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Don't let financial shame be your ruin: open conversations can help ease the burden of personal debt

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Nearly two-thirds of New Zealanders are worried about the cost of living, and a quarter are worried about putting food on the table. But the shame that can come with financial stress is preventing some people from seeking help.

According to a recent survey, a third of New Zealanders were not completely truthful with their family or partners about the state of their finances, and 12% actively hid their debt. This shame and worry about money can spill over into addiction, violence and suicide.

Considering the effect of financial stress on our wellbeing, it is clear we need to overcome the financial stigma that prevents us from getting help. We also owe it to our kids to break the taboo around money by communicating our worries and educating them on how to manage finances better.

The burden of growing debt

Ballooning mortgage repayments are compounding the financial distress of many New Zealanders. At the beginning of 2023, an estimated 11.9% of home owners were behind on loan payments, with more than 18,400 mortgagees in arrears.

Given the majority of household wealth in New Zealand is in property, our financial vulnerability is closely linked to the ebbs and flows of the second most overinflated property market in the world.

There are also cultural reasons for growing financial distress. Many households have taken on significant debt to “keep up with the Joneses” and to pursue the quintessential quarter-acre dream. Social comparison and peer pressure act as powerful levers contributing to problem debt and over-indebtedness.

The average household debt in New Zealand is more than 170% of gross household income. That is higher than the United Kingdom (133%), Australia (113%) or Ireland (96%).

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The rise of problem debt

And we are digging a deeper hole. Over the past year, demand for credit cards increased by 21.7%. The use of personal debt such as personal loans and deferred payment schemes is also climbing. There is a real risk this debt could become problem debt.

Problem debt can have severe and wide-reaching consequences, including housing insecurity, financial exclusion (the inability to access debt at affordable interest rates), poor food choices and a plethora of health problems.

Yet, the hidden psychological and social cost of financial distress remains often unspoken, overlooked and underestimated.

Read more: How financial stress can affect your mental health and 5 things that can help

Even before the pandemic, 69% of New Zealanders were worried about money. The share of people worrying about their financial situation was higher for women (74%), and particularly women aged 18-34 (82%). It is no coincidence that the latter are particularly at risk of problem debt through so-called “buy now, pay later” schemes.

The stigma of financial distress extends beyond the vulnerable and the marginalised in our society. A growing number of middle-class New Zealanders are quietly suffering financial distress, isolated by financial stigma and the taboos around discussing money. When pressed, one in two New Zealanders would rather talk politics over money.

Time to talk about money

Navigating financial distress and stigma can feel overwhelming. Where money is a taboo subject, it may feel safer to withdraw, maintain false appearances, be secretive or shun social support.

This tendency to avoid open discussions and suffer in silence can lead to feelings of isolation and contribute to poor mental health, such as depression, anxiety and emotional distress.

Sadly, the trauma of living in financial distress can also break up families. Losing the symbols of hard-gained success and facing the prospect of a reduced lifestyle can be tough. It often triggers feelings of personal failure and self doubt that deter us from taking proactive steps to talk openly and seek help.

But what can families do to alleviate some of this distress?

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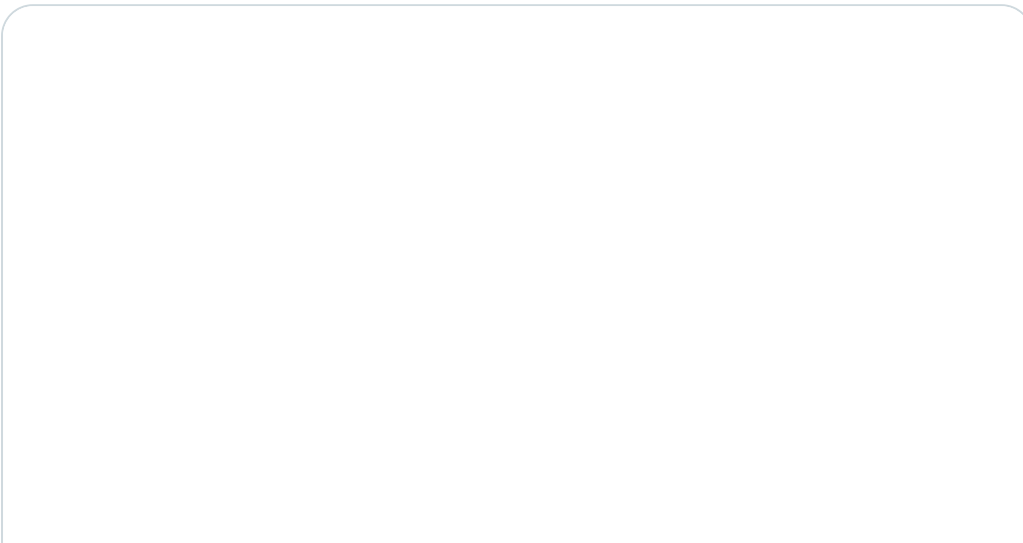
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Seek help

First, understand that you are not alone. Over 300,000 New Zealanders owe more than they earn.

Second, seek help. There are many services that help people work through their financial situation and formulate a plan. In the case of excessive debts, debt consolidation or debt solution loans may help reduce the overall burden and simplify your financial situation.

For those struggling with increasing interest on their mortgages, reaching out to your bank early is critical. During the 2008 recession, banks in New Zealand worked with customers to avoid defaulting on mortgages, including reducing servicing costs, capitalising interest and moving households to interest-only loans. It is essential to understand that the banks do not want mortgagees to fail, and that options exist.

Read more: Are you financially literate? Here are 7 signs you're on the right track

To help future generations avoid debt traps, we need open communication about money – also known as “financial socialisation”. This includes developing values, sharing knowledge and promoting behaviours that help build financial viability and contribute to financial wellbeing.

The lessons about handling money from family and friends are crucial for improving our children’s financial capability, helping them be more financially resilient and better able to survive the stresses we are experiencing now – and those yet to come.