Submission to National Plan to Reduce Violence against Women and their Children

Income-contingent financial support for women escaping domestic violence

July 2021

Research collaboration between the Australian National University College of Business and Economics and University of Newcastle Centre of Women's Health Research.

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National Plan to Reduce Violence against Women and their Children

Thank you for the opportunity to provide a submission to National Plan to Reduce Violence Against Women and their Children.

This submission has been jointly prepared by a research team from the Australian National University, College of Business and Economics and University of Newcastle, Centre for Women's Health Research.

Our submission provides a response to a specific recommendation from the Inquiry into family, domestic and sexual violence (Recommendation 86) to inform the National Plan. Our research directly addresses this recommendation by considering income-contingent loans in combination with grant support for women to safely escape domestic violence.

The research builds on the strong track record and expertise of a cross-disciplinary team including Professor Bruce Chapman AO and Professor Deborah Loxton. Bruce is an eminent Australian economist and the principal architect of the HECS-HELP scheme. Deborah is the Deputy Director of the internationally renowned *Australian Longitudinal Study on Women's Health (ALSWH)* and heads their research in domestic violence.

Please find our submission attached to this letter. We would welcome the opportunity to provide further detail to inform the work of the National Plan.

Kind regards,

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Women experiencing domestic violence are in urgent need of financial resources. This has been highlighted as a government priority.

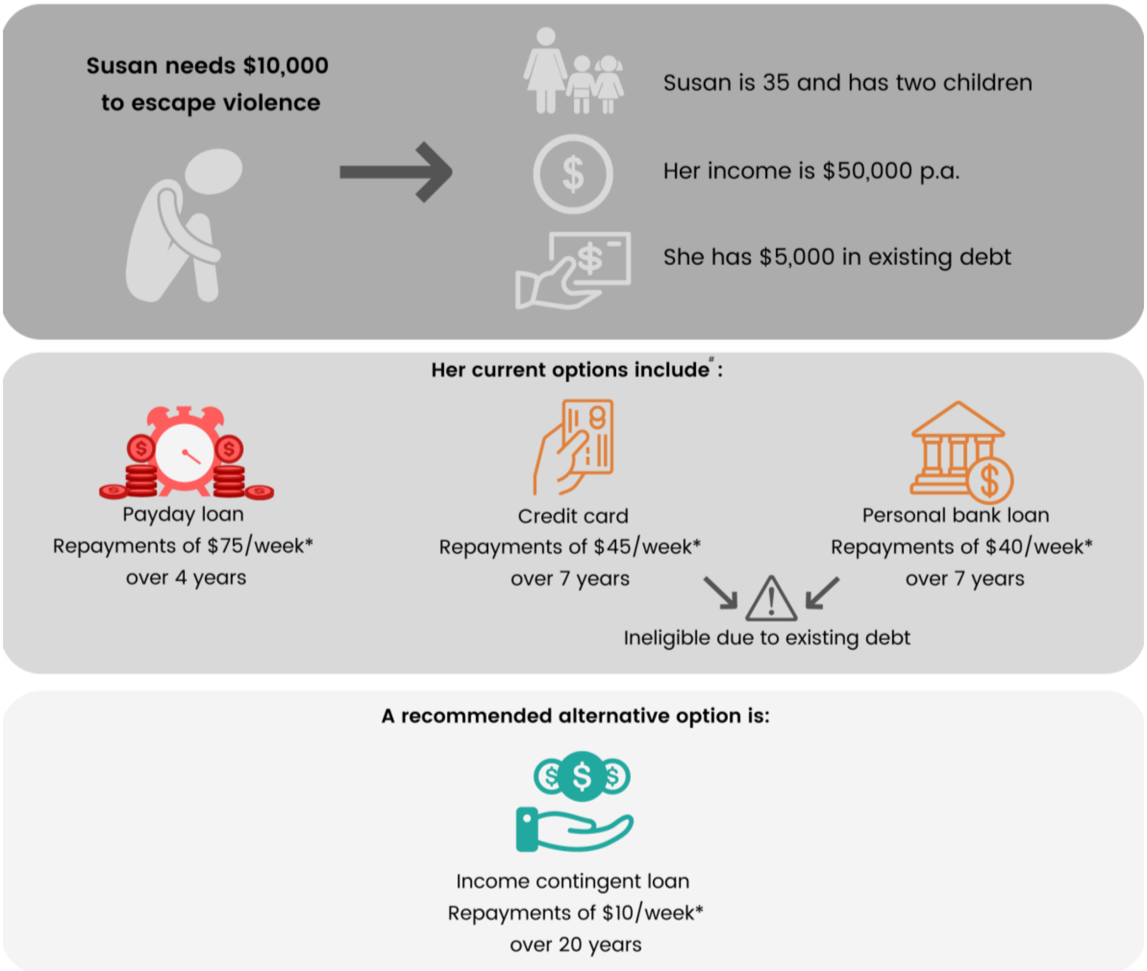
The 86th recommendation from the recent inquiry into family, domestic and sexual violence by the Australian House of Representatives Standing Committee on Social Policy and Legal Affairs was to "develop a mechanism to provide resources to victim-survivors to assist them to leave their home and resettle to escape a violent relationship".

Income contingent loans could be used to fill this gap.

An income contingent loan is a way for government to provide financial assistance to individuals in the form of a loan. The way it works is that when and only if the individual's income exceeds a set threshold, do they start repaying the loan. In Australia, the Higher Education Contribution Scheme (now HECS-HELP) is an example of an income contingent loan. Importantly, ***the scheme protects against financial hardship by automatically adjusting repayments based on income.*** An illustrative example is given below for someone who currently earns $50,000 p.a.

An example: Susan's story

Note: These figures are illustrative to Susan's case only and more details are provided in the attached document.



NILS-DV is the existing national loan scheme for women experiencing domestic violence. However, it is limited to $2000 (2021 dollars) and a maximum repayment period of 2 years.

* figures expressed in 2021 dollars

We recommend a thorough investigation of income contingent loans to fill the gap in financial resources available to women to assist them to leave a violent relationship.

Advantages of an income contingent loan for the individual

- Unrestricted use of funds.
- Risk-free loan, as repayments are adjusted based on available income, rather than strict loan timeframes and repayment amounts.
- Automatic financial protection when income is low, which is unavailable with standard loan products.
- More women have access to financial assistance to escape violence.
- Increases the amount of financial support available to allow women to escape violence early.
- Potential reduction in the time women spend living with violence and all of the risks violence entails.
- A strengths-based approach that empowers the individual and creates independence to re-establish life following violence.

Advantages of income contingent loans for the government

- Reduces government costs associated with ongoing domestic violence.
- Can be operated very efficiently by building on the systems already in place for HECS-HELP.
- Broader coverage of individuals needing financial assistance.
- More efficient use of government resources in supporting affected women.

Recommendation

We recommend a thorough investigation of income contingent loans to fill the gap in financial resources available to women to enable them to leave a violent relationship. This should include:

- Consumer, community and service provider involvement.
- Engagement with policy makers, including representatives from the Department of Social Services, Australian Tax Office and the Department of Treasury and Finance.
- In depth economic modelling, to incorporate stakeholder feedback and extend on the examples provided in the attached document.
- Formal risk assessment.

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Authors: Emma Byrnes, Bruce Chapman, Peta Forder, Timothy Higgins, Deborah Loxton, Natalie Townsend and Jananie William[1]

1 Introduction

The economic wellbeing of women experiencing domestic and family violence (DFV) has been a social and economic policy issue that Australian governments have acknowledged through various initiatives in recent years. The recent inquiry into family, domestic and sexual violence ("Inquiry") by the Australian House of Representatives Standing Committee on Social Policy and Legal Affairs highlighted the significant financial costs associated with leaving a violent relationship, the gaps in the current system and the need for affected people to have access to more financial support. In fact, the 86th recommendation called on governments to "develop a mechanism to provide resources to victim-survivors to assist them to leave their home and resettle to escape a violent relationship".

In this submission we propose an approach to directly address this recommendation through income-contingent loans (ICL) with some illustrative examples. An ICL is a government risk management instrument in which eligible individuals are provided financial assistance in the form of a loan, with the associated repayment of the assistance coming into effect if and only if the assisted individuals receive more than a given level of annual income. Perhaps the best-known example of an ICL in Australia is the Higher Education Contribution Scheme (now, HECS-HELP), in which the government effectively pays the tuition costs for students enrolling in Australian universities, with this loan being repaid only when the former student's annual income exceeds a certain threshold, with repayments set at a given percentage of income (which is progressive).

The use of ICL for assisting victim-survivors of domestic violence (VDV) as an adjunct to grant assistance, and in place of traditional loans support, has a powerful economic justification which is illustrated below. The important points in summary are that ICL: cover a greater proportion of the victim-survivors, with more substantial outlays than is fiscally possible with direct transfers (e.g. grants); and, compared to the micro loans and predatory payday loans now in existence, provide insurance against the adverse exigencies associated with loan systems with repayment being defined by time and which therefore take no account of an individual's financial circumstances. Those with ICL debts experiencing future poor financial circumstances need not be concerned with hardship in meeting repayments because they have no repayment obligations in such periods. Moreover, and critically, ICL can be operated very efficiently by building on the administrative machinery already in place with the HECS-HELP system.

In this submission we motivate the case for and outline the conceptual design of an ICL within a domestic violence context with some illustrative examples from the perspective of both individuals and government. Our bottom line is that ICL have the potential to provide

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complementary financial assistance to government grants that have propitious and equitable features for the VDV, as well as important budget benefits for the government, the latter implying the possibility of both broader and deeper assistance for VDV.

2 ICL for domestic violence policy

An ICL involves the transfer to borrowers of finances in the form of a loan, with the critical distinction of the loan being that repayments depend not on time but solely on the basis of the future income of the borrower.

2.1 The advantages of ICL

A major governmental function involves the management and distribution of risks, an issue which plays a central and unifying role in current analyses of a wide range of social and political issues (Quiggin, 2004). The role of government, and particularly of the welfare state, has been reinterpreted with an increasing emphasis on risk and uncertainty. When government is considered in its role as a risk manager, new aspects of both existing policies and future policy options are revealed.

For example, through analysis of government legislative reforms in the United States over two hundred years, Moss (2002) promotes an understanding of the risk management role of the state, which can take many diverse forms, such as laws associated with limited liability, the application of speed limits for automobiles, national health insurance, occupational health and safety legislation, disaster relief and social security. ICL are mentioned as a potential instrument in this risk management toolkit.

Similarly, Barr (2001) argues that government has a unique role to play as a ‘piggy bank’, an efficient institution to manage and decrease the costs to citizens of the unavoidable uncertainties associated with human events. It is this analytical and policy context that promotes detailed discussion and modelling of the possible role of ICL.

The important point about ICL in this context is that ICL provide insurance against consumption hardship and protection against the costs of default that arise with mortgage-type loans when the incomes of borrowers are low. That is, ICL debt collection is a consumption smoothing mechanism that allows higher and more protected financial assistance for those supported. And, as both Stiglitz and Denniss emphasise (in Chapman, Higgins and Stiglitz, 2014), ICL is a very inexpensive way for governments to deliver to citizens major financial insurance benefits.

2.2 ICL in a domestic violence government outlay context

The above discussion explains the advantages of ICL compared to normal types of loans in which repayment obligations are not defined by capacity to repay. For very good insurance reasons ICL have to be preferred to other types of loans, particularly when they can be provided so efficiently by government. But there is another counter-factual in the suite of potential government assistance for VDV, involving grants, the subject of what now follows.

Public sector budgets are necessarily limited and governments must make decisions about the allocation of scarce resources in addressing competing social and economic problems. Consequently governments will restrict outlays in particular areas, at least compared to what advocates would argue is justified. However the use of ICLs, coupled with grants in the domestic violence area, has the potential to maximise both coverage and financial assistance to VDV.

The above can be explained with the following example. Imagine that a government decision is made to spend $100 million per year in a particular jurisdiction to financially assist VDV in terms of immediate transfers. Under the assumption that there are 40,000 VDV annually, the government could allocate, for example, $2,500 per-person to the entire VDV population.

But if there was also a per-person ICL available of say $5,000, but with a present value cost to the budget of say $2,500 (that is, a subsidy of 50 per cent), this implies that another option available to government would be to provide $5,000 as an ICL upfront to the whole VDV population. This is a significantly higher level of immediate transfer per-person than $2,500, but with the same cost to government. The example is illustrative only, with the figures reflecting a hypothetical ICL design; this motivates the importance of the modelling being undertaken to determine the actual size of the subsidies under various ICL design options. This and similar examples are now discussed further in Section 3.

3 Illustrative examples of ICL

A primary consideration when designing an ICL for VDV is to ensure repayments are affordable and don't impose financial hardship as they establish safe living arrangements. Scheme costs are another important consideration. Costs to government ("subsidies"), are incurred through (1) interest charged on loans that are less than the government's cost of borrowing and/or (2) unpaid loans (through a borrower's income not exceeding the repayment threshold sufficiently enough to repay the loan over their lifetime).

There are various parameters involved in ICL design including: repayment thresholds and rates, loan amounts, loan indexation and other economic assumptions such as future income growth and the government cost of borrowing. The parameter choices can impact on the affordability for borrowers and costs to government.

We provide some illustrative examples of ICL from the individual and government perspective. For the examples below we have assumed an average ICL subsidy of 50%, but we are currently conducting extensive modelling to more accurately quantify the implications of ICL design options for VDV.[2]

3.1 ICL vs. other funding options

Susan is a 35 year old woman who has two dependent children. She needs $10,000 to escape a violent home and has the following options: payday loan, credit card debt, personal bank loan, NILS-DV or an ICL. Her income is $50,000.

If Susan uses a payday loan she would repay close to 50% in interest

Payday loans are generally limited to small amounts and have very high fees and charges with interest rates of almost 50%. The available grey literature identifies that women who are escaping FDV are at much higher risk of accessing payday loans (Good Shepherd

[2] The average subsidy of 50% is based on preliminary modelling of an ICL assuming HECS-HELP repayment thresholds and repayment rates, and no interest charged on the loan. Note that this is an average subsidy, based on income projections for a representative cohort of women. The actual subsidy for an individual will depend on their future income. An individual whose income remains below the threshold over their lifetime will make no repayments and will receive a 100% subsidy, while someone whose income is consistently above the threshold will repay in full and therefore receive either no subsidy, or a small subsidy (depending on the interest rate charged on the loan). Based on preliminary modelling of ICL design options that include: HECS-HELP rules, as well as repayment thresholds between $20,000 and $45,000, a range of repayment rates, loans indexed at 0% or CPI, and loan amounts between $5,000 and $15,000, average subsidy estimates range from 20% to 60%.

Microfinance, 2020) and use (predatory) payday loans to fund their day to day living (Northern Rivers Community Legal Centre, 2019 & Good Shepherd Microfinance, 2020). This is unsurprising given the urgency of their situation to access financial resources and escape violence. Payday loans tend to be limited to $5,000 with repayments over a two-year term, however, some loan providers allow individuals to access multiple loans over time. If we assume that $5,000 was borrowed and repaid in equal instalments over a 2 year period, followed by a further $5,000 loan also repaid in 2 years[3], then the total amount repaid on both loans would be over $15,000 (in 2021 dollars) - equating to a repayment of approximately $75 per week.

A credit card may extend the time available to repay but she will still pay over 50% in interest

Average credit card interest rates are around 16 per cent, and compound interest can result in very large balances if the loan is not repaid quickly, albeit smaller balances than payday loans. For example, if a credit card debt was paid off in weekly instalments over a 7 year period, the total amount repaid would be $15,500 (in 2021 dollars), and repayments would be approximately $45 per week.

If Susan could take out a personal loan she would not be much better off

A more affordable option than a credit card or payday loan, though not feasible for many individuals, would be to take out a personal loan from a financial institution. These have interest rates that are generally lower than credit cards, but higher than home loans or other secured loans. If borrowed funds are used to cover daily expenses including rent, or for purchase of assets that aren't able to be used as security against the loan, then this can limit borrowing capacity and incurs higher interest rates. For a personal loan with an interest rate of 10% which was paid off in equal weekly instalments over a 7 year period[4], the total amount repaid would be close to $13,000 (in 2021 dollars), and weekly repayments would be almost $40.

NILS-DV has benefits but is limited by small loan amounts for specified items

Unlike credit cards, payday loans and personal loans, a NILS-DV loan does not incur interest. NILS-DV provides funds with loan terms of 2 years and no credit checks, interest, fees or charges. However, the amount that can be borrowed is limited to $2,000, and insufficient compared to the amount that is needed for VDV's to fund escape (as outlined in the Inquiry). It can also only be used to purchase specified items and repayment doesn't automatically adjust depending on future financial circumstances.

These options all highlight a significant disadvantage with conventional loans – that is, they require repayments in the future regardless of one's financial circumstances. In stark contrast, an income contingent loan is designed to protect against future financial hardship, with automatic adjustments to repayments based on one's income.

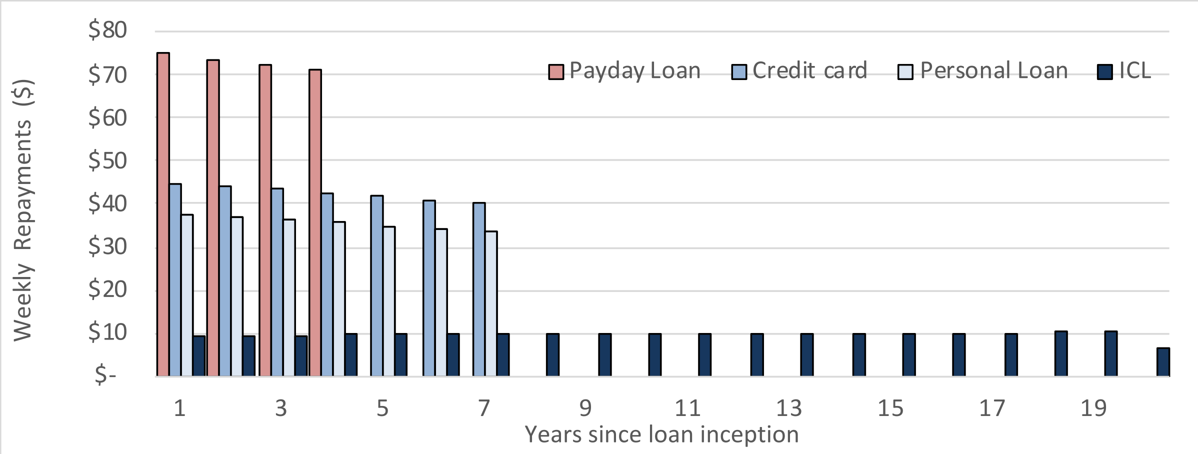
With an ICL, Susan will only repay if her income is above the repayment threshold

A major advantage of the ICL is the amount repaid depends on the individual's income. Therefore, someone earning less than the repayment threshold would not repay anything, while those earning over the threshold would repay a percentage of their income. In this example (and for our previously specified ICL), the loan would be repaid after 20 years for a person earning $50,000. If an ICL was offered with no interest charged, the maximum amount repaid

[3] Amounts and repayment periods based on payday loans currently available on the market.
[4] An online review of personal loans indicates that the majority have a maximum term 7 years.

would simply equal the amount borrowed, $10,000, and less than $9,000 in 2021 dollars, and repayments would be less than $10 per week. If the ICL was indexed with inflation, the maximum amount repaid would just be equal to $10,000 in 2021 dollars.

Figure 1. Weekly repayments of payday loan (4 year term), credit card and personal loan (7 year terms) compared to ICL, for $10,000 borrowed.

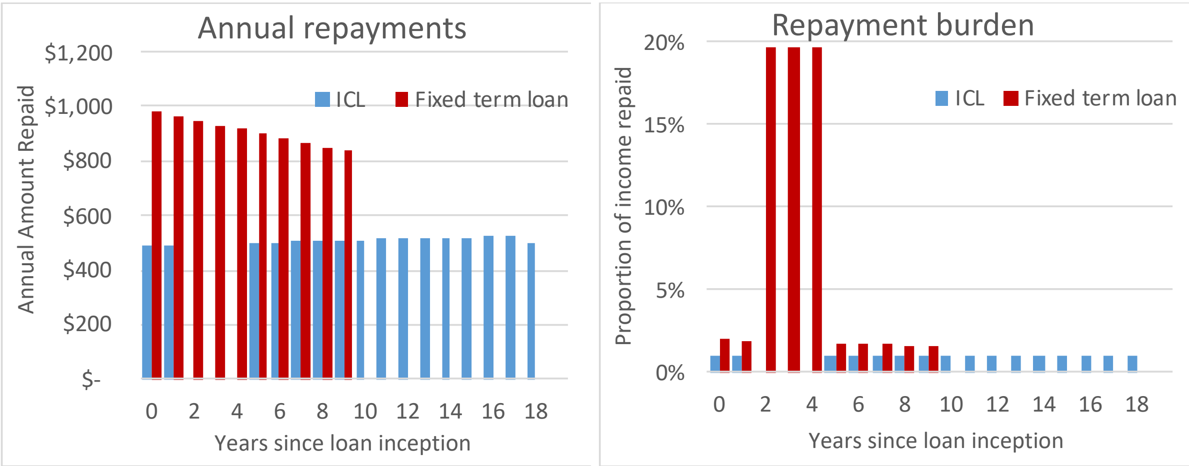


If a loan scheme was available that provided no-interest loans up to $10,000, total repayments would be comparable to those repaid under the hypothetical ICL shown in Figure 1. However, in contrast to an ICL, most loans, including NILS-DV, home loans and personal loans, require regular fixed repayments. This means that if a borrower experiences a drop in their income, they still need to meet the required loan payments even if this causes financial stress.

What happens when income falls - the automatic protection from an ICL

An example comparing a loan (that requires fixed repayments and has a 10-year term and zero interest) with an ICL is given below in the event where there is a temporary but dramatic fall in income to $5,000 per annum. In periods when income falls below the repayment threshold, ICL repayments would not be required, but fixed term loan repayments would still need to be made. The repayment burden (the proportion of income required to service the loan) during those periods could reach very high levels, exacerbating financial stress. In this example, close to 20% of income would be required to service the loan during the low income periods. An attraction of an ICL is that in the event of financial hardship (e.g. due to a drop in income), the borrower doesn't need to apply for repayment relief; relief happens automatically because repayments are proportional to income. To emphasise further, this mechanism is *automatic* and doesn't impose further administrative burden on any party.

Figure 2. Interest-free fixed term loan ($10,000 with 10 year term) compared to ICL, with periods of low income



What happens to those on higher incomes?

A further advantage of linking repayments to income through an ICL, is that those with higher incomes have the capacity to repay the loan more quickly, thereby reducing government costs. In contrast, the subsidies that borrowers receive through NILS-DV (because no interest is charged on the loan) are the same for each borrower, regardless of their future income. But for an ICL, the distribution of benefits to borrowers is progressive; those whose future incomes are high receive lower subsidies, while those who experience lower future incomes, or negative shocks to their income, will receive greater subsidies.

These examples highlight the progressive nature of the ICL and the significant insurance benefits compared with other loan options, as it is designed to protect individuals against financial hardship associated with repayment of loans.

3.2 Using an ICL to expand coverage and financial support

The illustrative examples above demonstrate some of the benefits of ICL to the individual, but as noted in Section 2, there are government costs associated with these benefits. If government funds were earmarked for financial support for VDV, then an alternative to ICL would be to offer grants. However, as noted in Section 2, the use of ICLs coupled with grants has the potential to maximise both coverage and financial assistance to VDV.

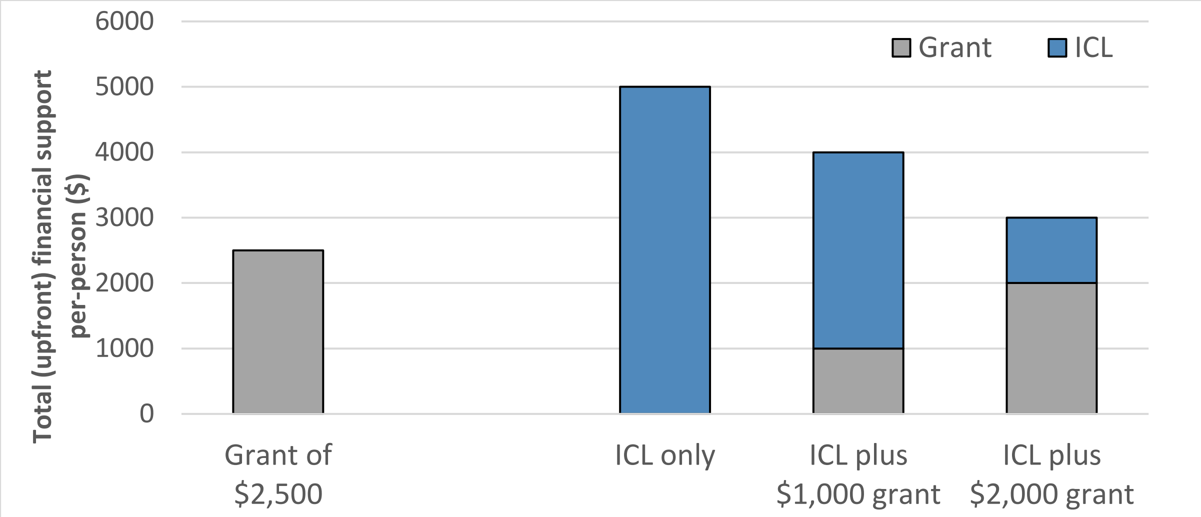
ICL gives access to more funds upfront

The following graphs demonstrate how ICLs could be used as a supplement to grants. Figure 3 compares the total (upfront) financial support that could be provided as a grant, an ICL, or a combination of both, based on a hypothetical total government outlay of $100 million for 40,000 VDV.

Firstly, if funds are provided as a grant only, this corresponds with an upfront payment of $2,500 per-person. If an ICL is offered instead of a grant of $2,500, the amount that each woman could receive would be larger than $2,500 for the same government costs. This is because a majority (50% in present value terms) of the ICL is repaid. In this example, the ICL would be $5,000.

In the next example, we consider the case where a VDV receives a grant of $1,000, but is also offered an ICL. For government costs to remain at $2,500 per-person, an ICL of $3,000 could be offered, meaning that each person would receive $4,000. In the final example, we consider the case where a VDV receives a higher grant of $2,000 and an ICL of $1,000, or a total of $3,000 per-person. In all of these examples the average costs to government would remain at $2,500 per-person.

Figure 3: Total financial support comparison for grant and ICL combinations (government outlay $100M for 40,000 VDV for all combinations)



These cases demonstrate that the total upfront financial support per-person is higher when an ICL supplements a grant (or is used on its own). In fact, the more reliance on an ICL, the higher the total payment that can be immediately transferred to the VDV. That is, for a given government outlay and population of VDV, individuals will have access to more funds upfront when an ICL is used in conjunction with grants.

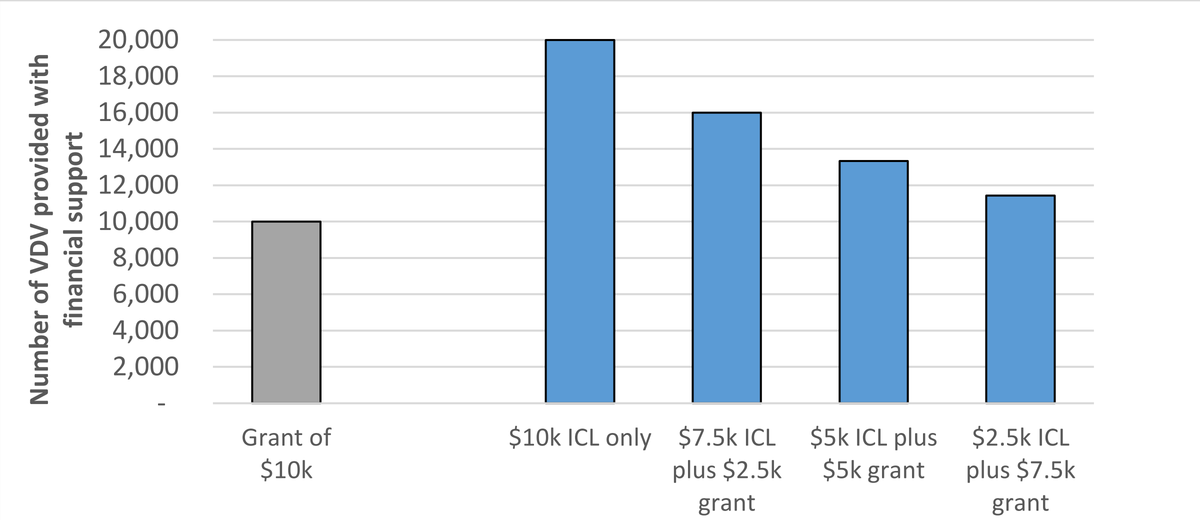
ICL <u>increases coverage</u> of financial support to more VDV

Now we illustrate the benefits of increased coverage with an ICL. Figure 4 compares the number of VDV who could be provided with funds under a grant, an ICL, or a combination of both, based on a total government outlay of $100 million and financial support of $10,000 per-person (that is, an upfront payment of $10,000) for each case.

Firstly, if the funds are provided as a grant only, this corresponds with 10,000 VDV receiving financial support. If an ICL of $10,000 per-person is offered instead of a grant, then coverage could be expanded to 20,000 VDV (because 50% of the ICL is expected to be repaid in the future). The graph also shows coverage under different combinations of an ICL and grant.

To reiterate, the ICL examples are based on an assumed average subsidy of 50%. ICL's can be designed to offer higher or lower subsidies. A *lower* subsidy would result in *higher* ICL financial support per-person and *greater* coverage (in terms of number of people with financial support) than the values reported in Figure 4. This is because there is less reliance on government outlays and the individual repays more of their loan.

Figure 4: Number of VDV covered for grant and ICL combinations (government outlay $100M for $10,000 upfront financial support for all combinations)



These cases demonstrate that more VDV are covered when an ICL supplements a grant (or is used on its own). In fact, the more reliance on an ICL, the more VDV are covered. That is, for a given government outlay and $10,000 in upfront financial support, more individuals will have access to funds when an ICL is used in conjunction with grants.

In summary, ICL in combination with grants allow for greater coverage and/or higher levels of immediate financial support from the government for VDV. It is important to keep in mind that this type of support is unlike any other form of loans because it provides to recipients risk-free and, if designed properly, benign assistance with built-in protections against financial stress. These are major advantages for VDV, who are particularly vulnerable to financial stress, and will need this protection while still maintaining access to adequate funds to safely escape a violent home.

4 Further research and consultation

Our team is conducting further research and undertaking more detailed modelling which will be available in a working paper. We are using data from the *Australian Bureau of Statistics Census (2016)*, *Personal Safety Survey (2016)* and the *Australian Longitudinal Study on Women's Health* to conduct this research. We are also aware of the need for stakeholder and community consultation in this area and as such will be consulting with a number of consumer and community representatives. We will also be engaging with policy makers, including representatives from the Department of Social Services, Australian Tax Office and the Department of Treasury and Finance, during the course of this project.

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