

Paying to be poor:

Uncovering the scale and nature of the poverty premium

Costing Methodology Appendix

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1 Costing – general principles

The poverty premium is calculated by comparing a benchmark cost i.e. the cost incurred by mainstream or non-poor customers with a premium cost i.e. the cost incurred by customers on lower incomes.

In calculating a benchmark of mainstream costs - two approaches were used:

- In some cost areas it was assumed that the benchmark cost was zero, for example we assumed that non-poor households did not pay anything to access cash and did not incur charges for using credit.
- In other areas we used an average or typical cost. For example, for fuel we used Ofgem's Typical Domestic Consumption Values, and for consumer goods we based the cost or specification on the basket of goods included in the Minimum Income Standard (Davis et al., 2016).¹

Where costs needed to be looked up, either on provider websites or price comparison sites, the general principle was to use a typically low cost option, but not the lowest in case the lowest is not available to all households. In practice this meant that:

- where quotes were obtained from price comparison sites an average of the lowest quotes was calculated;
- where costs were obtained from provider websites a typical cost was used - this was neither the lowest nor the highest cost found, but represented a cost that a low-income household could typically expect to pay.

For some budget areas a cost was obtained from a single provider, for example where one provider was the best known in the market.

The calculation of costs is largely neutral to household size, except where items are explicitly measured at the individual level. We indicate in the costs where we have applied a factor for multiple household members incurring the premium.

All costs were sourced in Spring 2016, unless stated otherwise.

¹ Davis, A., Hill, K., Hirsch, D., and Padley, M. (2016) *A Minimum Income Standard for the UK in 2016*, York: Joseph Rowntree Foundation

The Minimum Income Standard sets out the goods and services households need in order to reach a minimum acceptable standard of living - see <http://www.lboro.ac.uk/research/crsp/mis/>

2 Cost components

Based on our review of previous literature and a desk-based review of market sectors (to determine whether certain premiums continue to exist) we identified 29 measurable poverty premiums across six cost areas. These areas are:

- Household fuel
- Telecommunications
- Insurance
- Food and grocery shopping
- Access to money; and
- Higher-cost credit

We have accounted for poverty premiums associated with the cost of Christmas and the costs of buying large household items, such as furniture and white goods within higher-cost credit. This is because the premium associated with buying these derives primarily from the need to pay in smaller instalments or to use credit more generally.

We excluded from our poverty premium calculation some components that had been identified by previous studies, either because we found insufficient evidence that there was (still) a premium, or because it was beyond the scope of this research to calculate the associated cost:

Water bills have not been included as a component as there was a lack of clear evidence that low-income households consistently incur greater costs than other household types. In particular: water companies do not charge for paper billing; they provide capped or social tariffs for qualifying low-income households (House of Commons Library, 2016);² water meters, which avoid households being penalised for low usage, are widely available with the proportions of metered households increasing over time and

² House of Commons Library (2016) Briefing Paper Number CBP06596, *Water bills- affordability and support for household customers*

compulsory implementation of meters by some water companies (House of Commons, 2015; OfWat, 2013).³

Previous research identified **pay-as-you-go mobile** charges as being a more expensive way of paying for mobile phone use than a contract. Our investigation of the market showed that prices are now broadly comparable. For example, in November, 2015, it was possible to buy a £30 smartphone with a sim-only deal and add a £7.50 no-contract monthly bundle which included 250 minutes call time, unlimited texts and 500 MB data. This compared with a two-year contract with an equivalent £30 phone upfront and £7 per month covering 250 minutes, 5000 texts, and 500 MB UK Data. As a result, we have not calculated a poverty premium for pay-as you go mobile phones.

Although identified by previous research, we have not included the cost of buying **school uniforms** and other educational materials as a poverty premium. This is because paying for these expenses is an issue of affordability only: the cost or likelihood of buying them is no greater for low-income than better-off households (excluding the use of credit to buy them, which we do include in our calculation).

We have not accounted directly for **transport costs**, as this is a highly complex area. We have instead attempted to account for a premium paid by poorer households living in more rural areas or on the poorly-served city fringes with limited access to shops and services (whether due to reliance on public transport or other factors) within the costs of food and grocery shopping. This, in turn, does not account for the extra transport costs low-income households incur when buying coach, rail and air travel if they are digitally or financially excluded and therefore unable to access the cheapest tickets. However, the focus groups conducted for this study suggested that households

³ This was true of all water companies in England and most in Wales in 2013 (OfWat, 2013). E.g. Wessex water offers, among other schemes: flexible payment plans for households in short-term difficulties; individually tailored affordable payments at levels for those in extreme difficulty; and a 20 per cent discount on water/sewerage bills for households in which all adults are in receipt of pension credit.

House of Commons Library (2015) Briefing Paper Number CBP 7342, *Water meters: the rights of customers and water companies*.

Ofwat (2013) *Water meters your questions answered - Information for household customers*, Birmingham: Ofwat

affected by these factors tend to ask friends or family to search for and buy these sorts of purchases on their behalf.

Finally, we have not attempted to explore or include potential premiums associated with regressive taxation, risk profiling or credit ratings, replacement rates (for example, in the purchase of lower-quality goods), saving interest rates (whereby small savers are unlikely to have access to the best interest rates), or social or local community capital. These are particularly complex and fall outside the scope of this research.

3 Costing methods and calculations

In this section we describe how costs were calculated for each poverty premium component. They are also summarised in Table 1 at the end of this section.

3.1 Household Fuel

3.1.1 Payment methods

We have costed the premium for paying by prepayment meter and on receipt of the bill. In estimating these premiums (and all of our subsequent ones which relate to fuel), our calculations are based on Ofgem Typical Domestic Consumption Values (TDCVs - Sept 2015) for low, medium and high usage. Standard Variable Tariffs are based on the average cost for low, medium and high usage,⁴ across the 'Big Six' providers: British Gas, EDF, Npower, E.ON, Scottish Power and SSE. Costs for different payment methods were obtained using a price comparison website.⁵ The benchmark is payment by monthly direct debit and assumes that households are dual fuel customers. The resulting premium is shown below.

Premium for prepayment meter use (dual fuel)	£70 / year
Premium for payment on receipt of bill (dual fuel)	£76 / year

On the assumption that most households had both electricity and fuel (supported by our survey findings) and that this was most likely from the same supplier, we have split the cost of each premium equally across electricity and gas when applying the premium to our data. For example, for households using prepayment meters for electricity we have allocated a cost of £35 and for those using prepayment meters for gas we have also allocated a cost of £35 (totalling £70).

3.1.2 Paper billing

In our desk research, we found that three of the 'Big Six' providers offer a discount for paperless billing. This amounts to a typical

⁴ In basing the premium on the average cost across TDCV usage we have not attempted to estimate a premium for low usage where low users can be penalised by standing charges.

⁵ Price comparisons are based on a customer address in Sandwell in the West Midlands - chosen as it is a deprived area.

discount of £10 per year, based on a Standard Variable Tariff for dual fuel customers paying either by monthly direct debit or on receipt of the bill.

Premium for paper billing (dual fuel)	£10 / year
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As above, we have split the cost and allocated £5 to each fuel type when applying this premium to households in our sample.

3.1.3 Fuel switching

In calculating the fuel switching premium, we have again used a benchmark of payment by monthly direct debit for dual fuel accounts. The cheapest tariffs that customers could switch to for each payment method are based on an average of the cheapest six providers for low, medium and high usage.

If a household had not switched at all, they incurred a calculated poverty premium of £317 per year regardless of which payment method they currently used. This premium is based on: the difference in the average price for a dual fuel customer, paying by monthly direct debit on a Standard Variable Tariff across the 'Big Six' providers; compared with the average price for a dual fuel customer, paying by monthly direct debit who has switched to one of the best deals (typically a fixed rate deal with online account management).

Premium for not switching to the best fuel tariff (dual fuel)	£317 / year
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If a household with a prepayment meter had already switched (i.e. to the best prepayment meter deal), they still incurred a poverty premium of £227 per year compared with the best monthly direct debit online account. This is because the savings they can make when switching **within** their payment method is much smaller compared with switching across payment methods.

If a household paying by standard billing had already switched to the best standard billing deal, they still faced a premium of £43 per year, compared with the best monthly direct debit online account.

Premium for having switched to the best prepayment meter deal (dual fuel)	£227 / year
Premium for having switched to the best payment on receipt of bill deal (dual fuel)	£43 / year

3.2 Telecommunications - Paper billing

The costs for receiving paper bills, as opposed to online billing, are based on a typical charge by providers – some providers may charge more, others less. Some providers do not offer paper billing as an option for customers. For low-income households who prefer to receive a paper bill the typical cost charged by mobile phone providers is £1.50 per month and for landline / broadband services the typical cost is £1.85 per month. For mobile phone paper billing, a factor of 1.25 has been applied to this amount to account for the use of more than one mobile phone in households with more than one adult. We have assumed that households have their landline and broadband service with the same provider and as such receive a single bill covering both services. We have therefore combined the cost across landline and broadband services.

Premium for receiving a paper bill for a mobile phone contract	£23 / year
Premium for receiving a paper bill for landline / broadband service	£23 / year

3.3 Food and Grocery Shopping

We have costed a premium for households who have difficulty accessing good value shops for food and grocery shopping. The benchmark figure is calculated from the average cost of the Minimum Income Standard 2016 food and grocery budget across four household types. It covers items which could be expected to be bought on a regular basis, including: food, alcohol (consumed at home), toiletries (e.g. toothpaste, shampoo) and household consumables (e.g. cleaning products, cling film). The premium for households who find it difficult to access good value stores is then based on an assumption that 50 per cent of food and groceries are bought from local convenience stores at an average premium of 12 per cent (i.e. something that would cost £1.00 at a large supermarket or discount store would cost £1.12 at a local, convenience store.)

Premium for difficulty accessing good value stores	£266 / year
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3.4 Insurance

3.4.1 Area-based premiums

Insurance premiums for home contents insurance and car insurance compare premiums in a poorer more deprived area with premiums in an average area:⁶ the 'poor' area is based on one of the 20 per cent most deprived areas of England and the 'average' area has a median level of deprivation (as defined by the Index of Multiple Deprivation; DCLG, 2015).⁷ The cost is based on the average price of the cheapest quotes obtained from a price comparison site, with the poverty premium calculated as the difference in costs between the two areas.

Premium for living in a more deprived area - car insurance	£74 / year
Premium for living in a more deprived area - home contents insurance	£14 / year

It is worth noting that the premium for car insurance increases further (almost doubling) for those in a yet more deprived area (in the 10 per cent most deprived).⁸ For the purpose of this research we have used the more conservative value.

3.4.2 Monthly payment premiums

Insurers charge a premium for customers who pay for insurance by monthly direct debit, rather than pay annually. The premium for paying monthly is the average additional cost across the quotes for the insurance policy in the higher risk (more deprived) area.

Premium for paying monthly - car insurance	£81/ year
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⁶ The home contents insurance policy is based on a three bedroom end of terrace house, privately rented. The policy cover is for £15,000 of contents and includes accidental damage and £100 excess. The car insurance policy is based on comprehensive insurance for social and commuting purposes for a 5 year old Ford Focus, 1.6 litre petrol engine, manual gearbox, annual mileage of 9,000 (this specification is based on the Minimum Income Standard) parked on-street at home owned by a female, aged 40, holding a licence for 15 years with no convictions or claims and a 5 years unprotected no claims bonus.

⁷ These areas are Ribbleton, Preston and Timperley, Trafford respectively. Department for Communities and Local Government (2015) *English indices of deprivation*, available at: www.gov.uk/government/statistics/english-indices-of-deprivation-2015

⁸ The premium for car insurance in Smethwick, Sandwell was £1,078, compared with £611 for Timperley, Trafford.

Premium for paying monthly - home contents insurance	£9 / year
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3.4.3 Insurance of individual items

The cost of insurance cover for household appliances is based on a typical cost (from across several providers) for a policy which covered several appliances e.g. fridge / freezer, washing machine, oven or TV.

The cost for mobile phone insurance was obtained from a leading mobile phone insurer, based on a Microsoft Lumia 535 (which closely matches the Minimum Income Standard specification for a mobile phone requirement). The premium we have calculated for mobile phone insurance includes a multiplier of 1.25 to account for multiple mobile phones in households with more than one adult.

Premium for buying mobile phone insurance	£60 / year
Premium for buying household appliance insurance	£132 / year

3.5 Access to money

3.5.1 Fee-charging cash machines

An average cost of £1.69 for using a fee-charging cash machine, per transaction, was kindly provided by Link (the UK's cash machine network). In the absence of available statistics on average usage, we have assumed that, where low-income households do use fee-charging cash machines, they do so only once every month on average. When multiplied by 1.25 to make an adjustment for households with more than one adult, we have calculated the premium to be:

Premium for using a fee-charging cash machine	£25 / year
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3.5.2 Fee-charging cheque-cashing

Based on the fees charged by a range of different cheque-cashing providers, 10 per cent represents a typical fee. Our calculation is based on the assumption that a low-income household using this type of service cashes three cheques of £100 per year. We have not adjusted this to take account of multiple adults in the household as

we have assumed this is carried out by only the main earner in the household.

Premium for using a fee-charging cheque-cashing service	£30 / year
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3.5.3 Prepaid cards

The fees charged by a range of different pre-paid card providers suggests typical fees are: a £5 application fee and ATM withdrawal fee or card top-up fee of £2 each. We have assumed that a low-income household incurs 10 withdrawal or top-up fees per year, incurring an overall annual charge of £20 plus the £5 application fee, and that there is only one such card in the household.

Premium for using a pre-paid card	£25 / year
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3.6 Higher-cost credit

When calculating the costs associated with the use of higher-cost credit, where possible we have taken into account the types of goods or services they are used for most often, based on the findings from our survey of low-income households. In other cases, we have drawn on previous research to build in assumptions about the number of times a particular high-cost credit product is used during the course of a year, if it is used at all.

In our benchmark we have not included a cost for buying the same goods and services with mainstream credit. Rather, we assume that non-poor households either pay for goods and services outright, or do not incur charges for using mainstream credit.

3.6.1 Rent-to-own

From the survey findings the most common item bought via rent-to-own was a television. The benchmark cost for the use of rent-to-own is based on the Minimum Income Standard (2016) specification of a 32" LED TV bought from Tesco. For calculating the poverty premium we used the price of purchasing the same TV from a leading rent-to-own store paid over 12 months. The rent-to-own price includes the cost of the TV, plus delivery and installation, plus a compulsory service package.

Premium for using rent-to-own	£315 / year
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3.6.2 Payday loan

With anecdotal evidence that the use of payday loans has fallen since the Financial Conduct Authority introduced price caps in spring 2015,⁹ and based on figures produced by StepChange Debt Charity, we have assumed that payday loan customers take out on average two loans each year. At £200 each, paid back over 30 days, the cost is calculated at £48 per loan. The premium we have calculated includes a multiplier of 1.25 to account for other adults in the household who may also use payday loans.

Premium for using payday loans	£120 / year
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3.6.3 Home collected credit / doorstep loan

Drawing on research undertaken in 2012,¹⁰ we have assumed that a low-income household takes out two £450 home collected loans per year, each paid back over 32 weeks. The cost of each loan at a leading home collected credit provider is £270.

Premium for using home collected loans	£540 / year
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3.6.4 High-cost / subprime personal loan

Similarly, we have assumed that households taking out subprime loans also take out two such loans per year at £450 each, with each loan paid back over six months. Across a number of online subprime loan providers a typical cost for a single loan of this amount is £260 per loan.

Premium for using subprime personal loans	£520 / year
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3.6.5 Pawnbroker loan

Earlier research identified that the typical pawnbroking customer takes out two £130 pawnbroker loans per year, each paid back over

⁹ Previous research, undertaken in 2012, found that that borrowers who had used retail payday loans had used 5.1 loans in the last 12 months. Personal Finance Research Centre (2013) The impact on business and consumers of a cap on the total cost of credit, London: Department for Business, Innovation and Skills

¹⁰ *ibid*

six months.¹¹ Across a number of online pawnbrokers, a typical cost for a loan of this amount is £25 per loan.

Premium for using pawnbroking loans	£50 / year
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3.6.6 High-cost / subprime credit card

In the absence of information on how often low-income households use subprime credit cards we have assumed an amount of £900 repaid over 12 months – equivalent to the sums we have assumed are borrowed via home collected loans. Across several subprime credit card providers the typical APR is 34.9%. The premium we have calculated includes a multiplier of 1.25 to account for other adults in the household who may also use subprime credit cards.

Premium for using a subprime credit card	£194 / year
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3.6.7 Mail order catalogue

From our survey data the most common use of mail order catalogues was to buy a washing machine or Christmas presents. We have based our calculation on the cost of buying a washing machine. The washing machine is based on the Minimum Income Standard 2016 specification of: 7kg, 1400 spin, white, A++ energy efficiency rating. We compared the price of buying this from a mainstream online-only appliance retailer with the cost of purchasing it from a high-cost catalogue, paid in 12 monthly instalments at an APR of 58.7%.

Premium for using mail order catalogues	£178 / year
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3.6.8 Christmas hamper

Finally, the cost of buying one Christmas hamper pack (including groceries, meat and turkey) from a leading Christmas savings club was compared with the cost of buying the same hamper items at supermarket prices.

Premium for buying a Christmas hamper	£47 / year
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¹¹ *ibid*

Table 1. Calculating the Annual Poverty Premium - Summary

Area	Benchmark	Poverty premium	Notes
Fuel:			
Payment method: Prepayment meter	dual fuel, Standard Variable Tariff paid by monthly direct debit	Premium = £69.95 / year Low user = £59.26 / yr Medium user = £68.82 / yr High user = £81.78 / yr	Average across big 6 suppliers and across household size (low, medium, high usage) Prepayment meter compared with Standard Variable Tariff average cost for dual fuel direct debit payment.
Payment method: Payment on receipt of bill e.g. quarterly billing	dual fuel, Standard Variable Tariff paid by monthly direct debit	Premium = £76.67 / year Low user = £63.49 / yr Medium user = £75.27 / yr High user = £91.26 / yr	Average across big 6 suppliers and across household size (low, medium, high usage) Quarterly billing compared with Standard Variable Tariff average cost for dual fuel direct debit payment.
Paper billing	dual fuel, SVT paid by monthly direct debit with online billing = no charge	Premium = £10 / year paper bill charge = £5 / year per fuel	Based on a typical dual fuel cost Although varies across suppliers: 3 do not charge; 3 do, from - £10-£12 / year (£5-£6 per fuel per year)
Not switching premium for dual fuel monthly direct debit payment	switched to the best dual fuel deal - online only, payment by direct debit	Premium = £317.30 / year Low user = £196.93 / yr Medium user = £307.00 / yr High user = £447.98 / yr	Average difference in cost across the best 6 deals for dual fuel monthly direct debt payment and online account management, compared with average Standard Variable Tariff cost across the big 6 suppliers
Switching premium for dual fuel prepayment meter users	Prepayment meter user on the best prepayment meter deal	Premium = £227.23 / year Not switching to the best direct debit online deal, minus saving for being on the best prepayment meter deal (£317.30 - £90.07) Low user = £64.45 / yr Medium user = £87.36 / yr High user = £118.41 / yr	Average difference in cost across the best 6 deals for prepayment meter compared with average prepayment meter tariff across the big 6 suppliers, £90.07

Area	Benchmark	Poverty premium	Notes
Switching premium for dual fuel payment on receipt of bill	standard (1/4ly) billing user on the best standard billing deal	<p>Premium = £43.19 / year</p> <p>Not switching to the best direct debit online deal - minus saving for being on the best payment on receipt deal (£317.30 - £274.11)</p> <p>Low user = £178.69 / yr Medium user = £265.98 / yr High user = £377.67 / yr</p>	Average difference in cost across the best 6 deals for Standard billing compared with average Standard billing tariff across the big 6 suppliers =£274.11
Telecoms:			
Landline / broadband - paper billing	online billing - no charge	<p>Premium = £22.20 / year</p> <p>combined service paper bill charge = £1.85 / month</p>	Based on a typical cost.
Mobile phone contract - paper billing	online billing - no charge	<p>Premium = £22.50 / year</p> <p>paper bill charge = £1.50 / month x 1.25</p>	Based on a typical cost. Converted to a household level premium by multiplying by 1.25 to account for households with more than one adult who has paper billing.
Insurance:			
Home contents insurance - premium for living in a deprived area	average area annual cost (average of lowest 6 quotes) = £68.21	<p>Premium = £13.70 / year</p> <p>deprived area annual cost (average of lowest 6 quotes) = £81.91</p>	<p>Specification based on: 3 bed end of terrace, private rented, lone parent with 2 children. Policy cover for £15,000 incl. accidental damage and £100 excess. Cost is based on the average price of the 6 cheapest quotes from a price comparison site.</p> <p>Average area: Timperley, Trafford - 50th percentile on Index of Multiple Deprivation. Poor / deprived area: Ribbleton, Preston - 20th percentile on Index of Multiple Deprivation.</p>
Home contents insurance - premium for paying monthly in a deprived area	annual cost deprived area = £81.91	<p>Premium = £8.47 / year</p> <p>average cost when paid monthly = £90.38</p>	Annual payment compared with total cost when paid monthly using quote for deprived area (above)

Area	Benchmark	Poverty premium	Notes
Car insurance - premium for living in a deprived area	average area annual cost (average of lowest 4 quotes) = £610.72	Premium = £73.73 / year deprived area annual cost (average of lowest 6 quotes) = £684.45	Spec based on Minimum Income Standard: Ford Focus 1.6l, petrol, manual, mileage, 5 years old Policy holder: single female, lone parent, age 40, licence for 15 years, no convictions or claims. Policy: comprehensive, £250 excess, social and commuting, 9,000 miles/yr, kept at home on street parking, 5 yrs no claims bonus - not protected, Cost is based on the average price of the 6 cheapest quotes from a price comparison site. Average area: Timperley, Trafford - 50 th percentile on IMD. Poor / deprived area: Ribbleton, Preston - 20 th percentile on IMD.
Car insurance - premium for paying monthly in a deprived area	annual cost (deprived area) = £684.45	Premium = £80.80 / year total cost when paid monthly = £765.25	Annual cost compared with total cost when paid monthly using quote for deprived area (above)
Individual items/ appliance insurance	not used / no charge	Premium = £131.88 / year £10.99 / month	Based on a typical cost - policy covers a number of kitchen appliances up to £1,000 in value.
Mobile phone insurance	not used / no charge	Premium = £59.85 / year £3.99 / month x 12 x 1.25	Based on a quote from a leading provider. Spec based on Microsoft Lumia 640 (closest model to Minimum Income Standard spec of Lumia 535) Converted to a household level premium by multiplying by 1.25 to account for households with more than one adult, with this insurance.

Area	Benchmark	Poverty premium	Notes
Grocery shopping:			
Premium for difficulty accessing good value stores	average weekly cost: £85.32 Single adult = £56.49 Pensioner couple = £82.17 Lone parent + 1 = £74.94 Couple + 2 = £127.69	Premium = £266.24 / year $(£85.32 \times 1.12 \times 0.5) = £47.78$ + $(£85.32 \times 0.5) = £42.66$ = shopping cost of £90.44 / week premium = £5.12 / week	Estimated cost premium for shopping at local / convenience stores = 12% (based on consumer survey data) Have assumed that those who found it fairly or very difficult to access good value shops do 50% of their shopping at local/convenience stores. Benchmark figures based on the average of Minimum Income Standard grocery costs across 4 household types.
Accessing cash:			
Cash - ATMs	not used / no charge	Premium = £25.35 / year $£1.69 \times 12 \times 1.25$	Average charge per use = £1.69 Have assumed are used 1 / month. Converted to a household level premium by multiplying by 1.25 to account for households with more than one adult who uses a fee-charging ATM.
Cheque cashing	not used / no charge	Premium = £30 / year 3 x £100 cheques / year at cost of 10% fee	Fee of 10% represents an average level of cost across a range of providers Have assumed level of use at 3 x £100 cheques per year.
Pre-paid cards	not used / no charge	Premium = £25 / year £5 application fee x 1 = £5 / year ATM withdrawal / top up fee = £2 Transaction fee = £0	Based on a typical cost. Have assumed use of 10 withdrawal / top up fees per year + application fee.

Area	Benchmark	Poverty premium	Notes
Higher-cost credit:			
Rent-to-Own (TV)	retail price = £149.99	Premium = £314.98 / year rent-to-own price = £464.97	Most common item bought via rent-to-own from survey is a TV. Minimum Income Standard TV spec = 32" LED TV bought at Tesco. BrightHouse cost paid over 12 months: - product price = £225.20 - delivery & installation = £65.00 - Service plus = £63.05 = £353.25 paid over 52 weeks @69.9 APR = £464.97
Payday loan	not used	Premium = £120 / year £200 loan x 2 x 1.25 @ £48 / loan	Based on a typical cost. Each loan is paid back over 30 days. Cost per loan = £248 i.e. cost of credit = £48 / loan. Converted to a household level premium by multiplying by 1.25 to account for households with more than one adult using payday loans.
Home collected credit	not used	Premium = £540 / year £450 loan x 2 @ 32 weeks	Based on a quote from a leading provider. Each loan is paid back over 32 weeks. Cost per loan (399.7% APR) = £720 i.e. cost of credit = £270 / loan
Pawnbroking loan	not used	Premium = £50 / year £130 loan x 2 @ 6 months	Based on a typical online pawnbroker cost. Each loan is paid back over 6 months. Cost per loan = £155 i.e. cost of credit = £25 / loan
Subprime personal loan	not used	Premium = £520 / year £450 x 2 @ 6 months	Based on a typical cost. Each loan is paid back over 6 months. Cost per loan = £710 i.e. cost of credit £260 / loan.
Subprime credit card	not used	Premium = £193.75 / year £900 repaid over 12 months = £155 x 1.25	Based on a typical cost of APR of 34.9%. Cost based on opening balance of £900 repaid over 12 months. Converted to a household level premium by multiplying by 1.25 to account for households with more than one adult using subprime credit cards.

Area	Benchmark	Poverty premium	Notes
Mail order catalogue (washing machine)	retail price = £190.97	Premium = £178.19 / year catalogue price = £369.16	Most common use of catalogues from survey was washing machine and Christmas presents. Minimum Income Standard washing machine spec = 7kg machine, 1400 Spin, A++ efficiency, bought from appliancesdirect.com. Compared to similar spec bought from a high cost catalogue: £289.99 paid over 52 weeks @58.7%APR = £369.16.
Christmas hamper	hamper items costed at supermarket prices = £207.56	Premium = £46.68 / year hamper price = £254.25	Based on a typical Christmas hamper costing £254.25. Compared to cost of buying the same hamper items at a supermarket.

