

June 2018



Breaking the link

A closer look at vulnerable people in debt



Methodology and terminology

Unless otherwise stated, the figures in this document are based on the 29,407 new clients debt advised over the telephone between 1 January to 31 December 2017, who had an additional vulnerability on top of their financial difficulties.

Throughout this briefing, we use the terms ‘clients with vulnerabilities’ and ‘vulnerable clients’ to refer to this group of people, whilst recognising the limitations of this language and that many people do not identify with these terms themselves. Even though we use these terms, we are clear that vulnerability is not solely related to an individual’s characteristics, but can also be created by their circumstances, or by the action or inaction of structures and organisations they interact with.

When we refer to ‘clients without vulnerability’ or ‘clients who were not vulnerable’, we are referring to those who received telephone advice and did not have any additional vulnerabilities on top of their financial difficulties. We consider all our clients to be financially vulnerable, because of the nature of their debt situation.

Introduction

Debt can have a serious impact on anybody’s life beyond the strain on their financial situation. However, for people who are in a vulnerable situation, be it because of ill physical health, mental health problems, a significant life event or for many other reasons, the effects of debt can be even more severe.

At StepChange Debt Charity, we consider all our clients to be financially vulnerable. However, a number of our clients also have an additional vulnerability on top of this. This could be due to a physical or mental health condition, low literacy or numeracy skills, or other communication barriers. Vulnerability can also be caused by circumstances – such as experiencing a bereavement, job loss or divorce.

Any of these clients who cannot manage our standard advice process can be referred to StepChange’s Advocacy Team; a team of specialist advisors who provide an enhanced service for anyone in debt with additional vulnerabilities or who needs extra time, attention or support services. This team receive constant training from other organisations, such as Macmillan Cancer Support, Mind and Samaritans, to ensure they understand how best to support clients with a range of vulnerabilities.

As with all our debt advice, our advisors recommend the best solution for each client. In a small number of cases, such as where someone is terminally ill, this may include asking for debt write off. For others, where vulnerability is temporary and their circumstances are expected to change in the future, we may suggest temporary payment plans or token payments.

In 2017, one in five clients we advised had an additional vulnerability on top of their financial difficulties. Ensuring these clients get the right support, tailored to their needs, is crucial in helping them to deal with their debt issues and to reduce the negative effects this can have. We are proud of the work we do, but we know that when it comes to vulnerability no one should ever be complacent. We are continually working to improve how we support clients with vulnerabilities.

Understanding the situations and experiences of our clients with vulnerabilities is key to developing support that works for them. By sharing this with others, we hope to inform wider discussions – not just amongst industry, but with policymakers too. In this briefing, we present our insight about the situations of clients with vulnerabilities who were helped by StepChange in 2017. In particular, we examined their financial circumstances – to understand the challenges vulnerable people can face, relative to others in financial difficulty.

As this briefing highlights, clients with vulnerabilities can find themselves at the sharp end of financial difficulty. **StepChange clients with vulnerabilities were more likely to be behind on their household bills and to have a negative budget – meaning they had less money coming in than they were spending on essentials. They were less likely to be working than clients who were not vulnerable, yet when they received benefit income two in five of them still did not have enough money to make ends meet.** This raises questions about the financial resilience of these households and how effective the safety net is for vulnerable people.

Our evidence suggests that, whilst the ongoing focus on vulnerability within the financial services, utilities sectors and elsewhere is very welcome, it is only one part of the solution. There is also a fundamental challenge to ensure that people who may be vulnerable – for example when they become ill – have enough money to make ends meet, and have the financial resilience to cope with circumstances that can place them into a vulnerable situation. Financial difficulties should not be an inevitable consequence of falling ill, splitting up with your partner, or losing your job. And with the right action they don't have to be. We hope our data will stimulate further discussions about this and help to bring about action to make this a reality.

Characteristics of vulnerable people in debt

In 2017, we supported almost 29,500 people who had an additional vulnerability, on top of their financial difficulties. This represented one in five of all clients we helped in 2017. In this section, we explore the characteristics of our clients with vulnerabilities, and consider what insight this can give us into the issues facing people with vulnerabilities who are in debt.



Reason for vulnerability

The most common type of vulnerability experienced by StepChange clients was a mental health issue, with 43% of vulnerable clients identifying this as their main vulnerability. This is consistent with wider evidence demonstrating a clear link between financial issues and mental health. Half of adults in problem debt also have a mental health problemⁱ and people with severe mental illness are 2.3 times as likely to experience money or debt problems.ⁱⁱ

Other common vulnerabilities experienced by our clients including having a physical disability (4.7%), having cancer (4.6% of clients with vulnerabilities), and poor health (4.1%).

As mentioned above, we consider all our clients to be financially vulnerable so these figures refer to any additional vulnerability our clients had, over and above their financial difficulties.

Our data currently captures the vulnerability of our clients predominantly through recording the personal characteristics that contribute to their vulnerability - such as an illness.

However, it is important to remember that vulnerability is not caused only by personal characteristics. Someone's circumstances can also contribute, as can the action or inaction of firms and organisations. The death of a loved one, a relationship breakdown, the way a debt is pursued, or not being given the correct information about a product or service could all cause someone to become vulnerable – even if temporarily. At StepChange, we are continually working to improve how we identify and support clients in these situations to ensure they receive the right support for their needs.

Reason for debt

As mentioned above, health problems, particularly mental health, can be a significant issue for those in debt. In addition, many of our vulnerable clients cite their health issues as the main reason for their debt:

- **40%** of those who cited mental health issues as their main vulnerability said illness was the main reason for their debt problems
- **68%** of clients with cancer cited illness as the main cause of their debt problems
- **77%** of clients with a terminal illness said this was the main reason for them falling into debt

These figures are hugely worrying. They highlight a clear link between falling ill, and falling into debt. This shouldn't be inevitable. The fact that it appears to be raises questions about how effective the safety-net for people with mental and physical health problems is.



2 in 5 clients with vulnerabilities said the main reason for them falling into debt was illness

Age

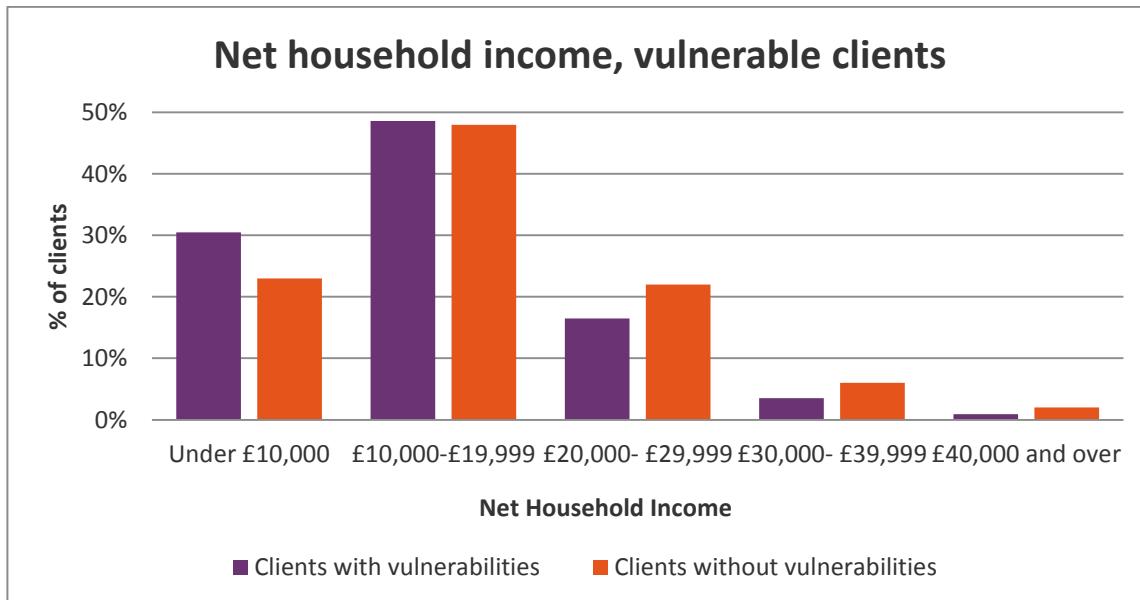
StepChange clients with vulnerabilities beyond their financial difficulties tended to be older, with almost half (47.5%) between the ages of 40-59. In comparison, over half (55%) of those without a vulnerability were under the age of 40. This may not be unexpected, given that some causes of vulnerability, such as certain illnesses, are more common amongst older age groups. However, it is important to remember that age does not instinctively make someone vulnerable. Organisations need to work to understand people's individual situation, and what their needs are, to decide how best to support them.

Income



The average monthly income of clients with vulnerabilities was £1,219, compared to £1,382 for clients without a vulnerability

Clients with vulnerabilities had less money, on average, coming in each month than those without vulnerabilities. They also tended to be concentrated in the lower income groups, when compared to clients who were not vulnerable.

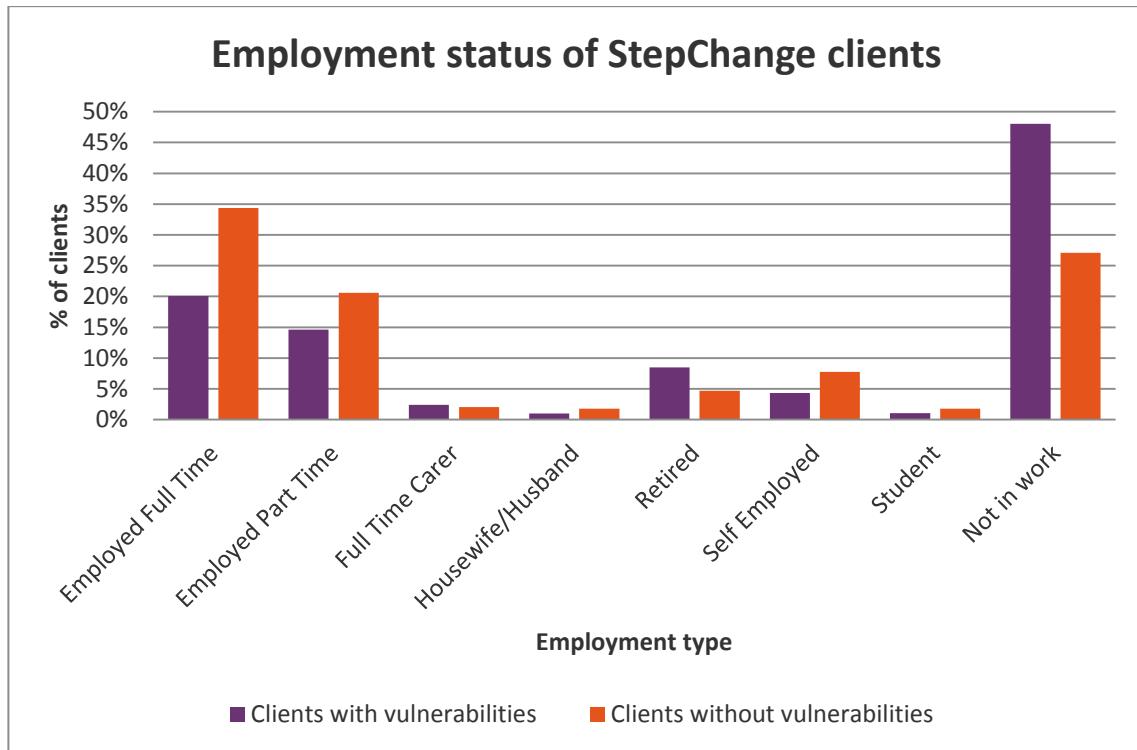


This resulted in **almost half (45%) of our vulnerable clients – over 12,500 people - having a negative budget** - meaning they had less money coming in than they had going out, even after having budgeting advice from one of our debt advisors. This is much higher than the figure for clients as a whole, where just under a third (30%) had a negative budget.

This data, along with other evidence in this briefing, raises concerns about whether vulnerable people have sufficient income to meet their needs. Whilst we cannot say for definite from the data, some of our vulnerable clients are likely to have experienced income shocks - for example if they have fallen ill and had to reduce their work hours as a result. This could be the reason for their lower income, and the driver of some of the financial difficulties experienced by people in these situations. Expenditure such as rent or energy bills, which had previously been manageable, can quickly become difficult to pay when an income shock hits. Others may find themselves on persistently low incomes, perhaps linked to their employment status. Whatever the reason, there are questions here for policymakers about how we ensure that people with vulnerabilities have enough money to live on.

Employment

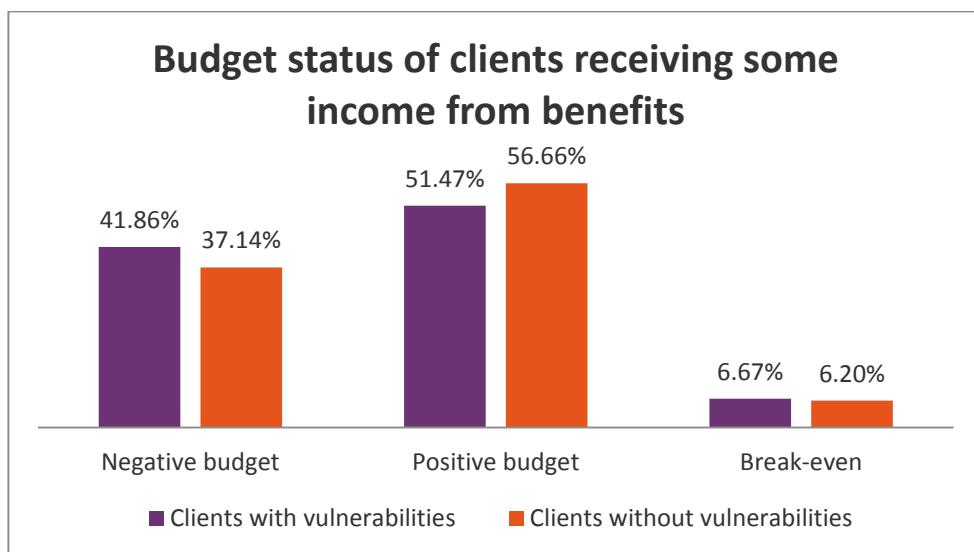
The fact that clients with vulnerabilities tended to be on lower incomes may be linked to their employment status. They were much more likely to be out of work (45%) than clients without vulnerabilities (27%). Both of these figures are much higher than the unemployment rate for the overall population (4.2%).ⁱⁱⁱ



Benefits

Clients with vulnerabilities were more likely to be receiving benefits than clients who were not vulnerable. Over two-thirds (68%) of vulnerable clients were receiving some income from benefits, compared to just over half (52%) of clients without vulnerabilities.

However, there is some evidence that the income vulnerable people were receiving from benefits was not sufficient to help keep their finances on track. **42% of vulnerable clients who were receiving benefits were still left with a negative budget** – meaning they did not have enough money to make ends meet each month. This was higher than clients without vulnerabilities (37%).



These figures, taken together with the wider data presented above about income levels, show a worrying picture of vulnerable individuals struggling financially, even in comparison to others in financial difficulty.

Housing

As with StepChange clients as a whole, the majority of clients with vulnerabilities (79%) rent their home. However, only 35% of all UK households are renters,^{iv} meaning they are over-represented both amongst our clients as a whole, and amongst those who were vulnerable.

The most common type of housing for clients with and without vulnerabilities was to be renting in the private sector. However, vulnerable clients were more likely to be living in social or local authority housing than clients without vulnerabilities.

Type of housing	Clients with vulnerabilities	Clients without vulnerabilities
Mortgage	15.4%	17%
Rent - Housing association	19.8%	14%
Rent - Local Authority	20.9%	16%
Rent - Private landlord	28.1%	35%

Types and levels of debt held by clients with vulnerabilities

In this section, we examine the levels and types of unsecured debt that our vulnerable clients had. Unsecured debt refers to any debt that isn't secured against a property or by a guarantor, and includes debts such as credit cards, overdrafts, personal loans, home credit and store cards.

In 2017, the overall average unsecured debt^v of clients with vulnerabilities (£10,312) was lower than that of clients without vulnerabilities (£11,479) However, vulnerable clients were more likely to have certain types of debt, such as a personal loan or home credit.



12% of clients with vulnerabilities had a home credit debt, compared to 7.7% of clients who were not vulnerable

This tallies with research by the FCA who found that "home-collected credit consumers are a particularly vulnerable group".^{vi} Home credit customers were also likely to be on lower incomes, with the median annual income of those using home credit being £15,500 in 2016.^{vii} In our [response to the FCA's call for input](#) on high cost credit in 2017, we set out our concerns around home credit, including the impact of loan rollovers which can trap customers into repeat borrowing. In the outcome of the high-cost credit review, the FCA highlighted that they shared these concerns, and set out measures intended to address this.^{viii} We will be working closely with the FCA to ensure any action taken works well for customers with vulnerabilities.

Mainstream credit

When it comes to mainstream credit, our data shows that:



Over half (59%) of vulnerable clients had credit card debt, with the average debt amounting to £6,493



Just under half (47%) of vulnerable clients had overdraft debt, with the average debt amounting to £1,372

Both of these were lower than the incidence amongst clients without vulnerabilities (where 68% had credit card debt and 50% had overdraft debt). However, we still have concerns about the high level of these types of debt amongst vulnerable clients.

As we have set out previously^{ix}, having to regularly rely on credit cards and overdrafts to cover essential spending can lead to and exacerbate financial difficulties, and trap people in a cycle of persistent debt which can be very hard to get out of. If people struggle to cover essential costs one month, and have to borrow, they'll certainly struggle the next month, often due to the high interest and charges from borrowing credit which builds up on top of their bills.

In addition, although clients with vulnerabilities may be slightly less likely to have credit card or overdraft debts, evidence suggests that when they do they are more likely to be using them in a way that can cause harm. For example, the FCA found that people with mental health conditions (who we know make up a large proportion of our vulnerable clients) were more likely to have used an unauthorised overdraft^x – which can result in high fees being applied.

The FCA also found that adults who were potentially vulnerable were more likely to revolve the balance on credit cards^{xi} - meaning they only pay off part of the balance each month. Doing so can mean it takes people many years to repay the balance on a credit card, despite them being designed to be a short-term product.

Vulnerable clients and arrears

Despite having a lower level of unsecured debt, vulnerable clients were more likely to be in arrears on household bills, such as their rent, utilities or council tax.



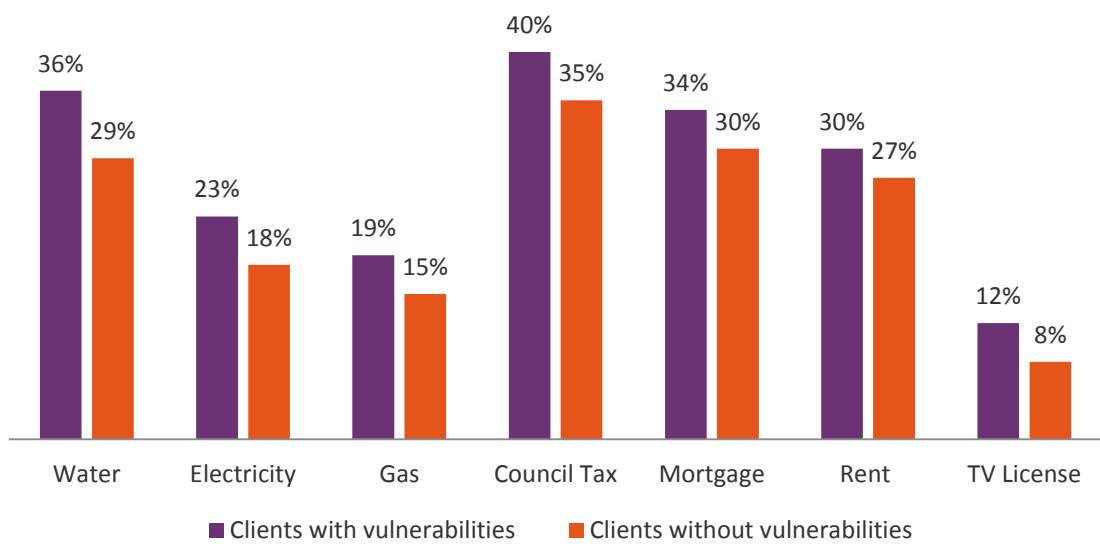
Over half (57%) of vulnerable clients were behind on a household bill, compared to two fifths (40%) of all clients

This equates to over 16,600 vulnerable people who were behind on their bills

Examining each individual bill (see chart below) reveals those who were vulnerable were more likely to be behind on each main household bill.

The average amount of arrears people had was also slightly higher for clients with vulnerabilities, than for those without (£2,062 compared to £2,026). Taken together, these figures suggest that many vulnerable people are struggling to afford even the basics such as their gas, electricity and water bills, their mortgage or rent payment, and council tax.

Percentage of clients in arrears on household bills



Wider evidence has highlighted the difficulties that people with vulnerabilities can face in keeping up with basic household costs. The Money and Mental Health Policy Institute found a third of people struggling with rent arrears are experiencing mental health problems.^{xii} Meanwhile, research by Macmillan Cancer Support found that every year almost 400,000 people living with cancer in the UK struggle to pay their household bills as a result of their diagnosis.^{xiii} Over half (55%) of disabled people have worried about paying their energy bills.^{xiv}

Evidence from StepChange clients also shows that people with vulnerabilities on average spend a greater proportion of their income on essentials, such as paying bills or buying food.

For clients with vulnerabilities, on average, half of their monthly income was spent just paying essential household bills^{xv} – such as energy, rent, council tax and water. **When food is added, this rises to 70%,** leaving them with very little money left to afford other things such as clothing, school uniforms, and household goods. It's also worth remembering that if someone has an illness or disability, they may face additional costs related to this – such as medicines, mobility aids or regular travel to and from hospital.

	Clients with vulnerabilities	Clients without vulnerabilities
Average proportion of monthly income spent on essential household bills ^{xvi}	50%	47%
Average proportion of monthly income spent on essential household bills ^{xvii} and food	70%	65%

Conclusion

At StepChange, we hear from people every day about the impact of being in problem debt. People forced to borrow money to pay bills or put food on the table, worrying about spiralling bank charges, or constantly fearing the bailiff's knock on the door. For most individuals or families, problem debt alone would have a huge impact on their lives and wellbeing. For those living with an additional vulnerability, such as a mental health problem, a terminal illness, or a significant health condition like cancer, problem debt represents another thing they are forced to cope with on top of everything else.

What's more, the insights from StepChange clients presented in this briefing reveal that those who are vulnerable can find themselves at the particularly sharp end of financial difficulties. The high incidence of arrears on household bills, and the stretched nature of people's budgets (spending a significant proportion of income on essentials, and having little or nothing leftover at the end of each month) all suggest that many vulnerable people are finding it hard to just get by on a day to day basis.

A significant body of evidence has demonstrated a link between financial difficulties and other forms of vulnerability. Having a vulnerability can make you more likely to struggle financially; and struggling financially can cause and exacerbate other vulnerabilities – for example by affecting people's mental and physical health. This should never be accepted as an inevitability.

In the long-term, the challenge for us all – policy makers, financial services firms, utilities providers, debt collection and enforcement agencies and support organisations – is to erode those links; to make it so that people with a vulnerability get the support and the adaptations they need to ensure they are at no greater risk of financial harm and to reduce the negative impacts of problem debt so that it doesn't affect people's health and wellbeing. This is a huge challenge but one that should be at the top of policymakers' agenda. For individual firms or organisations, keeping this in mind when designing products and services can help ensure the needs of those with vulnerabilities remain at the forefront throughout.

It is incredibly encouraging to see the increasing focus on vulnerability across a whole range of sectors. We hope that the information presented here will help to inform and drive conversations, and more importantly action, to better support people going forward.

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- ⁱ Jenkins R et al. (2009) *Mental disorder in people with debt in the general population*, Public Health Medicine; 6, 3: 88-92
- ⁱⁱ Balmer N and Pleasance P. (2010) *Psychiatric morbidity and people's experience of and response to social problems involving rights*, Health and Social Care in the Community; 18, 6; 588-597.
- ⁱⁱⁱ Unemployment rate (aged 16 and over, seasonally adjusted) as of January 2018, Office for National Statistics (17 April 2018) Available: <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment>.
- ^{iv} House of Commons Library (2017) *Home ownership and renting: Demographics*
- ^v For the purposes of StepChange's data analysis, unsecured debt included: Catalogue, credit card, personal loan, overdraft, store card, home credit, pay day loans.
- ^{vi} FCA (2017) *High-cost credit, including review of the high-cost short-term credit price cap*, Feedback Statement FS17/2.
- ^{vii} FCA (2018) *High-cost Credit Review: Update*
- ^{viii} FCA (2018) *High-cost Credit Review: Consultation Paper CP18/12*
- ^{ix} See StepChange Debt Charity (2017) *Stuck in the Red*; StepChange Debt Charity (2017) *Response to Credit card market study: Consultation on persistent debt and earlier intervention remedies*
<https://www.stepchange.org/Portals/0/documents/Reports/stepchange-debt-charity-response-to-fca-ccms-consultation-on-persistent-debt-and-earlier-intervention-remedies.pdf>
- ^x FCA (2017) *Understanding the financial lives of UK adults Findings from the FCA's Financial Lives Survey 2017*
- ^{xi} Ibid
- ^{xii} Money and Mental Health Policy Institute (2018) *Where the heart is: Social housing, rent arrears and mental health*
- ^{xiii} Macmillan Cancer Support (2017) *No Small Change*
- ^{xiv} Scope (2018) *Out in the cold*
- ^{xv} Household bills here refers to electricity, gas, water, rent, mortgage, council tax, TV licence.
- ^{xvi} Ibid
- ^{xvii} Ibid

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For more information visit the StepChange Debt Charity website www.stepchange.org.

For help and advice with problem debts call (Freephone) 0800 138 1111

Monday to Friday 8am to 8pm and Saturday 8am to 4pm, or use our online debt advice tool, Debt Remedy.

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