Living with debt after advice: a longitudinal study of people on low incomes

Would better financial education and advice help people to avoid financial difficulties, as has been suggested in some policy debates? This longitudinal study covering the period 2007–15 explored people's experience of seeking to achieve financial security following debt advice. Both personal debt and mortgage debt were included in the study.

Key findings

The proportion of individuals who became debt-free simply by cutting back or saving was very small. Events such as bankruptcy, gifts/legacies, and increased income were the most frequent ways of becoming debt-free. However, although advice may not in itself have led to people being debt-free it helped them to control their finances until their personal circumstances changed.

Participants who believed they were 'managing' their debt, usually through payment plans and careful money management, found debt advice particularly useful in helping them live with the experience of being in debt, often over a lengthy period of time.

Many of those who were still in debt at the end of the project simply did not have enough income. Some older people felt they didn't have enough productive time left to repay their debt, and some people had long-term health problems. For people in these circumstances debt advice tended to focus on averting crises and helping them to manage the experience of living in debt.

Participants often commented that debt advice gave them 'someone to talk to'. The value of this cannot be overstated, particularly for those facing long-term debt.

Key policy implications

- People with very complex problems would benefit from holistic support rather than financial advice alone.
- A 'right to sell and stay' policy would help people with mortgage arrears to manage their debt problems.
- Measures to tackle low wages, social security and health issues are needed to prevent chronic debt problems arising.

What's inside

Policy context

Problem debt remains a major concern in 2016, just as it was when this project commenced in 2007. Approximately 8.8 million people in the United Kingdom are over-indebted and at least 3 million people are struggling with problem debt. It is estimated that around 1.5 million people currently seek debt advice, and an annual £8.3 billion social cost has been associated with problem debt. Some policy debates have suggested that better financial advice and education could assist people in avoiding problem debt.

About the study

This study was carried out by Gaby Atfield, Robert Lindley and Michael Orton from the University of Warwick's Institute for Employment Research. It examines the long-term impact of debt advice, and how debt affects people over time, neither of which has been fully explored by earlier research. The longitudinal perspective allowed for investigation of transitions out of debt and the factors that enabled people to make this transition – or the reasons why they did not.

This in-depth qualitative study began in 2007 with 59 low-income participants who had received debt advice. Attrition was low, with 51 of the original 59 participants remaining at the end of the project. Participants were interviewed six times. In 2011 an additional cohort of 53 people who had experienced mortgage arrears was recruited, some of whom had sought advice and some who had not.

'Debt-free' – but not risk-free

Just over a third of participants described themselves as 'debt-free'[1] at the conclusion of the project, but for some of these people it was not clear whether they were completely without debt or simply had manageable payment plans in place. The long-term sustainability of their debt-free position was also unclear.

A substantial number of participants had declared bankruptcy, sold possessions or received gifts and inheritances, but had not seen a sustainable increase in their income – they had simply made a temporary change to what appears to be a longer-term story of problematic over-indebtedness and incomes that do not meet outgoings.

In terms of financial resilience, or the ability to withstand or recover quickly from financial problems, only two participants had savings exceeding £1,000 at the end of the project, the majority had none. A lack of savings leaves even debt-free participants in an extremely precarious financial position and risks rotating between being debt-free and indebtedness.

A key finding in relation to participants who fell into this group was that the proportion who had become debt-free simply as a result of cutting back and saving more was very small. Instead, bankruptcy, gifts and inheritances, and increased income (for example, through finding employment or receiving more benefits) were the key triggers for becoming debt-free.

Those who had become debt-free as a result of increased income were the most confident that they would be able to continue to be so.

The majority of participants in this group thought that debt advice had helped them – they felt better able to deal with creditors, it gave them confidence and provided someone to talk to. Advice may not in itself have led to them being debt-free, but it did allow them to cope with being in debt until their personal circumstances changed, triggering the move to being debt-free.

Managing over-indebtedness

Almost half of the participants described themselves as 'managing' their debt at the conclusion of the project. They typically had repayment plans in place with the majority of

1 Some participants described themselves as debt-free when they were clearly not entirely without debt, having overdrafts, credit cards and mortgages. Some also owed money to family members, but they had no debts for which they were being pursued by creditors.

their creditors, and anticipated that at some point in the future (if not for many years) they would become debt-free.

Three key factors were identified in relation to participants feeling that they were managing their debt: having payment plans in place with most or all creditors; being largely cautious and capable in managing their financial affairs (a 'minding the pennies' approach to financial management was common); and having strong social networks, particularly family members who could provide financial and, importantly, emotional support.

Principally after 2010, participants began to move out of this group and into one composed of people who saw their debt as a long-term intractable problem. The reason given for this was usually increases in the cost of living.

People in this group found advice useful in helping them cope with being in debt, generally over an extended period of time.

Living with intractable debt

A third group of participants (the smallest in number) were still in debt at the end of the project and saw little possibility of moving out of debt. At best, they were managing their financial commitments to a certain extent and sometimes making very small repayments; at worst, debts were increasing.

Having an income that is simply not sufficient to meet debt repayments, and often not high enough to meet essential expenses, was the most common reason participants gave for seeing debt as problematic and insurmountable. For these participants the problem was a fundamental lack of money. People in this group obtained their income through employment or benefits, or a combination of both.

For older participants their perception of the likelihood of long-term indebtedness and, indeed, of dying in debt was clearly related to their age. This was expressed as simple arithmetic: they did not foresee a significant increase in their income and did not have enough years left to pay off their debts at their current rate of repayment. The effects of significant, long-term health problems were also evident in this group.

Debt advice increasingly focused on dealing with the ongoing demands of existing and new creditors, averting crises and making the experience of being in debt manageable. People in this group were likely to have sought advice on several occasions, and it became clear that there is a need for longer-term, holistic advice, of which debt management is only one aspect. The value of simply having someone to talk to about their problems, including those not directly related to debt, was considerable.

This kind of indebtedness can only be tackled by addressing structural barriers in society; people on the lowest incomes need not only sufficient means to live but also the means to become more financially resilient.

Conclusions

Overall, participants were satisfied with the advice they had received and the lasting impact it had on their ability to manage their debts. Most were able to act autonomously upon advice they had received. However, the provision of the very best financial education and debt advice, and the most considerate of creditors, cannot resolve problems caused by insufficient incomes.

Although the research found no neat linear processes linking the search for and provision of advice and the resolution of debt, the debt advice sector should be very confident about the value of advice given, and the counselling element should not be underestimated.

Policy implications

In the light of the findings, the research team highlight the following policy implications:

- *Advice for people with very complex problems* –The causes and experiences of debt need to be contextualised with reference to other issues, including health and well-being concerns and matters relating to the family. A holistic approach is required for people in this situation.
- *Debt advice outcomes* – Even with advice, becoming debt-free is rarely a smooth or straightforward process. Advice can help a person to become debt-free, but even when it does not do so it is still extremely valuable to many individuals in enabling them to manage better their indebtedness and its impacts.
- *Dealing with creditors* – Creditor harassment and the imposition of burgeoning interest/charges warrant further attention.
- *Mortgage arrears* – For those with mounting mortgage arrears there is a strong case for the introduction of a 'right to sell and stay', whereby people can sell their property to a registered social landlord but remain as a tenant paying a fair rent.
- *Debt and poverty* – More attention must be paid to 'upstream' measures that prevent chronic debt problems arising in the first place, especially in respect of low wages, social security and health.

Further information

This summary and the full report, *Living with debt after advice: A longitudinal study of people on low incomes* by Gaby Atfield, Robert Lindley and Michael Orton, are available in print and as a pdf from Friends Provident Foundation (enquiries@friendsprovidentfoundation.org.uk and www.friendsprovidentfoundation.org).

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