

Life happens

Understanding financial resilience in a world of uncertainty



As the **UK's largest debt charity** we advise over 300,000 people a year. We use our clients' experiences to make the evidence-based case for changing regulation, law and practice to reduce the risk of problem debt.

In this report we look at the financial resilience gap: what situations trigger people's spiral of financial difficulties and why are so many people falling into problem debt as a result?

About the project

This briefing is the first part of a significant new project for StepChange Debt Charity, exploring how to break the link between life events and debt.

To begin the project, we have sought to understand more about who is most at risk, and where current support may be failing to prevent problem debt. This has included reviewing existing evidence as well as analysing the results of a national online poll of 5,326 GB adults conducted by YouGov between 29 April – 2 May 2019.ⁱ Unless otherwise stated, the statistics we refer to throughout this report, and the quotes from respondents, are taken from this survey.

Going forward, we'll be building on this insight and working with others, including our clients, to establish what works and what doesn't. We'll look to establish principles for the support people should expect to receive following a life shock and make practical recommendations for change to help design and build a better system of support.

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A lack of resilience against life events is driving problem debt

Our latest research shows that household debt remains a significant problem.

Over 3 million people are in problem debt in Great Britain, with almost 9.8 million showing signs of financial distress.

The number of people in problem debt has remained stubbornly high at this level since 2013. To bring these numbers down, we have to understand how and why people are falling into debt in the first place.

For many people, financial difficulties are triggered by life events. At StepChange we consistently see how life events can trigger a spiral of financial difficulties that drags people into problem debt. Life changes, such as losing your job or having your hours cut, splitting-up with a partner, falling ill, or becoming a carer are common. Yet, for too many people, the end result can be severe financial difficulty.

These findings are not new. In 2015, we conducted research which showed that people who experienced such life events were at an increased risk of falling into problem debt.ⁱⁱ This also found that many of the coping strategies people were having to rely on were increasing their vulnerability to long-term financial difficulty.

Our new research suggests that, four years on, this link between life events and problem debt remains as strong. **In 2018, seven in every ten people who came to StepChange for advice said the primary reason they had got into problem debt was because of a life event or shock.**

This is also reflected in a representative survey of the wider population: **People who had experienced a life event in the last two years were three times as likely to be in problem debt than those who had not experienced a life event.**

Those who experience multiple life events in the space of a couple of years are particularly at risk: our latest research finds that **the more life events someone had experienced, the more likely they were to be in debt.** People who experienced two life events in the last two years were four times more likely to be in debt than those who experienced none. Those who experienced four or more life events were ten times more likely to be in problem debt.



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With saving levels still low, work becoming more precarious for some and millions using credit to keep up with the cost of living, it is hard to build up any sort of protection against life shocks.

Instead, people are relying on a whole range of coping strategies to try and avoid debt. Yet, in many cases these are fundamentally failing to help people to keep their head above water.

Suitable large scale private sector solutions to support the most vulnerable to debt have not really emerged to fill the gap left by changes to the benefits system. But with a growing population, living for longer, the need for support is only likely to grow.

Addressing the growing financial resilience gap is therefore ever more urgent. We will not be able to significantly decrease the stubbornly high number of people falling into problem debt in this country without breaking the link between life events and financial difficulty.

“As a result of a separation, I had to pay a joint mortgage by myself, meaning I struggled to make ends meet”

A financial resilience gap

Our evidence suggests that the support many people rely on is not effective enough at keeping people out of financial difficulty.

There has been growing recognition in recent years of the need to help households build their financial resilience. Some welcome steps have been taken, such as the introduction of Help to Save, a government-backed scheme which incentivises saving among people in low-paid work.

However, this has come against the backdrop of tightening of elements of the benefits system, such as:

- ▶ The working age benefits freeze;
- ▶ cuts to the limited capability for work element of Universal Credit;
- ▶ the introduction of the two-child limit on support through child tax credits and the child element of Universal Credit.

Much of the recent debate has focused on Universal Credit, and this is undoubtedly hugely important. But the issue of safety nets extends far beyond benefits.

Reducing the risk

The strong links between life events and problem debt mean that we're actually dealing with a largely predictable phenomenon.

Although a life shock may be unexpected for an individual, as a society we know that people will experience them, that their vulnerability to debt will be heightened as a result and that some groups are particularly at risk.

At StepChange, we want to examine how we can use this insight and collective capacity to identify and implement changes that strengthen people's financial resilience and reduce the risk of life events triggering problem debt.



2 Life events are a common part of all our lives

Almost half (45%) – equivalent to 23 million – say they, or someone in their household, experienced a life event in the past two years.ⁱⁱ

Official statistics may underestimate the impact of life events on the population, as they often represent a point in time measurement.

While the proportion of people experiencing a particular life event at any one time may be lower, cumulatively over a period of a year or two, the number of people who experience them, and who may need support to cope, is much higher.

Between February to April 2019, for example, 1.3 million people were unemployed according to official statistics,^{iv} yet our research suggests that over 4.5 million people were made redundant or became unemployed in the last two years. Because it takes time to adjust and recover from a life event, the cumulative figure matters.

Financial difficulty can worsen over time as people try to cope but still find themselves dragged into problem debt. This helps explain why, for example, unemployment or redundancy was the second most common cause of debt among our clients in 2018, despite overall unemployment figures being low.



“My chronic medical condition worsened which caused me to take long term sick leave off work. Eventually both my salary and my statutory sick pay ran out and I was forced to use my savings to pay my rent”



“I was made redundant when the company I worked for closed. I was out of work for 5 months and had a mortgage and bills to pay. It was incredibly hard to get by each month”

Experience of life events amongst the population

Life event	Reduced hours at work for three months or more	Made redundant or became unemployed	New baby or child in the household	Became unwell with a chronic condition	Relationship breakdown or divorce	Took on full or part-time caring responsibilities for a friend or family member	Moved home	Bereavement
Number of GB adults experiencing this in their household in last two years	Over 2.5 million people	4.5 million people	Over 2.5 million people	4 million people	Over 2.5 million people	2 million people	Over 6 million people	Over 6 million people
								
Of those who experienced this life event in their household, proportion who were left financially worse off as a result	84% 2.1 million GB adults	67% Over 3 million GB adults	60% 1.5 million GB adults	59% 2.4 million GB adults	50% 1.25 million GB adults	50% 1 million GB adults	35% 2.1 million GB adults	11% 660,000 GB adults

3 Who is most at risk of experiencing problem debt as a result of life events?

Experiencing a life event increases people's risk of falling into problem debt. Our national polling found that 70% of those who were in problem debt had experienced a life event in the last two years, compared to 40% of people without any financial difficulty.

Our analysis suggests that **over 2 million people who experienced a life event in the last two years are currently in problem debt, and a further 5.7 million are showing signs of financial distress.**

Amongst those who had experienced a life event, we found that certain groups were at an even higher risk of being in problem debt.

Many of these at-risk groups are the same as those we identified in our previous 2015 research *Navigating the New Normal*. The risk to these groups remains high.



People of working age

16% of unemployed people who had experienced a life event are currently in problem debt. However, this was only slightly higher than those who are in work: 11% of those in employment who had experienced a life event in the last two years are currently in problem debt. There was little variation depending on whether people work full or part-time. This suggests that even less significant life events which do not result in the loss of a job, can be difficult for people in work to cope with.

People who were retired appear to be less vulnerable to debt following a life event. Only 2% of retired people who experienced a life event are also in problem debt, compared to 11% of working age people.



Parents

People with children were more likely to have experienced a life event (not including a new baby or child in the household) and be in problem debt. Almost 15% of people with children who had experienced a life event are in problem debt, compared to 6% of people without children. Whilst we are unable to tell from this research alone, our own experience of providing debt advice suggests that single parents may be particularly vulnerable to debt. Single parents are over-represented amongst StepChange clients, compared to the UK population: single parents made up 23% of our clients in 2018, yet represent only 6% of the UK population. 85% of our single parent clients are female.^v



Lower and middle income households

Lower and middle income households are slightly more likely to have experienced a life event and be in problem debt. Amongst those with a gross household income under £30,000, around 1 in 10 (10%) of those who experienced a life event are also in problem debt. This falls slightly to 8% for those with between £30,000 - £50,000 household income and 6% for those with over £50,000.



Renters

Renters were significantly more likely to have experienced a life event, compared to homeowners. They were also more likely to be in problem debt. This suggests that the financial impact of life events is particularly difficult for renters to cope with. 14% of those who rent their home had experienced a life event and are in problem debt, compared to 4% of those who have a mortgage or own their home outright.

4 What strategies do people use to cope with life events?

As part of our survey, we asked people who had experienced a life event in the last two years to select which coping strategies they had used as a result, from a list of 17 options.^{vi}

The two most common coping strategies were to cut back on expenditure and to use savings for day-to-day spending. **However, our research also shows that for many people these strategies are simply not enough to avoid problem debt.**

With many families already spending the bare minimum, or close to it, there can be little for them to cut back on.

This may mean they have to resort to borrowing.

Borrowing money from family and friends and using credit cards or overdrafts to cover day-to-day spending were the third and fourth most common strategies employed by people who had experienced a life event, followed by applying for benefits.

“Following having a baby I went from full to part time work, this has made it hard to meet our day to day living costs especially due to the high cost of childcare for the days I do work”



Worryingly, our research suggests that the coping strategies people are having to rely on after a life event are not working effectively to prevent problem debt. Indeed, it may be the opposite.

Our research found that **use of many of the coping strategies people employ is actually associated with a higher, not lower, likelihood of problem debt.** Applying for benefits, borrowing money from family and friends, using credit cards, overdrafts or high-cost credit, relying on statutory pay (such as sick or maternity pay), or cutting back on expenditure were all strategies where people who utilised them were more likely to be in debt than those who got by without them.

Furthermore, the higher the number of coping strategies people use, the more likely they are to be in problem debt. This suggests that many people are desperately seeking support from a range of sources, but often finding that this is not enough to prevent them falling into difficulty.



32%

of people using 5 or more coping strategies were in problem debt

42%

of people using 5 or more coping strategies were showing signs of financial distress

Number of coping strategies used	Proportion of people in problem debt	Proportion of people showing signs of financial distress
0	1%	10%
1	3%	25%
2	8%	32%
3	17%	43%
4	21%	45%
5 or more	32%	42%

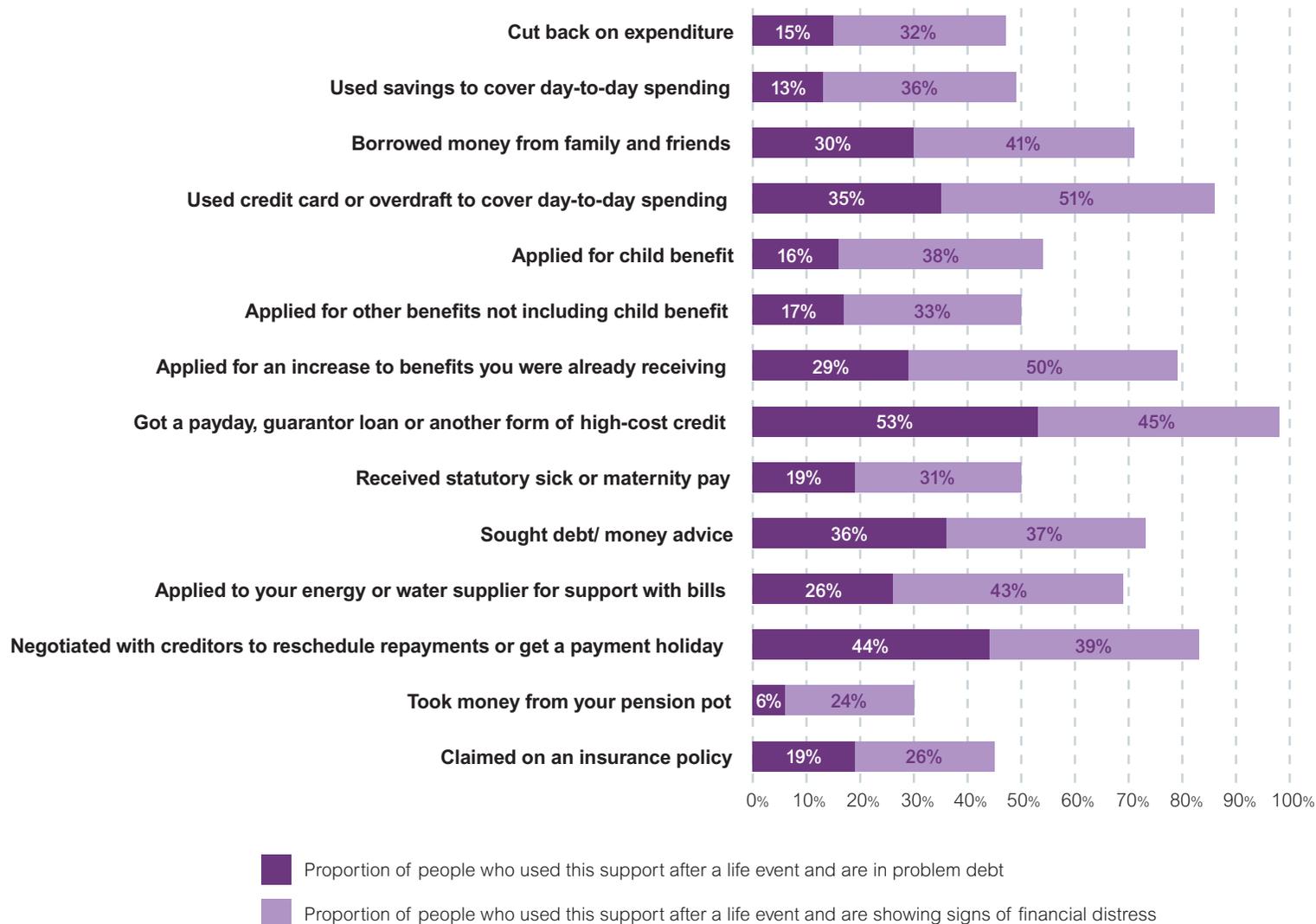
Using credit to cover essential spending, a common strategy employed by people following a life shock, heightens people's risk of debt, for example.^{vii} People who used credit cards or an overdraft to cope after a life event were ten times more likely to be in problem debt than those who got by without using them.

However, we are also seeing people falling into problem debt when they are using strategies that should protect them from this – such as using their savings, accessing the benefits system, and asking for help with their bills from their utility companies. This suggests that the support available to people is not always effective in preventing problem debt.

What is emerging in our findings is that, if you can adjust to an income shock following a life event within your existing budget and resources – in other words, you are financially resilient – then you are likely to be able to cope well.

Only 1% of those who managed to cope with a life event without having to use credit or draw on support, such as from the benefit system, are in problem debt. However, few households have this level of resilience and have to rely on some sort of support to get by. Yet our findings show that this can be ineffective in preventing them falling into problem debt.

Use of coping strategies and problem debt



Whether this is because of the way support is designed, or because people cannot or do not access them until they are already in difficulty, or a combination of these factors, is something we will be exploring in the next phase of this project.

The way support works for people impacted by a life event helps determine whether they stay out of debt or not. There is a strong case to be made for redesigning a comprehensive system of support that prevents problem debt and helps people get their finances back on track. Given how common life events can be, it's in all our interests to get this right.



5 What questions do our findings raise?

Our initial analysis raises a number of questions, which need exploring further. These will form the basis of the next stage of our project.



Why are current forms of support not preventing people falling into problem debt?

While some people are able to cope with life events by flexing their budget, many others have no choice but to rely on certain forms of support or use particular coping strategies, such as borrowing. Yet, in many cases, this is not effective in keeping them out of problem debt and in some cases it is actively increasing the risk of them falling into problem debt.

Further interrogation is required to better understand why this is the case. This includes understanding what support is used, by whom, in which combination and what order.

What is it about those who can cope that protects them?

We have identified a group of people who appear to be able to cope with life events, and avoid falling into debt, without drawing on significant sources of support. We need to understand more about why this is and consider what exactly it is about their situation that protects them, so we can consider how to replicate these protective factors in a system of support for people who may not inherently have them.

For instance:

- › Is it purely a case of income and assets to draw on? Or does social capital – the support of friends, family, colleagues – play a role?
- › Are people able to change their circumstances – for example by finding a new job – more quickly than others?
- › And what role do underlying attitudes in terms of sensitivity to risk play, if any?

These are all questions we will seek to explore in the next phase of the project.

What support do people need when they experience a life event, in order to avoid problem debt?

While some life events may be planned, the majority can take the individual and their family by surprise. No one knows, for example, when they may fall ill. However, as a society we do know that these events happen and there is significant data about the rate at which they occur and who is most likely to experience them.

With this in mind, it is important to consider the balance between individual protection and how we, as a society, manage and pool this risk effectively so that we can all access appropriate support when needed. The origins of National Insurance lie in precisely this – but given how the world has changed, what form of protection is fit for the present and the future?

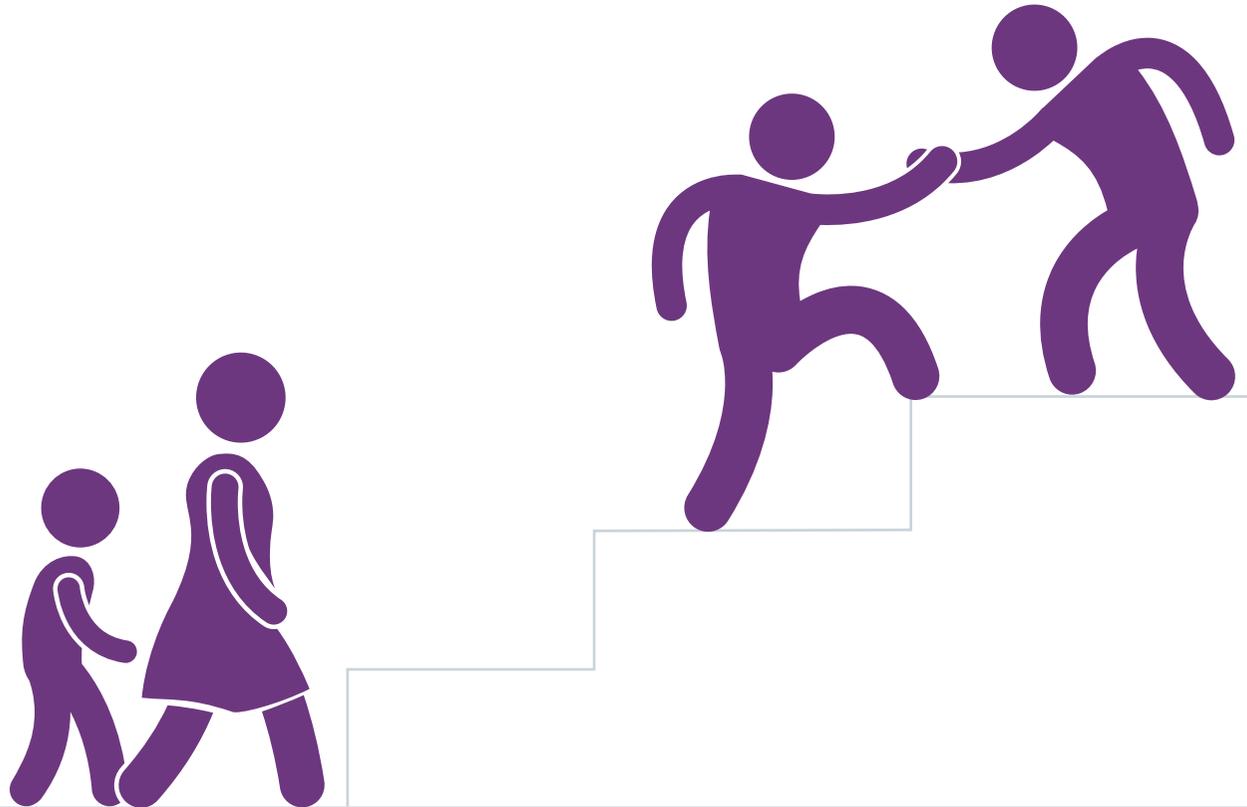
Given how common life events are among the whole population, is there a role for universal services that kick in early, to prevent financial difficulty before it starts? And to what extent should providers of financial products, and other goods and services, include in-built flexibility into their products, that recognises that customers will experience life events and helps them to manage when they do? We want to explore these questions, and others, to help build up principles on which to base a redesigned system of support for coping with life events.

6 Next steps

As we set out at the start of this report, this is only the initial stage of a wider project exploring how to break the link between life events and debt.

We plan to build our insight by working with StepChange's clients to understand more about their experiences. We also want to bring together other experts to help us consider the implications of our analysis. We're keen to hear people's thoughts on the questions we have set out in this report, and to continue discussions about how support might be improved. If you'd like to share your views and be involved as our work progresses, please get in touch via policy@stepchange.org.

We look forward to these further discussions and will be sharing insight throughout the year, with an aim of publishing recommendations for change in early 2020.



ⁱWe conducted a large national online poll with YouGov Plc. The poll had responses from 5,326 GB adults. The fieldwork was undertaken between 29 April – 2 May 2019. The figures have been weighted and are representative of all GB adults (aged 18+). Where we extrapolate national figures from this data, these are calculated by StepChange Debt Charity using 2017 population estimates from the Office of National Statistics which indicate that there are 50,644,094 adults in Great Britain.

ⁱⁱStepChange Debt Charity (2015) *Navigating the new normal*.

ⁱⁱⁱRespondents were asked if they had experienced any of the following in the last two years: Moved home, bereavement, made redundant or became unemployed, become unwell with a chronic condition, retired,

reduced hours at work for three months or more, new baby/ child in the household, relationship breakdown or divorce, took on full time or part time caring responsibilities for a friend or family member.

^{iv}Office for National Statistics (2019) *Labour market overview, UK: June 2019*.

^vStepChange Debt Charity (2019) *Personal Debt in the UK: 2018 Statistics Yearbook*.

^{vi}The options listed for respondents were as follows: Cut back on expenditure; Used savings to cover day-to-day spending; Borrowed money from family and friends; Used credit card or overdraft to cover day-to-day spending; Applied for child benefit; Applied for others benefits

not including child benefit; Applied for an increase to existing benefits you were already receiving; Received statutory pay (e.g. statutory sick pay or statutory maternity pay); Took money from your pension pot; Claimed on an insurance policy; Sought debt/ money advice; Applied to your energy or water supplier for support with your bills (e.g. warm home discount, water social tariff); Got a payday loan, guarantor loan or another form of high-cost credit; Negotiated with creditors to reschedule payments or get a payment holiday; Got a loan from a credit union; Applied for an advance payment from Department for Work and Pensions; Applied for an advance on your salary from employer.

^{vii}StepChange Debt Charity (2015) *Navigating the new normal*.

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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**.

Email: policy@stepchange.org

Web: www.stepchange.org

Twitter: [@stepchange](https://twitter.com/stepchange)

