more people are being made redundant, so people serving an IMP are less likely to be aware that they will not receive income support. An examination of the NWRN case-studies supports this distinction. A number of IMP cases reported not knowing they had to serve an IMP, whilst CPP cases knew about their exclusion period (but a few did not fully grasp its consequences.)

In a selection of IMP cases, individuals were reported as saying they would have acted differently (e.g. not paid off all their debts or their mortgage) if they had known they would have to serve an IMP or would have sought help in managing their funds if they had known how long they would be unable to access income support. It is often only when they approach Centrelink having run out of funds that they find out that they cannot access income support due to an Income Management Period.

Spending behaviour

The case-studies help our understanding of what redundancy and compensation funds are spent on and how people manage their financial resources. The types of expenditure are very diverse but recurring items (in addition to everyday living expenses) include:

- paying off debts or a mortgage or buying a home
- spending money on (or ‘repaying’) family and friends
- medical and care expenses
- poor investments (e.g. investing in a friend or family member’s business)
- luxury purchases (e.g. a cruise)
- addictions – including gambling, drugs and alcohol

In all the NWRN case-studies, people appear to struggle to manage their lump sums. The reasons for this were varied. It was clear that people had little experience of managing a lump sum and this in itself was very challenging. There was very little evidence from the case-studies of people accessing financial guidance or advice and few seemed to use financial products to help them manage their money/or ‘restrict’ the liquidity of funds. Most people ran out of funds well before the end of their exclusion period.

Role of adverse life events

Whilst rarely the only factor, subsequent adverse life events (most commonly relationship breakdown or the on-set of (additional) health problems) seem to accelerate the running down of individuals' financial resources. For example, a subsequent health problem can increase care and medical costs – in one case-study, after the receipt of compensation funds, an individual had complications following surgery and then required an electric wheelchair and daily care. In a number of examples, divorce or separation put additional pressures on financial resources.

It is also worth remembering that people serving IMPs/CPPs have already suffered an adverse life event e.g. being made redundant or being injured. Furthermore, a key cause of their financial stress is that they are no longer working and so do not have income from this source (nor the social networks that work often engenders.)

Complex and multiple problems

As mentioned early, because of the need to prioritise rigorously people to whom they offer help, NWRN takes on clients who tend to be those people in most severe financial distress and those where there is a chance of their IMP/CCP being amended. Many of these people have addictions (e.g. gambling or alcohol addiction) and/or mental health problems.

Overall, the case-studies illuminate some of the reasons why people seem to get into financial difficulty. For some people serving an IMP, awareness of their exclusion from income support seems to be an issue – we discuss below the weaknesses in current policy/administrative settings that alert people being made redundant to IMPs. Other causes are related to the challenges of managing a lump sum, often compounded by the effects of subsequent adverse life events and other problems individuals face such as mental health issues and addictions.

Summary: what do we know

There is very little research directly into the experience of people servings IMPs and CPPs. We simply do not know how many people suffer financial hardship whilst serving and IMP or CPP or what happens to them during and after this period. This is the context of a broader knowledge gap around the experiences of people generally who receive redundancy or compensation lump sums - what people think these funds are for and how these funds are used to help secure financial wellbeing.

What is perhaps clear is that there are both 'individual-level' factors (such as poor financial capability and spending behaviour that is 'present-biased') and structural factors (lack of access to financial advice/guidance and lack of access to financial products) at play. In addition to the challenges of managing lump sums, subsequent adverse life events affect financial resilience and may increase likelihood that funds will be exhausted. 'Bad luck' seems to be a factor in some of these cases. On-going problems, such as mental health issues, drug or alcohol addiction, clearly exacerbate problems with 'responsible' financial decision-making.

For people serving IMPs, lack of awareness of the existence of a waiting period is an issue. Indeed it is worth remembering that some people may only find out that they have to serve an IMP on applying for Income support and once their funds are already depleted. We might assume that some people may change their spending/investment behaviour in light of this knowledge, so some administrative reform may be effective and desirable. And whilst it is not the focus of this research,

we note our observation that the narrowness of the legislative rules governing “unavoidable and reasonable expenses” also seems to be a factor.

It is also not clear that people think about redundancy as accelerated future payment of wages and so perhaps do not think it is for recurrent expenses and living costs. Rather, perhaps it is considered a windfall gain or compensation for being laid off and therefore used to pay off debts.

The OECD (2016) has recently noted that Australia is unusual internationally in linking severance pay with access to welfare support (although their comparison is with social insurance models of social protection.) The OECD also noted that more intensive employment services are conditional upon receipt of income support and so individuals serving IMPs do not get access to these support services. We know that those with longer employment tenure who receive higher redundancy pay are unable to access income support for longer periods (as have an IMP of long duration.) This group of people are likely to be older, perhaps with out-of-date skills, and may be in need of additional support to return to work.

For people serving CPPs, awareness of their exclusion period does not seem to be a factor. The experience of financial difficulty seems to stem from a combination of the general challenges of managing a lump sum payment together with specific challenges which follow serious injury. Adverse life events seem to be flow on - relationships breakdown, mental health and addictions develop, a back injury is poorly managed and becomes chronic.

People who suffer a life-changing injury naturally want security and so using the funds to buy a house or pay off a mortgage or other debts is a ‘rational’ course of action. However this illuminates again the mismatch between the individual’s expectations and the personal injury/social security system which regards the lump sum as at least in part an accelerated payment of future income, not a capital sum.

One of the distinguishing features of personal injury compensation is that receipt of a lump sum ends an individual’s contact with both the insurance system and with the social security system. Ending contact with the insurance system means people are left on their own to manage their money and their rehabilitation. This is unlike, for example, the NSW workers compensation scheme where if you are on regular weekly payments, instead of a lump sum, you are connected into a rehabilitation process.) An individual may have been on Newstart whilst waiting for a compensation lump sum settlement – receipt of a lump sum establishes the preclusion period and stops access to income support. And as with IMP cases discussed above, this also cuts off access to most employment services programs.

When a person runs out of money before the end of their IMP or CPP and has no source of income, and then may fight to get access to social security, the larger question should be: this person was supposed to return to work (excluding cases of catastrophic injury), why has this failed to happen?

3. Framework to guide options

In exploring options for reducing financial hardship, we’ve been guided by the following:

- The need to understand the journey (and critical points on that journey) that individuals travel from when they stop working or are injured right through to when they might seek help because their funds are depleted and they are experiencing severe financial hardship.

- The desirability of 'early intervention' to prevent people reaching crisis point, but recognition that solutions need to be both preventative and remedial.
- An understanding that possible 'solutions' include both public policy responses and market options, and may involve a mix of public/private characteristics.
- Consideration of behavioural tools (defaults, commitment devices, nudges and framing) that might improve financial decision-making.

Throughout our analysis of possible solutions, we have been mindful of the need to reconcile the tension between people retaining choice and control (over their redundancy or compensation funds) and 'paternalistic' responses (that may constrain choice and control but possibly lead to better outcomes). We have also been mindful of creating incentives that might lead to 'adverse' financial behaviour.

3.1 Journeys and critical points

Building on the earlier analysis of the case-studies, we consider here whether there are particular points in time when an intervention (information or access to a product/or policy) might have been critical to the longer-term outcome. From the limited data that we have, we suggest the following:

- Financial decisions are made at various times, not one point in time
- Opportunities to provide information, guidance and shape decisions therefore exist at different points:
    - When a person loses a job through injury or redundancy
    - During compensation or redundancy processes
    - When a person receives a compensation settlement or redundancy payment
    - When a person contacts DHS or learns about an IMP or CPP
    - When subsequent life events occur
- The process leading up to the receipt of a lump sum (particularly a compensation settlement in particular) can take a long time – this presents challenges and perhaps opportunities (time to build financial knowledge and skills?)

3.2 Early intervention, preventative and remedial approaches

It is clearly preferable to intervene early and prevent people from getting into financial difficulties in the first place. This is widely recognised in research, policy and practice. For example, Australia's current financial literacy strategy (ASIC, 2014) identifies the need to reach people before financial crisis and that more needs to be done in this regard. In the context of this research, this suggests targeting points early in the 'journey' is, therefore, desirable and that means exploring whether more could be done by employers, lawyers and others who come into contact with people before they approach Centrelink or NWRN members.

There is scope to prevent people who currently run out of funds and end up in severe financial hardship from doing so. These 'preventative' options are considered in the following sections. However, it is also going to be the case that – even in light of enhanced service/product offerings - some people will still exhaust their redundancy or compensation funds and either have only illiquid assets (housing or super) or no assets at all, and no income until they return to work or reach the end of their waiting or preclusion period. Given this, we look at both preventative and remedial approaches.

3.3 Policies, services and products

As with many other areas of public policy concern, there is a complex 'mixed economy' of public, private and voluntary organisations that help to meet individuals' needs in relation to financial wellbeing. One of the themes running through our analysis below is consideration of who is best placed and who should be responsible for providing services or supports. This requires a discussion of the respective roles of government, financial services providers, community sector organisations and others.

From our previous analysis of why people get into financial difficulty, there would seem to be both market failure (lack of appropriate financial products and advice/guidance) and government failure (whereby people fall through the income safety net). This is discussed further below.

3.4 Behavioural tools

Building on our earlier analysis of behavioural biases and behavioural insights policy literature, we have thought about the potential of the following: the use of defaults and commitment devices (including annuities); the role of framing devices (and the communications used to impart information) and consideration of the 'messenger.'

4. Innovations to reduce financial hardship

4.1 Information, guidance and choice architecture

In this section, we look at the provision of information regarding IMPs/CPPs and financial information, guidance and advice. We take an approach which looks across the 'client journey' and evaluates where information is currently available and ideas of how this might be improved.

Information on IMPs/CPPs

This section will cover referral processes and how and when people find out about IMPs and CPPs, and whether this can be improved. As we discuss above, in some of the NWRN case-studies, the client was unaware of their IMP until they got into financial difficulty. Awareness of CPPs does not seem to be an issue, but understanding of the consequences of a CPP may be weak. For some, improved awareness and understanding may lead to different financial behaviour and decisions, and better outcomes.

Under the *Fair Work Act 2009*, employers are required to provide written notice to Centrelink if 15 or more employees are being made redundant. At this stage, Centrelink will contact people and alert them to IMPs.

Centrelink also notifies the federal Department of Employment who contacts its state offices to request contact with employers. The level of support employers and workers then received is assessed on a case by case basis, depending on the needs or employers and workers. A range of resources for employers and workers is available. The primary focus of the resources and support, as would be expected, is help in finding new work. However the 'What's Next' website does include "Help with Finances" and on-site information sessions include where to get help with finances and information on eligibility of income support payments.

The ‘15 or more people’ condition in the *Fair Work Act 2009* means that DHS will not be notified of a redundancy by an employer unless there are 15 or more people to be made redundant. People who are made redundant individually (or in groups less than 15) will not be contacted by DHS to be warned of a waiting period nor be linked to other DHS support such as the Financial Information Service.

People in these circumstances will only be made aware of an IMP on applying for an income support payment or on contact with the DHS’s Financial Information Service, which can provide information on IMPs. However, there is no system in place to ensure that people know about an income maintenance period *before* they receive and potentially spend the money. The NWRN case-studies illustrate that some people do spend their redundancy payments without knowing that they will have to serve a waiting period.

A critical point when awareness of IMPs could be improved is at the time of redundancy. In response to approaches by NWRN, last year the Fair Work Ombudsman amended a number of ‘termination of employment’ letter templates and the content of their Final Pay, Redundancy and Redundancy pay and entitlements pages of their website. These changes inform people that they may have to serve a waiting period before they can access social security payments. Links have also been provided to the relevant pages on the DHS website. It could still be argued that this level of information is relatively minimal and does not emphasise that redundancy payouts can lead to additional and extended waiting periods.

This redundancy letter provides one opportunity to alert people that they may have to serve a waiting period, prior to contact with DHS/Centrelink. However, it is still the case that there is no system in place to ensure this occurs when less than 15 workers are being made redundant. Of course, many people being made redundant will find other work and not approach Centrelink and not serve a waiting period.

Unlike IMP cases, insurers and compensation payers are required to notify DHS when compensation will be paid. The DHS ‘online compensation estimator’ can provide an estimate of the charge (debt owed to Centrelink because the individual has received payments that need to be repaid) and/or the preclusion period that may need to be served. When an individual who has been in receipt of social security payments receives a settlement, their payments may cease. At this stage, Centrelink notifies the individuals (by phone and letter) of their preclusion period and provides information about the Financial Information Service.

Financial information and guidance services

A number of studies have shown that when people face financial decisions, they turn first to family and friends before looking elsewhere (ASIC, 2014). As we have discussed above, receipt of a lump sum is a rare occurrence and so financial guidance from friends and family (who are unlikely to have received a lump sum themselves) may not be ideal. A number of other sources of financial information, guidance and advice do exist. We discuss the main ones below:

- The Financial Information Service
- Financial counselling
- MoneySmart and the wider financial literacy strategy
- Financial planning (i.e. Financial advice delivering by private entities)

The Financial Information Service

www.humanservices.gov.au/customer/services/centrelink/financial-information-service

The Financial Information Service (FIS) is run by DHS/Centrelink and provides free financial information to anyone who makes contact. FIS officers can talk to people about managing their finances after redundancy or about how to make best use of their compensation resources. FIS officers can also discuss entitlement to social security payments. The box below – from the DHS Compensation Kit – illustrates the scope of advice the FIS officers are able to provide. Important to note is that FIS officers cannot provide advice on investing lump sums.

> From the DHS Compensation Kit:
>
> The Financial Information Service (FIS) is an independent, free and confidential service. It offers expert information to help people improve or maintain their standard of living and enjoy a better lifestyle by making the best of their own resources. Anyone can use this service.
>
> The service can help compensation recipients receive information at FIS seminars or interviews about:
>
> - the short and long-term consequences of the choices claimants have made or will make
> - different approaches to investing lump sums
> - the advantages and disadvantages of different types of investment
> - taxation issues relating to lump sums
> - how compensation lump sums and investments affect the rate of Centrelink income support payments, and
> - finding other experts to help.
>
> The service is not able to:
>
> - recommend any particular types of investments
> - tell people how to invest their lump sum payments (the decision is up to them), or
> - decide on the amount of the compensation recipient's Centrelink income support payment.

The administration of FIS has recently been audited by the Australian National Audit Office (ANAO, 2016) which recommended that a 'first-principles' review of the Service was needed given its increase in scope over-time (moving from a focus on pensioners to the general population) and a lack of clearly documented objectives. (https://www.anao.gov.au/work/performance-audit/administration-financial-information-service) The ANAO review considered that much of the information provided by FIS was available in the marketplace, such as specialist financial information on estate planning, borrowing to invest and running your own super fund.

Commonwealth Financial Counselling (CFC) and the Financial Management Program

CFC services are run by community and local government organisations and receive funding through the Commonwealth Government's Financial Management Program (soon to become the Financial Wellbeing and Capability Activity). The service provides free financial counselling services to people who are experiencing personal financial difficulties.

Services can be provided face to face or via a national telephone service and may include direct casework (for example, information and advice), advocacy, referral or community education. The service provides general financial counselling and specialised financial counselling, the latter to support individuals (and family, friends and employers of people) who are affected by problem gambling. The box below illustrates the scope of information and advice provided as general financial counselling.

Commonwealth financial counselling: (see https://www.dss.gov.au/our-responsibilities/communities-and-vulnerable-people/programs-services/commonwealth-financial-counselling-cfc)

Financial counsellors can assist people who are experiencing personal financial difficulties in the following ways:

- negotiate with creditors – for example, if you are having difficulty maintaining your loan, mortgage or credit card repayments
- advocate – a financial counsellor can assist with communicating with government or non-government organisations
- explain what options are available when you are not able to pay bills
- explain the debt recovery process – if you have received a letter of demand, a summons, a warrant of execution or a judgment summons and are not sure what to do next
- develop a budgeting plan – if you are having difficulties making ends meet, a financial counsellor can help develop a budgeting plan to suit your circumstances, and help gain financial management skills to enable you to take control of your finances
- provide information on bankruptcy and help explore various options
- refer you to other support services if you require.

Commonwealth Financial Counsellors do not provide:

- financial planning advice
- finance lending
- endorsement of specific financial products or services
- business advice
- legal advice

In addition to CFC services, the Financial Management Program also funds other services which may benefit people serving IMPs or CPPs. These include emergency relief (support for people's immediate needs in times of crisis) and money management services (which aim to build longer term capability to manage money and increase financial resilience.) The Financial Management Program also funds microfinance and matched savings initiatives (discussed below) under an objective of 'providing access to safe, affordable funds that may not be available through mainstream financial services.' These are referred to later in the context of improving access to financial products that are not available in the market.

Money Smart and the National Financial Literacy Strategy

The Australian Securities and Investment Commission (ASIC) has national responsibility for co-ordinating financial literacy. The MoneySmart website was established in 2011 and is a key initiative to deliver on the strategy. See https://www.moneysmart.gov.au/

The site includes information content, calculators and tools, and mobile apps. It is complemented by over 70 publications which are distributed to individuals and organisations, a monthly eNewsletter and a social media engagement strategy. There are over 13,000 links to MoneySmart from other websites (ASIC, 2014).

MoneySmart contains extensive general information which would be of value to people serving IMPs and CPPs particularly around budgeting and investment advice. The site also contains information of specific value to people being made redundant (see https://www.moneysmart.gov.au/life-events-and-you/life-events/redundancy) which includes tips on money management and information about waiting periods. There is also information targeted at people who are dealing with an illness https://www.moneysmart.gov.au/life-events-and-you/life-events/dealing-with-illness. However, the site does not seem to contain information or tools for people who are going through a compensation process or in receipt of a compensation lump sum.

Strategic priorities for the 2014-17 National Financial Literacy Strategy:

Individuals, families and communities
1. Educate the next generation, particularly through the formal education system
2. Increase the use of free, impartial information, tools and resources
3. Provide quality targeted guidance and support

Policy and program development
4. Strengthen co-ordination and effective partnerships
5. Improve research, measurement and evaluation

One of the priorities for the ASIC 2014-17 financial literacy strategy is “to increase the use of free, impartial information, tools and resources” (ASIC, 2014). This includes enhancing MoneySmart but the strategy also suggests that other sources of information are required – “no single information source can meet the full breadth and diversity of people’s money management needs.” The strategy, therefore, puts forward a range of activities to drive increased use of information, which includes co-ordinating with other sources of information and greater use of workplace programs. See box below – focus for 2014-17.

ASIC National Financial Literacy Strategy – priorities 2 and 3

Priority 2 - driving increased use of free, impartial information tools and resources will be achieved by:

- Continuing to enhance MoneySmart content and useability to reflect emerging technologies and learnings from behavioural research, user feedback and market research

- Developing a multi-sector communication plan to guide and co-ordinate efforts to reach people, particularly at the point of accessing relevant community or financial services
- Implementing co-ordinated strategies to help investors, particularly seniors and pre-retirees, to understand risk and make wise financial decisions, including planning for retirement
- Encouraging more workplaces to offer structured financial literacy programs to employees free for charge
- Promoting resources to help parents talk with their children about money

Priority 3 - Delivering quality targeted guidance and support will be achieved by:

- building links between relevant national networks, programs and services to reach people before they are in a crisis situation
- encouraging pilots of new and innovative approaches to meet the needs of disadvantaged and/or vulnerable groups
- improving the range of culturally appropriate targeted programs and support available to Indigenous Australians, particularly those transitioning to work or working in commercial settings
- Improving targeted guidance and support available to those who are not in financial crisis but are coming under increasing financial pressure, and
- Developing and promoting resources for intermediaries to use and providing opportunities for them to share effective strategies and learn from one another.

Financial planners

Financial planners (financial advice professionals) are an alternative source of guidance and advice. In the NWRN case-studies, it seems to have been a rare occurrence that someone would seek professional financial advice. According to Ralston (2015), only around 20 per cent of Australians seek formal financial advice and this is largely those with high net worth. The low level of trust in financial planners in part explains this. The ANZ financial literacy survey found that 42 per cent of respondents disagreed with the statement that they 'would trust financial professionals and accept what they recommend' (ANZ Bank, 2011.)

The Future of Financial Advice (FOFA) reforms are intended to address some of the shortcomings, e.g. by distinguishing between general (sales) advice and personal financial advice. This follows long-running problems with the quality of advice people have received and the extent to which planners have responded to personal incentives rather than client interests. We have not looked at this in any depth so merely note that financial planners clearly have a role to play in helping some people invest their lump sum payments but questions remain around levels of trust and adviser competency. The Parliamentary Joint Committee of Corporations and Financial Services has made a number of recommendations on how to increase the professional standards of advisers, which the government is considering.

The world of financial advice may be changing in light of digital advances. As Ralston (2015) suggests "The emergence of new disruptive digital finance technologies, or "fintech", especially new platforms and automated (or "robo") advice models are having a marked impact internationally, and increasingly in Australia." Ralston describes how automated advice reduces costs and, supplemented

with human advice, could provide opportunities for the financial services sector to reach a much wider community. It could be argued, however, that these new technologies may bring as many new problems if they are not introduced with the necessary safeguards to avoid increased 'scams'.

Perhaps the key message here is that financial advice available in the market (financial planners) does not currently seem to meet the needs of consumers (particularly lower-income consumers) and it is not clear that the on-going reform process will mean it is adequate in the future.

Possible innovations

In this section we have considered the information that people receive in relation to IMPs/CPPs and access to sources of financial information, guidance and advice.

From an examination of the NWRN case-studies and current processes, it seems clear that people who serve IMPs may not find out about their waiting period until they approach Centrelink to apply for income support (perhaps once their redundancy funds are exhausted.) Unlike IMPs, individuals are notified by Centrelink of a CPP around the time that compensation is paid. However, the level of communication with individuals seems minimal.

In light of these points, the following questions could be explored:

- Should employers be required to refer all redundancy cases to Centrelink or where redundancy payouts are over a certain amount, or to the Australian Taxation Office when the person is paid with the ATO then providing the information to Centrelink (this capacity is being developed, see the Single Touch Payroll measure, https://www.ato.gov.au/About-ATO/About-us/In-detail/Strategic-direction/Simpler-reporting-with-Single-Touch-Payroll/)?
- Is it possible to enhance information from other bodies earlier in an individual's journey – e.g. employers and lawyers?
- In relation to IMPs/CPPs of long duration, is a one-off communication sufficient or should contact be made more often?
- Could the system flag certain individuals so that if they receive a payment over a certain size, or are known to have gambling/drug/alcohol issues, there is an assisted referral to financial counselling?
- Do we need to review how information on redundancy and compensation is framed – so people recognise it needs to provide a source of income?
- More generally, should communications on IMPs/CPPs be reviewed in light of emerging behavioural insight lessons re effective communications?

Essentially, in relation to communications strategy, there needs to be a) greater clarity as to the purpose of compensation and redundancy payments and steps to ensure that this is consistent across all players, and b) much more regular and informative communications with individuals serving IMPs and CPPs.

It has not been possible to undertake a thorough review of the availability of sources or content of financial information and guidance from the perspective of people who receive redundancy or compensation lump sums or of people who find themselves in financial difficulty having expended funds. However, the following ideas are suggested as possible avenues for research and development:

- To what extent can we target people early in their journey e.g. at the time of injury? Should we re-visit the role of employers and lawyers in communicating financial risks to individuals (whilst ensuring they do not stray into 'financial advice')?
- If the Financial Information Service is reviewed in light of the ANAO's recommendations, then an opportunity exists to target it on people who are not able to get their information needs met in the market – should the target group of this research be a priority focus?
- Much of the financial information that is available equates 'financial difficulty' with 'unmanageable debt' rather than having no source of income. Are new sources of information needed?
- Could we leverage ASIC's National Financial Literacy Strategy (Priority 3) to pilot an early intervention approach for people who receive large lump sums known to be at risk?
- Could MoneySmart include information targeting people who are claiming compensation or have received a compensation lump sum? Could a 'publication' (akin to retirement brochure) be developed for people receiving compensation or redundancy?
- As well as referring people to financial information and guidance services, should Centrelink directly provide some 'simple and actionable' financial information to people who are known to have received a lump sum?

4.2 Tools to help people manage their money better

The focus of this section is tools (products and policies) that might help people manage their money better. Specifically, we look at options that might help people secure an income stream from their compensation settlement or redundancy payout (e.g. an annuity). Related, but different, we also briefly consider whether there might be products/tools that quarantine (or 'ring-fence') a proportion of funds for essential living costs.

Financial product innovation – income stream products

The rationale behind IMPs and CPPs is that the redundancy or compensation payment should provide individuals with income throughout the waiting or exclusion period. We consider here how a lump sum can be converted into an income stream, looking first at the analogy of superannuation/retirement and then the specifics of compensation and redundancy.

When people retire, they enter a phase of decumulating wealth and need to consider how to maintain an income during retirement. As noted in Ralston (2015), there has been much recent discussion about how to communicate information and ensure the provision of appropriate advice on retirement incomes and about how to structure the transition to retirement. The 2014 Financial System Inquiry (FSI) considered the retirement phase of superannuation in detail. This work can provide a useful analogy for people who need to convert a lump sum compensation settlement or redundancy payout into an income stream.

People can use various income stream products in retirement. The vast majority of retirees currently choose an 'account-based pension'. An account-based pension is purchased with superannuation savings at the point of retirement. It is subject to minimum drawdown rates depending on age. The product can be designed to produce a regular income stream but the ability of the fund to maintain these payments depends on the performance of the underlying investments i.e. the product does not protect against longevity risk (the risk of outliving savings.)

The main alternative to an account-based pension is an annuity. There are many different types of annuity – immediate lifetime, deferred lifetime, term, variable, and group annuities (see Appendix 1 in Ralston, 2015). The distinctive feature of some forms of annuities, such as lifetime annuities, is that they also manage longevity risk by sustaining an income for the lifetime of the recipient.

Annuities are not popular in Australia and the annuities market remains very small. There are a range of reasons for this. (See Productivity Commission (2015) and Ralston (2015) for fuller discussions.) Annuities are less flexible than account-based pension products and the ability to access additional funds (beyond the income stream) for unexpected costs (such as to pay for medical costs or care) is valued by retirees. Other reasons include: that people perceive annuities to be poor value for money as individuals do not fully understand or appreciate the cost of protecting against longevity (Hu and Scott, 2007), that the products have not historically paid any death benefits and that people see the Age Pension as providing security and a safety net if savings are dissipated and so do not need to protect against longevity risk (Know, 2000). There has been some recent innovation in annuities products, which include making it possible for a death benefit to be paid to a beneficiary and providing greater flexibility (Ralston, 2015).

The interaction with Age Pension rules is also critical. A change in 2005 to the treatment of lifetime annuities when accessing the Age Pension made them less attractive to retirees. Recent policy changes have made them more attractive, however, demand has remained low (Ralston, 2015).

Recent policy developments may change the quality of the annuities market over the longer term. The FSI recommended that trustees develop a Comprehensive Income Product for Retirement (CIPR), which would be designed to improve retirement income streams and manage longevity risk, alongside other measures that would smooth the transition from accumulation to decumulation phases. The FSI's recommendation was that the CIPR would be pre-selected for members, acting as a 'soft-default'. Ralston (2015) refers to the growing evidence base that shows that complex decision-making at "critical junctures", such as retirement, can lead to poor outcomes for individuals and that a default CIPR would reduce complexity. She also pointed out that this approach to the decumulation phase would then be consistent with the accumulation phase, where the majority of members are in the default fund of their employer.

The Australian Government's response (Treasury, 2015) to the FSI agreed that the range of products available at retirement is currently narrow and does not meet needs and preferences of individuals, and is supporting the development of comprehensive income products. The Government is consulting further to develop a 'principles-based framework' for the pre-selection of a comprehensive retirement income product by superannuation trustees. This is being taken forward with regard to the outcomes of the Tax White Paper and the Review of Retirement Income Stream Regulation. As noted by the Productivity Commission (2015) encouraging the take-up of annuities needs to be carefully considered, in particular through the use of a 'soft-default' given the diversity of retirees' needs, circumstances and preferences.

Currently people who receive a significant lump sum compensation settlement can use an 'account-based pension' to help manage their income stream. Compensation funds can be contributed to a superannuation fund and then these funds are rolled into an account-based pension. However, to do this, individuals are required to fulfil the 'condition of release' that they are totally and permanently disabled.

An example of product development that might be particularly relevant to people receiving redundancy or compensation (and serving an IMP and CPP) is innovation in term annuities. A term annuity pays an income over a predetermined period with or without a return of the initial capital investment. Term annuities are also flexible as policy holders can access their capital with a surrender value.

More generally, a suitable investment strategy will also help people maintain an income stream, for example choosing investments which pay dividends or interest payments.

The FSI and the Government's policy response (the Government's Financial System Program) also has some general relevance to our research. The Government has articulated an agenda to improve the financial system, which aims to:

- strengthen the resilience of the financial system;
- improve the efficiency of the superannuation system;
- stimulate innovation in the financial system;
- support consumers of financial products being treated fairly; and
- strengthen regulator capabilities and accountability.

Structured settlements (in compensation cases)

A structured settlement is a settlement of a claim for compensation for personal injury under which a lifetime annuity is purchased for the claimant, rather than receiving compensation as a lump sum. Structured settlements mean individuals receive regular payments over their lifetime. Structured settlements have tax advantages and mean that the claimant is less at risk of the financial mis-management or vulnerability to fraud that can be associated with the receipt of a lump sum.

It is possible to set up the settlement to have an immediate cash component (to pay off costs, debts or purchase medical equipment), other personal injury annuities alongside the compulsory component (which might have more flexibility that the compulsory minimum component) and personal injury lump sums (which can be tax-free and received at pre-agreed future dates, for example to pay for periodic updating of medical expenses, such as the purchase of a wheelchair.) See Australian Tax Office Tax Facts *Structured Settlements: information for injured people* (NAT 8629-6.2003) for more information.

Structured settlements were developed in the United States and seem to have worked well there. In Australia, legislation was introduced in 1997 (Division 54 of the Income Tax Assessment Act 1997 and Division 2A of part 10 of the Life Insurance Act 1995) to provide an income tax exemption for personal injury payments made under structured settlements. It was anticipated at the time that structured settlements would be adopted by appropriate claimants in Australia. This has not proved to be the case.

The restrictions placed upon the use of structured settlements in Australia in part explain this. The tax exemption requires that the annuity be purchased from an Australian insurance company and the income stream generated has to be greater than the Age Pension level and increase each year in line with inflation/CPI. It was also the case that a range of government/public trustees and private trustee companies exist to protect claimants who receive a lump sum. For both retirees and

compensation recipients, account-based pensions have also provided an alternative financial product to manage funds albeit without longevity risk protection and only for people with 'total and permanent' disability.

More generally, and perhaps fundamentally, structured settlements are dependent upon a healthy annuities market. As discussed above, Australia's annuities market has been small historically and failed to develop. In contrast, in the United States, the annuities market is large and competitive and other options to ''protect' compensation paid to seriously injured people were not available as the market was developing. The annuities market for compensation claimants seems particularly 'thin' with insurers holding insufficient information about the impact of injury on life expectancy, and this makes pooling of risk inherently problematic (Productivity Commission, 2015).

In 2007, the Government asked Alan Cameron to review the operation of the income tax exemption of structured settlements (Cameron, 2008). The aim of the review was to assess the effectiveness of the tax exemption and make suggestions for how to improve its effectiveness. Cameron reported that structured settlements had not been taken up, citing a number of reasons for this including that life insurance companies had not been able to offer lifetime annuities linked to the CPI and the general lack of popularity of annuities (owing to lack of flexibility and the inability to leave residual capital to dependants).

Some of the submissions to the review are of interest here. Some submissions suggested the exemption should be extended to fixed term annuities. Longevity risk would then be borne by the individual, which Cameron felt worked against the primary purpose of structured settlements. A number of State Governments argued that state insurers should be able to offer annuities from their own funds (where the state is the insurer of the defendant in a personal injury compensation claim.) On this point, Cameron felt it was beyond the scope of his terms of reference being concerned with the boundary of the exemption rather than its operation.

In his final report, Cameron also pointed to the availability of the alternative – paying funds into a superannuation fund and drawing an allocated pension – and supported changes to the superannuation rules to remove any obstacles to the use of allocated pensions by all accident victims (Cameron, 2008).

Government-administered annuities

This section considers the feasibility of buying an income stream or regular payments from government, rather than purchasing a financial product in the market. Despite the note of optimism above regarding the developing of the annuities market in Australia, at the moment there is little available in the market in relation to financial products that convert lump sums into income streams.

As part of the research, we first considered whether individuals could 'buy-into' the DSP for those eligible and for the duration of a preclusion period. This 'buying in to DSP' option would only be available to someone who has been assessed as eligible for DSP, but are excluded because of a compensation settlement. Essentially, an individual would give the Government a lump sum and, in return, receive regular pension payments, paid at the level of DSP. This would be for a fixed period (the duration of the preclusion period) and so is akin to a fixed term annuity rather than a standard annuity.

The advantages for the claimant of this policy are that they have a guaranteed income stream. It would, therefore, prevent acute financial hardship. From the government's perspective, it is an 'early intervention' approach which could prevent individuals' running out of funds and potentially becoming destitute.

A very similar but simpler idea is a government-administered annuity, which has the same benefits listed above and could be available to a broader cohort (i.e. beyond people accessed as eligible for DSP). These ideas would require much further research, modelling and consultation to assess feasibility and demand but as the Productivity Commission (2015) recently commented "Given necessary prudential requirements, public bodies are better placed that private insurers to self-fund annuities or periodic payments. Moreover, public bodies are generally not subject to the same financial services regulations that raise the cost of providing annuities." (Productivity Commission, 2015, page 810).

'Quarantining' Funds for Living Costs

Another idea we have explored is the potential of products or policies that help people manage their funds by restricting a proportion of funds for on-going living costs. Multiple bank account options are available where households can use different accounts for different functions and many financial products exist where individuals are restricted in their access to funds, such as term deposits.

However, financial products available in the market do not restrict the *use* of the funds once accessible. A possible analogy is "matched savings accounts" where individuals are only allowed to spend funds on particular purposes. Matched savings accounts are savings accounts targeted at low-income households, whereby savings are 'matched' to provide an incentive to save and accumulate an asset. Initiated in the early 1990s in the United States (Sherraden, 1991), the concept has spread internationally. Australia has the longest running matched savings scheme in the world – Saver Plus – an initiative run through a partnership between The Brotherhood of St Laurence, ANZ and, since 2009, the Australian Government (Russell et al, 2015). Saver Plus, and most matched savings schemes, restricts how individuals spend their savings. For example, funds in Saver Plus account can only be used for educational purposes. Participants are also required to identify a specific education-related savings goal and to undertake a program of financial education. They lose the matched funding if they withdraw the funds prior to completion of the program. In the United States, many states have programs called Individual Development Accounts which similarly restrict the use of funds to certain purposes (usually 'investments' in education and housing). Economic and financial management education is a universal feature of these 'matched-savings' programs and they are usually run as partnerships between a third sector (non-profit) organisation and financial services provider, often with government support. This type of scheme is relevant only in that they restrict use of private funds, and it illustrates how community and financial sector partners can work together to deliver financial programs/products.

We have also considered briefly whether 'Income Management' has any relevance to this study. Income Management is a government policy that quarantines a proportion of an individual's income support payment to pay for essential items such as food, housing, clothing and utilities. For an overview of Income Management see http://www.humanservices.gov.au/customer/enablers/centrelink/income-management/about-income-management and for recent evaluations, see Bray et al, 2014.) The income-managed funds

can be spent using a PIN protected card (the BasicsCard) or by arranging for Centrelink to make payments, for example for utilities and rent, on their behalf. Income Management has many objectives but the distinctive characteristic relevant to this research is that individuals are *restricted* in the *use* of funds. A fundamental difference is that Income Management involves the restriction of income support rather than privately-held assets. Our sense is that Income Management has little relevance to our research. A more appropriate response might be a pre-commitment device, such as an annuity.

Possible innovations

In this section, we have covered the development of the annuities market (and availability of income stream products), structured settlements, 'buying in' to the Disability Support Pension and options to restrict a proportion of funds for living costs.

It is clear that whilst the annuities market remains weak, structured settlements will not be taken up in Australia. A well-executed investment strategy might compensate for this but this largely relies on the availability of high quality and trusted financial advice (which seems lacking.)

In this context, we suggest the following questions could be considered further:

- Could a 'soft-default' product be developed for people receiving large lump sums (analogous to the proposed Comprehensive Income Product for Retirement (CIPF))?
- Should allocated pensions be opened up to all people with compensable injury?
- Are there alternative 'pre-commitment' devices that might be developed to help individuals make funds last? How feasible is a government-administered annuity?
- Could a 'community-financial services-government partnership' develop a 'fixed term annuity' or 'lump sum product' specifically for people with sizeable redundancy or compensation? This might have a primary objective of supporting financial management but could also link people into other services and supports to aid a return to work.

4.3 Tools to help people back to financial well-being

In this section, we consider options for helping people back to financial well-being after they have exhausted their redundancy and/or compensation funds and are serving an IMP or CPP. We cover home equity options (for people who have housing wealth), other loan options and early access to superannuation.

Home equity options

A proportion of people who are serving an IMP or CPP own housing wealth. NWRN report that it is common practice for clients seeking help to have paid off a mortgage or bought a home with a compensation or redundancy payout. They have 'spent' their money investing in their home, and now have no source of income or store of wealth other than their home, and are unable to get a normal consumer loan because they have no income.

This may not have been the best course of financial action and information/guidance might help prevent more people ending up in this situation (considered in Section 4.1). In this section, we consider what remedial action can be taken once people find themselves in this situation. We set

out here the potential for people to release equity in their homes to fund their current consumption needs. Other options are considered below, for people with or without housing wealth.

Traditionally, housing wealth had been perceived as a stock of assets to be tapped into, if at all, in retirement. Much of the research literature relates to the use of housing wealth in retirement and largely in the context of providing for the costs of aged care rather than for income maintenance (although examples of the latter exist – see under Pension Loan Scheme below).

However, a number of studies have analysed the role of housing wealth across the life course (Wood et al, 2013, Haffner et al, 2015) and how this has transformed in recent decades. Financial deregulation since the 1980s and innovation in mortgage products (particularly the development of flexible mortgages) has created an environment whereby homeowners can tap into their housing wealth when required. As Wood et al (2013) describe, "In an equity borrowing environment, however, home buyers are aware that housing assets can be added into day-to-day decisions around savings, spending and debt." Flexible mortgages are essentially a loan secured against housing equity that can be repaid in varying instalments, allowing the borrower to access their housing equity up to a certain limit. Flexible mortgages are available across the life course and mean that housing wealth is much more liquid than in the past (Ong et al, 2013).

We consider the following options for accessing housing wealth:

- Downsizing by moving to a smaller or less expensive home or 'selling up';
- Borrowing against the home (also known as equity borrowing or mortgage equity withdrawal (MEW));
- Accessing equity by selling a fraction of the home.

The financial products that facilitate the second two are generally referred to collectively as 'equity release products' and can be categorised as either debt (or 'credit') products or debt-free (or 'equity') products (Productivity Commission, 2015). They allow people to access housing equity 'in situ' i.e. to stay in their homes. In Australia, a debt product is called a 'reverse mortgage' and a 'home reversion scheme' is the main debt-free product currently available (Productivity Commission, 2015.) A further option (which may exist to people) is to make productive use of the housing asset through renting out a spare room.

Downsizing and 'selling up'

Moving to a smaller or less expensive home can free up some wealth to provide a source of income. However, as Ralston (2015) considers, a number of barriers exist. People in retirement often cite the effort of moving as a disincentive alongside the challenges of finding suitable housing in familiar neighbourhood (National Seniors, 2014). There are also Age Pension eligibility implications of converting an exempt asset (the family home) into liquid assets. The financial gains of downsizing can be uncertain once transaction costs and other expenditure are taken into account (Ralston, 2015) and consequently its use is limited. Downsizing often equates to moving to a cheaper location (often non-urban or regional), rather than 'downsizing' per se, and this raises questions about cost of services and access to future employment. Judd et al (2014) show that only 9 per cent of households aged 50 and over are downsizing.

Given the diversity of circumstances of people serving IMPs and CPPs, it is difficult to assess whether downsizing is a viable option for many. This works for some people, particularly if they are mortgage free (and so have access to more equity). However, additional barriers may exist for people who have injuries or disabilities which require a home to have certain characteristics or adaptions, or for people who are dependent upon a social network in a particular location. Selling up and moving into rental accommodation (or in with families or friends) also frees up housing wealth, but is likely perhaps to lead to a more insecure and inappropriate housing situation.

Ong et al's (2013) study compared people accessing housing wealth via in situ mortgage equity withdrawal, downsizing and selling up, and looked at the prevalence and uses of the different forms of accessing housing wealth. Those people downsizing or selling up were more likely to have suffered adverse life events such as ill-health, separation, divorce or bereavement prior to selling their home. This study suggests that it is groups who have few other financial resources that tend to downsize or sell-up. These groups are more likely to be older women and single people.

Equity borrowing

Equity release products can be designed for people in retirement (such as reverse or lifetime mortgages) or as non-age-specific forms (such as flexibile mortgages, discussed above) available to all homeowners (Haffner et al, 2015).

For older Australians, equity borrowing is undertaken through a reverse mortgage. This essentially is a loan secured again the home, with the loan repaid on the sale of the property. No repayments are made on the money borrowed until the property is sold. The loan can be taken as a lump sum, income stream, or line of credit or a combination of these. They are called reverse mortgages because they are effectively a mortgage in 'reverse' with the equity running down until the home is sold. The market for reverse mortgages is very small in Australia.

Selling part of the home

Home reversion schemes (also known as shared sale agreements) have only been available in Australia since 2005. In contrast to a reverse mortgage, it is not a loan. Rather it is the actual sale of part of the home, with the homeowner retaining the right to stay in the home. The longevity risk is hedged (from the provider's perspective) as there will be more years of property appreciation if the homeowner lives longer than was expected. There is only one provider of home reversion schemes in Australia – a joint venture between Bendigo Bank and Adelaide Bank. It is only available in certain postcodes (in Melbourne and Sydney) and has tight eligibility criteria.

There has been recent innovation in the home reversion market. Fractional property investment platforms have emerged in Australia and elsewhere (Ralston, 2015 and Productivity Commission, 2015). Fractional property investment enables investors to purchase 'units' or 'fractions' of properties without having to buy a property outright. This enables investors to diversify risk across a wide property portfolio. In Australia, DomaCom operates a fractional property investment platform and has also announced an accompanying equity release product that will allow retirees to gradually sell equity in their home to fractional property investors, but remain living in their home (Productivity Commission, 2015). The product was intended to be released alongside the platform, but is still awaiting regulatory approval. However, Ralston (2015) considers that these new platforms have much potential, stating "Coupled with a peer-to-peer crowd-sourced funding platform,

fractional property investment could well be the way of the future for older Australians wishing to release equity in their homes."

A further innovation is Property Options for Seniors, Pensioners and Investors (Popi). Popi Australia has developed a 'property option' agreement whereby a homeowner receives an income stream in return for the capital growth on their home (Productivity Commission, 2015). The investor has the right to buy the home in the future at a pre-agreed price, in return for a monthly income. To date, this market has not developed and ASIC's MoneySmart website currently warns against 'property options' stating they are unlikely to be covered by credit or financial services law and so consumers may not be able to access some consumer protections.

The potential of equity release products

Currently the equity release market is very small and is constrained by a complex and mutually reinforcing range of supply and demand factors (Productivity Commission, 2015). Supply factors that restrict the ability of providers to enter the market include: profits available are not significant relative to the costs and risks (including reputational risk); uncertainty about timing and amount of returns; and capital adequacy regulations (reverse mortgages are treated as 'non-standard' mortgages and so carry a higher risk weighting.) Demand factors which inhibit consumers from seeking out and buying equity release products include: reluctance to tap into housing wealth in the family home; desire to pass the home onto future generation; debt aversion; risk aversion (and wanting some capacity to meet unexpected costs); lack of awareness and understanding; negative perceptions of equity release products; high costs; and financial disincentives in relation to pensions and age care.

Some underlying factors may change over time such as future generations' greater tolerance of debt and familiarity with accessing housing wealth to fund current consumption (as discussed above). Other factors might be also amenable to change. The Productivity Commission (2015) suggested:

- Low consumer awareness might be addressed through greater investment in promotion and advertising. SEQUAL (Senior Australians Equity Release) launched a free information service in August 2015
- Greater innovation in product development to make products more appealing to both consumers and investors (e.g. DomaCom has tapped into funding from the self-managed super fund sector)
- There might be scope for "greater product differentiation and more attractive pricing even within existing regulatory setting"

However, there are a number of reasons that might support government involvement in equity release markets on efficiency or equity grounds (such as to address information asymmetries or risk of exploitation) and there is a range of ways that government might get involved – from providing information through to insuring or directly providing products.

On provision of information and guidance, the government used to fund the National Information Centre on Retirement Investments, but this ceased operation in early 2015. The government now only provides very general information via ASIC's MoneySmart website.

Cowan and Taylor (2015) have proposed that government insure providers of a government-designed default reverse mortgage product, similar to the approach of the United States Government under the 'Home Equity Conversion Mortgage' (HECM) program, through which most of the US reverse mortgage market is insured. The Centre for Independent Studies' proposal (Cowan and Taylor, 2015) recommends including the family home in the Age Pension assets test deeming income from the reverse mortgage in the income means test, as is done with other financial assets. By insuring the default reverse mortgage, the Government is taking on the longevity risk – this may not be considered desirable but it might increase trust by consumers and reduce reputational risks of providers.

A number of studies have examined the role equity release could play in funding age care, and the role that government might play in this. For example, the Productivity Commission (2011) has previously recommended a government-backed Australian Aged Care Home Credit Scheme, to help meet care and accommodation costs without having to sell homes. Per capita (Millane, 2015) has suggested that wealthier Australians (i.e. people with wealth over a certain threshold) should contribute more to their own care through the use of home equity via a modification to the Pensions Loans Scheme. The latest intervention in this debate is the Aged Care Roadmap (https://www.dss.gov.au/our-responsibilities/ageing-and-aged-care/aged-care-reform/aged-care-sector-committee)

Other research has explored the role equity release might play in income maintenance (in retirement) – we turn to these now.

Public equity release schemes and the Pension Loans Scheme

The Australian Government's Pension Loans Scheme (PLS) acts as a low cost 'reverse mortgage' scheme, with restricted eligibility. The PLS was originally designed to accompany a proposed assets test for the Age Pension that included the principal residence. This proposal was not implemented (Arthur, 2015) and the Productivity Commission (2015) has suggested that this has left the PLS without any clear purpose.

The PLS is available to people who meet the age and residence requirements of Age Pension (or other 'qualifying benefits' such as DSP, Carer Payment and Bereavement Allowance) but who are either ineligible to receive the payment (or only eligible for a reduced rate) because their income or assets are over the set limits. It is not available to people who receive the full rate of pension. See http://www.humanservices.gov.au/customer/services/centrelink/pension-loans-scheme

Take up of the scheme since it was introduced in 1986 has been very low (Arthur, 2015). In 2014, there were about 800 loans outstanding (Productivity Commission, 2015, p 168 using ABS and DHS admin data). The reasons for this low usage include: low awareness among the retired population and little promotion by government; the exclusion from eligibility of people on the full pension rate (the group most likely to need extra financial support); and its receipt as a small fortnightly income stream, making it unsuitable for paying for large one-off expenses.

A number of organisations have suggested that government should provide public equity release schemes, with some recommending that this is done through an expansion and adaption of the PLS. These proposals have tended to focus on releasing equity to pay for aged care costs or to provide

income in retirement (i.e. not earlier in lifecycle or in connection with IMPs/CPPs) for example Millane (2015).

The Australian Institute (Denniss, 2014) has suggested expanding the PLS to all people of pension age, enabling all retirees who have sufficient housing equity to access fortnightly loans equivalent to the full pension rate. They cite administrative efficiency, low borrowing costs for government and low risk profile associated with securing loans against property as key reasons for increasing access housing equity via expanding the PLS.

Denniss (2014) asks whether this is an appropriate role for government and puts forward a number of examples where government has offered secured loans to citizens:

- The Victorian government making loans for household renovations to disabled citizens
- The ACT government providing secured loans for older people wishing to defer paying their rates
- In the US, 26 States allow deferral of property taxes through a loan secured against the home
- In California, homeowners can borrow against their house to fund solar or energy efficiency upgrades, with the loans repaid along with property tax through the tax system.

In summary, given the uncertainty that the private equity release market might develop anytime soon, the government could consider its role in helping people access their housing wealth. The easiest way to do this might be via the Pension Loan Scheme given it is an existing scheme. However, it would still need to incorporate safeguards (as with any type of equity release product) in particular operational costs and the need to monitor the value of the loan against the value of the asset to ensure individuals do not enter into negative equity.

Other types of loan (including Contingent Loans)

In this section, we consider whether there are other types of loan that might work for people serving IMPs and CPPs, particularly for those people who do not have housing equity or any other form of wealth. Friends and family are clearly one source of funds, and likely to be used by many people. The NWRN case-studies show that people often turned to family and friends in advance of receiving a redundancy or compensation payment. It is likely that many people who are serving IMPs and CPPs continue to depend on this option.

The starting point for considering loans is to ask whether individuals will have the future capacity to repay a loan. We would need to know much more about the IMP/CPP caseload before being able to answer this question.

Alternative financial services

NWRN report clients' being unable to access loans from mainstream banks for the simple reason that they have no source of income. Many low-income people take out small loans from 'fringe-lenders' operating in the Alternative Financial Services (AFS) market.

The Australian Small Amount Credit Contracts (SACCs) market has grown significantly in recent decades, in line with similar trends overseas. (A SACC includes loans up to $2000 for periods between 16 days and 12 months.) Banks et al. (2015) estimate that in 2012 over 1 million Australians had taken out a SACC-type loan. The growth in the market has been in both value and volume but

also in product variation, including a strong on-line presence. The business models for SSACs varies but profit appears to derive from repeat business (from 'chronic borrowers') and the industry is built around maximising repeat business (for a full discussion of the market for small-amount credit and its impact on consumers, see Banks et al., 2015).

There is on-going debate about the reform of the regulation of the SSAC market in Australia and other countries, given the increasing evidence of adverse consequences for consumers (of getting stuck in a cycle of repeat lending and mounting debt.). In August 2015, the Australian Government set up a review of the small credit contract laws, which reported to the Assistant Treasurer in March 2016.

The wider AFS market covers a wide range of services and products targeted at people on low incomes or in precarious employment. This includes pawnbroker and check-cashing services, consumer leases, used-car loans and insurance products. As noted earlier there is very limited data on people serving IMPs/CPPs and we do not know the extent to which they use the AFS market.

Credit unions and microfinance organisations

Credit unions offer loans to consumers but all require an applicant to join the credit union and to take out a savings account. In addition, the requirements of taking out a loan tend to include being employed and having a regular income.

A small number of social microfinance organisations or Community Development Financial Institutions (CDFIs) offer loans. The No Interest Loan Scheme (NILS) is the most significant of these and operates in approximately 650 locations across Australia (Bank et al. 2015). NILS are small loans and offer no interest or fees, available to people on welfare payments or low incomes. Loans are only approved for specific purposes, such as whitegoods, educational or medical expenses not general living expenses. Step-Up loans are a similar product for people with a Centrelink concession card or receiving Family Tax Benefit Part A. However, in summary, none of the above options seem likely to be available and/or suitable for people serving IMPs/CPPs who have run out of money essentially because they have no source of income.

Contingent Loans

In this section, we consider the relevance of income contingent loans and other types of contingent loan for people serving IMPs and CPPs who have run out of money. An income contingent loan (ICL) is different from a 'normal' loan in that repayments occur if and only when debtors' incomes reach a given level. The Higher Education Contribution Scheme (HECS) in Australia is an ICL and was the first such policy in the world. Similar income contingent student loan policies have subsequently been introduced in eight other countries (Chapman et al., 2014.)

The extension of ICLs for other uses beyond higher education has been the subject of extensive academic research and policy discussion. In Chapman et al. (2014), a number of authors explore the use of ICLs beyond higher education - for Paid Parental Leave, Legal Aid, Health Care and Business Innovation among other things. In this section, we briefly explore whether an ICL might be a suitable policy response in the context of our research – people who are serving an IMP or CPP but have run out of funds.

The key distinctive features of an ICL (compared to a 'normal' loan) are that collection of debt is based on capacity to pay (rather than 'time' in the case of a normal loan) and that collection is via the tax (and transfer) system (bringing with it administrative efficiencies). All of the options explored in Chapman et al (2014) are associated with either market or government failure. We consider these features in the context of IMPs and CPPs. In the case of people serving an exclusion period and having run out of money, both a market and government failure could be said to exist – a market failure because they have no available sources of credit (and indeed they had few, if any, financial products available to help them manage and de-cumulate their funds) and a government failure because individuals have effectively fallen through the welfare safety net (irrespective of why this is the case).

Individuals subject to an IMP are generally not expected to access welfare payments longer term, as they often have strong work histories and are not injured in most cases. However, CPPs tend to be different and in practice, many people fail to enter the labour market over the long-term. Their qualification for DSP is often assessed as part of an appeal process and many will be future Centrelink customers. This would suggest that loan repayments might be collected via the Centrelink payment system, similar to the Pension Loan Scheme or Centrelink Advance Payments. However, any proposal along these lines would have to reflect uncertainty in most cases about future access to social security.

Repayment of a loan on the basis of 'capacity to pay' has clear appeal in relation to people serving an IMP/CPP and having 'ran out of money' as, in their current circumstances, they have no capacity to pay. Individuals would be required to pay back their loan when they do have the capacity to pay. This would be at the end of their IMP/CPP when they are in receipt of government payments or if they have returned to work and are receiving income from earnings.

ICLs are part of a wider conceptual framework of 'contingent loans' where loan repayments can be triggered by factors other than income. Chomik and Piggot (2014) discuss resource contingent loans (RCLs) which take account of wealth as well as income. Denniss (2014) also discusses asset contingent loans (government effectively providing reverse mortgages or a line of credit) and 'state' or 'rule' dependent loans (e.g. repayment when someone dies or gets a job). It has been argued that "the declining cost of operating online transaction interfaces should raise significant questions about the relative role of the state and the private sector in a wide range of simple financial products such as savings accounts, unsecured personal loans and secured mortgage and reverse mortgage lending" (Denniss, 2014, pp 258.) Dennis also cites the efficiency of the tax/welfare databases in making transactions and the low cost of borrowing enjoyed by government as further reasons why contingent loans could be used more extensively by government.

These arguments apply to the earlier discussion to allow certain individuals to 'buy in' to DSP which is conceptually like buying a fixed term annuity from government using the infrastructure of government to provide this 'financial service'.

In general, if we think that government has a role in helping people who have spent their redundancy or compensation funds (and have no other source of income) then this might be best achieved through assisting them to access their own housing wealth or through a contingent loan. These two options are unlikely to provide incentives that might lead to riskier financial behaviour.

Early access to Superannuation

The other form of wealth that people may hold is their superannuation wealth, and it might make sense to allow individuals who have exhausted their compensation and redundancy payments to access these funds. Early access is currently available to people over the preservation age and those who are considered permanently incapacitated. These grounds could cover a significant proportion of people who have extended preclusion periods. It can also be accessed for specific expenditures including to prevent foreclosure on a mortgage, and for medical and dental treatment.

The main barrier for others wanting to access superannuation funds is that the general financial hardship ground of access to super requires 26 weeks on social security, and so is not open to someone in an IMP or CPP. We have not considered early access to superannuation in any detail but it is an option that needs further consideration.

Possible innovations

In this section, we have considered the potential of equity release products, public equity release schemes (particularly the Pension Loans Scheme) and contingent loans. Finally we touched on facilitating early access to superannuation.

There are innovations taking place in the equity release market but it is clear that there remain complex supply and demand issues that make it challenging for many people to release equity in their homes. In this context, we suggest that the following innovations be considered:

- Re-examining the government's role in equity release, perhaps through a review of the Pension Loan Scheme
- Developing a contingent loan scheme, on the basis of capacity to pay (so repayments would start when they have earnings or access to income support)
- Allowing early access to superannuation through amending the general financial hardship grounds to read being on income support for 26 weeks or otherwise eligible to income support, but subject to a preclusion period for more than 26 weeks.

5. Conclusions and future work

We draw two broad conclusions from our research. The first cuts across the specific terms of reference we address and is a comment on the policy of lump sum payouts and associated IMP/CPP policy. Current policy settings transfer too great a level of risk to some individuals. We effectively leave people 'high and dry' through the combination of a lump sum payout, lack of access to income support (and associated exclusion from rehabilitation and employment support) and poor availability of financial management support. This suggests an imperative to offer further assistance to people bearing this risk.

Our second conclusion is that a number of promising avenues exist to provide this support. We think those ideas with most potential include:

- Improving awareness of IMPs, through requiring employers to report all cases of redundancy to Centrelink (or at least those which might involve a large lump sum and longer than average IMP).

- Exploring whether it is possible, in the case of CPPs, to enable high risk cases to be flagged in the Centrelink system e.g. where there is knowledge of pre-existing gambling or drug/alcohol addiction, and to facilitate some outreach.
- Re-examining the role of employers and lawyers in intervening early and raising awareness around the purpose and responsibilities of managing a lump sum, and the relationship with the income support system.
- Improving information and financial guidance for people with lump sum payments, perhaps through the development of tailored information products (for use by existing outlets of financial information e.g. the Financial Information Service and MoneySmart).
- Reconsidering the Centrelink communications strategy in relation to IMPs and CPPs (perhaps to include more regular or informative communications and using wording and framing that applies behavioural insights.)

Further analysis could be undertaken to revisit the relationship between government and financial services, and the role of government in delivering ‘financial services’. Given that both the annuities and equity release markets remain weak, what role should government have in helping people convert wealth to income or in helping individuals access wealth tied up in housing? In this report we canvas a number of options. If we are serious about prevention (and early intervention) in our social policy settings, then the idea of a government-administered annuity (whereby individuals are guaranteed an income stream from their lump sum payout) might be the priority for further policy development.

Finally, we should address the dearth in evidence. Further research is needed to understand the scale and nature of the problem and there are at least two dimensions to this evidence gap. The first relates specifically to people serving IMPs and CPPs - how many people get into financial difficulty, who are they and what are the consequences? The second relates to broader questions about the relationship between job loss (either through redundancy or compensable injury) and the receipt and spending of lump sums payments – how are lump sums spent and (alongside the interaction with the income support system and other policy settings) how does this support or hinder a transition back to work and wellbeing?

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https://www.moneysmart.gov.au/life-events-and-you/life-events/redundancy

http://www.humanservices.gov.au/customer/services/centrelink/financial-information-service