Debt, poverty and living standards in Great Britain

Research for Christians Against Poverty

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1 Introduction

In 2023, the rising cost of living presents the most significant challenge to living standards for many years. This comes after a period of social and economic uncertainty resulting from the pandemic, compounded by unresolved questions surrounding Brexit and significant political uncertainty. Very high inflation looks likely to continue well into 2024, and substantial increases in home energy bills since 2022 poses a huge problem to many households already struggling to keep afloat. With wages not keeping pace with inflation, there is a growing gap between what many people have and what they need for a decent standard of living, as described through the Minimum Income Standard (Davis et al, 2022; Padley and Stone, 2023). Millions of people in the UK risk falling well short of this standard as costs continue to rise and as our social security system fails to provide adequate and appropriate support.

At the same time, there are frequent reports of increases in the number of households in debt and in the size of household debt. Research by the Financial Conduct Authority [1] found that the number of adults missing payments on any domestic bills or any of their other credit commitments in 3 or more of the previous 6 months had risen from 4.2 million (8%) in May 2022 to 5.6 million (11%) in January 2023, while over three-quarters (77%) of UK adults in the 6 months to January 2023 felt that the burden of keeping up with their domestic bills and credit commitments had increased. The Bank of England reported that 'net borrowing of consumer credit by individuals rose to £1.7 billion in June [2023], the highest since April 2018' [2]. Research by StepChange points to the growing use of credit as a safety-net in the absence of other options to keep up with household bills, and they estimate that 4.4 million people who were struggling to pay bills and credit commitments borrowed £13 billion to cover these and make it to the next payday[3]. This can have a detrimental impact on people's health and well-being, and can dramatically increase the likelihood of material hardship.

In this context, there is a need to develop a fuller understanding of the relationship between debt, poverty and minimum living standards. The analysis reported here aims to achieve this using data from the Wealth and Assets Survey containing extensive information on both income and debt. We examine patterns in the persistence and depth of inadequate living standards for those in debt, identifying whether some groups are particularly vulnerable to experiencing detrimental financial outcomes, and exploring whether there are associations with different types of debt. In investigating these patterns and associations, the analysis aims to identify key areas for policy to address and to inform 'solutions' that could help people to live debt-free and with dignity.

The report begins with a review of existing literature and evidence on the relationship between debt, poverty and living standards. After briefly describing the data and methods used in the remainder of the report, we examine how different types of debt might have differential effects on the risk of falling into economic difficulties, and how this relates to

1 https://www.fca.org.uk/publications/financial-lives/financial-lives-january-2023-consumer-experience

2 https://www.bankofengland.co.uk/statistics/money-and-credit/2023/june-2023

3 https://www.stepchange.org/Portals/0/assets/credit-safety-nets/Falling-behind-to-keep-up-the-credit-safety-net-and-problem-debt-StepChange.pdf

the likelihood that individuals will seek debt advice. We then provide evidence on how subjective perceptions of the financial burden of debt interact with other key household characteristics such as household composition and economic activity, and how this in turn affects the risk of experiencing financial hardship. We explore how debt contributes to the persistence and depth of inadequate living standards, and how life course transitions interact with these relationships. We conclude by reflecting upon the multidimensional nature of associations between debt, poverty and living standards, and how this might change in the current context of high inflation and rapid increases in the cost of living for low income households.

2 Review of the literature

This review explores the evidence on poverty and indebtedness. Much of the recent research examining debt, particularly in relation to low-income households, is concentrated around two global issues: first, the collapse of international financial markets in 2008 and the years of austerity thereafter (this is also set in the context of rapidly growing rates of household debt since financial liberalisation of the 1980s); and second, the Covid-19 pandemic affecting households worldwide. Large-scale economic, social and - in the case of Covid-19 - health shocks magnify the challenges faced by low-income households and raise questions about what alleviates and what exacerbates these challenges: and evidence in relation to these questions are interwoven throughout the studies.

This review is organised into two sections, first considering why households become indebted, including an examination of changes to regulations and lenders' behaviours around credit and debt, as well as a discussion of poverty and the increasing likelihood of indebtedness in the pursuit of meeting essential needs, as well as structural and systemic factors such as welfare retrenchment or global issues described above. Second the literature review considers the impact of debt on living standards, where evidence demonstrates that debt and over-indebtedness lower living standards via direct (i.e. lowering disposable incomes) and indirect routes (i.e. affecting the psychological wellbeing needed to find a route out of indebtedness and poverty).

2.1 Why do households become indebted?

This section brings together the literature on the drivers of debt and over-indebtedness among low-income households. It begins with evidence on changes to government regulation and lender practices, pointing to what has been referred to as 'easy credit' by authors such as Dearden et al, (2010) since the financial liberalisation of the 1980s (Dagdeviren et al, 2019). The section then progresses to highlight other drivers of debt, principally the challenge of living with persistently insufficient means to meet every day needs, the poverty premium (exemplified by the 'payday loan') and issues around welfare payments.

Credit and debt changes

Household debt in the UK, the US and Canada has grown exponentially since the middle of the 1990s (Balmer et al, 2010; Dagdeviren et al, 2019; Montgomerie, 2006). Montgomerie (2006, p.112) observed the tendency among policymakers in these countries to claim that increased borrowing was due to households 'taking advantage of cheaper credit'. Indeed, credit and debt are and can be very useful:

> *'For many, debt is a well-managed mechanism by which individuals and households can acquire homes, cars and other commodities that many would not ordinarily be able to afford without mortgages or other financing arrangements.'*
>
> (Balmer et al, 2010, p. 3)

In general, over time, credit and debt have become widely available to more households. Access to mainstream debt, such as overdrafts and credit cards, has expanded to include low-income households who previously would not have been eligible. Non-mainstream debt, such as payday loans, mean that low-income households in particular have more options to borrow money. However, the greater availability of credit can create, as well as 'solving', problems. The high costs of repayment can have detrimental effects on living standards, with debt becoming 'problem debt', if and when households cannot afford to keep up with repayments. Writing in the period of austerity following the 2008 global recession, Dearden et al, (2010, p. 39) described low-income households as 'casualties of the previous ten years of easily available credit', a result of both a lack of creditor assessments of the borrower's ability to repay and government regulation and restrictions on lending. Lenders have taken higher risks with who they lend to and how much they lend, incentivised by the fees they can charge when loans need to be extended (Boushey and Weller 2008; Pressman and Scott, 2009). It is clear then that the high prevalence of debt in the UK and globally is not merely about individual drivers, but also reflects top-down factors, for example, regulatory practices, social norms or the labour market.

Indebtedness among low-income households will be explored next, drawing attention to bill arrears as a particular form of debt, and the role of societal factors, especially cuts to welfare budgets which impact the poorest households.

Poverty and debt: Taking on debt to cope with low income

Writing ten years after the 2008 financial crash and the recession which followed, Dagdeviren et al, (2019) conducted a study, including analysis of survey data and semi-structured interviews, to explore the growth of indebtedness in low-income households in the context of austerity. When comparing low-income household indebtedness before and after the recession, the authors noted a shift in the nature and character of debt:

> *'Unlike the pre-crisis period when [low-income households'] debt reflected a desire 'to keep-up with the Joneses', post crisis, a different form of indebtedness has emerged – a notable rise in debt for essential needs (rent, food, utilities). An important element of [low-income household] indebtedness with respect to unsecured debt during the period of austerity has been arising from difficulties with essential payments rather than the aspiration of households to accumulate assets or to keep up with their wealthier peers.'*
>
> (Dagdeviren et al, 2019, p. 160)

This indicates that low-income households are not necessarily taking on debt to achieve what Dearden et al, (2010) describe as a 'high materialistic living standard' (p.44), but rather are entering into indebtedness in order to meet basic needs or via bill arrears. Hood et al, (2018) found that debt arrears, including 'public sector' debt (e.g., council tax arrears, universal credit advance payments), was experienced by the lowest income households, occurring in 16% of the lowest income decile, compared to just 1% of the highest income decile. Fitzpatrick et al, (2020) found that the most prominent debts of households living in destitution were with the Department for Work and Pensions, local authorities and utility companies.

Debt can be 'accrued as a coping strategy to stave off a lack of necessities' (Fitzpatrick et al, 2016, p. 30) and can offer a reprieve where savings or access to other resources are lacking, to 'smooth' financial challenges, albeit temporarily (Barker et al, 2018; Dearden et al, 2010). For example, there is evidence that non-mainstream forms of debt, such as payday loans, can help to improve financial stability (Zaki, 2016). However, there is a 'poverty premium' associated with payday loans, in this case the often significant additional costs that low-income households face because they cannot access mainstream credit:

> *'Payday loans are a particularly expensive form of very short-term borrowing. Borrowers usually obtain a one- to two-week loan, and write a check post-dated for payment immediately after the next payday… there is considerable evidence that those in need have difficulty obtaining cheaper alternatives.'*
>
> (Gomes et al, 2021, p. 964)

Although mainstream debt has become more widely available, it continues to be out of reach for many. Equally, the take up of non-mainstream credit and debt may result from individual perceptions about eligibility. Barker et al, (2018) note that non-mainstream debt may be accrued by people who perceive 'traditional credit lenders as inaccessible' (p. 12); Elliehausen and Lawrence (2001) found that 56.5% of people who were payday loan borrowers had credit cards, but 61% of those with credit cards had not used them for at least a year to prevent fee charges for exceeding credit limits. This suggests that, for at least some households, non-mainstream debts are not necessarily perceived to be a last resort in comparison to other loans, but are seen as a preferable - perhaps more manageable - option, despite the additional expense associated with these. However, the risk of debt becoming problematic increases where the need to 'smooth out' or make up for a financial shortfall is not a one-off occurrence. Some households have to resort to 'debt as a function of persistent low levels of income' (Dearden et al, 2010, p.44). Ellison et al, (2011) also found that the 'demand for credit' among low-income households was driven by lacking savings and the pressure to manage budgets 'on an income that is often inadequate to meet their needs' (p. 1). Evidence from Agarwal et al, (2009) suggests that households that use payday loans use them frequently. An already-low income can be stretched even further by key life events, like starting a family, or adverse events, such as relationship breakdown or the loss of employment (Balmer et al, 2010; Dearden et al, 2010). Additional financial pressures can also result from societal (and global) events, such as the recent cost of living crisis or Covid-19:

> *'The cost of living crisis continues to take a heavy toll, with nearly four-out-of-five households reporting an increase in overall spending since the start of 2022, mainly due to hikes in energy bills but also the cost of food, housing, and clothing.'*
>
> (Evans and Collard, 2022. p.1)

> *'The Covid-19 pandemic has exacerbated wealth inequality rather than pushed against it… Households with higher income have saved money, as restrictions and concerns about the virus have caused a reduction in spending on retail and hospitality. Meanwhile, lower-income households are more likely to work in these sectors that have been affected and see their income fall or go entirely – pushing them into debt to cover just the essentials…'*
>
> (Roberts, 2023, p. 37)

Whether households are living amidst a global recession or pandemic, the response of government plays a key part in how they experience these events, and the financial impact that these have. Brewer and Handscomb (2021), from a survey of 6,389 working-age adults in Great Britain, found that Universal Credit caseloads had doubled during the Covid-19 pandemic. Fitzpatrick et al, (2020) published their third report in the series of studies on *Destitution in the UK* which explored many aspects of destitution, including prevalence and distribution, before and during the Covid-19 pandemic, as well as analyses of issues relating to debt. The study found that among the participants in receipt of Universal Credit, the five-week wait for the first payment caused significant financial strain. To alleviate this pressure, many participants resorted to taking an advance which they would need to repay, even during the Covid-19 pandemic:

> *'Unlike other benefit deductions, these [Universal Credit] advance repayments were not suspended during the COVID19 crisis, meaning up to a 30% deduction in standard allowance until the advances were paid off. Many of those we spoke to made a direct link between these deductions and their need to use food banks.'*
>
> (Fitzpatrick et al, 2020, p. 31)

Given that the purpose of Universal Credit is to support households on low incomes, policies and processes such as these seem to contravene the principles of welfare, i.e. to support those most in need; this sentiment was expressed by a participant in Fitzpatrick et al's (2020) study when they questioned who would be able to afford to cover the five-week Universal Credit gap when they were applying for welfare in the first place. Writing before the Covid-19 pandemic, Dagdeviren et al, (2019) were highly critical of welfare policy more generally, pointing especially to substantial welfare spending retrenchment and also 'disciplinary aspects of welfare policies' which they argued 'have become particularly aggressive' (p.163). Analysing semi-structured interview and survey data, the authors concluded:

> *'…further retrenchment of the welfare state has significantly contributed to the indebtedness of [low-income households] through the implementation of the cap on benefits, the closure of the Social Fund, the aggressive use of sanctions and debt collection and enforcement actions which severely limit the means of survival for the poor and force them into debt for some of their most basic needs.'*
>
> (Dagdeviren et al, 2019, p. 160)

With these findings, the authors challenged the rhetoric around credit and debt which individualises indebtedness, arguing instead that household indebtedness is significantly impacted by the labour market and (the focus of their study) changes in the nature and structures of the social security system. In a longitudinal qualitative study, Atfield et al, (2016, p.11) determined, similarly, that there were some households for whom debt was insurmountable and 'this kind of indebtedness means addressing structural barriers in society' and that 'debt advice can limit the impact of debt but it can do little to promote repayment or to limit debt itself' where households simply do not have sufficient incomes to meet their essential needs.

Households on low incomes report the most difficulty in servicing debt; Atfield et al, (2016) found this to be the case regardless of the source of income (i.e. from employment or from benefits). Studies examining the risk of problem debt have found that some populations are more vulnerable than others. People of working-age, lone parenting, who are disabled, with poor mental health, renting their home, residing in a flat, not in work or in casual lower paid work, from non-white ethnic backgrounds and with lower educational attainment have the lowest financial stability and the highest rates of over-indebtedness (Balmer et al, 2010; Gregory, 2021; Hayes et al, 2016). Ultimately, what these groups have in common is that they are more likely to have lower incomes and less likely to have access to savings (than people who own their own home, are in professional occupations or are older and have accumulated assets, for example). It is likely that over-indebtedness among these groups comes back to 'a fundamental lack of money' (Atfield et al, 2016, p.11).

2.2 The impact of debt on living standards

This section moves the literature review on from the question of why and how low-income households take on debt to look at what the consequences of debt and over-indebtedness are for the living standards of low-income households. The section first discusses the direct financial impact of debt. For example, if the proportion of a household's income required to service debt is too large, this lowers the household's disposable income to a point where this is too low to purchase all of the goods and services that they need. The subsequent adverse impact on living standards can also impact households in a way which produces indirect financial challenges. Stress, relationship breakdowns and lowered mental health and wellbeing can all lead to additional financial strains and 'shocks', such as moving house or the loss of a job (Dearden et al, 2010), and/or feeling psychologically overwhelmed can reduce the resilience needed to think about, and plan, a route out of indebtedness (if this is even a possibility).

Direct financial impacts of debt

There is a question of whether debt, specifically 'problem debt' whereby the individual or household is unable to make repayments, can cause poverty. In a study by Barker et al, (2018, p. 12) interviewees were reported to have 'identified debt as a cause and/or a symptom of destitution', however the relationship between debt and poverty is complex, and there have not been any studies which demonstrate a definitive or causal link between debt and poverty (a finding shared by Hartfree and Collard, 2014). Nonetheless, there is evidence that debt reduces household disposable income and the ability to purchase essential goods and services, and that therefore debt can lower household living standards.

Pressman and Scott (2009) argued that household income statistics in the United States could only give a partial picture of household living standards because they did not take into account the proportion of income required to service interest payments on consumer debt, and consequently reported trends would 'overstate improvements in living standards over time' (p. 128). To understand the impact of debt on living standards, and therefore gain an improved understanding of living standards more widely, the authors analysed the incomes of eight different household types, subtracting expenditure required for servicing consumer debt, and then compared the remaining income to US government poverty thresholds. In doing so, they found that poverty rates in the US were higher than previously calculated

because although many households appeared to live above the poverty line based on their incomes, servicing debt diverted expenditure which could otherwise be used for necessary goods and services, driving living standards much lower than they appeared in government poverty statistics. At the time of the study, four million people in the United States were estimated to be 'debt poor'. In a follow-up study, Pressman and Scott (2014) aimed to identify the characteristics of 'debt poor' households and how these might be different from other households.

> *'The debt poor are somewhat like the poor (they are unlikely to own a home or have private health insurance), somewhat like middle-class households (race), and in-between in other ways (education levels). Debt poor households were likely middle class once, having access to considerable consumer credit; but following a loss of income, their large debt burden put their living standard below the poverty threshold.'*
>
> (Pressman and Scott, 2014, p. 423)

There is evidence that the recourse to debt among low-income households can occur following a specific event or succession of events (such as the loss of employment or divorce) which, along with lacking savings, places households under financial strain (Dearden et al, 2010). Low-income households are also more likely to be in arrears on their utility bills (Bridges and Disney, 2004; Dearden et al, 2010; Hartfree and Collard, 2014), adding to financial strain and further affecting living standards. The impact that debt and arrears can have on living standards appears much greater for low-income households, driving households into - or further into - poverty:

> *'Those with lower incomes are less likely to hold any unsecured debt, but are more likely to be in 'net debt', with unsecured debts of greater value than their financial assets. 35% of those in the lowest income decile have debts of greater value than their financial assets. This compares with 10% in the highest income decile.'*
>
> (Hood et al, 2018, p.11)

Households in 'net debt' may find it more difficult to manage finances, service debts and move out of poverty. A longitudinal qualitative study from Dearden et al, (2010) included 60 low-income households to examine the kinds of debt they experienced, how they became indebted and how they managed debt. As part of this research, the authors looked at factors which helped or hindered households' abilities to service repayments. Labour-related factors, such as finding more stable or better paid employment facilitated debt repayments. Yet, as the authors found, the control that participants could exert over these factors was limited, and they felt in even less control over 'adverse shocks' (p.15), such as redundancy. Other factors which could alleviate debt included access to savings (for example, when the household received inheritance or became eligible for pension payments), demographic changes (such as resident adult children beginning to contribute to household finances) or social-capital factors (where the household had access to good quality information and/or professional money advice). However, in circumstances where households did not have the social capital or positive income changes described above, they tended to resort to expenditure-related changes:

> *'In these circumstances, people reduced their outgoings and to make ends meet often went without basic needs. Their circumstances also limited their ability to meet their current financial commitments (including existing debts and arrears) or to avoid further use of credit to meet day-to-day needs.'*
>
> (Dearden et al, 2010, p. 5)

Ellison et al, (2011) found that low-income households were more likely to use non-standard credit with high annual percentage rates (APR). With very low disposable incomes, households can fall further behind on their debt repayments, and may, as Dearden et al, (2010) state above, need to resort to more borrowing. Living with financial constraints and pressures for a prolonged time can also limit the households' abilities to move out of debt; they can find themselves in a 'debt trap' making minimum repayments but unable to clear the original amount borrowed (Hartfree and Collard, 2014). The need to prioritise debt repayments, and the financial strain that this debt trap places on households with children was explored by the debt charity StepChange (2014) who reported that:

> *'…the costs of keeping up debt repayments leads to further pressure on household budgets, so children miss out on the basics. Parents are often faced with an impossible choice: do you take on further credit or cut spending on essentials for your children, reducing their quality of life?'*
>
> (StepChange, 2014, p. 2)

Debt, and especially problem debt, can have a significant impact on household living standards, reducing disposable incomes and draining other financial resources, such as savings. The ongoing challenge of servicing debt and meeting essential needs can place households under significant emotional and relational pressure, and there is evidence to suggest that such pressures can have further indirect impacts on finances and living standards. These will be examined next.

Indirect financial impacts of debt

Debt can indirectly impact household finances and living standards, but to understand this fully it is important to first explore the ways that debt can affect people in their everyday lives. Balmer et al, (2010) analysed the survey data of respondents who reported issues relating to financial difficulties and problem debt, with the intention to specifically focus on how problem debt manifests, how households respond to it and the outcomes of problem debt. In that study, 41.3% of respondents reported handling problem debt and financial problems alone, which may go some way to explaining high levels of stress and related ill-health found by the authors:

> *'A range of adverse consequences also stemmed from debt/financial problems, with a high percentage reporting suffering from stress related ill-health (around forty percent). Around seventeen percent also reported a loss of confidence, twelve percent a loss of income, ten percent physical ill-health and six percent relationship breakdown.'*
>
> (Balmer et al, 2010, p.2)

It is worth highlighting that relationship breakdown was one of the examples of adverse life events which Dearden et al, (2010) found to put households into financial shock, constraining incomes, lowering living standards and precipitating the recourse to debt. Financial pressure and its impact on families has been reported by StepChange (2014, p.5) too:

> *'Families trapped in problem debt are more than twice as likely to argue about money problems, leading to stress on family relationships, and causing emotional distress for children.'*

Dearden et al, (2010) described that different financial, emotional and relational pressures can feed into one another, 'placing further strain on an individual's ability to retain a foothold in the labour market, keep their family together and manage their finances effectively' (p.17). Given the negative consequences of indebtedness, it is perhaps unsurprising that households accessing debt advice services have been found to have lower wellbeing scores in comparison to the wider UK population (Gregory, 2021). On a practical level, the psychological impact of debt and stress-related illnesses can eventually lead to deepening financial problems. People have reported going through periods of 'denial' or 'inertia' in reaction to over-indebtedness (Dearden et al, 2010, p. 20). The term 'debt trap', as well as depicting unserviceable debt, has also been used 'to describe the negative psychological impacts of having problem debt where people feel too overwhelmed by their financial circumstances to be able to address them' (Hartfree and Collard, 2014, p.15).

2.3 Conclusion

Global shocks, such as the economic recession following the crash of 2008 and the Covid-19 pandemic, call attention to the challenges faced by low-income households, perhaps accounting for the timing of the many studies that are concentrated around these periods. Debt and poverty are interwoven issues, with low incomes leading households to accrue debt in the form of credit, payment advances and bill arrears, and these debts, in turn, limit households' capacity to meet every day essential needs.

3 Data and methods

3.1 Data

The Wealth and Assets Survey (ONS, 2022) is a large, longitudinal survey that aims to provide data on the economic well-being of households in Great Britain[4]. Data collection commenced in July 2006 with the first wave of interviews conducted over a two-year period, providing data from over 30,000 private households. The survey contains detailed information about assets, savings, debt and planning for retirement, as well as attitudes to these. The longitudinal design of the survey also provides the opportunity to explore the dynamics of financial wellbeing.

Variables relating to debt in the Wealth and Assets Survey

The survey includes detailed information on different types and amounts of debt at an individual level. The categories are as follows:

- Formal loans (including whether secured/unsecured)
- Student loans
- Informal loans from friends/family
- Catalogue/mail order payments
- Credit cards
- Store cards
- Hire purchase
- Arrears on household bills

We can therefore investigate not only the role of debt overall, but also how different types of debt have a differential impact on the risk of poverty and inadequate living standards. In the more recent waves, there is also a suite of questions relating to 'problem debt'. Respondents are asked to self-report on, for example, whether they have received debt advice, and whether they are finding debt a heavy burden.

3.2 Measuring key concepts

Before exploring these critical questions looking at debt in relation to poverty and living standards, it is important to be clear about what is meant by these terms.

In the UK, the most commonly used measures of poverty are income-based and use a threshold of **60% of equivalised median income** to define the 'poverty line' using the Households Below Average Income survey data (DWP, 2022). In the analysis presented here, households are considered to be below the UK poverty line if their income is 60% below the median household income after housing costs for that year.

Related (but not identical to) poverty is the concept, and 'measurement', of living standards. Poverty measures tend to focus on what individuals or households lack, while living standards measures are often based on a 'basket' of goods and services required for a

[4] England, Wales, and Scotland.

particular living standard, which provides a benchmark against which incomes can be assessed. Within the UK, the most established of these measures is the Minimum Income Standard (MIS). MIS sets out what the public agree is needed in order to have a minimum socially acceptable standard of living in the UK today. This living standard is about meeting the essentials – food, clothes and shelter, but goes beyond this, setting out what the public think is needed in order to participate in society *and* meet material needs. Since 2008, the MIS research programme has established and described the baskets of goods and services required by a range of household types, and the cost of providing these minimum baskets, based on multiple discussions with groups of members of the public about what different households need to have this living standard. The MIS threshold is already used on an annual basis to look at the adequacy of incomes relative to this 'standard' (see Padley and Stone, 2022).

Figure 3.1 Percentage of individuals in households below the MIS threshold by broad demographic group: WAS waves 3-7

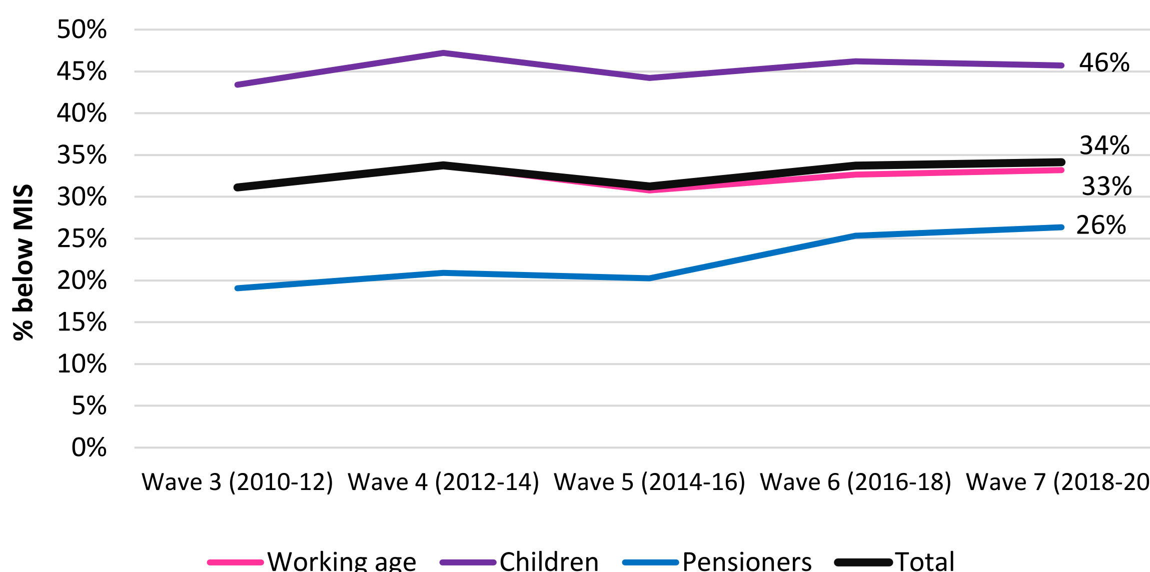

Figure 3.1 shows the estimated percentage of individuals below MIS in the Wealth and Assets (WAS) survey in waves 3-7, covering the years 2010-2020. The overall percentages below MIS in each group are slightly higher than we see in previous analysis of the Family Resources Survey (Padley and Stone, 2022) but are broadly in line with what we would expect in the general population.

As part of the development and analysis of MIS, we produce an indicator that defines six core household types:

- Working-age couple
- Pension age couple
- Couple with children
- Lone parent
- Working-age single
- Pension age single

Where feasible, we use this categorisation to examine the ways in which the relationship between debt, poverty and living standards varies by household composition. When we break down the analysis into additional sub-categories and sample sizes are smaller, we use an aggregated version of these categories, looking at working-age adults with/without children, and pensioners, without disaggregating by partnership status.

3.3 Analytical approach

For the cross-sectional parts of the analysis, we use data from the most recent wave of the Wealth and Assets Survey (Wave 7)[5], which includes data collected from 2018-2020. The fieldwork ended in Spring 2020, so the data are largely unaffected by the Covid-19 pandemic. The cross-sectional analysis is primarily descriptive, giving us new insights into the patterns and relationships between debt and living standards for different subgroups of the population, and in relation to different types of debt. However, we also use regression analysis to provide estimates of the relationships between, for example, the value of repayments for which a household is indebted and their risk of inadequate living standards.

For the longitudinal analysis, we use five of the seven currently available waves of the Wealth and Assets Survey, with a sample size of 17,534 households in the most recent wave. The first waves pre-date the MIS research and are therefore excluded from this analysis. We are able to link respondents across waves, and can therefore examine how their experiences of debt and inadequate income change over time, and how these interact. In addition to descriptive analysis, we use event history analysis[6] to model the relationship between time-varying factors across the life course and the ways in which these factors interact with debt and living standards.

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[5] From Wave 6 onwards, the timing of the WAS fieldwork was altered to follow financial years, and these most recent datasets are referred to as 'rounds' rather than waves to distinguish between the different timings of fieldwork. However, for the purposes of this report we use the term waves throughout, for consistency and to avoid confusion.

[6] Event history analysis is a form of survival analysis, which models the duration until the occurrence of a particular event (in this case, moving below a specific threshold of living standards), where the duration is measured from the time at which an individual becomes exposed to the 'risk' of experiencing the event.

4 Type of debt

This section explores how different types of debt are used by particular types of household, and how the relationship between debt and inadequate living standards varies by type of debt.

4.1 Key findings

- **Overview:** those who have bill arrears, mail order instalments or HP agreements are more likely to be living below MIS than those who do not. Conversely, those who do not have any credit, charge or store cards are at greater risk of being below MIS than those who do.
- **Bill arrears:** Those who have arrears for utility bills (Electricity, Gas & Water), council tax and rent are more likely to be living below the MIS.
- **Credit, store and charge cards:** Those do not have any credit, charge or store cards are more likely to be living below MIS. Those with one card are more likely to be below MIS that those with multiple cards. For those who have any cards, the risk of being below MIS is higher for those who make a part payment of the bill each month, leaving an outstanding balance.
- **Mail order:** Those paying interest and those paying smaller instalments on mail order purchases are more likely to be living below MIS.
- **Loans:** For those who have one loan, the risk of being below MIS is higher for **working age adults with children**, compared to those of working age without children and those of pension age. Those with an **informal loan from friends and family** are more likely to be living below MIS, compared to those who have a formal loan. **Working age parents** are more likely to be living below MIS if they access a loan **to pay bills or other** debts or to make ends meet, in comparison to those of working age without children**.**
- **Hire purchase:** The risk of being below MIS is higher for those who have any hire purchase agreements and for those paying smaller instalment amounts.

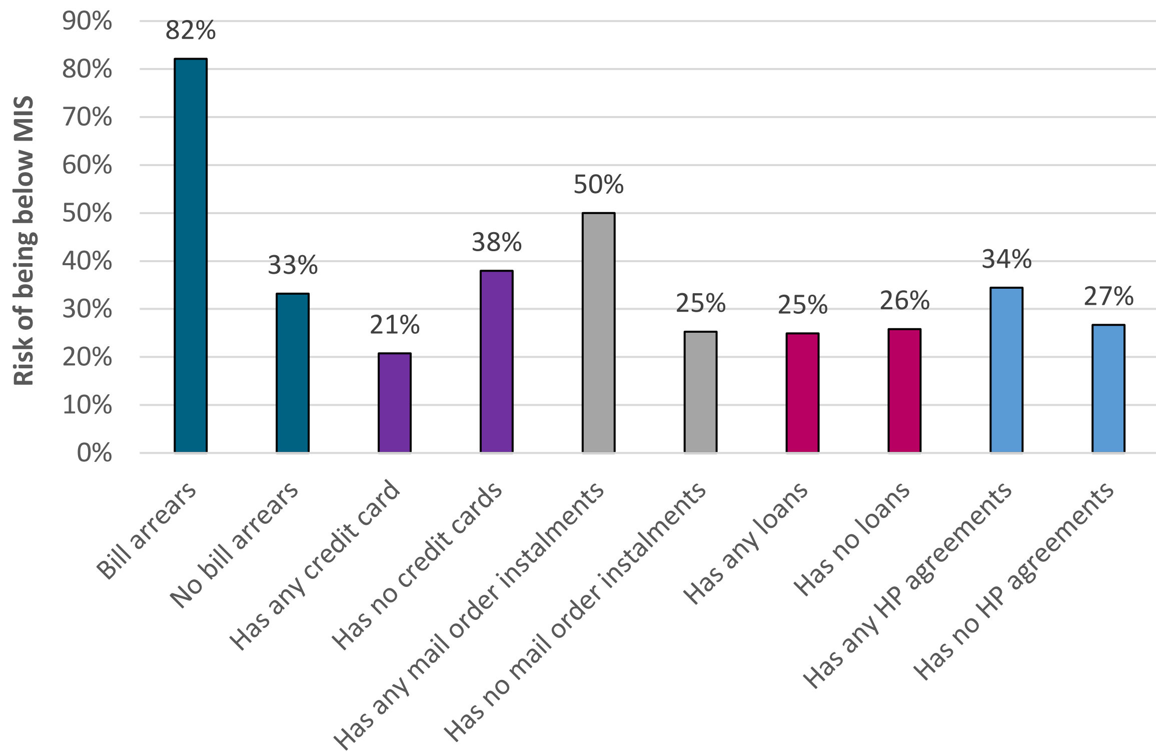
4.2 Overview

The presence or absence of different debt types was explored by the risk of respondents being below MIS.[7] Those with bill arrears, mail order instalments or hire purchase (HP) agreements all show a greater risk of being below MIS than those without these types of debt. In contrast, those with a credit card are less likely to be below MIS than those without a credit card. This could be because those living below MIS find it more difficult to access credit cards and therefore need other forms of credit to help manage purchases. It could also be the case that, unlike other forms of credit (such as mail order, hire purchase or loans), credit card debt is not linked to a specific or one-off purchase, and therefore it may be that credit cards provide a 'flexible' form of credit providing households with a way of 'income smoothing' to deal with unpredictable demands on their finances. However, credit

[7] For child maintenance payment arrears, court fines, income tax arrears, VAT arrears, telephone bill arrears and any other bill arrears, the sample size was too small to report.

cards are not a panacea: targeting those who have insufficient income with credit cards will not solve their problem debt.

Figure 4.1 Overview of risk of being below MIS by debt type

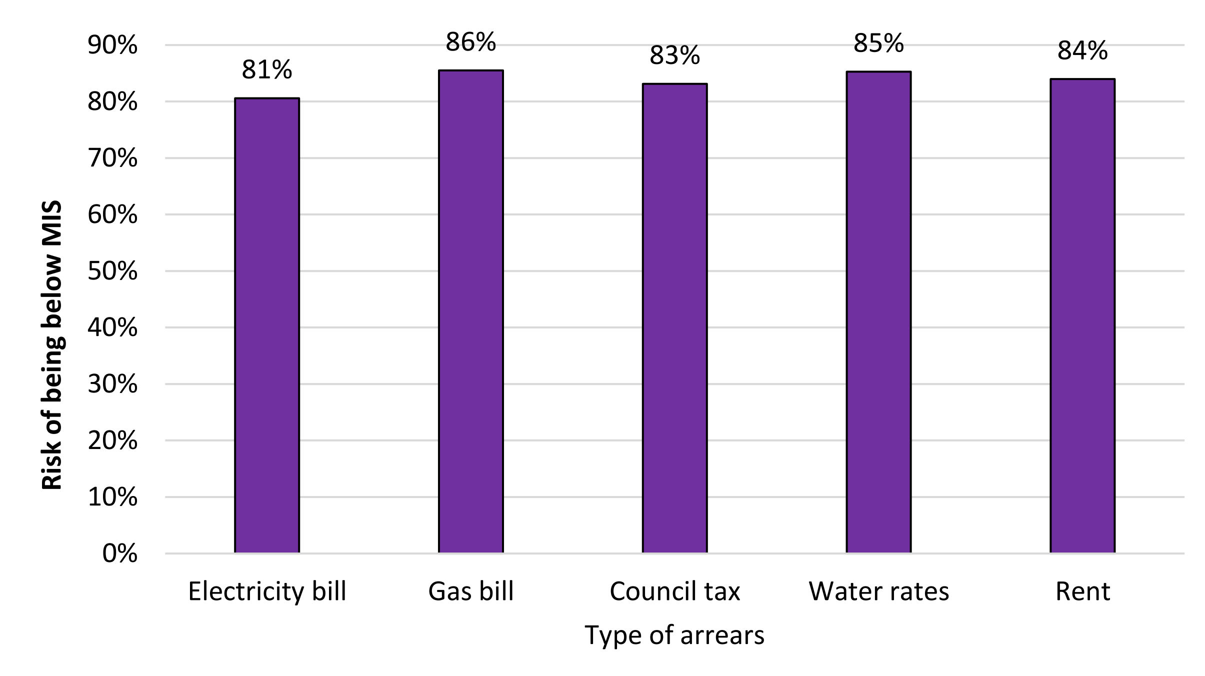


4.3 Bill arrears

Those who have arrears for utility bills (electricity, gas & water), council tax and rent show a high risk of being below MIS (Figure 4.2) compared to those without bill arrears. This reflects the evidence discussed in Section 2, indicating that low-income households are entering into indebtedness in order to meet basic needs or via bill arrears, rather than to materially improve their living standards.

There are clear policy implications for debt collection here: those who have bill arrears are at high risk of being below MIS pointing to a wider problem of insufficient income. In this light, it is important that debt collection schedules should not be arbitrary and need to be informed by a households' ability to pay.

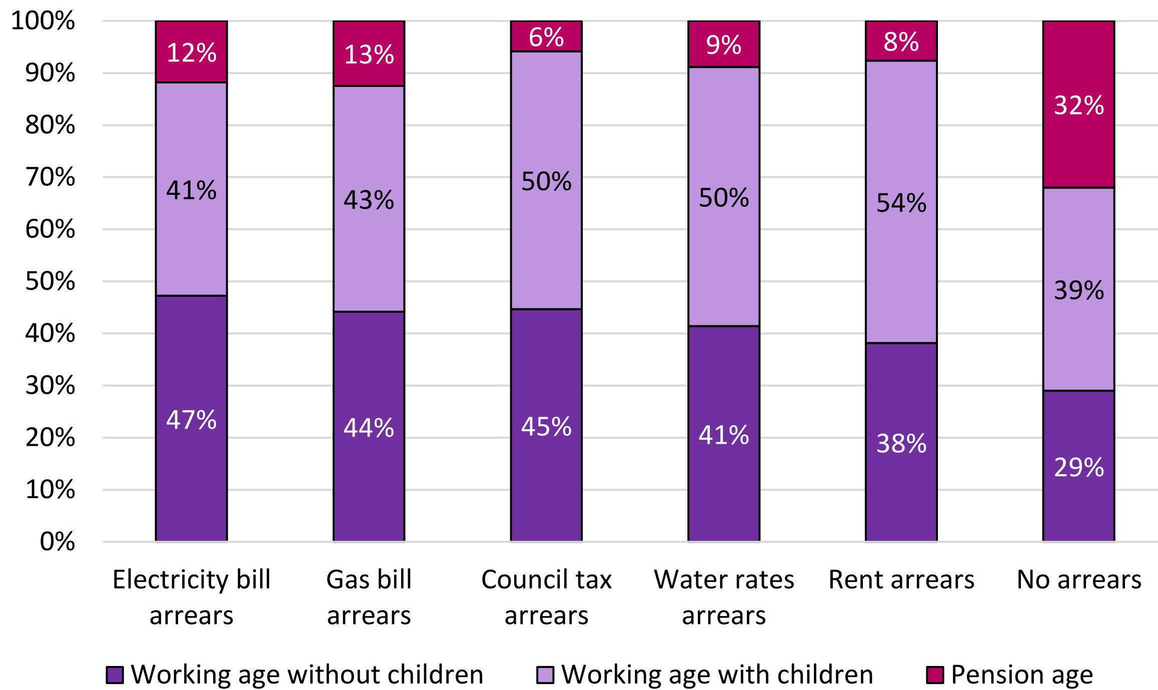
Figure 4.2 Risk of being below MIS by type of bill arrears



Bill arrears are distributed across individuals in different household types, as described in Figure 4.3.

In general, it is mostly working-age households that are affected by bill arrears, reflecting that those of pension age are less likely to have any debts than those of working-age. Those behind on the electricity or gas bills are most likely to be of working-age without children. Those with council tax, water rates or rent arrears are most likely to be of working-age with children.

Figure 4.3 Distribution of bill arrears for individuals in different household types



Those who have no arrears for each bill type have similar total numbers, all equating to the percentage values shown for 'No arrears' (allowing for rounding)

For those with any bill arrears, households of pension age have the lowest risk of being below MIS (Figure 4.4); the data is disaggregated by bill arrears type in Table 4.1.

Figure 4.4 Risk of being below MIS for those with any bill arrears for individuals in different household types

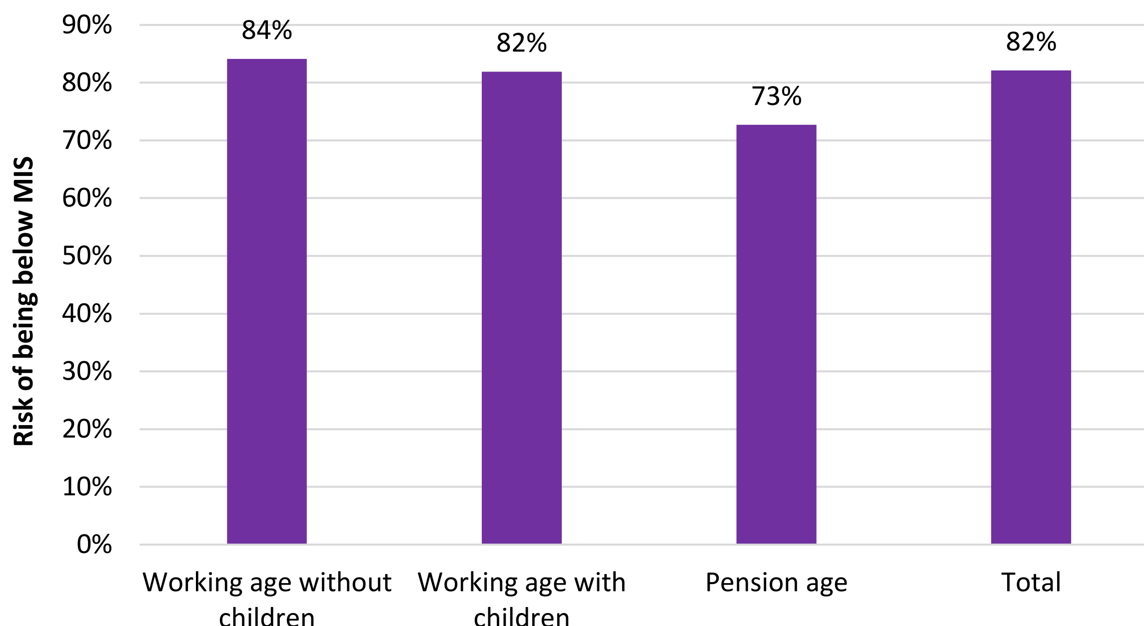


Table 4.1 Risk of being below MIS by bill arrears type

Type of arrears	Arrears?	Risk of being below MIS by type of household			
		Working age without children	Working age with children	Pension age	Total
Electricity bill	Yes	84%	80%	72%	81%
	No	27%	42%	26%	34%
Gas bill	Yes	92%	83%	70%	86%
	No	27%	42%	26%	34%
Council tax	Yes	90%	80%	66%	83%
	No	26%	42%	26%	34%
Water rates	Yes	86%	85%	83%	85%
	No	26%	42%	26%	34%
Rent	Yes	86%	86%	54%	84%
	No	27%	42%	26%	34%

4.4 Credit, charge and store cards

Figure 4.5 shows the variation in the risk of being below MIS by whether the respondent has any credit, charge or store cards for different household types. Across all demographic groups, those without any credit, charge or store cards are more likely to be below MIS. Lone parents show the highest risk of being below MIS overall, but the risk is even more pronounced for lone parents who do not have any credit cards.

For those who have any credit, charge or store cards, individuals with one card are more likely to be living below MIS than those who have two or more cards (Figure 4.6). For those who have any cards, the risk of being below MIS is higher for those who make a part payment of the bill each month, leaving an outstanding balance (Figure 4.7).

Figure 4.5 Risk of being below MIS by whether respondent has credit, store or charge cards

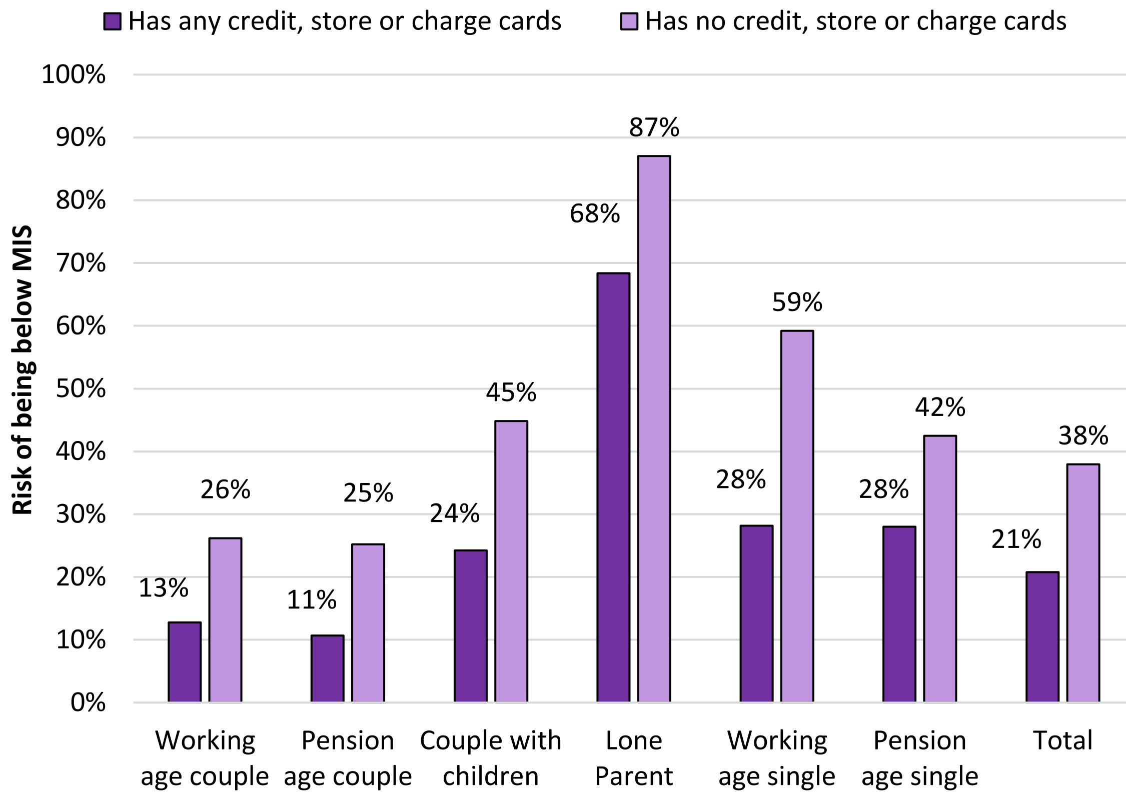


Figure 4.6 Risk of being below MIS by number of cards

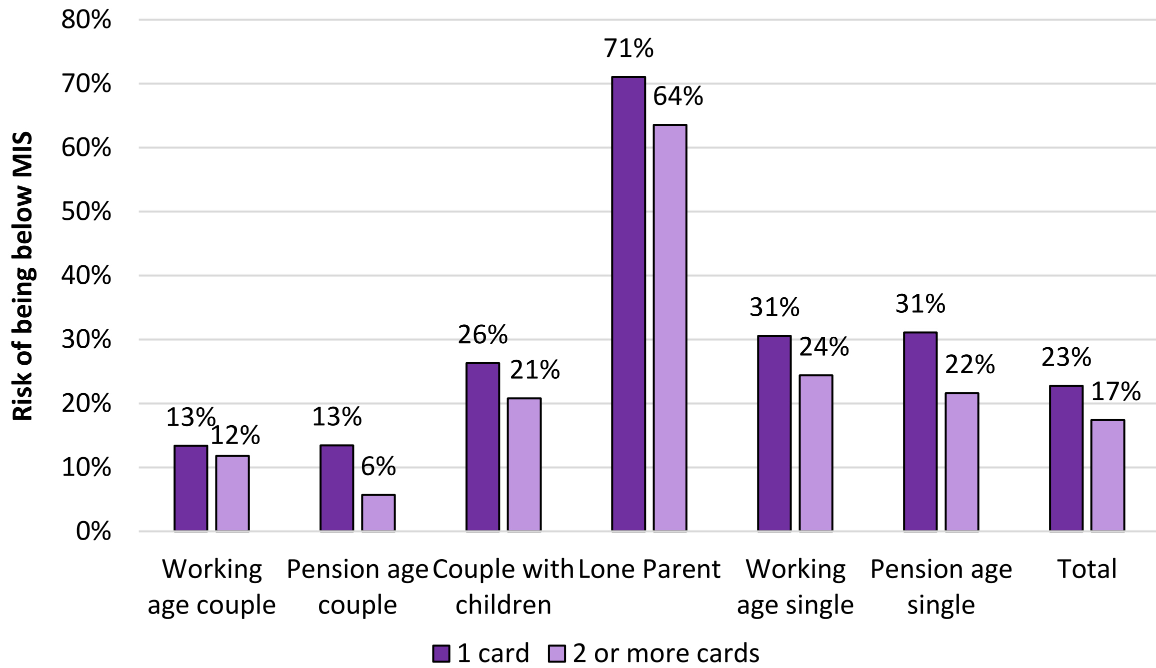
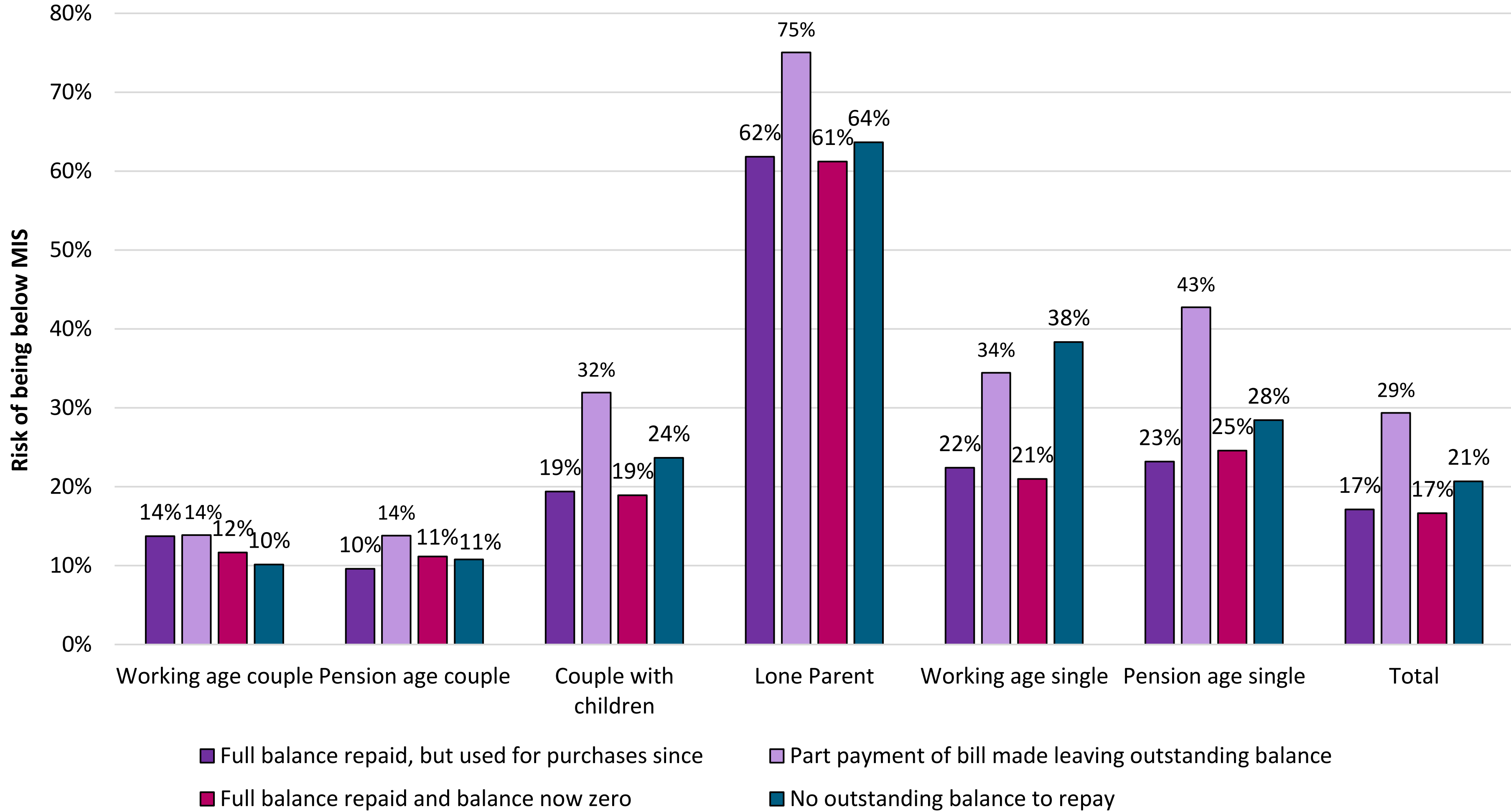


Figure 4.7 Risk of being below MIS by main card repayment situation



4.5 Mail order

Those paying interest on their mail order purchases, are more likely to be living below MIS than those who benefit from interest free payments. This is true across demographic groups (**Figure 4.8**). Furthermore, those paying smaller instalments on their mail order payment arrangement are more likely to be below MIS (Figure 4.9). It was not feasible to disaggregate the demographic groups, due to small sample sizes.

Figure 4.8 Risk of living below MIS for individuals in different household types with mail order instalments by whether they are paying interest

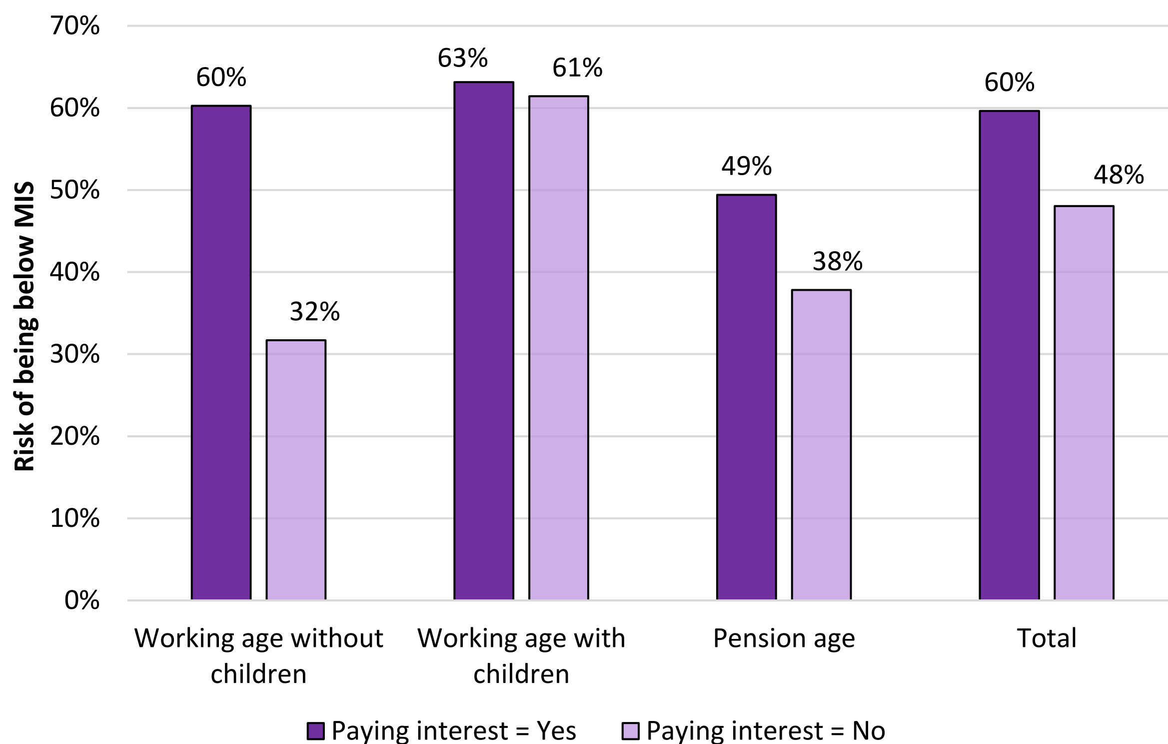
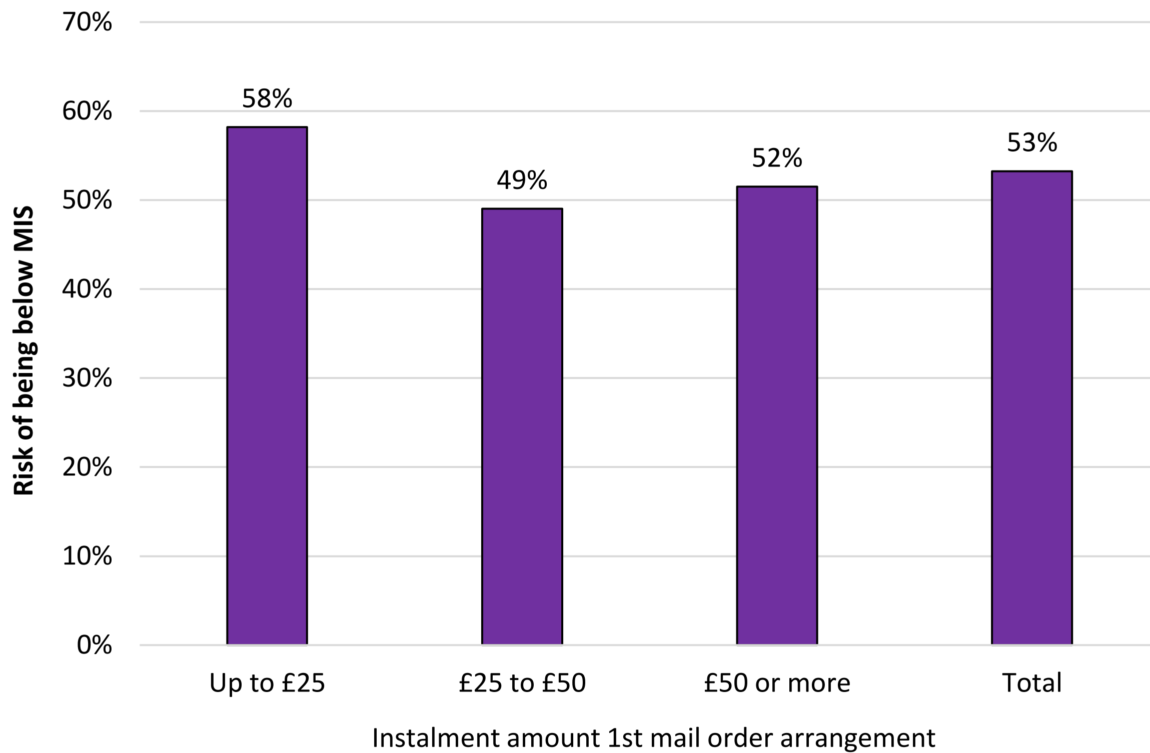


Figure 4.9 Risk of living below MIS for individuals in different household types with mail order instalments by instalment amount



4.6 Loans

For those with one loan, the risk of being below MIS is higher for working-age adults with children, compared to working-age adults without children and those of pension age (Figure 4.10). Sample sizes are too small to report for those who have multiple loans.

Individuals with an informal loan from friends and family are more likely to be living below MIS, compared to those who have a formal loan (Figure 4.11).

Working-age parents are more likely to be below MIS if they access a loan to pay bills or other debts or to make ends meet, in comparison to those of working-age without children (Figure 4.12).

Figure 4.10 Risk of being below MIS for individuals with one loan across different household types

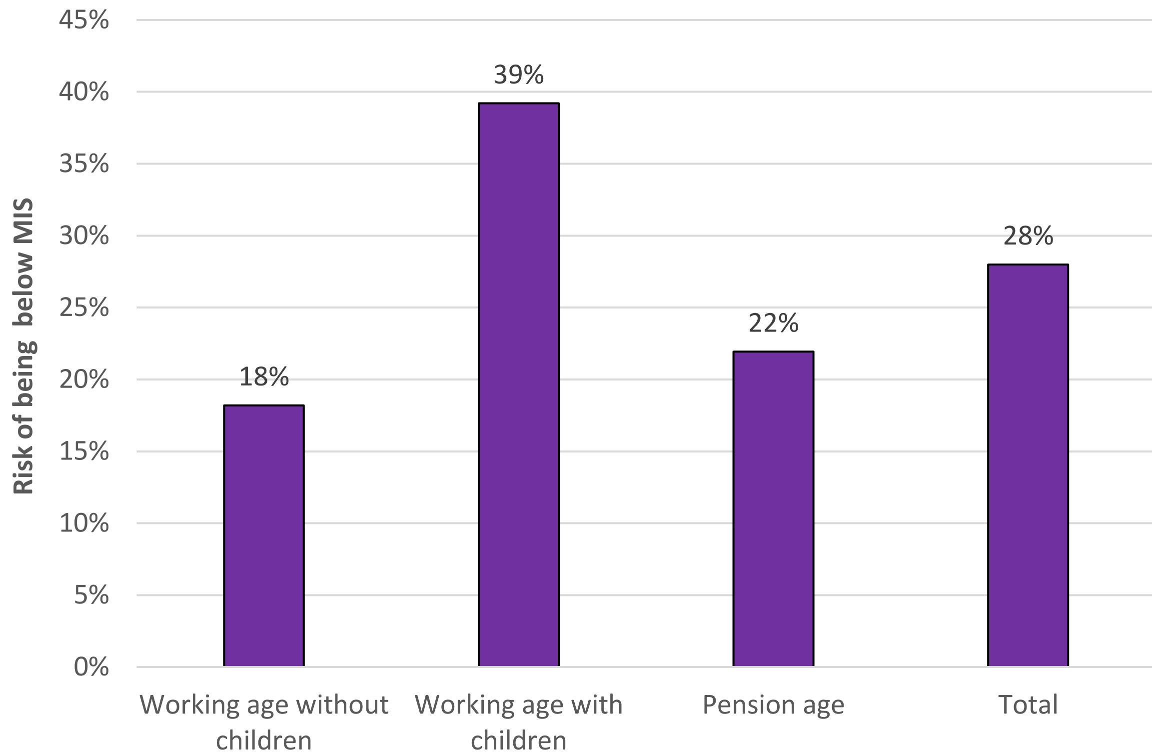


Figure 4.11 Risk of being below MIS by loan type

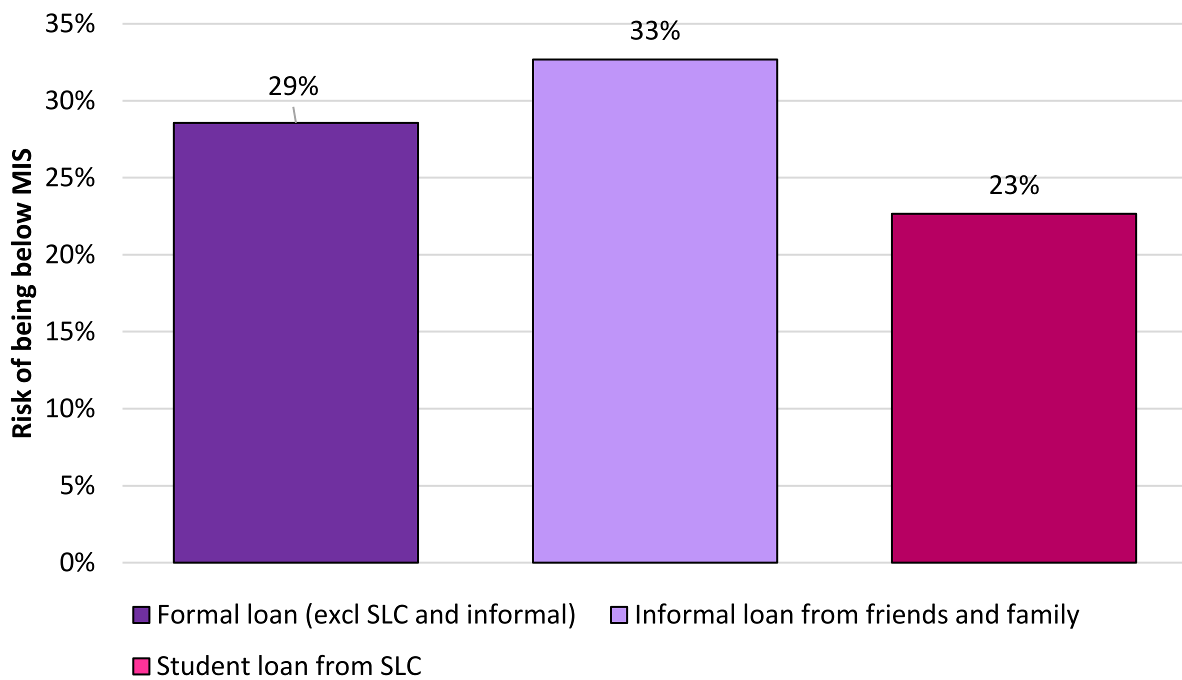
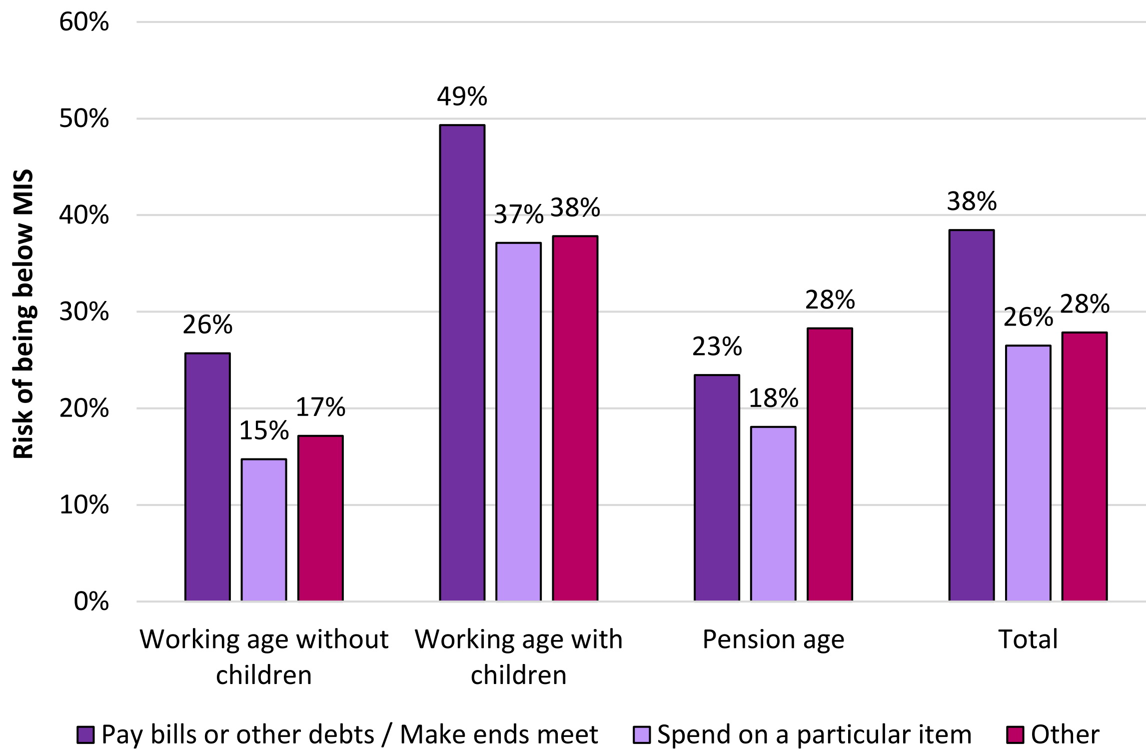


Figure 4.12 Risk of being below MIS by reason for loan for individuals in different household types



4.7 Hire purchase

The risk of being below MIS is higher for those who have any hire purchase agreements, compared to those who have none (Figure 4.13). The risk of being below MIS is also higher for those paying smaller instalment amounts (Figure 4.14).

Figure 4.13 Risk of being below MIS by whether individual has any hire purchase agreements

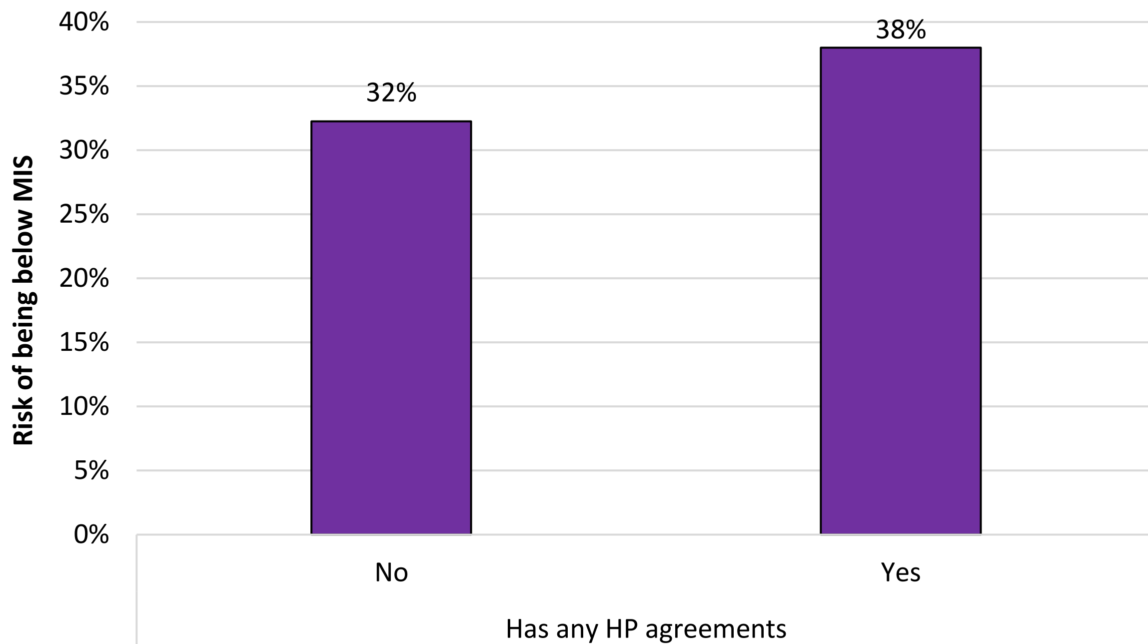
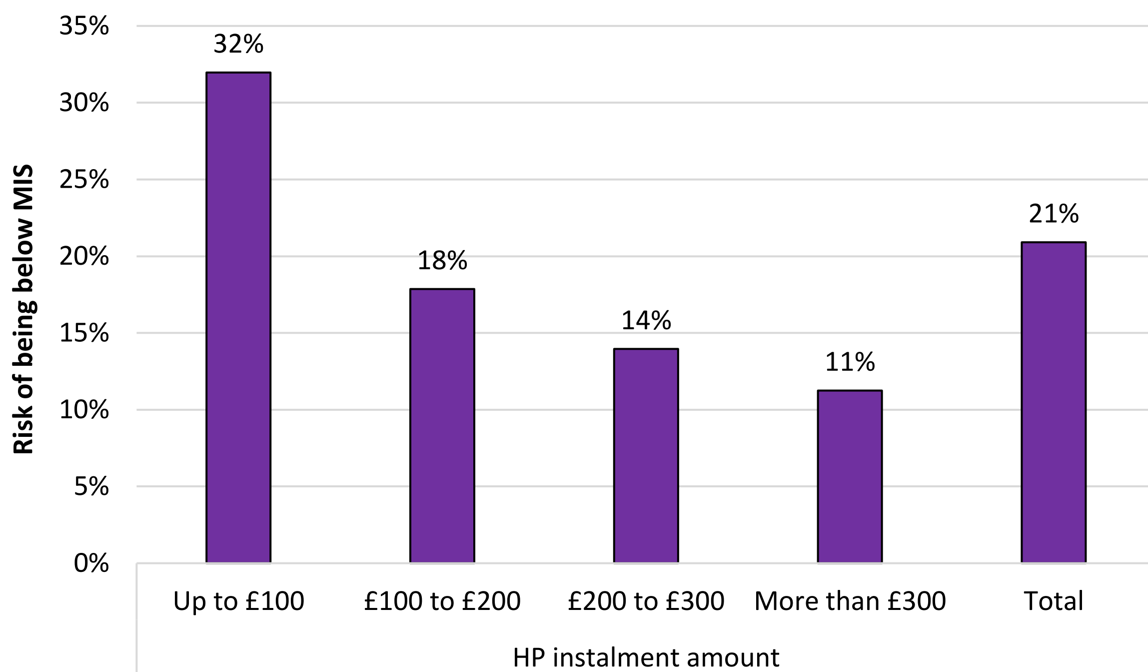


Figure 4.14 Risk of being below MIS by hire purchase instalment amount



5 Subjective reports of the financial burden of debt

As part of the Wealth and Assets Survey, respondents who report having any kind of debt are asked about the extent to which they find repaying debt a financial burden. Using these responses, we define three categories to examine the financial burden of debt:

1. No non-mortgage debt
2. Has debt, but does not find it a burden
3. Has debt, and finds it a burden

In this section we provide an overview of the extent to which certain individuals and households are particularly vulnerable to experiencing debt as a financial burden, and look at how this relates to their current living standards.

5.1 Key findings

- **Risk of experiencing debt as a burden**:
  - **Lone parents**: Lone parents are the most likely to report debt as burdensome.
  - **Economic inactivity**: The risk of experiencing debt as a burden is greater for those who are economically inactive, but they also have difficulty accessing credit at all.
  - **Disability**: Those who are economically inactive due to sickness or disability are most likely to find debt a burden but are also highly likely to have no non-mortgage debt. For working-age households, those that include someone with a long-term illness or disability are most likely to find debt a burden.
  - **Employed or retired**: Those who are employed or retired are most likely to view their debt as **not** a burden.

- **Those who have burdensome debt are likely to:**
  - Experience all debt types, except credit cards
  - Have multiple types of debt
  - Have a higher ratio of debt to income.

- Those who have **bill arrears** are much more likely to see debt as a burden; those who have **credit cards** are less likely to see debt as a burden.

- **Risk of being below MIS**: Those who do not find debt a burden are least likely to be living below MIS.
  - **Burdensome debt / No debt**: Across all household types, those who report their debt as a burden are the most likely to be below MIS, closely followed by those who have no debt; those who have debt but don’t identify this as a burden are least likely to be living below MIS. Similar patterns are found when using relative poverty, but with lower risk due to lower thresholds.
  - **Disability**: Households where at least one member has a long-term illness or disability, are more likely to be living below MIS, whether they have no debt, debt that is a burden or not.

5.2 Who experiences burden debt?

We first examine how experiences of the financial burden of debt vary by household type. Figure 5.1 shows, for different household compositions, the distribution of the three categories of debt burden defined above. This shows that around half of respondents report they have no non-mortgage debt, and this does not vary substantially between household types. However, there is more variation across these subgroups for the other categories. Unsurprisingly, lone parents are the group most likely to report that they are experiencing debt as a financial burden (30%), with working-age singles having the next-highest risk (22%).

Figure 5.2 shows the distribution of the three categories of debt burden according to whether anyone in the household reports a limiting illness and/or is receiving disability benefits. The differences are much less pronounced than for household type; however, for working-age individuals in particular, those living in a household where at least one person has a long-term illness or disability are slightly more likely to report that they find debt a burden.

If well managed, debt can be a useful way for people to improve their living standards. In this context, it follows that people who have debt but do not regard it as a financial burden are least likely to be below MIS, because the level of debt they are responsible for is less likely to be having a detrimental effect on their material circumstances.

In Figure 5.3 we look at self-reported debt burden according to economic activity. In this breakdown, it is clear that those who report they are economically inactive due to sickness or disability are most likely to report that they find debt a burden; but this group are also very likely to have no non-mortgage debt. A similar pattern is observed for those who are unemployed or inactive for other reasons. This indicates that that although the risk of experiencing debt as a financial burden is greater in economically vulnerable groups, these groups are also likely to experience difficulty accessing credit of any kind; those who are employed or retired are most likely to report that while they have non-mortgage debt, they do not view this as a financial burden.

Table 5.1 shows the composition of the population who report having any kind of debt, based on the socio-demographic characteristics described in Figures 5.1 to 5.3, and whether they report that debt is a burden. Those who perceive their debts to be a financial burden are more likely to be in a household with children than those who do not find debt to be a burden – this is particularly striking for lone parents, with those who report burden debt four times as likely to be in a lone parent household, compared with those who do not see their debts as a burden (12% versus 3%). People who find their debts to be a financial burden are also more likely to be employed (72% versus 62%) and much less likely to be retired (9% versus 31%) than those who find their debts manageable.

Figure 5.1 Distribution of self-reported financial burden of debt for individuals in different household types

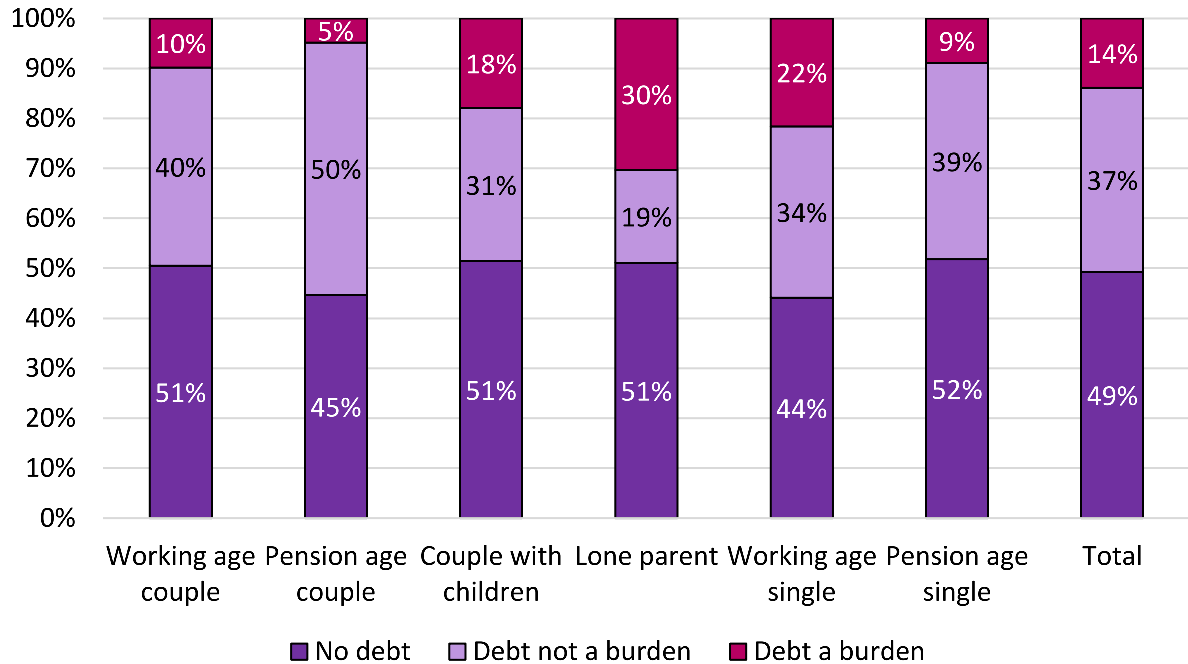


Figure 5.2 Distribution of self-reported financial burden of debt by household disability status

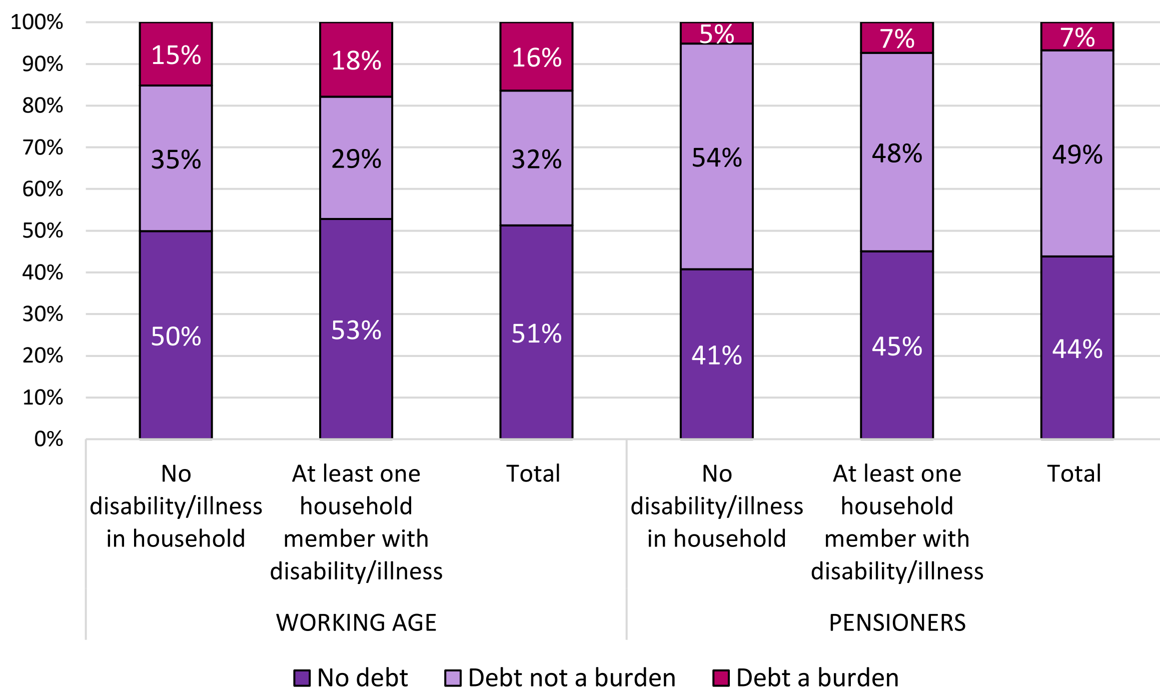


Figure 5.3 Distribution of self-reported financial burden of debt by economic activity status

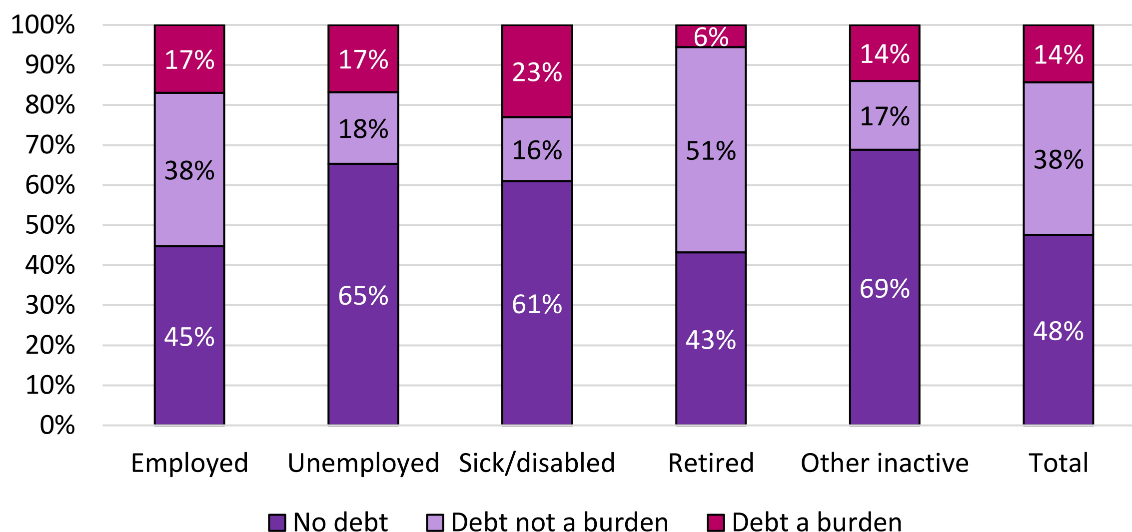


Table 5.1 Composition of population with debt by whether they perceived debt as a burden, by key demographic characteristics

	Distribution of sociodemographic characteristics		
	Debt is not a burden	Debt is a burden	Total
Household type			
Working age couple	29%	19%	22%
Pension age couple	21%	5%	12%
Couple with children	25%	39%	40%
Lone parent	3%	12%	8%
Working age single	11%	18%	10%
Pension age single	11%	7%	9%
Economic activity status			
Employed	62%	72%	61%
Unemployed	1%	3%	2%
Sick/disabled	2%	8%	5%
Retired	31%	9%	23%
Other inactive	4%	8%	8%
Household disability status			
No disability/illness in household	49%	47%	51%
At least one household member with illness/disability	51%	53%	49%

5.3 What type of debt do people have if they perceive debt as a burden?

We now move on the look at whether the types of debt that people are responsible for varies based on whether they view this debt as burdensome. Figure 5.4 shows that those who report that they find debt a burden are more likely than those who have debt that is not perceived as a burden to have every type of debt, apart from credit card debt. This echoes the findings in Section 4 showing the relationship between type of debt and the risk of being below MIS. In particular, although the overall percentage of people who have arrears on household bills is relatively low, this is where we see the biggest difference between those who do and do not perceive debt as a burden (15% versus 1%). Although we see the reverse association in relation to credit cards, it is important to note that among those who perceive debt as a burden, 70% still report that they have credit card debt, meaning that this is still a key source of credit for these households. However, looking at the *number* of different types of debt that people are servicing (Figure 5.5), we can see a clear association between perceiving debt as a burden, and having multiple sources of debt. Among those who have credit card debt, only 21% of those who do not perceive debt as a burden have at least one other type of debt, compared with 46% of those who do perceive debt as a burden.

Figure 5.4 Proportion of individuals who report having different types of debt, by whether they find their debts a financial burden

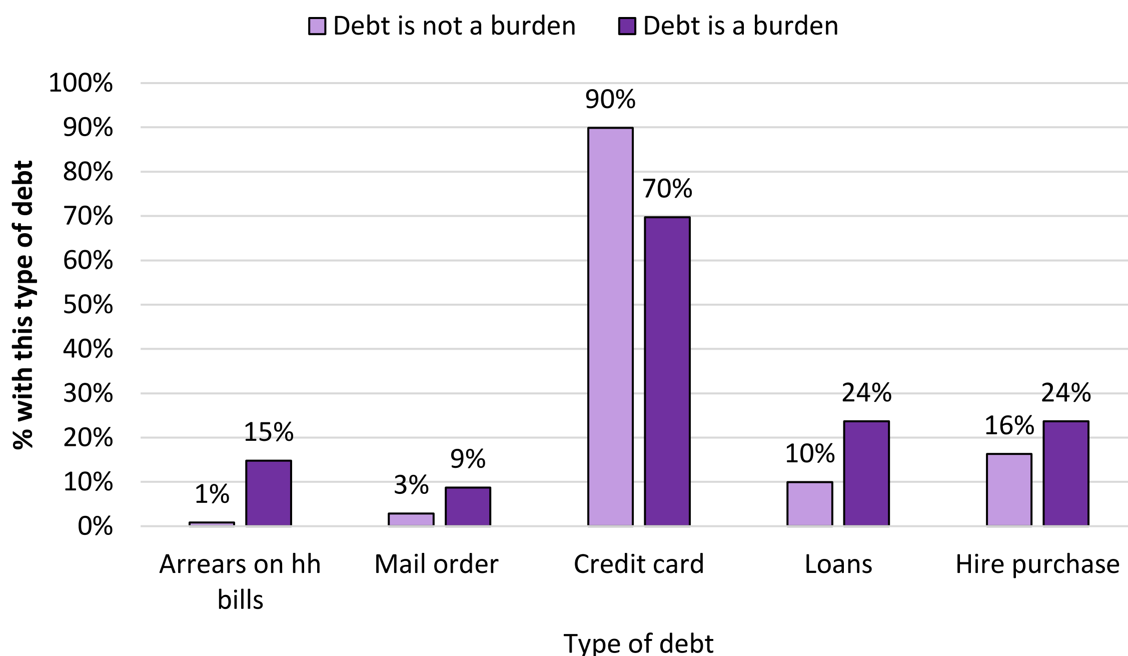
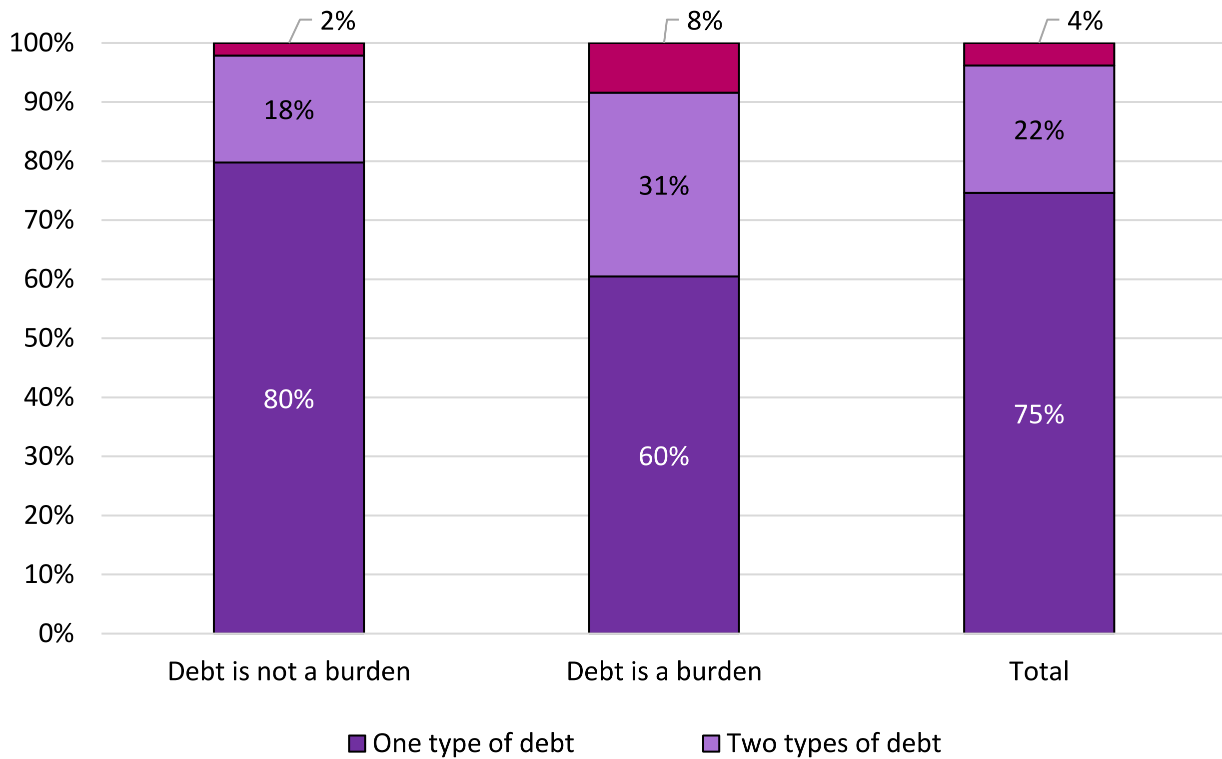


Figure 5.5 Number of different types of debt, by whether respondents find their debts a financial burden



We can also examine *how much* debt households are carrying, relative to their household income, and whether this varies by the perception of debt burden. Figure 5.6 shows, broken down by household type, the average debt-to-income ratio for those who do and do not perceive debt as a burden. Across all household types, the average debt-to-income ratio is substantially higher if an individual perceives their debts as a burden, with a particularly strong association for working-age single and pension-age couple households. The debt-to-income ratio is approximately doubled among those who perceive debt as a burden compared with those who do not.

Figure 5.7 shows the same relationship, this time broken down by economic activity status. Those who perceive debt as a burden have a higher debt-to-income ratio than those who do not perceive debt as a burden, regardless of economic activity status. The difference is particularly marked for those who are in employment and those who are retired. While this may reflect the greater opportunities for those with a regular or fixed income to access credit, it also emphasises that employment does not preclude the need to accrue debt.

Figure 5.6 Debt-to-income ratio by household type and whether respondents find their debts a financial burden

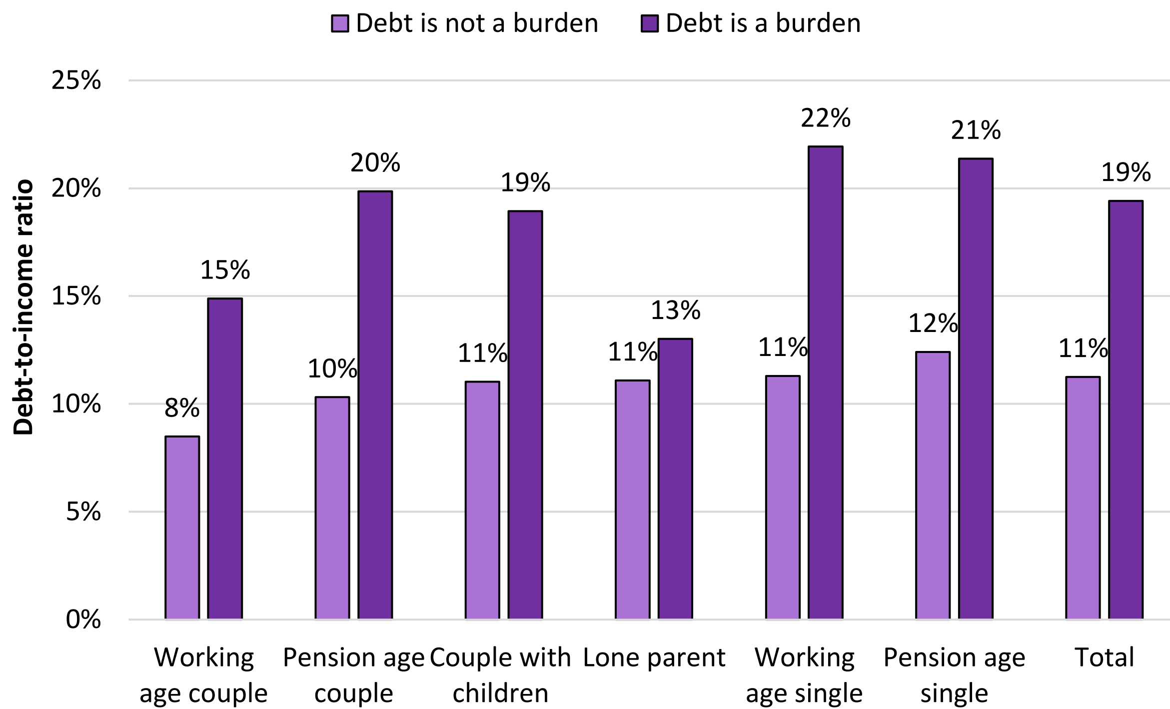
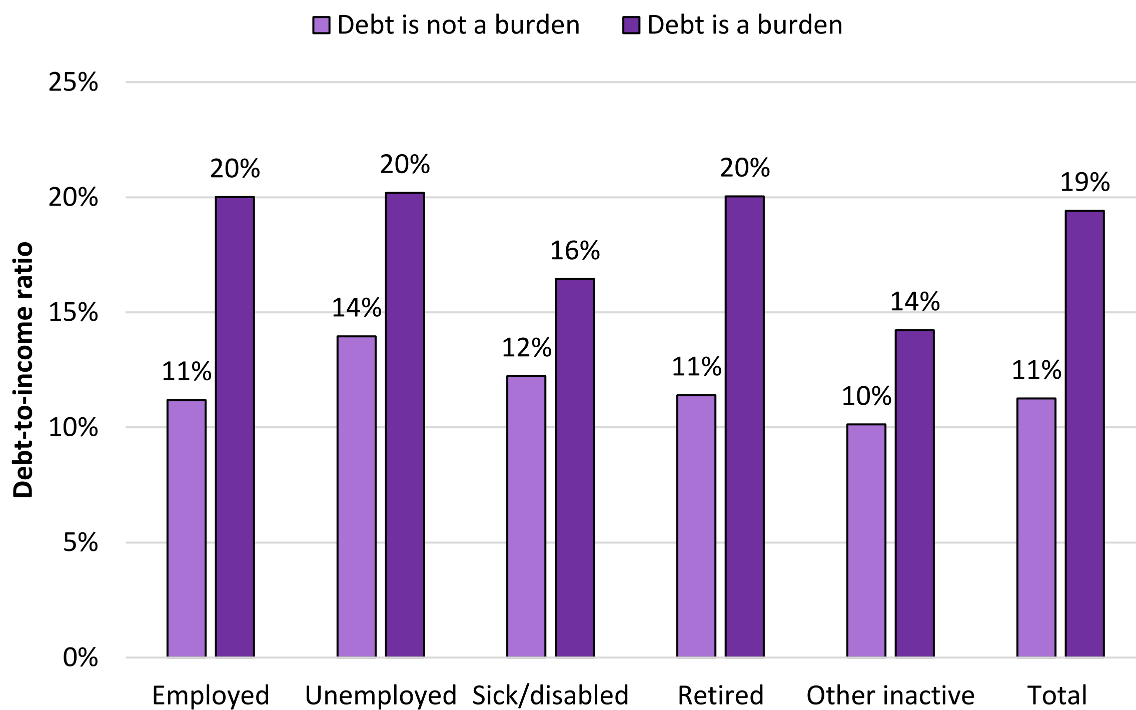


Figure 5.7 Debt-to-income ratio by economic activity and whether respondents find their debts a financial burden



5.4 Burden of debt and the risk of poverty and inadequate living standards

We next look at the relationship between the perceived burden of debt and the risk of being below MIS. Figure 5.8 shows this association broken down by household type. The overall risk of being below MIS is substantially higher for lone parents than for other household types; however across all household types, the relationship between subjective experiences of burdensome debt and the risk of being below MIS shows a similar pattern. While those who report having debt that is perceived as a financial burden are generally at highest risk of being below MIS, those who report having no non-mortgage debt have a risk that is almost as high – and, in working-age households without children, slightly higher. Those who have non-mortgage debt, but do not perceive this as a burden, are consistently the least likely group to be below MIS.

This pattern may initially seem counterintuitive – one might expect those without any debts to be less likely to be below MIS. However, it can be seen as reflecting the fact that people on low incomes will have less capacity to access credit, particularly more regulated forms such as credit cards. As highlighted in Section 2, many people are able to use debt as a constructive mechanism through which to acquire homes, cars and other commodities, and if well managed, debt can be one way in which people can improve their living standards. As noted in Section 4, credit cards, in particular, can be used differently to most other types of debt in that they are not necessarily linked to a particular purchase. They can instead be used as an affordable and accessible source of 'income smoothing', allowing people to buy or pay for what they need when they need it, without necessarily becoming financially problematic. In this context, it follows that people who have debt but do not regard it as a financial burden are least likely to be below MIS.

In Figure 5.9, we repeat this analysis looking at patterns of relative poverty in relation to burden debt. Although the absolute values are lower – reflecting that the income threshold for being in relative poverty after housing costs is lower than for being below MIS – the pattern is remarkably similar, as it is across all the analyses presented in this report. For the remainder of the report, we therefore focus on MIS as our main indicator of adequate living standards.

Figure 5.8 Risk of being below MIS by household type and self-reported financial burden of debt

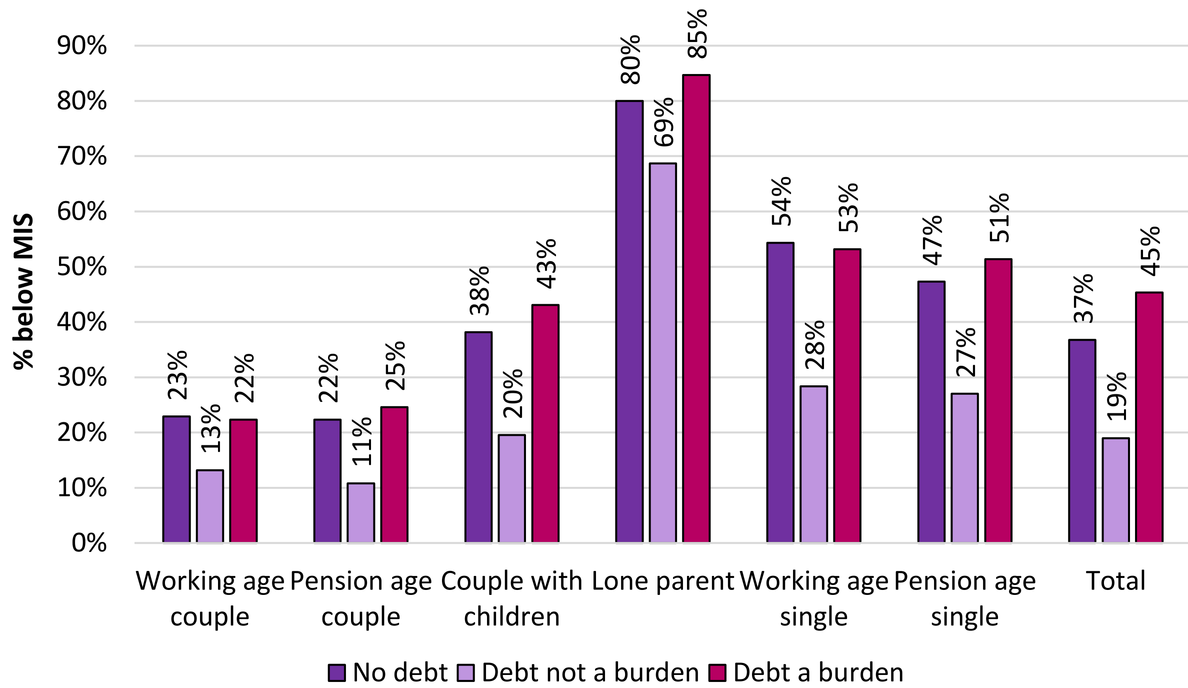
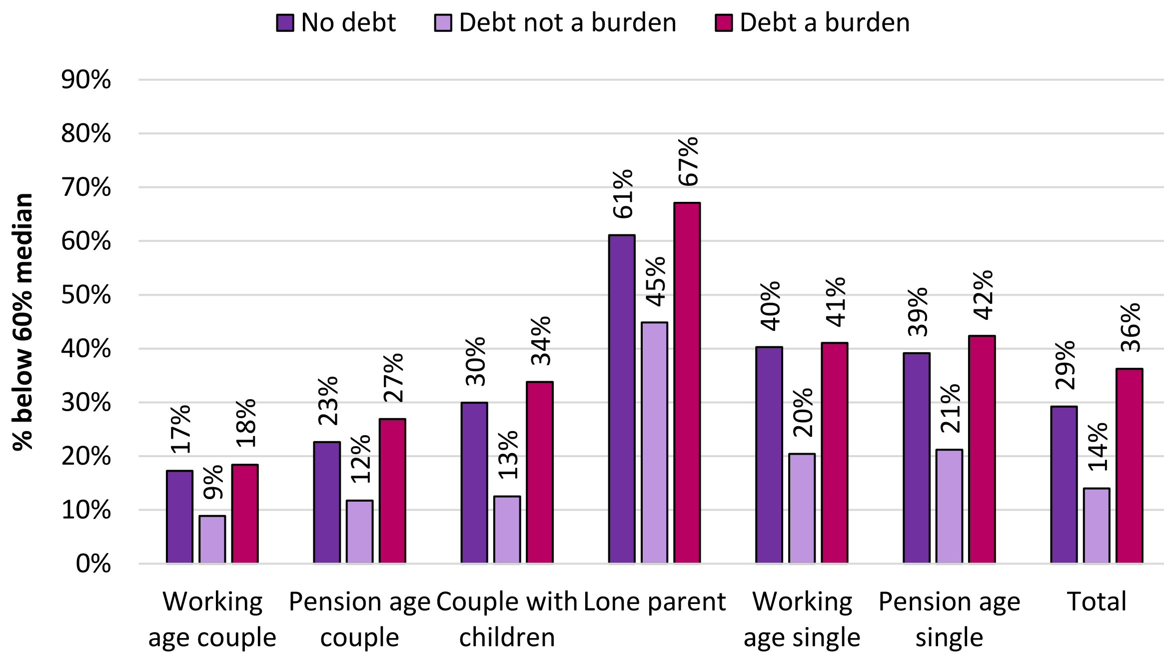


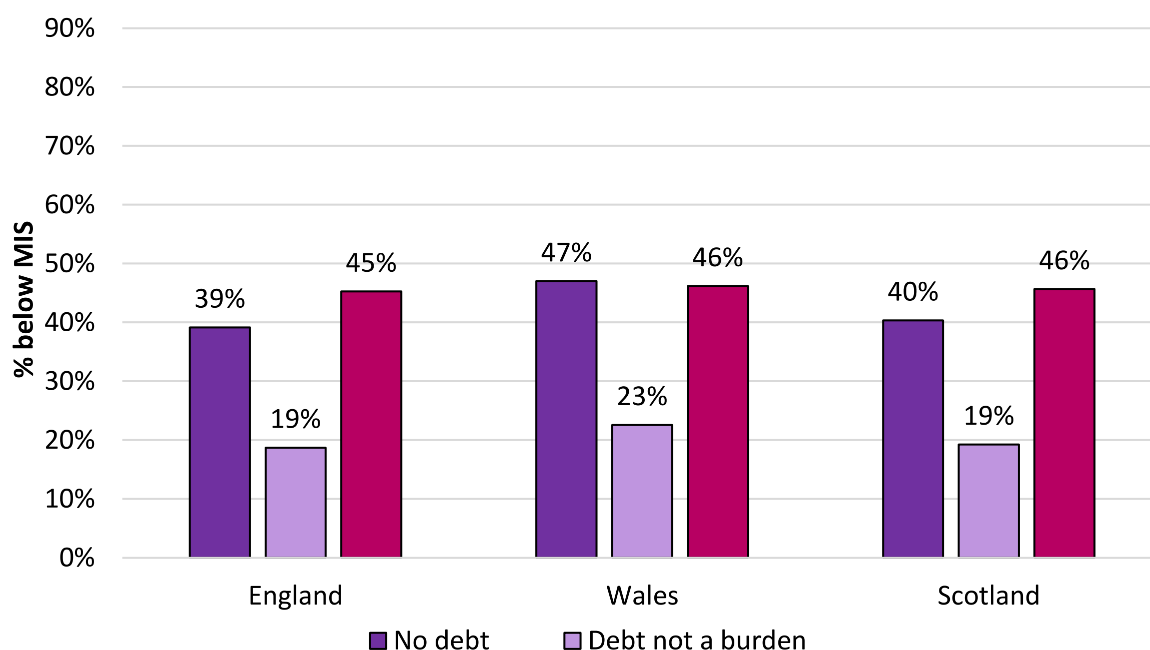
Figure 5.9 Risk of being in in poverty (below 60% median income after housing costs) by household type and self-reported financial burden of debt



Figures 5.10 to 5.12 repeat the analysis looking at the relationship between MIS and perceptions of the financial burden of debt for other key subgroups of the population. In Figure 5.10, we break down the association by nation. The Wealth and Assets Survey covers Great Britain (England, Scotland and Wales) only and therefore we do not have any data for Northern Ireland. Figure 5.6 shows that the pattern is very similar for each country in Great Britain, and further evaluation of the data indicated that there is no substantial variation by country in any of the key domains of interest. In the report we do not, therefore, break down any subsequent analyses by nation.

Figure 5.11 shows household disability status – again, although the overall risk of being below MIS is slightly higher for households where at least one household member has a long-term illness or disability,[8] the pattern according to perceptions of the financial burden of debt is very similar regardless of household disability status. We see more difference in the overall risk of being below MIS when considering economic activity status (Figure 5.12). Individuals who are economically inactive due to sickness or disability are highly likely to be living below the MIS threshold, as are those who are unemployed or otherwise economically inactive. It is also notable that among those who are inactive due to sickness or disability, the risk of being below MIS is high (60%) even for those who report they have debts that are not perceived as a burden. This group appears to be particularly vulnerable, therefore.

Figure 5.10 Risk of being below MIS by country and self-reported financial burden of debt



[8] Defined here as those who report having an illness or health condition that limits their activities; and/or are receiving disability benefits.

Figure 5.11 Risk of being below MIS by household disability status and self-reported financial burden of debt

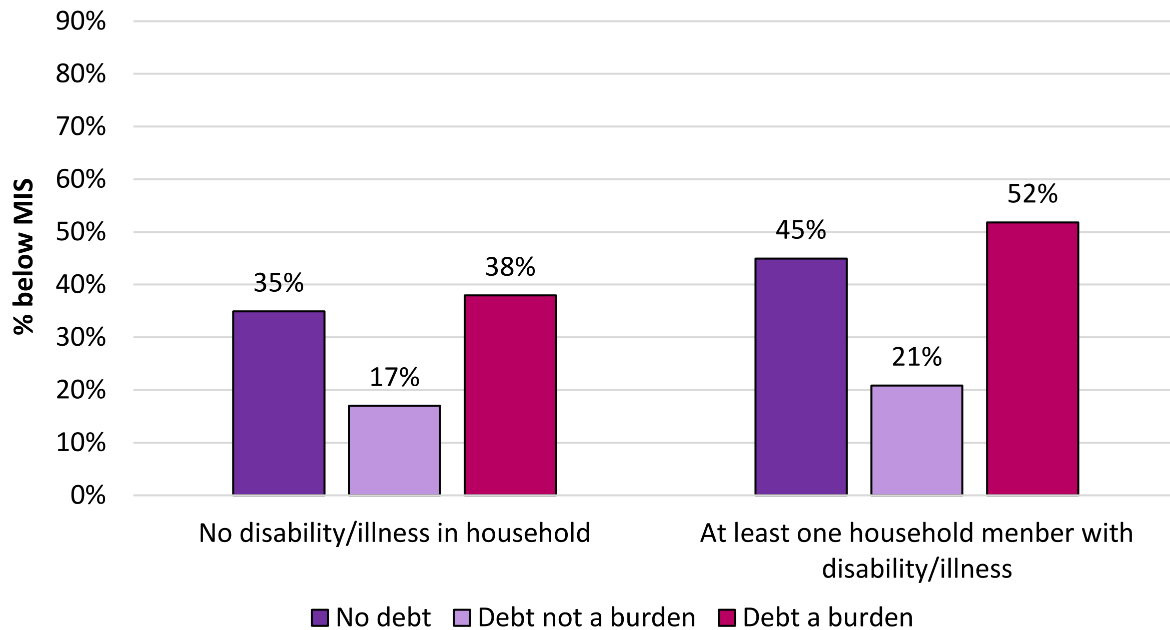
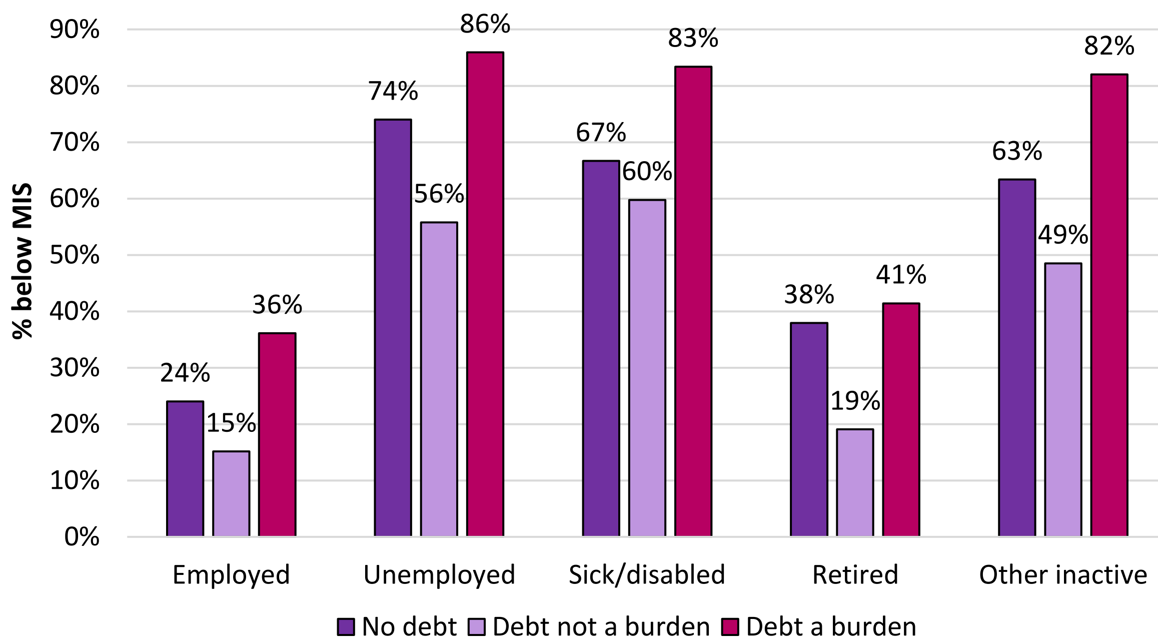


Figure 5.12 Risk of being below MIS by economic activity status and self-reported financial burden of debt



6 Persistence and depth of debt and inadequate living standards

6.1 Key findings

- **Debt burden and persistence of being below MIS**: For those who have any non-mortgage debt, the proportion who find it a burden increases as the number of consecutive periods below MIS increases.
- **Arrears of household bills:** The percentage of those reporting any arrears of household bills increases as the number of consecutive waves below MIS increases. Whereas the percentage of those reporting any loans or any hire purchase decreases as the number of consecutive waves below MIS increases.
- **Depth of income inadequacy**: For those households that are living below MIS: across all household types, the depth of income inadequacy means households are below 75% of the MIS budget, the point at which material hardship becomes far more likely (Hirsch et al, 2016).
- **Working-age singles**: Of all household types, working-age singles exhibit the greatest depth of income inadequacy, which becomes even more exacerbated if they have burdensome debt.
- **Economic activity**: Those who are economically inactive fall further below MIS than those who are in employment. However, there is little difference between the perception of debt burden and the depth below MIS across household disability status.

6.2 Persistence of income inadequacy

To measure the persistence of inadequate living standards, we calculate the number of consecutive waves in which an individual has been below MIS, up to a maximum of four waves. We then look at the risk of having debts of various types, or of finding debt a financial burden, according to the number of waves in which an individual has been below MIS.

Figure 6.1 shows the proportion of individuals who report having any debts by the number of consecutive waves below MIS. This does not show a clear pattern; there is in fact very little variation across the categories. This is likely to reflect the patterns shown in previous sections both in relation to types of debt and the risk of experiencing financial stress as a result of indebtedness. We have shown that not all types of debt have the same association with inadequate living standards; in particular, having credit card debt shows a different relationship with income inadequacy to almost all other types of debt, being more prevalent amongst more financially advantaged groups. Other types of debt, particularly arrears on household bills, are conversely associated with an increased risk of being below MIS. Therefore, we need to disaggregate by type of debt.

We also see in Section 5 that having no non-mortgage debt is not necessarily associated with being more financially advantaged; in fact, those who report having no debts have a risk of being below MIS that is almost as high as for those with financially burdensome debt. In Figure 6.2 we therefore just look at those who report having any non-mortgage debt, and

whether they are experiencing this debt as a financial burden. This shows that, among those who have any non-mortgage debt, they are increasingly likely to experience this debt as a financial burden as their number of consecutive waves below MIS increases.

Subsequent Figures explore the impact of different debt types for up to three waves of the survey as sample sizes are too small to look across four consecutive waves. The percentage of those reporting any arrears of household bills increases as the number of consecutive waves below MIS increases. Whereas the percentage of those reporting any loans or any hire purchase decreases as the number of consecutive waves increases.

Figure 6.1 Proportion of individuals who report having any debts by number of consecutive waves of the WAS below MIS

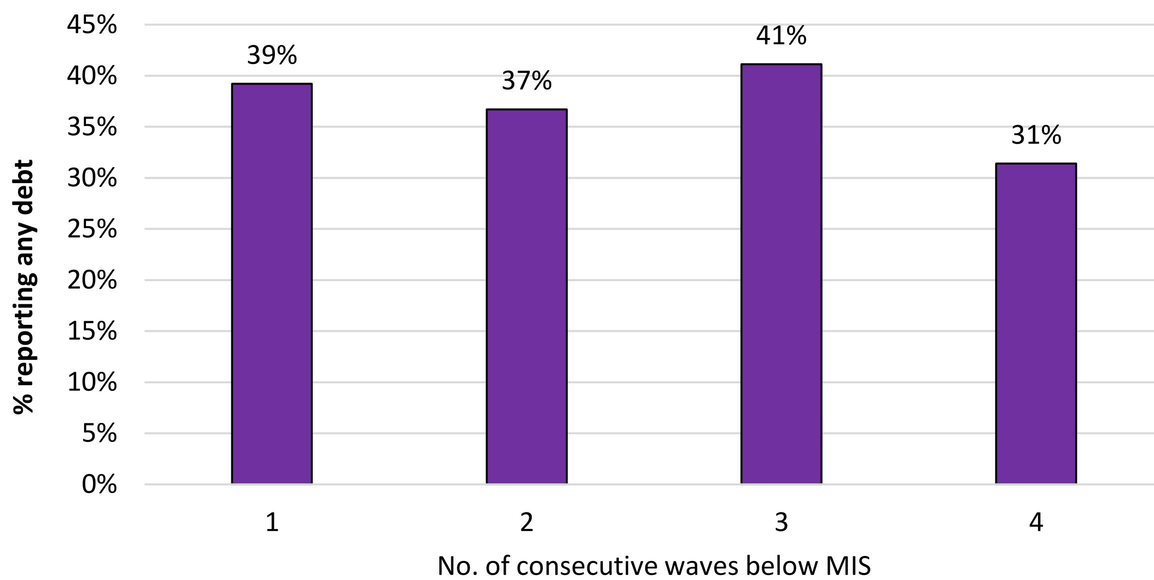


Figure 6.2 **Proportion of individuals who report having any debts who say that debt is a burden, by number of consecutive waves of the WAS below MIS**

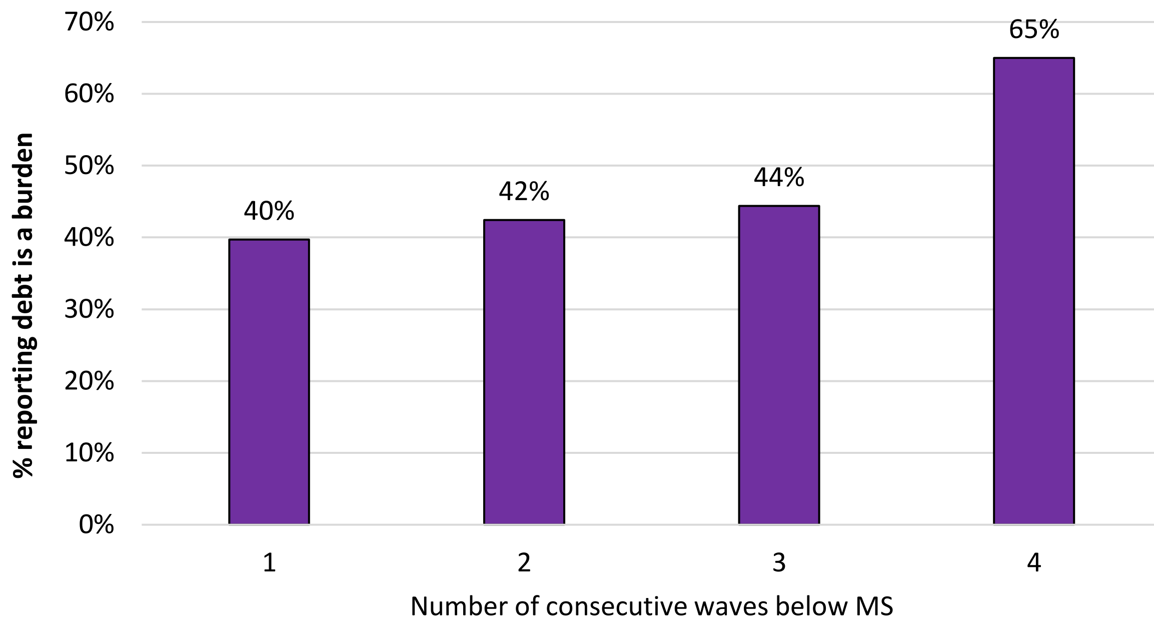


Figure 6.3 **Proportion of individuals reporting arrears on any household bills (as a percentage of those with any non-mortgage debt) by number of consecutive waves of the WAS below MIS**

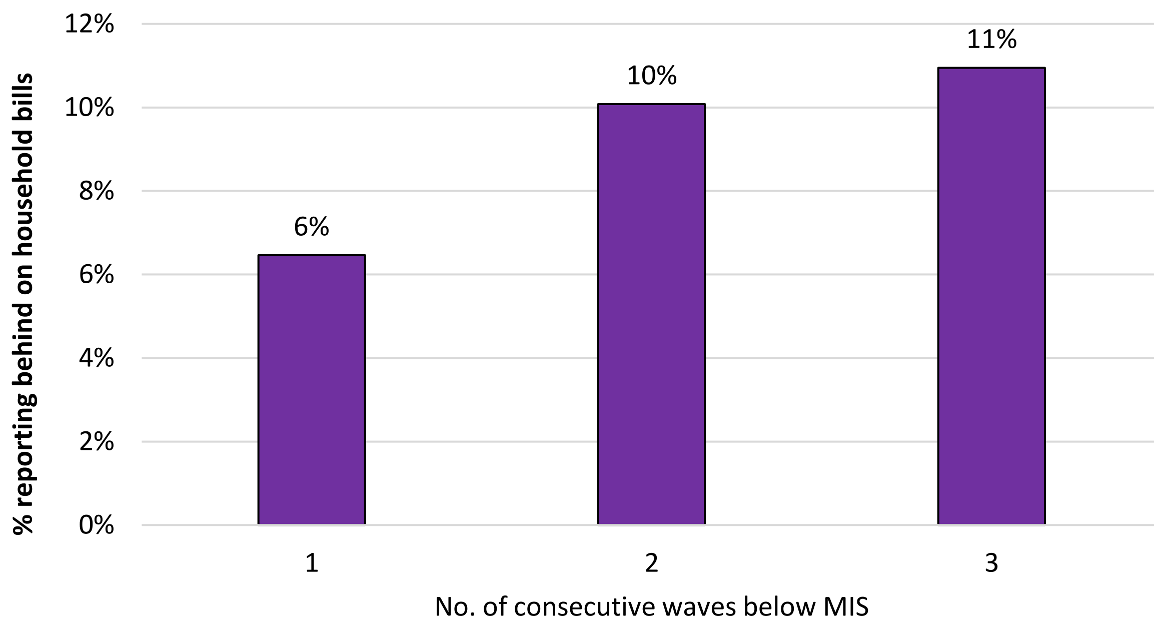


Figure 6.4 **Number of consecutive waves below MIS for individuals reporting any credit, charge or store cards (as a percentage of those with any non-mortgage debt)**

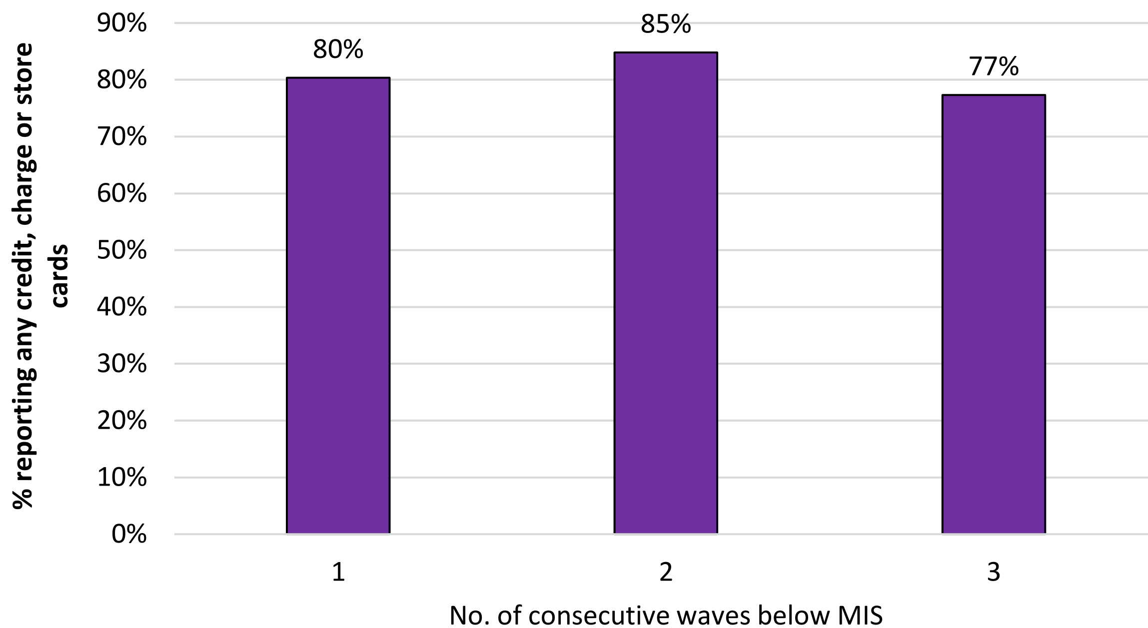


Figure 6.5 **Number of consecutive waves below MIS for individuals reporting any mail order instalments (as a percentage of those with any non-mortgage debt)**

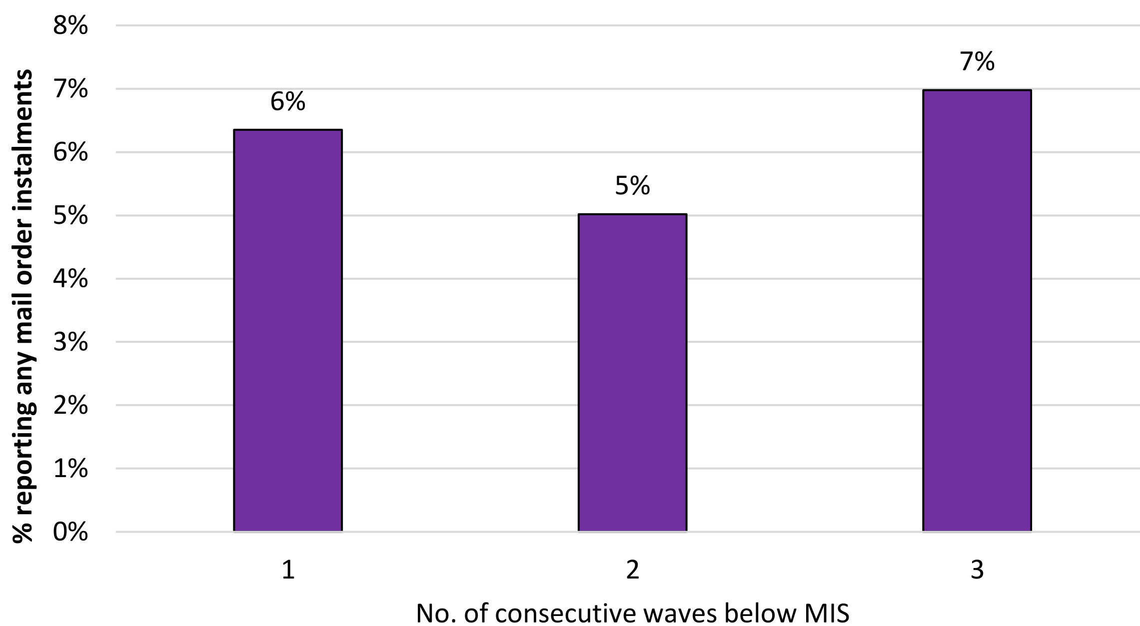


Figure 6.6 **Number of consecutive waves below MIS for individuals reporting any loans (as a percentage of those with any non-mortgage debt)**

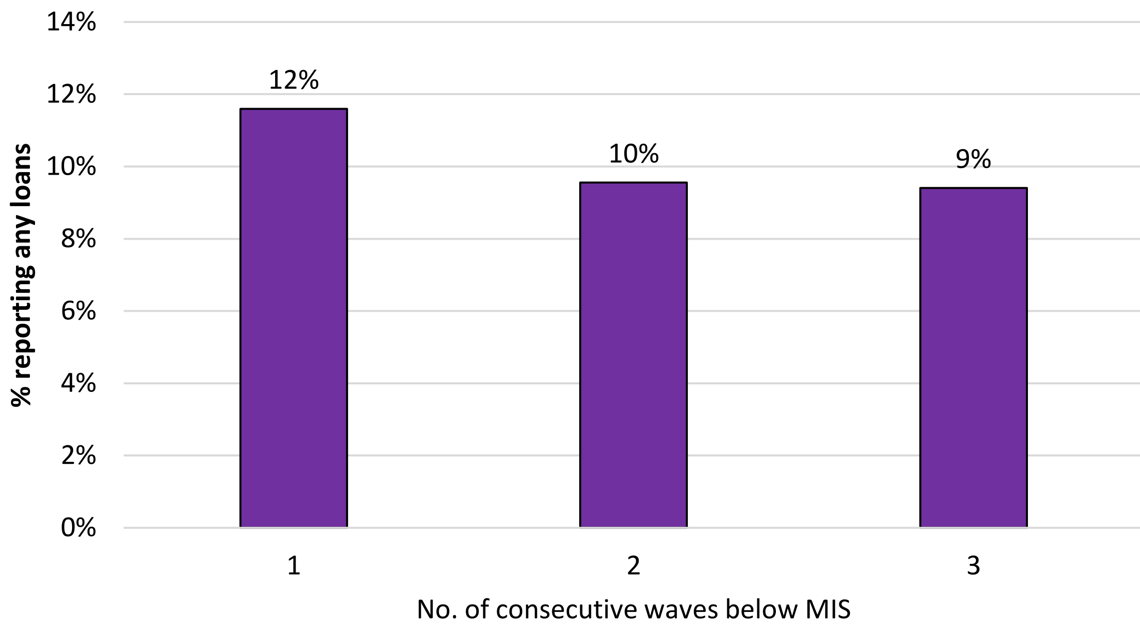
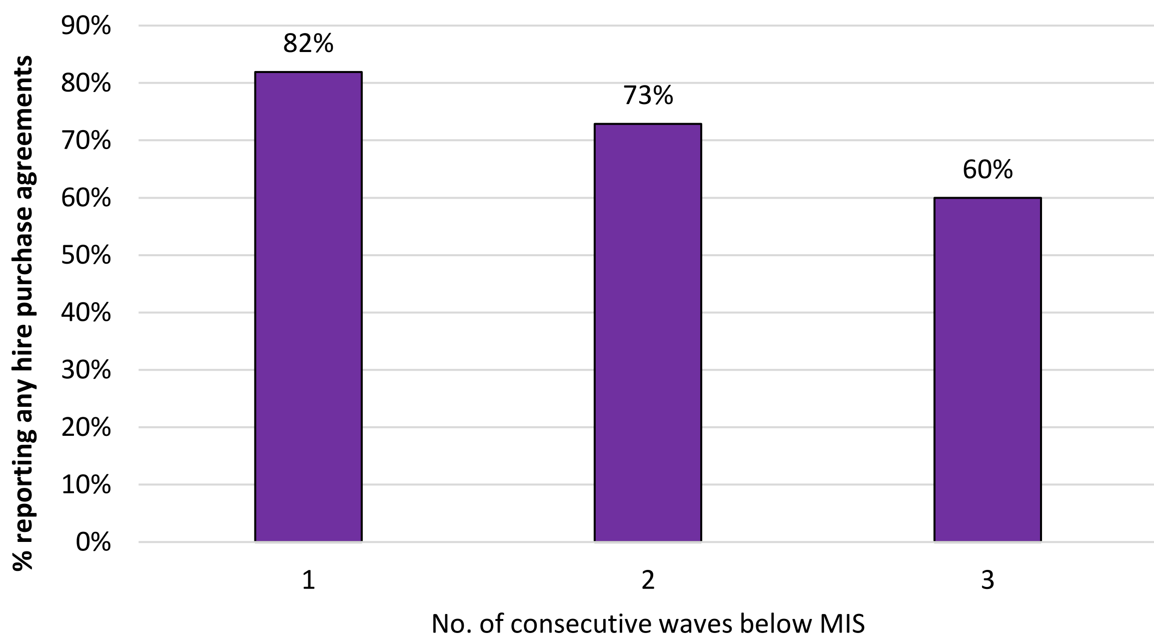


Figure 6.7 **Number of consecutive waves below MIS for individuals reporting any hire purchase agreements (as a percentage of those with any non-mortgage debt)**

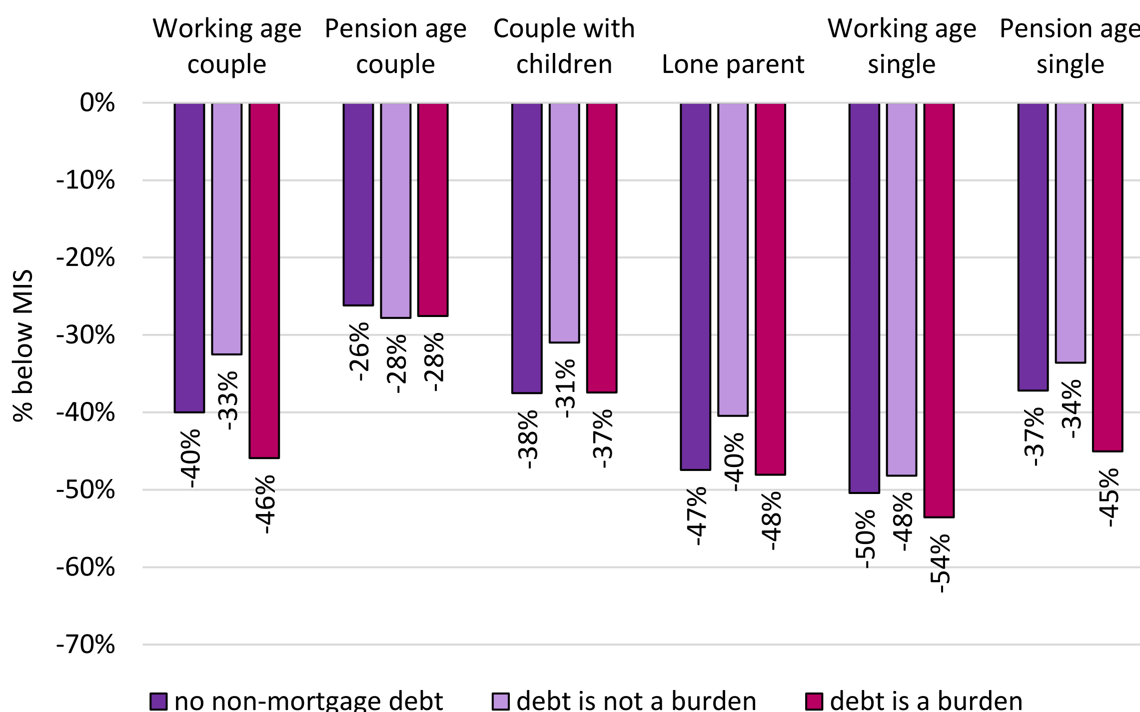


6.3 Depth of income inadequacy

While looking at whether an individual is living in a household with an income below the MIS threshold gives us an important insight into the overall relationship between debt and living standards for different households, these households will be experiencing financial and material hardship to different degrees. To inform our understanding of this, we can restrict our analysis to those whose income is below MIS, and look at how far below the MIS threshold individuals are falling. In previous research, we have shown that the risk of material hardship increases notably once household income is less than three-quarters of the MIS requirement for their particular household composition (Hirsch et al, 2016). Figure 6.8 shows that across all household types, the average depth below MIS is greater than this regardless of perceptions of debt burden.

For couple pensioners, there is little variation according to subjective perceptions of the burden of debt, and they are closest to meeting the MIS threshold, falling 26-28% below MIS. While we have seen that lone parents tend to fare worst in most of the analyses presented so far, and are the group most likely to have an income below MIS overall, when we look at depth below MIS, it is working-age singles who are falling deepest below the benchmark income level; this is the case particularly if they have debts that they report are a financial burden, with these individuals on average having an income that is less than half the MIS budget. However, debt status appears to have a less of an impact for these households than for working-age couples; in this group, the difference by subjective debt status is particularly stark – those with debts that are not viewed as a burden fall 33% below the MIS threshold, while those with burdensome debts fall 46% below. A similar relationship is seen for pension-age single households.

Figure 6.8 **Depth below MIS by household type and self-reported financial burden of debt**

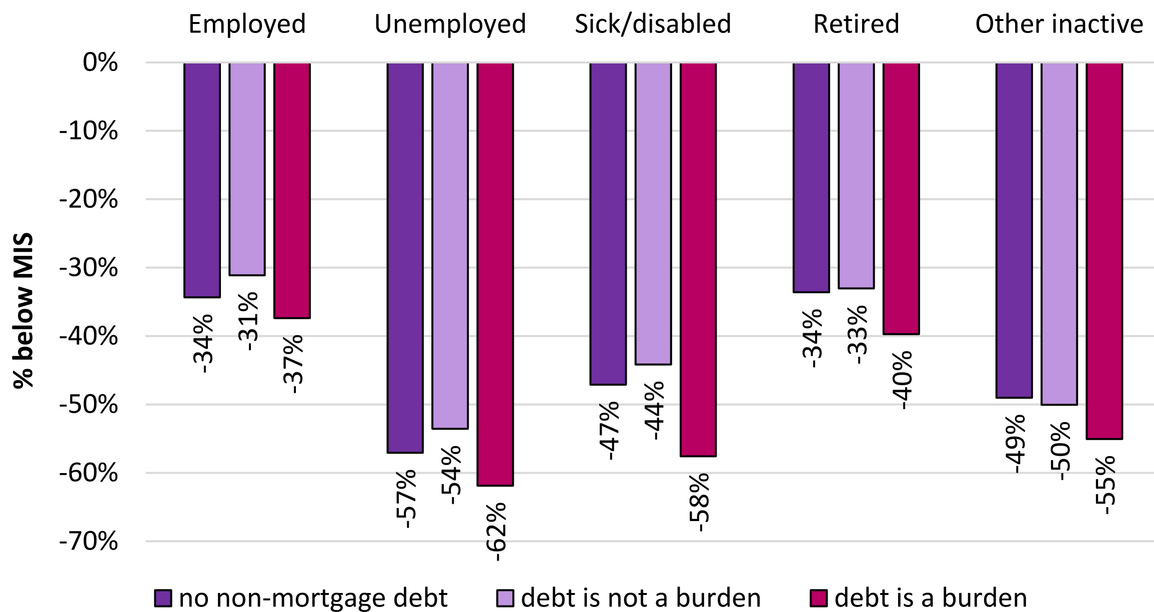


In Section 7, we explore further how debts contribute to how deeply different household types are falling below MIS, but the results in Figure 6.8 indicate that the tangible impact of debt on the risk of deprivation is likely to vary according to household composition.

Figures 6.9 and 6.10 show the depth below MIS for individuals according to economic activity status, and household-level disability status, respectively. Figure 6.9 shows that among people whose household income is below MIS, those who are unemployed or economically inactive are falling furthest below the threshold. We also see that the burden of debt has a particularly strong relationship with the depth below MIS for those who are economically inactive due to sickness or disability. We can speculate that this might be related to the fact that people in this situation have additional costs and financial pressures associated with sickness or disability, which are already causing financial strain. Previous research has shown that these costs can be substantial (Hirsch and Hill, 2016; Blackwell, 2022) and are not accounted for in the standard MIS budgets.[9] Therefore, those with such additional needs and who are already falling substantially below the MIS threshold may be especially likely to be experiencing financial distress related to indebtedness.

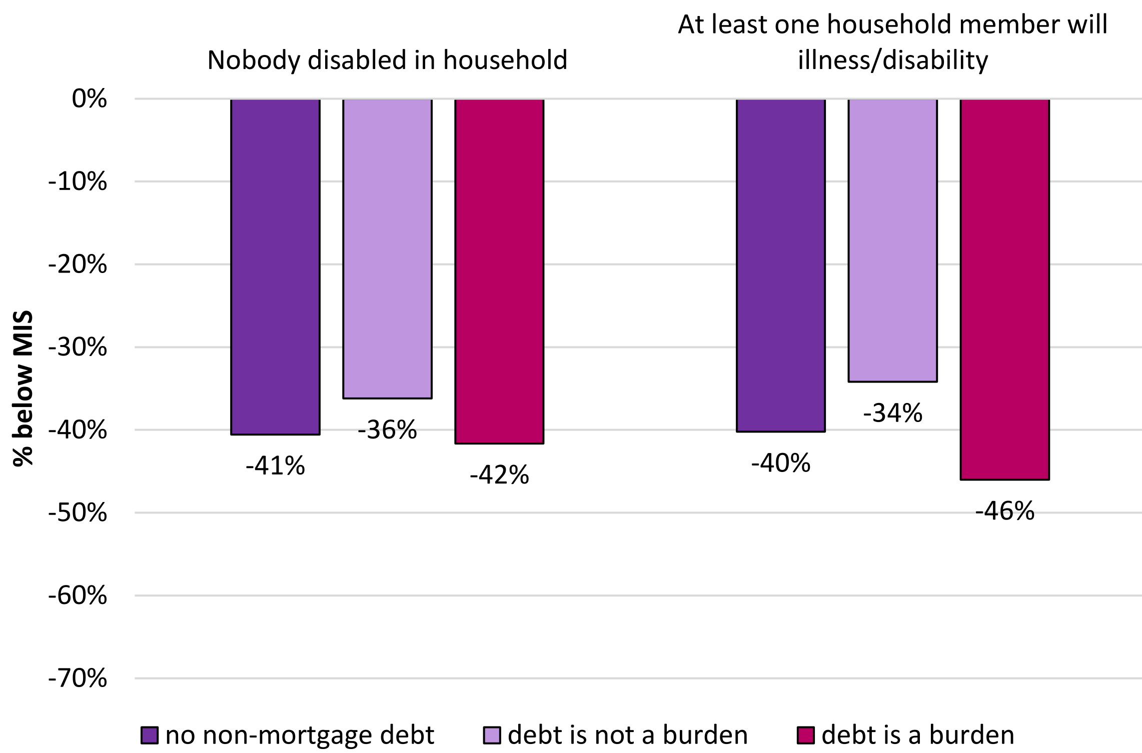
[9] MIS budgets are designed to be applicable to individuals who are in generally good health. This acknowledges that to calculate the additional costs associated with disability and ill health is a substantial endeavour that requires research in its own right.

Figure 6.9 Depth below MIS by economic activity and self-reported financial burden of debt



Conversely, Figure 6.10 suggests that there is little difference in the relationship between depth below MIS and perceptions of debt burden according to whether the household includes at least one member with a long-term illness or disability. It likely that this lack of association reflects the heterogeneity of this group; due to sample sizes we are unable to disaggregate this by, for example, household type, or the relationship of the individual with a disability to other household members. In subsequent analyses, we therefore focus more on sickness/disability as defined by economic activity status.

Figure 6.10 Depth below MIS by household disability status and self-reported financial burden of debt



7 The contribution of debt to inadequate living standards

In this section we investigate the extent to which debt repayments push people below the income level that they need to meet the MIS threshold, and therefore below the level of income the public agree is needed to live with dignity in the UK. This draws upon the concept detailed in the review of the literature (Section 2) of people and households being 'debt poor' (Pressman and Scott, 2014). This refers to the scenario whereby households may appear to have sufficient income to have an acceptable standard of living, but expenditure on repaying debts means that their residual income – that is, what is left after debt repayments – is pushed below this line.

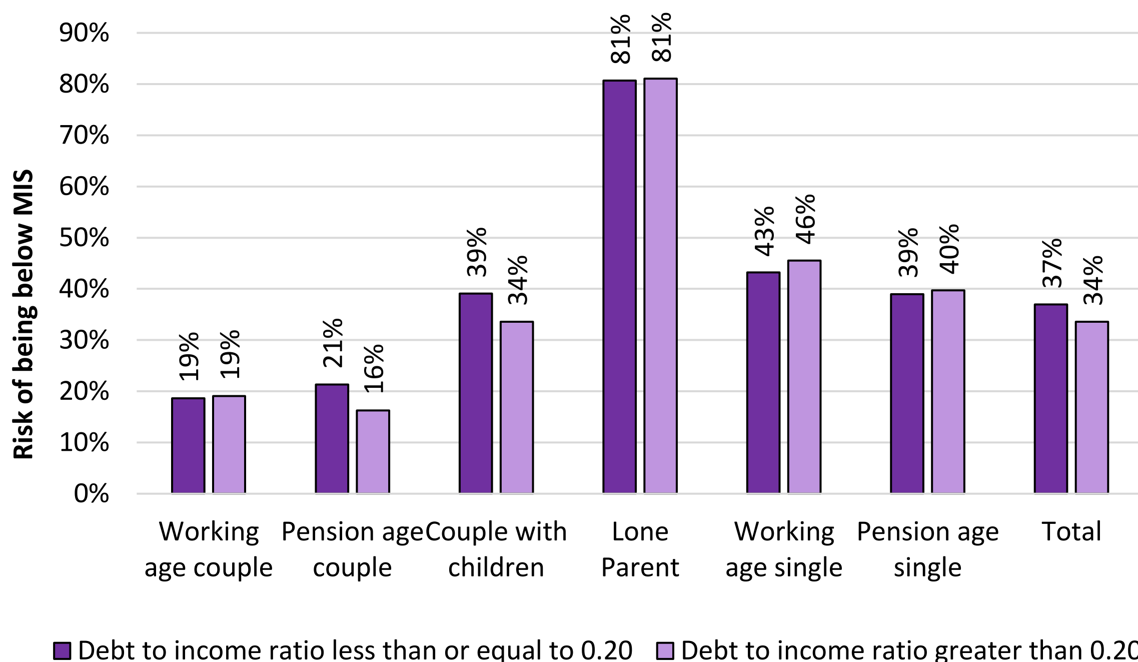
7.1 Key findings

- For working-age **couples with children** and **pensioner couples**, there is some evidence that high **debt-to-income ratio** is associated with a lower risk of being below MIS. Little or no debt is not a sign of economic advantage but more likely reflects barriers to accessing credit.
- **Working-age couples**, either with or without children, have the highest **value of debt repayment**, with a median £70 per week. However, this hides a large variation between the first and the ninth decile of £11.51 to £245.90 for couples with children. **Households with children** are most likely to fall below MIS when debt payments are considered. **Lone parents** are pushed below MIS at a lower level of debt repayment.
- Across **economic activity categories**, those who are economically inactive due to **sickness or disability** are most likely to be pushed below MIS by debt repayments.
- Across **all household types** and **economic activity categories**, the risk of being pushed below MIS increases notably at the median debt repayment and more sharply around the 80th percentile. Even the median debt repayments (£30 to £70 per week) are likely to have a marked impact on living standards for a significant number of households.
- For all household types, the risk of falling below MIS increases with **debt-to-income ratio**, with a 'tipping point' where this risk becomes more pronounced. **Lone parents** have the steepest increase in risk and this occurs at an debt-to-income ratio of 10%, compared to 20% for other household types.
- The **debt-to-income** ratio at which around half of individuals are estimated to be pushed below MIS varies by household type: around 20% for lone parents, 30% for couples with children and pensioners, and 40% for working-age couples and singles without children.
- Those of **working-age** are likely to fall furthest below MIS after **accounting for debt repayments**, particularly households with children. **Lone parents** are harshly affected, resulting in an income that is 52% below MIS. **Working-age singles** fare the worst and fall to an average income of 55% below MIS after debt repayments are considered.
- Those who are **employed** fall to 42% below MIS once debt repayments are considered, emphasising that employment does not necessarily provide protection against the negative effects of low income and debt, nor does it provide a clear and direct route out of poverty and deprivation.

7.2 Debt repayment amounts and the risk of inadequate living standards

One way in which to examine the relationship between debt, income and living standards is to calculate household debt-to-income ratios - debt repayments as a proportion of household income. In Figure 7.1, we use a binary variable that indicates whether a household's debt repayments are more or less than 20% of their household income. We then look at how the risk of being below MIS varies according to this ratio, by household type. In fact, there is very little difference in the risk of being below MIS using this binary measure of debt-to-income ratio; moreover, for couples with children and couple pensioners, there is some evidence that those with a higher debt-to-income ratio are *less* likely to be below MIS than those with a lower ratio. This most likely reflects the multifaceted association between debt and income that has been demonstrated earlier in the report, namely that having little or no debt is not necessarily a sign of economic advantage, but can also reflect barriers to accessing credit experienced by low income households.

Figure 7.1 Risk of being below MIS by household debt-to-income ratio (excluding student loans) and household type



To provide a more nuanced picture of the relationship between debt repayments, income and the risk of being below MIS, we first calculate the total weekly debt repayments for each household in Wave 7 of the Wealth and Assets Survey. We then remove this value from their weekly income, revealing the 'residual' income left to meet their minimum needs. Finally, we recalculate whether this adjusted income means that they are now below the MIS threshold.

Table 7.1 shows, for those that report any debt repayments, the weekly amount of these repayments at the 10th to 90th percentile, for different household types. This provides a picture of the overall amount of debt repayments that different households might be servicing, but also the *range* of values of debt that they might be liable for.

Overall, working-age couples, with and without children, have the highest debt repayment. At the median value of debt repayment (50th percentile), these households are estimated to be paying more than £70 per week; the median debt repayment for single pensioners and for lone parents is less than half this amount.

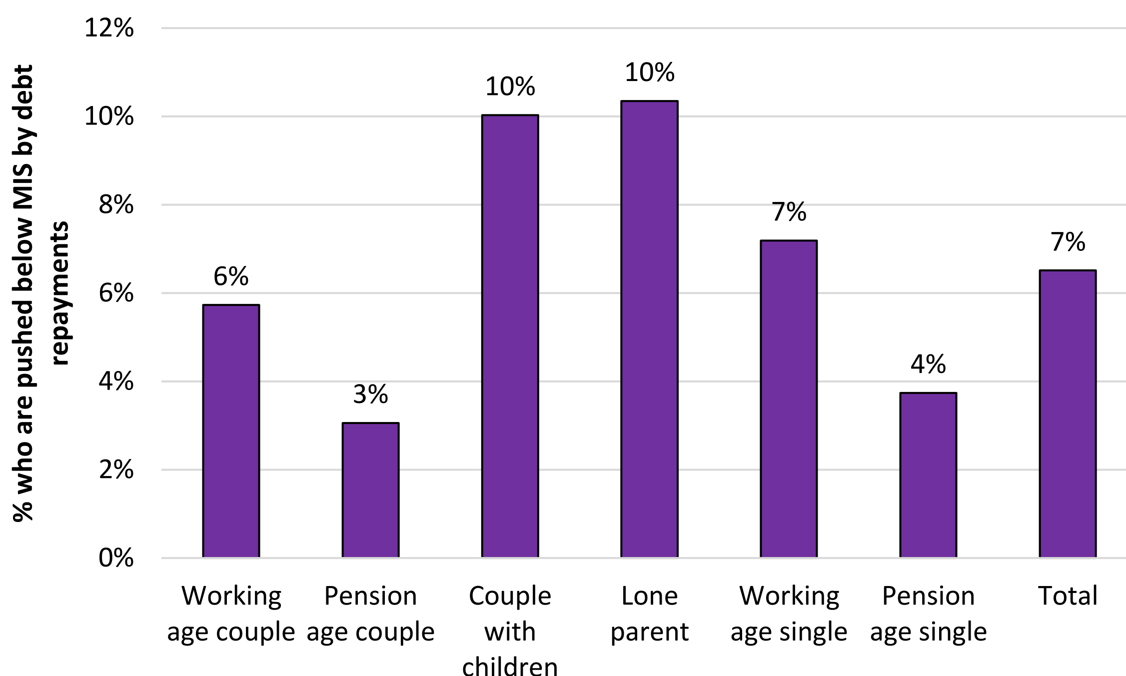
The value of repayments also rises particularly steeply for working-age couples. A working-age couple with children at the lowest 10% of debt payments would be estimated to be paying £11.51 per week. For those with the very highest level of debt repayments (90th percentile), this would reach £245.90 per week. The range of repayment amounts is similar for working-age couples without children.

Table 7.1 Percentiles of weekly debt payment amounts by household type

Percentile of weekly debt repayment amount	Weekly debt repayment by household type					
	Working age couple	*Pension age couple*	*Couple with children*	*Lone parent*	*Working age single*	*Pension age single*
10	£11.97	£6.93	£11.51	£5.43	£5.75	£4.60
20	£27.62	£17.26	£26.24	£8.98	£11.05	£9.97
30	£42.23	£30.38	£42.12	£16.57	£20.71	£16.11
40	£57.53	£41.42	£57.53	£24.78	£28.77	£23.01
50 (median)	£70.88	£50.63	£73.64	£33.60	£40.04	£34.52
60	£92.05	£61.68	£92.05	£46.03	£51.32	£46.03
70	£121.97	£80.55	£119.67	£59.84	£69.04	£59.38
80	£166.85	£115.07	£165.35	£85.61	£96.66	£82.85
90	£253.15	£176.05	£245.90	£125.42	£168.92	£115.07

How do these debt repayments interact with overall household income, and the risk of falling below MIS – in other words, what is the risk of a household becoming 'debt poor'? Figure 7.2 looks at just those individuals whose household income is above MIS on the standard measure (before debt repayments are removed), and shows the percentage who would now be below MIS if their debt repayments were taken into account (i.e. removed from their total available income). This shows that it is households with children who are most at risk; one in ten parents would be pushed below the MIS threshold due to debt repayments, regardless of whether they are a couple or a lone parent.

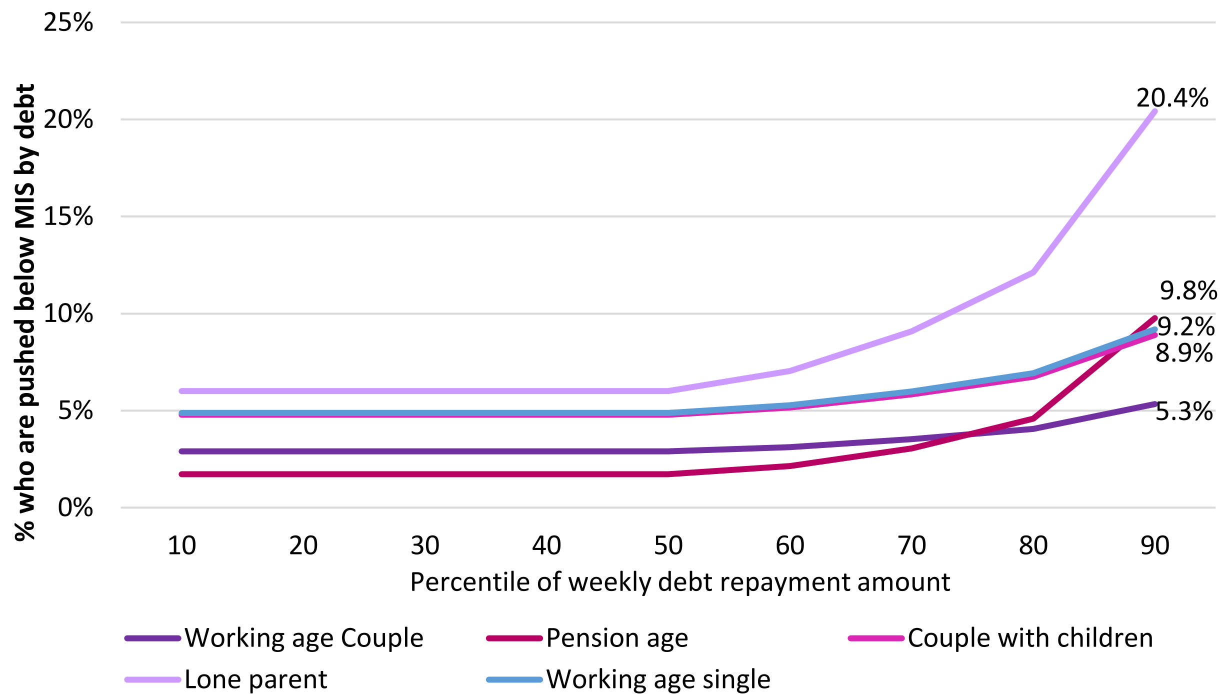
Figure 7.2 Proportion of individuals who are above MIS when debt repayments are unaccounted for who are pushed below MIS by these repayments, by household type



However, the different experiences of lone and couple parents become apparent if we look in more detail at the the value of debt repayments in this context. In Figure 7.3 we model how the risk of being pushed below MIS relates to the value of debt repayments that households must cover.[10] Lone parents are consistently the group most vulnerable to being pushed below the MIS threshold, despite having lower value debt repayments compared to other household types (see Table 7.1). The gap between lone parents and couple parents increases as the extent of debt repayments rises. For lone parents, the risk begins to rise most noticeably when debt repayments exceed the median value (50th percentile) for this household type, a repayment amount of around £34 per week (Table 7.1). The risk of falling below MIS also increases for couple parents at the median repayment amount, but much less steeply. When the value of debt repayments is at the 90th percentile (~£125 per week – see Table 7.1), one in four lone parents whose net income puts them above the MIS benchmark would be pushed below this threshold by their debt repayments –debt repayments, rather than inadequate income, mean that these individuals do not have the income needed for a minimum socially acceptable standard of living.

[10] In this analysis, small sample sizes mean that we are unable to disaggregate pensioners into couples and singles. They are therefore included in a combined category.

Figure 7.3 Proportion of individuals who are above MIS when debt repayments are unaccounted for who are pushed below MIS by these repayments, by percentile of repayment amounts and household type



This analysis can be repeated focusing on economic activity. Table 7.2 shows the weekly level of debt repayments at each decile, for different categories of economic activity. Debt repayment amounts are highest for those who are employed, and lowest for those who are sick or disabled. Again, this probably reflects the barriers to accessing credit for those who are inactive in the labour market and are more likely to have a low income. Figure 7.4 again shows that those who are economically inactive due to sickness or disability are most vulnerable, with 10% being pushed below the MIS threshold by their debt repayments. Those who are unemployed (9%) or otherwise inactive in the labour market (8%) are also at substantial risk of being pushed below MIS by debt repayments.

This high risk of being pushed below MIS by debt for those who are sick or disabled is further emphasised in Figure 7.5, which breaks down this risk further by the percentile of debt repayment amount. Those who are inactive due to sickness or disability are consistently the most likely to be pushed below the MIS threshold at every level of debt repayment, with the proportion pushed below MIS reaching 27% at the 90th percentile of debt repayments. In every group, the risk of being pushed below MIS begins to increase notably at the 50th percentile of debt repayments, with a sharper increase at around the 80th percentile. At the 50th percentile (the median), debt repayments range from around £30 to £70 per week, and the analysis indicates that even at these moderate amounts, there is likely to be a marked impact on living standards for many households.

Table 7.2 Percentiles of weekly debt payment amount by economic activity

Percentile of weekly debt repayment amount	Weekly debt repayment by economic activity				
	Employed	*Unemployed*	*Sick/disabled*	*Retired*	*Other inactive*
10	£11.51	£7.36	£6.90	£5.75	£6.90
20	£24.67	£14.96	£11.51	£11.51	£12.66
30	£39.58	£22.19	£16.02	£20.71	£23.01
40	£54.08	£29.92	£23.01	£31.30	£34.52
50 (median)	£69.04	£42.58	£32.68	£41.42	£47.18
60	£89.29	£53.62	£46.03	£50.63	£62.60
70	£115.07	£72.49	£62.14	£65.59	£80.55
80	£159.30	£103.56	£85.15	£92.05	£115.07
90	£241.41	£131.18	£128.88	£138.08	£186.41

Figure 7.4 Proportion of individuals who are above MIS when debt repayments are unaccounted for who are pushed below MIS by these repayments, by economic activity

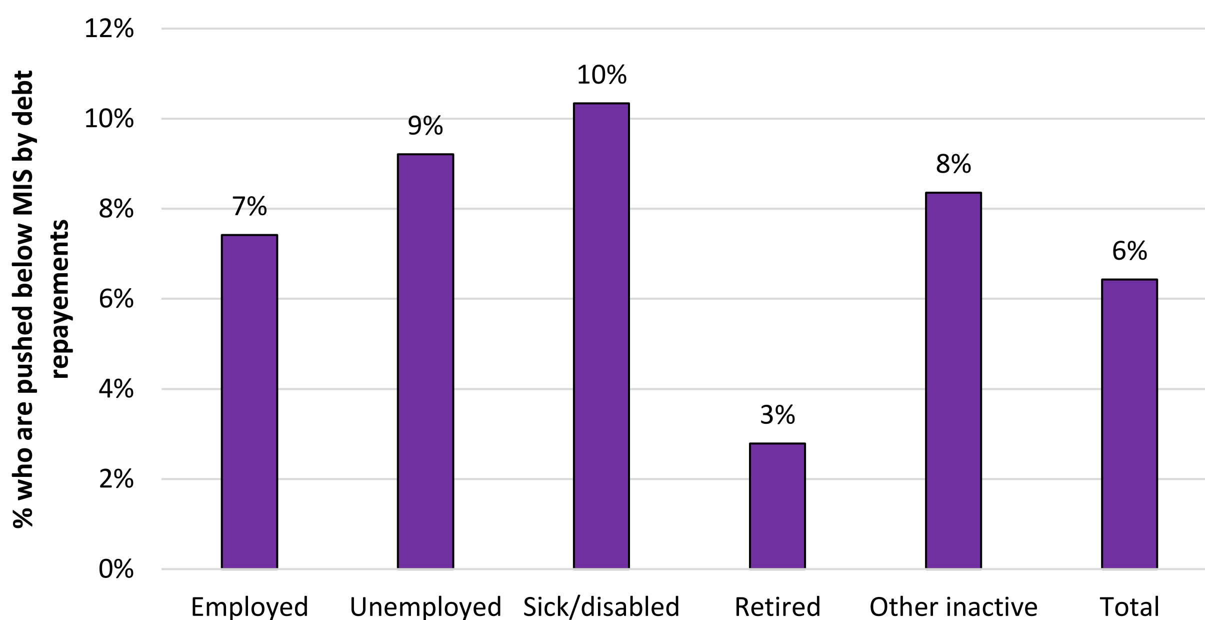
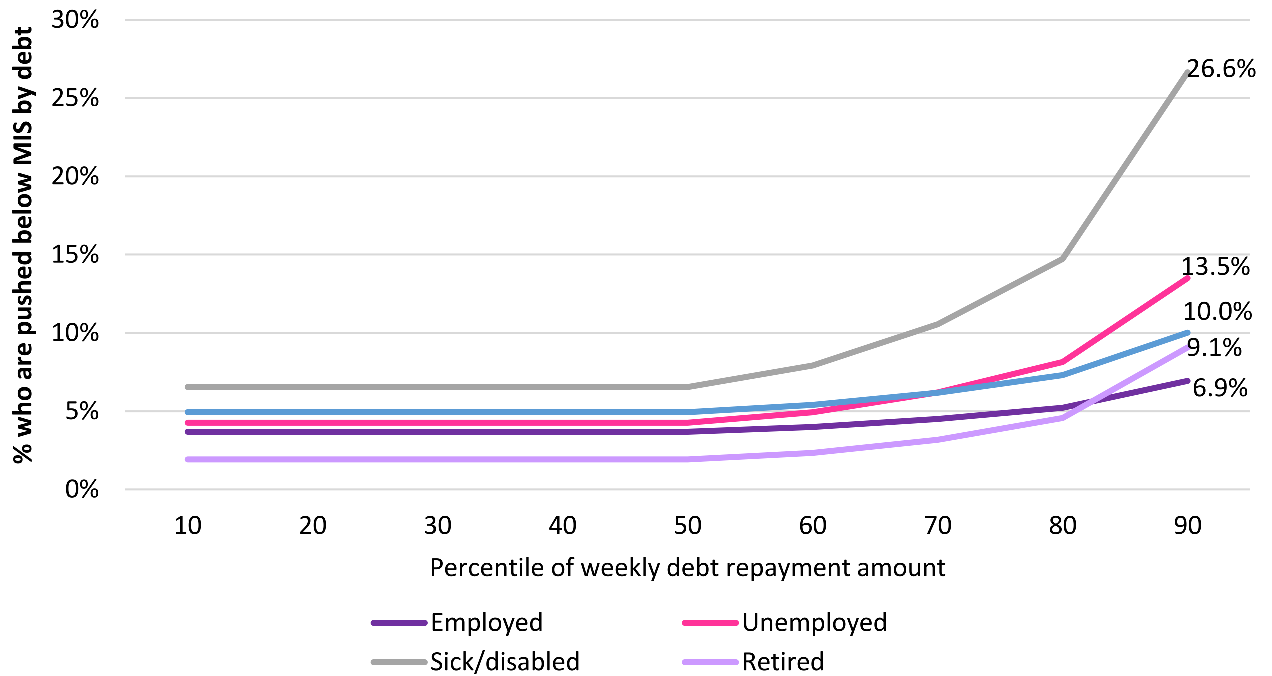


Figure 7.5 Proportion of individuals who are above MIS when debt repayments are unaccounted for who are pushed below MIS by these repayments, by percentile of repayment amounts and economic activity status



7.3 Debt-to-income ratios and the risk of inadequate living standards

We now look more closely at debt-to-income ratios, and how this indicator of the importance of debt as a proportion of disposable income might interact with the risk of being pushed below the MIS threshold. Table 7.3 shows the debt-to-income ratio values (expressed as percentages for ease of interpretation) at each percentile, for different household types. At the 90th percentile, debt repayments represent up to around a third of a household's net income after housing costs, with working-age single households showing the steepest rise in debt-to-income ratio across the percentiles.

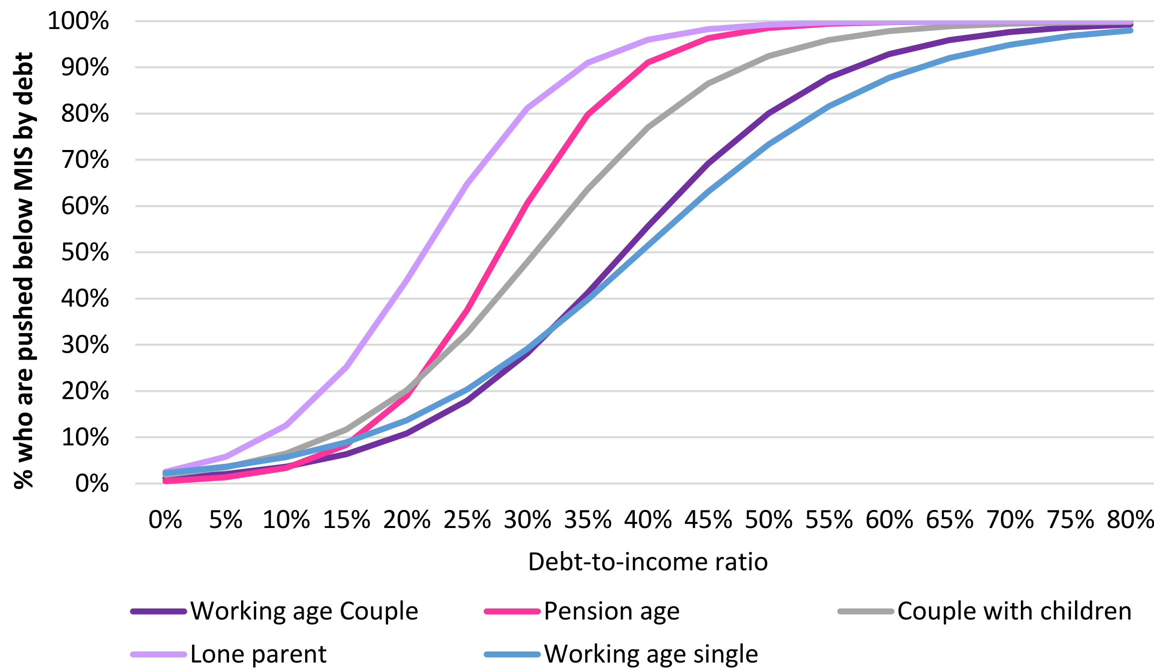
Table 7.3 Percentiles of debt-to-income ratios by household type

Percentile of debt-to-income ratio	Debt-to-income ratio by household type					
	Working age couple	*Pension age couple*	*Couple with children*	*Lone parent*	*Working age single*	*Pension age single*
10	1.7%	1.1%	1.5%	1.4%	1.3%	1.0%
20	3.2%	2.8%	3.3%	2.1%	2.5%	2.4%
30	4.8%	4.4%	4.9%	3.5%	3.7%	4.3%
40	6.3%	6.0%	6.5%	5.6%	5.4%	6.1%
50	8.5%	7.6%	8.8%	7.3%	7.2%	8.5%
60	10.7%	9.5%	11.6%	9.2%	10.6%	10.2%
70	13.7%	12.3%	15.3%	14.1%	14.5%	12.1%
80	18.7%	17.4%	20.6%	20.0%	21.4%	16.4%
90	27.3%	25.6%	30.5%	29.0%	32.9%	28.5%

When we model how debt repayments affect the risk of a household falling below the MIS threshold in relation to their debt-to-income ratio (Figure 7.6), we see that lone parents are again those who are most likely to be pushed below MIS by debt. They not only have the highest risk among household types, but also show the steepest increase in risk, at relatively low values of debt-to-income ratio; a quarter of these households would be pushed below MIS by debt when their repayments represent 15% of their income, rising to nearly two-thirds pushed below MIS when debt repayments represent a quarter of their disposable income.

Although the risk of falling below MIS increases with debt-to-income ratio for all household types, the 'tipping point' at which the gradient begins to become more pronounced, and the steepness of this increase vary. As noted above, the steepest increase is observed for lone parents, for whom the risk of being pushed below MIS begins to increase sharply at a debt-to-income ratio of just 10%. For all other household types, this point is at around a debt-to-income ratio of 20%. If we look at the point at which around half of individuals are estimated to be pushed below MIS, this at a debt-to-income ratio of around 20% for lone parents, 30% for couples with children and pensioners, and 40% for working-age couples and singles without children.

Figure 7.6 **Proportion of individuals who are above MIS when debt repayments are unaccounted for who are pushed below MIS by these repayments, by debt-to-income ratio and household type**



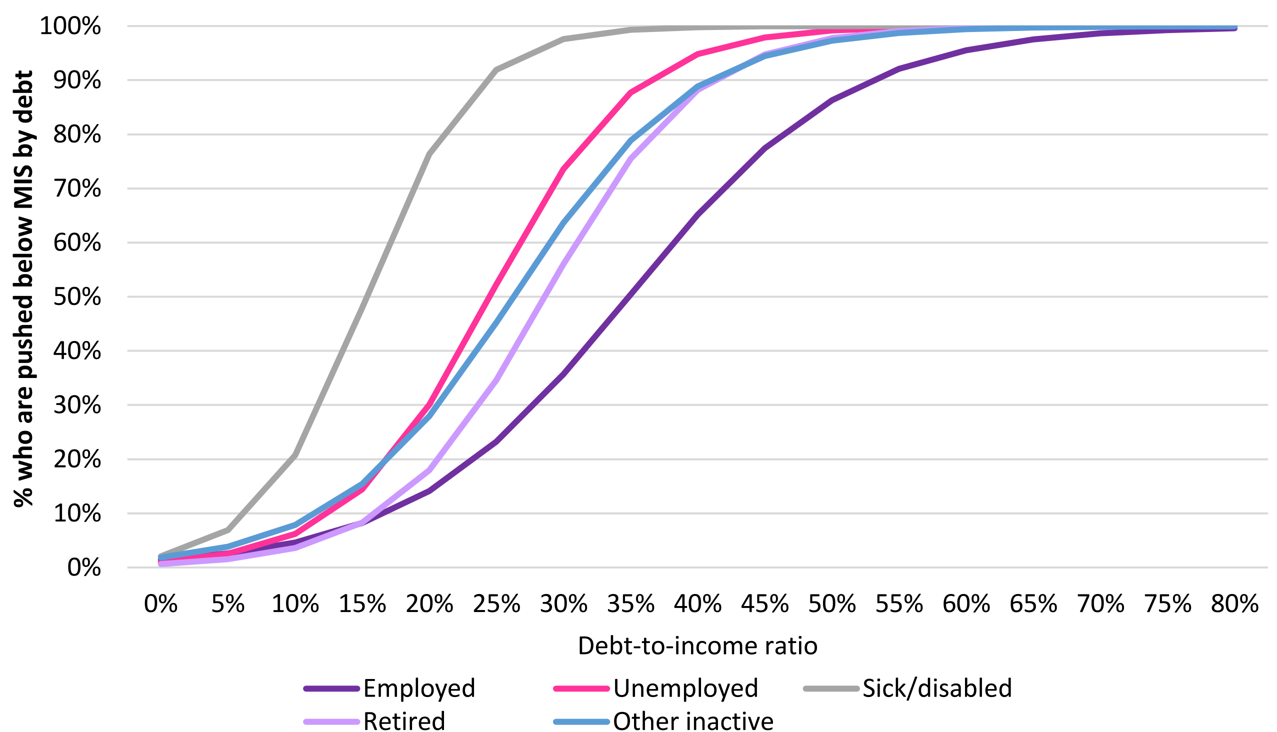
In Table 7.4 and Figure 7.6, we repeat this analysis by economic activity status. In Figure 7.6, the results are even more stark for those who are economically inactive due to sickness or disability than they are for lone parents; where debt repayments represent 10% of their disposable income, one in four would be pushed below MIS by their debt repayments. At a debt-to-income ratio of 15%, nearly half of these households would be pushed below MIS; those in employment would not reach this level of risk until their debt repayments represented more than a third of their income.

Looking at the point at which the risk of falling below MIS begins to rise more steeply, this appears to happen at a debt-to-income ratio of just 5% for those who are sick and disabled; at around 20% for those who are employed; and at around 15% for the other economic activity groups.

Table 7.4 Percentiles of debt-to-income ratio by economic activity

Percentile of debt-to-income ratio	Debt-to-income ratio by economic activity				
	Employed	*Unemployed*	*Sick/disabled*	*Retired*	*Other inactive*
10	1.5%	1.6%	1.5%	1.1%	1.2%
20	3.2%	3.1%	2.4%	2.6%	2.3%
30	4.6%	4.5%	3.4%	4.1%	4.0%
40	6.3%	5.5%	5.2%	5.9%	5.9%
50	8.4%	7.4%	6.8%	7.4%	8.1%
60	10.9%	11.0%	9.0%	9.4%	10.9%
70	14.4%	15.7%	12.5%	12.1%	14.6%
80	19.5%	21.0%	18.8%	16.3%	20.1%
90	29.0%	30.0%	28.8%	26.4%	29.3%

Figure 7.7 Proportion of individuals who are above MIS when debt repayments are unaccounted for who are pushed below MIS by these repayments, by debt-to-income ratio and economic activity



7.4 Debt repayments and depth of inadequate living standards

Finally, in Figures 7.8 and 7.9, we explore how accounting for debt repayments affects how far a household is likely to fall below the MIS threshold. In Figure 7.8, we see that it is working-age adults who are most strongly affected, and particularly if they are in a household with children. For couples with children, accounting for debt repayments increases their depth below MIS by eight percentage points, from 36% to 44% below the MIS threshold. For lone parents, accounting for debt repayments means that they now, on average, have an income that is less than half the MIS budget for this household type. Working-age singles, who are already far below the MIS threshold, are pushed even further into deprivation, with an average income 55% below the MIS threshold after taking debt repayments into account.

In Figure 7.9, we see that while accounting for debt repayments does push people further below MIS in all economic activity categories, it is among those who are employed that we see the most notable impact. Although this group are initially, along with retired individuals, closest to the MIS threshold before taking debt into account (34% below MIS), after taking debt into account they are pushed, on average, a further six percentage points below MIS, reaching 42%. This in part reflects that this analysis is restricted to those who are already below MIS; those who are employed and whose income means that they are unable to reach the MIS threshold are more likely to be in low-paid and/or insecure work than those who are able to reach MIS, so are in turn more likely to be detrimentally affected by debt repayments. This emphasises the reality that employment does not necessarily provide protection against the negative consequences of low income and debt, and does not necessarily provide a clear and direct route out of poverty and deprivation.

Figure 7.8 Depth below MIS with and without accounting for debt repayments, by household type

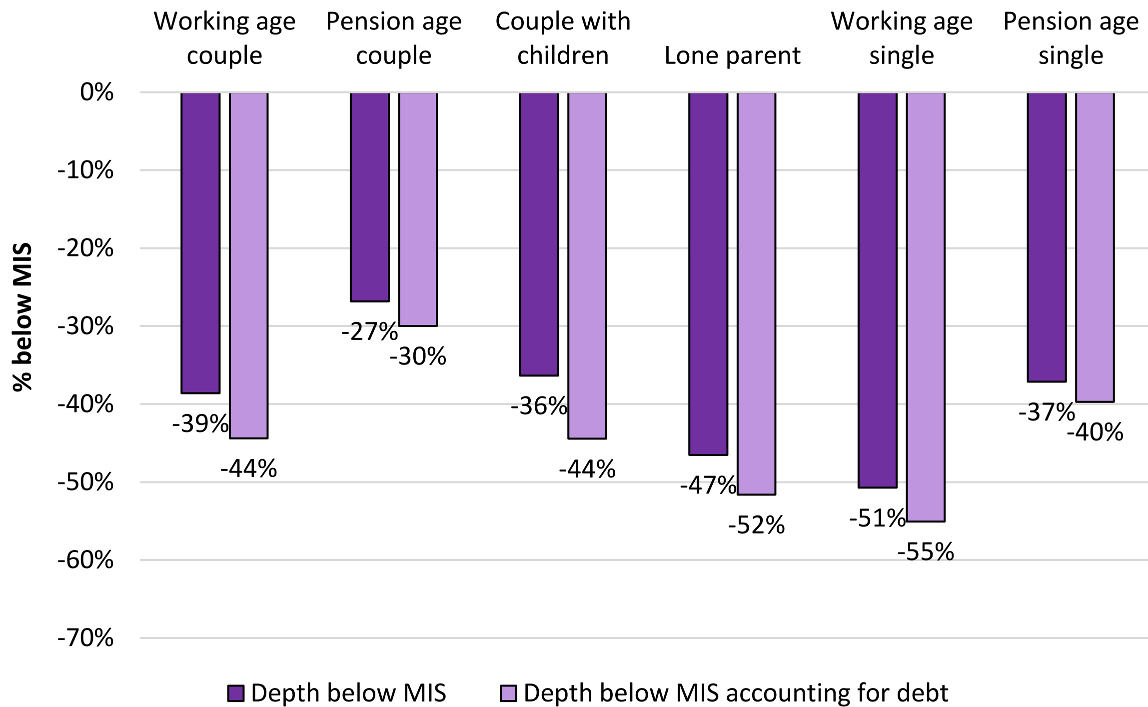
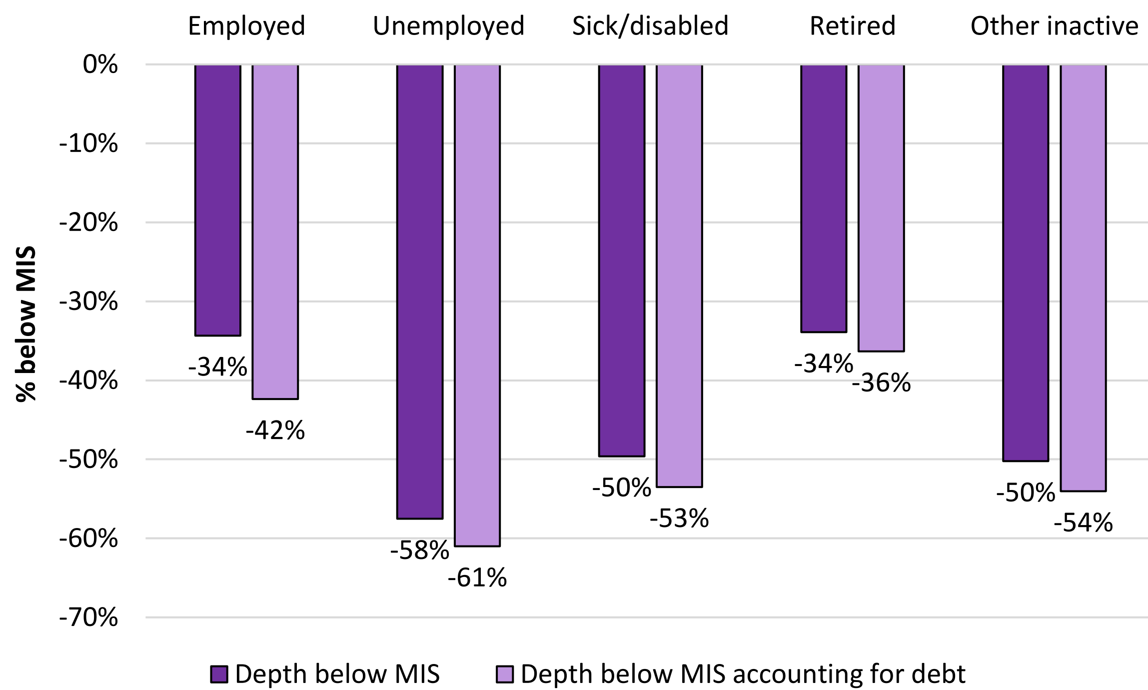


Figure 7.9 Depth below MIS with and without accounting for debt repayments, by economic activity



8 Life course, living standards and debt

In this final section, we explore how events and transitions that people experience during the life course might interact with the relationship between debt and inadequate living standards. As noted in Section 2, adverse life events such as relationship breakdown can be both a cause and a consequence of over-indebtedness. While in this analysis we cannot say anything concrete regarding causality, we can provide evidence on how different life circumstances interact and accumulate, and how this relates to both experiences of debt and to inadequate living standards.

8.1 Key findings

- **No debt to burdensome debt**: The group most likely to move below the MIS threshold are those who move from having no non-mortgage debt in one wave of the survey, to having burdensome debt in subsequent waves.
- **Household type**: Of those who move from no debt to burdensome debt, working-age singles are the most likely to move below MIS between waves of the survey. In contrast, lone parents are at greatest risk of moving below MIS if they consistently find debt burdensome in consecutive waves.
- **Partnership status**: The risk of moving below MIS is lowest for those who are consistently partnered and is relatively low for those who are consistently unpartnered. In contrast, a change in partnership status, particularly partnership dissolution, is associated with an increased risk of falling below MIS. When partnership dissolution coincides with moving from no debt to burdensome debt, then the risk of moving below MIS increases significantly.
- **Economic inactivity**: Moving from employment to unemployment or economic inactivity is associated with an increased risk of falling below MIS. When moving out of the labour market occurs at the same time as a shift from having no debt to having burdensome debt, then the risk of falling below MIS increases substantially.
- **Health status:** The group most at risk of falling below MIS are those who are consistently ill or disabled and have moved from having no debt to burdensome debt in consecutive waves.

8.2 Patterns of debt burden and the risk of falling below MIS

We use data from Waves 3 to 7 of the Wealth and Assets Survey, and model the risk of moving below the MIS threshold associated with transitions in the subjective experience of debt, and the association with other life course transitions – changes in partnership status, in economic activity and in health.

We carried out an event history analysis that modelled the risk of moving below the MIS threshold between waves, based on other changes in status during the same period. For this analysis, we included only people who were above MIS at the first point at which they were observed, thereby allowing us to model the risk of moving below the threshold.
We initially produced a variable denoting how an individual's perception of the financial burden of debt changed between waves, in six categories:

1. Consistent no debt
2. Consistent non-burden debt
3. Consistent burden debt
4. No debt to burden debt
5. Non-burden debt to burden debt
6. Other

Figure 8.1 shows the risk of moving below the MIS threshold by change in subjective perceptions of the burden of debt. The group most likely to move below MIS are those who move from having no non-mortgage debt in one wave, to having debt that is perceived as a financial burden in the subsequent wave (17%). The risk of moving below MIS is much lower (9%) for those who have debts that are not perceived as a burden but move to perceiving debt as a financial burden in the subsequent wave. However, the risk of moving below MIS is second highest (14%) for individuals who consistently report experiencing debt as a financial burden in two consecutive waves.

Figure 8.1 Risk of moving below the MIS threshold in each WAS wave by between-wave pattern of debt burden

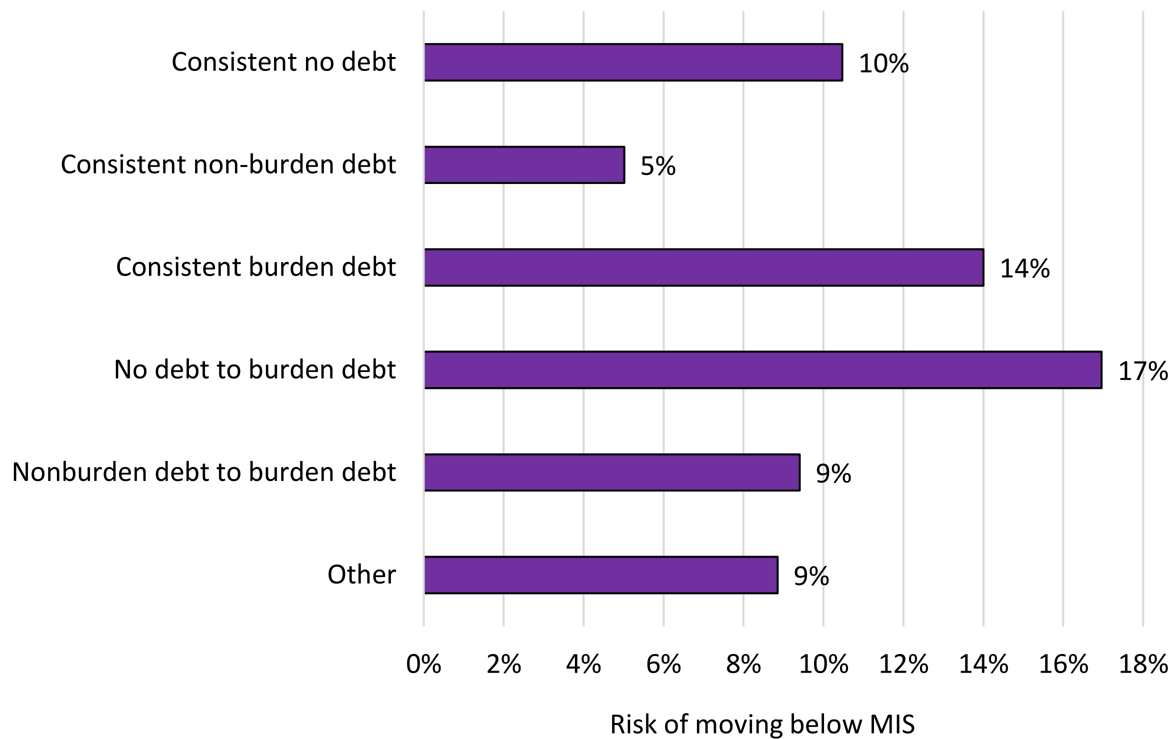


Figure 8.2 shows the risk of moving below MIS by pattern of debt burden and household type. For most household types, the results reflect the overall association shown in Figure 8.1; the highest risk of moving below MIS is for those who move from having no non-mortgage debt in one wave to having debts that are perceived as financial burden in the subsequent wave. This association is especially strong among working-age singles, for whom the risk of moving below MIS reaches 50%. Among the other groups, the overall risk of moving below MIS is much lower, apart from for lone parents. Setting them apart from all other household types, lone parents are most likely to move below MIS if they report finding debt a financial burden in two consecutive waves (45%). For these households, persistent debt appears to be a more pressing issue than changes in debt status.

8.3 Life events and the risk of falling below MIS

In Figure 8.3, we model the impact of changes in partnership status, based on whether an individual is consistently partnered, consistently unpartnered, becomes co-resident with a new partner between waves, or experiences partnership dissolution. The overall risk of moving below MIS is lowest for those who are consistently partnered, but is also relatively low for those who are consistently unpartnered. It is where there is a change in partnership status that we see a more substantial risk of moving below MIS, particularly in the case of partnership dissolution. Both moving from no debt to burden debt and experiencing a partnership dissolution increase the risk of moving below MIS; but when these two factors occur concurrently, the risk is substantially higher (59%).

Figure 8.4 relates to economic activity. This shows clearly that while moving from employment to unemployment or inactivity is associated with a high risk of moving below MIS regardless of subjective perceptions of debt, moving out of the labour market and at the same time moving from having no non-mortgage debt to having debt that is perceived as a financial burden, means that this risk increases substantially (81%). Those who are consistently unemployed/inactive are less likely to move below MIS; but this is in part an artefact of the sample make-up; fewer of those in this group would be above MIS in the first consecutive wave, and those who are above MIS are likely to be in a more advantaged financial position initially, therefore less likely to move below the threshold even if they experience changes in debt status.

Finally, in Figure 8.5 we look at changes in health status. This indicates that the interaction between moving into debt that is perceived as a financial burden and the risk of moving below MIS is most strongly associated with being consistently disabled or in ill health. Similar to the pattern seen for lone parents, it appears that the persistence of disadvantage (namely the financial pressures associated with illness and disability) is important here; and this is compounded by taking on burdensome debt.

Figure 8.2 Risk of moving below the MIS threshold in each WAS wave by between-wave pattern of debt burden, and household type

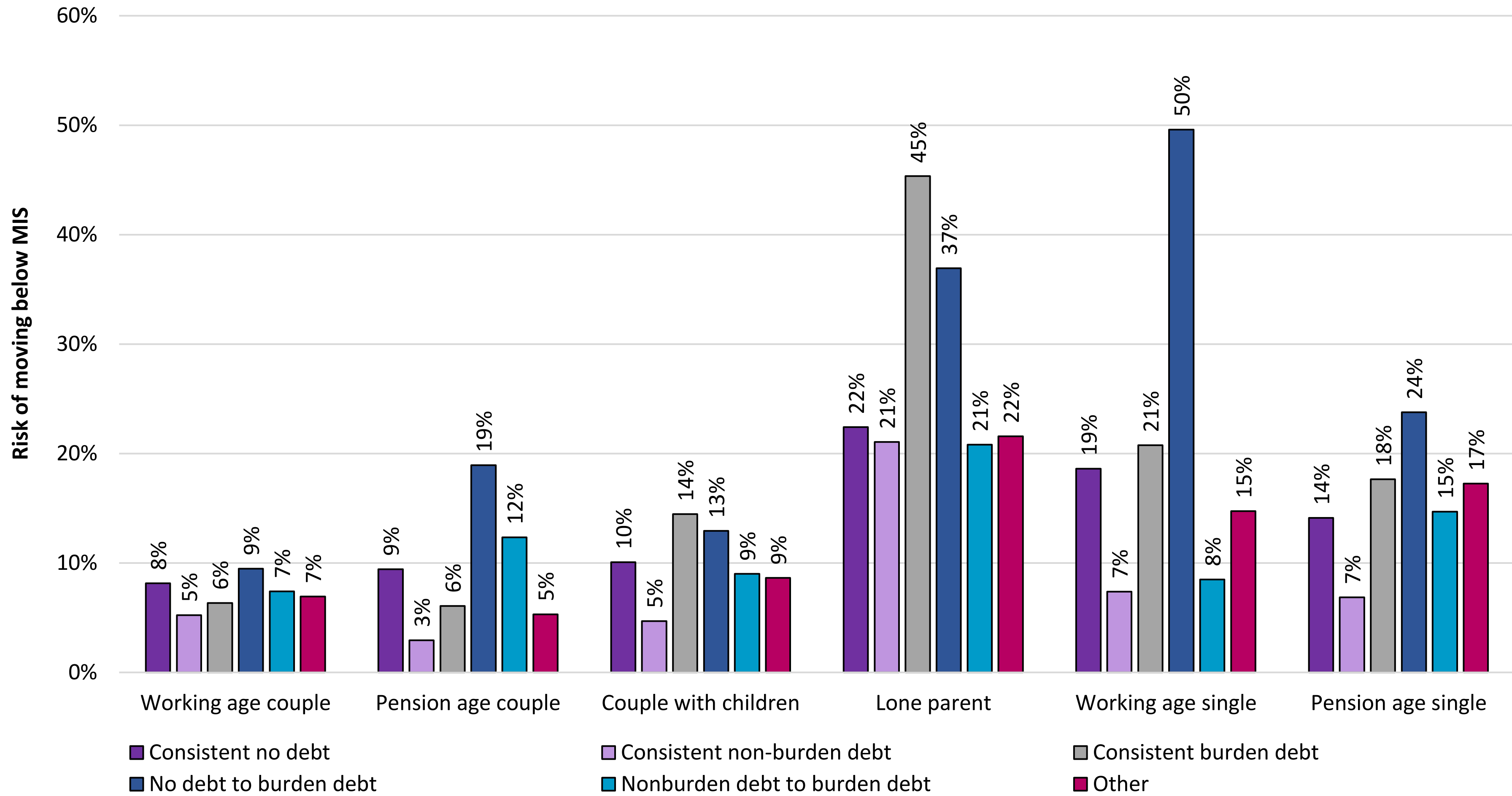


Figure 8.3 Risk of moving below the MIS threshold in each WAS wave by between-wave pattern of debt burden, and partnership status

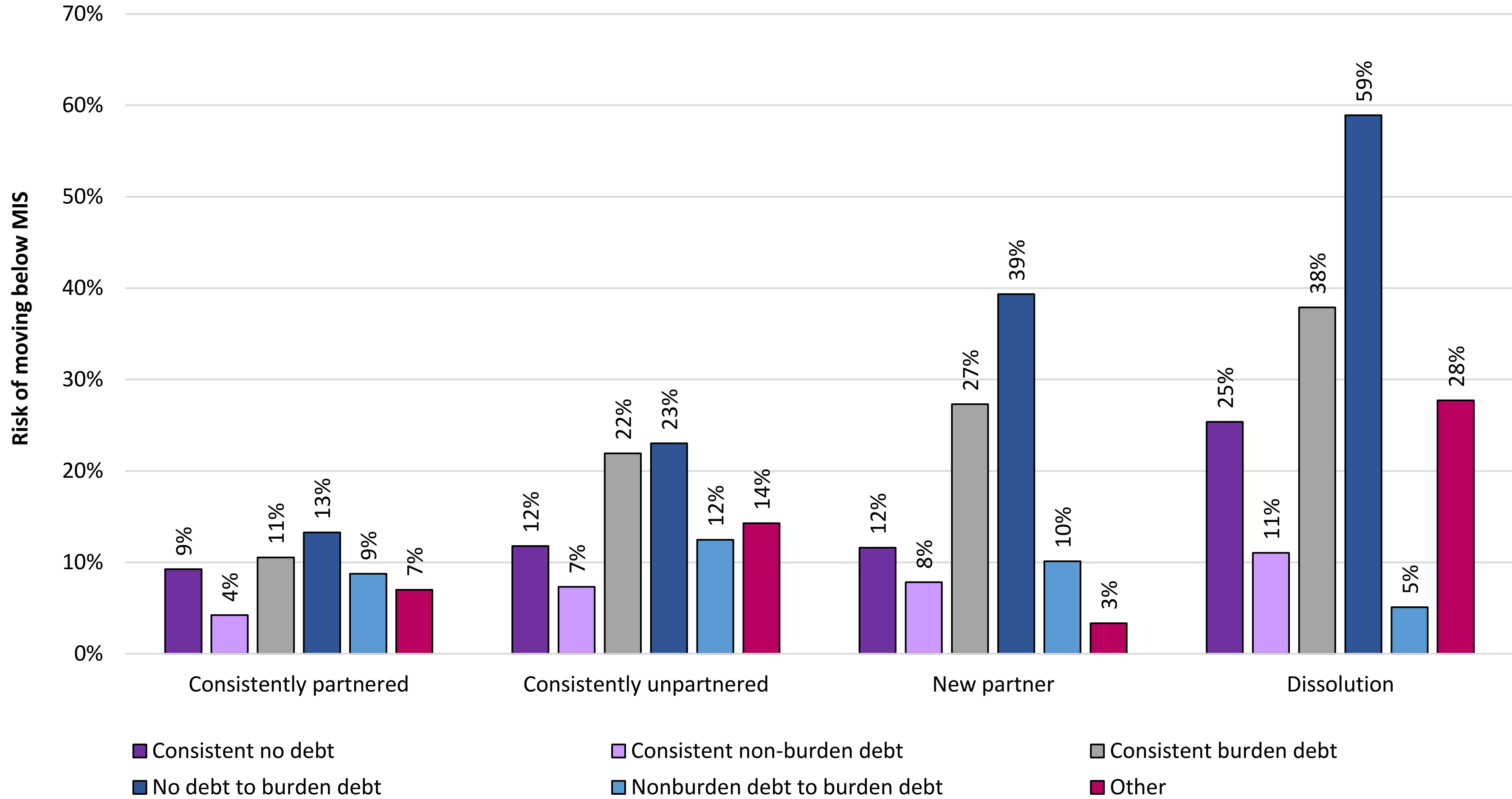


Figure 8.4 Risk of moving below the MIS threshold in each WAS wave by between-wave pattern of debt burden, and economic activity

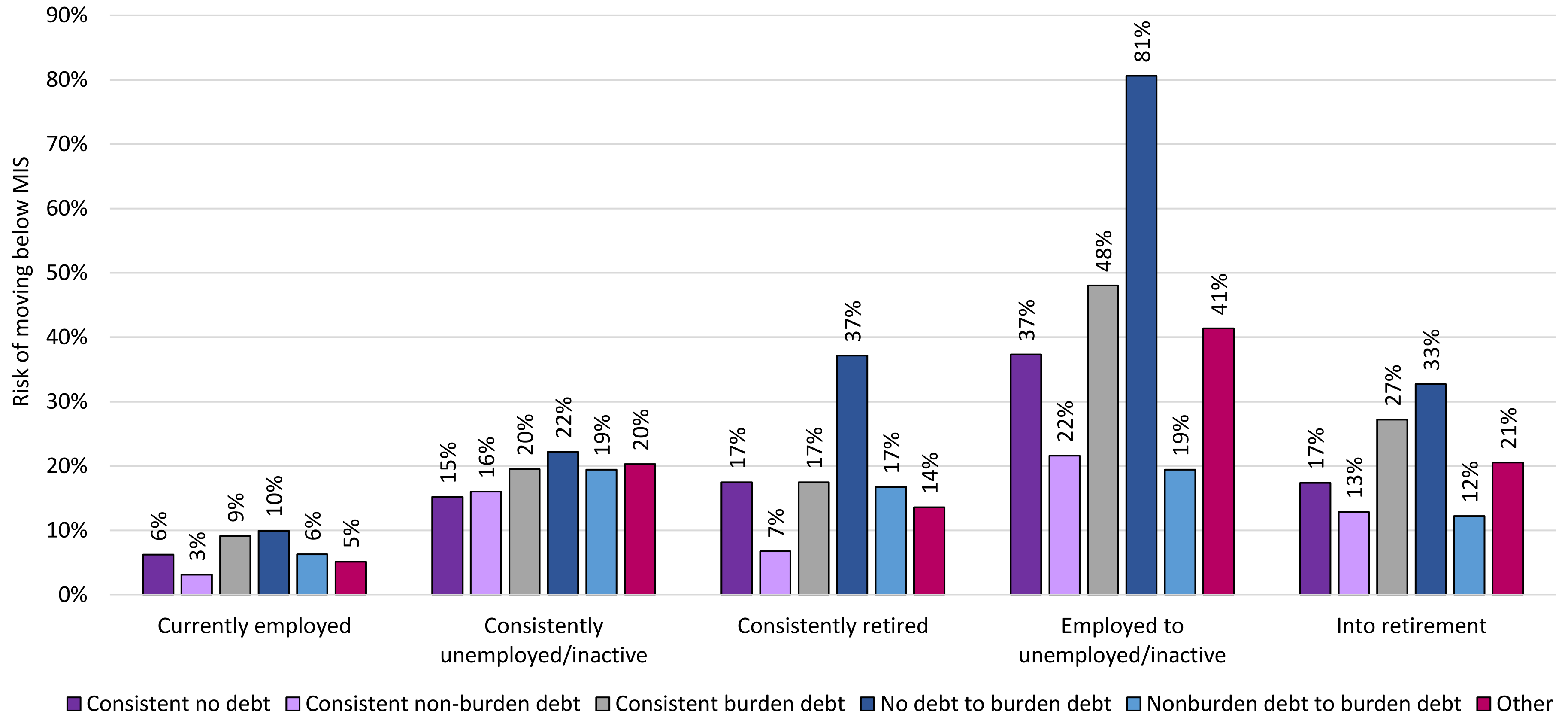
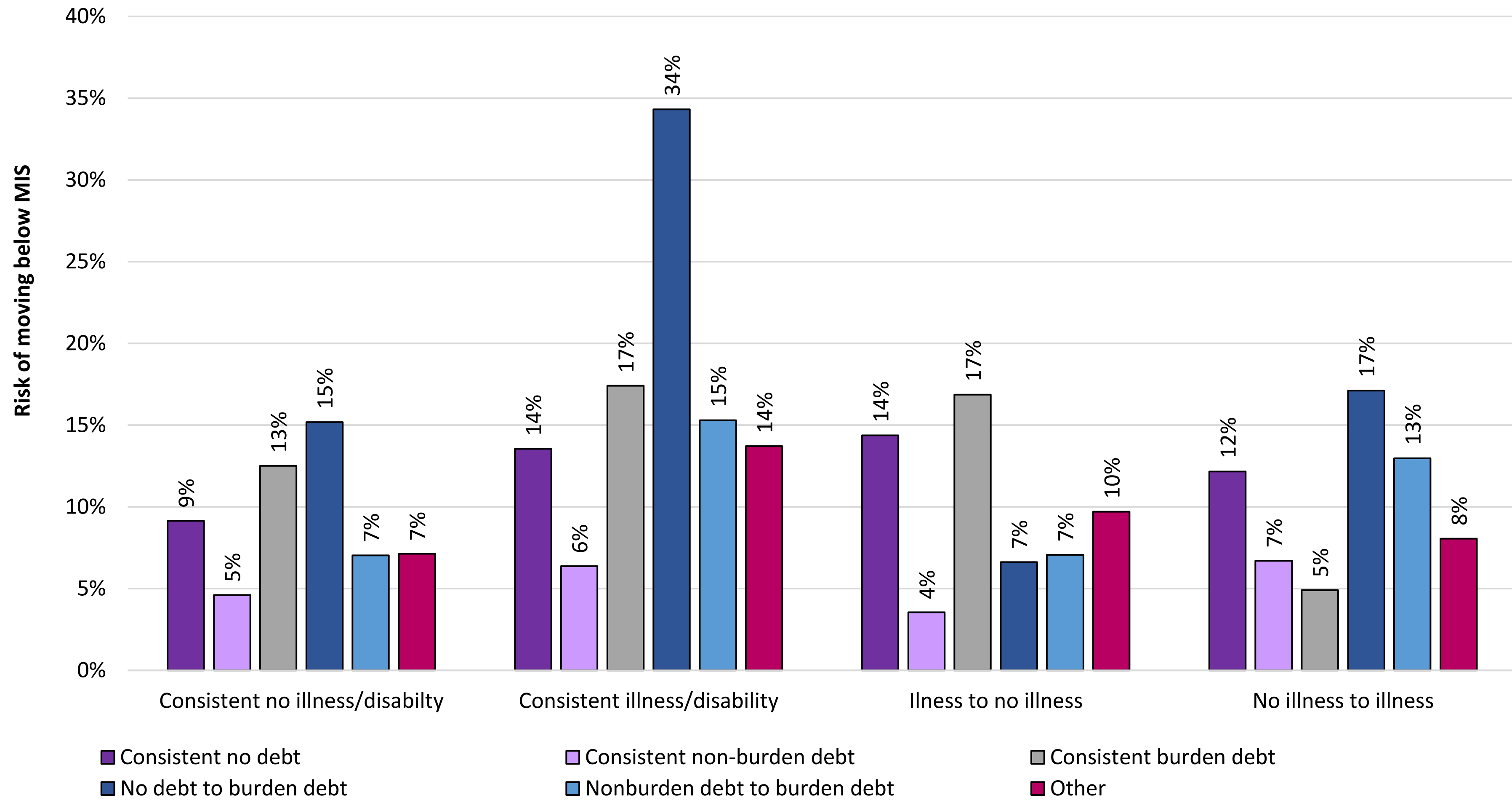


Figure 8.5 Risk of moving below the MIS threshold in each WAS wave by between-wave pattern of debt burden, and health status



9 Conclusions

In the context of high inflation and the spiralling cost-of-living crisis in the UK, the ability of households to meet their minimum needs is moving increasingly out of reach. Although the findings in this report do not yet cover the period during which inflation began to increase dramatically, they show that many households were already struggling with the burden of debt even before the cost-of-living crisis really took hold. It is therefore now even more crucial to understand the relationship between income, debt and living standards to try to prevent debts becoming an additional source of financial and emotional stress for already struggling low-income households.

Experiences and consequences of indebtedness vary widely, both depending on the type and extent of debts that people are liable for, and on the sociodemographic characteristics of individuals and households. On the one hand, if their income is falling short of what is required to achieve an adequate standard of living, debt is one way in which people can try to bridge this gap. For those who have debts, but are able to manage them without feeling that they are a financial burden, credit may be a useful and affordable way for them to help manage their finances. However, while using certain types of credit can be a valuable strategy for some households to help meet their needs, for others, debts can become a drain on already limited financial resources, pushing them further below the income needed to maintain a decent living standard.

The type of indebtedness is also key. Regulated and formal types of debt (especially credit cards), which can be used as a flexible form of credit to ‘smooth’ household incomes, are often inaccessible to people on low incomes. If they are indebted, for these households this will more often be related to covering their everyday costs of living, with arrears on regular household bills being a particularly marked issue. These are not households who are using credit to improve their lives, but rather are falling into indebtedness because they are unable to meet their basic living costs.

Our findings emphasise the importance of considering the long-term impact of indebtedness on inadequate living standards. We have shown that, from multiple perspectives, being in a poor financial situation for a prolonged period of time can have highly detrimental effects on living standards. Moreover, some groups are especially vulnerable to both the short- and long-term impact of the combined burden of low income and problem debt. Households with children, especially lone parents, and people who are unable to work due to sickness or disability are particularly vulnerable, both to being unable to meet a minimum socially acceptable standard of living, but also to being pushed further below this threshold due to their obligations to repay any debts that they have accrued.

The results further highlight the importance of taking a holistic view of the lives of individuals and households in this context. Adverse life events such as partnership breakdown and job loss can interact with both changes in income and in experiences of indebtedness, and can leave people highly susceptible to being unable to meet a dignified standard of living. These ‘trigger points’ for financial insecurity can be particularly problematic if they cause debts that were previously manageable to become financially unsustainable. This can lead to people having to make difficult choices over whether to

meet their everyday needs or to service their debts; and if they fail to keep up with arrears on their household bills, for example, they may risk losing access to basic utilities such as electricity and gas, thereby severely compromising their daily lives. If they do choose to service their debts, reducing their disposable income, this can push them further below the income threshold required to meet their minimum needs.

In this context, it is clear that by failing to take household liability for debts into account when analysing income data, statistics are likely to underestimate rates of poverty and inadequate living standards. Moreover, this effect is not evenly distributed across the population – certain subgroups such as lone parents and single, working-age people without children are especially susceptible to being pushed far below the threshold for an adequate standard of living by their debt repayments. This supports the argument for the use of more nuanced indicators of poverty and living standards. In March 2023, the Department for Work and Pensions announced plans to resume development of an experimental indicator of poverty based on the work of the Social Metrics Commission (SMC). A key element of the SMC approach is that it aims to produce a more complete picture of financial resources within a household. This includes consideration of 'inescapable costs' such as childcare and the additional costs of disability, but importantly, also takes debt repayments into account when calculating disposable income. Our analysis emphasises the importance of considering the role of debt in this context, helping to ensure that indicators of poverty and living standards more accurately reflect the experiences of different households.

While we have presented some sobering findings here, it is unfortunately likely that the situation has now become worse rather than better for many low-income households. Both the cost of everyday necessities and the cost of credit have increased markedly. It is important therefore that we continue to scrutinise these issues for the foreseeable future. While acknowledging the role of credit and debt in giving people opportunities to improve their lives, it is important to recognise that credit is not a panacea, nor a sustainable source of income replacement for most households. We must ensure that debt is not an additional source of financial distress for already vulnerable households, and that it is not pushing them further below the income needed for a socially acceptable standard of living.

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