People are financially insecure

The decade since the financial crisis has left large numbers of households financially insecure.

That financial insecurity is driven by two things:

- ➔ People's finances have become more unpredictable
- ➔ Large numbers of people are poorly placed to manage that unpredictability

Managing money in this context is hard. Many households find it difficult to respond to ongoing changes in their budgets.

For families living in severe financial insecurity, it means making difficult decisions about what to prioritise and what to give up.

For some, it means having to borrow to get by. Borrowing can be a lifeline, helping people to make up for a gap in income or pay large upfront costs.

But relying on credit comes with its own risks. High rates of interest and expensive default charges mean credit products often punish people for trying to manage financial insecurity.

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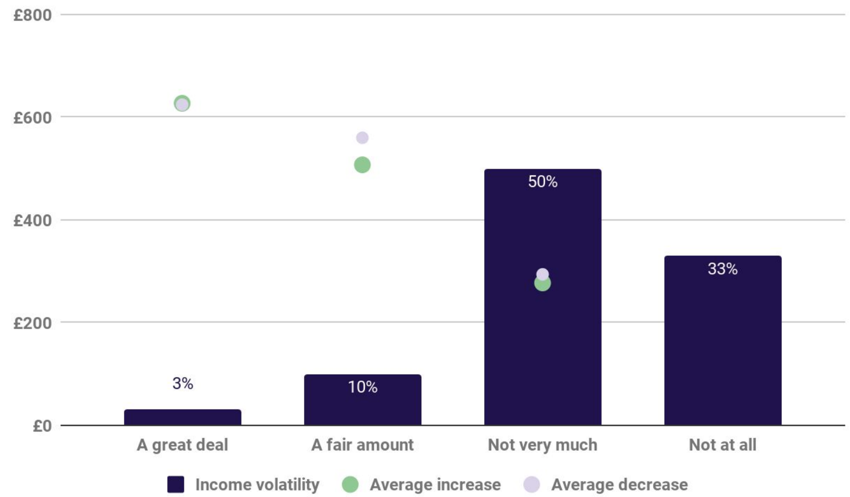
Household budgets are unpredictable. Incomes change from year to year...

- A third (35%) of UK households see their income change by 25% or more from one year to the next.
- A quarter (24%) will see their income grow by 25% while 1 in 10 (11%) see theirs fall by that much.

... and from month to month.

- 13% of UK adults say their income significantly from month to month.
- This rises to 48% among people who are self-employed or in insecure work
- The average largest increase reported was £343 and the average fall was £385.



Changes in people's finances are common

- 4.5 million people are on insecure employment such as temporary or zero-hour contracts, shift or agency work.[1]
- Nearly a third (29%) of UK adults experienced major life events like having children, separation or or ill-health.
- More than half (57%) faced unexpected expenses like home repairs or an insurance excess.

Lisa's story

Lisa got into financial difficulty after her work decided not to extend her temporary contract. Though she quickly found a new job, Lisa was left without an income whilst waiting for her first paycheck.

Despite cutting her spending, Lisa fell behind on her council tax. She was charged the full amount remaining in the year. A bailiff company threatened her with enforcement action. She used a credit card to pay and fell behind on other household bills.

"I'm only just meeting the loan payments at the moment...if I lose this job that's going to be another thing I've got to find the money for."

Lisa's bank helped her to take out a personal loan to consolidate her debts. She is now repaying £60 per month. It will take her three years to pay off her debts in full.

[1] 4.5 million people in insecure work, reveals Citizens Advice, June 2016

People are not well placed to manage unpredictable finances

Alison's story

Alison works on a zero-hours contract. Most of what she and her partner earn goes towards their rent, household bills and car finance payments.

Though Alison moves enough money to cover her essentials into a separate account as soon as she is paid, she has very little flexibility when she faced unexpected expenses.

"You get a bill comes in and it's a little bit higher than you thought and you think...where am I going to find that from?"

As she is unable to put extra money aside as savings, Alison has no way of building up a financial buffer for times like this.

Her only options are to put off paying bills, borrow from her family or go without shopping for food that week.

Budgets are being squeezed. Real earnings - the amount we can buy with the money we earn - are lower than 10 years ago.[1] People's money is not going as far as it used to.

Household spending is not flexible. One fifth of households spend at least 60% of their income on essentials like food, transport or household bills, while 1 in 10 (9%) spend at least 80%.

Household savings are at a near record low. The household savings ratio has only been lower twice in the last 20 years.[2] Only 2 in 5 (38%) of people with unpredictable incomes are able to save.

Consumer debt is rising. 2.9 million households are struggling with debt.[3] They have higher outgoings due to the cost of repayments and a higher risk of incurring financial penalties.

[1]ONS (2018) Analysis of real earnings; [2]ONS (2017) UK Economic Accounts; [3]Citizens Advice (2017) Stuck in debt

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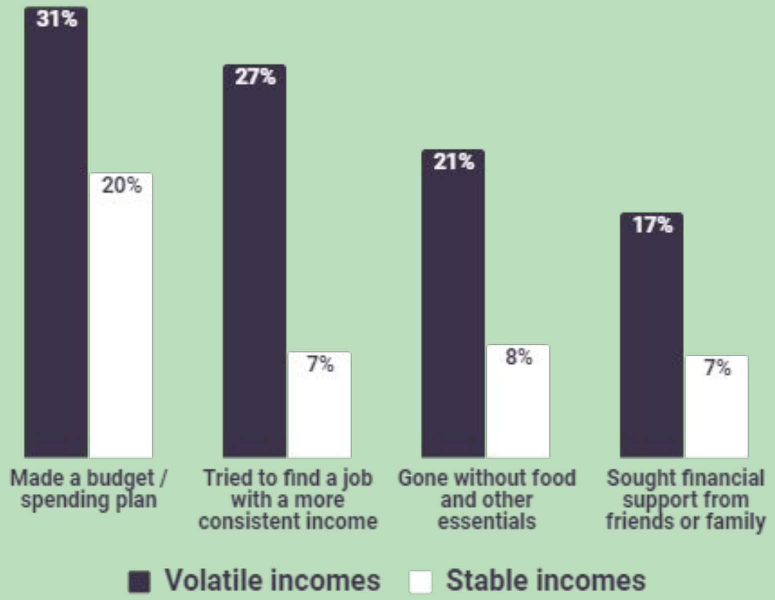
How do people manage financial insecurity?

When people don't have a financial buffer or any slack in their spending, they have to find other ways to make ends meet.



This can mean drawing up a strict budget or finding ways to make money go further. But in some cases it means making difficult decisions about what to prioritise.

➔ **1 in 5 (21%) people with insecure incomes have gone without food or essentials**

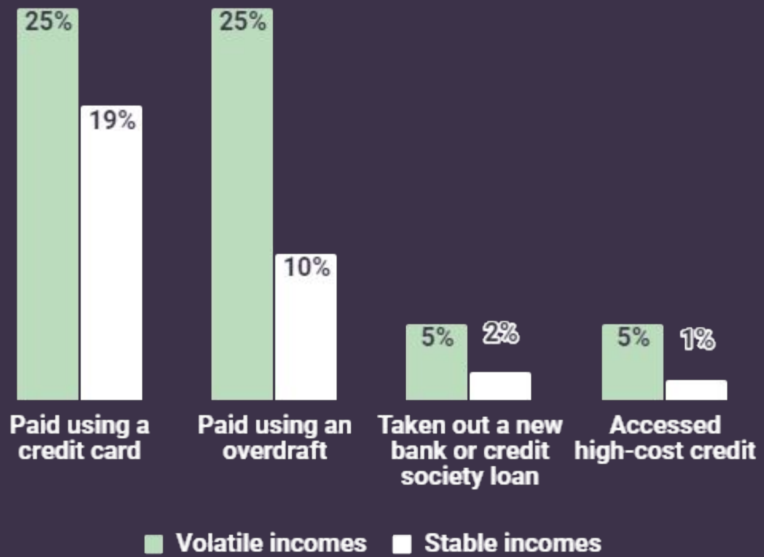
This compares to only 8% of people whose incomes do not change from month to month.

Households are borrowing to get by

People with insecure incomes are more likely to have to borrow just to to pay for essentials like food, household bills or rent.

1 in 4 (25%) have used an overdraft to pay for essentials, while a similar proportion have used a credit card.

People with insecure incomes are **5 times more likely to use high-cost credit** like doorstep loans or rent-to-own products.



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Credit products are punishing people for their insecurity

Many consumer credit products that people use to manage their money penalise households with insecure incomes.

When compared to those with stable incomes, people with insecure incomes are:

- Twice as likely to have paid overdraft fees (28% vs 14%)
- Nearly twice as likely to have paid credit card interest or charges (23% vs 13%)
- Four times as likely to have incurred late payment fees on household bills (23% vs 5%)

Borrowing can further reduce a household's financial buffer and increases the risk that they will be hit with extra charges.

There is no easy solution to financial insecurity. Three approaches would help:

1. **Make sure credit products don't push people into unmanageable debt.** The FCA should build on the success of the total cost cap on payday lending by extending a similar cost cap to other types of high-cost credit.
2. **Provide alternative borrowing options for those who can't borrow affordably from commercial providers**. The government should ensure that credit is available for people where the market can't cater for them.
3. **Help people build a savings buffer.** The government should review how it supports non-pension saving and concentrate its resources on helping people with no savings.

A full version of this research, including methodology and data sources, is available on the Citizens Advice website

Mark and Joanne's story

Mark unexpectedly lost his job as a result of a heart condition. He and his partner Joanne were on a much reduced income for nearly two months, waiting for his first benefit payment.

They were charged several times by their bank for failed direct debit payments.

Finally, after falling behind on their rent and some pre-existing debts, they decided to take out a payday loan.

"If we had other options, obviously we would do it. But I can't keep asking my family for money. [They're] in exactly the same situation, if not worse"

By the time Mark's benefit payments began, they had reached an unaffordable level of debt and were forced to agree an Individual Voluntary Arrangement (IVA) with their creditors.