Characteristics of families in debt and the nature of indebtedness

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This study examines the characteristics of those families in debt and the nature of their financial difficulties. The analysis uses a number of different datasets, both cross-sectional and longitudinal, to determine which type of families are most likely to be in debt and to identify any trends over time. By using longitudinal data it was also possible to look at movements into and out of debt, as well as which factors protect families from going into arrears and what events trigger indebtedness.

Key findings

- The average amount owed in outstanding credit more than doubled from £890 in 1995 to £2000 five years later. Lone parents had a much higher risk of being in arrears than two-parent families and were also more likely to have long-term financial difficulties. The overall incidence of arrears among families with children declined slightly between 1999 and 2002.
- Families that were in arrears were more likely to have a head of household who was young (in their twenties) and not in paid work. Families were also more likely to be in arrears if they were living as tenants rather than home owners, have an income of between £7,500 and £15,000 per annum, not have access to a current account and have three or more children.
- The average (median) owed by families in arrears (excluding overdrafts) was £300, although a quarter of families who owed the largest amounts had accumulated £740 in arrears.
- Many of the financial problems faced by families were quite long-standing, with four in ten families who were currently facing financial difficulties saying that they had done so for more than a year. Lone parents were especially likely to have long-term financial difficulties.
- Between 1999 and 2002, the proportion of lone parents who were in arrears fell from almost a half to just over a third. The largest reductions took place for arrears on household bills.
- Moves out of employment (16+ hours a week) resulted in 37 per cent of lone parents, who had been up-to-date with commitments falling into arrears. However, moving into work of 16 or more hours a week did not improve the chances of a lone parent leaving arrears when compared with others who continued to not work.

Summary of research

Background

The aim of this study was to identify the characteristics of families who are in debt and to examine the nature of their indebtedness, as well as looking at trends over time.

The analyses used a number of different datasets which collect details on the level and nature of families' arrears and debts. The report used the following survey datasets:

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

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

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. 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 on 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.

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 wider family may be important in preventing arrears from increasing but did not appear to be preventing such arrears in the first place.

Possible causes of arrears

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

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.

For **families with children** one of the key factors was a lack of savings. Compared to those with £50-£100 saved, those with lesser amounts were nearly twice as likely to be 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.

Another 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 drops in income, 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 between 1995 and 2000, but some shifts in the types of credit used. 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.

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. 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 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 to closer to one in three. 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.

Patterns of arrears

Using FACS, 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); In contrast, couple families were more likely to be located in the 'never' in arrears category.

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.

Families in arrears had a higher number of dependent children at wave 1. Over two-fifths of Income Support recipients were 'always' in arrears as compared with only three-tenths 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 families with arrears ceased to have them in the following year. Conversely, one in four of those with no arrears had acquired them in the following year. Arrears on household bills were a good deal more persistent than those on 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.

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.

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 even after controlling for differences in income and work status.

The effects of being in arrears: work and relationships

From the 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, 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 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.

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 or were behind in paying for household bills. Conversely, the effect of having credit arrears was relatively small.

The full report of these research findings is published for the Department for Work and Pensions by Corporate Document Services (ISBN 1 84123 6934. Price £31.00. Research Report 211. June 2004).

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