Consultation Response

StepChange Debt Charity

Social Security Advisory Committee

The Social Security (Waiting Days) Amendment Regulations 2014

Comments from StepChange Debt Charity

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Background

StepChange Debt Charity is a leading provider of independent debt advice and the country's largest charitable provider of free-to-client debt management plans (DMPs).

In 2013, we helped over 500,000 people with problem debts. The advice and support we provide is free, independent and impartial. In 2012, the charity helped clients to repay just under £307 million. We currently manage over £3.7 billion worth of unsecured problem debt.

Introduction

StepChange Debt Charity does not support this policy move. We are concerned that delaying benefit entitlement when people fall out of work could push more families into a cycle of debt and making it harder to recover from.

Income shocks are the primary reason people fall into problem debt. In the last year 23 percent of StepChange Debt Charity clients cited losing their job, and 16 percent reduced hours at work, as the key reason they fell into problem debt.[1] Income shocks associated with illness which affects employment are a further key driver.

Income shocks matter most for people on low and middle incomes who already have the least headroom in their family finances once they have accounted for their high outgoings. With few savings, and difficulties finding quick ways to substantially reduce expenditure on essential commitments, benefits are essential to help people falling out of work keep up with their bills without falling into further difficulty.[2]

We find that people millions are already in a cycle of using credit as a 'distress safety net' to keep up with their essential commitments when they face financial difficulty, and many more could be tipped over the edge when they face income shocks that they are unable to cope with through delayed or reduced benefits.

Using credit in this way is unsustainable. The interest that accrues when people use credit can see those commitments become even harder to deal with, and we find that in the last year 6% of British households (equivalent to 3 million adults) used credit to keep up with existing credit commitments,[3] making it harder for people to get back on their feet when they've lost their job or are recovering from illness, with longer term costs and consequences for both individuals and the state.

At StepChange Debt Charity, our fear is that increasing the waiting time for key, dynamic out of work benefits will push more people to depend on the credit safety

[1] StepChange Debt Charity, 2014. Statistical Yearbook 2013.
[2] StepChange Debt Charity, 2014. Life on the Edge: Towards more resilient family finances.
[3] Ibid.

net, putting more people at risk of falling into problem debt, and undermining the intentions of Universal Credit to create stronger incentives for people to get back into work quickly.

Which households can cope least with shocks to their income?
In December 2013, StepChange Debt Charity conducted a major national poll with YouGov (sample 4,442 GB adults) to understand how British households were equipped to deal with shocks and changes to their finances.

We found that a worrying 15% of British households (equivalent to more than seven million adults) would not have sufficient savings to deal with a quarter drop in their income for the length of a week – the length of time in the proposed extension to Social Security 'Waiting Days'.[4]

But some key groups – those on low and low-middle incomes, families with children, those who've experienced illness in the last year, and social and private renters – are significantly less likely to have the savings to cope with a wait for support if they lose their job.

If you experienced a 25% drop in your income, for how long, if at all, would your savings, insurance and your other income last you in keeping up with essential living costs?	
Group	**% with one week or less worth of savings to keep up with essential living costs**
All GB households	15%
Earning £5,000 - £9,999	33%
Earning £10,000 - £14,999	23%
Earning £15,000 - £19,999	22%
Households with two children	21%
Unemployed people	31%
Social housing tenant	32%
Private rented tenant	23%
Temping, short term or zero hour contract in the last year	23%
Illness or accident that affected the household income in the last year	27%

Source: StepChange Debt Charity commissioned online survey from YouGov. Weighted sample: 4,442 GB adults. Fieldwork: 17th - 20th December 2013.

Even 16% of those in full time work would not have enough savings to keep up with their essential commitments for a week if their income dropped by a quarter.

[4] StepChange Debt Charity commissioned online survey from YouGov. Weighted sample: 4,442 GB adults. Fieldwork: 17th - 20th December 2013.

The link between the lack of 'precautionary' savings and distress credit use
Beyond the impact on cash flow that an extra wait for benefit eligibility entails, there is strong evidence that households without the savings to cope with that delay in benefit eligibility are already showing deeper signs of financial difficulty and are more susceptible to using credit as a safety net.

	Households with less than a week's savings	**All households**
Used credit/ loans/ overdraft to make it through to payday in the last year	30%	12%
Lost job in the last year	12%	6%
Believe they could cut back on expenditure to meet essential costs	17%	34%
Believe they would not need welfare or to cut costs to meet essential living costs	2%	14%
Would consider taking out a payday loan to make ends meet	6%	3%
Would consider borrowing money from a loan shark to make ends meet	3%	1%
Spend more on my credit card to make ends meet	22%	14%
Use my overdraft to make ends meet	23%	21%

Source: StepChange Debt Charity commissioned online survey from YouGov. Weighted sample: 4,442 GB adults. Fieldwork: 17th - 20th December 2013.

This group are almost three times as likely to be using credit to make it through each month already, meaning they will likely already be at the edge of a debt spiral, and a shortfall in replacement income could prompt further use of credit as a distress safety net.

Indeed, people without a week's worth of savings are a third more likely to use their credit card to keep up with essential commitments, twice as likely to use a payday loan, and three times more likely to consider using a 'loan shark'.

Particularly worrying is the greater likelihood of using high cost credit products, which analysis by the Competition Commission shows is more likely to lead to people falling into a spiral of debt, as interest mounts quickly, and more than half of payday loan customers taking out a second expensive payday loan after their first, creating credit dependency.
As such it is unsurprising that just 2% of people with less than a month's worth of savings feel confident they could keep up with their essentials without welfare or cutting back if they faced a quarter drop in their income.

Problem debt and work incentives

The Department for Work and Pensions has strong reasons to ensure that their reforms do not prompt people to use credit as an additional safety net, as the consequences can undermine their efforts to get people back into work.

A survey of 1,104 StepChange Debt Charity clients who sought advice from the charity in 2013 found that problem debt had a significant impact on people's ability to hold down and do well at their job.

Yes, it has led to me losing my job	2%
Yes, it has led to changes in my attendance such as arriving late or taking more time off	6%
Yes, it has led to me being unable to concentrate at work	43%

Source: StepChange Debt Charity, 2014. Statistical Yearbook 2013.

More than half of people with problem debt find that their work is affected by their debt. If this applied to the three million people in deep problem debt (showing three or more signs of financial difficulty in our YouGov survey), it could be seen that 200,000 people have lost their job as a result of their debts, 600,000 arriving late or taking more time off work, and 1.3 million people unable to concentrate at work.

This means that if people build up problem debt as they fall out of work, the impact of that overhanging debt may affect their ability to focus on job applications to get back into work, and may affect their performance and attendance if they do get back into work, potentially making it harder to sustain employment.

The additional disruption to cash flow that an extended wait for benefit eligibility entails, by tipping hard-pressed recently unemployed people towards the credit safety net, could therefore have the perverse consequence of decreasing work incentives rather than increasing them.

Discouraging short term benefit claiming

One of the grounds for this policy is that JSA and ESA are not designed for short-term unemployment. Increasing the waiting time for benefits seeks to discourage people seeking support for short periods of time.

We question whether this sends out the right message to people who are at risk of debt due to a shortfall in support from benefits. Research by Bristol University's Personal Finance Centre, found that it was working households' optimism about quickly being able to find another equally well-paying job that led to people using credit to keep up with essentials.[5] Participants in Bristol University's 20 in-depth

[5] Collard, S. et al, 2012. Working households' experiences of debt problems/

interviews with StepChange Debt Charity clients found that their debts then spiralled as it took longer to find a new job than expected, and that new jobs did not pay enough to keep up with their increased credit commitments.

"We turned to credit cards to, you know, survive, because we hoped that my husband was going to get another job, he'd never been out of work... so we honestly thought that it was a blip and that he'd get work instantly and it just never happened because of the recession."
(Participant in Bristol University research)

Official statistics do not give detailed information on the length of time that people facing redundancy were out of work if their unemployment lasted less than six months. We therefore do not know how many people are out of work for *genuinely* short periods of time (i.e. less than a month), where they are more likely to be in a position to recover from a shortfall in finances quickly.

Regardless, people do not know how long they will be out of work, and we believe that people should be encouraged to seek support as early as possible to avoid a blip in their finances spiralling into a longer term debt problem.

Implications for the policy
Our analysis of the people most at risk of falling into difficulty due to waiting for welfare payments suggest that many working families on low and middle incomes would not have the savings or flexibility in their income to sustain the shortfall in support that this policy entails. Many, especially those who have been in work for a reasonable period of time, but with few savings, would not be exempt from the wait.

This could mean there is a significantly increased demand for benefits in advance paid back over the longer term – meaning costly administration for the Department of Work and Pensions.

Furthermore, paying back benefits in advance through reduced regular benefit payments could see already meagre budgets stretched further, creating further demand for credit to pay essential bills. Financial Conduct Authority research on payday loan customers motivations find that reduced benefit payments due to benefits in advance and social fund repayments are key reasons why people – in their optimism – resort to payday loans.[6]

Mitigating risks posed by Social Security (Waiting Days) Regulations 2014
StepChange Debt Charity does not support this policy move. We are concerned that it could lead to pushing more families into a cycle of debt and making it harder to recover from

[6] Financial Conduct Authority, 2014. Consumer credit and consumers in vulnerable circumstances.

If the government does proceed with this policy, it will need to take wider action to negate the effects of it that contribute to the demand for the credit safety net. The key is to ensure that families have enough short term 'precautionary' savings to deal with drops in their income, and to reduce people's commitments in the short term so that the shortfall in income does not lead to unsustainable credit use.

StepChange Debt Charity's recent major report 'Life on the Edge' (attached) sets out what a more effective savings policy for low to middle income families requires. Briefly, it needs to be focused on incentives that are more appealing to people on low and middle incomes – bonuses and matching are more effective than tax savings. It also needs to be framed as a default option, and policy-makers should look for opportunities to present regular, automatic saving as a default choice – such as through universal credit, payroll, or ‘round pound’ schemes run by banks to automatically transfer change to savings accounts.

To reduce expenditure over the short term, StepChange Debt Charity believes that Government should ensure that people who have lost their job or are struggling with their commitments can get 'breathing space' from their essential bill providers (energy companies, landlords, mortgage lenders, council tax collectors) and their creditors. Breathing space is where people get temporary freeze on interest and charges and flexibility on their payments, while they sort their finances out.