

Stormy weather

The impact of the Covid-19 pandemic on financial difficulty in January 2021



Contents

1. Summary
2. The impact of the Covid-19 pandemic on personal finances
3. The impacts of financial difficulty
4. Coping strategies
5. What groups have been most affected?
6. Annex tables

Introduction

Since the beginning of the Covid-19 pandemic in the UK, StepChange Debt Charity has monitored the impacts of the pandemic on personal finances and problem debt. In January 2021, StepChange commissioned updated public polling to better understand how households have coped during the winter.

We have identified those who experienced a fall in income since the beginning of the pandemic and whose income had not recovered in January this year. This gives a clearer picture of the effect of the pandemic on those who have experienced sustained falls in income.

This briefing summarises how personal finances have been affected by the pandemic, what the impacts of those changes have been and the strategies those affected have used to cope. The briefing concludes by highlighting groups most exposed to financial difficulty and problem debt.

1. Summary

Since the pandemic began 14 million GB adults have experienced a fall in income that affected their ability to meet day to day costs – 11 million say their income had not recovered in January 2021

10.1 million GB adults are showing signs of financial difficulty and 2.4 million are in problem debt

4.3 million people are behind on household bills including council tax, rent and utilities

1 in 3 of those who experienced an income shock has experienced hardship including skipping meals and rationing utilities

Coping strategies are eroding financial resilience:

45% of those who experienced an income shock since March 2020 have borrowed to make ends meet

2.8 million have used high cost credit to make ends meet

1 in 4 of those who accessed a credit payment holiday have subsequently missed repayments

At least 1.7 million GB adults have run down their savings and a further 1.4 million have used more than half of their savings to pay for essentials

Government support measures have not protected everyone

StepChange is calling on government and regulators to:

Protect against undue enforcement action such as eviction and bailiff activity;

Support households to make ends meet; and

Provide safe ways to address arrears and debt affordably

StepChange is campaigning for a package of financial support for struggling renters – find out more [here](#)

2. The impact of the Covid-19 pandemic

14.3 million people experienced a fall in personal income that affected their ability to pay for day to day expenses

11.3 million of those affected say their income had not recovered in January 2021

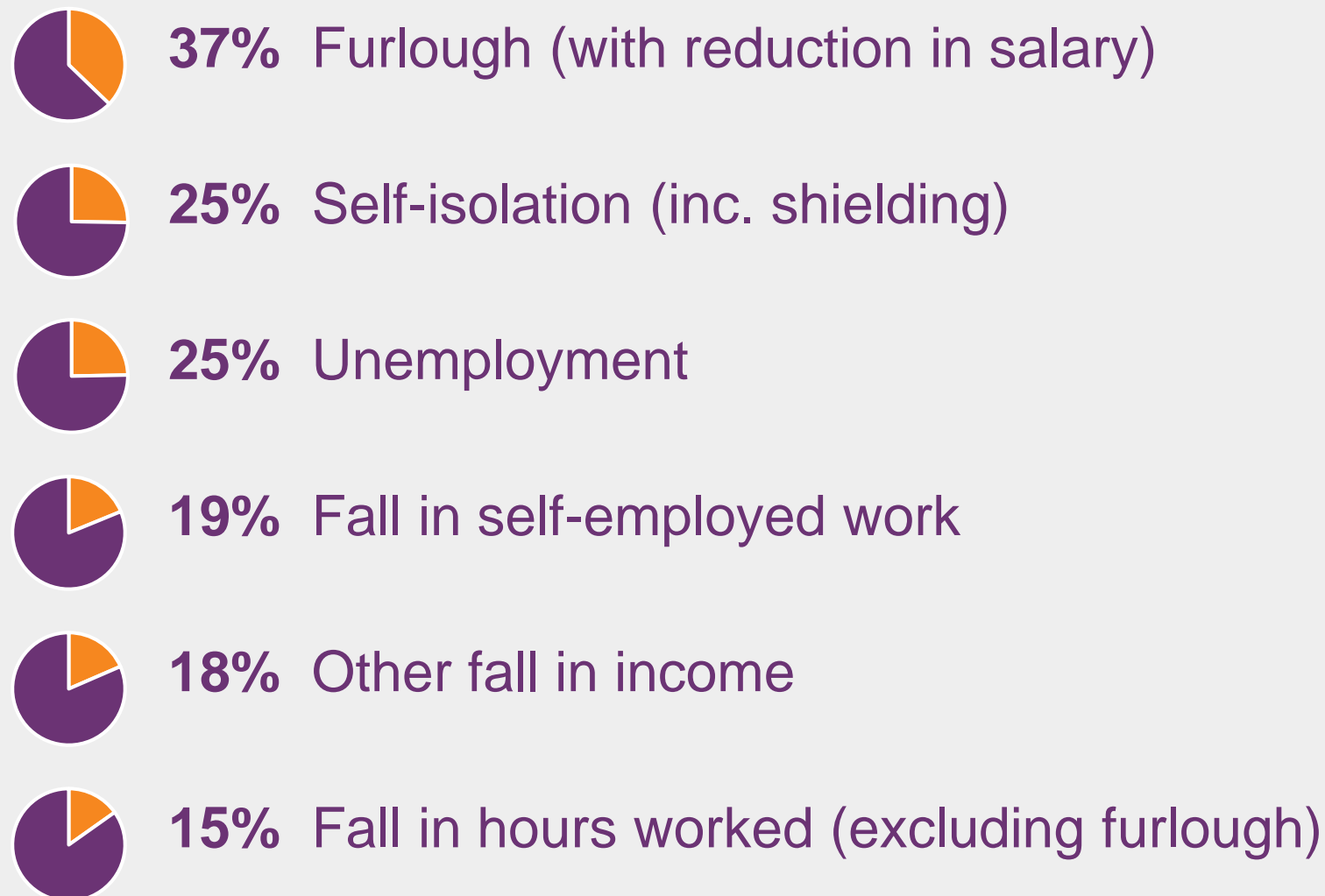
6.2 million have experienced financial difficulty such as falling behind on household bills

1.9 million of this group are experiencing problem debt

42% of GB adults (21.5 million people) report experiencing a negative change of circumstances since the beginning of the pandemic.

34% of this group (7.2 million) say their income did not fall below the level needed to meet day to day expenses.

What caused falls in income?

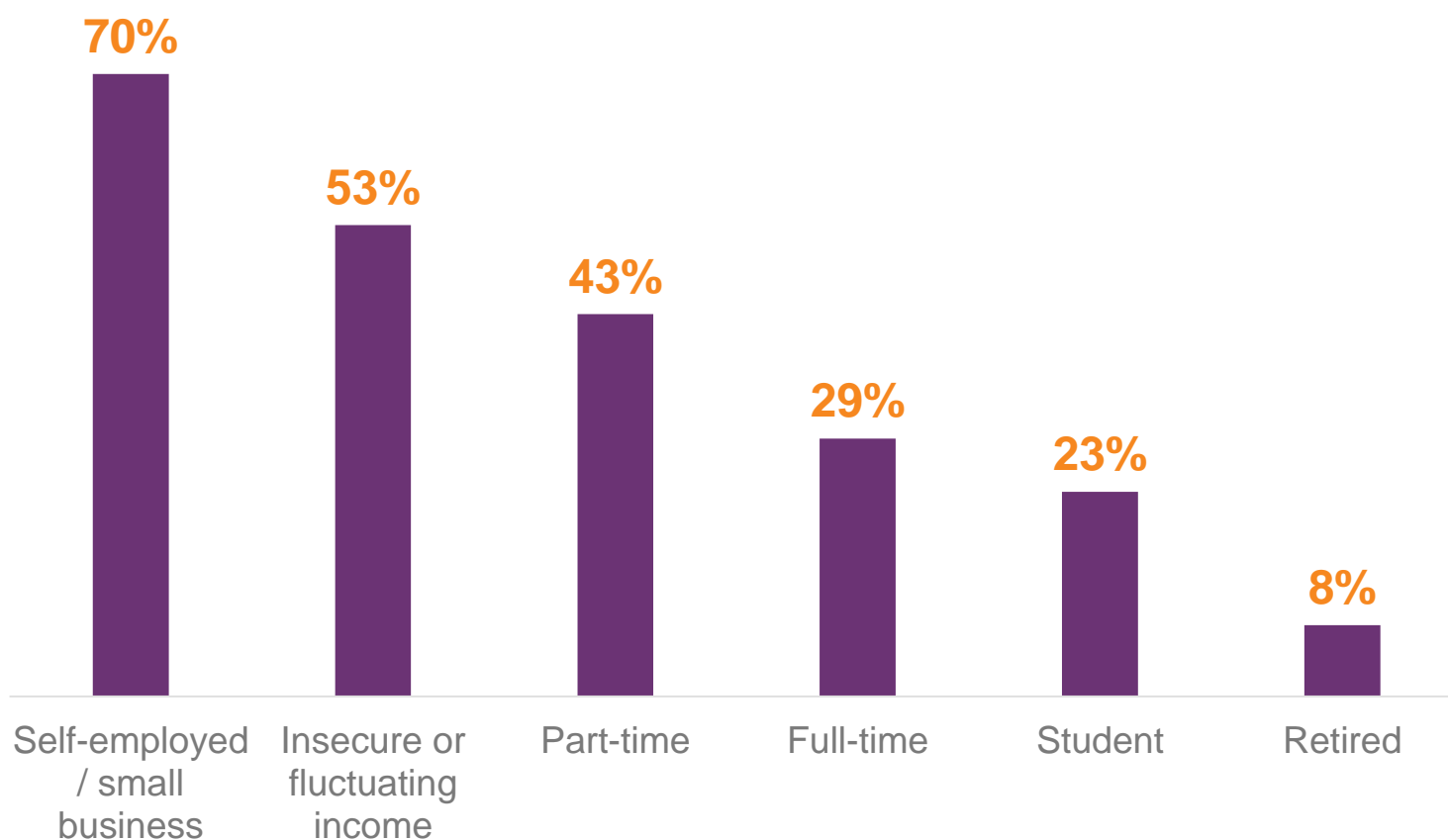


These figures show causes of income falls for those whose income fell following the beginning of the pandemic and had not recovered in January 2021. (Respondents may be affected by more than one factor.)

82% of those who experienced a fall in income say this was caused by the economic impact of Covid-19.

Covid-19 impacts by employment status

Experienced fall in income*

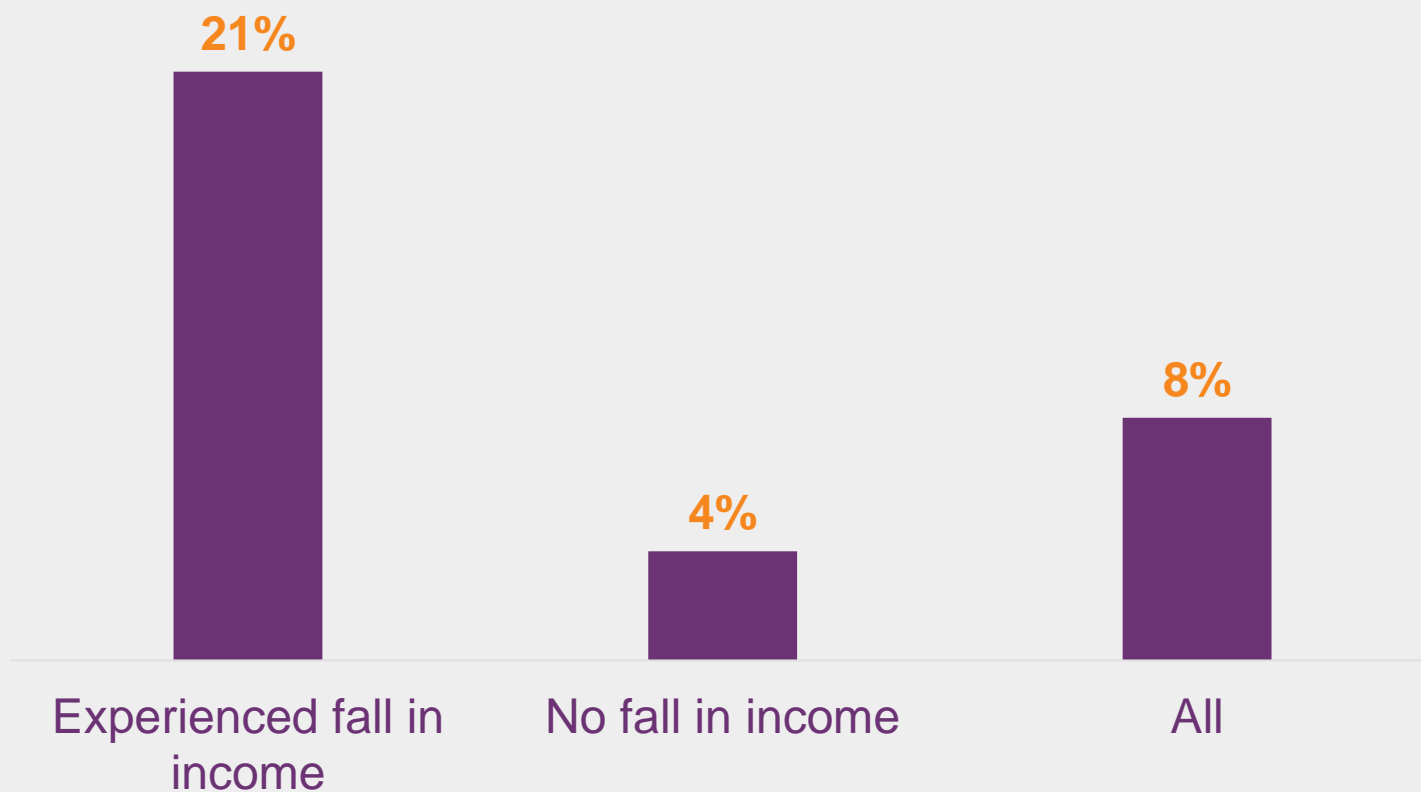


Alongside those who are self-employed, those in part-time work or roles with fluctuating hours or income have been disproportionately impacted by the pandemic. 'Gig economy' work has been particularly affected (such as hospitality and retail) and may fall into any of these categories.

* Throughout, 'fall in income' means those who experienced a fall in personal income to a point they were unable to meet day to day expenses.

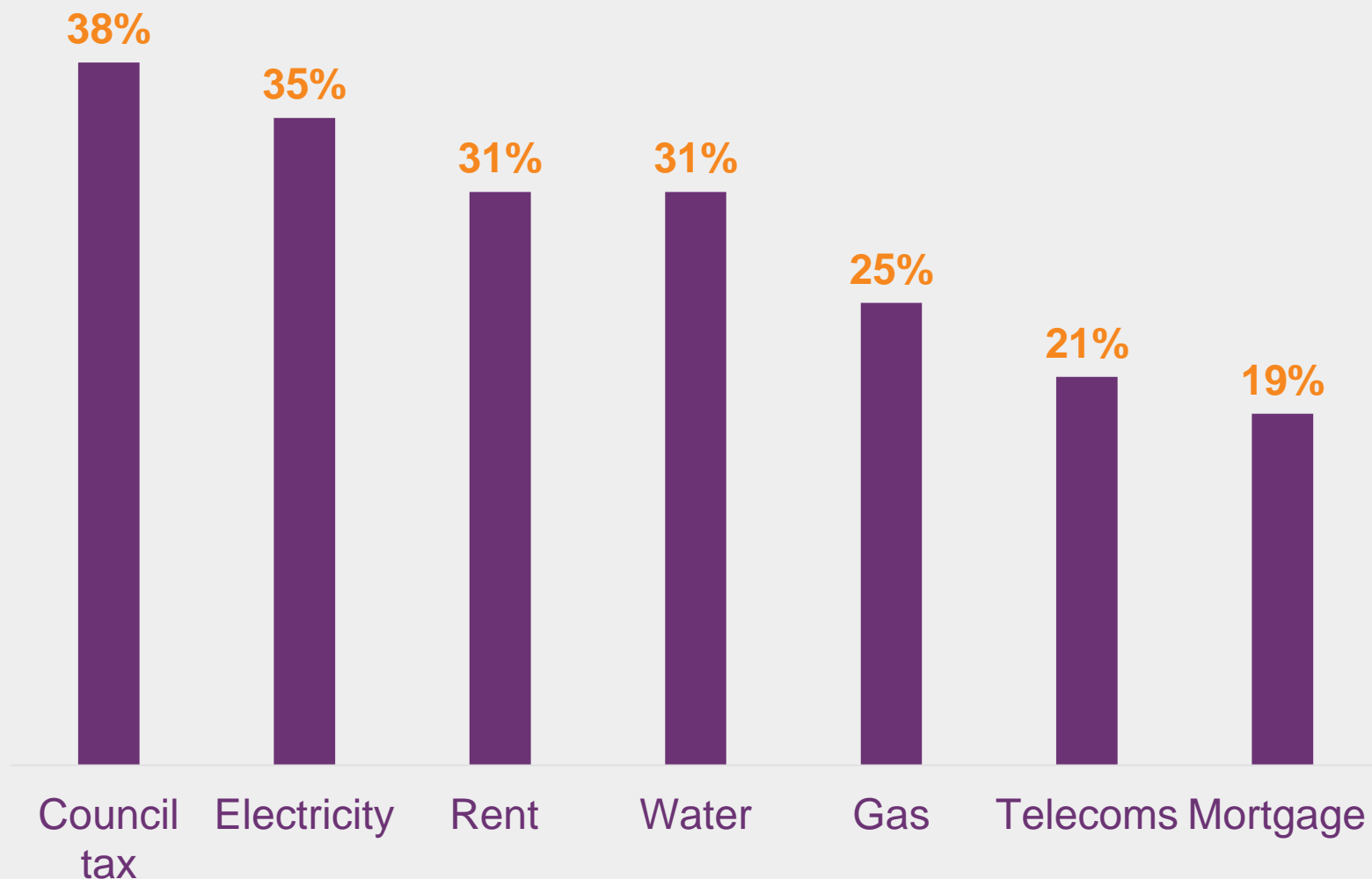
2. Impacts of financial difficulty

% in arrears on household bills



4.3 million people are behind on household bills. 7 in 10 of this group has experienced a fall in income since the beginning of the pandemic.

What bills are those in arrears behind on?

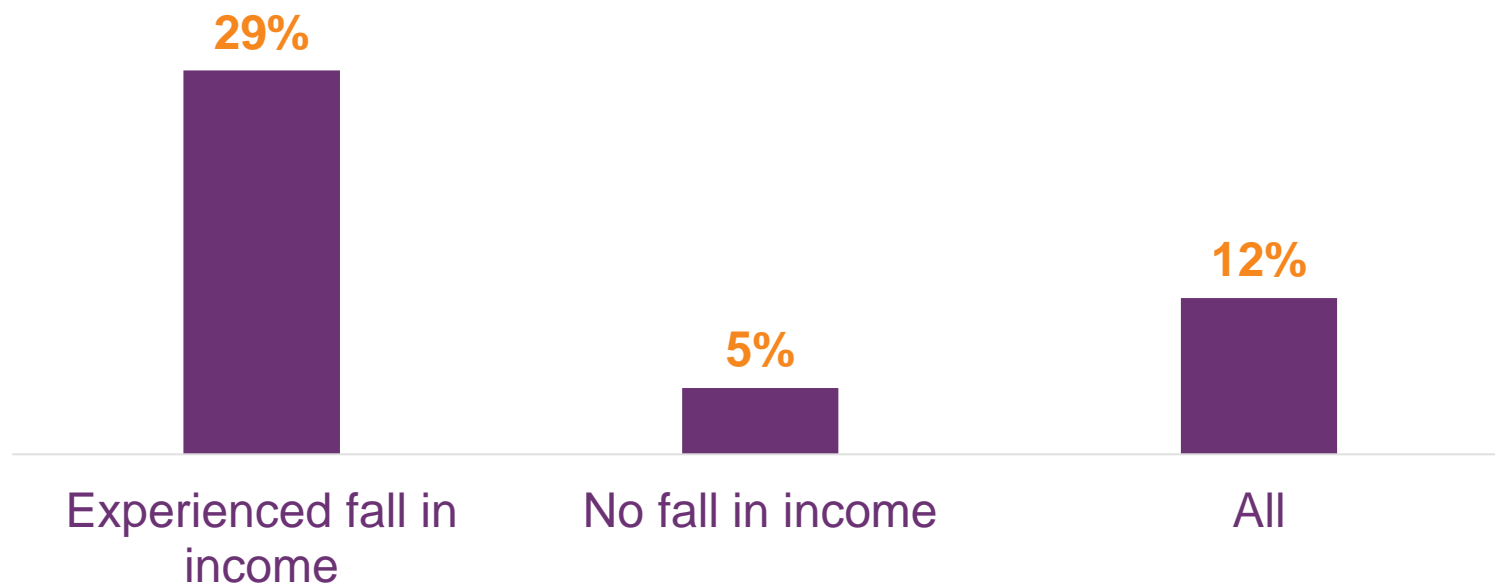


The estimated average arrears among those behind on household bills is **£1,706**

6 in 10 of those in arrears on a household bill have experienced hardship since March

7 in 10 of those in arrears on household bills have also borrowed to make ends meet

% experienced hardship since the beginning of the pandemic



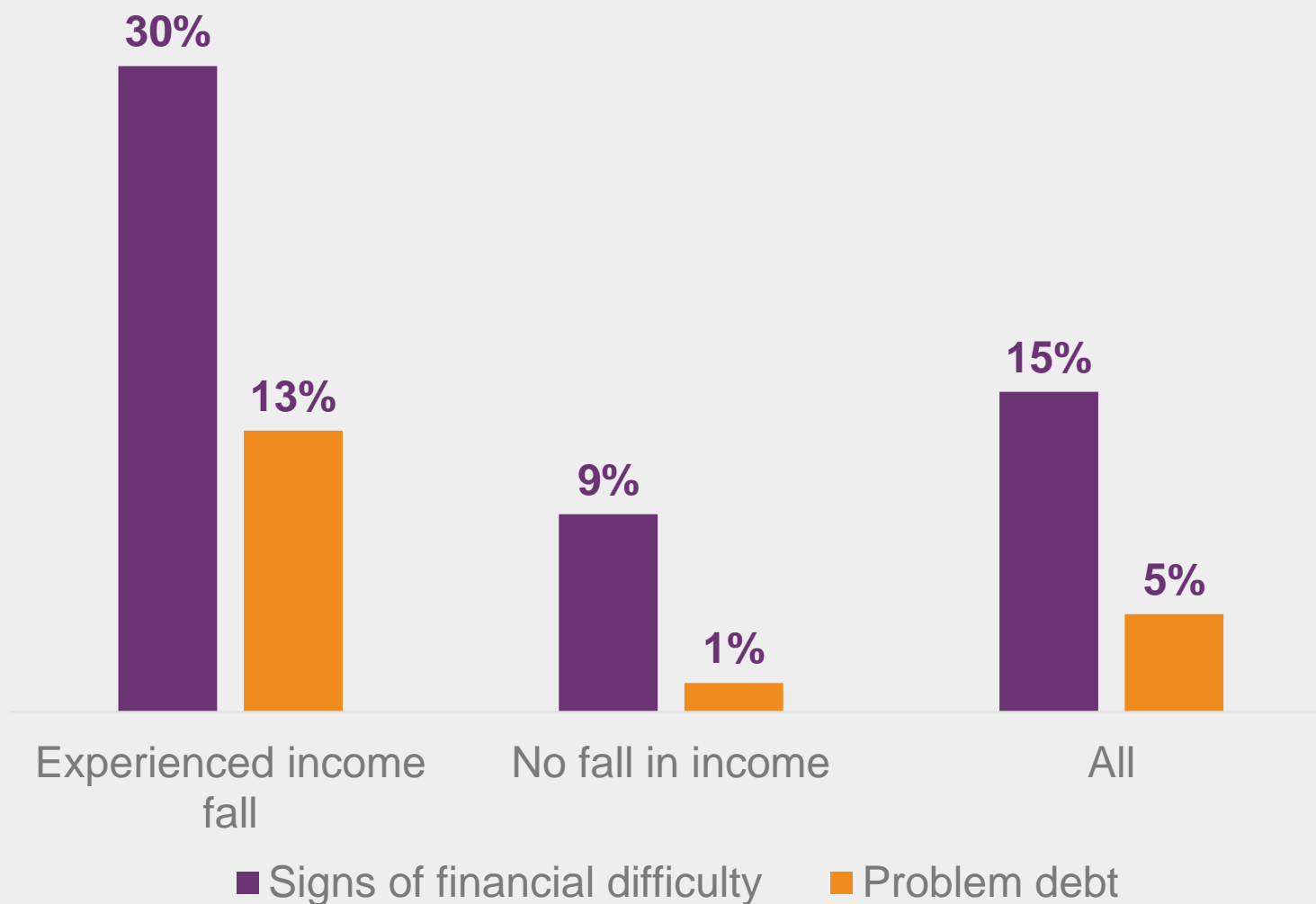
We asked respondents if they had experienced any of the following since March 2020 because they could not afford it:

- Had fewer than two meals a day for two or more days (6%)
- Rationed or gone without basic utilities for five or more days (5%)
- Gone without clothing or footwear appropriate for the weather (7%)

1 in 10 parents who experienced an income shock say their children have had to miss meals or go without appropriate clothing for the weather

4 in 10 adults with a vulnerable characteristic who experienced an income shock have experienced hardship

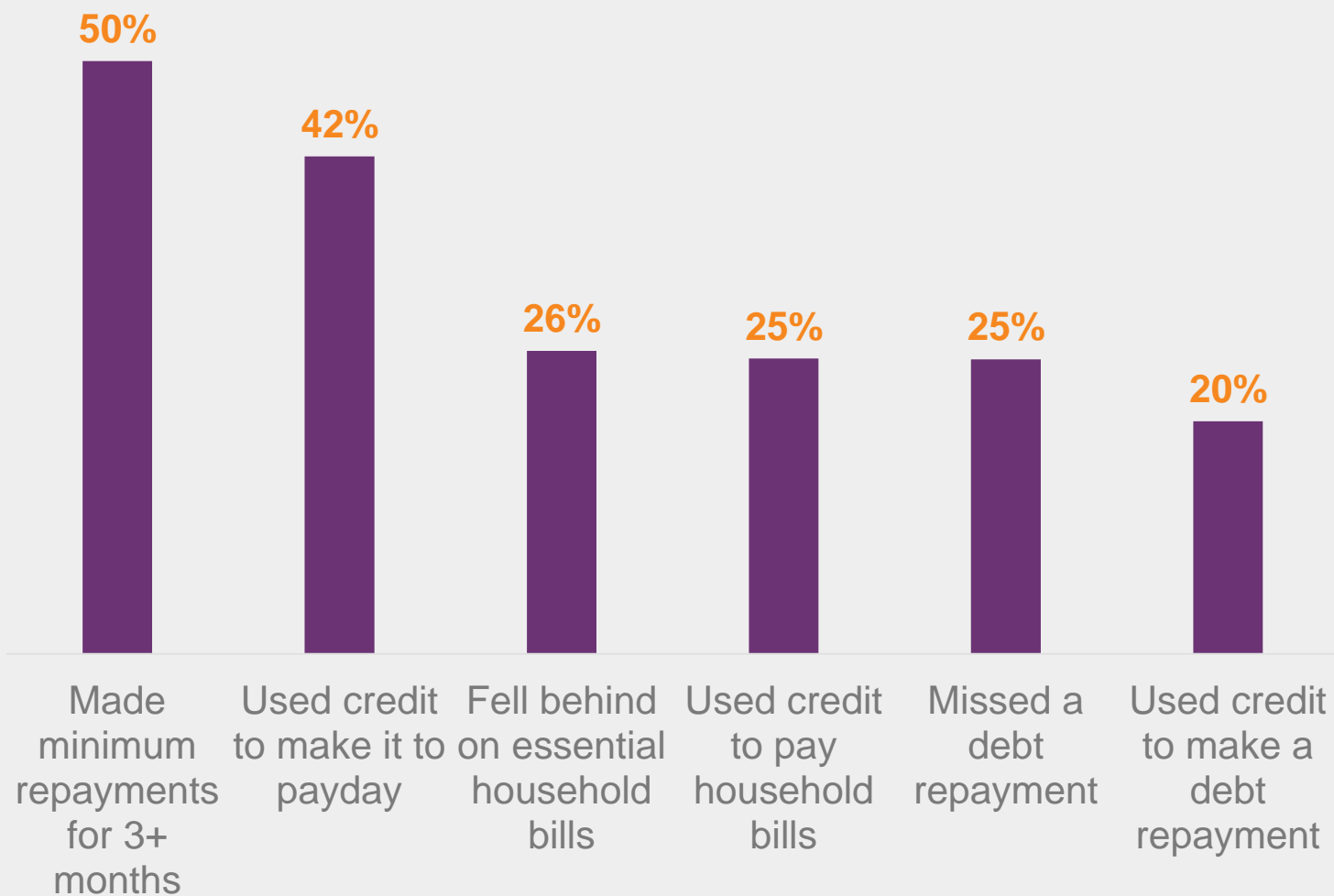
Financial difficulty and problem debt



Of **2.4 million** people in problem debt **1.9 million** (4 in 5) have experienced a fall in income since the beginning of the pandemic

10.1 million people are showing signs of financial difficulty. 6 in 10 (6.2 million) have experienced a fall in income since the beginning of the pandemic

Types of financial difficulty (all showing at least one sign of difficulty)

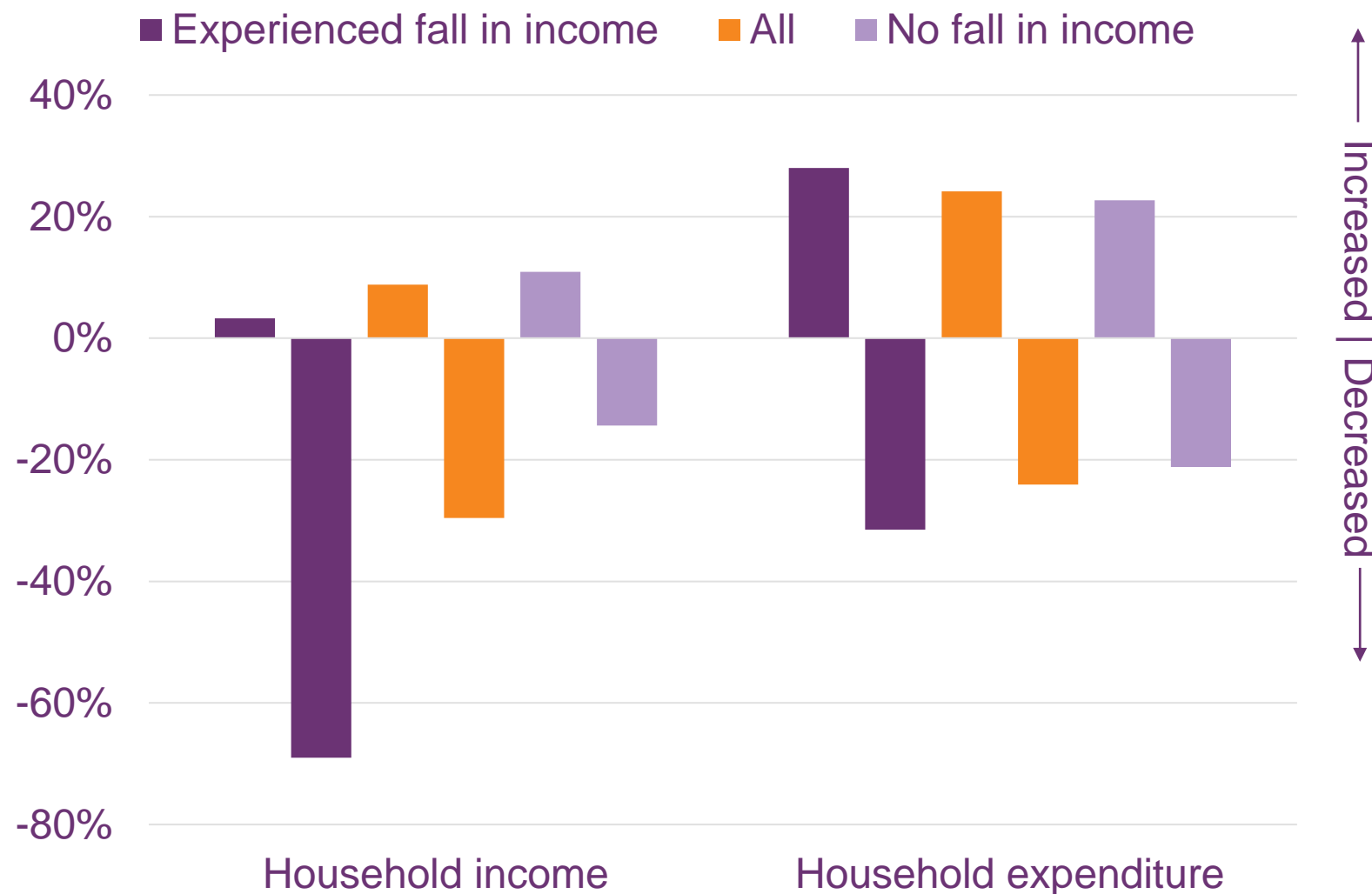


6 in 10 of those in problem debt have experienced hardship

7 in 10 of those in problem debt have a vulnerable characteristic (in addition to financial difficulty)

1 in 4 of those who accessed a credit or mortgage payment holiday are showing signs of being in problem debt

Changes in household finances

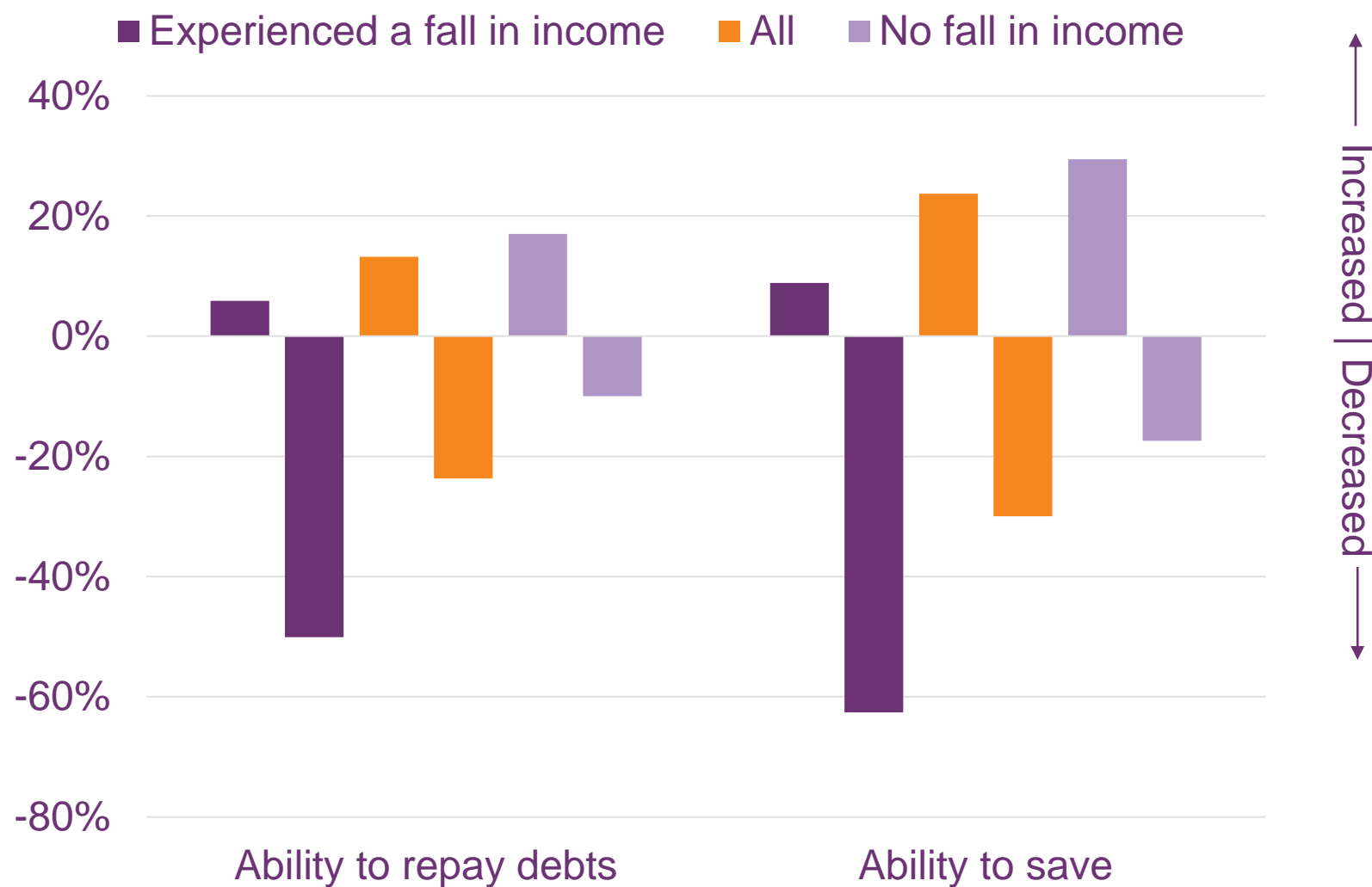


This chart shows how household income and expenditure has changed since the beginning of the pandemic. (Where a measure did not increase or decrease it remained the same.)

30% GB adults report a fall in household income vs 9% who report a rise.

62% of those whose household income fell say household expenditure stayed the same or increased.

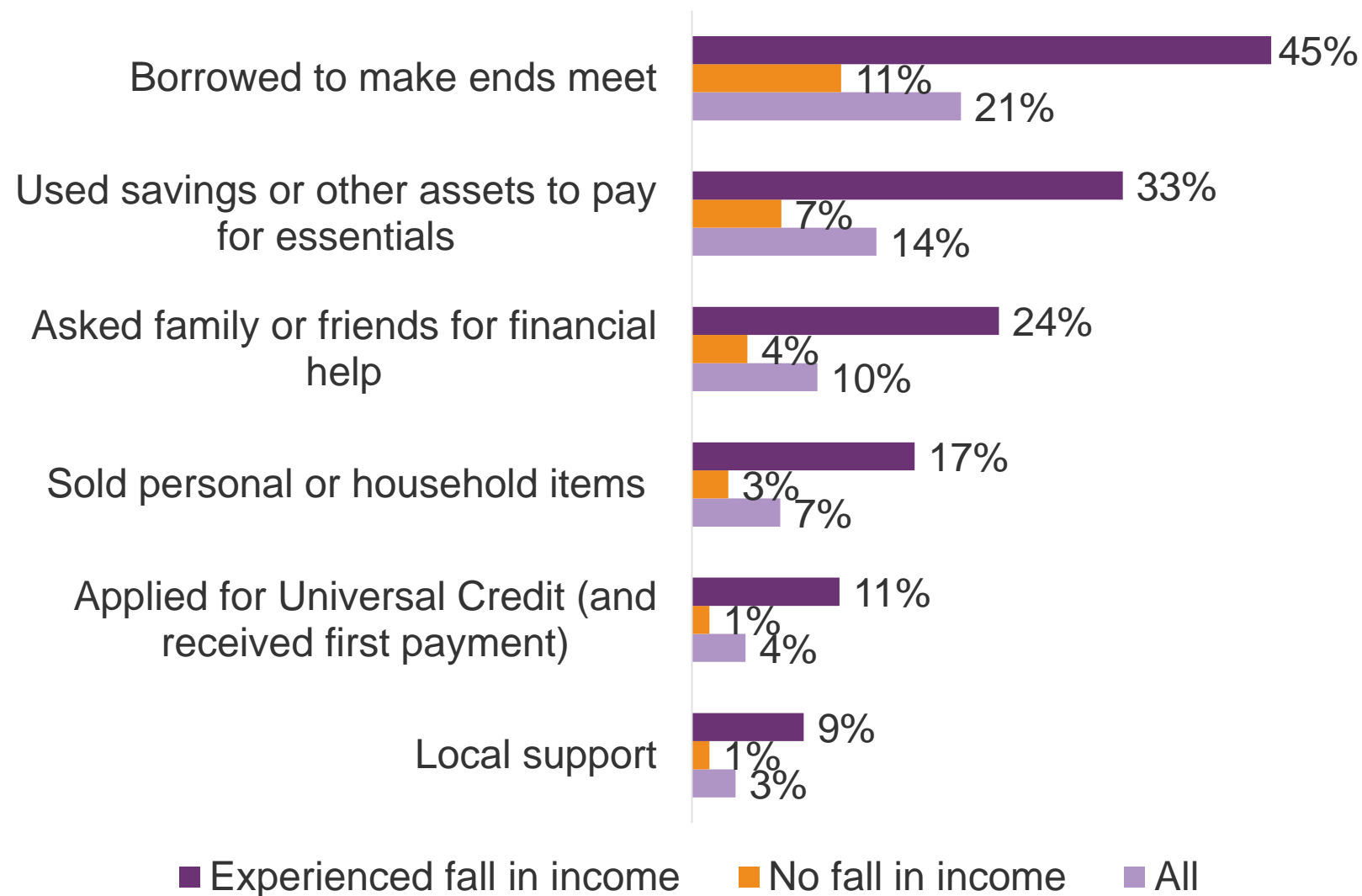
Changes in financial wellbeing



The chart shows how two measures of financial wellbeing have changed since the beginning of the pandemic. (Where a measure did not increase or decrease it remained the same.)

24% of those with unsecured debts report a decreased ability to repay vs 13% who report an increased ability to repay.

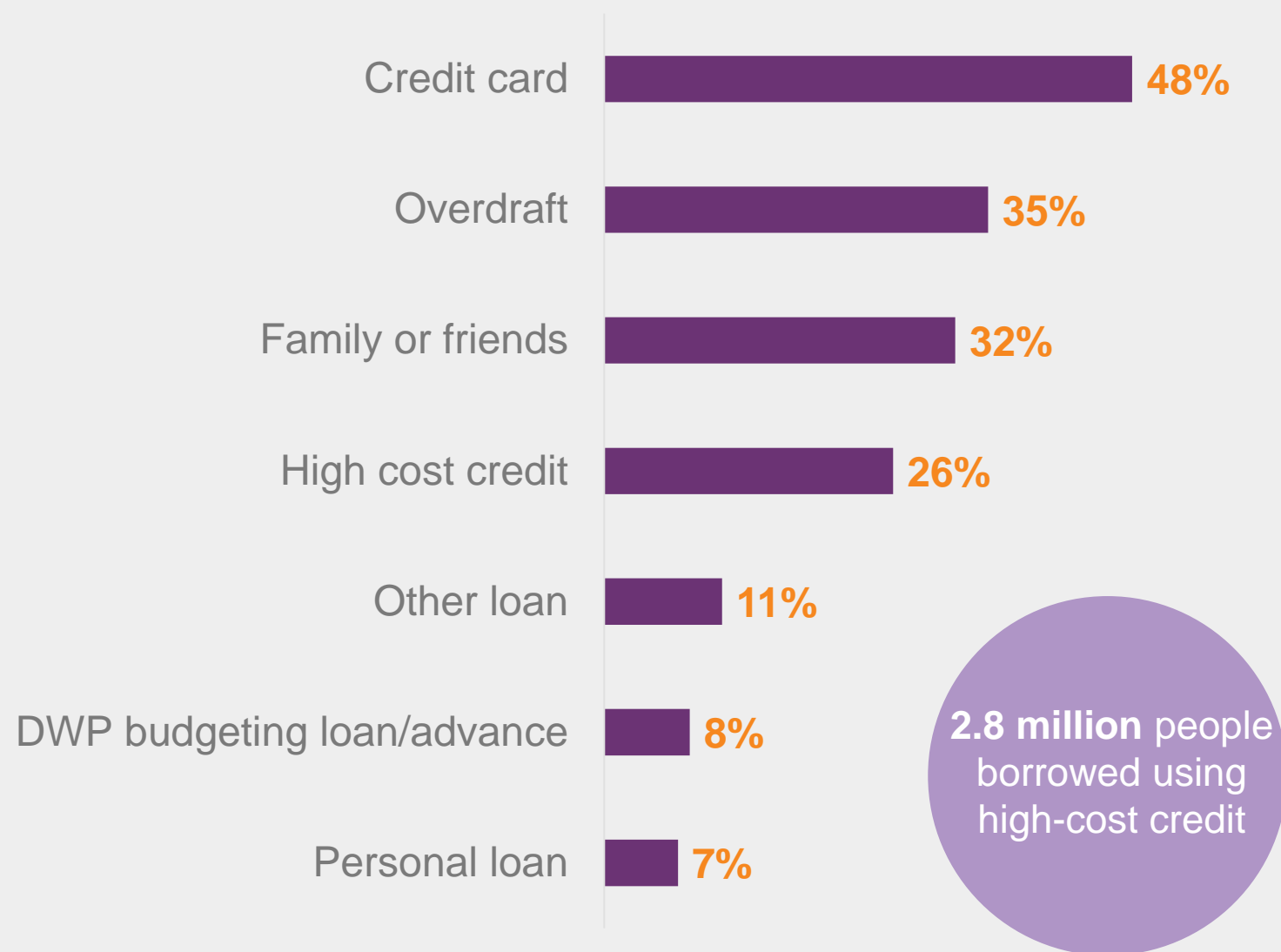
4. Coping strategies



10.6 million people borrowed to make ends meet since the beginning of the pandemic.

1.7 million people have exhausted their savings to pay for essentials; a further **1.4 million** people have used more than half of their savings.

Sources of borrowing (among those borrowing to make ends meet)



The estimated average outstanding unsecured debt of those whose income fell is after March 2020 is **£4,002**

Those experiencing problem debt have an estimated average of **£5,579** of outstanding unsecured debt

2 in 5 people who borrowed using high-cost credit are experiencing problem debt

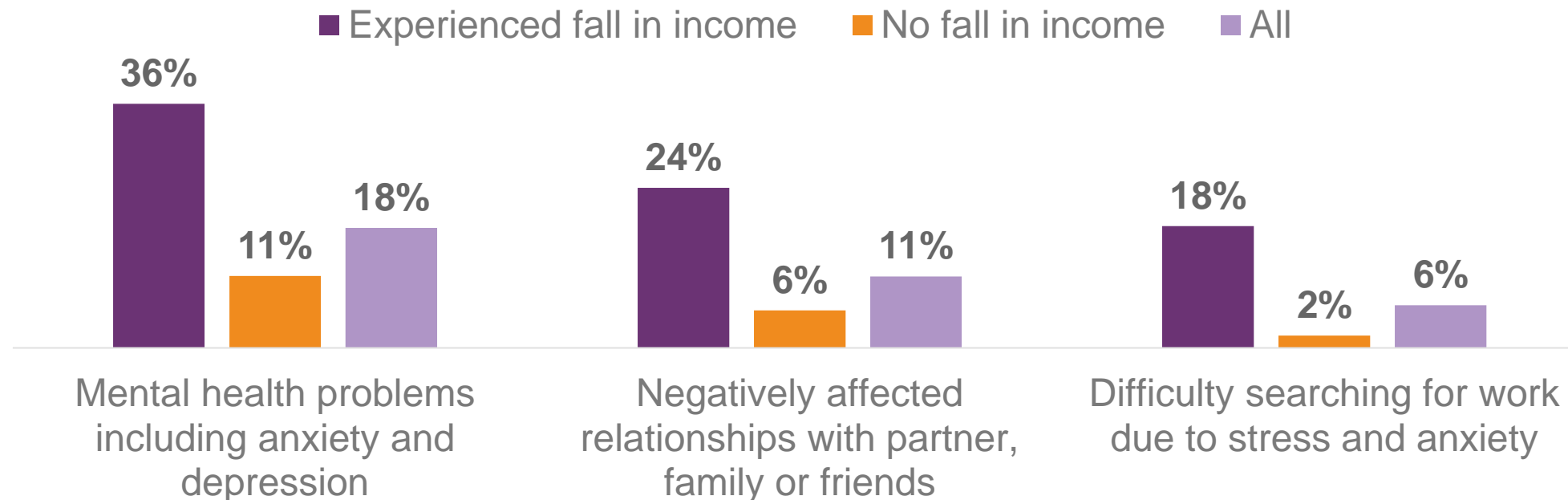
Payment holidays

- An estimated 1.6 million have accessed a credit payment holiday
- UK Finance reports that 2.75 mortgage payment holidays were provided in 2020
- 920,000 people report accessing temporary reduced payments or other support from a lender
- 1.6 million people say they have sought out money or debt advice

Among those who took a credit payment holiday that has ended:

- 50% say they have resumed repayments with difficulty
- 38% say they have resumed repayments without difficulty
- 23% have subsequently missed repayments

The impact of worries about money

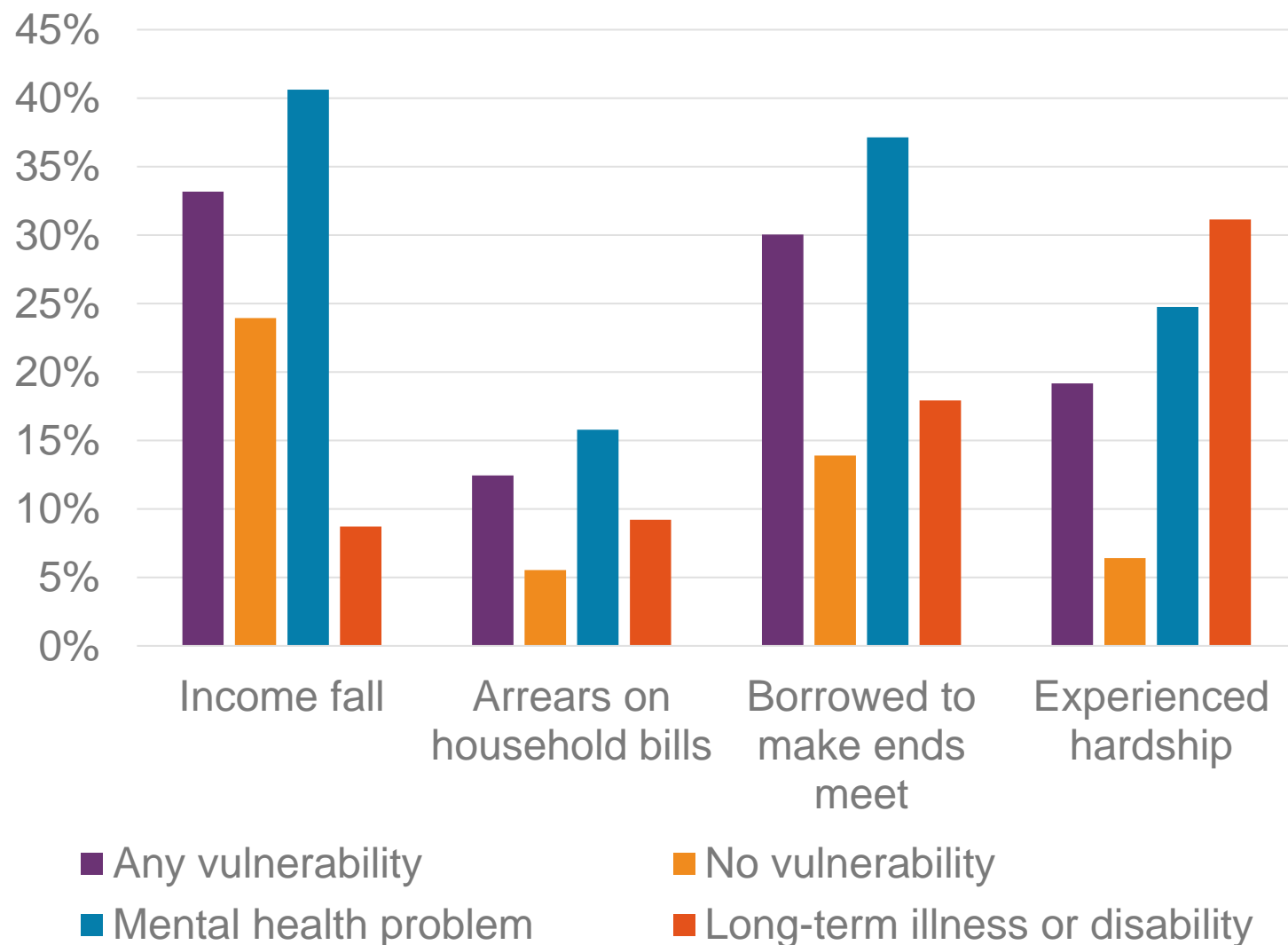


Worries about the next 12 months among all GB adults include:

- Using up savings (8%)
- Falling behind on household bills or credit repayments (6%)
- Credit rating being negatively affected by financial difficulties (6%)

1 million people think they will 'probably' or 'certainly' have to leave their home in the next 12 months because they cannot afford rent or mortgage payments

Adults with vulnerable characteristics



Those who have experienced an income fall since the beginning of the pandemic are more likely to have a vulnerable characteristic. This reflects the high prevalence of mental health problems among those experiencing financial difficulty: those with a non-mental health vulnerability are less likely to have experienced an income fall.

Among adults with non-mental health vulnerabilities who were affected, arrears on household bills or hardship are, however, more common.

5. Some groups have been hit harder by the pandemic:

	Young renters	Parents with children under 5	Single parents	Those with a minority ethnicity	Working age single adults	All GB adults
Income fall since March 2020	36%	30%	31%	37%	35%	28%
Signs of financial difficulty	32%	30%	33%	30%	28%	20%
Problem debt	7%	9%	11%	8%	8%	5%
Arrears on household bills	16%	16%	19%	18%	13%	8%
Experienced hardship	19%	17%	31%	24%	17%	12%
Borrowed to make ends meet	29%	31%	40%	31%	27%	21%
Run down savings	11%	9%	4%	12%	9%	6%
'Certainly' or 'probably' unable to pay for essentials in next 12 months	16%	13%	16%	16%	15%	11%

Parents with a child under 5 While parents are not significantly more likely than average to have been impacted financially, those with young children who were affected are more likely to have experienced negative impacts such as arrears and hardship and resorted to credit to make ends meet.

Single working age adults Single adults are more likely to have experienced an income fall, particularly those in younger age groups, and are significantly more likely than average to have experienced negative impacts.

Those with a minority ethnicity Those with a minority ethnic background are significantly more likely than average to have experienced a prolonged fall in income, hardship and negative financial impacts. FCA analysis (among other sources) highlights how this experience reflects pre-existing labour market differences and notes the range of experiences among different subgroups.*

Single parents Single parents have the highest levels of problem debt, hardship, arrears and borrowing to make ends meet among standard household definitions. Single parents are less likely to have run down savings; this likely reflects lower pre-existing levels of savings.

Young renters Renters under 35 have a higher than average likelihood of being affected by the pandemic and experiencing negative impacts—notably more so than young people with a mortgage or who live rent-free or pay board.

Self-employed and insecure workers Those who are self-employed are most likely to have experienced a fall in income due to the pandemic, followed by those whose hours or earnings fluctuate – many in roles typically described as ‘gig economy’ work. Workers in these groups are also more exposed to negative impacts.

*Bracke, P. et al (2021) [‘Covid-19 and the UK’s BAME communities – an economic perspective’](#), FCA Insight blog

6. Annex tables: Households

	Single parents	Couple parents	Single adults	Couple adults	Other	All
Income fall since March 2020	31%	33%	29%	24%	29%	28%
Signs of financial difficulty	33%	27%	23%	13%	19%	20%
Problem debt	11%	6%	6%	3%	3%	5%
Arrears on household bills	19%	9%	10%	6%	9%	8%
Experienced hardship	31%	14%	14%	9%	9%	12%
Borrowed to make ends meet	40%	26%	23%	16%	16%	21%
Run down savings	4%	8%	7%	5%	3%	6%
'Certainly' or 'probably' unable to pay for essentials in next 12 months	16%	10%	13%	9%	11%	11%

Annex tables: Age

	Age 18-24	Age 25-34	Age 35-44	Age 45-54	Age 55-64	Age 65+	All
Income fall since March 2020	38%	29%	36%	33%	31%	10%	28%
Signs of financial difficulty	21%	27%	30%	25%	17%	5%	20%
Problem debt	5%	6%	7%	7%	5%	2%	5%
Arrears on household bills	11%	10%	12%	12%	8%	1%	8%
Experienced hardship	13%	15%	16%	17%	11%	3%	12%
Borrowed to make ends meet	20%	27%	27%	28%	20%	7%	21%
Run down savings	8%	9%	7%	7%	6%	2%	6%
‘Certainly’ or ‘probably’ unable to pay for essentials in next 12 months	15%	17%	13%	13%	7%	4%	11%

Annex tables: Housing status

	Home owners	Mortgagers	PRS renters	Social renters	Other	All
Income fall since March 2020	18%	30%	35%	28%	32%	28%
Signs of financial difficulty	6%	20%	33%	30%	19%	20%
Problem debt	1%	3%	8%	9%	4%	5%
Arrears on household bills	3%	6%	14%	23%	6%	8%
Experienced hardship	5%	8%	19%	25%	13%	12%
Borrowed to make ends meet	10%	21%	31%	31%	19%	21%
Run down savings	2%	6%	11%	6%	5%	6%
'Certainly' or 'probably' unable to pay for essentials in next 12 months	6%	9%	15%	14%	12%	11%

Annex tables: Country/region

	Eng	Scot.	Wal.	NE	NW	Yorks	EM	WM	EofE	Lon	SE	SW
Income fall since March 2020	28%	30%	29%	26%	27%	26%	27%	30%	29%	27%	27%	29%
Signs of financial difficulty	19%	24%	21%	21%	19%	17%	19%	17%	21%	20%	23%	15%
Problem debt	4%	7%	7%	5%	3%	4%	3%	4%	6%	5%	5%	4%
Arrears on household bills	8%	10%	10%	9%	7%	8%	7%	8%	10%	8%	9%	6%
Experienced hardship	11%	14%	18%	12%	10%	10%	13%	14%	13%	9%	13%	7%
Borrowed to make ends meet	20%	25%	25%	20%	17%	21%	15%	21%	20%	21%	25%	17%
Run down savings	6%	8%	6%	3%	5%	5%	6%	5%	8%	7%	7%	5%
'Certainly' or 'probably' unable to pay for essentials in next 12 months	11%	10%	10%	13%	9%	10%	12%	11%	11%	12%	9%	11%

Notes

Page 3. A 'negative change in circumstances' includes any of the reasons listed on page 4. 'Showing signs of financial difficulty' is defined as meeting one or more of the criteria listed on page 15; 'problem debt' is defined as meeting three or more of these criteria.

Page 5. Throughout 'Experienced fall in income' refers to the definition given in slide 4.

Page 6. Household bills includes any of the bill types listed on page 7.

Page 7. To estimate average outstanding arrears, we asked survey respondents in arrears to choose a band from £0 to £10,000+ (in £500 and £1,000 increments) reflecting their total outstanding arrears; the mid-point of each band was used to assign each respondent an estimated total arrears.

Page 9. Local support includes support in kind or through grants from a foodbank, other voluntary organization or local authority.

Page 10. High cost credit includes payday loans, catalogue credit, retail store cards, rent-to-own, home credit, pawnbroker loans, guarantor loans, loans provided by an illegal loan shark, and logbook loans. 'Other loans' includes loans from a credit union or community lender and loans categorized by respondents as 'another type of borrowing'. To estimate average outstanding borrowing, we asked survey respondents to choose a band from £0 to £10,000+ (in £500 and £1,000 increments) reflecting their total outstanding unsecured debt; the mid-point of each band was used to assign each respondent an estimated amount.

Page 12. 'Worried' is defined as those who think these things will 'probably' or 'certainly' happen.

Page 13. 'Vulnerable characteristic' includes anxiety, depression, 'another mental health condition', addiction, long-term illness or health condition, disability, learning disability or a sight or hearing impairment.

Annex tables: Income fall means a respondent experienced a fall in income since March 2020 that affected their ability to pay for day to day expenses and their income had not recovered in January 2021. 'Run down savings' means a respondent stated they have used more than half of their savings to pay for essentials since March 2020.

Annex tables (household). 'Other' includes those who selected 'other' as their household status.

Annex tables (housing). 'Other' includes shared ownership, those who live rent-free, those who pay board and those who chose 'other' as their housing status.

Methodology

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 3,458 adults. Fieldwork was undertaken between 25 and 27 January 2021. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).



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