Walking on thin ice

The cost of financial insecurity

citizens advice

Gwennan Hardy

Joe Lane

Contents

Summary

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

Financial insecurity is driven by two things. First, people's finances are unpredictable. More than 1 in 10 (13%) UK adults say their income changes significantly from month to month. Almost half (48%) said they experienced at least one monthly drop in income last year, with an average largest fall of £385. While the recent growth of insecure work may be making people's incomes more volatile, to some extent unpredictable finances are inevitable - a result of unexpected expenses and major life events as well as changes at work.

Second, large numbers of people are poorly placed to manage that unpredictability - they're not financially resilient. Household saving is at a near-record low, meaning that many people have little or no financial buffer when things go wrong. Family budgets are stretched, with nearly 1 in 10 (9%) of households spending at least 80% of their income on essentials like food, housing and fuel. Finally, household debt is rising and 2.9 million households are struggling to make payments.

Managing money in this context is hard. Many households find it difficult to respond to fluctuating budgets. This is rarely for want of trying - people with unpredictable incomes are more likely than those with stable incomes to have drawn up a budget or a spending plan. Families interviewed for this research were acutely conscious of their incomings and outgoings and all had their own techniques for saving money.

But for families living in severe financial insecurity, managing money can feel like walking a tightrope. It means making difficult decisions about what to prioritise and what to give up. 1 in 5 (21%) people with unpredictable incomes have gone without food or essentials in the past year (compared with 8% with stable incomes). Several people interviewed for this research described having to go without healthy food, transport, medication or new shoes.

For some, it means having to borrow to get by. Borrowing can be a lifeline for households with insecure finances. A quarter (25%) of people with volatile incomes used an overdraft to pay for essential costs like food, utilities or rent in the 12 months, compared with only 10% of people with stable incomes. In our interviews, we heard about how borrowing helped people avoid default charges on household bills or afford large essential purchases like a freezer or washing machine.

But relying on credit comes with its own risks, particularly for those who can't predict what their next paycheck will be. People with unpredictable incomes are twice as likely to have paid overdraft charges and five times more likely to have used high-cost credit as those with stable incomes. With high rates of interest and expensive default charges, far from helping people to gain greater financial stability, credit products often punish people for insecurity.

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

- **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.
- **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.
- **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.

Unpredictable finances: Lisa’s story

Lisa is a single parent, working on a part time temporary contract . Money is tight and she is not able to save, but she is paying her bills on time and has help from her parents to pay housing costs.

Lisa’s work decide not to extend her temporary contract. She finds another part-time job but it’s not due to start for another two months. She puts money aside for her bills for the coming month and avoids turning on the heating or using too much electricity.

Lisa is getting behind with her bills. She has to ask her parents to buy new school shoes for her daughter. She is also referred to a local food bank several times to tide her over until she gets her first paycheck.

Lisa starts her new job but is not paid until the end of the month. She is late in paying her council tax and has been charged the full amount remaining for the year. A bailiff company threatens her with enforcement action.

Lisa takes out a credit card to pay off her council tax debt. Including arrears on household bills, she owes around £2000. She is finally being paid a monthly salary again but is finding it difficult to make ends meet and pay down her debt at the same time.

Lisa's bank help her to find a personal loan with an affordable payment plan. She is now repaying £60 a month on her loan and feels more in control. It will still take her three years to pay off her debt. She worries about keeping up with repayments if her car breaks down or her current job comes to an end.

Acknowledgements

We would like to thank New Policy Institute (NPI) for their analysis. We would also like to thank all the research participants who gave up their time to speak with us about their experiences of financial insecurity, and Citizens Advice staff at Arun & Chichester, Bridgewater, Chelmsford, Chorley and Dorchester Citizens Advice offices, without whom this research would not have been possible.

1. Background

Citizens Advice helps people when things go wrong. Of the 2.7 million people we helped last year, 4 in 5 had experienced a recent change in circumstances. That proportion is even higher amongst people we help who are in financial difficulty. 9 in 10 of those we helped with their debts last year said they had been through a recent change in their lives.[1]

There is no simple explanation for why people get into financial difficulty, but our research shows that changes in income or unexpected expenses are often the cause of debt problems. Analysis of the Wealth and Assets Survey, for instance, shows that people who have a significant fall in income are 33% more likely to fall into problem debt two years later.[2]

Wider research tells a similar story. The Institute for Fiscal Studies found that a fifth of people who got into difficulties paying their debts over a 2 year period did so due to their income falling, rather than borrowing more. People getting into problem debt were around 25% more likely to have had a recent drop in income.[3] Beyond changes in income, wider changes in people's lives - such as relationship breakdown and ill health - often result in financial difficulty.[4]

To some extent those changes in people's lives are inevitable. However, many families are seeing their incomes becoming less predictable. Growing numbers in insecure work - on temporary contracts, on variable shifts, or working zero hours contracts - mean more people face the possibility of unpredictable pay checks.[5]

Whilst having unpredictable finances can contribute to financial insecurity, it is not necessarily a problem if people are well placed to deal with those changes. The effects can be mitigated where people are able to borrow or build up a buffer of savings to use when finances are stretched. But a decade of squeezed incomes has left large numbers of people in an insecure position - holding low levels of savings, high levels of debt, and with no flexibility in their household spending.

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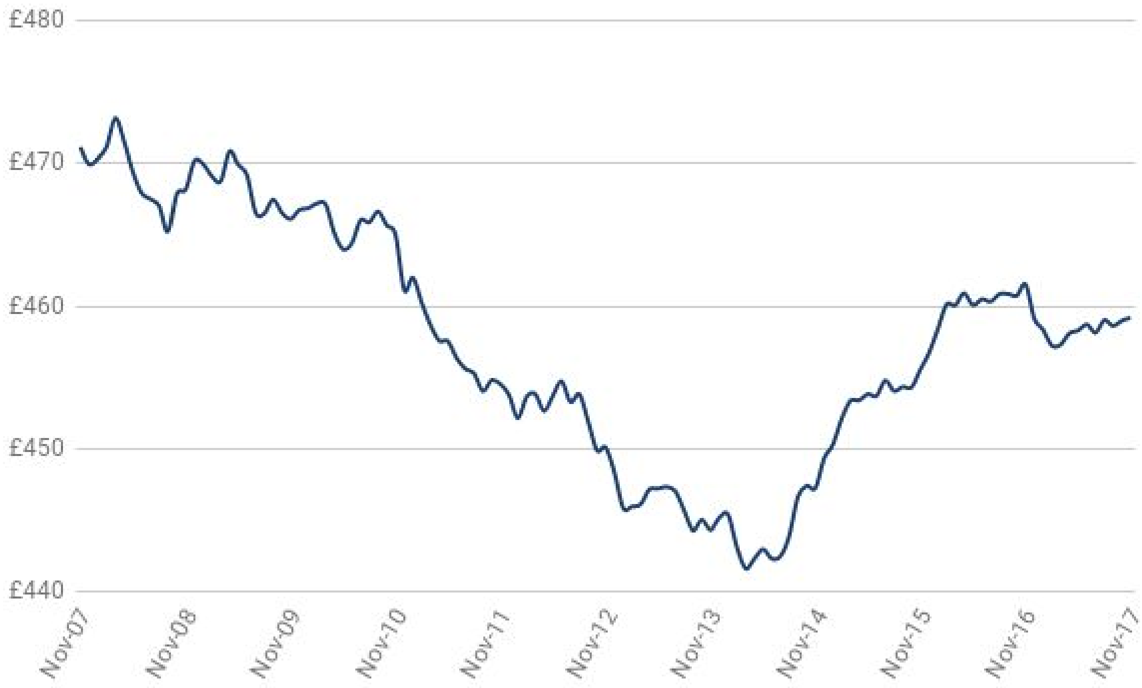
[1] Citizens Advice (2017 The difference we make
[2] Citizens Advice (2017) Stuck in debt
[3] IFS (2018) Problem debt and low income households
[4] Gathergood (2016) FCA Occasional Paper 20: Can we predict which consumer credit users will suffer financial distress?
[5] Citizens Advice (2017) The importance of income security

Figure 1 - A decade without a pay rise

Time series of real average weekly earnings (seasonally adjusted, regular pay, equivalent to 2015 prices)



Source: ONS, Monthly Wages and Salaries Survey

Financial insecurity - unpredictable incomes and a lack of financial resilience - poses two challenges for policy makers. How can pay packets be made more predictable? And how can households be helped into a position where they are better able to manage unpredictability?

Building on our insight from helping clients when they get into financial difficulty, this research provides a picture of how insecure household finances are, how people try to manage that insecurity, and the impact on people who are poorly placed to deal with changes in their budgets.

Data in this report comes from four main sources:

- Analysis of longitudinal data from the Understanding Society survey[6]
- Analysis of the Living Costs and Food Survey[7]
- 10 depth interviews with people with volatile household finances
- A representative poll of UK adults

[6] University of Essex, Institute for Social and Economic Research, NatCen Social Research and Kantar Public. Understanding Society: Waves 5-6 (2013-2016),
[7] ONS (2015/16) Living Costs and Food Survey

2. People's finances are unpredictable

The decade since the financial crisis has been bad for household finances. Real average earnings are still below what they were 10 years ago.[8] But even that stark picture masks the challenges that individual households face.

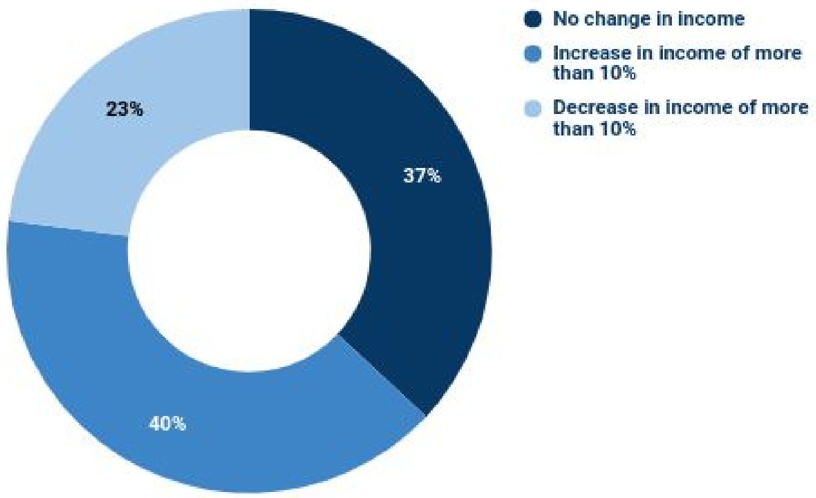
For individuals, incomes and household budgets don't always change gradually over time but instead shift from year to year and month to month. Those changes are often what push people into financial difficulty and problem debt.

2.1. Household incomes change year to year

Fluctuations in people's pay packets give us an insight into how people's financial circumstances change over time. For instance, analysis of the Understanding Society Survey shows:[9]

- Over a third (35%) of households see their income change by 25% or more from one year to the next.
- Around a quarter (24%) of households will see their income grow by 25% or more year on year. More than 1 in 10 (11%) see theirs fall by that much.
- Nearly two thirds (63%) of households saw a change in their income of more than 10% from one year to the next. Around a quarter (23%) faced a decrease in income while 40% saw an increase.

Figure 2.1 - Changes in household income of 10% or more.



Source: NPI analysis of Understanding Society

[8] ONS (2018) Monthly Wages and Salaries Survey
[9] Analysis of the Understanding Society Survey was conducted by the New Policy Institute. Households with a change in adult composition have been excluded.

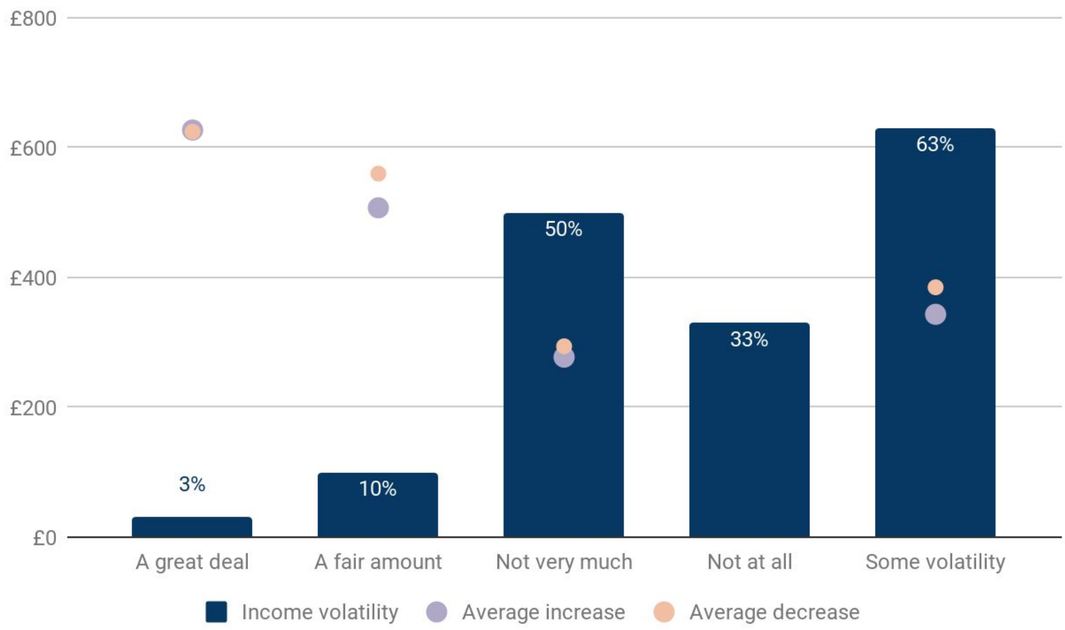
2.2. Household incomes change month to month

People's budgets don't just change from one year to the next. For many, their household finances are constantly unpredictable - changing from one month to the next.

We asked a representative sample of UK adults what the largest change in their household's income was from one month to the next. Overall, 58% reported at least one increase in their household income from month to month and 48% saw at least one decrease. The average largest increase reported was £343 and the average fall was £385.

Figure 2.2 - How do people perceive changes in their income?

Frequency and size of month to month income changes, by perceived extent of income volatility.



Source: YouGov online survey of 2,116 UK adults conducted on behalf of Citizens Advice (June 2017)

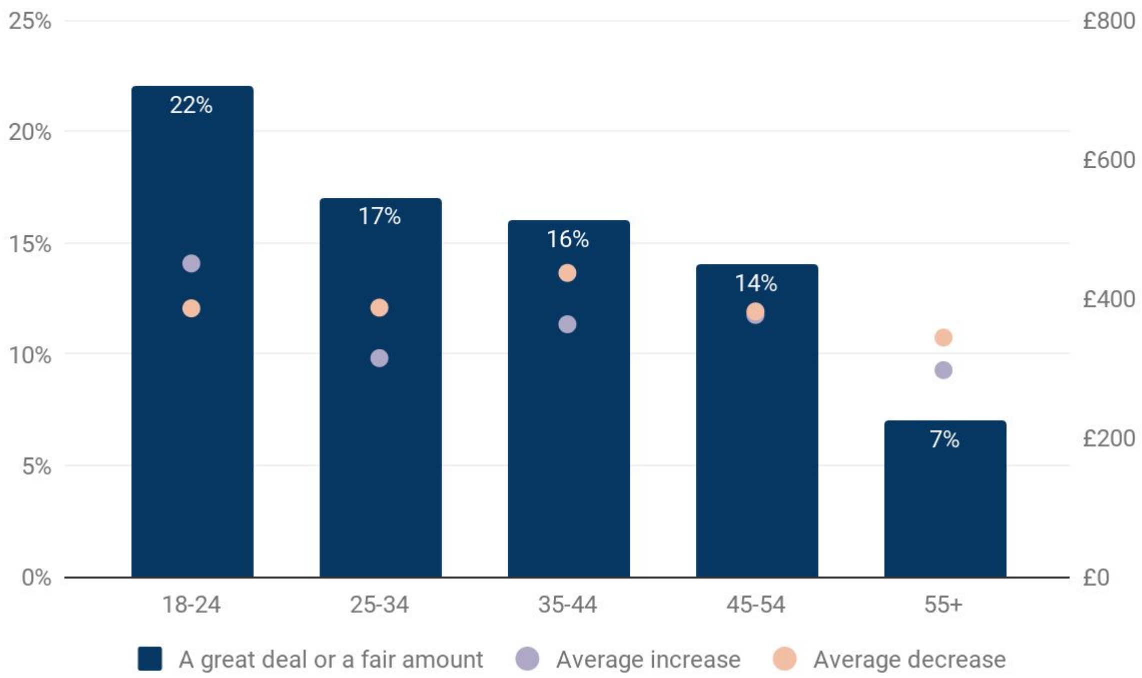
When we look at how people perceived those changes - whether they thought of their income as unpredictable - a majority of people said their household income was changeable. Nearly two thirds (63%) described their income as variable from one month to the next. More than 1 in 10 (13%) said their income changed a fair amount or a great deal over the course of the year. Unsurprisingly, people who said their income changed a great deal or fair amount reported larger changes in their incomes.

2.3. Whose income is most unpredictable?

Different groups are more likely to experience changes in income from one month to the next. In particular, young people are far more likely than average to say their income varies from one month to the next. As shown in the chart below, 22% of 18-24 year olds said their income changed significantly, compared to 7% of those over 55.

Figure 2.3 - Age and income volatility

Frequency and size of month to month income changes by age



Source: YouGov online survey of 2,116 UK adults conducted on behalf of Citizens Advice (June 2017)

Younger people were however the only group which reported a higher average largest increase in their income from month to month (£450), than the average largest fall in income (£386).

People aged 35 - 44 reported the average largest fall in income at £437. Those aged 55 or over were least likely to say their income varied from month to month whilst also reporting the smallest changes in income.

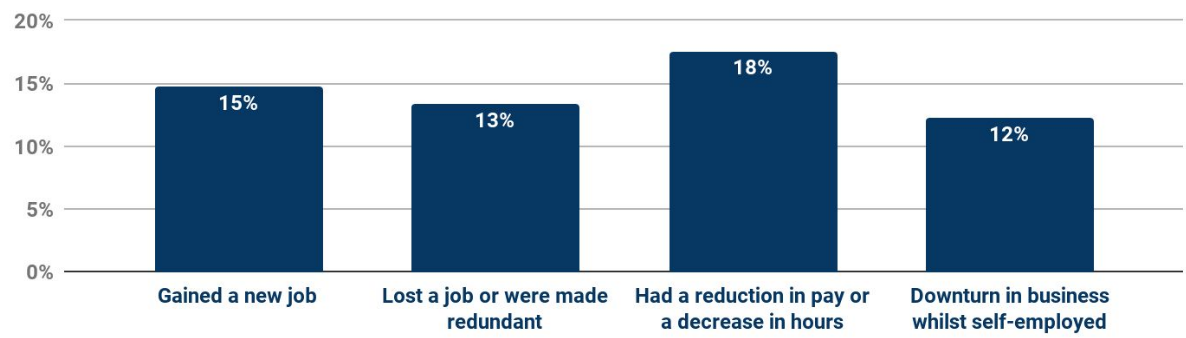
2.4. Changes at work drive income changes

Changes in employment - whether losing a job or getting a promotion - can have a significant impact on a household's budget. As well as altering the regular income that people receive, employment changes can leave households without any money coming in for a period. This is common where people have a gap in employment or have to wait a while for their first paycheck.

In our polling we found income changes over the last year were often driven by changes in employment. Of those who reported a drop in income, 13% said they had lost a job or been made redundant and 18% had a reduction in pay or decreased in hours over the past year.

Figure 2.4 - Changes in employment and income loss

Employment changes amongst UK adults who experienced a reduction in income in the last 12 months



Source: YouGov online survey of 2,116 UK adults conducted on behalf of Citizens Advice (June 2017)

2.5. Insecure workers have less predictable incomes

The chances that a household will experience a change in their income is strongly dependent on how people in the household are employed. Growing levels of insecure work mean that up to 4.5 million people in England and Wales are now in some form of insecure employment.[10]

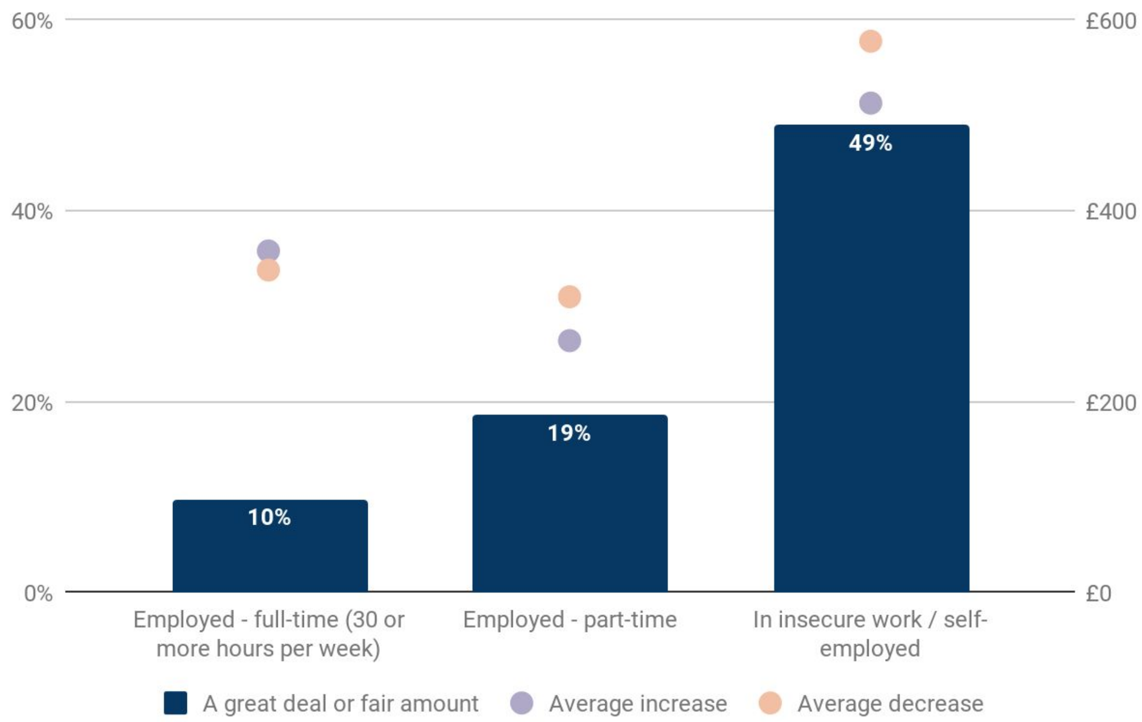
People in insecure work - those on temporary or zero-hour contracts, or who are self-employed - are significantly more likely to say their household income is volatile. Nearly half (49%) of people who are self-employed or in insecure work said their income changed either a fair amount or a great deal from one month to the next, compared to 13% of all adults.

[10] 4.5 million people in insecure work, reveals Citizens Advice, June 2016

The changes they report are also far larger. The biggest month to month fall in income for this group over the previous year was £578 on average, compared with £338 amongst full time employees.

Figure 2.5 - Employment type and income volatility

Frequency and size of month to month income changes by employment type



Source: YouGov online survey of 2,116 UK adults conducted on behalf of Citizens Advice (June 2017)

Respondents cited a number of reasons for why their incomes were so unreliable:

- 14% said they had changing income from self-employment
- 11% said it was due to changes in their hours
- 9% said they had varying income from sources other than employment
- 8% said it was due to fluctuations in the tips, bonuses or commission that they were earning
- 4% said they were in seasonal or temporary work.

2.6. Life events disrupt people's finances

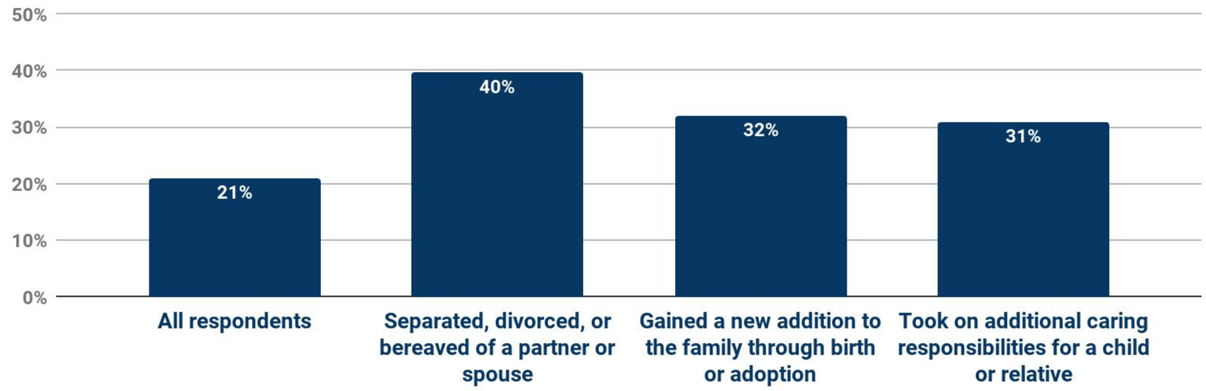
Another major cause of unpredictable incomes are the wider changes in people's lives. Significant life events - such as having children or a period of poor health - are often expensive and can result in a period out of employment. Whilst some of these changes are anticipated or planned, many are unexpected and can mean that households are unprepared for the financial consequences.

29% of UK adults experienced some type of life event in the past year.[11] Those who had experienced a life event in the past 12 months were nearly twice as likely to report their income was 'a lot lower' than the previous year - 15% compared with 8% for those who had not experienced a life event.

People from households that faced separation or divorce, or were bereaved of a partner or spouse, were much more likely to report a lower income than the previous year. A third of those who had children (32%) and a similar proportion of those who had taken on additional caring responsibilities (31%) also reported a reduction in income.

Figure 2.6 - Life events and income loss

Proportion reporting a lower income than 12 months ago



Source: YouGov online survey of 2,116 UK adults conducted on behalf of Citizens Advice (June 2017)

Illness or additional caring responsibilities affect the hours that people are able to work and can mean taking extended periods out of employment. Around 6% of households whose income varied from month to month attributed this to changes in their hours as a result of illness or caring responsibilities.

[11] Our survey asked about the following life events: marriage / civil partnership; separation / divorce; changes in household composition; purchasing first home; moving house; new caring responsibilities; being diagnosed with a physical illness, disability, or mental health condition.

2.7. Unexpected expenses are common

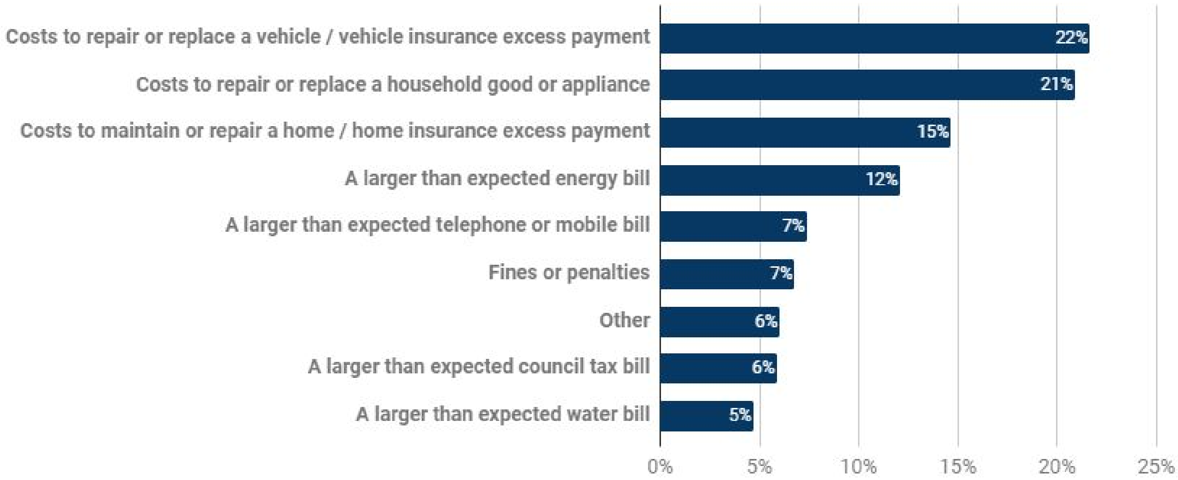
As well as unpredictable incomes, people face uncertainties on the other side of their household budget - unexpected expenses.

Measuring the frequency and size of unexpected expenses is more difficult than income changes as people's perceptions of what is unexpected is subjective. For instance, spending on a car repair may be something that a household is forced into, or they have been able to plan for.

We asked people whether they or anyone in their household had incurred a range of unexpected expenses over the last year. More than half (57%) of people said they had, and a quarter (27%) reported two or more unexpected expenses. The most common costs people faced were repairing a car, replacing a household appliance, or a home repair.

Figure 2.7 - Unexpected expenses

Frequency and type of unplanned or unexpected expenses



Source: YouGov online survey of 2,116 UK adults conducted on behalf of Citizens Advice (June 2017)

The impact of those unexpected expenses on people's budgets is substantial. The median largest unexpected expense in the last year was £502. Nearly 1 in 5 (18%) of people said their household had an unexpected cost of over £1,000. Evidence from other data sources tells a similar story. In the Living Costs and Food Survey, 44% of households reported spending on vehicle maintenance, housing maintenance, or vehicle repairs.[12]

[12] NPI analysis of the Living Costs and Food Survey 2015-16

3. Households are badly placed to deal with unpredictable finances

Having a fluctuating income makes it hard for people to stay on top of their finances and maintain their standard of living. However unpredictable budgets are to some extent inevitable - caused by changes in people's lives and unexpected expenses as well as insecure work.

Those fluctuations are not necessarily a problem if households are well placed to deal with those changes. But large numbers of households aren't - they have little or no financial resilience.

Looking at the the whole UK adult population:

- 6.5 million households have no savings, meaning they have nothing to fall back on when they have to meet an unexpected expense.[13]
- 5.7 million households spend more than 60% of their income on essential outgoings, meaning they have little flexibility in their budgets.[14]
- 2.9 million households are struggling with debt, meaning they have higher costs and an increased risk of incurring financial penalties.[15]

Kayleigh used to put a bit of money aside every month as savings. After going on maternity leave, her income was cut by a half. She and her partner were struggling to get by on a reduced income and it became impossible to save any money. She quickly found herself dipping into her savings to pay for day to day costs.

As well as not having as much money coming in, Kayleigh's maternity pay was less predictable than her salary and came in on different dates each month. Despite cutting back their spending and negotiating a better deal with her mobile provider, she found it difficult to plan ahead and make sure there was money in her account to pay the bills.

Kayleigh was employed on a temporary basis and, whilst she was on maternity leave, her employer decided not to renew her contract. As her savings ran out, Kayleigh has had to rely more and more on her credit card to get by.

[13] FCA (2017) Financial Lives Survey
[14] NPI analysis of Living Costs and Food Survey 2015-16
[15] Citizens Advice (2017) Stuck in debt

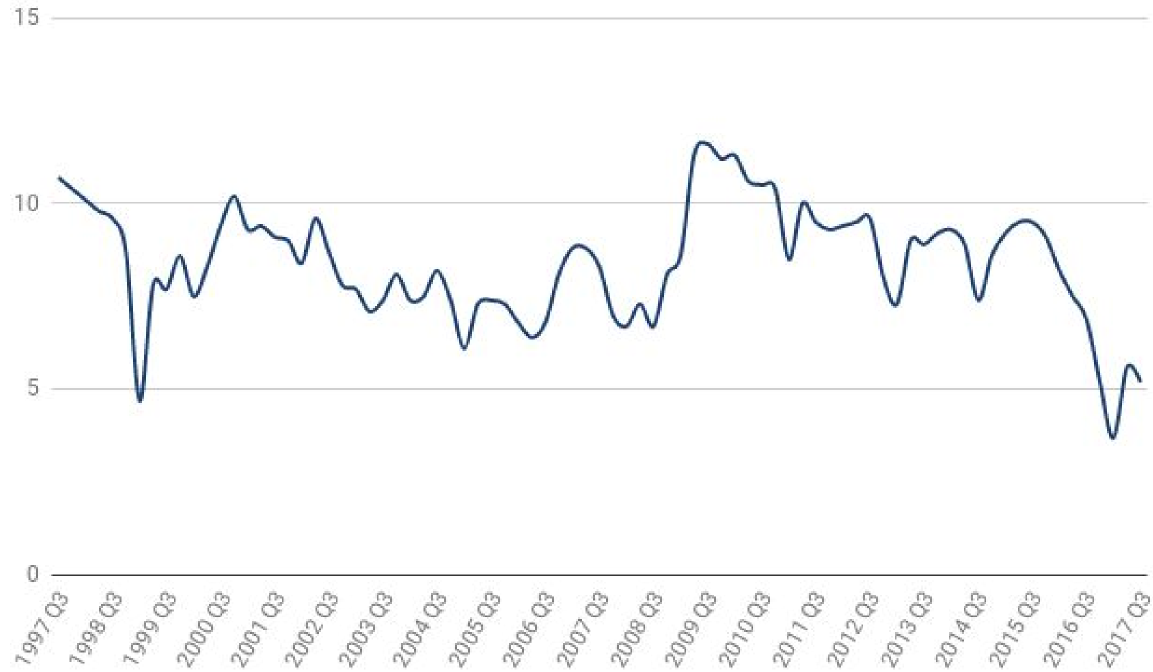
3.1. Many households don’t have savings to fall back on

Ideally, people use savings to supplement their income when their finances are stretched. In reality, households are often not able to smooth their spending in this way.

Across all UK households, the proportion of people’s income they can save is at a near a record low - and has only been lower twice in the last 20 years.[16] Due to a combination of increased expenditure and tax payments, the latest data shows that households only have around 5% of disposable income available for saving.

Figure 3.1 - Record low savings

UK saving ratio (%) Q3 1997 - Q3 2017



Source: ONS, UK Economic Accounts

While the data is volatile, the clear trend since 2010 has been a falling saving ratio. The low aggregate level of saving isn’t necessarily a problem - UK households have more than £1.6 trillion of savings.[17] However it does highlight the challenge that large numbers of households face in building up any savings buffer at all. A recent survey by the Financial Conduct Authority found that 6.5 million households had no savings at all.[18]

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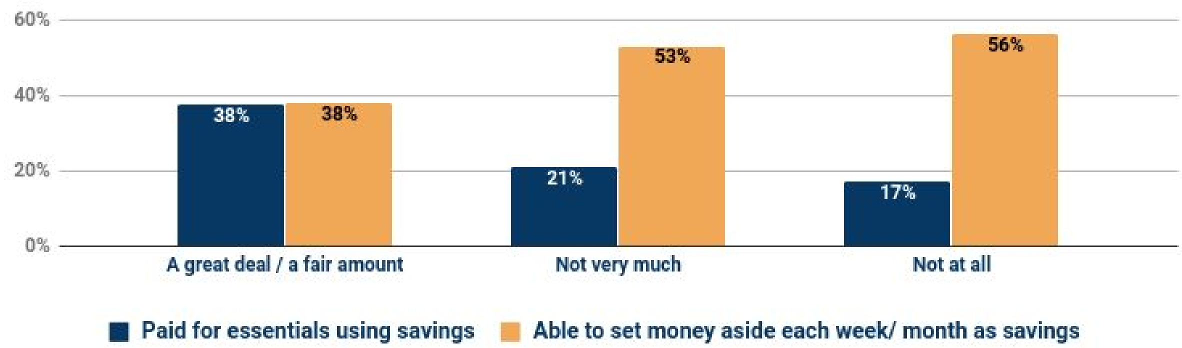
[16] ONS (2017) UK quarterly sector accounts
[17] Total net financial wealth. ONS (2018) Wealth and Assets Survey Wave 5 (2014-16)
[18] FCA (2017) Financial Lives Survey

3.2. Having an unpredictable income makes it harder to save

Those who would most benefit from having savings find it most difficult to build them up. As shown below, people with an unpredictable income are significantly less likely to be able to save each month. That doesn't mean those households don't save at all - Figure 3.2 also shows people with unpredictable incomes are more likely to have used their savings to pay for essentials.

Figure 3.2 - Savings dilemma

Proportion using savings to pay for essentials and ability to save by extent of income volatility



Source: YouGov online survey of 2,116 UK adults conducted on behalf of Citizens Advice (June 2017)

A high degree of financial instability can act as a disincentive to save. Often, the savings that people are able to make on monthly budgets are so small that, even if something were to go wrong, the savings accumulated would not be sufficient to cover a shortfall.

However, for many people saving doesn't even feel like an option. Very few of the people we interviewed had been able to build up savings before they got into financial difficulty. Those on low incomes often did not have any money left from their pay to put aside as savings. Younger people we interviewed had not been earning very long and had not yet started to save. Others had faced challenges in recent years - such as the breakdown of a relationship or a period of unemployment - which meant any financial buffer they had was already used up.

3.3. Households have little flexibility in their spending

In addition to using savings, households can manage unpredictable finances by adjusting spending to adapt to changes in the size of their budget. However, many households do not have enough flexibility in their spending to be able to respond to changes.[19]

We analysed the Living Costs and Food Survey to identify how many households had very tight budgets - where they spend a high proportion of their income on essentials.[20] More than 1 in 5 (21%) households spend more than 60% of their income on essentials each month, and nearly 1 in 10 (9%) spend more than 80%. Those households may be making ends meet - but only just.

Four groups stand out as having very inflexible household budgets:

- **Households with low incomes.** Nearly a third (30%) of households with an income of between £10,000 and £20,000 spend more than 60% of their income on household essentials.
- **Self-employed households**. Where a household's income comes predominantly from self-employed income, a quarter (26%) reported spending more than 60% of their income on essentials.
- **Private renters**. People living in the private rented sector are more than three times as likely as people who own their own home to spend more than 60% of their income on essentials - 39% of renters compared to 12% of homeowners.

The level of spending on essentials is partly driven by housing costs, but housing is not the whole story. Looking at the regions of the UK where households have the least flexible budgets, Northern Ireland, Scotland, and Wales are the places where households are most likely to spend more than 60% of their income on essentials. The proportion in London is the same as the national average.

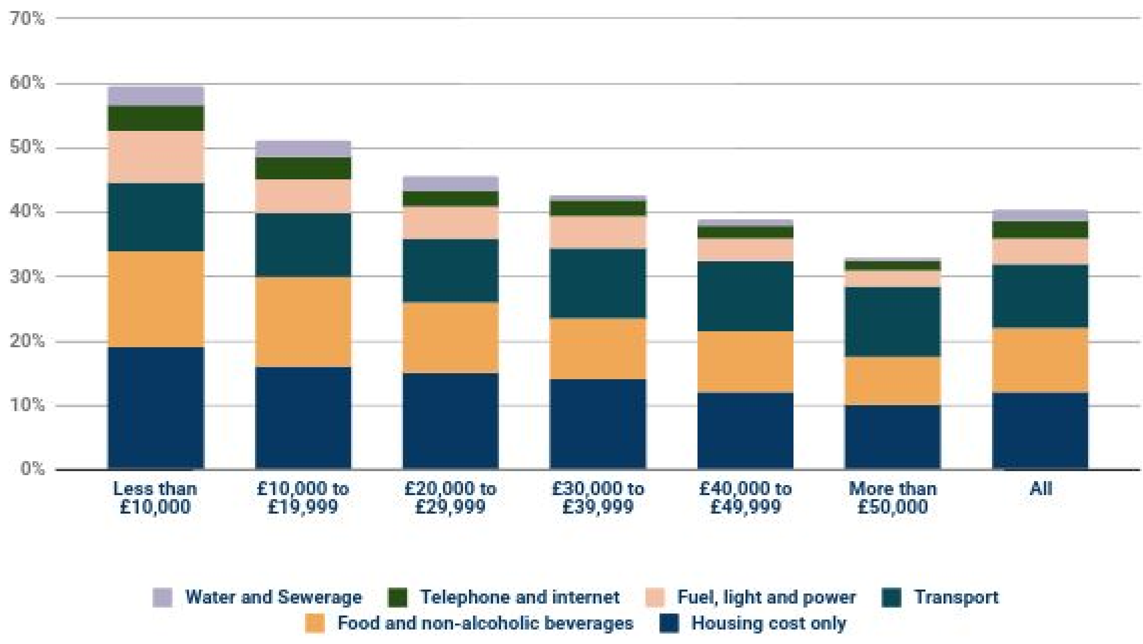
Overwhelmingly it is those on a low income that have little or no flexibility in their household budgets. The average amount that households spend on essentials is 40%. For households with an income below £20,000, this rises to more than 50%.

[19] All analysis of spending patterns is from NPI's analysis for Citizens Advice of the Living Costs and Food Survey 2015-16

[20] Other essential categories such as clothing, recreation activities and household goods as not included here as it is assumed they are more flexible in the short term.

Figure 3.3 - Cost of essential spending

Proportion of income spent on essentials by annual gross household income



Source: NPI analysis of the Living Costs and Food Survey 2015-16

As shown by the chart above, a significant proportion of high spending on essentials is driven by housing costs, with the two lowest income groups spending 19% and 16% on average of their income on housing, compared to an average of 12%. But, as noted, it is not solely due to housing costs:

- These households also spend a large proportion of their income on groceries (15% and 14% respectively).
- Utilities such as fuel, light, power and water and sewerage make up a large share of spending for those in the bottom income groups (11% combined for under £10,000), but a small proportion of higher income groups (3% for those with incomes between £40,000-49,000).

4. People struggle to adapt to financial changes

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 could mean drawing up a strict budget or finding ways to make money go further. Measures like these help people to respond to financial changes and minimise their impact.

People with unpredictable incomes are more likely to have had to go without essentials in order to stretch their budgets. Among people whose incomes vary significantly from month to month:[21]

- 1 in 10 (11%) have gone without heating or electricity (compared with 5% among those with a stable income.
- 1 in 5 (21%) have gone without food or essentials (compared with 8%)

We conducted depth interviews with 12 people who had insecure finances to help build a picture of why, in practice, households find it difficult to adapt to changes in their finances. We focused on how people handled their budgeting, making their money go further, and when they've gone without in order to get by. The research methodology is outlined in Appendix 1.

4.1. Budgeting

Keeping a careful eye on incomings and outgoings is often essential when people's budgets are unpredictable. Most of the people we interviewed had put together a spending plan to let them keep track of what was going out of their bank accounts and how much they had left to spend until their next payday.

Only 31% of people with volatile incomes have drawn up a budget or spending plan. Though the proportion is low, this group are more likely to be actively budgeting than the average UK adult (22%). This may reflect the need we saw amongst interviewees to have greater control over their finances and plan carefully to avoid being left short on money.

> *"I've got a little spreadsheet I do when things come in and when things go out so I know what money is supposed to be in my bank at the time."* ***Nick, 46 - 55, working full time***

[21] People whose incomes vary significantly are defined here as those who stated their income varies 'a great deal' or 'a fair amount' from month to month.

However, many of the people we spoke with had to check and update their budget on a daily basis and felt this was putting them under a great deal of pressure.

> *"It's hard. It's easier to be a bit of an ostrich and just not deal with it"* ***Anna, 35 - 44, working full time***

Several described the anxiety or despair that addressing their financial situation caused and how this deterred them from taking control of their finances. Others felt they were unable to successfully plan ahead because of the unpredictability of their situation. Both factors made it more difficult for people to engage in managing their money.

4.2. Making money go further

Although all of the people we interviewed had cut back on non-essential spending, many still had very little money left over after essential bills like rent, utilities and council tax. To make their money go further, they often changed their consumption behaviour or the way they shopped.

Many cut down on energy usage or avoided turning their heating on. Several had changed their energy or broadband supplier, or negotiated a better deal with an existing supplier. Others had contacted their suppliers directly to find out if there were ways of reducing their bills, for example by getting a water meter installed. One participant described how she now always checked price comparison websites to make sure she was getting the best deal available.

> *"We're signed up to money saving expert, so we get an alert when our bills can be £100 cheaper or something"* ***Kayleigh, 25 - 34, working part time.***

For food shopping, one couple found that shopping online helped them to be strict about the items they bought, whilst the free delivery meant they saved on travel costs. Others had started shopping in cheaper supermarkets or begun avoiding those which promoted special offers or tried to upsell items at the tills.

Some participants were more restricted in their ability to change the way their spent their money. More than one interviewee had difficulty getting to cheaper shops because they could not pay for extra travel or did not have access to a car. Others were not aware that they could reduce their energy bills and had assumed they were on the best deal available. One participant felt that, as he only stood to save a small amount upfront, the benefit of switching energy suppliers was outweighed by the risk of being hit with hidden charges.

4.3. Going without

Although all of the people we spoke with had tried multiple creative ways to save money and cut their spending, several described how they had to go without food or other essentials at times. Changes in their circumstances, alongside long-standing problems like being unable to save, often forced them to make difficult decisions about how to spend their money.

One couple had got into problem debt after a period of unemployment. After experiencing threatening behaviour from bailiffs, they felt they needed to prioritise repaying this debt above everything else. They started avoiding buying food during more expensive weeks to be able to save more money. They also visited a food bank and relied on visiting family members around mealtimes in order to get by.

> *"I would rather go a few days without eating than have the stress of that debt collector at the door."* ***Joanne, 18 - 24, claiming disability benefits***

Another interviewee had built up several debts after separating from her partner and taking time out of work to care for her daughter. After returning to work, she found it difficult to adapt to changes in the benefits she was receiving. Discovering that she was no longer eligible for free prescriptions, she decided to stop taking medication recommended by her doctor in order to cut down the amount she was spending each month.

> *"I took myself off the tablets because I now have to pay for prescriptions which I can't afford...Pint of milk wins over [her medication]"* ***Alison, 45 - 54, zero-hour contract***

In both of these cases, participants were not able to access credit to tide them over. Other interviewees chose to pay for bills or food shopping using a credit card during times of particular hardship, particularly where they had children or dependents to care for.

5. Households borrow to cover shortfalls

Most people will borrow money or use credit to manage their finances at some point during their lives. Those with unpredictable budgets are more likely to have to borrow just to pay for essentials.

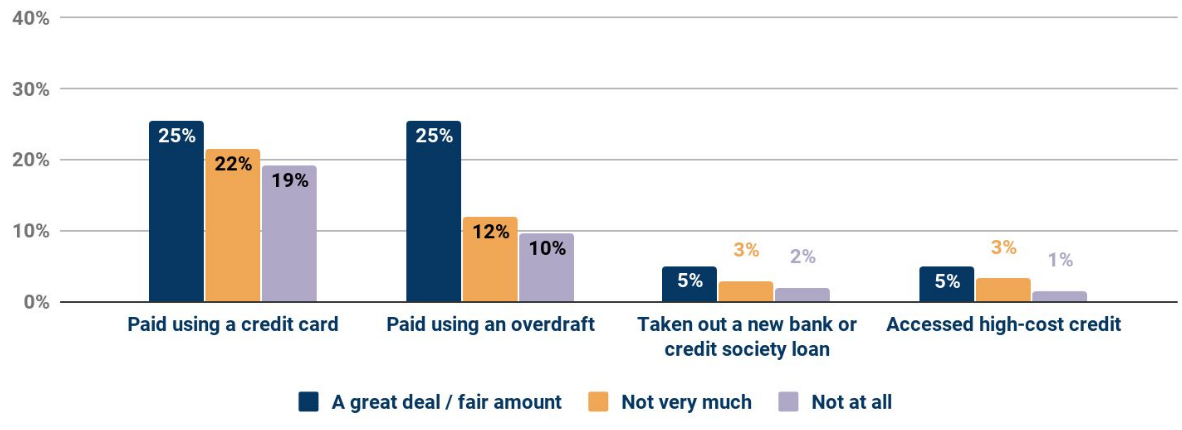
People with insecure finances use a range of methods to make ends meet. In the last 12 months:

- Around 1 in 6 (17%) people with volatile incomes sought financial support from friends or family, compared with 8% of those whose incomes were stable.
- People with volatile incomes were twice as likely to have ignored or delayed a bill or loan repayment in order to pay for essentials - 11% compared with only 5% of people with stable incomes.

People with high levels of income volatility were also more likely to have used consumer credit to pay for day to day essentials. A quarter (25%) of people with volatile incomes have paid for essentials using a credit card. They are more than twice as likely to have used their overdraft to pay for essentials - 25% compared with 10% for people with stable incomes.

Figure 4 - Borrowing to pay for essentials

Types of credit used to pay for essentials by extent of income volatility



Source: YouGov online survey of 2,116 UK adults conducted on behalf of Citizens Advice (June 2017)

People with high levels of income volatility are also five times as likely to have accessed high-cost credit in order to meet the cost of essentials - 5% compared with 1% among those with stable incomes. High-cost credit includes payday loans, guarantor loans or rent-to own products.

5.1. Borrowing from friends or family

For many people, their first and sometimes only option for borrowing money was to turn to friends and family. Some borrowed small amounts when they had run out towards the end of the month, while others borrowed to cover urgent or unexpected costs.

> *"I don't know how we would have managed those two months if it wasn't for my mum and dad"* ***Lisa, 35 - 44, working part time***

£

1 in 6 (17%) people with volatile incomes have **borrowed from friends or family**

Importantly, borrowing from friends and family was seen as a flexible option which participants could rely on when they most needed it. It also allowed them to avoid additional charges or fees associated with using an overdraft or other forms of credit. One participant described how he had borrowed from his family to pay off his overdraft in full after his bank introduced charges, allowing him to avoid significant costs.

Participants described a number of downsides to this option. Firstly, there was a real sense of embarrassment and guilt associated, particularly for those borrowing money from their children. Second, although there were rarely any terms agreed for paying people back, participants felt very aware of the debt they owed. They often did not feel they could spend the money with freedom because of the risk they would be seen as spending irresponsibly.

> *"I get this sort of guilt whenever I buy anything non-essential"* ***Lauren, 18 - 24, working part time***

Finally, lending by friends and family was usually a finite resource. Interviewees felt there was a limit to the amount of times they could ask for help, particularly where their family members were in difficult financial situations themselves. As a result, this type of informal borrowing was not sufficient for those who had to respond to multiple problems.

5.2. Delaying payments

At times, the people we interviewed found themselves making difficult decisions about how to balance paying their bills against paying for day to day costs like food or travel. Several had ignored payment requests or deliberately gone into arrears in order to get by.

1 in 10 (11%) people with volatile incomes have **ignored or delayed a bill or loan repayment**

The people we spoke with were all making different trade offs. Most prioritised paying rent and household bills as they worried that falling behind would have serious implications for their lives - choosing instead to fall behind on telephone bills or debt repayments. Others paid less towards household bills in order to pay down debts which were costing them extra, either in interest or in additional fees. In more extreme cases, people had chosen not to pay a bill on time in order to be able to afford their food shop that week.

> *"I remember even cancelling my standing order and putting it back on a month later...because if the money just goes, it's out of your control"* ***Anna, 35 - 44, working full time***

Delaying payments allowed our interviewees to be more responsive to changes in their income or be able to afford urgent spending. Sometimes this meant holding out for a few days after a deadline in order to pay a bill after their next paycheck or benefit payment. Where people's budgets were very finely balanced, they felt it was helpful to have a greater degree of control over when money was leaving their account.

A small number of interviewees simply did not have enough funds available to pay their bills, falling into arrears rather than delaying payments as a short-term coping mechanism. For the people we interviewed, the eventual outcome was taking out a payday loan or using their credit card to pay the outstanding balance and avoid being subject to bailiff action.

5.3. Consumer credit

Interviewees were divided on their attitudes towards credit and their willingness to turn to formal types of borrowing during periods of hardship. Several participants wanted to avoid taking on new or additional debt. In most cases, the strength of feeling they expressed reflected past experiences of serious debt problems, or the experiences of family members. Others no longer had the option because their poor credit rating had made borrowing impossible or unaffordable.

> *"Debt scares me...I don't want to leave any debts for my children. I would rather eat less this week than borrow money."* ***Inga, 24 - 34, working full time***

£

1 in 4 (25%) of people with volatile incomes have **used an overdraft to pay for essentials**

Nonetheless, many of the people we spoke with had used some type of credit to help make ends meet whilst they were coping with a change in circumstance or unexpected expense.

Overdraft usage was common, with people usually paying the balance off when they were paid or received their main income and gradually making their way back into it during the course of the month. Where this was a planned overdraft, participants rarely felt any urgency to pay off the balance. However, some did not have access to a planned overdraft or had seen charges introduced when they were relying on this credit to get by. In these cases, they either incurred penalties or borrowed from another source in order to pay off the balance and avoid charges.

A small number of participants had taken out a personal loan whilst trying to adapt to changes in their employment. One took out a loan after losing his job due to a worsening health condition, whilst another used her loan to consolidate the debt she had accrued during a period of unemployment and spread the cost of repayment. Both were in insecure work and were worried about the prospect of continuing to repay the loan in the event of future changes in their employment.

5.4. Credit card borrowing

For interviewees, credit cards provided a financial buffer against unexpected or unusually high spending, whilst also enabling them to spread out their costs. This meant that they could afford to pay large one-off amounts - for example, visiting a sick relative or paying off a bill.

25% of people with volatile incomes have **used a credit card to pay for essentials**

> *"I know it's totally a false economy...but if you've got no money in your account and you've got £30 available on your credit card...you have no choice really"* ***Anna, 35 - 44, working full time***

Several participants suggested that they used credit cards because they were available - an extra source of finance in times when their budgets were stretched. One had initially taken out her credit card to improve her credit rating but quickly found the amount she owed spiralling out of control.

Whilst some had borrowed for one-off costs, others found themselves relying on credit cards to get by. Though using a credit card enabled them to pay off bills or repair the car they used to travel to work, participants found it difficult to reduce the amount they owed in the long term.

> *"[The bank] keeps trying to extend his overdraft and his credit card limit, but he's quite keen to just keep it where it is because he's worried that if we had it, we'd be more likely to use it and it would be harder for us at the moment to get out of it"* ***Kayleigh, 25 - 34, working part time***

Others worried that unsolicited increases to their credit limit were making it more difficult for them to get out of the habit of using their credit card and pay down their debt.

5.5. High-cost credit

Use of high-cost credit was less common amongst the people we interviewed than other types of borrowing. Interviewees tended to use rent-to-own products and catalogue credit to allow them to spread the cost of expensive purchases such as household appliances and electronics.

Several used payday loans to make up the shortfall in their budget during a period out of work. These interviewees had either been turned down for a credit card or overdraft, or had reached their credit limit for these products. Two of the people we spoke with took out the loan as they did not want to continue borrowing from their parents or other relatives.

People with volatile incomes are **5 times more likely to use high-cost credit**

> *"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"* ***Joanne, 18 - 24, claiming disability benefits***

Rent-to-own products and catalogue credit allowed some to spread the cost of expensive purchases such as household appliances and electronics in cases where they could not afford the upfront price or did not want to commit too much of their income at once.

> *"It is kind of a do it and worry about it later…I know it's counterintuitive, because I'll have to pay it back at some point and more, but that is the appeal really"* ***Anna, 35 - 44, working full time***

In practice, interviewees were not always able to spread their costs in this way. One participant had bought a washing machine on finance a year previously and, having failed to make a payment during that period, was now trying to pay the full amount before the end of the month. The need to prioritise paying urgent debts and keeping up with household bills meant that he had only delayed meeting the cost of the appliance.

6. People pay a high price for insecurity

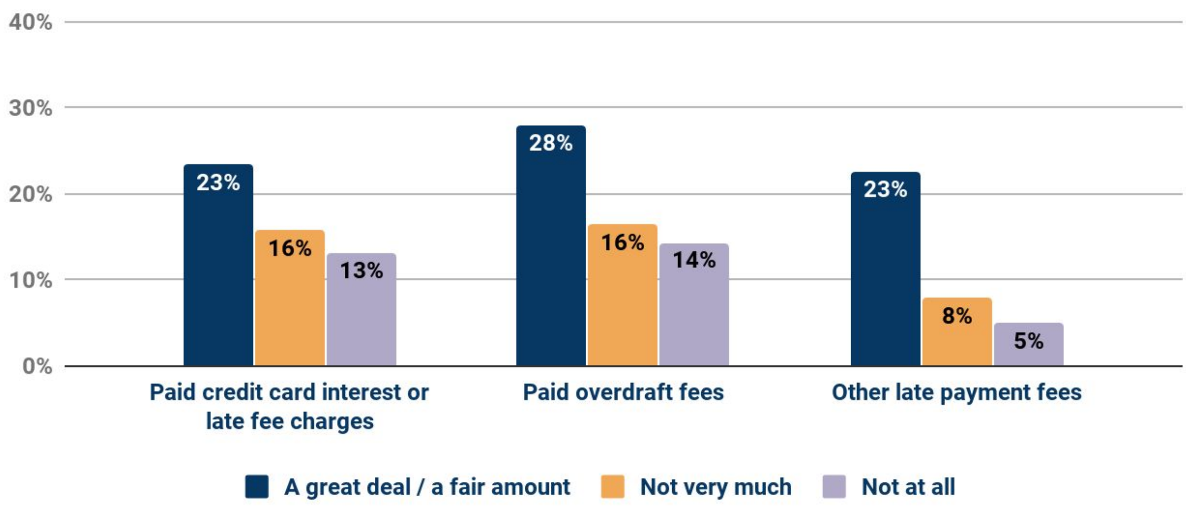
Borrowing is often a lifeline for people who are struggling to manage unpredictable finances. However, for those whose finances are already stretched, borrowing further reduces their financial buffer and increases the risk that they will be hit hard by future shocks to their income or spending.

6.1. People are penalised for insecurity

Many of the consumer credit products that people use to manage unpredictability penalise people with insecure incomes. We found people with volatile incomes are more likely to have paid fees or charges on credit cards, overdrafts, and 4 times more likely to have paid other late payment fees.

Figure 5.1 - Paying additional costs

Frequency of additional charges by extent of income volatility



Source: YouGov online survey of 2,116 UK adults conducted on behalf of Citizens Advice (June 2017)

Our interviews found that people who are financially insecure walk a tightrope between managing and falling behind. Having an unpredictable income made it more difficult to keep on top of spending. Even small changes in their income or the timing of a bill could lead to direct debit charges or late payment fees.

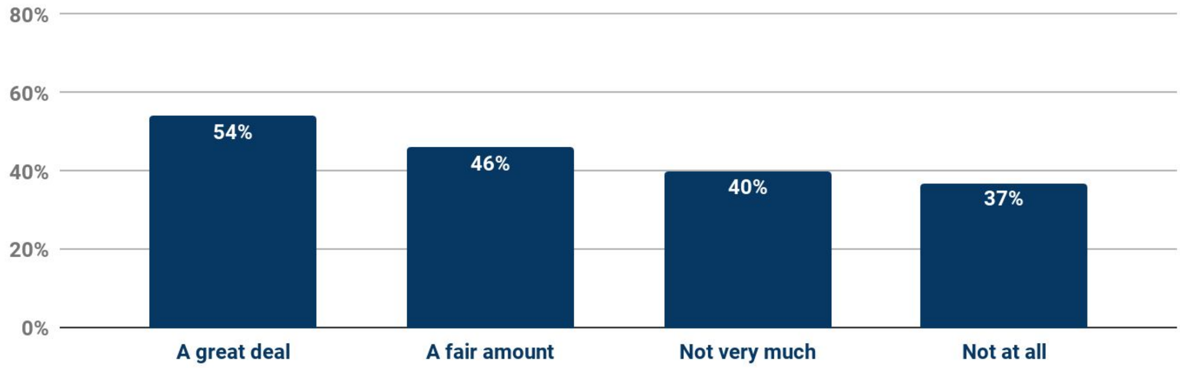
> *"It doesn't take much to tip you either under or over"* ***Nick, 46 - 55, working full time***

6.2. Insecurity leaves people vulnerable to future shocks

People with insecure finances feel financially vulnerable. We found that people with higher levels of income volatility are less likely to feel prepared for unexpected bills or unplanned expenses.

Figure 5.2 - Financial resilience

Proportion who feel unprepared for unexpected bills by extent of income volatility



Source: YouGov online survey of 2,116 UK adults conducted on behalf of Citizens Advice (June 2017)

Most of the people we interviewed were worried about what challenges might be around the corner. They talked about the difficulty they foresaw of coping with broken appliances, repairs or unexpected bills. Paying for vehicle repairs was a particular worry as so many relied on their car to get to work.

> *"If anything happened to the car...with my insurance or having to get it repaired, I couldn't afford that...but I need that car to be able to get to work"* ***Lisa, 35 - 44, working part time***

People who felt more confident about facing future challenges were typically those who were managing to put money aside or had been able to adapt to previous income shocks.

At the same time, several participants described feeling that it was impossible to make progress towards being more financially secure, because the money they saved was used dealing with everyday challenges.

> *"When he goes back to work...he's going to be clawing things back in case something else comes up - that we can cope with it again"* ***Christine, 55+, claiming disability benefits***

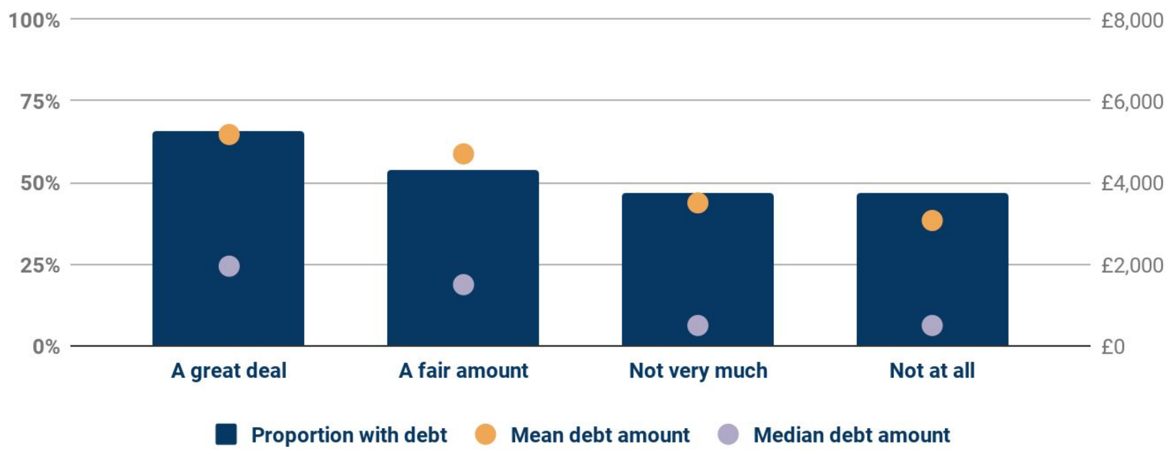
6.3. Insecurity can push people into a debt spiral

People with volatile incomes are not just more likely to need to borrow to pay for essentials, they are more likely to fall into a spiral of debt.

We found people with greater levels of income volatility were more likely to hold unsecured debt. They were also more likely to hold larger amounts of this type of debt - the median amount held by those with the most volatile incomes was £1,953 compared with £500 for people whose income did not vary at all.

Figure 5.3 - Debt and income changes

Frequency and amount of unsecured debt held by extent of income volatility



Source: YouGov online survey of 2,116 UK adults conducted on behalf of Citizens Advice (June 2017)

Many people borrow and pay down their debt without difficulty. However, having unpredictable finances - particularly as a result of insecure work - increases the likelihood that people will face future income shocks.

> *"I'm only just meeting the loan payments at the moment. So if I lose this job that's going to be another thing I've got to find the money for"* ***Lisa, 35 - 44, working part time***

This makes it more difficult to keep up with debt repayments and also makes it more likely that people will need to borrow again in future.

6.4. Managing unpredictability puts a strain on people

Greater financial insecurity can mean that managing money becomes a task requiring near constant attention. Amongst the people we interviewed, worries about money were always at the back of their minds. Many felt that their financial situation put them under a lot of emotional strain and meant they were unable to ever fully relax.

> *"It's like you've got this constant pressure on you, you know? So you don't enjoy life."* ***Nick, 45-54, working full time***

Even where participants were in a stable financial situation when we spoke with them, they were often worried about the future. People were aware of the precariousness of their situation and described their concern for what might be around the corner.

> *'It's a constant ongoing headache because I'm going from week to week not knowing if there's going to be an unexpected bill coming in"* ***Lisa, 35 - 44, working part time***

Unsurprisingly, the pressure that people feel when trying to cope with financial insecurity can have a severe impact on those with a pre-existing mental health condition and may also contribute to a worsening of people's mental health more generally.

Our research found that people with greater income volatility were more likely to report experiencing mental health difficulties over the past 12 months. Nearly 2 in 5 (39%) of those who said their income varied 'a great deal' reported mental health difficulties, compared to 23% of those who said their income didn't vary at all.

"I got more and more depressed...I just keep laughing and making a joke of it even though I feel like, I just need help." ***Michael, 55+, working full time***

Several people we interviewed had pre-existing mental health conditions and felt that their health had deteriorated as a result of their financial situation. One participant felt that his financial insecurity added to and exacerbated other worries in his life, leading to a worsening of the depression that he was experiencing. Another had a pre-existing anxiety disorder which had worsened significantly as a result of her money worries.

7. Conclusion and recommendations

There is no quick fix for people with unpredictable finances. While the changing nature of work may be making budgets less predictable, volatility and changes in people's financial situation - whether caused by unexpected bills or major changes in people's lives - are to some degree inevitable. In the long term, people's exposure to these types of unpredictability should be reduced where possible - for example, by providing greater security at work.[22]

In the short term, people need to be better placed to stay in control of their finances. One change which would help people stay on top of their finances would be to make sure credit products don't punish people for their insecurity.

Make sure credit products don't push people into unmanageable debt:

- **Introduce a cost cap for other types of high-cost credit.** People who report changes in their income from month to month are five times more likely than those with stable incomes to have used high-cost credit. The total cost of fees and interest incurred through high-cost borrowing is punitive and can push people into problem 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. This would provide a safety net for consumers using high-cost credit to limit the impact for people who get into financial difficulty.

- **Scrap all unarranged overdraft charges.** A quarter (25%) of people whose incomes vary significantly from month to month have used their overdraft to pay for essentials and 28% reported paying overdraft charges. Overdrafts are a vital source of emergency credit for people managing unpredictable finances but, at present, charges are complex and mean that this form of borrowing is extremely expensive.

- **Lenders should stop unsolicited credit limit increases.** Nearly a quarter (23%) of people with variable incomes have paid credit card interest or fees. Credit card borrowing helps people to respond to changes in their lives. But, by issuing unsolicited credit limit increases, lenders make it more difficult for people to stay on top of their finances.

[22] In Citizens Advice's response to the Review of employment practices in the modern economy we set out changes that would improve people's security at work. People's rights at work are only as strong as their ability to enforce them. A single dedicated organisation - the Fair Work Authority - should be created as a single body for enforcing workplace rights.

It's always important to make sure consumer credit markets work well for consumers. In the context of stretched household finances, that's more important than ever.

Beyond making consumer credit products safe for consumers, the government should look at what policy changes could help people build more financially secure lives. As well as continuing to use our insight to recommend ways consumer credit markets could be made safer, we'll be looking in depth at possible changes in three areas:

- **Improving affordable borrowing options**
  For a significant group of people, where their income or circumstances make borrowing risky, the price they pay to borrow will inevitably push large numbers into financial difficulty. They need affordable borrowing options outside of the mainstream consumer credit market.

- **Helping people with no savings save**
  Even excluding saving for retirement, the overwhelming amount of government support for saving goes to savers with high incomes and high levels of savings. More needs to be done to help people build their first £1,000 of savings.

- **Supporting people through key moments in their lives**
  The creation of a new single financial guidance body is an opportunity to improve the way advice services are delivered. That opportunity should be used to improve the support available at key moments in people's lives.

In part, financial insecurity is a growing problem. A decade of low wage growth has left people's budgets stretched and increasing numbers of people in insecure work mean more people have potentially insecure incomes. The government should respond to that challenge by helping people build more financially secure lives.

But to some degree financial insecurity - fluctuating incomes and a lack of financial resilience - is a perennial challenge in people's lives. Helping people build more financially secure lives is an opportunity for the government to improve the way it supports and boosts living standards.

Appendix 1 - Methodology

This report uses four main sources of information:

- Analysis of longitudinal data from the Understanding Society survey
- Analysis of the Living Costs and Food Survey
- A representative poll of UK adults
- 10 depth interviews with people with volatile household finances

Understanding Society survey

Our analysis used response data from Wave 5 (2013-2015) and Wave 6 (2014 - 2016) of the Understanding Society survey. Survey respondents are assigned a unique ID which makes it possible to track individuals, however household IDs are not carried across waves. As a result, this analysis only examined households where the individual IDs they contained were consistent across waves.

Households with a change in adult composition have therefore been excluded from this analysis because they could in fact represent a change in household and they could not be matched between survey waves. This means that the sample is not reflective of all UK households.

Given that changes in adult composition often increases the volatility of a household's income - through the inclusion of additional earnings or changes to benefit entitlements - by excluding this group, it is likely that the figures reported underestimate of the extent of household income volatility

Living Costs and Food survey

Survey data from the 2015/16 Living Costs and Food survey was used to calculate the amount of essential spending as a proportion of normal weekly disposable household income. For this analysis, essential spending comprised spending on housing, water, energy, transport, food and non-alcoholic beverages, telephone and internet and debt and credit card interest.

Our analysis also looked at the frequency of unexpected spending among UK households. We defined unexpected spending as the maintenance or repair of housing, vehicles, appliances, household and personal goods, the rental hire of major household appliances and funeral expenses.

National opinion poll

A nationally representative opinion poll was commissioned by Citizens Advice, with a number of questions relating to household finances, life events, debt, savings, expenditure and other behaviours. YouGov online field research with 2,116 respondents was conducted 23 to 26 June 2017.

Qualitative interviews

We undertook in-depth qualitative interviews with 12 people from 10 households who saw themselves as financially insecure. Participants were specifically recruited because they had experienced a significant change in personal circumstances or a large unexpected expense over the past 12 months, or reported having a volatile income. Interviews took place in August and September 2017.

Qualitative research is intended to be illustrative and, as such, the interviews are not representative of the general population. However, quota sampling was used during recruitment to ensure that people from a broad range of groups were represented in the research. All participants were recruited through an online survey advertised on the Citizens Advice website but had not necessarily had further contact with Citizens Advice. Names have been changed throughout to preserve anonymity.

A full breakdown of participant demographics is provided in Appendix 2.

Appendix 2 - Interview participant demographics

Category	Type	Interviewed
Employment	Employed - full-time	4
	Employed - part-time (8 - 29 hours per week)	4
	Unable to work due to health or disability	4
Tenure	Rent – from a private landlord	7
	Rent – from a housing association	1
	Own – with a mortgage	2
	Living with parents, family or friends	2
Income	£10,000 to £14,999 per year	4
	£15,000 to £19,999 per year	4
	£20,000 to £24,999 per year	2
	£30,000 to £34,999 per year	1
	Not stated	1
Gender	Male	4
	Female	8
Age	18 - 24	2
	25 - 34	2
	35 - 44	3
	45 - 54	3
	55+	2
Health	Physical health condition	4
	Mental health condition	5

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Published February 2018
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