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Characteristics of families in debt and the nature of indebtedness

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A report of research carried out by the Personal Finance Research Centre on behalf of the Department for Work and Pensions

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Summary

Introduction

There is concern about growing levels of consumer borrowing and the risks that people will fall into arrears. This research project was commissioned by the Department for Work and Pensions with the aim of examining the nature and extent of debt in families.

The term 'debt' is used to describe two different situations. First, people are said to be 'in debt' if they have fallen behind with the payments on their household bills or other commitments. Second, debt can also mean use of consumer credit, and having outstanding borrowing to repay. In this study we focus primarily on the first of these definitions, although Chapter 4 contains analysis of borrowing on the second definition.

The datasets analysed in this report are:

- the Families and Children Study (FACS) – surveys in 1999, 2000, 2001 and 2002;
- the DTI Over-indebtedness Survey, undertaken in 2002 (OdS);
- the Poverty and Social Exclusion Survey (PSE) from 1999;
- the ONS 2000 Study of Psychiatric Morbidity Among Adults Living in Private Households (PMAPH);
- the British Household Panel Survey (BHPS), which asked about consumer credit in 1995 and 2000 (waves 5 and 10).

The extent and nature of financial difficulties among families with children

In mid-2002, 22 per cent of families were in arrears with their financial commitments. The average amount owed in arrears was around £300, whilst the top quarter owed £740 or more (Table 2.6). Lone-parent families had a higher risk of arrears than two-parent families.

Arrears were at their highest among families where the head of household was in their twenties, more than a third of whom were in arrears – 22 per cent with bills and 25 per cent with consumer credit commitments. Arrears in household bills declined gradually across the age groups but arrears in consumer credit fell much more quickly with increasing age.

Families who had experienced a fall in their household income in the past 12 months had twice the level of arrears as those whose income had stayed the same or even risen (Table 2.8)

Arrears were more common among tenants than home owners (36 per cent compared with 15 per cent). Having even one credit commitment doubled the risk of arrears; two commitments trebled it and having three or more increased the risk from eight per cent to 38 per cent. The support of the wider family may be important in preventing arrears from increasing but did not appear to be preventing such arrears in the first place.

Meltzer *et al.* (2002) found that people with mental disorders were more likely to have arrears.

Possible causes of arrears

Those at greatest risk of arrears were young people on low incomes and low-income families with children.

Factors that increase the risk of arrears among all households

Looking at households of all types, the risk of arrears was most strongly associated with differences in:

- housing tenure;
- age group;
- drops in income;
- having active credit commitments; and
- whether a current account was being used to manage money.

No other significant differences were identified from multivariate analysis of the OdS.

Factors that increase the risk of arrears among families with children

One of the key factors was lack of savings. Compared to those with £50-£100 saved, those with lesser amounts had odds around 1.7 times as high of being in arrears. Conversely, those with above £5,000 had well under half the odds, falling to one-third for those with £10,000 or more.

Whilst lower incomes were associated with a higher risk of arrears, the link was confined to the bottom 20 per cent. By contrast, having had a drop in income in the last year doubled the odds of being in arrears.

A third key factor was housing tenure. Compared to families buying their home on a mortgage, outright owners were somewhat less likely to have arrears, all else being equal. The odds of being in arrears were 1.7 times higher for social tenants, and almost as high for other tenants.

Among the other statistically significant factors were health (those in poor health having larger chance of arrears) and age (those aged 40+ had reduced odds of being in arrears of any kind).

Unsecured credit

There was no change in the proportion of individuals with outstanding commitments (36 per cent) between 1995 and 2000, but some shifts in the types of credit used (Figure 4.1). More people owed money on credit cards, while hire purchase and mail order became less common.

The lack of any increase in the proportion with outstanding credit is surprising given the considerable increase in the level of personal borrowing over this time. This apparent paradox is resolved because the average amount owed in 2000 had more than doubled. This increased level of borrowing did not appear to be concerning borrowers – between 1995 and 2000 there was little or no difference in the proportions saying loan repayments were a burden. Subsequent research by the Bank of England confirms a very similar picture (Tudela and Young 2003).

Looked at another way, just under half (45 per cent) of all individuals owed nothing in both years, while 25 per cent owed money in both years.

Families with children were more likely to be using credit than other households, with 68 per cent currently owing money. The proportion of credit users was especially high among lone parents (75 per cent), although, on average, they had rather fewer credit commitments than couples with children (2.2 compared with 2.5).

The most common source of credit for families was mail order, which was used by 30 per cent of all families – twice the rate among all households (Table 4.7). Next in importance came credit cards and loans, followed by hire purchase. Among lone parents, the two most important sources of credit, by far, were mail order and loans.

Trends in arrears

Many of the financial problems faced by families were long-standing. Four in ten of families who were currently facing financial difficulties said they had done so for more than a year. Lone parents were especially likely to have long-term financial difficulties.

The incidence of arrears among families with children appears to have declined over time, with this fall most marked for lone parents. During 1999-2002 the proportion of lone parents in arrears of any kind fell from nearly half (48 per cent) to closer to one in three (35 per cent) (Table 5.5). The largest reductions took place for arrears on household bills, which affected 41 per cent of lone parents in 1999 but only 31 per cent in 2002. Over the four-year period there was also a decline in the proportion of lone parents who said that they worried about arrears 'almost all the time' – from 15 per cent to 12 per cent.

The proportion of families on Income Support who are in arrears has reduced over time, from 55 per cent in 1999 to 48 per cent in 2002 (Table 5.6).

Patterns of arrears

Three groups could be distinguished – those 'never' in arrears; 'sometimes' in arrears (one or two years) and 'always' in arrears (three or four years). Lone parents were most likely to be located in the 'always' in arrears category (three or more years of arrears); six-tenths (62 per cent) of those 'always' in arrears were lone parents. In contrast, couple families were more likely to be located in the 'never' in arrears category; 57 per cent of this group were couples and the remainder lone parents.

Families 'always' in arrears were more likely to have a child under five, to be in receipt of Income Support and be a social tenant. They were less likely to have a savings account(s) at the start of the survey (55 per cent), whereas only 23 per cent of those 'never' in arrears did not have any savings account.

In lone-parent families, four in ten (40 per cent) were 'always' in arrears (three or more years) compared with 28 per cent of couple families. Families in arrears had a higher number of dependent children at wave 1. Over two-fifths (43 per cent) of Income Support recipients were 'always' in arrears as compared with only three-tenths (29 per cent) of those families not on Income Support at wave 1.

The dynamics of being in arrears

Movements into and out of arrears were relatively frequent, even among lower-income families. Overall, around one in three (34 per cent) families with arrears ceased to have them in the following year. Conversely, one in four (26 per cent) of those with no arrears had acquired them in the following year (Table 7.1). Arrears in household bills were a good deal more persistent than those in credit commitments or housing costs.

Families moving into receipt of IS had higher than average rates of acquiring arrears (33 per cent fell into arrears with one or more of their commitments). Compared with those who continued not to claim IS, they had a very much higher risk of arrears on household bills, but a slightly lower level of arrears on consumer credit. This is almost certainly related to the fact that they already had low incomes before they started to receive IS. As might be expected, families who started to receive IS also had low rates of clearing arrears (29 per cent).

Some 79 per cent of families entering Income Support with housing arrears managed to clear them – far higher than for other transitions involving no drop, or even an increase, in income. The explanation is likely to be connected to the system of Housing Benefit. After moving off Income Support a sizeable minority (17 per cent) actually gained housing arrears the following year.

Lone parents who became couples (compared to those who remained lone parents) were both more likely to move out of arrears (for those in arrears); and more likely to take on arrears (for those not in arrears). Tenants had a higher rate of entering arrears than home owners (30 per cent compared with 23 per cent).

Where families with children had one or more savings accounts (not simply current accounts), they were both less likely to take on arrears, and more likely to clear any arrears that they did have. Multivariate analysis of being in arrears, at a point in time, indicated a very strong protective effect of having accumulated savings (see Section 3.4.3), even after controlling for differences in income and work status.

The effects of being in arrears: work and relationships

Some qualitative research has suggested that being in arrears affects people's decision-making and ability to move into work. Arrears can, also, often occur following the transition to work.

From the quantitative analysis there was no evidence that having arrears of any kind affected the rate at which lone parents moved into paid work. Among couples, those with any arrears were slightly more likely to move into paid work than those without (Table 8.2), though this result is almost entirely based on transitions into work during 1999-2000

Among lone parents, the rate of returning to work was a bit higher than average among those with mortgage arrears, and also with arrears in their Council Tax. Those with arrears in mail order catalogues, hire purchase, water bills and personal loans had perhaps slightly lower rates of returning to work – though the differences are not particularly great.

Among couples with children, the rate of returning to work was higher among those with Council Tax arrears. Those couples behind in paying for rent and their gas bills were the least likely to be returning to work, compared to those with other forms of arrears.

There were surprisingly strong links between being in arrears, and leaving paid work for those with jobs. Among families with children those parents with arrears were about twice as likely to have stopped work within the year, as those up to date with all their commitments.

Where couples with children had any arrears, they were more likely to separate than for couples in general. The rate of separation was particularly high where families had arrears on housing costs (13 per cent) or were behind in paying for household bills (11 per cent). Conversely, the effect of having credit arrears was relatively small (five per cent).

1 Introduction

Tackling poverty and social disadvantage is central to the Government's social and economic programme. At the same time, there is growing concern about levels of consumer borrowing and the fact that, as a consequence, many more households may be at risk of falling into arrears. Those risks are believed to be increased in households with children, and especially so if they also have low incomes. There is, therefore, recognition that steps may be needed to tackle the financial difficulties faced by low-income families with children as part of the strategy to eradicate child poverty.

This project was commissioned by the Department for Work and Pensions with the overall aim of examining the nature and extent of debt in families, compared with other groups, and to identify any changes over time. Among the questions addressed are the following:

- How many families are in debt, and what type of debt are families in?
- What are the characteristics of families in debt? How does debt relate to hardship?
- How do debt levels relate to credit use, access to financial services/banks, and support from family and friends?
- What are the amounts owed in debt? How does this relate to income?
- What are the changes in levels of debt over time?
- How do changes in circumstances, e.g. loss of employment, changes in household composition, affect these levels?
- Does the analysis indicate any causal and/or protective factors?
- How does debt relate to movement into work?

1.1 Background

The rather emotive term 'debt' is used to describe two quite different situations. First, it is frequently used to refer to financial difficulties and people are said to be 'in debt' if they have fallen behind with the payments on any of their household bills or other commitments. Sometimes the term 'problem debt' is used for this. The recent survey of *Over-indebtedness in Britain*, commissioned by the DTI, showed that 20 per cent of households were in financial difficulty. A minority (seven per cent) were struggling financially but not actually in arrears, while 13 per cent had fallen behind with payments on either household bills or other regular commitments. Households at greatest risk of being in arrears included families with children, and especially lone parents (Kempson, 2002). The risk of arrears was highest among young people and fell with increasing age. There was also a strong link with income, but only among non-pensioners. These findings are very much in line with earlier studies (see, for example, Berthoud and Kempson 1992).

At the same time, debt is also used to refer to use of consumer credit, and having outstanding borrowing to repay. So someone is said to be 'in debt' if they have, say, a personal loan from a bank, owe money on a credit card or have bought goods through a mail order catalogue. At any one time, half the population owes money on consumer credit but 94 per cent of credit borrowers are up to date with the repayments (Kempson 2002).

In this study, we focus primarily on the first of these definitions of debt – financial difficulties, including both people who have fallen into arrears with consumer credit commitments and those behind with paying household bills. It is worth remembering that as only about half of households are repaying credit commitments, a subset – including *some* of the poorest families – will not be at risk of consumer credit arrears simply because they have no outstanding credit commitments. Conversely, almost all families will be receiving bills for their utilities, and rent or mortgage payments. We might, therefore, expect a closer relationship between arrears and income for household bills than for consumer credit.

Therefore, in looking at debt (arrears) we mean those who have missed a payment that was due, whether for a bill or a credit commitment, or for their rent or mortgage. This might mean only a single payment missed, or a series of missed payments. We are most interested, in this report, in how many families have arrears. However, because of concerns about levels of borrowing, we have also included detailed analysis (Chapter 4) of families, use of unsecured consumer credit.

1.2 Datasets analysed

A number of recent surveys have identified levels of financial difficulties and arrears. These include, most notably:

- the Families and Children Study (FACS) – four surveys in 1999, 2000, 2001 and 2002;
- the DTI Over-indebtedness Survey, undertaken in 2002 (OdS);
- the Poverty and Social Exclusion Survey (PSE) carried out in 1999; and
- the ONS 2000 Study of Psychiatric Morbidity Among Adults Living in Private Households (PMAPH).

This study was primarily based on further analysis of the FACS and OdS datasets, as they contain the most detailed and useful information. OdS provides an overall picture of levels of financial difficulties, setting families in the context of other types of household. FACS permits more detailed analysis of the situation among families as the sample sizes are appreciably larger and, because it re-interviews the same families annually, it can also be used to show changes over time, both in aggregate and for individuals. The questions asked in these two surveys differ slightly, but are very similar in intent.

Section 4, however, also includes analysis of the British Household Panel Survey (BHPS), which asked a number of questions relating to consumer credit in 1995 and 2000.

1.3 Methods of analysis

The analysis in most of this report is designed to provide representative snapshots of people's behaviour at particular points in time, and to look at how change over time has occurred across the population. Sections 2 to 5 are based, generally speaking, on an analysis of characteristics at a point in time. They also chart some of the changes over time at the aggregate level.

In practice, those with arrears in any one year, are not necessarily the same as those with arrears identified in the previous year. Some people will clear their arrears over time; some people without arrears will acquire them. Conversely, some people may have arrears that persist over time whilst others consistently avoid them. If more people are facing arrears, this could be because fewer people are escaping from arrears, or because more people are taking them on, or some combination of both.

To look at the causes of arrears, it is instructive to follow the behaviour of the same people over time. This makes for a very powerful source of information. By following the same people, we can consider which events appear to be related to taking on arrears, and which events are associated with clearing arrears. The analysis will also be able to show how many families manage to avoid arrears over a number of years, how many have occasional arrears, and how many appear to be persistently in arrears.

By looking over time, we may explore not only the events associated with being in arrears, which we might consider to be the causes of arrears, but also the consequences. Once people have arrears of various kinds, to what extent does this affect other areas of their lives? In particular, does it affect rates of moving into paid work, or rates of family formation? This analysis provides the opportunity to examine such questions with quantitative data (in Chapter 8).

1.3.1 Different approaches

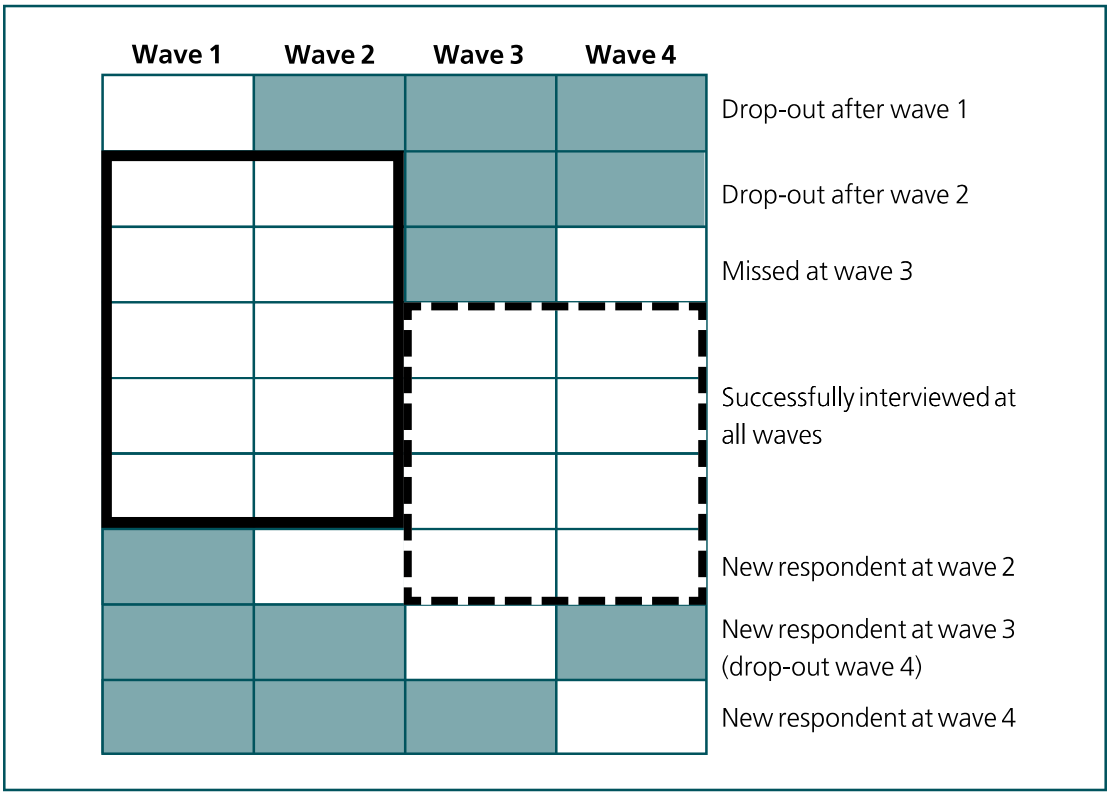
In Chapters 6-8 the analysis is based on longitudinal data – information that relates to the same people over time. This is more challenging to use (and to describe) than simpler snapshots, and raises a number of analytical issues. Given the complexity of the different approaches, we now discuss two main ways of conceptualising individual panel data. Each makes different potential use of the data, and may be appropriate for different analytical questions.

The first way of handling complex data of this kind is to select only those people providing information at all waves of the study, say all four of the first waves of FACS. This is sometimes called a 'balanced panel'. This is a relatively easy approach to adopt, and results in a group of people for whom we have a wealth of information. It is best-suited to the analysis of long-term patterns, and for considering if there are various patterns (or 'trajectories') that appear to arise. In particular, such an approach enables us to identify groups who are never in arrears and those who are constantly in arrears (over the time period observed).

When using FACS data, it must be remembered that the original sample is of lone parents, and low-income couples with children. Analysis of the longer-term patterns is, therefore, restricted to these two groups, not families as a whole.

The second main approach we adopt is to include information on families where we have data on *transitions*. In this analysis we include people providing data in any two consecutive years, following the approach shown schematically in Figure 1.1. One set of lines shows the transitions for wave 1:wave 2; the dotted lines show the transitions for wave 3:wave 4. Of course, it is also possible to pool the data between waves 2 and 3 as well, but this is not shown here to make the principle clearer.

Figure 1.1 Pooling longitudinal data (two longitudinal datasets of two waves each; a third selection is possible for wave 2 to wave 3)



Having extracted data on transitions between consecutive years/waves, we may then generate a dataset that is particularly suited to analysing shorter-term transitions. In particular, we may consider the effect of events taking place in one year (losing a job, having a child, etc), on changes to arrears status in the following year

The description of individual patterns of arrears in Chapter 6 is based on complete cases only. The analysis of the effect of life events on patterns of saving (Chapter 7) draws on the pooled longitudinal data structure, as does the analysis of the effects of being in arrears (Chapter 8).

1.3.2 Statistical significance

Any sample survey will interview only a limited number of people and could, by chance, give slightly different results than if everyone was interviewed. We may have more confidence in results where the number of people is larger, and for any given sample size it is possible to quantify the level of confidence.

In Table 1.1 we show the kinds of margins of error associated with sample surveys. It shows the range of uncertainty attached to surveys estimates. The example used in the Table is where a characteristic is possessed by exactly half the respondents. If, using FACS, we find that 50 per cent of lone mothers have some characteristics, then we may be 95 per cent certain that in the population (lone mothers in GB) between 47.9% and 52.1% will have this characteristic. Conversely, if half of the sample in FACS 2002 had a particular characteristic, then we could be 95 per cent certain that between 49 and 51% of the true population had such a feature. These error margins (confidence intervals) are largest for estimates of half, and slightly smaller for other estimates away from this central point – they may also be asymmetrical for results approaching zero or 100 per cent.

Greater caution is needed when looking at figures from the 2002 Over-indebtedness Survey. An estimate of half, based on the whole sample, has a margin of error of around 2.4 per cent. This rises to 4.7 per cent for families with children, and to 11 per cent for lone parents.

Table 1.1 Indicative ranges of confidence in results

Data source	Definition	Sample size	Margin of error (95% CI) for estimate of one-half
FACS 2002	Families with children	7359	48.9 – 51.1%
	Lone parents	2146	47.9 – 52.1%
OdS 2002	All households	1647	47.6 – 52.4%
	Families with children	460	45.3 – 54.7%
	Lone parents	102	39.9 – 60.1%

Where results in tables in this report are based on fewer than 50 actual cases, then table cells are depicted with '[' and ']' to indicate that the figures are not reliable.

1.4 The report

In Chapter 2 of this report we look at the extent of financial difficulties, generally, and of arrears in particular. This focuses on families with children but compares them with other types of household. The causes of arrears are analysed in Chapter 3. The focus shifts in Chapter 4 and this is the only one that looks at consumer borrowing, including levels of borrowing and changes over time.

We then return to our focus on financial difficulties among families with children, with Chapter 5 analysing changes in levels of arrears over time. Section 6 looks at families' experience of arrears, analysing how many families move into and out of arrears over a short period, compared to those with arrears for longer, or avoiding them entirely. Section 7 looks at how arrears are affected by changes in different life events over time. The effects of arrears on various outcomes, particularly movement into work, is analysed in Chapter 8. The report then concludes with Chapter 9, which brings together the main findings from the study.

2 The extent and nature of financial difficulties among families with children

In mid-2002, around three in ten families with children (31 per cent) said they were in financial difficulty, compared with two in ten (20 per cent) of all households. Two-thirds of these families (22 per cent) were actually in arrears with one or more of their financial commitments – the remainder said that they were facing financial difficulty but were up to date with all their regular payments (Table 2.1). Most of those who were in arrears owed money to just one creditor, but eight per cent were in multiple arrears.

While the proportion of families with any arrears was above average, the proportion with more than one set of arrears at the time they were interviewed was much the same as for all households.

Table 2.1 Extent of financial difficulties

Cell percentages

	All households	All families	Lone parents	Two parents
In arrears in past 12 months	18	30	48	25
Financial difficulties now but no arrears	7	9	14	8
In arrears now, of whom:	13	22	36	17
1 commitment in arrears	7	12	11	12
2 commitments in arrears	3	5	19	2
3 or more commitments in arrears	3	3	6	3
Base: All households (unweighted)	*1,647*	*460*	*102*	*358*

Source: OdS.

There were, however, some significant differences between lone-parent and two-parent families, with lone parents having a much higher likelihood of financial problems (Table 2.1). Half of lone parents had been in arrears with commitments in the past 12 months, compared with a quarter of two-parent families. They were also twice as likely to be in arrears at the time of the survey (36 per cent compared with 17 per cent). Moreover, nearly a quarter of them owed money to more than one creditor.

2.1 Type of arrears

In the previous 12 months, families with children were more likely to have fallen behind with payments on household bills as they were to have missed payments on consumer credit agreements (21 per cent, compared with 17 per cent) (Table 2.2). Most owed money either on consumer credit or on bills but a small proportion (seven per cent) had fallen into arrears with both types of commitment.

The pattern was very similar at the time of the survey, when more families were currently in arrears on household bills than had fallen behind with credit commitments (15 per cent, compared with 10 per cent).

Table 2.2 Type of arrears

Cell percentages

	All households	All families	Lone parents	Two parents
In past 12 months				
Consumer credit only	6	10	13	9
Household bills only	9	14	21	12
Both credit and bills	4	7	14	5
Neither	82	70	52	75
Now				
Consumer credit only	4	6	9	6
Household bills only	6	11	19	9
Both credit and bills	2	4	9	3
Neither	87	78	64	82
Base: All households (unweighted)	*1,647*	*460*	*102*	*358*

Source: OdS.

Tables 2.3 and 2.4 show in greater detail the extent to which families were in arrears with specific commitments. In the previous 12 months, the most common arrears were on gas bills (seven per cent), Council Tax (seven per cent), water bills (six per cent), credit cards (six per cent) overdrafts (five per cent) and mail order catalogues (five per cent).

We saw above that lone parents were more likely to be in financial difficulty than two-parent families. In fact, they had twice the likelihood of being in arrears both with household bills and with credit commitments, and three times as many lone parents were in arrears with both types of commitment at the same time (Table 2.2). Looking in more detail at specific commitments (see Table 2.3 and Table 2.4), we can see that lone parents were more likely than two-parent families to be in arrears with most types of commitment and had a very much higher risk of arrears on mail order catalogues, rent, and gas, water and Council Tax bills. The exceptions were the more up-market sources of running account credit – overdrafts and credit and store cards – and mortgages, where the proportion in arrears was very similar to that among two-parent families. We do, however, know that lone parents were only half as likely to have these sources of credit as two-parent families.

Table 2.3 Type of consumer credit arrears

Cell percentages

	All households	All families	Lone parents	Two parents
In past 12 months				
Overdrafts	3	5	5	5
Credit cards	4	6	4	6
Store cards	1	2	2	2
Mail order	2	5	13	3
Hire purchase	1	2	5	1
Loans	2	4	6	2
Any	10	16	27	14
Now				
Overdrafts	2	3	3	2
Credit cards	3	4	4	4
Store cards	1	1	2	1
Mail order	1	2	6	1
Hire purchase	*	1	1	1
Loans	1	3	4	2
Any	6	11	18	9
Base: All households (unweighted)	*1,647*	*460*	*102*	*358*

Source: OdS.

Table 2.4 Type of household bill arrears

Cell percentages

	All households	All families	Lone parents	Two parents
In past 12 months				
Mortgage	1	2	1	2
Rent	2	4	10	3
Gas	4	7	16	5
Electricity	3	4	8	3
Water	4	6	16	4
Council tax	4	7	9	6
Other bills	4	5	6	5
Any bill	13	20	35	16
Now				
Mortgage	*	1	1	1
Rent	1	3	8	2
Gas	3	4	14	4
Electricity	2	3	5	2
Water	3	4	9	3
Council tax	3	5	6	4
Other bills	2	3	3	3
Any bill	9	15	28	12
Base: All households (unweighted)	*1,647*	*460*	*102*	*358*

Source: OdS.

* less than 1 per cent

\- numbers too small for separate analysis

Indeed, while all families had electricity and water bills to pay, only a minority had other commitments such as credit commitments or mortgages. Table 2.5 makes allowance for this and gives the proportions of those with a specific commitment to pay, who were in arrears at the time of the survey. (For example, 14 per cent of all households with a credit card were in arrears with the repayments.) This shows that families with children had a much higher risk of arrears on all forms of consumer credit than they did on household bills and mortgages. The exception to this general pattern was rent arrears, where levels of default were very similar to those on consumer credit.

Table 2.5 Risk of arrears now

Cell percentages

	All households	All families	Lone parents	Two parents
Overdrafts	20	18	-	-
Credit cards	14	16	-	-
Store cards	10	10	-	-
Mail order	6	7	-	-
Hire purchase	5	-	-	-
Loans	14	15	-	-
Any consumer credit	15	17	27	15
Rent	5	14	12	15
Mortgage	1	3	-	3

- Numbers too small for separate analysis.

2.2 Money value of arrears

The average amount owed in arrears was around £300, whilst the top quarter owed £740 or more (Table 2.6). There were few differences between lone parents and couples in the average amounts outstanding. Among lone parents, those in paid work had somewhat higher levels of arrears than those not in work. For couples with children, the reverse tended to be true.

If anything, those on higher incomes tended to have lower value arrears than poor families – the median amounts owed declined with income, though there is less difference among the top quartile of arrears. Of course, far fewer of the higher-income families owed anything at all (in terms of late or missed payments).

Table 2.6 Money value of arrears among families with children (those with arrears, excluding overdrafts)

			£ in arrears
	Median	**Top quarter**	***Unweighted base***
All families with children	£295	£740	*1371*
Family status			
Lone parents	£300	£700	*791*
Couples	£290	£890	*580*
Family status			
Lone parents working 16+ hours	£360	£870	*227*
Other lone parents	£270	£665	*564*
Couples both working 16+ hours	£220	£745	*181*
Couples one working 16+ hours	£285	£1000	*261*
Couples neither working 16+ hours	£385	£880	*136*
Income (before housing costs)			
Under £7,499	£330	£790	*168*
£7,500-£9,999	£300	£870	*347*
£10,000-£14,999	£275	£665	*498*
£15,000-£19,999	£270	£760	*196*
Over £20,000	£220	£825	*70*

Source: FACS 2002.

The amounts owed in overdue credit commitments or household bills varied considerably for different types of commitments. Arrears on hire purchase, and consumer credit in general, tended to be higher than arrears on household bills. Council Tax arrears tended to be among the highest of the general bills. Table 2.7 shows the 'average' level of arrears for different types of commitment, and the level of arrears among those with the highest 25 per cent of arrears. In most cases, those with the highest quarter of amounts owed rather more than the average – often twice as much.

We should caution that, whilst the question asked about the level of arrears or overdue payments, some respondents may have only been able to give the outstanding amount on some loans. For unpaid bills the discrepancy may be less. However, it remains possible that these figures overstate the size of arrears.

Table 2.7 Money value of arrears among families with children

£ in arrears

	Median	Top quarter	*Unweighted base*
Electric bill	£100	£200	*227*
Gas bill	£100	£200	*263*
Council tax	£200	£400	*500*
Insurance bill	[£86]	[£155]	*28*
Telephone bill	£100	£160	*381*
TV/video rental	£47	£109	*69*
Water	£150	£265	*438*
Credit cards	[£300]	[£800]	*41*
HP payments	£400	£900	*176*
Catalogues / mail order	£158	£300	*78*
Bank loan	[£705]	[£2,997]	*7*
Finance company loan	[£200]	[£500]	*46*
Money lender loan	[£400]	[£600]	*32*
Loan from friend	£500	£1,013	*107*
Level of overdraft currently	£100	£600	*1994*

Source: FACS 2002.
Numbers in [ ] are based on fewer than 50 cases and so may be unreliable.

2.3 Characteristics of families who were most likely to be in arrears

We have seen that lone-parent families had a higher risk of arrears than two-parent families. Other circumstances also influenced the risk that families faced.

2.3.1 Age

There was, for example, a strong link with age. Arrears were at their highest among families where the head of household was in their twenties – more than a third of whom were currently in arrears – 22 per cent with bills and 25 per cent with consumer credit commitments. The level of arrears was a great deal lower among those in their thirties but then fell only slightly among the forty-somethings. Of particular note is the sudden decline in arrears in consumer credit while arrears in household bills declined more gradually across the age groups (Table 2.8).

2.3.2 Changes in family circumstances

Previous research has shown that two changes in family circumstances – separation and having a new baby – greatly increased the likelihood of arrears, and did so to much the same degree (Berthoud and Kempson, 1992). Because the numbers were small, we have combined these two changes in circumstance and, as Table 2.8 shows, they increased the risk of arrears from 20 to 32 per cent. The impact on consumer credit was more marked than that on household bills.

Table 2.8 Likelihood of arrears on consumer credit and household bills by family characteristics

Cell percentages

	In arrears now	Consumer credit	Household bills	*Unweighted bases*
All families with children	21	11	15	*460*
Family type				
Lone parent	36	18	28	*102*
Two-parent family	17	9	12	*358*
Age				
20-29	35	22	25	*81*
30-39	20	8	15	*187*
40 and over	17	8	11	*199*
Household changes in last 12 months				
New baby or separation	32	17	21	*58*
No change	20	9	15	*374*
Housing tenure				
Mortgagor	15	8	9	*291*
Tenant	36	18	28	*149*
Economic activity status				
Full-time work	16	7	11	*311*
Part-time work**	[33]	[13]	[28]	*47*
Not working	32	19	21	*109*
Gross household income				
Under £7,499	26	14	20	*114*
£7,500-£14,999	34	14	26	*83*
£15,000-£24,999	21	11	14	*87*
£25,000-£34,999	18	15	8	*61*
Over £35,000	11	5	6	*63*
Changes in income in last 12 months				
Fall	35	17	25	*211*
Rise	19	9	12	*115*
No change	17	9	12	*182*
Current account holding				
Has account	20	11	13	*415*
No account	33	12	29	*51*
Number of credit commitments				
0	8	-	8	*151*
1	17	7	13	*120*
2	29	11	20	*75*
3 or more	38	27	23	*122*

Source: OdS.
** Numbers small, so use with caution.
- None.

2.3.3 Housing tenure

As Table 2.8 also shows, tenants were much more likely to be in arrears than home owners (36 per cent compared with 15 per cent). Here the difference was most marked for household bills. In fact, home-owners were just as likely to be in arrears on consumer credit commitments as they were to be behind with household bills. Tenants, on the other hand, had a higher level of arrears in household bills than in consumer credit.

2.3.4 Work status

As might be expected, both work status and income were strongly linked to the risk of arrears (Table 2.8). Families, where the head of household was not working, had twice the likelihood of arrears as those with a full-time worker (32 per cent compared with 16 per cent). Interestingly, households where the head was only working part-time also had double the risk of arrears.

2.3.5 Household income

The links with household income were interesting in that the level of arrears was higher among families whose gross incomes were between £7,500 and £15,000 a year than it was among the very poorest families with annual incomes below £7,500 (34 per cent compared with 26 per cent) (Table 2.8). This kind of result – where those on the very lowest incomes appear to have better living standards than those with slightly higher incomes – has often been found in studies of deprivation (McKay and Collard 2004). It may be attributed to a degree of mis-measurement of incomes at the lowest part of the distribution, and perhaps to such low incomes being quite temporary. Conversely, it may be reflecting differences in housing costs.

Above £15,000 the level of arrears fell as incomes increased, so that 11 per cent of families with a gross annual income of £35,000 or more were in arrears – five per cent had fallen behind with credit commitments; six per cent with bills. There was a very marked difference between the level of arrears in household bills, which declined with rising income, and the level in consumer credit commitments, which only really dropped among those with annual incomes in excess of £35,000. As a consequence, the two poorest groups of families were more likely to be in arrears on household bills than on consumer credit commitments; while the reverse was true for those with incomes between £25,000 and £35,000. As earlier research has shown, hardship more commonly explains the arrears of the poorest households; while credit use is a more important factor among those on middle incomes (Berthoud and Kempson, 1992).

As might be expected, families who had experienced a fall in their household income in the past 12 months had twice the level of arrears as those whose income had stayed the same or even risen (Table 2.8)

2.3.6 Links with financial exclusion

Lack of ownership of a current account is generally accepted as an indicator of financial exclusion. In general, families were a good deal more likely to be in arrears if they had no current account (33 per cent compared with 20 per cent) (Table 2.8). There are two possible explanations for this. First, it could be that people with a current account are more likely to pay their regular commitments by direct debit – which decreases the likelihood of arrears – while those who lack an account typically pay in cash and may be tempted to dip into the money for other purposes. Second, people who lack a current account are drawn disproportionately from poor families and, as a consequence, it may be low income, not lack of an account that is increasing the likelihood of arrears.

The increased likelihood of arrears was, however, limited to household bills; the level of arrears in consumer credit was about the same as for families who had a current account. This is almost certainly because access to many forms of credit is constrained if one lacks a current account.

2.3.7 Links with use of consumer credit

The effect of using consumer credit was very marked. Having even one credit commitment doubled the risk of arrears; two commitments trebled it and having three or more increased the risk from eight per cent to 38 per cent.

Although the effect was stronger on consumer credit arrears, using credit also increased the likelihood of a family falling behind with their household bills. Only eight per cent of families who owed nothing on consumer credit were in arrears with their household bills, this rose to 23 per cent among those with three or more credit commitments.

2.3.8 Family size

In this section, we look at the links between family size and falling into arrears, among families with children. FACS data is used to maximise the relevant sample sizes for larger families in particular.

Table 2.9 Arrears among families with children by family size

Cell percentages

	Any arrears	Behind with any household bills	Any credit arrears	Housing arrears	*Unweighted base*
One child	17	14	4	4	*3055*
Two children	16	13	3	4	*3006*
Three children	22	19	5	5	*984*
Four or more children	31	25	9	7	*314*
All families with children	18	15	4	4	*7359*

Source: FACS 2002.

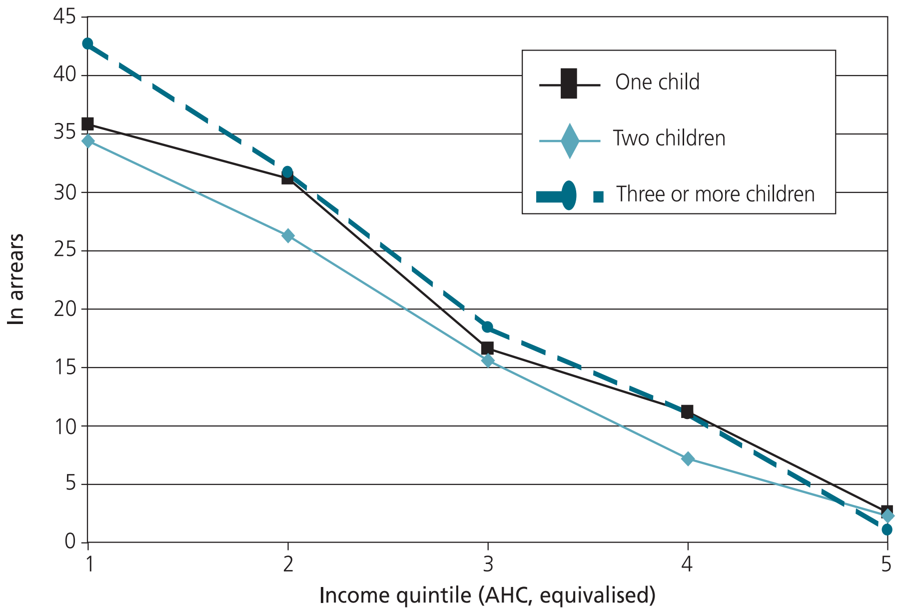
Larger families, those with three or more children, were more likely than smaller families to be in arrears (Table 2.9). Whilst around 18 per cent of families with children had arrears of some kind, this rose to 22 per cent for those with three children, and to 31 per cent for those with four or more children. There was little difference in rates of arrears between those with either one or two children. The FACS 2002 data found that arrears were most common on household bills, rather than on credit commitments or housing payments. In each case, larger families, particularly those with four or more children, were the most likely to have arrears.

Larger families tend to have different characteristics to smaller families (Swales and Willitts 2003). They are more likely to be out of work, and receiving social security benefits. Overall, a higher proportion of larger families than smaller families experience hardship. It is, therefore, perhaps unsurprising that larger families appear more likely to be in arrears.

Once income is adjusted to take into account family size, the link between number of children and being in arrears is much weaker (Figure 2.1). Whilst the rate of arrears was higher among larger families for those in bottom 20 per cent of income, at incomes above this level there was little difference between families with either one or three or more children and their experience of arrears. This suggests that it is income rather than family size affecting arrears, though with the important caveat that among lower income families arrears are more common among larger families. Moreover, larger families are more likely to be receiving lower incomes.

Families with two children were least likely to be in arrears, perhaps reflecting more settled personal circumstances and a completed family size for these particular families.

Figure 2.1 Arrears by equivalised income and family size (FACS 2002)



2.3.9 Region and local area characteristics

The level of arrears in household bills was strongly related to local area deprivation. Such arrears were much more likely in the poorest areas, and less likely as local characteristics suggested a less deprived area (Table 2.10). Conversely, there was relatively little association between arrears on credit commitments and local deprivation.

Table 2.10 Arrears among families with children by local deprivation rating quintile

Column percentages

	1 (most deprived)	2	3	4	5	Not known (inc Scotland & Wales)	Total
Any credit arrears	18	19	22	19	20	19	19
Behind with any household bills	23	16	10	11	6	19	16
Unweighted base	*1708*	*1170*	*1052*	*827*	*699*	*1903*	*7359*

Source: FACS 2002.

Table 2.11 shows the rates of credit and arrears and late bill payment by region. It is difficult to discern particular patterns. Credit arrears tended to be rather low in the North-East and in Scotland, perhaps reflecting lower take-up of particular financial products. Similarly, credit arrears were highest in the generally affluent South-East. Families living in Scotland and in Wales were most likely to be in arrears with household bills.

Table 2.11 Arrears among families with children by region

Column percentages

	Any credit arrears	Behind with any household bills	***Unweighted base***
Scotland	17	23	*664*
Wales	22	20	*457*
London	21	18	*680*
East Midlands	20	18	*638*
Yorkshire/Humber	17	17	*717*
North-East	13	15	*451*
South-East	23	15	*953*
South West	16	14	*631*
North-West	21	14	*837*
Eastern	20	12	*565*
West Midlands	17	11	*766*

Source: FACS 2002.

2.3.10 Mental health

The DTI survey found that a common consequence of being in financial difficulties was stress or anxiety. This was experienced by about one-quarter of households in financial difficulty (Kempson 2002: section 3.9). It is not clear from this data to what extent this stress was a cause or an effect of being in arrears. Other research, however, shows that many people experience stress as a consequence of being in arrears, although mental health problems can, in some circumstances also contribute to, or even cause, arrears (Collard, Kempson and Steele, 2000: Grant, 1995; Matthew Trust, 1997; Mental Health Foundation, 1998).

Meltzer *et al.* (2002) found that whilst 12 per cent of the general population had experienced arrears within the previous year, this was twice as high (24 per cent) among those with one of four mental disorders covered in their survey. In a statistical analysis of arrears they found that:

> *'All those with mental disorders (except phobia) had increased odds of being in debt compared with the no disorder group: dependent on cannabis only (OR=2.87), dependent on other drugs (2.84) moderate or severe alcohol dependence (2.61) panic disorder (2.44) GAD (2.20), depressive episode (1.93) mixed anxiety and depression (1.88), ….'*
>
> (Meltzer *et al.*, 2002: 9).

It is unusual to be able to combine data from a more medical perspective with that measuring social exclusion, especially with a fairly generous sample size (over 8,500 individuals). The strength of the association between debt and mental health may be judged from the following results (Table 2.12).

Overall, 13 per cent of those aged 16-59 had been in arrears in the past year. These figures were generally at least twice as high among those with different psychiatric conditions. Among those exhibiting moderate depression, 38 per cent were in arrears. For those with one of a list of phobias, 31 per cent were in arrears. Where respondents had spent time in institutions, or had previously made suicide attempts, the incidence of arrears was around 2.5 times greater.

Table 2.12 Extent of debt by psychiatric health, among respondents aged 16-59

	Percentage of each group with arrears	
	Has arrears	***Unweighted base***
Any neurotic disorder	26	*1264*
Depressive episode	34	*221*
Moderate depression	38	*137*
Any phobia	31	*157*
Agoraphobia	35	*89*
Had suicidal thoughts in past year	27	*319*
Suicide attempt in lifetime	34	*377*
Severity of alcohol dependence		
None	12	*6014*
Mild	24	*497*
Moderate or severe	49	*40*
Has spent time in an institution up to the age of 16	32	*176*
Total	13	*6573*

It is not possible to draw any strong causal conclusions from snapshot data of this kind. Nor should this association be interpreted as solely relating to these health issues, since those with conditions of this type will differ from other individuals in a range of other ways, too. However, undoubtedly these are powerful figures suggesting a strong link between arrears and a range of mental health issues.

2.4 Hardship and arrears

There are strong links between arrears and hardship, which have been explored in McKay and Collard (2004). Taking as a definition of hardship those unable to afford three or more necessities, those not in hardship were unlikely to be in arrears. In contrast, 33 per cent of those unable to afford at least three of the list of items were in arrears with some form of payment. In fact, relatively few families with children were in arrears but not also in hardship. Moreover, the average incomes of those who were both in arrears and deprived were lower than for those who were deprived but not in arrears. Other survey evidence showed that those with arrears were more likely to rate themselves as poor than others who were deprived.

Therefore, being in arrears appears to be a strong measure of the depth of deprivation or poverty. However, at least among families with children, it does not identify a different group of people from those facing hardship in other aspects of their living standards.

2.5 Borrowing from family

Relatives may be willing to lend, or even give, money in times of need. This might prevent some families from falling behind with their commitments, in which case we would expect it to be more common among those that were not in arrears. Conversely, some relatives may be more likely to assist if other family members are in financial difficulties. If so, we would expect families *with* arrears to be the ones receiving help from their relatives. The question, therefore, is whether this type of informal borrowing is a protection against arrears, or whether relatives more commonly help out only after arrears have accrued.

As we show on the left-hand side of Table 2.13, those families with arrears were more likely to be receiving money from their wider family, both in terms of gifts and loans, than families who were not in arrears. They were particularly likely to be borrowing money from the rest of the family, rather than receiving it as a gift.

Table 2.13 Links between formal arrears and family supplying money

Column percentages

	All families with children		Recipients of Income Support		Non-recipients of Income Support	
	In arrears	No arrears	In arrears	No arrears	In arrears	No arrears
Does your family ever give or lend you money?						
Regularly give money	4	2	7	5	2	1
Sometimes give money	17	10	19	17	17	9
Lend money	25	8	37	22	20	7
None of these	55	75	39	53	60	78
Unweighted base	*2255*	*5104*	*635*	*605*	*1620*	*4499*

Source: FACS 2002.

To some extent this largesse may be reflecting the family's low-income situation, rather than their arrears situation. To control for this the right-hand side of Table 2.13 looks at families receiving Income Support, and those not in receipt. This provides a simple, if crude, control for living standard and income. Among families receiving Income Support, those with arrears were more likely to be receiving gifts and loans from their families, than those not in arrears. The main difference, however, was in a higher rate of receiving loans from them – figures for gifts were similar for those with and without arrears and receiving IS. Among families not receiving Income Support, those with arrears were more likely to be receiving both gifts and loans from their wider families.

The support of the wider family may be important in preventing existing arrears from increasing. However, they did not appear to be preventing families from experiencing such arrears in the first place.

2.6 Payment protection insurance

One method by which people may attempt to secure credit repayments is through payment protection insurance (PPI). This may form part of agreements relating to consumer credit and, especially, mortgages.

Among respondents to the *Over-indebtedness Survey*, 36 per cent of all families with children had an insurance policy to cover a mortgage or a credit facility. About a quarter of families had a policy covering mortgage repayments (27 per cent); 13 per cent had cover for all their credit commitments, and eight per cent had insurance covering only some credit commitments. The events against which this provided protection were mostly sickness/disability, followed by redundancy and accident.

However, few PPI policy-holders (four per cent) had tried to claim on them in the past 12 months, and three per cent said that they had done so successfully. Overall, such insurance may have been helpful to claimants, but represents only a small proportion of those with financial difficulties, and covered only some types of commitments. Pryce and Keoghan (2002) also found limits to the protection provided for mortgage payments by PPI.

3 Possible causes of arrears

People who, in the *Over-indebtedness Survey*, said that they had fallen into arrears with at least one of their commitments in the past 12 months were asked to give the main reason for their financial problems.

Three in ten families with children (31 per cent) attributed their arrears to loss of income (Table 3.1); this was, however, a rather lower proportion than among all households in arrears. There was a range of reasons for the income drop they had experienced but the main ones were redundancy or job loss, followed by relationship breakdown and sickness or disability. Income losses through the death of a partner, a drop in wages or a reduction in social security payments were much less common.

Table 3.1 The reasons for arrears

Column percentages

	All households in arrears	**All families in arrears**
Loss of income	42	31
Redundancy	18	13
Relationship breakdown	6	5
Sickness or disability	6	5
Other loss of income	12	9
Low income	15	17
Over-commitment	9	10
Increased/unexpected expenses	11	14
Overlooked or withheld payment	12	13
Third party error	6	7
Arrears left by former partner	2	2
Other reason	3	6
Base: all in arrears in past 12 months	*208*	*104*

Source: OdS.

Other relatively common reasons for arrears included low income and increased or unexpected expenses, both of which were slightly more often cited by families than was the case for all households (Table 3.1).

Previous research has shown that some people give a reason that relates to external factors rather than one that might reflect badly on them (Dominy and Kempson, 2003). So, the 13 per cent of families who said that they were in arrears because they had either 'overlooked' or withheld payment and the 10 per cent who said it was because they were over-committed are almost certainly underestimates (Table 3.1).

The number of lone parents reporting a reason for their arrears was rather small for detailed analysis in this way.[1] However, some of the differences between them and two-parent families were large enough to be reported in general terms. Lone parents were, for example, much less likely to say that their arrears were the result of loss of earned income (through redundancy or a drop in wages) (two per cent compared with 24 per cent). In contrast, they were more likely to attribute them to either low income or to relationship breakdown or a change in their household circumstances (27 per cent in each case, compared with 11 per cent and six per cent of two-parent families respectively).

3.1 Changes in reported reasons for arrears over time

The distribution of reasons for arrears will clearly vary over the economic cycle – with more people citing a drop in income through redundancy or own business failure in times of recession.

However, the interviews for both the 2002 *Over-indebtedness Survey* and the earlier study of *Credit and debt*,[2] were carried out at times of economic buoyancy, with low levels of unemployment and high levels of consumer borrowing. Comparing the reasons given by people in arrears in these two studies shows that low income was cited much less often in the more recent survey (15 per cent of all householders compared with 25 per cent). In contrast, loss of income was slightly higher in 2002 than it was in the 1989 study (30 per cent compared with 26 per cent).

Other notable differences include the higher incidence of relationship breakdown as a reason for arrears in 2002 (14 per cent, compared with seven per cent in 1989); and the much lower incidence of arrears attributed to over-commitment (four per cent compared with 15 per cent). The much smaller proportion citing over-commitment is interesting given the large increase in borrowing between the two surveys. But these increases were more than compensated for by the much lower interest rates in 2002, when the Bank of England base rate stood at four per cent compared with 15 per cent when the fieldwork was undertaken for the 1989 study.

3.2 How reported reasons differ by type of arrears

The OdS did not, unfortunately, ask respondents for their explanations of each set of arrears, just for an overall explanation. Previous research, however, has shown that the reasons given for arrears varied quite markedly by type of commitment. These studies do not, however, distinguish between families and other types of household.

Arrears on the main household bills – gas, electricity, water and Council Tax – were the ones most strongly linked to low income (Berthoud and Kempson, 1992; Gray *et al.*, 1994; Herbert and Kempson, 1995; Rowlingson and Kempson, 1993). In contrast, mortgage arrears and problem overdrafts were most commonly associated with drops in income (Berthoud and Kempson, 1992; Ford and Kempson, 1995).

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1 Forty-one respondents.

2 Although published at the beginning of 1992, the fieldwork for this study was undertaken at the end of 1989.

Households having difficulty repaying an overdraft, credit cards or commercial loans most frequently attributed them to over-commitment (Berthoud and Kempson, 1992; Dominy and Kempson, 2003; Rowlingson and Kempson, 1994).

Deliberate withholding of payments was a fairly common reason for arrears on Council Tax and water bills (Dominy and Kempson, 2003; Herbert and Kempson, 1995; Whyley *et al.*, 1997). While Housing Benefit problems have been shown to account for a significant proportion of rent arrears (Ford and Seavers, 1998; Neuberger, 2003; Phelps and Carter, 2003).

3.3 Factors that increase the risk of arrears – previous research findings

Two earlier studies (Berthoud and Kempson 1992; Herbert and Kempson, 1995) identified five key risk factors from regression analysis:

- **age**: the younger people were, the more arrears they had;
- **family**: families with children had more arrears than those without;
- **income**: the number of arrears was higher the lower the household income;
- **use of consumer credit**: the risk of arrears increased with the number of credit commitments (modelling showed that level of repayments was also significant); and
- **priority given to paying bills**: those who consistently gave answers to suggest it was alright to delay payments had an increased risk of arrears.

Qualitative research has explored this last factor in more detail and showed that the risk of arrears was related to people's approaches to money management and bill-payment (Dominy and Kempson, 2003; Kempson *et al.*, 1994; Whyley *et al.*, 1997). Among low-income families with children there were two distinct patterns of money management. Some minimised their expenditure by keeping very tight control and cutting back spending to avoid either borrowing or getting behind with bills. Others delayed bill-payment and 'robbed Peter to pay Paul'. Often this was combined with borrowing to meet regular commitments. In general, those who kept tight control over their finances and minimised expenditure had a far greater chance of avoiding arrears than the bill-jugglers – and especially those who also borrowed to make ends meet.

The most striking finding, however, was the complexity of the interactions between the five key factors. So, older people and couples without children had a low propensity for arrears, even if their income was low. While young people and couples with children were seldom in arrears if their income was high. Those at greatest risk were young people on low incomes and low-income families. And the more children there were in a low-income household the greater the risk (Berthoud and Kempson, 1992).

In fact, the rate of arrears was strongly related to the number of predisposing factors reported by a household, with a big jump in the level of risk among those with four and five predisposing factors. The 12 per cent of households reporting either four or five predisposing factors accounted for 53 per cent of all arrears. At the other extreme, arrears were extremely rare among those with no predisposing factors. They represented 35 per cent of all households but accounted for only six per cent of all arrears between them.

3.3.1 Other influences

In addition, regression analysis has shown that a number of other influences have an independent effect on the risk of arrears, net of these five key factors. These include:

- **Unemployment**: with the effects persisting some time after a return to work – although regression analysis found an effect only if out of work for three or more years) (Berthoud and Kempson. 1992). Regression analysis of the water arrears and disconnection data found a link with having had a drop in income in the past 12 months (it did not include unemployment) (Herbert and Kempson, 1995), while detailed analysis of event histories showed that the links between job loss and mortgage arrears were especially strong. Moreover, the group of men who had experienced a rapid rise in their rate of unemployment prior to the onset of arrears also had partners with an enhanced risk of job loss too (Ford and Kempson 1995).

- **Having nothing or very little (less than £100) in savings.** Higher levels of savings seemed to protect households against arrears (Berthoud and Kempson. 1992). Indeed, qualitative research has also indicated that having savings to draw on, possessions to sell or friends and family able help out financially helped to reduce the risk of falling into arrears (Kempson *et al.*, 1994).

- **Experiencing severe hardship**, as measured by being unable to afford things, running out of money before the end of the week and facing difficulty in making ends meet (Berthoud and Kempson. 1992).

- **Being a tenant and especially a social tenant** (Berthoud and Kempson. 1992; Herbert and Kempson, 1995).

- **Number of adults in the household in paid work.** Those with two or more household members in work were less likely to be in arrears, suggesting that this can act as a protecting factor (Ford and Kempson, 1995; Herbert and Kempson, 1995).

A number of other factors were found to be significantly correlated with arrears in cross-tabular analysis but were not significant in regressions that included the key risk factors – indicating that they were mediating their effects through other factors. These included:

- **Changes in household circumstances**, including having a new baby and separation (Berthoud and Kempson, 1992). These changes seem to mediate their effects through changes in household income. Moreover, event history analysis in a study of mortgage arrears showed that the links with relationship breakdown were complex. About half of the arrears occurred *after* the separation (and were presumably a consequence); half before (and may well have been a cause) (Ford and Kempson, 1995).

- **'Consumerism'**, as measured by the number of consumer purchases made in a year. Almost certainly, this only raised the risk of arrears when households borrowed the money to make the purchases (Berthoud and Kempson, 1992).

- **Not having a bank account**, which as we noted in Section 2, was almost certainly because people who lack a bank account are disproportionately living on low incomes, and it was income not account ownership that determined arrears (Berthoud and Kempson, 1992).

- **Budgeting weekly rather than monthly**. Again this is strongly associated with household income (Berthoud and Kempson, 1992).

3.3.2 Changes in income

All previous research has shown that drops in income play a major part in causing households to fall into arrears (Berthoud and Kempson, 1992; Ford and Kempson, 1995; Gray *et al.*, 1994; Herbert and Kempson, 1995; Kempson, 2002; Kempson *et al.*, 1994; Rowlingson and Kempson, 1993; Rowlingson and Kempson, 1994; Whyley *et al.*, 1997).

The *Over-indebtedness Survey* shows that almost half of families (45 per cent) had experienced a fall in income in the past 12 months and these people had twice the risk of arrears compared with those whose incomes had remained unchanged (35 per cent, compared with 17 per cent). Even so, two-thirds of families whose income had dropped had not fallen into arrears. A rise in income, however, was not associated with a reduced level of arrears.

3.3.3 Use of credit

There was also a strong link between the use of credit and being in arrears, whether that was arrears in the past 12 months or currently (Table 3.2 concentrates on arrears in the past 12 months because the numbers are larger than for current arrears).

The more credit commitments households had and the larger the proportion of their income that went on repaying credit, the more likely they were to have been in arrears and the more sets of arrears they had.

Table 3.2 Credit use by number of arrears in past 12 months

Row percentages

	No arrears	1	2	3	4 or more	Average (those with any)	*Base*
Number of current commitments							
None	91	5	2	1	1	1.8	*885*
1	79	11	3	3	3	2.1	*359*
2	68	16	5	3	8	2.3	*173*
3	62	11	10	7	11	3.0	*117*
4 or more	51	16	14	5	14	3.3	*112*
Repayments as a proportion of income							
Nothing	91	5	2	1	1	1.8	*885*
Up to 10%	71	14	5	3	6	2.4	*363*
10% to 25%	65	13	9	6	7	2.6	*134*
25% or more	48	10	13	13	14	3.7	*79*

It is not, of course, possible to say to what extent this is because borrowing puts extra strain on household budgets, or because the types of people who borrow most are the ones who are also most likely to overspend generally. In reality, it will almost certainly be a combination of these. In addition, as discussed later, some people try to borrow their way out of financial difficulties.

The link between consumer credit arrears and levels of borrowing was especially pronounced. One in ten (10 per cent) of households with one credit commitment said that they had fallen behind with the repayments on it in the past 12 months; compared with four times that number (43 per cent) of households with four or more current credit commitments. Similar links existed with the proportion of income spent on credit repayments.

Borrowing did increase the risk of falling behind with household bills, but to nothing like the same extent. So, 15 per cent of households with a single credit commitment had fallen behind with household bills, and this increased to 25 per cent of households with four or more current credit commitments.

3.4 Multivariate analysis

A large number of factors were identified as being related to arrears either in previous research or in exploratory analysis.[3] We have, therefore, used multivariate methods to investigate those that were most strongly associated with being in arrears.

3.4.1 Factors that increase the risk of arrears among all households

Looking at all types of households together, the risk of arrears was most strongly associated with differences in:

- housing tenure;
- age group;
- drops in income;
- having active credit commitments; and,
- whether a current account was being used to manage money.

No other significant differences were identified.

The odds of having arrears were higher for social and private tenants than for owner-occupiers. Being a tenant was associated with 2.3 times higher odds of having arrears. There are several immediately obvious explanations, drawn from the previous research that is discussed earlier. First, some tenants give a lower priority to paying their rent compared with the much high commitment among home owners to repaying their mortgage. Secondly, tenants who have arrears are generally barred from exercising their right to buy their home and so are unlikely to become home owners. Thirdly, tenants tend to be drawn from families that have lived on low incomes for longer periods of time than home owners with similar income levels. Fourthly, many families are taken into rent arrears by administrative errors with Housing Benefit.

As found in almost all research, older respondents were less likely to be in arrears than younger ones, especially after the age of 60, when the odds of arrears were reduced to under a quarter, relative to people in their twenties.

Household income was not significant – but the *Over-indebtedness Survey* collected gross income and, as we shall see later, disposable income *was* significant among families with children. Households experiencing a recent fall in income were, however, among those most likely to have arrears, with odds higher by a factor of around 1.7.

Households lacking access to a bank account, other things being equal (such as age and income), had double the odds of falling into arrears as those who did have such accounts. This could be because people with bank accounts were using them to pay their commitments on direct debit or standing

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[3] The method used was logistic regression analysis, and tables of selected results are shown in the appendix.

order. Or it could be reflecting the use of different forms of credit among those less closely connected to the banking world.

The link with credit use was very strong. Compared with non-users of credit, the odds of arrears for those with one active credit commitment increased by a factor of 2, rising to 3.3 for those with two commitments and to 7.3 times for those with three or more.

3.4.2 Factors that increase the risk of arrears among families with children – OdS analysis

Only three factors were significant when a regression analysis was undertaken for families with children in the 2002 *Over-indebtedness Survey*: housing tenure, a fall in income and use of consumer credit. The differential effect of housing tenure was larger among families with children than it was among households as a whole. Compared with families that were buying their home on a mortgage, social tenants had 3.7 times the odds of being in arrears. Experiencing an income drop doubled the odds of a family being in arrears, in line with other household types. The effect of credit use was also similar to that among all households. For those with one active credit commitment the odds of arrears increased by 1.6, rising to 3.7 for those with two commitments and to 5.8 times for those with three or more – which is again comparable to other types of households.

It is also of interest to note the factors that were not statistically significant. All other things being equal, lone parents were no more likely to be in arrears than two-parent families. Of the other personal characteristics investigated, neither age nor changes in circumstance such as separation or having a new baby were significant. Turning now to families' economic circumstances, gross household income was not significant nor was the economic activity status of the head of household. In other words, arrears seemed to be related to income falls, not to income *per se*, after controlling for differences in tenure and the presence of credit commitments. Nor did a recent income rise appear to reduce the odds of being in arrears.

3.4.3 Factors that increase the risk of arrears among families with children – FACS analysis

The FACS data includes a much larger sample size for families with children. Perhaps as a result, in the modelling conducted, a wider range of variables proved to be statistically significant. Table A.3 of the Appendix contains the main results from a model looking at whether families with children had arrears of any kind, over the different waves of FACS.

One of the key factors was having savings. Compared to those with £50-£100 saved, those with lesser amounts had odds around 1.7 times as high of being in arrears. Conversely those with above £5,000 had well under half the odds, falling to one-third the odds for those with £10,000 or more in savings.

Whilst lowest incomes were associated with a higher risk of arrears, the link was relatively weak, and confined to the bottom 20 per cent. By contrast, there was a very large effect of having had a drop in income in the last year – this doubled the odds of being in arrears. Few, if any, other factors made a difference of this magnitude. When things got better this had relatively little effect on being in arrears.

A third key factor was housing tenure. Compared to families buying their home on a mortgage, outright owners were somewhat less likely to have arrears, all else being equal. The odds of being in arrears were 1.7 times higher for social tenants, and almost as high for other tenants.

Among the other statistically significant factors were:

- **health** – those not in good health having somewhat larger odds of being in arrears;
- **age** – those aged 40-49 and 50 or older had reduced odds of being in arrears of any kind;
- **family size** – those with three or more dependent children were the most likely to be facing arrears;
- **region** – the odds of arrears were higher than average in the South-East region, controlling for all other factors. Those in rural areas were less likely than other families to be in arrears on bills, housing or credit commitments.

4 Unsecured credit

4.1 Introduction

As we saw in Section 3, there is a very strong link between arrears and the use of consumer credit. Moreover, if there are changes to prevailing economic conditions and/or the level of interest rates, then the extent to which people use credit is one guide to the financial problems that could develop. As a consequence we switch focus temporarily in this section to look at levels of borrowing and how these have changed over time.

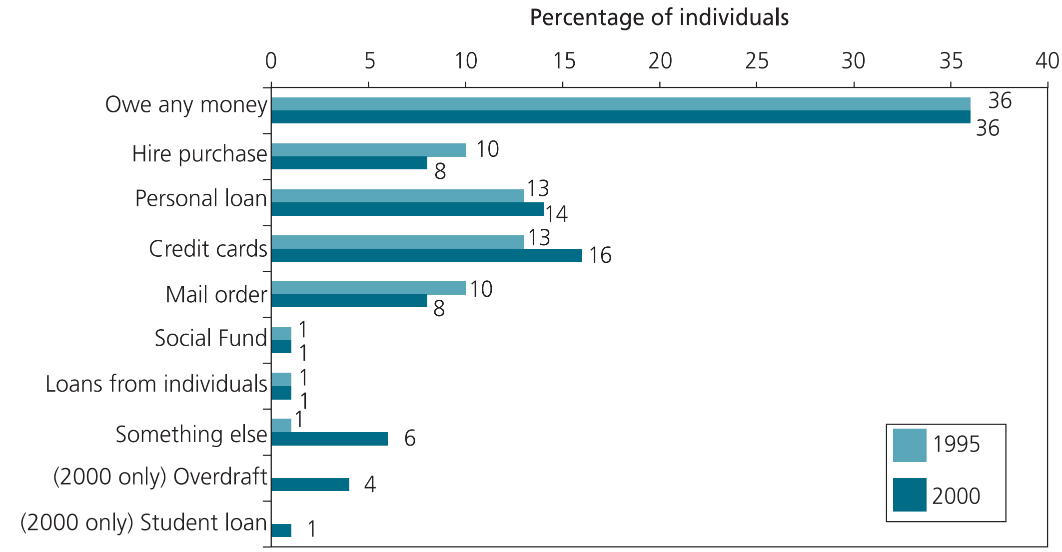
The section begins by looking at credit use by individuals, since this allows us to track changes in their use of credit over time, without the need to take into account the complication of changes in their household. It then moves on to look at credit use in households and families with children.

4.2 Changes in credit use by individuals: 1995-2000

In 1995 and 2002, all respondents to the British Household Panel Survey (BHPS) were asked if they had any of a range of credit commitments and, if so, the total amount they owed. This shows that there was no change at all in the proportion of individuals with outstanding commitments, which was 36 per cent in both 1995 and 2000, although there were some shifts in the types of credit used over this five-year period (Figure 4.1). In particular, more people owed money on credit cards while the use of hire purchase and mail order catalogues to buy things on credit became slightly less common.

The lack of any overall increase in the proportion with outstanding credit is perhaps surprising, given that aggregate data collected by the Bank of England show a considerable increase in the level of personal borrowing over this time. This apparent paradox may be resolved by looking at the average amounts that people owed in each of these two years (Table 4.1). The average amount owed in 1995 was less than one thousand pounds, but this had more than doubled five years later to reach two thousand pounds. The amounts owed by the ten per cent of people with the highest level of borrowing increased from five to nine thousand pounds. There was a similar extent of increase for the size of borrowing in the top quarter.

Figure 4.1 Outstanding credit commitments among individuals in 1995 and 2000



Base = BHPS waves 5 and 10.

Table 4.1 Amounts owed by individuals in 1995 and 2000

Cash amounts

Amounts owed (those with amounts outstanding)	1995	2000
Median	£890	£2,000
Top quarter	£2,700	£5,000
Top 10 per cent	£5,000	£9,000

Source: BHPS.

The increased level of borrowing did not, however, appear to be overly concerning borrowers. BHPS respondents making repayment are asked, *'to what extent is the repayment of such debts and the interest a financial burden on your household?'*. Between 1995 and 2000 there was virtually no difference in the proportions of people saying that loan repayments were either a heavy burden or even somewhat of a burden. This remained at just over one person in ten in each year.

Table 4.2 View taken by individuals towards their credit repayments

Column percentages

Loan repayments are:	1995	2000
Heavy burden	3	2
Somewhat of a burden	9	9
Not a problem	17	18
Not applicable (e.g. no credit repayments)	70	70

Source: BHPS.

In 2000, those saying that repayments were a heavy burden had outstanding borrowing amounting to £4,000 on average (median), compared with £3,000 among those saying they were somewhat of a burden, and £2,000 among those saying it was not a problem to make repayments (Table 4.3). The mean amounts outstanding were rather higher than these amounts, suggesting a small number of much larger balances.

It was, on average, younger respondents with children who were most likely to be finding credit repayments a heavy burden. They also tended to have lower household incomes on average.

Table 4.3 Characteristics of individuals taking different views towards credit repayments: among borrowers in 2000

Cell percentages

Loan repayments are:	Median amount outstanding	Mean amount outstanding	Median household income (monthly)	Average age (years)	Children in in household
Heavy burden	£4,000	£6,500	£1,920	36	54%
Somewhat of a burden	£3,000	£4,800	£2,490	37	54%
Not a problem	£2,000	£3,900	£2,750	40	40%
Not applicable			£1,720	51	24%

Source: BHPS.

4.2.1 Updating these results

Recent research supported by the Bank of England (Tudela and Young 2003) has extended the time period of analysis by asking BHPS-style questions on a monthly omnibus survey run in early October 2003. This provides results that are generally comparable to BHPS, though with a rather higher rate of refusals to the same set of questions.

The survey showed further evidence of some trends taking place during 1995-2000. The proportion with unsecured borrowing has not risen, but the average amounts outstanding had continued to increase. The increase in amounts borrowed between 2000-2003 seemed to be concentrated among those with household incomes of £17,500 or more per year rather than among the poorest households. The analysis also suggests that credit use is becoming more concentrated generally – with only 4.3 per cent of individuals accounting for around half of the total owed. The authors also suggest that: *'debt has become more concentrated among riskier borrowers'* (ibid: 425).

4.2.2 Individuals' movements in and out of credit use

The above analysis has shown a fairly constant proportion of the population who have outstanding credit commitments. The evidence of rising levels of borrowing, and of unsecured credit use, in particular, is squared because each person is borrowing rather more than before.

The reaction to this increased level of commitment does not seem to be one of particular anxiety, at least not by 2000. Whilst the average amount owed had more than doubled, the proportion finding it a burden did not change. People may be finding their borrowing easier to deal with, because interest rate reductions that have reduced the costs.

Whilst this analysis shows that about the same proportion had credit commitments in both 1995 and 2000 it is possible, using the same data, to explore how much turnover there was in this population between these dates. To what extent is the same 36 per cent of people using credit in each of the two years?

There were just under seven thousand people interviewed in both 1995 and 2000, who can provide the basis for analysis. This shows a high degree of continuity. Of those owing money in 1995, 61 per cent owned money in 2000. While 76 per cent of those who did not owe money in 1995 were also free of such commitments in 2000. Looked at another way, just under half (45 per cent) of all individuals owed nothing in both years, while 25 per cent owed money in both years.

Whilst these results show the extent of change among the whole population, they include a large number of older groups who are the least likely to have borrowed any money. If we look instead at those who were aged 20-59 in 2000 (and also responding five years earlier), then 64 per cent of those using credit continued to do so, whilst 65 per cent of those who owed no money in 1995 also did so in 2000. In other words, younger people were more likely than average to start to borrow; while people aged over 60 were more likely to stop.

Table 4.4 Credit status in 1995 and 2000

Percentage of total sample

	Whole sample		Aged 20-59 (in 2000)	
Status in 1995	**Owes money**	**Doesn't owe**	**Owes money**	**Doesn't owe**
Status in 2000				
Owes money	25	14	31	18
Doesn't owe	16	45	18	33

Source: BHPS.

Using the same sample base we can also explore turnover in the proportions of people using different types of credit. This shows, for example, the proportion of people owing money on credit cards in 1995, who also owed money on them in 2000. It also shows the proportion of non-users of credit cards in 1995 who had started to use them by 2000. This analysis shows that the greatest recruitment of new borrowers has been to credit cards and personal loans (Table 4.5 column 2). These two sources have also been the most successful at retaining customers (Table 4.5 column 1). So around half of those who owed money on credit cards in 1995, also had outstanding credit card balances in 2000. Mail order catalogues (and the Social Fund) have also been relatively successful in retaining their 'market', but much less so in attracting new groups to borrow using these methods.

Table 4.5 Persistence of borrowing by individuals, and movement into borrowing

Cell percentages

	Proportion of users in 1995, still using in 2000	Proportion of non-users in 1995, who were using in 2000
Any borrowing	64	35
Credit cards	50	17
Personal loans	40	16
Mail order	38	7
Social Fund	36	1
HP	25	9

Source: BHPS.

4.3 Credit use by households

Evidence from the 2002 study of over-indebtedness (Kempson 2002) showed that household access to consumer credit was widespread. Three-quarters of all households had current consumer credit facilities of some kind, with one in six having five or more. However, quite a number of these facilities were not actually being used at the time of the survey. A third of people had overdraft facilities but were not overdrawn and a similar number had credit cards that had been repaid in full following the last statement. A small number (one in 20 households) had store cards on which nothing was owed.

Taking these into account, just under half of all households (47 per cent) had at least one credit commitment that they were repaying at the time they were interviewed. The average number of commitments among users was a little over two. Most credit users, however, had modest numbers of commitments but a sizeable minority of all households (14 per cent) owed money on three or more.

Credit cards were the most common credit commitment, with nearly one in five households revolving balances on one or more credit cards (Table 4.6). Almost as common were goods bought on credit from mail order catalogues and cash loans from a range of sources. But although similar proportions of households used each of these three sources, the amounts of money owed on them were quite different. At £240, the money owed on mail order catalogues was the second lowest of all the main types of credit, while loans, at £5,000, represented the highest amount. The average amount owed on credit cards was £1,570.

Hire purchase and credit sale agreements were only slightly less common and the amounts involved were relatively high (£3,800). Least common were overdrafts and store cards and the amounts owed on each were also quite low.

Table 4.6 Types of unsecured credit in use

Column percentages

	All households	All families	Lone parents	Two parents
Credit cards	19	27	15	31
Loans (inc Social Fund)	17	27	33	26
Mail order	15	30	43	27
Hire purchase/credit sale	13	23	18	25
Overdraft	9	15	9	16
Store cards/accounts	8	11	13	10
Base (unweighted)	*1,647*	*460*	*102*	*358*

Source: OdS.

The majority of households owed little or nothing on consumer credit commitments at the time they were interviewed. The average amount owed by households with current credit commitments was about £3,500, but a small minority owed quite considerable sums, including four per cent owing in excess of £10,000.

Table 4.7 Amounts owed in unsecured consumer credit

Column percentages

	All households	All families	Lone parents	Two parents
Nothing	53	33	26	35
Up to £500	16	20	31	17
£500 to £1,500	7	13	23	10
£1,500 to £3,000	5	6	7	6
£3,000 - £7,000	7	12	6	13
£7,000 - £10,000	3	6	5	6
£10,000 or more	4	7	-	9
Don't know amount	4	3	3	3
Base (unweighted)	*1,647*	*460*	*102*	*358*

Source: OdS.

The larger sums, however, tended to be owed by people on the highest incomes, so a more meaningful indication of over-borrowing is the proportion of a household's monthly income being spent on credit commitments. (The amounts included for credit and store cards were the minimum amounts that people would have needed to pay on their last statement, overdrafts were not included).

At least three-quarters of households were spending less than 10 per cent of their gross monthly income on consumer credit repayments. But in one in 20 cases it represented more than a quarter of the money they had coming in – or more than a third of their disposable income after income tax and National Insurance.

Table 4.8 Repayments as a proportion of gross monthly income

Column percentages

	All households	All families	Lone parents	Two parents
Nothing	53	33	26	35
Up to 10%	22	32	42	29
10% to 25%	8	12	15	11
25% to 50%	3	6	8	5
50% or more	2	4	1	4
Proportion unknown	26	13	9	15
Base (unweighted)	*1,647*	*460*	*102*	*358*

Source: OdS.

4.3.1 Changes in households' credit use

The proportion of households with outstanding credit was about half in both 1995 and 2000 (Table 4.9). Trends in the use of credit are similar to those already discussed for individuals. Credit card usage is increasing, while hire purchase arrangements and mail order catalogues may be declining in importance.

The same patterns of change in use of credit, but over a 13-year period (1989 to 2002), were noted in the report of the DTI survey of over-indebtedness (Kempson 2002). Changes in the types of credit used also accord with statistics collected by creditors themselves.

Table 4.9 Outstanding credit among households 1995 and 2000

Column percentages

	Proportion of households with each type of commitment	
	1995	**2000**
Owe any money	50	51
Hire purchase	17	15
Personal loan	22	23
Credit cards	22	26
Mail order	18	16
Social Fund	1	1
Loans from individuals	3	2
Something else[1]	1	11
(2000 only) Overdraft	..	7
(2000 only) Student loan	..	1

Source: BHPS.

1 This huge apparent increase appears related to coding practices more than any real change. In 1995 this category was generally those just with another unspecified type of credit. In 2000 most of this category had some other form of outstanding credit, and the contribution of this large percentage to the overall proportion with loans was quite small.

4.4 Credit use among families with children

Families with children were more likely to be using credit than other households, with 68 per cent currently owing money. Indeed, they were more likely to be using all types of credit. Consequently, the average number of credit commitments was also higher (2.4 compared with 2.1). The proportion of credit users was especially high among lone parents (75 per cent), although, on average, they had rather fewer credit commitments than couples with children (2.2 compared with 2.5).

The most common source of credit for families was mail order, which was used by 30 per cent of all families – twice the rate among all households (Table 4.7). Next in importance came credit cards and loans, followed by hire purchase.

There were, however, some interesting differences in the types of credit used by lone-parent and two-parent families. Among lone parents, the two most important sources of credit, by far, were mail order and loans (Table 4.7) and in both cases, their use exceeded that by two-parent families. Moreover, while three-quarters of two-parent families had borrowed from a bank or building society, half of lone parents had borrowed from the Social Fund (a source of interest-free credit generally only available to people claiming Income Support) and a quarter had taken out a loan with one of the weekly-collected credit companies that predominantly lend in low-income neighbourhoods.

Two-parent families were twice as likely as lone parents to use both credit cards and overdrafts (Table 4.7). Indeed lone parents' use of credit cards was below that of all households.

4.4.1 Changes in families' use of consumer credit 1995-2000

Evidence from the BHPS for 2000 showed that some two-thirds of families with children had outstanding consumer credit commitments, as did 44 per cent of all households (Table 4.11). These figures are remarkably similar to those for 1995 (4.10).

The most common form of credit was credit cards and store cards (34 per cent of families with children), having made allowance for card balances paid off in full each month. The other main sources of loans for families were personal loans (31 per cent), mail order (26 per cent) and hire purchase (21 per cent). Use of mail order and hire purchase had declined since 1995, while credit card use had increased (Tables 4.10 and 4.11). Generally speaking, lone parents made less use of each type of credit, with the exception of mail order and the Social Fund.

The median amount owed by families, where any amount was outstanding, was £2,700. This was well over double the £1,000 owed five years previously (Tables 4.10 and 4.11). Lone parents had, typically, borrowed far less than couples with children – a median of £870 among lone parents, compared with £3,090 for couples.

While two-thirds of households containing children owed money in 2000, repayments were cited as a 'heavy burden' by only four per cent, though they were 'somewhat of a burden' for a further 15 per cent. These are very similar to the figures in 1995, although they were lower among lone parents.

Table 4.10 Borrowing and amounts owed among households in 1995

Column percentages

	All households	Households with children	Lone parents	Two parents
Has any outstanding credit	44	65	62	67
Credit/store cards	18	24	14	27
Personal loans	18	26	19	29
Mail order	15	31	37	29
HP	15	23	12	26
Social Fund	1	3	11	2
Loans from a person	2	4	3	4
Other	1	1	3	1
Average total amount owed (non-zero mean)	£2,910	£3,050	£1,460	£3,420
Average total amount owed (non-zero median)	£1,000	£1,000	£410	£1,420
Total amount owed – highest quarter of borrowers	£3,500	£3,400	£1,420	£4,000
Credit/loan repayments a burden on household?				
Heavy burden	3	6	11	5
Somewhat of a burden	8	16	16	16
Unweighted base	*4932*	*1498*	*278*	*1232*

Source: BHPS 1995.

So, between 1995 and 2000 we find a similar proportion of households using credit, but borrowing around twice as much as before, but no more likely to say that repayments are a burden on the household. Subsequent research by the Bank of England, looking at individuals rather than households, confirms a very similar picture (Tudela and Young 2003).

Table 4.11 Borrowing and amounts owed among households in 2000

Column percentages

	All households	Households with children	Lone parents	Two parents
Has any outstanding credit	44	67	60	68
Credit/store cards	21	34	24	36
Personal loans	19	31	19	33
Mail order	13	26	27	25
HP	12	21	14	23
Social Fund	1	4	10	2
Loans from a person	2	3	4	2
Other	9	14	13	14
#Overdraft	5	4	4	4
#Student loan	1	1	3	1
Average total amount owed (non-zero mean)	£4,950	£5,470	£3,180	£6,000
Average total amount owed (non-zero median)	£2,500	£2,700	£870	£3,090
Total amount owed – highest quarter of borrowers	£6,500	£7,000	£4,000	£8,000
Credit/loan repayments a burden on household?				
Heavy burden	2	4	6	4
Somewhat of a burden	8	14	14	14
Unweighted base	*8602*	*2703*	*594*	*2141*

Source: BHPS 2000.

Note # new option in 2000 that was not used in 1995.

5 Trends in arrears

Many of the financial problems faced by families were quite long-standing, with four in ten of families who were currently facing financial difficulties saying that they had done so for more than a year. This was slightly higher than the proportion of all households (Table 5.1).

However, it would seem that lone parents were especially likely to have long-term financial difficulties and the duration of the difficulties faced by two-parent families was no different from that of households as a whole.

Table 5.1 Duration of financial difficulties

Column percentages

	All households	All families	Lone parents	Two parents
Under one month	5	4	-	5
1-3 months	14	13	13	14
3-6 months	10	9	6	11
6-12 months	21	20	21	20
Over 12 months	34	41	56	34
Refused/don't know	15	13	4	17
Base (unweighted)	*294*	*147*	*51*	*96*

Source: OdS.

The *Over-indebtedness Survey* also asked respondents how their financial situation had changed in the past 12 months. The replies showed that, overall, the level of financial difficulty had remained about the same, with as many households getting out of difficulty as fell into it (Table 5.2). Among families, however, it would appear that slightly more had managed to get out of difficulty in the past 12 months than had begun to experience difficulties having previously been free of them. The differences were, however, slight (10 per cent compared with eight per cent).

In fact, there was a fairly high degree of churning of families facing financial difficulty and especially so among lone parents, who tended to have lower incomes than two-parent families.

Table 5.2 Changes in extent of financial difficulties in previous 12 months

Column percentages

	All households	All families	Lone parents	Two parents
No difficulties 12 months ago, still none	78	67	43	73
Difficulties 12 months ago, none now	6	10	13	9
None 12 months ago, difficulties now	6	8	12	7
Difficulties 12 months ago, things still the same	6	10	19	8
Difficulties 12 months ago, things now worse	2	3	6	2
Don't know	2	2	5	2
Base (unweighted)	*1,647*	*460*	*102*	*358*

Source: OdS.

We have, therefore, run the same analysis for all families with a gross income of less than £15,000 (Table 5.3). This shows that only half of low-income families had remained out of financial difficulty over the past 12 months. Again, the proportion was lower for lone parents than two-parent families – even though incomes were not equivalised.

Table 5.3 Changes in extent of financial difficulties faced by low-income families in previous 12 months

Column percentages

	All low-income families	Low-income lone parents	Low-income two parents
No difficulties 12 months ago, still none	50	38	58
Difficulties 12 months ago, none now	13	15	12
None 12 months ago, difficulties now	12	13	11
Difficulties 12 months ago, things still the same	16	23	11
Difficulties 12 months ago, things now worse	6	8	5
Don't know	3	3	3
Base (unweighted)	*196*	*79*	*117*

Source: OdS.

The other notable point from Table 5.3 is the high degree of change in the financial situations of low-income families in general and of lone parents in particular. Over the course of a year, a third of lone parents said that they had experienced a change in their situation:

- 15 per cent had got out of financial difficulty;
- 13 per cent had fallen into financial difficulty; and
- eight per cent had seen their financial problems get worse.

It should be noted that this analysis is based on *reported* changes. The following section explores trends in arrears in more detail, using the FACS longitudinal data.

5.1 Trends in arrears among families with children

Consistent with their own reported changes, the incidence of arrears among families with children appears to have declined over time. Over the last four years, this fall has been most marked for lone parents. This decline has almost certainly been influenced by a number of changes that have affected the incomes of low-income families. These include greater-than-inflation increases in Income Support rates, policies to assist lone parents into work, the introduction of Working Families' Tax Credit and the introduction (and sustained rise in) the minimum wage.

5.1.1 All families with children

Currently, FACS provides evidence for all families with children only for 2001 and 2002[4]. This shows that there was a strong degree of similarity between the proportions with arrears in each of these years, with around one family in five having arrears of any kind (Table 5.4). There may have been some 'improvement' over these two years, but if so the magnitude of such a change is rather small. Indeed, the proportion saying that they had problems with arrears over the last year was static or increasing.

Table 5.4 Trends over time in arrears among all families

Cell percentages

	2001	2002
Any household bills arrears	16	15
Credit arrears	5	4
Housing-related arrears	5	4
Arrears of any kind	20	18
Problems with arrears almost all the time over the last year	5	6
Unweighted base	*7723*	*7359*

Source: FACS.

5.1.2 Trends among lone parents

In contrast, FACS provides a representative sample of lone parents for each of its four years, from 1999 to 2002. During this time, the proportion in arrears of any kind fell from nearly half (48 per cent) to closer to one in three (35 per cent) (Table 5.5). The decline was fairly steady over the four years, at around four percentage points.

In the final column of the table we compare the result for 1999 with that for 2002, to consider if the proportion with arrears has changed to a statistically significant extent. These calculations assume that each survey was a cross-section, though in fact some of the same families make up each sample whilst some respondents are new entrants to the sample or were interviewed only at the first wave.

The largest reductions took place for arrears on household bills, which affected 41 per cent of lone parents in 1999 but only 31 per cent in 2002. There were also reductions in consumer credit arrears (13 per cent to eight per cent) but these were somewhat smaller. Arrears related to housing costs (most commonly rent), also seemed to have improved more slowly (12 per cent to eight per cent). Rent tends to be one of the first commitments that lower income groups default on when they encounter financial difficulties and may, therefore, be one of the slowest to improve when money matters take a turn for the better.

[4] In previous years FACS only surveyed lone parents and low-income two-parent families.

Over the four-year period there was also a decline in the proportion of lone parents who said that they worried about arrears 'almost all the time' – from 15 per cent to 12 per cent. There was, however, a small increase between 2001 and 2002.

Table 5.5 Trends over time in arrears among lone parents

Cell percentages

	1999	2000	2001	2002	Difference 1999:2002
Any household bills arrears	41	38	33	31	**
Credit arrears	13	12	10	8	**
Housing-related arrears	12	11	10	8	**
Arrears of any kind	48	44	40	35	**
Problems with arrears almost all the time over the last year	15	13	10	12	**
Unweighted base	*2481*	*2143*	*2143*	*2146*	

Source: FACS.
Note '**' indicates significant at the 1 per cent level.

5.1.3 Trends among low-income families

Within FACS there are other groups of families for which the sample design allows analysis over a four-year period. These include Income Support recipients and two-parent families with no full-time wage earner.

The proportion of families on Income Support who are in arrears has reduced over time, from 55 per cent in 1999 to 48 per cent in 2002 (Table 5.6). This is, perhaps, rather less of a drop than might have been expected given the trends among lone parents, many of whom receive Income Support. The Income Support population has, however, been in decline over this period, and it is possible that the slow rate of fall reflects differential rates of outflow from this benefit of different types of family.

The decline in arrears among families on Income Support was confined to the three-year period between 1999 and 2001 – with no fall at all between 2001 and 2002. Moreover, in 2002 the proportion who said they had been worrying about bills 'almost all the time' showed an increase of five percentage points, having fallen in the previous three years. This could be reflecting a greater concentration of arrears within particular households.

Unlike lone parents, the rate of decline of arrears on household bills, credit and housing costs were very similar.

Table 5.6 Arrears among families receiving Income Support

Cell percentages

	1999	2000	2001	2002	Difference 1999:2002
Any household bills	48	46	42	43	**
Credit arrears	17	16	14	12	**
Housing-related arrears	10	8	7	6	**
Arrears of any kind	55	51	48	48	**
Problems with arrears almost all the time over the last year	17	16	13	18	ns
Unweighted base	*1580*	*1345*	*1245*	*1240*	

Source: FACS.
Note '**' indicates significant at the 1 per cent level, 'ns' indicates not significant.

Comparable figures for two-parent families with no-one in paid work are shown in Table 5.7. The reduction in the level of arrears is very clear, and slightly higher than among families on Income Support. In this case, the largest reduction seemed to occur between 2000 and 2001, and as with Income Support recipients – with whom there was a fair degree of overlap – there was no fall at all in the year to 2002.

Also, like recipients of Income Support, there was a marked increase between 2001 and 2002 in the proportion worrying about arrears 'almost all the time' - from 10 per cent to 15 per cent.

Table 5.7 Arrears among workless couples

Cell percentages

	1999	2000	2001	2002	Difference 1999:2002
Any household bills	41	41	33	33	*
Credit arrears	14	13	12	13	ns
Housing-related arrears	12	9	6	6	**
Arrears of any kind	48	47	39	39	**
Problems with arrears almost all the time over the last year	13	13	10	15	ns
Unweighted base	*541*	*376*	*357*	*345*	

Source: FACS.
Note '**' indicates significant at the 1 per cent level, '*' indicates significant at the 5 per cent level, 'ns' indicates not significant.

6 Patterns of arrears

6.1 Introduction

In this section we move away from the snapshot pictures of arrears of the first part of the report. Instead, we make use of information about the same families over time. We are able to consider how many low-income families are able to remain free of arrears, how many are persistently in arrears, and how many families have regular experience of being in arrears.

The main aim of this section is to analyse whether there are particular patterns to arrears, and the extent of change to families' experience of arrears. Can we distinguish different experiences of being in arrears, and characteristics of families that are associated with these different patterns? To do so we draw on those families who have participated in the Families and Children Study (FACS) at every wave to look at typologies of arrears across four years.

We examine the characteristics of those who remain arrears-free. We then compare them with those 'sometimes' in arrears and those 'always/most often' in arrears.

Analysis of those in FACS at each wave is largely restricted to lower-income families with children. But by using the latter two waves, 2001 and 2002, we are able to look at the (brief) patterns experienced by a representative sample of families with children.

6.2 Background

6.2.1 Previous qualitative research

Previous qualitative research with low-income families found a high degree of change in their ability to make ends meet over time (Kempson *et al.*, 1994)[5]. In this study, the 75 families interviewed were allocated to one of four groups:

- Those who were balancing their budgets over time and were described as *keeping their heads above water.*
- Those who had been making ends meet, but who were getting into financial difficulty and falling into arrears with household commitments – described as *sinking.*

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[5] The interviews for this earlier study were, however, carried out when the economy was in recession so the level of difficulties was somewhat higher.

- Those who were in arrears but reducing the amounts they owed to their creditors, and described as *struggling to the surface*.
- Those who had been in multiple arrears for some time and saw no prospect of things getting easier. These families were described as *drowning.*

The analysis of the changes in their ability to make ends meet were based on their financial situation when interviewed in depth, compared with that when they had been interviewed a year previously in a quantitative study, and their expectations for the future.

Only about a third of these families had managed to avoid financial difficulties over the past year; while a third had continued to struggle with financial problems and a third had experienced a change in their ability to make ends meet.

More detailed analysis showed that, over a two-year period, there was considerable movement between the four groups identified above.

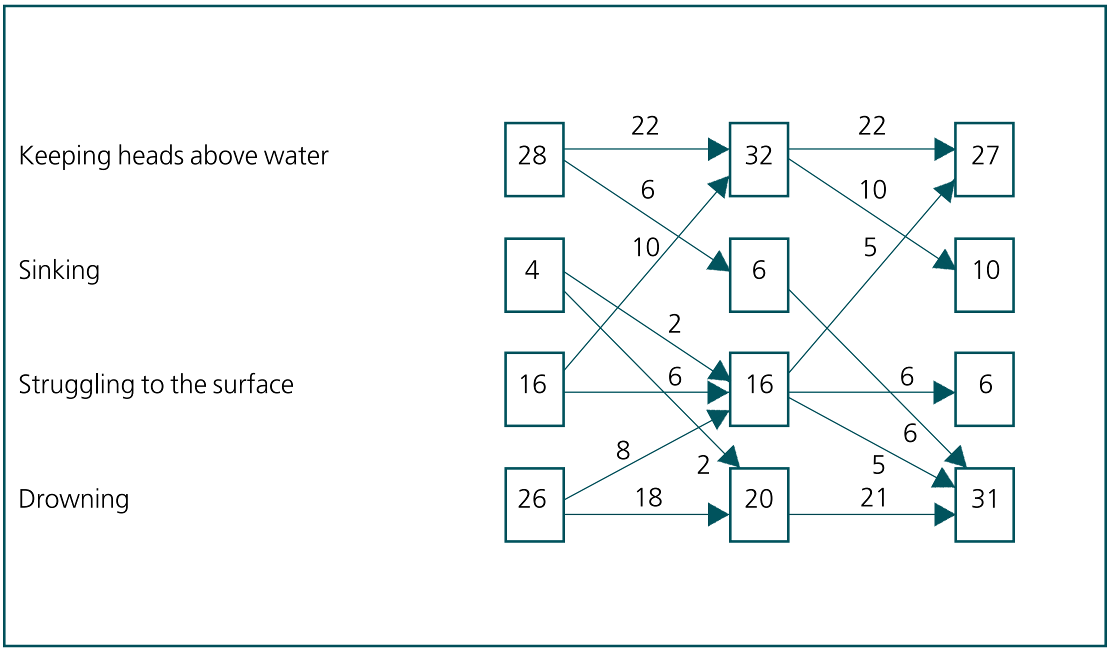
Ten of the 32 families who were *keeping their heads above water* at the time of the study had been in arrears a year previously and, of them, ten had rather uncertain futures and seemed likely to fall into arrears.

All six families who were *sinking* into financial difficulty had been making ends meet a year previously but were falling into arrears that seemed likely to deteriorate further in the future.

Half of the 16 families *struggling to the surface* had previously been *drowning* and 11 of the 16 looked as if they might continue to get straight financially in the future.

Finally, almost all of those considered to be *drowning* in arrears had been in that situation a year previously and seemed unlikely to see any marked improvement in their circumstances.

Figure 6.1 Changes over time: qualitative study of 75 families



6.2.2 Previous quantitative research

There is limited previous evidence that looks at arrears over time. Bridges and Disney (2003) have conducted some analysis on waves 1 to 3 of FACS. The context was, however, a fairly detailed cross-sectional analysis of FACS 1999 rather than a mostly longitudinal approach. They tended to find relatively limited persistence over time in arrears, with many arrears being cleared within a year or two. This was based on looking at individual commitments rather than the overall arrears position of low-income families.

6.3 Patterns of arrears

To look at longer-term patterns, we now focus on those taking part in all four waves of FACS. This sample was restricted to low/moderate-income couple families and all lone parents across the income distribution (though relatively few lone parents are well-off).

With four waves, and two valid outcomes (in arrears or not in arrears) there are a potential 16 patterns - all of which were observed. Some examples of the most common patterns are shown in Table 6.1. The top row indicates those free from arrears at each wave, or 29 per cent of the original 1999 families with children. Arrears included being behind on any household bills, credit commitment (credit cards, mail order, behind on overdraft/loans etc.) and housing costs (rent or mortgage). About seven in ten (72 per cent) families had encountered some arrears during the course of the survey, with a large minority of families (16 per cent) in arrears for all four waves of the survey. There were a large number of families with other patterns of arrears over the four-year period, combining years when they had arrears with years they were free of them.

Table 6.1 Patterns of arrears

					Column percentages
					Eight most common combinations
		Wave (Year)			
Wave 1 (1999)	**Wave 2 (2000)**	**Wave 3 (2001)**	**Wave 4 (2002)**	**Percentage**	**Some descriptions**
-	-	-	-	29	Never in arrears
x	x	x	x	16	In arrears all years
-	x	-	-	7	Only arrears in 2000
-	x	x	x	6	Arrears last 3 years, not first
x	-	-	-	5	Arrears 1999 only
x	x	x	-	5	Left arrears in 2002
x	x	-	x	4	
-	x	x	-	4	
Unweighted base					*2,357*

x = In arrears.
- = Not in arrears.
Source: FACS.

It is not possible to separately analyse the 16 different patterns that are possible, which would become 32 patterns with a further wave of data. Instead, we need to find a way to simplify these patterns into something more manageable, or a 'typology'.

There are various ways of attempting to extract typologies from such data. Some approaches use statistical methods, including cluster, sequence or factor analysis. Other approaches may, instead, be driven by theoretical considerations and be less based on statistical grounds. We have adopted a pragmatic approach, combining clear conceptual distinctions with statistical approaches to arrive at a simple yet we think defensible grouping.

In any case, it is highly likely that any statistical approach used would tend to distinguish a group of families who were never in arrears from all other families, particularly those who were always or almost always in arrears. Both conceptual and statistical grounds would argue for analysing one group who were never in arrears during this period (29 per cent of these lower-income families). Thereafter, a number of subsidiary groups are determined, according to which groups appear most alike and most different from each other.

Three groups were created: 'never' in arrears (29%); 'sometimes' in arrears (one or two years) (37%) and 'always' in arrears (three or four years) (34%). The 'never' in arrears group was distinct from all the other groups in which a year or more of arrears had been experienced. The cut-off point of three years was selected because being in arrears for four years did not prove to add further to the results, therefore, three and four years of arrears was combined into one category, named 'always' in arrears. The main method used was to look at how different each group was in terms of income and other characteristics. At which threshold point would there be the greatest association between income and arrears status? The methods used to determine the threshold are akin to those used to select such cut-offs in some poverty research (e.g. Gordon *et al.*, 2000).

Those in arrears for one or two years were combined as these groups did not differ to any great extent, and are named 'sometimes' in arrears. With a longer run of years, particularly for higher income families, it might be possible to investigate different 'trajectories' – whether families appeared to be getting out of arrears, or more into arrears. This is not possible with the shorter run available.

6.4 Characteristics of families with different patterns of arrears

We have established a threefold classification among low-income families for patterns of arrears (as described in the previous section). In this section we investigate differences in the characteristics of those with different patterns of arrears. In particular, we investigate what kinds of families managed to remain free of arrears, despite being on a low income when sampled. Most of this analysis is based on their wave-1 characteristics (i.e. in 1999), but characteristics over the four-year survey period were also compared with the four-year pattern of arrears. Initially, we look at the characteristics of those in each group, 'always', 'sometimes' and 'never' in arrears to address what type of families were most likely to be located in each of these groups. The later sub-sections look more specifically at how the characteristics of different family types vary according to the number of years they have spent in arrears, and then in more detail at the unique group of families that manage to remain free of arrears.

Table 6.2 shows a selection of characteristics of the types of family in each of the three arrears groups. Lone parents were most likely to be located in the 'always' in arrears category (three or more years of arrears); six-tenths (62 per cent) of those 'always' in arrears were lone parents and the remainder were couple families. In contrast, couple families were more likely to be located in the 'never' in arrears category; 57 per cent of this group were couples and the remainder lone parents. Families 'always' in arrears were more likely to have a child under five, be in receipt of Income Support and be a social tenant. In addition, families 'always' in arrears contained a higher proportion of families with three or more dependent children; three in ten of those 'always' in arrears had three or more children, whereas only two in ten (21 per cent) of those 'never' in arrears did so. Families 'always' in arrears were less likely to have a savings account(s) at the start of the survey (55 per cent), whereas only 23 per cent of those 'never' in arrears did not have any savings account.

Table 6.2 Pattern of arrears by family characteristics at wave 1

Column percentages

	Arrears between 1999 and 2002		
	Never	**Sometimes (1-2 years)**	**Always (3+ years)**
Family type			
Couple	57	47	38
Lone parent	43	53	62
Number of dependent children			
One	34	35	32
Two	44	38	39
Three or more	21	27	30
Age of youngest child			
Under 5	40	47	54
5-10	37	38	35
11-15	23	15	11
16-18	*	0	0
Income Support			
Yes	25	33	57
No	76	67	43
Family unit work status			
Lone parent: Working 16+ hours	19	19	18
Lone parent: Not working 16+ hours	24	34	44
Couple: Both working 16+ hours	14	11	7
Couple: One working 16+ hours	33	27	21
Couple: Neither working 16+ hours	10	9	10
Housing tenure			
Owned outright/mortgage	61	43	25
Social tenant	28	45	62
Private tenant	8	8	10
Other (including shared ownership)	3	4	3
Health status			
Good	64	61	52
Fairly good	24	27	32
Not good	11	13	16
Unweighted bases	*663*	*858*	*773*

6.4.1 Who was in arrears?

The highest incidence of arrears was encountered by those families who had been lone parents at wave 1 and not couple families. In lone-parent families, four in ten (40 per cent) were 'always' in arrears (three or more years), 37 per cent were 'sometimes' in arrears (one or two years), and 23 per cent were 'never' in arrears. In contrast, 28 per cent of couple families were 'always' in arrears, 38 per cent 'sometimes' and 35 per cent 'never' in arrears.

Families in arrears had a higher number of dependent children at wave 1. For example, about a fifth (23 per cent) of families with three or more dependent children were 'never' in arrears and about two-fifths were 'sometimes' or 'always' in arrears (39 and 38 per cent, respectively). In contrast, 29 per cent of families with one dependent child were 'never' in arrears, 39 per cent were 'sometimes' in arrears and 32 per cent were 'always' in arrears. Over two-fifths (43 per cent) of Income Support recipients were 'always' in arrears as compared with only three-tenths (29 per cent) of those families not on Income Support at wave 1.

Families in arrears were more likely to have younger children but this did not vary greatly according to the number of years the family had spent in arrears. For example, 39 per cent of families with children under five were 'always' in arrears and 24 per cent were 'never' in arrears, whereas only 24 per cent of those with a youngest child aged 11-15 were 'always' in arrears and 41 per cent were 'never' in arrears. Families in arrears were also more likely to be social tenants at wave 1; the proportion increased according to the number of years in arrears.

In terms of family unit work status, any number of years in arrears was associated with a higher proportion of lone parents not working 16 or more hours per week. In working-couple families, however, being in arrears 'sometimes' was more similar to being 'never' in arrears than being 'always' in arrears (Table 6.3).

Table 6.3 Family unit work status by pattern of arrears

Row percentages

	Arrears between 1999 and 2002			
Family type	**Never**	**Sometimes (1-2 years)**	**Always (3+ years)**	***Unweighted base***
Lone parent				
Working 16+ hours	29	39	32	*440*
Not working 16+ hours	20	37	43	*806*
Couple				
Both working 16+ hours	38	40	23	*257*
One working 16+ hours	35	38	27	*632*
Neither working 16+ hours	30	36	34	*222*

Source: FACS.

Looking just at families in arrears, those 'always' in arrears encountered higher levels of all types of arrears than those 'sometimes' in arrears. For example, 42 per cent of those behind on household bills were 'sometimes' in arrears and 59 per cent were 'always' in arrears. Interestingly, families in store card arrears, mail order arrears and loan arrears were most likely to be located in the 'always' in arrears category.

6.4.2 Who remained free of arrears?

The characteristics of those who remained out of arrears for the duration of the survey were unique. Characteristics at the start of the survey are examined first. Families 'never' in arrears were more likely to be: couple families, smaller families (less than three dependent children), in 'good' health, home owners (owning outright or through a mortgage) and have at least one parent working 16 or more hours per week. In addition, they were less likely to have children under the age of five or be in receipt of Income Support (see Table 6.2). Main respondents (typically the mother) who remained out of arrears were also more likely to have: a degree or higher level qualification by wave 4 (2002) and to have left full-time education after the age of 16, and, be of white ethnic background.

Looking across the survey period, it was further confirmed that those who remained out of arrears were most likely to have never been in receipt of Income Support or to have never been a lone parent for the duration of the survey.

These are all low-income families managing to avoid arrears. This analysis suggests they have a number of advantages that may have contributed towards this status – including remaining in work, and having good educational qualifications.

6.5 All families with children

We now turn our attention to all families with children across the income distribution to get an indication of patterns of arrears in the population between 2001 and 2002. As mentioned earlier, FACS only provides evidence for all families with children in these years. The pattern of arrears across the two waves produced four categories, namely not in arrears at both waves, in arrears at both waves, moved into arrears between 2001 and 2002, and, moved out of arrears between 2001 and 2002.

Between 2001 and 2002, some 58 per cent of families with children were 'never' in arrears, 23 per cent were in arrears for one year only and 19 per cent were 'always' in arrears i.e. at both waves. Among couples with children, almost two-thirds (64 per cent) were never in arrears, 22 per cent were in arrears for one year only and 14 per cent were 'always' in arrears. In contrast, a lower proportion of lone parents were 'never' in arrears, and a higher proportion were 'always' in arrears (41 and 31 per cent, respectively), with the remainder in arrears for one year only.

Those families 'never' in arrears were four times more likely to be headed by a couple than a lone parent (81 and 19 per cent, respectively). Similar proportions of families remained in arrears across the two years, albeit slightly more couple families were located in this group. Of those families moving into and out of arrears between 2001 and 2002, about a third were lone-parent families and approximately two-thirds were couple families (Table 6.4).

Table 6.4 Family type by changes in arrears between 2001 and 2002

Row percentages

	Arrears between 1999 and 2002			
Family type	**Never**	**Always**	**Moved into**	**Moved out of**
Lone parent	19	45	34	31
Couple	81	55	66	69
Unweighted base	*3515*	*1201*	*749*	*708*

Source: FACS.

This finding underlines that there is a very strong association between lone parents and arrears – lone parents form about a quarter of families yet almost half are in arrears for two consecutive years. This finding is also emphasised elsewhere in the report.

7 The dynamics of being in arrears

7.1 Introduction

The previous section looked at the different arrears biographies of families with children, and how these developed over time. It enabled us to consider the proportions of families remaining arrears-free over time, and those with more serious arrears records.

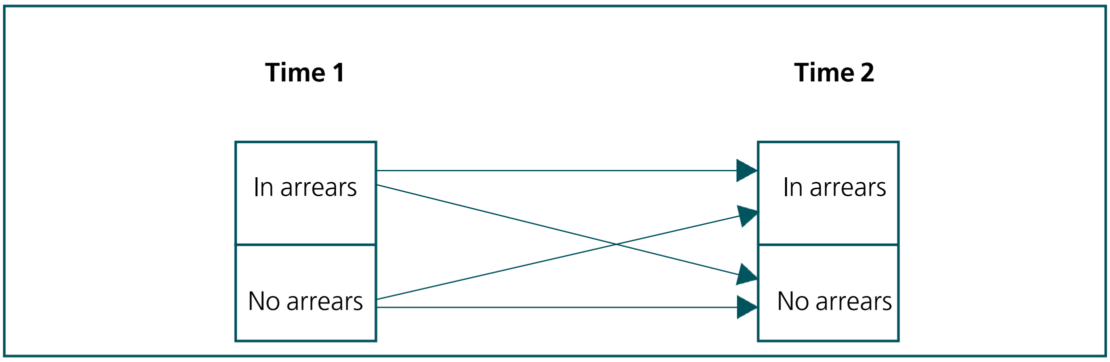
In this section we take a slightly different perspective, and instead consider the changes taking place year on year for individual families. We also explore the extent to which different events lead families into and out of arrears.

7.2 Life events and moving into and out of arrears

We noted, in Chapter 5, that the incidence of arrears among families appears to be falling and especially so in lone-parent families. This could reflect a lower rate of recruitment to arrears status, or to more families getting out of arrears, or both. To understand overall rates of arrears, and how they change over time, it is important to track the inflows and outflows.

Each year some families will clear any arrears they have, whilst other families will fall into arrears. So, the number of families in arrears at any point in time is composed of a mix of families moving into arrears, and those remaining in arrears. This is illustrated in Figure 7.1.

Figure 7.1 Moving in and out of arrears (schematic view)



Movements into and out of arrears were relatively frequent, even among the lower-income families first interviewed in 1999. Overall, around one in three (34 per cent) families with arrears ceased to have them in the following year. Conversely, one in four (26 per cent) of those with no arrears had acquired them in the following year (Table 7.1).

Results for other transitions into and out of arrears of on different types of commitment are shown in Table 7.1. This shows that, on the whole, arrears on household bills were a good deal more persistent than those on credit commitments or housing costs.

So, 40 per cent of families with arrears on household bills managed to escape them the following year, compared with 55 per cent of those with credit arrears and 61 per cent of families with rent or mortgage arrears.

Conversely, 17 per cent of families without credit arrears had acquired them a year later, compared with 13 per cent of those not in arrears on their household bills. The figure for housing arrears was lower still, at six per cent.

The results broken down by year suggest a particularly successful phase of families leaving arrears during 2000-2001. Compared with the other three years of FACS, it had both the highest rates of clearing arrears, and among the lowest rates of people moving into arrears. The reasons for this are four-fold. First Income Support rates were increased in real terms; secondly the more generous Working Families' Tax Credit replaced Family Credit. Thirdly, there was an increase of more than 10 per cent in the level of the national minimum wage. The fourth explanation is a more technical one – the fieldwork gap for the FACS survey was slightly longer in this year, and this was associated with a higher than average increase in income (McKay 2003). The period 2001-2002 (among the 1999 low-income families) was not quite so successful in terms of reducing the rate of being in arrears.

Table 7.1 Rate of movement in and out of arrears each year (low-income families)

Cell percentages

	1999-2000	2000-2001	2001-2002	Annual average
Enter arrears	35	18	22	26
Leave arrears	27	40	34	34
Start having arrears on bills	16	11	12	13
Stop having arrears on bills	37	42	40	40
Enter credit arrears	26	11	13	17
Leave credit arrears	58	58	49	55
Move into housing arrears	7	6	4	6
Leave housing arrears	59	65	60	61

FACS low-income families from 1999.

7.2.1 Moving into and out of Income Support receipt

The effect of moving into and out of receiving Income Support are shown in Table 7.2. Families moving into receipt of IS (generally from a low income) had higher than average rates of acquiring arrears (33 per cent fell into arrears with one or more of their commitments). Compared with those who continued not to claim IS, they had a very much higher risk of arrears on household bills, but a slightly lower level of arrears on consumer credit. This is almost certainly related to the fact that they already had low incomes even before they started to receive IS. As might be expected, families who started to receive IS also had low rates of clearing arrears (29 per cent).

More unexpected is the fact that 79 per cent of families entering Income Support with housing arrears managed to clear them – far higher than for other transitions involving no drop (or even an increase) in income. The explanation is likely to be connected to the system of Housing Benefit. Many families who move on to IS, and often have their HB reassessed some time later, report getting into arrears with their rent. A return to claiming HB may be one way in which those arrears are then brought under control.

Those leaving Income Support had some limited success in clearing arrears. Overall, three in ten (31 per cent) families who had been in arrears became clear of arrears, with 37 per cent clearing arrears on household bills and 65 per cent repaying credit arrears. However, in moving off Income Support a sizeable minority (17 per cent) actually gained housing arrears the following year. This could be linked to moving from a spell on Housing Benefit, to one where families are responsible for meeting their housing costs, whether in full or partially. This has been identified before as an issue for families moving into paid work after a spell out of work. It is also a time when technical arrears occur through errors in Housing Benefit calculations or failure to notify changes in circumstance.

Table 7.2 Rate of movement in and out of arrears each year, by receipt of Income Support (average across 1999-2002)

Cell percentages

	IS - IS	IS - leave	Not IS - IS	Not IS - not IS
Enter arrears	28	28	33	24
Leave arrears	29	31	29	37
Start having arrears on bills	23	19	26	9
Stop having arrears on bills	34	37	35	45
Enter credit arrears	13	15	17	20
Leave credit arrears	62	65	57	51
Move into housing arrears	4	17	7	5
Leave housing arrears	60	56	79	59

FACS low-income families from 1999.

7.2.2 Changes in work status

In Table 7.3 we show the effects of lone parents changing work status, across the 16 hours divide.[6] Moves out of employment for 16 or more hours in work resulted in 37 per cent of lone parents who had been up to date with household commitments falling into arrears. In this case, though, rather more ended up with credit arrears (30 per cent) than fell behind with household bills (20 per cent).

Moving into work of 16 or more hours a week did not improve the chances of a lone parent leaving arrears, compared with others who continued not to work for this number of hours. Moreover, a sizeable minority (31 per cent) actually fell into arrears. Most notable was the high proportion who fell into housing arrears (18 per cent). Again, this is likely to be associated with changes in Housing Benefit entitlement.

[6] We drop those lone parents becoming couples in the course of the year and hence couples when next interviewed.

Table 7.3 Rate of movement in and out of arrears each year, among lone parents by work status (average across 1999-2002)

Cell percentages

	Lone parent not working, to working 16+ hours	Lone parent not working, to not working	Lone parent working 16+ hours, to not working	Lone parent working 16+ hours in both waves
Enter arrears	31	30	37	24
Leave arrears	29	29	23	33
Start having arrears on bills	16	24	20	10
Stop having arrears on bills	36	34	31	42
Enter credit arrears	16	14	30	20
Leave credit arrears	66	62	44	47
Move into housing arrears	18	5	6	6
Leave housing arrears	56	61	73	53

FACS low-income families from 1999.

Interestingly, as with moves on to IS, many of those stopping work appeared to clear their housing arrears. Among lone parents ceasing to work 16 or more hours a week, 73 per cent cleared their housing arrears (Table 7.3).

7.2.3 Changes in family size

Another set of changes that might be expected to affect arrears is family size. Having more children has been linked to financial difficulty and moving into arrears. For lone parents, the association between changes in family size (number of children) and arrears is shown in Table 7.4.

Overall, those with the same number of children wave-to-wave were the least likely to move into arrears (27 per cent did), and the most likely to leave arrears. Those whose families grew smaller were slightly more likely to start having arrears (30 per cent). Those having at least one additional child by the following wave were, however, the most likely to take on arrears (36 per cent), and the least likely to get out of arrears.

The main reason why larger families were more likely to be in arrears was because they had fallen behind with household bills. Differences relating to changes in the use of credit and housing payments were rather less significant.

Table 7.4 Rate of movement in and out of arrears each year, by changes in family size among lone parents (average across 1999-2002)

Cell percentages

	Arrears between 1999 and 2002		
	Larger family	**Constant family size**	**Smaller family**
Enter arrears	36	27	30
Leave arrears	25	31	30
Start having arrears on bills	27	16	21
Stop having arrears on bills	33	36	33
Enter credit arrears	16	18	12
Leave credit arrears	57	56	54
Move into housing arrears	7	7	8
Leave housing arrears	59	58	65

FACS lone parent families from 1999.

7.2.4 Re-partnering

When lone parents re-partner, we would generally expect an increase in their levels of income and living standards. However, such a move might initially also be associated with changes in responsibilities for meeting various commitments and rearranging family finances.

Table 7.5 Rate of movement in and out of arrears each year, by re-partnering among lone parents (average across 1999-2002)

Cell percentages

	Lone parent to couple	**Lone parent to lone parent**
Enter arrears	35	28
Leave arrears	34	30
Start having arrears on bills	18	17
Stop having arrears on bills	35	36
Enter credit arrears	17	17
Leave credit arrears	55	56
Move into housing arrears	13	6
Leave housing arrears	68	59

FACS lone parent families from 1999.

In fact, lone parents who became couples (compared to those who remained lone parents) were both more likely to move out of arrears (for those in arrears); and more likely to take on arrears (for those not in arrears). These differences were largely accounted for by changes in housing arrears. There were few differences between these two groups of lone parents in terms of credit arrears or failing to pay bills on time, but quite some differences in patterns of meeting housing commitments. Lone parents who became couples were more than twice as likely as continuing lone parents to encounter housing arrears (for those without any housing arrears). Some 13 per cent of lone parents without housing arrears who gained a new partner, had such arrears by the following year. This suggests that some changes of financial management within the household are likely to be involved in generating such arrears. It is also possible that a move off Housing Benefit (and/or Income Support) following the change in partnership status is related to such arrears.

7.3 Different groups

Some groups of families were more likely to be entering or leaving arrears each year than others. In particular, we look at the influence of housing tenure, subjective assessments of standard of living and ownership of savings accounts.

7.3.1 Housing tenure

In Chapter 3, we noted that housing tenure was highly significant in regression analysis of arrears among families. In fact, tenants had a higher rate of entering arrears than home owners (30 per cent compared with 23 per cent) but it was the rate of entering housing arrears that was most notable. The annual rate of entering rent arrears was as high as ten per cent among low-income families who were social tenants, but only two per cent of low-income home owners fell into mortgage arrears (Table 7.6). There was, however, relatively little difference in tenants' and owners' rates of escaping from those arrears.

This seems to reflect a much lower rate of home owners having such mortgage arrears in the first place, since those with arrears were no more likely to be paying them off than were tenants with rent arrears. Looking more widely at all different types of arrears, owner-occupiers were both less likely to fall into arrears, and more likely to be settling such arrears when they did.

Table 7.6 Rate of movement in and out of arrears each year, among lone parents by work status (average across 1999-2002)

Cell percentages

	Outright owner	Mortgage	Social tenant	Private tenant
Enter arrears	18	23	30	28
Leave arrears	58	41	30	32
Move into housing arrears	..	2	10	5
Leave housing arrears	..	59	62	57

FACS low-income families from 1999.

7.3.2 Subjective well-being

Families' own assessment of their standard of living matched quite closely their situation in relation to arrears. Among those who said they never ran out of money, close to half (48 per cent) of those in arrears one year had paid them off by the next. This compared with 27 per cent among those who always ran out of money, or did so most of the time. Conversely, those running out of money were the most likely to be entering repayment arrears, and those managing to make ends meet the least likely to do so. It seems that being in arrears provides an important component or cause of how families judged their financial situation.

7.3.3 Savings accounts

Where families with children had one or more savings accounts (not simply current accounts), they were both less likely to take on arrears, and more likely to clear any arrears that they did have. Multivariate analysis of being arrears, at a point in time, indicated a very strong protective effect of having accumulated savings (see Section 3.4.3). Even after controlling for differences in income and work status, having savings was associated with much lower rates of arrears.

8 The effects of being in arrears: work and relationships

8.1 Introduction

So far, this report has focused on the characteristics associated with being in financial difficulty or which predispose families to falling into arrears. In this section the focus changes to looking at the influence of arrears on other aspects of people's lives, such as people's engagement with work and their family relationships. The question addressed is whether being in arrears of various kinds has implications for the likelihood of families returning to work, or changing their partnership status.

The FACS dataset is well-suited to analysis of this kind. The sample was designed to be representative of non-working families at each wave. So we have the potential to use all four waves of the dataset without problems of it being unrepresentative, at least when looking at movement into paid work. There is lesser facility for looking at those leaving paid work, since only two FACS datasets (for 2001 and 2002) contain representative samples of those in paid work.

8.2 Links between arrears and moves into work: previous research

The transition to work is linked to arrears in a number of ways, including: the effects of existing arrears as people move into work; fears about getting into financial difficulties following the transition to work; and arrears that result from that transition. In this section we explore some of the previous studies that have investigated this area.

8.2.1 The impact of being in arrears

There is some evidence that actually being in arrears had an impact on people's decision-making and circumstances when they made the transition into work. But this was much less widespread than people's fears of financial difficulty – discussed below.

While they are out of work, many people who face financial difficulties are able to negotiate some form of forbearance with their creditors. This is especially common with mortgage and consumer credit lenders who will often accept reduced payments while someone is out of work. Some creditors will also allow this to run on for a short while during the transition to work; others expect payment in full, plus an agreed amount towards any arrears as soon as someone returns to work. Qualitative research has found that that people whose creditors required an immediate increase in the amount they were paying often got into financial difficulties when they moved into work. Not unexpectedly, the fear of this happening caused them to increase their reservation wages and face the transition to work with some trepidation (Ford *et al.*, 1995; Harries and Woodfield, 2002).

8.2.2 The impact of fears of financial difficulty

It is clear from qualitative research that *fears* about getting into difficulty are quite common when people face the transition into work from a spell of claiming benefits (Farrell and O'Connor, 2003; Ford *et al.*, 1995; Harries and Woodfield, 2002). Such fears were most prevalent among people who tended to exercise tight control over their spending to avoid falling behind with bills or needing to borrow (Ford *et al.*, 1995; Harries and Woodfield, 2002).

Their concerns stemmed from a number of factors. First, many were uncertain about how much additional help they would receive in the form of in-work benefits and tax credits (Ford *et al.*, 1995; Harries and Woodfield, 2002). Linked to this was a worry that when they moved into work they would need to assume responsibility for additional bills which were being met in full while they were claiming benefits, either by the state (rent and Council Tax) or payment protection insurance (mortgages and consumer credit). In addition, some people felt trepidation about moving from a weekly to a monthly budget (Harries and Woodfield, 2002).

As a consequence, people who were very careful money managers tended to set higher reservation wages than those who had a more relaxed approach, juggling bills and 'robbing Peter to pay Paul' (Ford *et al.*, 1995).

8.2.3 Arrears resulting from a move into work

Qualitative research has also shown that arrears can often occur following the transition to work. This seemed to happen most often among people who juggled bills and 'robbed Peter to pay Paul'. Often they had set much lower 'reservation wages' than the careful money managers and, consequently, were prepared to take jobs that meant that they were little better off in work than claiming benefits (Farrell and O'Connor, 2003; Ford *et al.*, 1995; Harries and Woodfield, 2002).

Their difficulties occurred in four distinct ways (Farrell and O'Connor, 2003; Harries and Woodfield, 2002):

- Some people failed to keep up with existing commitments during the transition to work, especially if they were financially worse off in work.
- Some fell behind with commitments that had previously been covered by benefit or payment protection insurance payments.
- Some borrowed or borrowed more over the transition. Credit card balances and overdrafts tended to increase during the transition to work – especially among older people and families with children. This frequently led them into financial difficulties.
- As noted above, some got into difficulty because creditors who had been exercising forbearance wanted an increase in repayments.

8.3 Labour market participation

Concerns have sometimes been expressed that being in arrears acts as a disincentive to return to paid work, and in Section 8.2 we found qualitative evidence to that effect. One part of the argument is that some creditors will allow a period of forbearance when people lose their jobs, which is lost when people move back into work. Conversely, some creditors may not be quite so patient, and those keen to clear arrears could be more likely to want to increase their overall income. So it is possible that the rate of return to paid work could either increase or decrease among people with arrears.

The rate at which people move back into paid work is associated with a range of different characteristics. Kasparova *et al.*, (2003) have analysed transitions into paid work during FACS 1999-2001. They identified a number of key factors, including housing tenure, education level, access to a car and receipt of child support.

This earlier report looked at the role of 'problem debts' in affecting people's movements into paid work. Their analysis was based on those who had arrears in 1999, and the outcome studied was movement into paid work at 2001. Having arrears in 1999 reduced the chances of lone parents moving into work, but increased the proportion of couples with children who took paid work.

8.3.1 Moving into work of at least 16 hours a week

Across the FACS series from 1999 to 2002, each year, on average, close to one family in five (19 per cent) moved into paid work of 16+ hours, having not been working in the previous year (Table 7.1). The average rate of return to paid work each year was higher for couples (22 per cent) than for lone parents (18 per cent). More families with children moved into paid work (of 16 or more hours) during 2000-2001 than in the other years, reflecting a much higher rate of transition into paid work among lone parents over this time-frame. This higher rate of movement is to be expected, given the longer gap between survey waves for this particular period

Table 8.1 Rate of movement into paid work of 16+ hours each year

Cell percentages

	1999-2000	2000-2001	2001-2002	All possible transitions
Lone parents	15	22	17	18
Couples	24	22	20	22
All families with children	17	22	17	19
Unweighted bases				
(those not in work of 16+ hours)				
Lone parents	*1188*	*1121*	*1082*	*3391*
Couples	*375*	*328*	*319*	*1022*
All families with children	*1563*	*1449*	*1401*	*4413*

Lone parents accounted for over three-quarters of the families not in paid work. Aggregating all the potential transitions, there was no evidence that having arrears of any kind affected the rate at which lone parents moved into paid work (Table 8.2).

Among couples, those with any arrears were slightly more likely to move into paid work than those without (Table 8.2). However, this result is almost entirely based on transitions into work during 1999-2000, when those with arrears were much more likely to take jobs (31 per cent) than those without (18 per cent). This feature could explain some of the results of earlier analysis, already cited. In the later FACS years, 2000 onwards, having arrears did not appear to affect couples' rates of transitions into paid work. There was also a slight difference in rates of returning to work among lone mothers during 1999-2000, except that having arrears tended to reduce this process rather than increase it.

This provides somewhat equivocal evidence, in other words, that arrears may affect movement into paid work. It also highlights that some existing analysis finding differences in rates of movement into work among FACS respondents may apply to a restricted range of years.

Table 8.2 Rate of movement into paid work of 16+ hours each year, by whether has any arrears

Cell percentages

	1999-2000	2000-2001	2001-2002	All possible transitions
Lone parents – any arrears	14	22	17	18
Lone parents – no arrears	16	22	17	18
Couples – any arrears	31	23	19	25
Couples – no arrears	18	22	20	20
All families – any arrears	18	22	17	19
All families – no arrears	17	22	18	19
Unweighted bases				
(those not in work of 16+ hours)				
Lone parents – any arrears	*628*	*602*	*521*	*1751*
Lone parents – no arrears	*557*	*490*	*493*	*1540*
Couples – any arrears	*172*	*161*	*116*	*449*
Couples – no arrears	*203*	*147*	*166*	*516*
All families – any arrears	*800*	*763*	*637*	*2200*
All families – no arrears	*760*	*637*	*659*	*2056*

The associations between moving into paid work and the *type* of arrears may be compared, for lone parents and couples. Graphical versions are shown in Figure 8.1 (lone parents) and Figure 8.2 (couples with dependent children). The above analysis showed little or no difference among lone parents of arrears on returning to work, and a positive effect for couples that is dominated by transitions during 1999-2000.

The graphs indicate whether particular arrears are more or less likely to be associated with movement into paid work. Small differences may, of course, purely be a result of sampling error and due to chance. Moreover, some of the types of arrears shown were not particularly common, though we have dropped results based on the smallest groups (e.g. arrears on other fuels or on insurance). A further caveat is that we are only looking at whether people had particular arrears, without looking at differences in other characteristics. However, those with particular types of arrears may have a range of different characteristics that also affect their chances of moving into paid work. To take an obvious example, by definition those with rent arrears are tenants and those with mortgage arrears are home-owners. It is well established that housing tenure has a strong association with moving into paid work (the rate is slower for social tenants and higher for owner occupiers).

Figure 8.1 Proportions with various types of arrears moving into paid work each year, lone parents

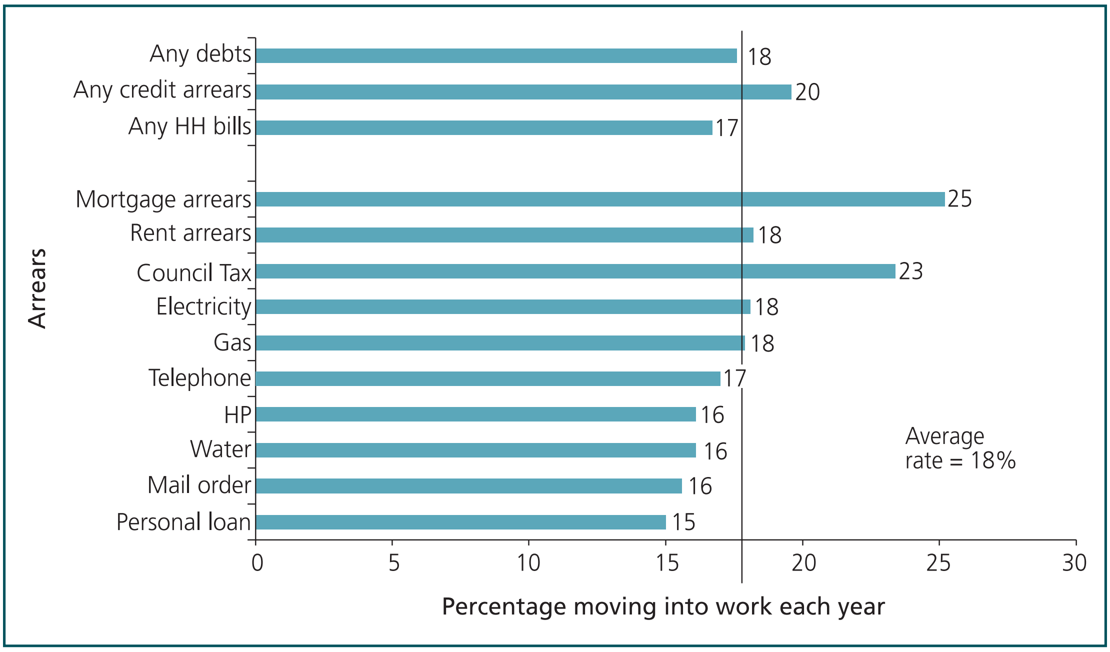
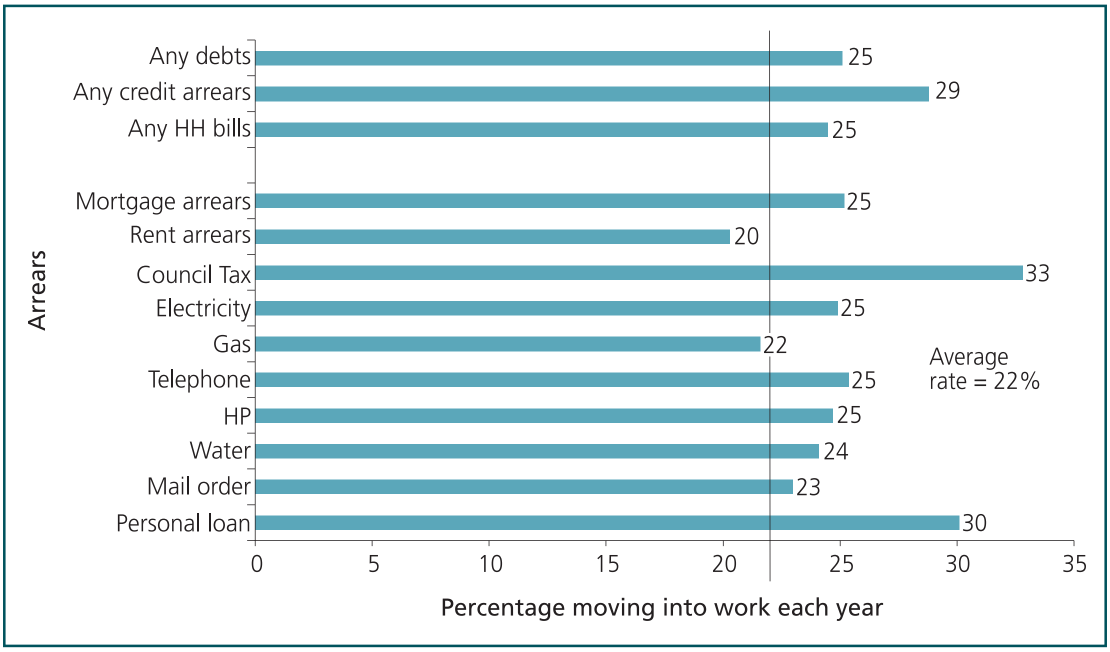


Figure 8.2 Proportions with various types of arrears moving into paid work each year, couples



We should also put the sizes of difference into some kind of perspective. The effect of having a particular kind of arrears may be to decrease (or increase) the rate of moving into work by, say, five percentage points. By comparison, those with a health problem had around a seven percentage point difference from those without health problems; those in rural areas were eight percentage points more likely to move into work than those not; and owner-occupiers moved into paid work each year at around a 15 percentage point advantage over social tenants. So the size of any differences that appear related to having arrears is not overwhelming.

Among lone parents, the rate of returning to work was a bit higher than average among those with mortgage arrears, and also with arrears on their Council Tax. Those with arrears on mail order catalogues, hire purchase, water bills and personal loans had perhaps slightly lower rates of returning to work – though the differences are not particularly great.

Couples with dependent children were more likely to return to work in the presence of arrears. Overall, 25 per cent of those with any arrears moved from non-work (or work of 1-15 hours) to working 16+ hours. The rate of returning to work was higher than this among those with Council Tax arrears, as was true for lone parents. There may be slightly higher rates of moving into work among those with credit arrears, too, including personal loans, credit cards and store cards. Those couples behind in paying for rent and their gas bills were the least likely to be returning to work, compared to those with other forms of arrears.

To some extent these relationships may be signalling other differences between families, not just the fact of having problems meeting bills or loan repayments. The results for those with mortgage and rent arrears are probably reflecting differences in the characteristics of families in these tenures, not differences in the ability to meet housing payments. However, it is possible that differences in the system of support for different tenures makes a difference. Tenants may receive Housing Benefit, but owner-occupiers not in paid work typically will not receive support (and, if they do, not for some time).

It is difficult to explain why families with Council Tax arrears appeared to be more likely to move into paid work. This is one of the more common types of arrears, and one which may arise from time-lags in local assessments of Council Tax Benefit entitlement. In common with rent, some non-working families will be receiving maximum rebates. Therefore, any arrears could be due to administrative problems, arrears that pre-date the period out of work, or non-claiming. These kinds of links to rent and Council Tax arrears may be more important than the fact of being in arrears, itself. Alternatively, differences in the enforcement policies of different councils could lead to higher levels of arrears in different arrears.

In Table 8.3 we show the rate of movement into work by the types of arrears families had. The fastest rate of return to work was among those with arrears on credit only (e.g. loans, credit cards). Those facing arrears on their household/utility bills tended to have somewhat lower rates of movement into paid work of 16+ hours than those behind on credit repayments, which is a more disadvantaged group overall. There was no particular evidence that having arrears in more than one type of commitment affected the rate of return to work. Similarly, for those with outstanding household bills the number of bills was not associated in any clear manner with any differences in rates of returning to work.

Table 8.3 Rate of movement into work by type of arrears, if any

Cell percentages

	Lone parents	Couples
Type of arrears		
None	18	20
Credit only	24	30
Bills only	16	24
Housing only	19	[20]
Bills and credit	16	28
Housing and bills	19	[20]
Housing and credit	[16]	[24]
Housing, bills and credit	24	[27]
All	18	22

Source: FACS1-4.

8.3.2 Leaving paid work

If there is a relationship between work transitions and arrears, this could operate through affecting families' propensities to leave paid work. If better terms and/or conditions are anticipated when out of work, or if arrears are proving stressful, there could be a link between arrears and stopping paid work. Conversely, the existence of arrears could make some families keen to remain in paid work at all costs, to assist in repaying the money they owe.

Whilst FACS contains a sample of non-working families in each year 1999-2002, the sample of workers is only nationally representative for the last two of these years. During 1999 and 2000, couples with children were only included if they were receiving a low income. So, we can only use the data to look at leaving work during 2001-2002 if we want to analyse all families (or couples specifically). It is possible to look just at lone parents for the longer time span, as lone parents of all income levels were included by FACS in all four waves.

The rate of leaving paid work (of 16+ hours a week) was around eight per cent a year for lone parents during 1999-2002 (Table 8.4). Among couples with children, it was three per cent in 2001-02, the only period for which we have reliable data on all couples. For 2001-2002, some four per cent of families with children who had paid jobs in 2001 were no longer in paid work by 2002.

Table 8.4 Rate of leaving paid work of 16+ hours each year

Cell percentages

	1999-2000	2000-2001	2001-2002	All possible transitions
Lone parents	9	7	7	8
Couples	..	..	3	..
All families with children	..	..	4	..
Unweighted bases				
(those not in work of 16+ hours)				
Lone parents	*721*	*727*	*839*	*2287*
Couples	..	..	*4290*	..
All families with children	..	..	*5129*	..

.. Means not available.

There is a relatively small number of transitions to study. Families moved from work, to not working (or working only 1-15 hours) on 303 occasions, with almost two in three of these transitions taking place during 2001-02 when we have data on all families. This relatively small group of transitions, compared with those remaining in work, limits our ability to explore the links with other characteristics. To maximise comparability of the results we restrict attention to 2001-2002, from where the starting point is a representative sample of those working 16 or more hours each week.

Results for families with any arrears, and with arrears of different kinds, are shown in Table 8.5. Those with any arrears were more likely to leave paid work between 2001 and 2002 than those without. Some four per cent of families left work over this period, numbering seven per cent among those with any arrears and three per cent for those without arrears.

There appeared to be little or no difference for those with arrears on credit commitments, such as personal loans or credit cards. The greatest effects were from having arrears on a range of household utility bills, or on rent. The latter result may, however, be reflecting a generally higher rate of exit among tenants than owner occupiers more generally.

Table 8.5 Rate of leaving paid work of 16+ hours during 2001-2002

Cell percentages

	Lone parents	Couples	All families with children
All	7	3	4
Whether family has arrears			
Any	10	6	7
None	5	2	3
Families with arrears of various kinds			
Behind with household bills	13	12	12
Arrears on credit	6	4	4
Rent arrears	15	16	15
Unweighted bases			
(those working 16+ hours in 2001)			
All	*839*	*4290*	*5129*
Any arrears	*333*	*1047*	*1380*
No arrears	*506*	*3243*	*3749*
Families with arrears of various kinds			
Behind with household bills	*198*	*343*	*541*
Arrears on credit	*197*	*815*	*1012*
Rent arrears	*91*	*103*	*194*

Note: 'leaving paid work' means that one or both adults were working 16+ hours in 2001, but no-one was working 16+ hours in 2002.

There were surprisingly strong links between being in arrears and leaving paid work. Among families with children, those parents with arrears were about twice as likely to have stopped work within the year, as those up to date with all their commitments. Some of this link is likely to be operating because arrears are acting as an indicator of something else, such as deprivation, or perhaps stress generally, that is associated with leaving paid work. This is made clearer by the strong link between leaving paid work and rent arrears, and the lack of a link between credit arrears and stopping work. This tends to suggest that arrears may not actually be the specific causal factor, but instead indicative of wider financial problems confronting the family. Indeed, since arrears are strongly associated with low income, those in paid work would generally be more likely to be meeting their repayments and other commitments.

8.4 Partnerships

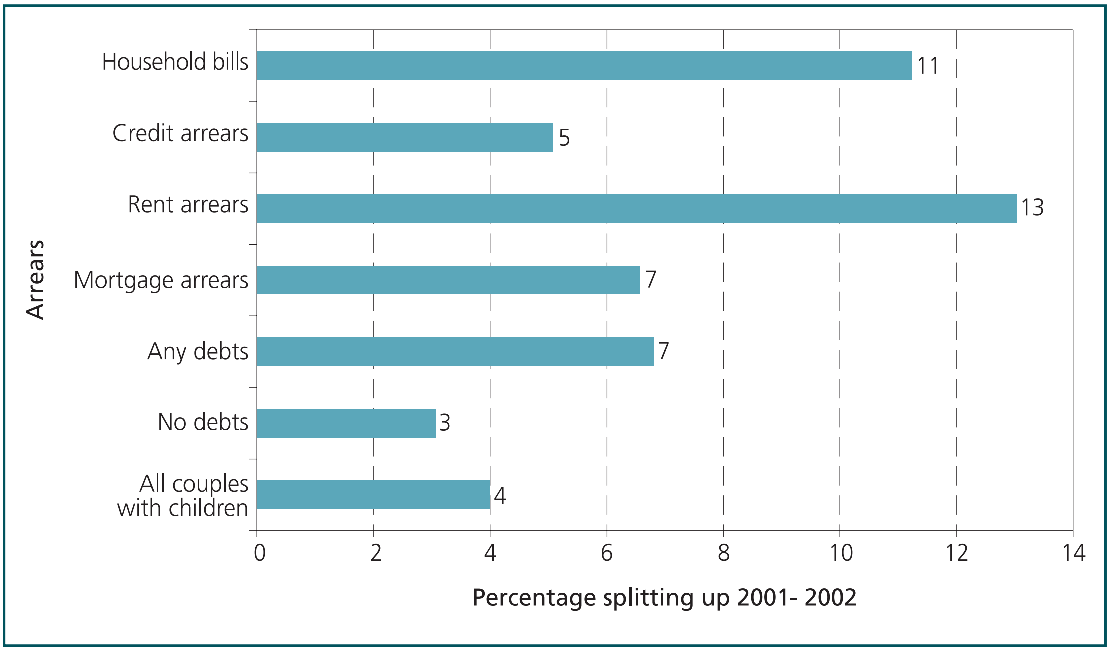
Each year, some lone parents become couples, and some couples break up to create lone-parent families. There are various characteristics that make this more likely, though the effects of observed factors tends to be fairly weak (Marsh and Perry 2003). Among the stronger links, younger lone parents are more likely to re-partner than older lone parents, and cohabiting couples more likely to split up than married couples.

With this background, we should not expect to find strong links between arrears status and changes of partnership status. On the other hand, breaking up is, in general, related to stressful events such as unemployment. Some people acquire arrears following relationship breakdown, indeed perhaps as a consequence of the breakdown. A detailed study of the sequence of events showed that 50 per cent of mortgage arrears pre-date the split (i.e. may contribute to it) when 50 per cent occur later (and may, therefore, be a consequence of the separation) (Ford and Kempson 1995).

Again, the rate of break-up among couples is best studied for 2001-2002, since earlier years only include low-income couples. During this time, four per cent of couples became lone parents. This rate of break-up was higher than average for those with arrears of various kinds. Seven per cent of couples with arrears of any kind in 2001 became lone parents in 2002 compared with three per cent of those up to date with all their commitments.

The association between couples splitting up, and various kinds of arrears, is shown in Figure 8.3. Where couples with children had any arrears, they were more likely to separate than for couples in general. The rate of separation was particularly high where families had arrears on housing costs (13 per cent) or were behind in paying for household bills (11 per cent). Conversely, the effect of having credit arrears was relatively small (five per cent)

Figure 8.3 Rates of couples splitting-up during 2001-2002, by whether in arrears and types of arrears



These findings echo those for rates of leaving paid work. Ceasing to be a couple (like stopping work) is most strongly associated with those arrears most indicative of hardship, and least related to arrears on credit cards, personal loans, etc. Again, it is likely that arrears are acting as a good indicator of the more general situation. It would be unwise to assume that the arrears were the direct cause of the separation, though financial problems often are implicated in relationship difficulties (Rowlingson and McKay 2001). Kempson (2002) has analysed some links between relationship breakdown and mortgage arrears in particular.

We may look at a longer time span for the alternate transition, from lone parent to couple. On average, 9.5 per cent of lone parents became couples each year during 1999 and 2002. This was a little higher (10.2 per cent) among those with any kinds of arrears, and a bit lower (8.9 per cent) for those without arrears of any kind. The result appears connected with a higher rate of re-partnering for those with credit arrears, and not those behind on regular bills. This could be reflecting a higher chance of finding a new partner for lone parents who are younger and in paid work.

9 Summary and conclusions

At the beginning of this report we set out a number of questions that the research was designed to address. In this final section we bring together the key findings of the study, structuring them around the questions posed at the outset.

9.1 How many families are in arrears, and what type of arrears are families in?

In the summer of 2002, three in ten families were in financial difficulty, with 22 per cent having fallen into arrears with one or more of their household commitments. Arrears on household bills were more common than missed payments on consumer credit commitments, with arrears on Council Tax, water bills, gas bills and credit cards being the most common of all.

Just about all households had basic household bills to pay, but not everyone had consumer credit commitments. And more families had mortgage repayments to meet than had rent to pay. This will, inevitably, affect the incidence of arrears on different types of commitment. When we looked at the *risk* of arrears (expressed as a proportion of all families with a particular commitment) this was, in fact, between two and three times higher for consumer credit commitments of all kinds than it was for the main household bills. The risk of tenants being in rent arrears was nearly five times that for home-buyers being behind with their mortgage repayments. In part, this is accounted for by the very different income levels of these two groups; but it also reflects the very different priority given to paying rents and mortgages. Rent is often the first commitment that families default on, while mortgages tend to be the last. The Housing Benefit system can also affect rent payment and arrears.

Compared with other types of household, families had a much higher level of arrears on both household bills and consumer credit. However, when we controlled for other factors (such as income, age and work status), having children did not increase the odds of a household being in arrears. This is in contrast to the findings of analysis of a similar data set in 1989, where having children *was* significantly associated with arrears (Berthoud and Kempson, 1992). This change may well reflect Government policies to improve the financial situation of families with children – including increases in levels of child support, assistance with child care costs allowing more mothers to work, and the introduction of tax credits.

9.2 What are the characteristics of families in arrears?

The incidence of any arrears was highest among young families aged under 30 and fell steeply with age. The level of consumer credit arrears, however, was particularly high among families in their twenties and fell sharply among those aged 30 or over. Arrears on household bills tended to decline steadily with age.

Levels of arrears, including arrears on both household bills and on credit commitments, were higher among lone parents than they were in two-parent families. Larger families were more likely to experience arrears than smaller families. Mostly, this was because they had lower incomes, though for the poorest families having more children was associated with a higher rate of arrears as well.

Arrears were commonest among the poorest families, with gross incomes under £15,000 a year, and then fell with increasing income. The incidence of arrears on household bills broadly matched this general pattern; it was highest among poor families and then fell steadily with rising income. Consumer credit arrears, on the other hand, only fell among families with a gross annual income of £35,000 or more. The risk among those with modest incomes (£25,000 to £35,000 a year) was just as high as it was in poorer families.

As we shall see later, drops in income were strongly associated with being in arrears. Consequently, the incidence of arrears was higher among families where the head of household was not working at all or only working part-time, than it was in families with a full-time wage earner.

The level of arrears was higher among tenants than among families buying a home on a mortgage and was strongly associated with local area deprivation. It was, however, rather difficult to discern any patterns by geographical region.

Interestingly, regression analysis showed that only income drops, housing tenure and credit commitments had statistically significant effects on levels of arrears among families, when all other factors were held constant. We discuss this further in Section 9.6, below.

9.2.1 How do arrears relate to hardship?

Families in arrears also tended to be in hardship, and relatively few of those avoiding hardship were in arrears (Section 2.4). Arrears provide an important indication of the depth of poverty and hardship. Even among those families experiencing hardship, those with arrears tended to have both lower incomes and a more negative impression of their financial situation, than those not in arrears.

9.3 How do arrears levels relate to credit use, access to financial services/banks and support from family and friends?

The level of arrears increased greatly with the use of consumer credit. So the more credit commitments a family had and the greater the proportion of their income they spent on credit repayments, the more likely they were to be in arrears. Clearly credit use put a strain on the household budget as it was associated with a higher level of arrears on household bills as well as a steep rise in the level of default on consumer credit repayments. In fact, as we discuss in Section 9.7, regression analysis, which controlled for other key factors, showed that credit use was one of the main factors associated with arrears.

Families who lacked a current account (a commonly accepted indicator of financial exclusion) were a good deal more likely to be in arrears than those who had one. This effect was, however, limited to household bills. Moreover, when other key factors (such as income and income drops) were taken into effect, lacking a bank account had no significant effect on the risk of arrears.

It might be expected that families who receive financial assistance from their relatives would be in a better position to avoid arrears. In fact, the reverse was true. Families who were in arrears were more likely to have received financial help (especially loans) than those who had avoided getting into arrears. In other words, relatives more commonly help out after arrears have accrued rather than to stave them off. This is consistent with a wide body of research showing that people are often reluctant to discuss their financial problems with close relatives until they have become quite serious.

9.4 How much is owed by families in arrears and how does this relate to income?

The average (median) amount owed by families in arrears was £300, although the quarter of families who owed the largest amounts had accumulated £740 in arrears. There was little difference in the amounts owed by lone parents and two-parent families; the amounts owing on arrears were slightly greater among lower-income families than among those who were better-off. Consequently, the burden of repaying arrears will be greatest in lower-income families, for whom they represent a much higher proportion of regular income.

In general, levels of arrears on consumer credit commitments tended to be higher than those on household bills. This finding should, however, be treated with some caution as the number of families with arrears on individual types of credit was relatively small and some respondents may have given the outstanding amount on credit commitments rather than just the amount owed in arrears.

9.5 What are the changes in levels of arrears over time?

Overall, the incidence of arrears among families seems to be falling. This reduction was most marked for lone parents, among whom there was a steady decline (from 48 per cent to 35 per cent) in the four years since 1999. The proportion of lone parents worrying about arrears 'almost all the time' similarly decreased over this period – from 15 per cent to 10 per cent between 1999 and 2001, but with a small increase to 12 per cent in 2002.

The incidence of arrears also fell, both among families receiving Income Support and among two-parent families with no wage earner – but to a much smaller extent. Over the four year period from 1999 to 2002, the proportion of families on Income Support who were in arrears fell by seven percentage points to 48 per cent; while two-parent families with no wage earners experienced a nine percentage point drop to 39 per cent. Among workless two-parent families the fall was especially marked in 2000/2001.

Notwithstanding these decreases, there are signs that the improvement in the arrears situation among these two groups of low-income families is not being sustained. In contrast to lone parents, the level of arrears remained static in 2001 and 2002 both among families on Income Support and among workless two-parent families. Moreover, the proportion of people in this group worrying about arrears 'almost all the time' actually increased by five percentage points between these two years.

9.5.1 Changes in individual families' levels of arrears over time

In addition to this aggregate picture, we also looked at the changes in patterns of arrears of individual families. This showed that fewer than three in ten lone parents and low-income two-parent families had managed to avoid arrears altogether during the four years from 1999 to 2002. The majority had been in arrears with either household bills or consumer credit repayments at some point over this four-year period and a large minority (about a third) had been in fairly continuous arrears – that is for three or four years.

Families that were most likely to have been in fairly continuous arrears were headed by a lone parent in 1999, had three or more children and had children aged under five. They were drawn disproportionately from families receiving Income Support at that time and especially from lone parents not working 16 or more hours a week. Social tenants were also greatly over-represented.

Those most likely to have avoided arrears altogether were two-parent families in 1999 where at least one of the partners worked 16 or more hours a week. They were also disproportionately drawn from smaller families (with only one or two children), home owners and people with higher levels of education.

So, looking at the extremes, 43 per cent of lone parents who were not working 16 or more hours in 1999 had been in continuous arrears; only 20 per cent had remained arrears-free. Among couples where both partners worked for 16 or more hours these percentages were reversed: 38 per cent had remained arrears-free; just 23 per cent had been in continuous arrears.

Further analysis showed that movements into and out of arrears were relatively frequent. Overall, around a third of families with arrears had cleared them one year later. Conversely, a quarter of those with no arrears had fallen behind with payments on either household bills or credit commitments the following year. The results for individual years show that there was a particularly successful phase of families leaving and avoiding arrears during 2000 to 2001. This may well indicate that key policy developments, designed to increase the incomes of the poorest families, had an impact on levels of arrears. These include increases in Income Support rates, in the level of the national minimum wage and in in-work support for families with children, through the introduction of the Working Families' Tax Credit.

Despite large increases in borrowing in recent years, there was no apparent increase in the proportion of low-income families falling into arrears with consumer credit year-on-year.

While rates of entry to arrears on household bills were similar to those for consumer credit arrears, rates of exit were a great deal lower – suggesting that arrears on household bills are a good deal more persistent.

9.6 How do families' circumstances, and changes in circumstances, affect the levels of arrears ?

Many families attributed their arrears to changes in circumstances – especially to those resulting in a fall in income. The relationship between arrears and key changes in circumstances was, therefore, investigated in some detail.

9.6.1 Income drops

Regression analysis showed that a drop in income was one of three significant factors determining arrears among families with children – the others were household tenure and number of credit commitments. This was explored further through longitudinal analysis of the arrears and other circumstances of individual families. As we note above, a third of families with arrears one year had cleared them the next. While a quarter of those who had been arrears-free had fallen into arrears by the following year.

Families moving into receipt of Income Support (albeit usually from a low income) had higher rates of falling into arrears in the following year than did those who continued not to receive Income Support. As might be expected, they also had low rates of clearing arrears.

Similar effects were noted for changes in work status among lone parents. In the year after ceasing to work 16 or more hours a week, lone parents had much higher rates of entry to arrears than those who continued to work, and far lower rates of clearing arrears.

This general pattern held true for arrears on household bills and also for consumer credit arrears among lone parents ceasing to work 16 or more hours a week. However, a rather different pattern emerged for receipt of Income Support in relation to credit commitments. Families starting to receive Income Support one year were slightly less likely to fall into arrears with credit commitments than their counterparts who did not claim Income Support and those already in arrears were marginally more likely to clear them. This effect is hard to explain but is almost certainly linked to the fact that they were already on low incomes even before they started to receive Income Support.

More surprising is the fact that nearly eight in ten low-income families with housing cost (mostly rent) arrears who started to receive Income Support, and a similar number of lone parents leaving work of 16 or more hours, subsequently cleared these arrears. It could be that a return to receiving full Housing Benefit helped them to bring these under control. It might equally be that they under-reported their 'historic' arrears if these were being collected by rent direct and their current rent was being met in full.

9.6.2 Income rises

Regression analysis showed that income rises were not significantly correlated with arrears. Again we explored this in greater detail through longitudinal analysis of individual families. On the whole, this showed that neither moves off Income Support nor moves into work of 16 or more hours a week by lone parents much affected the rate of entry to, or exit from, arrears.

There was, however, a surprising increase in housing cost arrears associated with each of these income rises. In both cases, almost one in five families fell into arrears with housing costs. Further analysis by housing tenure indicates that this is almost certainly linked to changes in Housing Benefit entitlement, especially among social tenants. The Survey of English Housing has shown that more than a third of tenants in rent arrears said that these were linked to difficulties with Housing Benefit. These difficulties are caused by errors and delays in processing applications and failure of tenants to notify changes in circumstances.

9.6.3 Changes in family circumstances

Cross sectional analysis showed that separating from a partner and having a new baby were both associated with an above-average incidence of arrears. Neither, however, was significant in regression analysis which controlled for other factors. This suggests that they probably mediate their effects through changes in income.

Looking at changes in circumstances within individual families showed that an additional child joining a family one year increased the rate of entry to arrears the next. It also reduced the rate at which families already in arrears managed to clear them – but only for household bills. As noted above, this is almost certainly due to an associated drop in income.

Families where there was a reduction in the number of dependent children were also slightly more likely to have fallen into arrears than families where the number of children remained unchanged. Again this effect was limited to household bills – the rate of entry to arrears on consumer credit was actually lower. This finding is harder to interpret. It may be related to loss of Child Benefit. At the same time, parents whose children enter higher education often face an increase in the expense of supporting them.

When lone parents re-partner one might generally expect an increase in their income and living standards, which would translate into a reduced propensity to arrears. In fact, lone parents with arrears who re-partnered were both more likely to move out of arrears than their counterparts who remained in lone-parenthood and, at the same time, more likely to fall into arrears having been arrears-free. These differences were, however, principally restricted to arrears on housing costs. Again this suggests a link to changes in Housing Benefit eligibility.

9.7 What are the potential causal factors and what factors act as protection against arrears?

Bringing the above analysis together, it is clear that three main factors seem to increase the propensity to arrears. These are changes in income, use of consumer credit and being a tenant (with links to changes in Housing Benefit entitlement). Other factors that, in cross-sectional analysis, seem to be significant almost certainly mediate their effects through changes in family income.

This being the case, families are at considerable risk of an increase in arrears should there be either an economic downturn or a sustained rise in interest rates – or both.

Levels of employment are particularly high at present and families' risks of job loss relatively low. Any rise in unemployment would almost inevitably translate into increases in levels of arrears and policies to promote employment will be central to containing the level of arrears.

Interest rates remain very low, even though levels of borrowing are historically high and still increasing. Consequently, repayments on both unsecured credit and mortgages remain relatively affordable. The sustained fall in interest rates was, however, reversed towards the end of 2003. Further increases would undoubtedly put growing numbers of families under financial strain, as they tend to be among the heaviest borrowers. Two-thirds of families with children have outstanding balances on unsecured credit. Although this proportion did not increase in the five years from 1995 to 2002, the average (median) amount families owed rose from £1,000 to £2,700. The findings of this study should, therefore, be considered by the Advisory Group on Over-indebtedness appointed by the Department for Trade and Industry from the beginning of 2004.

The third factor, arrears arising from changes in Housing Benefit entitlement, is one that needs fairly urgent attention. Compared with commercial creditors, local authorities and housing associations are much less responsive in the way that they manage arrears (see for example Dominy and Kempson, 2003). As a consequence, many do not attempt to identify the reasons why their tenants are in arrears at an early stage when they can be contained and problems over Housing Benefit payments resolved.

9.7.1 Factors that protect families against arrears

Other than retaining a job and avoiding using credit, only one factor emerges from this study as a potential protection against arrears. That is having money in savings. Families that were clear of arrears were less likely to fall behind with their commitments if they had savings. Savings were also associated with families who were already in arrears managing to clear their arrears. Policies to promote saving are therefore important. The Saving Gateway (a savings scheme that matches pound-for-pound the savings of low-income families) is likely to be particularly important. Initial findings from the Saving Gateway pilot indicate that it has been successful in encouraging people on low incomes to save.

As we note in Section 2.5, financial assistance from family did not seem to protect families from arrears, quite possibly because they sought help too late. It is, however, possible that their arrears were ameliorated by this help.

A more formal method of protecting against arrears is through payment protection insurance. This may form part of agreements relating to consumer credit, especially mortgages, and may cover some changes of circumstances, such as unemployment. However, few families appear to have made use of payment protection insurance – many did not have such insurance and very few indeed had tried to claim.

9.8 What are the effects of being in arrears? How does being in arrears relate to movement into work?

Finally, we look at the effect that being in arrears has on families' lives, including its relationship to moves into and out of work and its influences on partnering behaviour.

9.8.1 Moves into work

Concerns have been expressed that families with arrears may be reluctant to return to work, as creditors who exercise forbearance while they are unemployed may withdraw this concession on a return to employment. Overall, there was no difference in the rate of movement into work, whether families were in arrears or not. If anything, people living in couples were slightly *more* likely to move into work of 16 or more hours a week if they had arrears on their household commitments. This effect was, however, largely restricted to the year 1999-2000.

The fastest rate of return to work was among families who were only in arrears with credit commitments; while the slowest rate was found in families who had fallen behind with payments on household bills. This is, however, almost certainly because families with arrears on consumer credit tend to be less disadvantaged (and possibly more employable) than those who get behind with bills.

9.8.2 Moves out of work

There were only a small number of transitions out of work to study and so the conclusions here must be more tentative. On the whole, families with arrears were twice as likely to leave paid work of 16 or more hours a week. Even so, the rate of leaving was small (seven per cent), although slightly higher for lone parents than it was for couples. There were, however, surprisingly strong links with arrears on household bills and housing costs. At least some of this apparent link may actually occur because arrears are acting as an indicator of another factor such as ill-health, stress, which is precipitating both the arrears and the move out of work. Equally, these may be families who are in a cycle alternating between low-paid work and unemployment, in which case their arrears may well be long-standing.

9.8.3 Relationship breakdown and re-partnering

Where couples with children had any arrears, they were twice as likely to split up. This was particularly the case if they had arrears on household bills or rent arrears (which trebled the risk). These are the types of arrears most associated with low incomes and hardship. In contrast, the effect of consumer credit arrears, which are more commonly associated with higher incomes, was relatively small. This suggests that arrears are acting in conjunction with sustained financial strain when it is linked to a couple separating.

The effects on lone parents setting up home with a new partner were not so great, but indicated a slight increase in the rate of re-partnering among those with arrears. This effect was, however, only found for arrears on consumer credit and might well reflect the higher chance of a lone parent re-partnering if she is younger and in paid work (both of these characteristics also being associated with arrears on consumer credit).

Appendix
Logistic regression models of being in arrears

Table A.1 All households

	B	S.E.	df	Sig.	Exp(B)
Age group (ref=20-29)			5	0.057	
16-19	-0.993	1.128	1	0.379	0.371
30-39	-0.051	0.263	1	0.846	0.950
40-49	-0.140	0.269	1	0.602	0.869
50-59	-0.688	0.312	1	0.028	0.503
60+	-1.486	0.645	1	0.021	0.226
Housing tenure			4	0.002	
Outright owner	0.043	0.310	1	0.890	1.044
Social tenant	0.846	0.247	1	0.001	2.330
Private tenant	0.863	0.291	1	0.003	2.371
Other arrangements	0.724	0.330	1	0.028	2.062
Income			8	0.112	
(Pensioner-hhld)	0.371	0.688	1	0.590	1.449
Under £5,000	0.423	0.313	1	0.177	1.526
£5,000-£7,499	0.665	0.345	1	0.054	1.945
£7,500-£9,999	0.295	0.381	1	0.438	1.344
£10,000-£24,999	0.532	0.317	1	0.093	1.703
£25,000-£34,999	0.244	0.345	1	0.479	1.277
Over £35,000	-0.374	0.381	1	0.326	0.688
Unknown	-0.411	0.401	1	0.306	0.663
Drop in income	0.557	0.186	1	0.003	1.746
N active credit commitments			3	0.000	
1	0.688	0.239	1	0.004	1.989
2	1.201	0.269	1	0.000	3.325
3+	1.989	0.242	1	0.000	7.306
No current account	**0.706**	**0.252**	**1**	**0.005**	**2.025**
Constant	-3.035	0.374	1	0.000	0.048

Pseudo-r^2 = 0.29

N = 1647

Table A.2 Families with children

	B	S.E.	df	Sig.	Exp(B)
Housing tenure			4	0.000	
Outright owner	-0.183	0.648	1	0.777	0.832
Social tenant	1.315	0.299	1	0.000	3.724
Private tenant	1.264	0.361	1	0.000	3.538
Other arrangements	0.968	0.545	1	0.076	2.634
Drop in income	0.692	0.265	1	0.009	1.997
N active credit commitments			3	0.000	
1	0.499	0.387	1	0.197	1.647
2	1.306	0.400	1	0.001	3.693
3+	1.760	0.359	1	0.000	5.815
Constant	-2.908	0.333	1	0.000	0.055

Pseudo-r^2 = 0.23

N = 460

Table A.3 Families with children in FACS – Arrears of any kind

	B	S.E.	Wald	df	Sig.	Exp(B)
Age group			53.548	4	0.000	
16-19	0.052	0.126	0.168	1	0.682	1.053
20-29	0.246	0.044	31.010	1	0.000	1.279
40-49	-0.132	0.042	9.910	1	0.002	0.877
50+	-0.306	0.088	12.053	1	0.001	0.736
N dep children			39.222	2	0.000	
2	0.132	0.036	13.022	1	0.000	1.141
3+	0.281	0.045	38.830	1	0.000	1.324
Age youngest child			16.051	3	0.001	
0-4	0.059	0.039	2.232	1	0.135	1.060
11-14	-0.127	0.047	7.334	1	0.007	0.881
16-19	-0.207	0.081	6.573	1	0.010	0.813
Housing tenure			275.803	5	0.000	
Owned outright	-0.431	0.077	31.687	1	0.000	0.650
Shared ownership	0.379	0.173	4.803	1	0.028	1.460
Social tenant	0.547	0.043	158.979	1	0.000	1.729
Private tenant	0.456	0.062	54.767	1	0.000	1.578
Other	-0.474	0.114	17.403	1	0.000	0.622
Highest qualification			8.207	9	0.513	
None	-0.056	0.042	1.816	1	0.178	0.945
GCSE D-G	-0.104	0.044	5.485	1	0.019	0.901
A level	0.019	0.057	0.108	1	0.743	1.019
Degree	-0.031	0.065	0.224	1	0.636	0.970
Higher degree	0.035	0.105	0.113	1	0.737	1.036
Other	0.014	0.120	0.013	1	0.911	1.014
Vague	0.118	0.575	0.042	1	0.837	1.126
Not answered	0.873	1.040	0.704	1	0.401	2.393
Don't know	0.065	0.203	0.104	1	0.747	1.068
Income after housing costs (quintile, ref=3)			20.673	4	0.000	
Poorest	0.158	0.053	8.906	1	0.003	1.171
2	-0.024	0.047	0.262	1	0.609	0.976
4	-0.053	0.051	1.072	1	0.301	0.948
Richest	0.086	0.068	1.618	1	0.203	1.090

Continued

Table A.3 Continued

	B	S.E.	Wald	df	Sig.	Exp(B)
Not receiving IS	-0.131	0.070	3.500	1	0.061	0.877
Savings			839.403	7	0.000	
None	0.556	0.086	41.953	1	0.000	1.744
£1-£50	0.539	0.094	32.914	1	0.000	1.715
£100-£999	-0.134	0.090	2.209	1	0.137	0.874
£1000-£4999	-0.541	0.094	33.469	1	0.000	0.582
£5000-£9999	-0.889	0.114	61.047	1	0.000	0.411
£10K+	-1.001	0.106	89.175	1	0.000	0.367
Not known	-0.597	0.167	12.813	1	0.000	0.551
Region (ref=London)			83.244	10	0.000	
NE	-0.422	0.078	29.389	1	0.000	0.656
NW	0.056	0.065	0.731	1	0.392	1.058
Yorks-Humber	-0.226	0.068	10.908	1	0.001	0.798
EM	-0.001	0.072	0.000	1	0.986	0.999
WM	-0.097	0.069	1.991	1	0.158	0.908
SW	-0.005	0.080	0.004	1	0.947	0.995
E	0.075	0.078	0.911	1	0.340	1.078
SE	0.161	0.066	5.973	1	0.015	1.175
Wales	-0.013	0.095	0.020	1	0.888	0.987
Scotland	-0.024	0.090	0.073	1	0.787	0.976
Rurality (ref=not rural)			10.287	2	0.006	
Rural area	-0.131	0.050	6.804	1	0.009	0.877
Not coded	0.065	0.059	1.202	1	0.273	1.067
YEAR (ref=2000)			121.865	3	0.000	
1999	-0.486	0.048	101.112	1	0.000	0.615
2001	-0.345	0.046	55.691	1	0.000	0.708
2002	-0.406	0.046	78.382	1	0.000	0.666
Health status (ref=good)			128.415	2	0.000	
Fairly good	0.324	0.035	85.008	1	0.000	1.383
Not good	0.434	0.049	78.305	1	0.000	1.544
Income changes (ref=same)			397.532	4	0.000	
Got worse	0.725	0.038	371.570	1	0.000	2.065
Got better	0.050	0.038	1.662	1	0.197	1.051
N/a	-2.472	1.040	5.652	1	0.017	0.084
Don't know	0.457	0.524	0.761	1	0.383	1.580
Work/family status (ref=2 earner couple)			44.895	4	0.000	
LP working 16+ hours	0.133	0.052	6.479	1	0.011	1.142
LP not working	-0.093	0.085	1.209	1	0.272	0.911
Couple 1 earner	-0.163	0.046	12.532	1	0.000	0.850
Couple no earner	-0.266	0.084	9.983	1	0.002	0.766
Constant	-0.748	0.117	41.112	1	0.000	0.473

Pseudo-r^2 = 0.24

N = 23533 (over 4 years)

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