20 January 2022

Debt and health

Preventing ‘problem debt’ during the pandemic recovery

Adam Tinson, Sabrina Bunbury

The Health Foundation

Contents

Key points

- Debt in itself is neither good nor bad. But when individuals start to experience problems with the size of their debt or scale of repayments, this can strain their health. On one measure, 4% of households in Great Britain experienced 'problem debt' pre-pandemic. These risks to health can arise through debt becoming a source of stress, repayments reducing income for essentials, and contributing to health-harming behaviours – such as smoking.
- There is a two-way relationship between debt and health: debt problems can lead to deteriorations in mental and physical health, and health problems can be a trigger for increasing debt. 20% of people in problem debt in Great Britain report 'bad' or 'very bad' health, compared with 7% of those not in problem debt.
- Data for 2020 and 2021 suggest little overall change on key measures of debt after an initial increase early in the pandemic. However, some groups fared differently with a higher proportion of those on low incomes and those with poor health experiencing increases in debt.
- The proportion of people experiencing their debts as a burden tends to closely track inflation – which is projected to remain high in 2022. Lower income families are at greater risk because of those with debt, repayments represent a greater share of their income. Given the combined erosion of resilience through the pandemic – with increased debt for some families, reductions in social security support and the end of the furlough scheme – there is a risk of problem debt growing, particularly if changes in the public health situation lead to restrictions that negatively impact the economy.
- Debts to the public sector are an increasing source of problem debt, typically for those already in need of financial support. More than one in ten of the nearly 5 million Universal Credit claimants have money deducted from their benefits for debt repayments, often leaving people with less than they need for necessities. Public sector debt collection practices can make debt problems worse, placing greater pressure on household finances.
- Government action in 2020 and 2021 helped to ease immediate financial pressures for many, but a debt hangover could yet emerge. Key interventions include improving debt collection practices in the public sector and bringing these in line with private sector standards; looking at providing more low-cost credit products; encouraging earlier debt advice before problems grow, and looking at interventions that prevent key debt triggers – such as the onset of poor health leading to employment loss, or maintaining income when circumstances change.

1. Introduction

Debt is not intrinsically good or bad. It can be used to maintain household consumption while income is temporarily low, or to bring forward the consumption of a good, such as taking out a mortgage to buy a home. Debt-facilitated transactions make up a large proportion of economic activity, with supporting regulations in place to ensure products are competitive and reduce risk for consumers.

Most people with debt do not experience major problems repaying it. However, when debt or repayments become unsustainable, it can drive worsening mental and physical health. And when health or employment circumstances change, it can make people's ability to cope with existing debt harder or lead to people taking on new debt. As this long read explores, there is a strong relationship between debt and health. Debt problems can weigh on people's mental health and the stress can harm physical health as well. Poor health can lead to debt becoming unmanageable, through higher costs or loss of employment and income.

There was a risk during the pandemic that personal debt problems could spiral out of control. Action such as the furlough scheme and increases in Universal Credit, as well as mortgage and debt repayment holidays, prevented this from materialising for most. However, as these support measures are removed and given the future path of COVID-19 remains unpredictable, there is a risk that debt problems could resurge. This may not be in the form of a 'big bang' increase in debt but a steady increase as people try to cope in difficult times, leaving people at greater risk of 'problem debt' (see Box 1) if their circumstances change, or there are further external shocks either through the labour market or to prices. This may particularly be the case for those who have struggled financially during the pandemic through job loss, furlough, or missing out on support (such as many of the self-employed).

Even before the pandemic, there had been a notable change in the composition of debt problems that people sought help with – shifting away from private sector debts towards debts owed to the public sector, such as council tax. In times of difficulty, the public sector has increasingly become a source of debt anxiety instead of relief. Reviewing how the public sector creates and collects debts should be a priority for government, especially after the £20 per week cut to Universal Credit, to avoid creating a further stressful burden on low-income households.

This long read goes on to explore the relationship between debt and health, trends in debt up to and since the pandemic, and policy responses that can reduce the impact of problem debt on health.

Box 1: Defining 'problem debt'

This long read uses multiple measures of debt, depending on the available data, to consider the concept of problem debt. According to Citizens Advice, a person is in problem debt if they are unable to afford their debt repayments. There are different ways of measuring this concept.

The ONS definition, used in the Wealth and Assets Survey, requires a household to have either a liquidity problem or a solvency problem. A liquidity problem requires an adult in the household to be falling behind on bills or commitments, and either monthly household debt repayments to exceed 25% of net monthly income, or an adult in the household falling into arrears on two consecutive monthly bills or commitments. A solvency problem is measured as household debt exceeding 20% of annual disposable household income and at least one adult in the household considering debt to be a heavy burden.

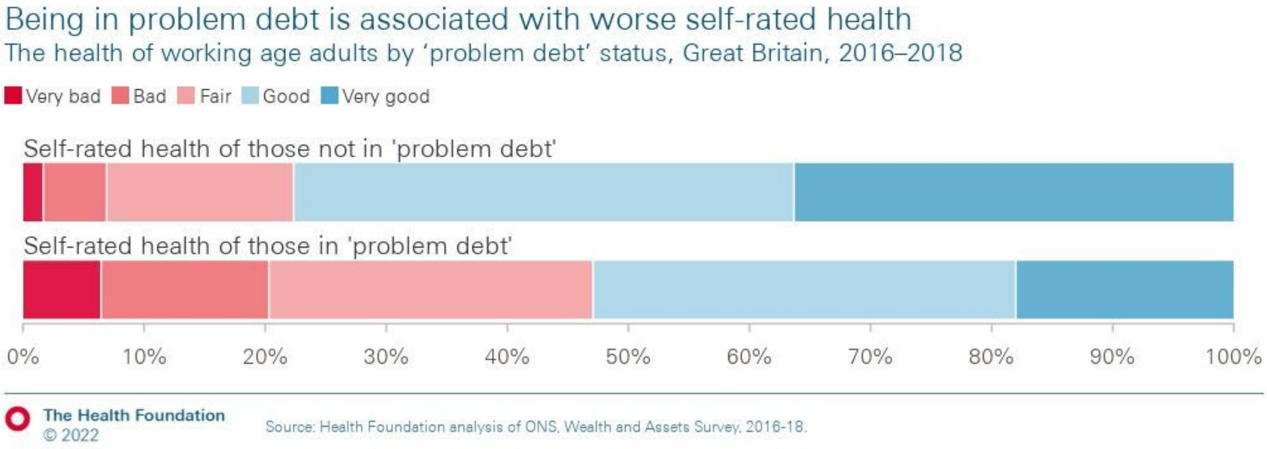
Most data sources do not have all of these measures, so in places we use individual measures from this definition, such as debt repayments or whether adults consider their debt a burden.

2. The relationship between debt problems and health

Struggling to pay debts can be a stressful experience, potentially affecting both physical and mental health. There is a strong relationship between health and debt. Figure 1 shows twice as many people experiencing problem debt report poor health than those without problem debt.

Among those in problem debt, nearly half have less than 'good' health (47%) and 20% have 'bad' or 'very bad' self-rated health. Among those not in problem debt, 22% have less than 'good' health, and only 7% have 'bad' or 'very bad' health. This relationship remains even if we control for age and income, meaning the relationship is not driven simply by those with problem debt having lower incomes or their age profiles.

Figure 1



It is also the case that those with poor health are more likely to have problem debt. 19% of those with 'very bad' health have problem debt, compared with 3% of those with 'very good' health.

What is the relationship between debt and health?

Problems with managing debt can harm mental and physical health. But the causality can run the other way: health problems can lead to income and employment loss, which can make ongoing debt repayments more difficult or lead to more debts being taken on.

Debt can harm health through a few different channels:

- Debt can act as a source of stress in and of itself. Financial strain acts as a health-related stressor and can lead to a stress response that may eventually harm physiological health. Some evidence suggests it is worry about debt rather than debt itself that drives worse health outcomes.
- High levels of repayments can reduce the income available for health-promoting goods and activities. Our analysis suggests that by deducting debt repayments from income, the proportion of those in poverty increases by 1.3 percentage points (equivalent to 840,000 people). This indicates that, although not captured by traditional poverty statistics, debt repayments can in effect reduce available income below the poverty line for significant numbers of people.
- Problem debt can be associated with health-harming behaviours, including suicidal ideation, smoking and drug use.

The nature of the debt – such as the level, interest rates and repayment schedules – can influence whether it harms health, as can mediating factors such as income, employment status, and other financial resources.

How poor health can lead to debt problems

Causality can run the other way, with poor health increasing the possibility of problem debt, for example through employment loss or low income. The FinWell London Financial diaries show how poor health and low financial resilience often go hand-in-hand and exacerbate each other. Poor mental health can make it harder to manage finances well, and is associated with worse debt problems during the pandemic.

Poor health, and the worse social and economic outcomes associated with it, can make it harder for individuals to escape debt problems. Analysis of the Wealth and Assets Survey shows that over a 2-year period, 58% of those in poor health remain stuck with a debt burden, compared with 34% of those in good health.

Health status may also have an impact on the way an individual views their financial situation and therefore may have an impact on their overall wellbeing. A study by Loughborough University suggests that an individual's health can affect their subjective evaluation of their financial situation even after controlling for their work status and income.

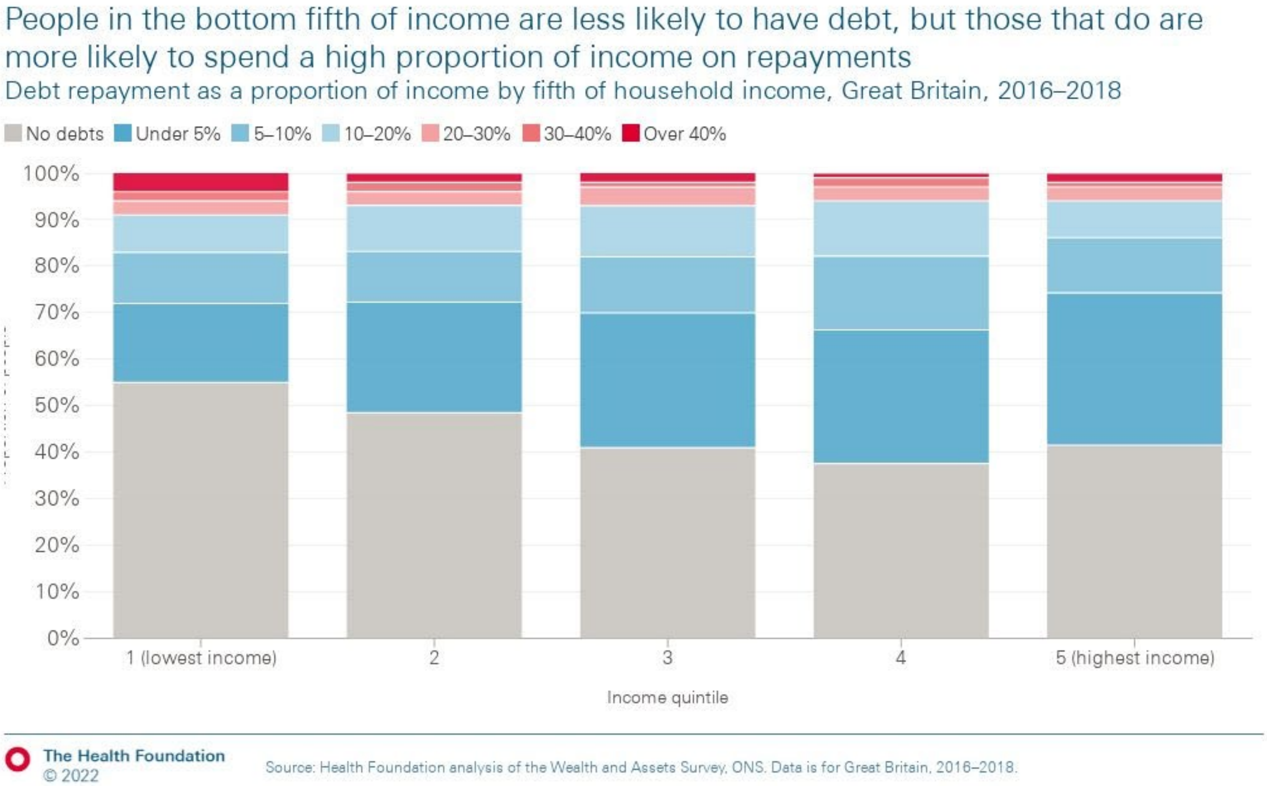
3. Who is at risk of struggling with debt?

How many people struggle with paying debts? There are a range of ways to answer this question: the comprehensive ONS measure, as defined in Box 1, gives around 4% of households experiencing problem debt in Great Britain in 2016–2018. Other measures are broader: for example, 14% of adults report that their debts are a heavy burden.

Based on the measure of problem debt used in Figure 1, those on low incomes *who have debt* are more likely to be in problem debt than those on higher incomes with debt. 12% of those with debt in the bottom tenth for income have problem debt, compared with 5% in the middle tenth and less than 1% in the top 10%.

Figure 2 looks at what proportion of people in each fifth have debt, and how much of their income is spent on repayments. This provides further insight into the relative size of debt burdens.

Figure 2



Those in the lowest fifth of income are less likely to hold debt – around 45% do, compared with over 60% of the second highest fifth of income. But those that do hold debt are more likely to spend a higher proportion of their income on debt repayments. Among those with debt in the bottom fifth, 18% spend more than 20% of their income on repayments, and nearly one in ten (9%) spend over 40%. For the top fifth, the equivalent figures are 9% and 3%. These are big reductions to disposable incomes for those with a lower level of income in the first place.

4. Has the pandemic led to a rise in debt problems?

The burden of debt and living costs

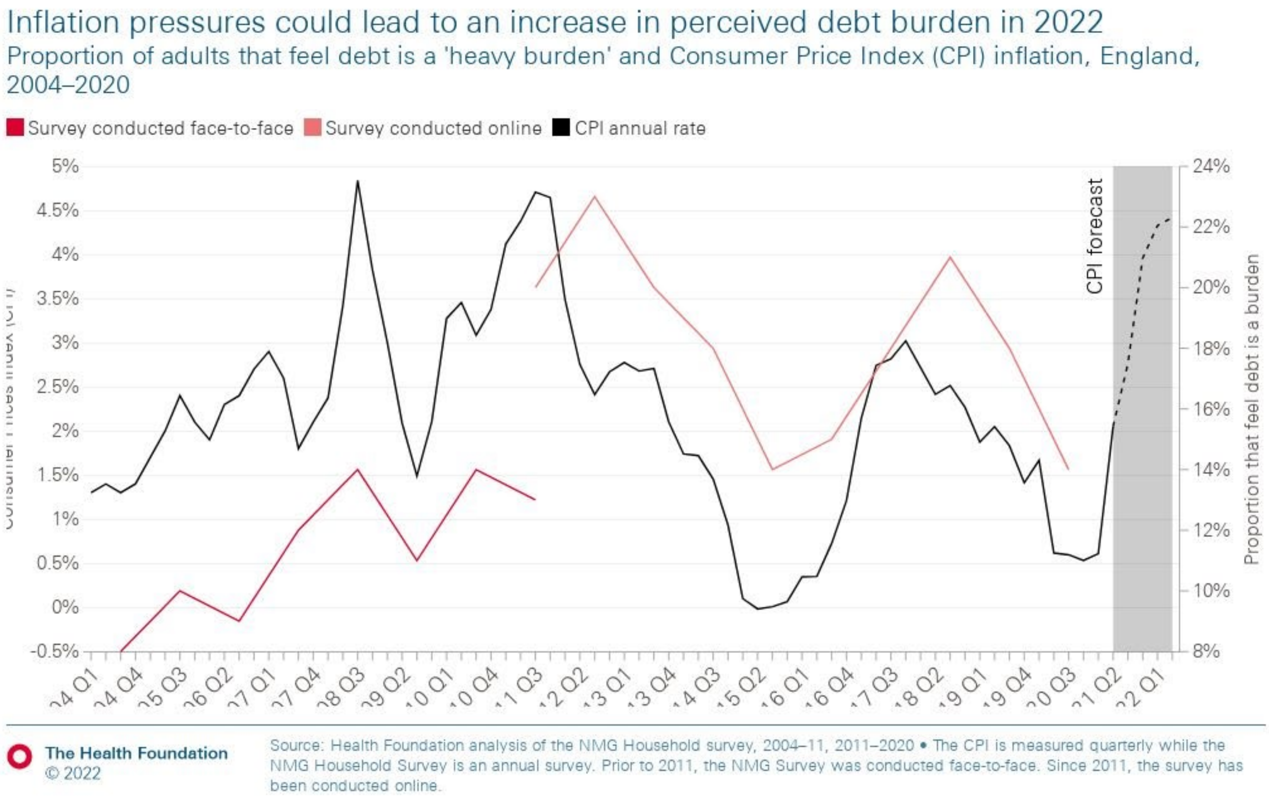
Whether or not an individual feels that repaying their debt and any additional interest is a heavy burden provides an indicator of the amount of stress or worry their debt is causing them. Figure 3 shows trends in people reporting they feel their debt is a heavy burden between 2004 and 2020, along with a measure of inflation (the consumer price index).

Figure 3 shows that those who felt their debt was a burden was falling in the years leading up to the pandemic and in September 2020. This is consistent with trends in the Wealth and Assets survey, which shows a fall from 7% to 4% between 2010–2012 and 2016–2018. The proportion that consider their debt a burden had previously fallen after the financial crisis (with banks less likely to lend to 'riskier' people) and increased during the living standards squeeze that followed the Brexit referendum and the devaluation of the pound.

Figure 3 also shows that the proportion of individuals who feel their debt is a burden has generally risen and fallen in line with CPI inflation from 2004 to 2020. The two have a strong correlation, with an R^2 value of 0.72, meaning 72% of the variation in debt burden is 'explained' by movements in CPI. While eventually we would expect higher rates of inflation to erode the value of debt, it is likely that in the short run squeezed real incomes make debt repayments feel like more of a burden.

Although inflation rates fell during the pandemic, they have been rising since March 2021 and are expected to continue to rise further (shown by the shaded area of Figure 3), as the energy crisis and supply chain problems drive pressure on prices. For individuals, higher living costs can impact on the ability to make debt repayments without feeling financially burdened. There is a risk that inflation pressures – beyond the energy price rise – will lead to a significant rise in people feeling that their debt is a heavy burden in 2022.

Figure 3



The changing debt position of households through the pandemic

Our analysis of the UK household longitudinal study shows that the proportion of working age adults behind with bills increased by a fifth immediately after the start of the pandemic – rising by 2.4 percentage points, from 7.4% in April 2020 to 9% in May 2020. Similarly, the Financial Conduct Authority estimates that there may have been up to 8.5 million over-indebted people in October 2020, an increase of 1.3 million since before the pandemic. However, our analysis of the UK household longitudinal study shows that by March 2021, the proportion of working adults behind with bills had almost returned to its pre-pandemic level.

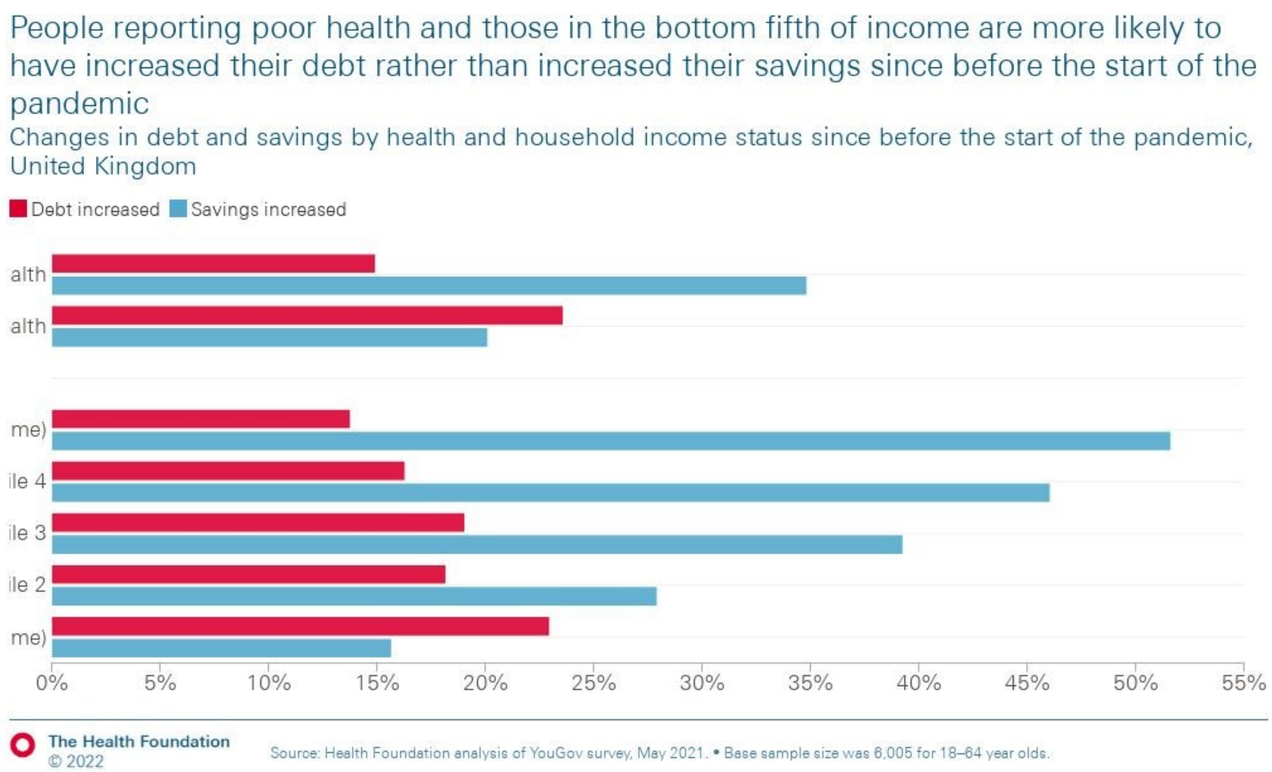
Other evidence, from a YouGov survey commissioned by the Health Foundation and the Resolution Foundation, also found average debts being brought down in 2021. The debt charity StepChange found a reduction in client volumes in 2020 compared with 2019. The extensive support offered through the early stages of the pandemic, such as the Coronavirus Job Retention Scheme and the £20 uplift to Universal Credit, have helped to prevent an overall build up of debt by guarding against a wide-scale income shock.

However, beneath the average our analysis also suggests two groups fared worse: those on low incomes and the self-employed, who faced more shortfalls in government support during the first national lockdown. The Bank of England also found those with unsecured debt were more likely to report financial difficulty. For some, resilience to future financial shocks has been eroded, creating a further risk of more people falling into problem debt in future.

Figure 4 shows the proportion of individuals that have experienced a net change to their debt and savings position since before the start of the pandemic by health status and income. In May 2021, more people reported an increase in savings rather than an increase in their debt in every fifth of income except the bottom. In the bottom fifth, more people reported an increase in debt than savings by 23% to 15%. This has been attributed to difficulties in shopping around for cheaper options and increased outlays, such as broadband connections for children. Half of those in the top fifth of income reported an increase in their savings while just 14% reported an increase in their debt.

A slightly higher proportion of those with less than good health experienced an increase in debt rather than savings, whereas those with good health were more than three times as likely to have increased their savings. To some extent this reflects the lower average incomes of those with poor health, but also highlights the close links between debt and poor health.

Figure 4



The story of debt and the pandemic so far then is nuanced. On average, an initial increase in household debt seems to have unwound with many improving their savings position. However, for some, particularly people with lower income or poorer health, the debt burden has increased, eroding resilience to future challenges.

Debt pressures on low-income families

For lower income households in particular there are reasons to think that over-indebtedness could increase in 2022. As well as changes to the financial position of these households and the inflationary pressures already discussed, key financial support provided through the pandemic has now ended. The withdrawal of the Universal Credit uplift, which even with changes to the taper rate and work allowances announced at Budget 2021, is set to leave 73% of Universal Credit claimants worse off.

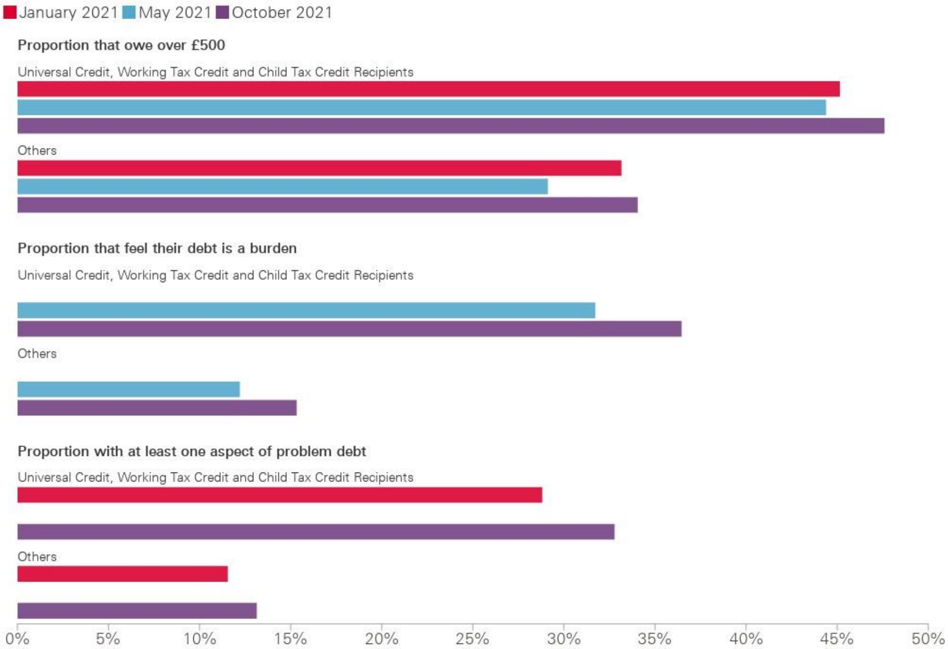
Figure 5 explores indicators of debt for working age people receiving or not receiving benefits, at up to three points in time during 2021, in order to help understand the implications of these wider pressures on problem debt (although some questions were only asked twice). The figure shows that people in receipt of Universal Credit or Tax Credits are more likely to indicate debt problems and to have experienced slightly larger increases in debt burden or indicators of problem debt.

For example, the proportion of people experiencing their debt as a heavy burden has increased by almost five percentage points for those receiving Universal Credit and Tax Credits compared to three percentage points for those who are not.

Figure 5

People receiving Universal Credit or Tax Credits are more likely to have experienced problems with their debt during 2021

Changes in debt during the pandemic by benefit status, age 18–64, United Kingdom, January, May and October 2021



The Health Foundation
© 2022

Source: Health Foundation analysis of YouGov surveys from January, May and October 2021. • January 2021 base sample size was 6,264 for 18–64 year olds, with a sample of 623 for those on Universal Credit or Tax credits. May 2021 base sample size was 6,005 for 18–64 year olds, with a sample of 730 for those on Universal Credit or Tax credits. October 2021 base sample size was 6,100 for 18–64 year olds, with a sample of 553 for those on Universal Credit or Tax credits.
Questions about debt being a burden and problem debt did not appear in every survey, so these data are not included for all periods of time.

The latest estimates represent the position just as the Universal Credit uplift began to be withdrawn – therefore the impact is unlikely to have fully filtered through. There is a significant risk that the debt position and subsequent risk to health worsens in future given three factors among people receiving benefits: levels of debt problems were already high – nearly half owed over £500 (compared with the Universal Credit standard monthly allowance of £325) and over a third experienced their debt as a heavy burden; their level of income is relatively low making it harder to deal with changes in essential living costs; and they are more likely to already have poor health.

These benefit cuts have left many low-income families in a precarious position, at a very bad time. It is estimated that energy bills will increase by around £750 this year, rising from around 8% of income for the bottom 10% to nearly 14%. The IFS expect this will lead to those on lower incomes facing a higher inflation rate than those on higher incomes. Citizens Advice suggest that for a single person on Universal Credit, energy bills may reach 37% of their income, up from 16% in 2020. Rising bills and reduced incomes risk tipping people on low incomes with debt into problem debt, particularly the nearly one in five who before the pandemic spent more than 20% of their income on debt repayments (as in Figure 2 above).

5. How public sector debt collection can create debt problems

For some, the enforcement of debt collection can be a bigger problem than the size of the debt. The potential growth in debt issues among those receiving social security may increase the importance of public sector debt collection, with those on low incomes more likely to owe debts to local or central government. People can be indebted to the public sector for various reasons, including: receiving an overpayment of benefit; receiving a Universal Credit payment advance; or owing a tax bill, such as council tax.

Some have identified a shift in the balance of where problem-creating debts are owed – away from the private sector and towards the public sector. The ways in which these debts are incurred and managed could have a particular impact on health given the likely lower income and worse pre-existing health of those affected.

There are several key issues on public sector debts that have implications for health:

- Public sector policy can drive debt problems. Work from the IFS shows that higher minimum payments for council tax lead to higher levels of arrears as small amounts of money are collected from low-income residents. Work from the New Policy Institute shows how limited local welfare assistance schemes and high minimum payments can also drive poor economic outcomes, such as destitution.
- Public sector debt collection can also be a problem, making the lives of those with debts to the public sector more stressful than they need to be. A House of Commons select committee found public bodies to be 'zealous and unsympathetic' in collecting debts, falling behind private sector standards on issues such as escalation and bailiff use. These in particular seem likely to exacerbate the stress experienced by those having debts collected.
- A related issue is third-party payments or deductions, which refers to debts such as council tax or rent being withdrawn directly from benefits to assist those on low incomes with repayment. However, these can often drive a benefit recipient's income levels to below what is sustainable, with multiple different claims on a recipient's income. Our freedom of information request shows that in May 2021, 531,000 Universal Credit claimants had at least one withdrawal from these benefits (around 11% of all claimants), and nearly 90,000 had multiple withdrawals from these benefits.

6. Where are the gaps in the current policy response?

There have been some improvements in how problem debt is managed, with the introduction of Breathing Space in May 2021. Breathing Space provides 60 days of legal protection from debt collection to allow people to get on top of their debts. There is also a version of the same policy for those with mental health problems, protecting people while their treatment lasts plus 30 days.

Statutory Debt Repayment Plans are due to be introduced in 2024 and will enable individuals to repay their debts over a manageable time period, stop the accrual of interest, and pause enforcement action.

These are welcome actions and reflect sustained campaigning from charities and others. However, they are more focused on ameliorating debt problems than preventing debt from becoming a problem in the first place. The success of furlough schemes and increasing social security during the pandemic shows the potential for preventative action in this area – preventing huge drops in economic activity from becoming huge drops in living standards. In the immediate term, preventing an increase in problem debt will require action to reduce the impact of energy price rises. There are different ways of doing this, such as increasing the Warm Homes Discount, but the most operationally straightforward way of doing so is increasing the basic rate of Universal Credit and other working age benefits.

Preventing health and employment shocks from leading to debt problems

Employment loss is one of the key drivers of over-indebtedness, and health can play a role in triggering these issues. A potential way of weakening the link between employment loss and debt could be more generous social security or social insurance, in a similar manner to the furlough scheme as some have argued for – with 80% of earnings paid for several months after job loss, or higher baseline benefit levels. There is also a role for enhanced occupational health support to prevent health problems from leading to employment loss, as well as increasing the generosity of statutory sick pay.

Public sector debt and enforcement

The public sector more broadly needs to think about ways in which it contributes to debt problems through social security design (such as requiring those on low incomes to pay council tax) but also through the layering of third-party deductions from benefits, which can leave people on below subsistence incomes. There is also the question of debt collection in the public sector, which uses bailiffs at an early stage of proceedings and can be aggressive relative to the private sector. The Centre for Social Justice have called for a single customer view, where multiple debts are considered together to prevent deductions from benefits being too large.

Emergency support for one-off situations had been lacking with the end of the discretionary Social Fund and the patchwork nature of Local Welfare Assistance. The temporary reintroduction of similar support in the form of the government's new £500m Household Support Fund is a part recognition of this. A version of this scheme aimed at larger expenses rather than living costs on a permanent basis, could help reduce those seeking inappropriate debt products to deal with such expenditures.

7. Conclusion

The end of furlough and the Universal Credit uplift has brought debt into sharp focus, and with the anticipated £750 increase in annual energy bills and inflation expected to reach 6% in April, the coming months are likely to make repayments feel more stressful. This will have consequences for health and wellbeing.

A big bang increase in debt with the unwinding of these measures is unlikely, but as this analysis shows, there are some early warning signs among those receiving benefits – most of whom will be receiving a lower income now that the Universal Credit uplift has ended.

Current policy is developing well in mitigating the consequences of debt problems for those experiencing them. However, preventing problems from arising in the first place will better protect health and avoid starting a potential cycle of health and debt problems. Taking action to offset the impact of rising energy bills should be an immediate priority.

8. Supporting information

About the authors

- Adam Tinson (@adamtinson) is a senior analyst in the healthy lives team
- Sabrina Bunbury is an analyst intern in the healthy lives team

About the analysis

This long read features original Health Foundation analysis of data from several online YouGov surveys, which were designed and commissioned by the Resolution Foundation in partnership with the Health Foundation.

Underlying data for Figure 4 and Figure 5 are from YouGov Plc. The surveys were carried out online. The figures have been weighted and are representative of all UK adults (aged 18 and older). The figures included in this long read have been analysed independently by the Health Foundation and do not represent the views of YouGov or the Resolution Foundation.

This long read was published originally on 20 January 2022 at the following address: www.health.org.uk/publications/long-reads/debt-and-health