

# In the balance: disabled people's experiences of debt

Claire Kober



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### **About the author**

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# Background

## Background

In recent years the term social exclusion has become more prevalent among policy makers wishing to capture the multifaceted nature of deprivation and poverty. The term has its origins in an analysis of disadvantage facing individuals, groups and whole communities. It describes the very complex, interrelated problems that can stem from issues such as low income, poor health, lack of employment, poor environments and substandard housing.

This concept of exclusion has particular resonance for many disabled people, for whom the risk of material poverty, low earning and higher daily living costs is much greater than it is for the average non-disabled person. The interaction of differing impairments, low income, poorer educational attainment and a built environment that is not designed with the needs of disabled people in mind can generate systematic social exclusion. This exclusion is exacerbated by aspects unique to disabled people such as prevailing low expectations about potential achievement. Such negativity, which has also been described as 'fatalism'<sup>1</sup>, can embed disabled people into cycles of exclusion, low achievement and limited horizons.

*In the balance* is the sixth Leonard Cheshire report in a series examining aspects of the causes and manifestations of disabled people's exclusion. Previous reports have focused on issues ranging from poverty to primary health care, social isolation to access to public transport.

## Introduction

When the Bank of England announced in 2004 that consumer borrowing had broken through the symbolic £1 trillion barrier<sup>2</sup>, many economic commentators described the situation as 'a bubble waiting to burst'.

Others argued that the combination of low interest rates and low levels of unemployment meant that, for most borrowers, debt levels were manageable. Nevertheless, with the number of people being declared bankrupt reaching record levels and more than one in ten households in arrears with loan or bill payments, there is mounting concern that UK consumer spending is reaching crisis point.

Debt is no longer uncommon; borrowing is a fact of life for many consumers. In 1971 only one type of credit card was available – today there are around 1,300 on the market. The amount of money owed on credit cards in 1971 was around £32 million – now it is over £49 billion<sup>3</sup>.

Despite the miles of column inches devoted to the UK's growing consumer debt, the debate has largely neglected the experiences of disabled people. This report is designed to redress the balance and examine in detail the unique difficulties faced by disabled people living with problem debt. The report combines

<sup>1</sup>Christie, I, Heaven, C, and Knight, J, *Inclusive Citizenship: Social Equality for Disabled People*, Leonard Cheshire 2002

<sup>2</sup>Bank of England Statistical Release, July 2004

<sup>3</sup>Department of Trade and Industry White Paper, *Fair, Clear and Competitive – The Consumer Credit market*

statistical analysis of debt, which has been a common feature of research in this area, with a more detailed exploration of its impact on people's lives. The core of the report centres on the testimonies of disabled people themselves.

With the notable exception of Linda Grant's 1995 report for Sheffield Citizens Advice Bureaux<sup>4</sup>, there has been little research into disabled people's experiences of debt. Yet we know that disabled people are more likely to experience poverty than non-disabled people, are more likely to live in social housing, and that disabled people of working age are significantly less likely to be in paid employment than non disabled people. Analysis of recent trends in consumer borrowing indicates that all these factors increase the risk of an individual accumulating unmanageable debt<sup>5</sup>.

In this context *In the balance* explores the causes of problem debt amongst disabled people. The report:

- examines the causes of debt amongst disabled people;
- considers the extent to which an individual's impairment contributes to his or her experiences of debt;
- documents the consequences of debt on standards of living;
- considers the relationship between creditors and disabled people in debt;
- assesses the accessibility of independent debt advice; and
- makes a series of recommendations as to how these issues could be addressed through action from government, financial institutions, financial regulators and other

involved parties.

## Methodology and definitions

Despite an extensive debate in recent years, there is no universal definition of over-indebtedness. Definitions are based on one of two approaches: *objective* measures focus on a threshold over which debt is considered to be unmanageable; whereas *subjective* measures rely on individuals directly declaring the state of their own indebtedness.

A subjective measure is used throughout the report. Indebtedness is therefore defined as:

***'Those individuals declaring their household's borrowing repayments to be a heavy burden.'***

This definition has been used in research into consumer debt by both the Bank of England and the Department for Trade and Industry<sup>7</sup>.

Where debt levels are reported these exclude mortgages (although mortgage arrears are included) and forms of unsecured debt which are paid off in full each month (for example, credit cards). The report is instead concerned with those

<sup>4</sup> Grant, L, *Disability and Debt. The experience of disabled people in debt*, Sheffield Citizens Advice Bureau Debt Support Unit 1995

<sup>5</sup> Disability Rights Commission, *Disability Briefing*, June 2005

<sup>6</sup> May, O, Tudela, M, Young, G, *British household indebtedness and financial stress: a household-level picture*, Bank of England Quarterly Bulletin, Winter 2004

<sup>7</sup> Department of Trade and Industry, *Tackling over indebtedness: Action plan 2004*, July 2004

credit commitments which people were struggling to repay.

Where reference is made to 'disability', this is to the widely used Disability Discrimination Act (DDA) definition:

***'A (or multiple) long-term health problem or disability that substantially limits a person's ability to carry out normal day-to-day activities'.***

The research comprised in-depth interviews with 51 disabled people, all of whom had debt problems. In addition a survey was conducted amongst 400 members of Leonard Cheshire's campaigns network to gauge their experiences of problem debt. Names have been changed throughout to protect the identities of participants.

### **Profile of participants**

Participants were recruited through a range of media including advertisements in large-circulation disability magazines, through local disability groups and through Leonard Cheshire's service base.

Participants were selected to reflect a range of impairments. A significant proportion of participants had a physical impairment which in many cases required the use of a wheelchair. The sample also included individuals with sensory-related impairments, cognitive impairments and mental health conditions.

The sample comprised a range of individuals in terms of sex, age, ethnic

origin and family type. Almost half (43 per cent) of the sample group lived alone; one in six (16 per cent) was a lone parent; and 41 per cent were living in couple households. 94 per cent of those interviewed were of working age and not currently in paid employment though 87 per cent of them had been in paid employment in the past.

# Key findings

## Reasons for arrears

There was a strong association between acquiring an impairment and falling into arrears. This was in part reflective of the fact that 68 per cent of participants in the study had left paid employment for a reason directly related to their impairment.

For many participants the impact of an impairment over time, combined with a reliance on welfare benefits and the gradual erosion of personal savings, meant that problem debt was the result of many years of barely managing to make ends meet. Such participants were borrowing only to pay for essential items.

For those disabled people for whom welfare benefits were the main source of income, it was clear that debt often developed because welfare benefits did not provide an income sufficient to maintain a decent standard of living.

Almost half – 44 per cent – of individuals interviewed said that an unexpected one-off cost, not related to their disability, such as the need to replace a broken cooker, bed or washing machine, had contributed to their financial problems.

The breakdown of a relationship was a contributory factor to the financial problems experienced by 18 per cent of participants.

A small number of participants directly attributed their financial difficulties to the difficulties they had experienced in adjusting to the impact of acquiring their impairment.

Many participants felt financially vulnerable, believing that they lacked sufficient knowledge about financial services and acutely aware that they were susceptible to exploitation.

## Types and levels of debt

53 per cent of participants had an annual household income of under £10,000 or £200 per week.

The average total household debt for each participant was £8,750 and the amounts owed ranged from £400 to £52,000 (including mortgage arrears but excluding mortgages). 37 per cent reported debts exceeding £10,000.

The vast majority of debts were unsecured. The most common types of debt were credit cards, followed by overdrafts and catalogues:

- 74 per cent (almost three quarters) of those surveyed had credit card debts
- 53 per cent had a bank overdraft debt
- 49 per cent had a catalogue debt
- 40 per cent had a bank loan debt

38 per cent of participants reported that they were dealing with their debts by taking on further borrowing: most frequently by transferring a credit card balance to a different card that was offering a limited interest free period, whilst keeping the original card and building up credit on it again.

## **Living with debt**

Participants typically found that living with unmanageable debt served to compound the exclusion experienced in other areas of their lives.

81 per cent of participants reported that their financial problems had caused their general health and well-being to suffer. One in three (35 per cent) said that they had visited their GP about anxiety and depression linked to their debts and 12 per cent said that their situation had driven them to such levels of despair that they had contemplated suicide.

Almost one in ten participants (9 per cent) said that their partner was unaware of their debt problem.

63 per cent of participants reported that they had cut back on essential spending, most often on food or fuel spending, to deal with their financial problems.

67 per cent said their financial problems had meant they had been forced to cut back on services, equipment or aids which would help to manage their impairment.

## **The response of creditors**

Whilst creditors are becoming increasingly alert to the problems of 'can't pay' lenders and to the need to be sympathetic to this group, forbearance procedures, which deal with borrowers facing repayment difficulties, are often ad hoc or limited.

and understanding of disability and as a consequence insufficient attention is paid to the needs of disabled people facing both temporary and longer-term repayment problems.

The credit industry needs to improve the way in which it responds to a change in a borrower's circumstances.

One in three (34 per cent) participants said they had experienced persistent calling from a creditor trying to recover a debt, and 21 per cent said they had felt harassed.

# Context

## Disabled people, poverty and debt

Disability can be both a cause and a consequence of poverty<sup>8</sup>. Along with lone parents and people from ethnic minorities, disabled people are at particular risk of poverty. Almost half of adults aged 45-64 in the poorest fifth of the population have a limiting long-standing illness or disability, twice the rate for those on average incomes<sup>9</sup>.

The Government's annual Households Below Average Income (HBAI) report has consistently indicated that families with one or more disabled member are at greater risk of low income than families without a disabled member<sup>10</sup>. The latest HBAI report shows that one third of individuals living in poverty live in families with one or more disabled adults<sup>11</sup>.

The HBAI data is based on disposable incomes, adjusted for household size and composition through a process known as equivalisation. Since equivalence scales tend not to take account of the additional financial costs faced by individuals with an impairment, the incidence of poverty amongst disabled people is almost certainly underestimated in poverty statistics; if income is adjusted to reflect the additional costs of disability, the poverty rate amongst disabled people increases to 61 per cent<sup>12</sup>.

The reasons why people fall into debt are complex and debt problems rarely exist in isolation: many people face a combination of issues to which debt may be central or one of the component parts. Debt tends to

be concentrated among particular groups in the population: people aged between 25 and 44 are more likely to be experiencing problem debt than older people. Likewise, individuals who have experienced a significant life event in the past twelve months such as relationship breakdown, redundancy or the birth of a child are at increased risk<sup>13</sup>. Those in the lowest income bracket are particularly vulnerable, and tenants are much more likely to experience arrears than homeowners<sup>14</sup>.

The British Household Panel Survey provides a source of debt to income statistics and provides a comparison between 1995 and 2000, the latest years for which data are available. The Survey shows that between 1995 and 2000, whilst there was no increase in the proportion of individuals with outstanding credit commitments, the average amount owed had more than doubled. There has also been some change in the type of credit used, with a growth in credit card borrowing and some fall in hire purchase and mail order.

<sup>8</sup> Burchardt, T, *Being and becoming: social exclusion and the onset of disability*, CASE report 21, November 2003

<sup>9</sup> Palmer, G, Carr, J, and Kenway, P, *Monitoring Poverty and Social Exclusion 2004*, Joseph Rowntree Foundation 2004

<sup>10</sup> *Households Below Average Income 1994/5-2003/4*, National Statistics, March 2005

<sup>11</sup> Poverty is defined as living in a household the income of which is below 60 per cent of the national median income, after housing costs

<sup>12</sup> Zaidi, A, and Burchardt, T, *Comparing incomes when needs differ: Equivalisation for the extra costs of disability in the UK*, CASE paper 64, February 2003

<sup>13</sup> Department of Trade and Industry, *Over-indebtedness in Britain: A DTI report on the MORI Financial Services Survey 2004*, 2005

<sup>14</sup> Kempson, E, McKay, S, Willits, M, *Characteristics of families in debt and the nature of indebtedness*, DWP research report No 211, 2004

# The causes of over-indebtedness

Given that employment provides significant protection from falling into arrears and is often important in helping individuals to clear debts, the fact that disabled people are seven times more likely to be out of work and claiming benefits than non-disabled people<sup>15</sup> means that they can be particularly vulnerable to persistent debt. And some groups of disabled people are more vulnerable than others. Mental health conditions, for example, can exacerbate debt problems and in some circumstances can themselves lie at the root of those problems. Research conducted for the Department of Health found that, whilst 12 per cent of the population had experienced arrears in the previous year, this figure was doubled – to 24 per cent – among individuals with one of four mental health conditions covered in the survey<sup>16</sup>.

Over-indebtedness is commonly the result of a significant life event, and for many participants there was a strong association between acquiring an impairment and falling into arrears. For some this association was almost direct – they had been involved in an accident which had limited their ability to work, leading to a dramatic fall in household income which in turn had led to the accumulation of arrears. For others the impact of an impairment over time, combined with a reliance on welfare benefits and the gradual erosion of personal savings, meant that problem debt was the result of many years of barely managing to make ends meet.

Regardless of the situation, all participants considered disability to be a contributing factor. There were a number of common themes underlying participants' experiences of debt which are explored in greater detail in this chapter.

## **A change in circumstance**

The unprecedented levels of personal debt which have been accumulated in recent years mean that large numbers of people are vulnerable even to a small change in their personal circumstances.

Given the relatively benign state of the economy and that interest rates remain low, few participants linked their difficulties to a macro economic situation. Instead a number of those interviewed identified a sudden change in personal circumstances as a significant factor in their financial situation. The most acute was an unforeseen and significant change in

<sup>15</sup> Disability Rights Commission 2001, [www.drc-gb.org](http://www.drc-gb.org)

<sup>16</sup> Meltzer, H, Singleton, N, Lee, A, Bebbington, P, Brugha, T, and Jenkins, R, *The social and economic circumstances of adults with mental disorders*, Department of Health 2002

personal circumstances caused by a serious accident or the sudden onset of illness.

Gemma, a young woman from the South East, had not long been married and had a young child when, out together one day, she and her husband were knocked off their motorbike by a car. At the time both Gemma and her husband were working full-time and earning enough comfortably to manage the debts they had (two credit cards, the balances of which were cleared regularly, a mortgage and a personal loan).

The accident left Gemma with a serious spinal injury causing a sudden and permanent change to the family's circumstances. After spending considerable time recovering in hospital, she now needs to use a wheelchair to get around (though she can walk short distances) and the severity of her injuries means that she has been forced to give up work and is unlikely to be able to return in the foreseeable future:

***'The accident came completely out of the blue and only a month after we'd cancelled our Payment Protection Insurance. My husband broke his foot, and the accident left me permanently disabled – it was all such a shock, in that moment our lives were turned upside-down.'***

***When I came home I needed constant care and I had to give up work. My husband went back to work after a few weeks, but it was a real strain. Eventually he had to give up work to***

***look after the baby and me. Our income dropped massively and our debts started to pile up.'***

Gemma's husband, Nick, attempted to return to work about 10 weeks after the accident. He was working nights and was therefore unable to care for Gemma during the daytime as he was sleeping. Gemma had to rely on the support of their parents, therefore. Unable to secure external care, Nick tried to move to a part-time job. This, however, proved financially unviable, and the family was advised that the only real option was for Nick to give up work and become Gemma's main carer.

Gemma is currently engaged in negotiations with her insurance company which have been taking place since the accident happened over two years ago. Whilst Gemma is confident that she will secure compensation for the injuries she has sustained, the family is currently living on benefits and fears sinking further into debt.

For most people financial commitments are accepted on the assumption that their income will remain stable over the repayment period. In the current climate of high unsecured borrowing, many people remain vulnerable to the risk that should a sudden life change, which, if it occurred, would very soon make their high levels of debt intolerable.

## Access to employment and giving up work

The central plank of the Government's anti-poverty strategy has focused on 'work as the best form of welfare'. But, whilst tackling joblessness may be the starting point for an anti-poverty strategy, this approach risks focusing too little attention on those for whom accessing employment is particularly challenging.

Despite numerous initiatives designed to help disabled people into work, almost half – 49 per cent<sup>17</sup> – of disabled adults are not in paid employment. This compares with just 19 per cent of the non-disabled population. Disabled people face multiple barriers to entering and retaining employment, including the persistence of discriminatory attitudes, lack of suitable jobs, inaccessible public transport, concerns about losing benefits should employment not work out and difficulties in accessing support and equipment in the workplace.

In spite of its centrality to the Government's strategy, work does not always provide a route out of poverty, and disabled people are particularly vulnerable to low pay. On average disabled employees<sup>18</sup> earn almost 10 per cent less than non-disabled employees, and for many low pay is not a temporary experience: many individuals in low paid jobs get caught in a 'low pay, no pay' cycle, where low paid work is interspersed with periods of unemployment.

Being forced to give up work as a result of the onset or worsening of an impairment

was a common experience amongst those interviewed, and in many cases it was in the first weeks or months after leaving work that financial difficulties arose. 68 per cent of the sample group had left paid employment as a direct result either of injury, a deterioration in health, or the worsening of a disability.

Janet worked as a nurse for over 20 years but was forced to take early retirement five years ago when she damaged her spine through years of heavy lifting at work:

***'I had problems with my back for years. Eventually I had to take early retirement and I was registered disabled. My daughter was only 16 at the time and she'd planned to go on to college but I couldn't afford to support her so she couldn't go... Moving onto benefits meant I couldn't keep up with repayments on my credit and store cards and I ended up in debt. It caused so much worry – you're not only coping with the pain of your disability but all this worry as well. I ended up depressed.'***

Janet's experience was echoed by many participants who reported that the contrast between earning a full-time salary and existing on disability benefits meant that existing financial commitments became unsustainable and problem debt accumulated.

Every participant who had been forced to give up paid employment reported a drop

<sup>17</sup> Disability Rights Commission, *Disability Briefing*, June 2005

<sup>18</sup> *ibid*

in income when moving from paid work onto welfare benefits, and for a large number this drop in income led to a significant fall in living standards. This finding is corroborated by a recent study in which researchers found that in the year following the onset of disability one in three people left paid employment and, on average, suffered a drop in income dropped of 29 per cent<sup>19</sup>.

To mitigate against the severe impact of this drop in income, an increase in the basic rates of disability benefits must be the starting point for any plans to reform the welfare system. Without this extra support all those who are excluded from the workplace will continue to face the threat of problem debts.

### **Losing benefit entitlements**

The receipt of earnings replacement disability benefits is conditional on a disabled person proving that he/she remains incapable of paid employment. For example, receipt of Incapacity Benefit is dependent on submitting to a Personal Capability Assessment (PCA) at regular intervals. If an individual is deemed not to satisfy the conditions of a PCA, his/her benefit is stopped immediately and without notice. The withdrawal of Incapacity Benefit often has a knock-on effect in terms of a claimant's perceived eligibility for other disability-related benefits. This means that loss of the benefit acts as a trigger for the loss of other benefits, which in turn can result in a substantial reduction in an individual's income.

Claimants can appeal the decision to withdraw such benefits, but the appeals process often takes months. In total five participants had experienced the withdrawal of disability benefits and, in some cases, a dramatic fall in income as a result.

Alison had been receiving Incapacity Benefit for two years when she was told that she no longer fulfilled the Personal Capability Assessment:

'I was told I no longer qualified for my Incapacity Benefit and it went to appeal. During that time I was living on £39 a week. It was winter and I couldn't afford to turn my heating on. With my spinal problems, living in the cold is the worst possible thing.'

Given that the loss of Incapacity Benefit has an immediate and detrimental impact on the individual concerned, it is essential both that decision-making is accurate and that appeals against the withdrawal of the benefit are processed efficiently. Yet there continue to be severe delays in bringing cases to appeal. In 2004/05 people were forced to wait on average 9.9 weeks between the lodging of their appeal and the appeal hearing taking place; and 50 per cent of claimants who appealed against the withdrawal of Incapacity Benefit were successful in having the original decision overturned at appeal<sup>20</sup>.

<sup>19</sup> Jenkins, S, and Rigg, J, *Disability and disadvantage: Selection, onset and duration effects*, CASE paper 74, November 2003

<sup>20</sup> The Appeals Service, *Report by the President of Appeal Tribunals on the standards of decision-making by the Secretary of State 2004/05*, July 2005



Three participants had experienced the withdrawal of Disability Living Allowance (DLA). The benefit is usually awarded for a fixed period and recipients are required to re-apply as the period draws to an end. Decision-making around DLA is historically poor; a recently published report from the Government's appeals service shows that in 48 per cent of cases of claimant appeals against the withdrawal of DLA the original decision was overturned and the benefit was reinstated. Further, the average waiting time between lodging an appeal and the appeal hearing is almost 7 weeks, during which time an individual's standard of living can be severely curtailed<sup>21</sup>.

Sarah was forced to give up work when the arthritis she had had for several years became more serious, restricting her movement and causing her constant pain:

***'My debts got out of control when I lost my DLA. I appealed and won, but it took months to sort out. I had no money. I had to use my credit cards and all the time I was sinking further.'***

One participant was, at the time of his taking part in this study, engaged in an appeal against the loss of DLA:

***'I was wrongly assessed for DLA. They stopped my medium rate care component. I'm currently appealing against the decision.'***

A small number of participants highlighted a further issue with DLA; which is that a claimant needing to spend more than four weeks in hospital sees his/her benefit

stopped. Given that people living on low incomes tend to budget on a weekly as opposed to an annual basis<sup>22</sup>, it is important that their weekly income is constant. For many people living on a tight budget the loss of some of their benefit entitlement – even a seemingly small sum – can be disastrous. One informant, a lone parent of a teenage son, explained how this affected her:

***'I'm frightened to go into hospital for fear of losing my DLA. If I have to stay in hospital I lose my DLA – but whether I'm in hospital or not I have to run the house, I still have bills to pay.'***

When fear of losing benefit payments causes a person actively to refuse to go into hospital the potential negative impact of debt on health is obvious. As this testimony demonstrates, the loss of welfare benefits, even for a short period, can cause considerable stress which can impact negatively both on an individual's impairment and on his/her ability to manage financial commitments.

### **Life on a low income**

Disabled people are likely to be living in low income households for two principle reasons: in work they are more likely to be in low paid, low security employment; and, out of work, they are likely to be living on benefits which do not provide an income sufficient to lift them above the poverty line. Furthermore, whatever their employment

<sup>21</sup> *ibid*

<sup>22</sup> *How people on low incomes manage their finances* The Economic and Social Research Council 2002

status, disabled people's financial position is often made worse by extra costs arising from their disability.

For those disabled people for whom, due to the nature or severity of their impairment, work has never been and is currently not a realistic option, improvements in levels of welfare benefits are imperative in providing a route out of poverty<sup>23</sup>. Yet adult rates of benefits such as Income Support remain pitifully low, and, whilst on occasions the Government has increased the rates of disability premium paid within some benefits, this is not sufficient to lift disabled recipients out of poverty. Ultimately, until basic adult rates of Income Support are increased, many disabled people will continue to live below the breadline. And for as long as the Government retains its policy of linking such benefits to prices, not wages, this poverty will continue to deepen.

The same is true of earnings replacement benefits such as Incapacity Benefit, which are intended to provide an individual with an income while he/she is unable to work because of disability. As it stands the benefit does no such thing. The average IB payment is around £84 per week – as the equivalent of a 'nine to five' job, this works out at about £2.40 an hour – well under half the minimum wage. This means that as an annual income Incapacity Benefit pays less than £5,000 a year.

Half of all disabled people of working age are dependent on state benefits as their main or only source of income<sup>24</sup>. Some participants were acutely aware that in real terms the value of their benefits was

decreasing over time.

***'As prices go up my income doesn't. Gas and electric have gone up 3 or 4 times in the last few years but my benefit stayed the same.'***

In fact since 2003 gas prices have increased by 34 per cent and electricity prices by 28 per cent<sup>25</sup>. The consumers hit hardest by these rises are those already struggling to meet their energy bills, many of whom are threatened by fuel poverty.

The vast majority of the disabled people interviewed were living on state benefits and were significantly poorer in comparison with the population as a whole. 53 per cent of participants had an annual household income of under £10,000 or £200 per week. The average gross weekly pay of full-time employees is £476 – which is £24,752 per annum<sup>26</sup>.

Participants were asked if they ever found themselves short of money to the extent that they struggle to last out to their next pay day or the day when their benefit is next paid. 41 per cent said that this was the case 'more often than not', and a further 49 per cent reported that this was 'sometimes' the case, meaning that nine out of ten participants found themselves running out of money on a fairly regular basis.

Many participants had been living on state

<sup>23</sup> Gardiner, K, and Hills, J, *Policy implications of new data on income mobility*, The Economic Journal, Vol. 109, 1999

<sup>24</sup> Prime Minister's Strategy Unit, *Improving the life chances of disabled people*, January 2005

<sup>25</sup> EnergyWatch 2005

<sup>26</sup> Office for National Statistics, *Social trends No 35*, 2005

benefits for a number of years and consequently lacked financial assets, so that they struggled to cope when they needed to replace large household items, meet an unexpected bill or pay a substantial, one-off cost.

Jill had to give up work three years ago due to the worsening of her impairment. She lives alone and has an annual income of just under £8,500:

***'I'm really good with my money but I'm still in hock up to my eyeballs. Benefit is fine in the short-term – you can manage. It makes me laugh, those programmes on the TV, when they get a politician or some celebrity to live on benefits for a week – that's not hard. It's just after a while – when you need to replace things – it's impossible.'***

Almost half – 44 per cent – of individuals interviewed said that an unexpected one-off cost, not related to their disability, such as the need to replace a broken cooker, bed or washing machine, had contributed to their financial problems.

The Social Fund is intended to help in such situations by providing interest free 'budgeting' and 'crisis' loans to people in receipt of certain means-tested benefits and providing grants to people considered particularly vulnerable. Given that the majority of participants met the Fund's eligibility criteria, it was surprising to find that only 9 per cent were currently repaying a Social Fund loan. The experience below was echoed by a number of participants:

***'The carpet on my bedroom floor was worn out, and then my wardrobe fell apart. I applied to the Social Fund for a loan, but they weren't much help – they'd only lend me about half what I needed and it wouldn't have been enough.'***

Others, either because they were unaware of its existence or because it didn't meet their requirements, didn't consider borrowing from the Fund:

***'I can just about live week to week (on benefits) but I can't ever find the money to replace big things. That's why I took the credit card – to replace my cooker.'***

In contrast to the low take-up of Social Fund loans 48 per cent of participants had debts to catalogue companies, which, many individuals felt, offered a greater degree of flexibility with their small, weekly repayments over a long period of time. This general ambivalence towards the Social Fund is consistent with the findings of a study undertaken by Citizens Advice into problem debt among the general population: *In too deep* found that, although 11 per cent of CAB clients in the survey had debts to doorstep credit providers and 29 per cent had debts to catalogue companies, only 3 per cent had debts to the Social Fund<sup>27</sup>.

<sup>27</sup> Citizens Advice and Citizens Advice Scotland, *In too deep*, CAB clients' experiences of debt, May 2003

## Relationship breakdown

The breakdown of a relationship was a contributory factor to the financial problems experienced by 18 per cent of participants. For many in this group the stress of the onset or worsening of an impairment had placed such a strain on their relationship that it had resulted in its collapse within a relatively short period of time.

Graham, who lives in North East England, became depressed after being forced to give up work as a result of a deterioration in his health. A combination of ill-health and the depression that accompanied it led to the breakdown of Graham's relationship with his wife. He now lives with his two children:

***'I had to give up work because I developed osteo-arthritis on top of my disability and I couldn't get around the office. I took early retirement but felt depressed just hanging about the house. Soon after my wife walked out on me, and the two things – giving up work because of my disability and losing my wife – caused me to have a nervous breakdown.'***

It was also apparent that those participants who had experienced relationship breakdown encountered a double disadvantage – not only did they experience a fall in income as a direct result of separating from a partner, but, in every case bar one, it was the main earner who left the family home taking with him/her the household's principal source of income. The remaining partner, who in most cases

had been forced to give up work, was left with a drastically reduced income.

## Adjusting to major life change

Adjusting to the onset of disability can require deep and far-reaching life changes, and, whilst it is inaccurate automatically to cast the onset of disability as a personal tragedy, the process of adjustment can be accompanied by depression which often leads individuals to overlook other aspects of their lives. A small number of participants directly attributed their financial difficulties to the difficulties they had experienced in adjusting to the impact of acquiring their impairment. Sue found the onset of disability and its effects very difficult to cope with. Spending money became a distraction to the despair she felt:

***'It felt like I became disabled overnight. One day I was working, the next I was in a wheelchair.. We had to move to a bungalow as I couldn't manage the stairs, and the only way we could afford it was to move to a cheaper area in a different part of the country.. We left behind everything that was important to me: my friends and family and my old life... It made me very depressed.'***

***'Now I'm on my own all day. The neighbours don't talk to me... I started ordering stuff from catalogues just to speak to somebody when it was delivered... and because I could'.***

## Financial capability

People on a low income are often skilled in managing their budget, prioritising what needs to be paid and ensuring that expenditure is kept to a minimum. This was true of many participants in the research who demonstrated considerable skill in juggling their small budget and making it stretch as far as possible. For most participants debt was not the result of frivolous spending but rather an inevitable consequence of living long-term on an income which was clearly insufficient to maintain a dignified basic standard of living.

Despite this, it was evident that many participants felt financially vulnerable, believing that they lacked sufficient knowledge about financial services and acutely aware that they were susceptible to exploitation.

Hannah has chronic rheumatism and is a wheelchair user. She has had the condition from an early age and has never been in paid employment. Her annual income is around £9,500 and she has debts of just over £6,000, the majority of which are on credit cards. Hannah feels strongly that she did not properly understand the terms and conditions when she signed up for the cards and, in particular, she was confused about the rate of interest levied:

***'I have to take my responsibility but I don't really understand the small print. I was paying the minimum payment every month and all the time the interest was adding up and I wasn't even touching the debt... I had a couple of insurance***

***policies and I ended up having to surrender them before they were due because I felt I had a noose round my neck with the debt. I'm learning by my mistakes but they've been expensive mistakes.'***

Hannah's experience is far from unusual: almost one in five participants – 19 per cent – was dissatisfied with the information received when applying for a credit card. Many felt that the presentation of information and the language used meant it was difficult to understand details such as the interest rate or terms and conditions. A number of participants said they had difficulty either in being able physically to read or in understanding the 'small print'. One participant told us of his confusion in signing up for a store card:

***'To tell the truth, I didn't understand what I was signing up for...The small print really needs to become bold print and it needs to be written in language that people can understand.'***

Another participant had built up debts of over £500 through repeatedly entering television competitions that require entrants to call a premium rate telephone line:

***'There was a competition on the television. You had to phone a number and answer the question, and if you got the right answer you could win £1,000. I was at home alone and entered quite a few times; I could have really done with the money... but I hadn't realised that the phone call cost over £2 a time...When the bill came it was over £500 – I nearly died.'***

# The extent of debt

The UK premium rate industry generated revenues estimated at £850 million in 2003<sup>28</sup>.

<sup>28</sup> Ofcom Press release, December 2004

All participants were asked about the number of debts they had as well as how much they owed. Given that the majority were living on incomes of under £10,000, it was surprising to find that many owed significant sums of money: 37 per cent owed over £10,000 – the equivalent of more than a year's income.

The average total household debt for each participant was £8,750 and the amounts owed ranged from £400 to £52,000<sup>29</sup>.

Bearing in mind that 67 per cent of participants live in rented accommodation, it is unsurprising that the vast majority of debts were unsecured. The most common types of debt were credit cards, followed by overdrafts and catalogues<sup>30</sup>:

- 74 per cent (almost three quarters of those surveyed) had credit card debts.
- 53 per cent had a bank overdraft debt
- 49 per cent had a catalogue debt
- 40 per cent had a bank loan debt

Large-scale quantitative research into the use of credit among low income households has concluded that the proportions using different arrangements differ somewhat when compared with the population as a whole. The findings indicate that, consistent with this research, low income families make greater use of catalogues<sup>30</sup>. However, they differ in that the quantitative research finds less use of

<sup>29</sup> The debts included mortgage arrears but excluded mortgages

<sup>30</sup> Bridges, S and Disney, R, Use of credit and arrears on debt among low income households in the United Kingdom, University of Nottingham 2003

credit cards among low income families, where credit card debts were the most common form of debts among disabled participants in this study.

Some participants, particularly those who had experienced the sudden onset of disability or ill-health, found that, despite their having a good credit history, their change in personal circumstances had resulted in their lenders perceiving them as a significantly greater financial risk. When Gemma had an accident and had to give up work, she decided that the most sensible thing she could do was to be proactive in contacting her creditors and trying to reduce repayment levels in order that she could keep up with all her credit commitments:

***‘Four months after my accident we went to see our bank to try and organise a longer repayment period for a personal loan... After explaining our situation and the fact that I wasn’t working, they agreed to lower the repayments from £128 a month to £87... but said that because of our change in situation we were now considered a higher risk to them and the interest rate would have to increase from 7.4 per cent to 19.5 per cent.’***

Given the circumstances and that Gemma had acted responsibly in contacting her lender before she found herself in arrears, it seems perverse that she was treated in this way. The Banking Code, a voluntary code which sets standards of good practice for financial institutions in dealing with personal customers, covers both loans and overdrafts and states:

***‘14.1 We will consider cases of financial difficulty sympathetically and positively..***

***14.3 The sooner you discuss your problems, the easier it will be for both of us to find a solution. The more you tell us about your full financial circumstances, the more we may be able to help<sup>31</sup>.’***

It is clear that Gemma did exactly as the Code advises, yet her lender fell short in its commitment to adhere to both the letter and spirit of the Code.

It was concerning to find that 38 per cent of participants reported that they were dealing with their debts by taking on further borrowing. This finding is in line with national trends; the Office of Fair Trading last year estimated that unsecured lending for debt consolidation increased by more than 70 per cent over a three year period from 1999 to 2002 and that secured personal lending for this period more than trebled over this period<sup>32</sup>.

<sup>31</sup> BBA Enterprises Ltd, *The Banking Code*, March 2005

<sup>32</sup> Office of Fair Trading, *Debt Consolidation. A report on an OFT study*, March 2004

# Living with debt

The impact of unmanageable debt can be overwhelming, and overshadow almost every aspect of someone's life. For many people debt is harrowing and causes anxiety, fear and strain which in turn can impact negatively on physical and mental well-being.

Many disabled people experience exclusion on a daily basis, and participants typically found that living with unmanageable debt served to compound the exclusion experienced in other areas of their lives. Many participants described feeling trapped in a downward spiral where their impairment had forced them to give up paid work. This had led to the accumulation of debt, which in turn had caused stress and ill-health, which then had had an adverse effect on their impairment, further reinforcing their unemployability.

## Debt and depression

There was widespread consensus that debt problems affected health. 81 per cent of participants reported that their financial problems had caused their general health and well-being to suffer. The most commonly cited consequences of debt were stress and depression. Apart from one informant who told us that, 'I don't care, I decided long ago that I wasn't going to miss out because of my disability', everybody interviewed said that their financial circumstances had left them stressed. Many participants, in some cases even those who had been disabled for a number of years, seemed to be struggling to come to terms with the impact of their impairment on their financial situation:

***'Until 7 years ago I was in full time employment – I'd never experienced debt or depression. On top of this is the constant pain of my disability – which I could manage more effectively if I hadn't got the huge burden of debt to cope with as well.'***

***'I feel under constant stress, and the one thing you really don't need after an accident is stress like this. When you're dealing with a huge life change and trying to remain positive it's tough, and then I've got these people on my back'***

A large number of participants felt they were trapped in a vicious cycle from which they could see no way out. At the root of this anxiety was the knowledge that, because they were unlikely or unable to work again, they could not envisage how their financial situation would improve. Many informants felt that their debt was inescapable and described a deep sense of despair:

***'The worry of not being able to pay bills means sleepless nights, which has made me depressed. I seem to have the same amount of money coming in, but my bills are increasing and I'm gradually getting in deeper. It's like a time-bomb waiting to explode. I feel out of my depth, and it's only a matter of time before I sink.'***

***'I suffer from worry and stress and I feel frustrated that my disability prevents me from working.'***

One in three (35 per cent) of those interviewed said that they had visited their

GP about anxiety and depression linked to their debts. Within this group a number reported that they had been prescribed medication to combat depression. This figure was considerably higher than in the Citizens Advice research conducted among the population in general, which found that a quarter of those interviewed had been to see their GP<sup>33</sup>.

Participants were also asked if and how their financial problems had affected their impairment or any longstanding health problems. Many people described how they lived with chronic pain which they felt had been exacerbated by financial worry:

***'I was always on edge. I felt it made my pain worse, I couldn't relax, I couldn't sleep. I would cringe every time the phone rang – even after I had gone bankrupt they kept calling for another four or five weeks.'***

12 per cent of participants said that their situation had driven them to such levels of despair that they had contemplated suicide. Many explained that the experience of over-indebtedness had served to exacerbate the social isolation that they encountered in other aspects of their lives.

Abdul, who lives alone in the South West, had experienced periods of depression since becoming disabled five years ago. His impairment prevents him from working and he has debts totalling over £12,000:

***'I don't have anybody I can turn to; my family are no help... It got so bad that, I'm ashamed to say it, but I could see only***

***one way out... Luckily, I was admitted to hospital before I did anything stupid.'***

The relationship between those with an existing mental health condition and debt is well established, and even a short episode of mental health problems can have a long-term impact on an individual's life. Research for the Department of Health found that people with mental health problems are almost three times as likely to be in debt compared to the population as a whole<sup>34</sup>.

### **The impact on others in the family**

Participants were particularly anxious about the potential negative impact that debt might have on other members of the family, and many spoke of the lengths to which they had gone to protect those close to them from the reality of their financial situation. Almost one in ten participants (9 per cent) said that their partner was unaware of their debt problem, even in cases where large levels of arrears were involved.

Anne has been married for over thirty years. She was forced to give up work when her health deteriorated a number of years ago. Anne feels isolated and is alone all day while her husband is at work. She has few friends and has run up debts ordering goods from mail order companies to try to relieve her boredom. Her husband hopes

<sup>33</sup> Citizens Advice and Citizens Advice Scotland, *In too deep*, CAB clients' experiences of debt, May 2003

<sup>34</sup> Meltzer, H, et al, *The social and economic circumstances of adults with mental disorders*, Department of Health 2002

to take early retirement so that he can spend more time caring for Anne but is unaware of her £35,000 debt:

***'The truth is my husband doesn't know about it. I don't know what I'd do if he found out, the truth would kill him.'***

The situation is similar for Brian, who was diagnosed ten years ago with a serious progressive condition that has caused him to experience periods of depression during which time he has spent compulsively:

***'I owe over £50,000 but at the time, when I was racking up the debt, I didn't tell my wife. Now she is shackled to my debts too.'***

Participants with younger children often reported feeling anxious that their children were missing out on things that others took for granted. Many felt guilty and ashamed that they could not provide their children with everything they would like them to have. One reported that:

***'Last Christmas I had to take £135 out of my daughter's bank account to pay for our dinner and a few toys. I felt terrible but I didn't want her to miss out completely.'***

Lone parents in particular were concerned about the negative consequences that debt was having for their children.

Grace, a lone parent from Lancashire, first fell into debt when her marriage broke down. Her money problems were compounded by her impairment which

prevents her from working. She explained that, although she had tried to keep the extent of her financial difficulties from the children, her older child had picked up on what was going on:

***'I always put the kids first and make sure they get what they need. I try to keep my problems from them, but my oldest son's of an age now where he understands and he's picked up on it. When I have something to pay out for he always asks if it's OK and am I sure I can afford it. It's not fair; at his age, he shouldn't have to worry about this sort of stuff.'***

### **Cutting back and going without**

When faced with financial difficulties most people can respond by cutting back on non-essentials. But for low income families already living on a tight budget it can be almost impossible to identify non-essential spending which can be reined in. Welfare benefits provide an income which is sufficient only to afford a basic lifestyle; and, when people are required to repay debts out of this limited income, they are often left in a situation where they have no choice but to cut back on necessities.

Cutting back on essential items is detrimental, no matter the individual concerned, but it can be particularly damaging for a disabled person who may experience particularly negative effects from not eating properly or being unable to afford sufficient fuel to keep the house warm.

63 per cent of participants reported that



they had cut back on essential spending to deal with their financial problems; most of this group reported that they had cut back spending on food or fuel.

John's case was typical:

***'Sometimes I don't eat properly which aggravates my condition; but at the end of the day food is something that you can cut back on.'***

Alex, who has cancer, explained:

***'I've had to give up buying the nutritional products and supplements that I used to take – I just couldn't afford it any more.'***

One participant, who has a particularly low income and a relatively large amount of debt, explained that she had cut back to such an extent that she refrains from using items that the vast majority of people would consider essential:

***'I live within my means. I don't smoke, drink or socialise. I cut back wherever I can – I don't use my cooker... I dread my gas and electric bills coming in... I haven't had a hot meal in many months.'***

### **Inappropriate housing**

Along with older people and children, disabled people and those with long-term illnesses are more vulnerable to the effects of cold and damp and are also likely to be spending more time in their homes. Each year there are around 60,000 to 80,000 cold-related deaths in the UK<sup>35</sup>. Cutting back on fuel costs was a common

experience among participants, despite the fact that for many being cold could exacerbate pain or aggravate an impairment:

***'It's freezing here in winter, but sometimes I'm too scared to put the heating on... and the cold's no good for me... it makes my pain much worse.'***

***'When things got really bad I cut back on heating the house – I just wasn't looking after myself which made me more ill.'***

For some participants cutting back exacerbated feelings of isolation:

***'I feel like I'm imprisoned in my house... I can't afford to heat more than one room in winter.'***

***'I no longer go out of the house unless I'm going into respite. My Motability car had to go because I could no longer pay for it... I needed the money for other things. Life's so lonely.'***

### **Additional costs**

As well as having lower incomes, many disabled people also face additional costs associated with their impairments. Additional costs fall into two main categories: personal support related costs, such as support in washing or dressing, which are not required by non-disabled people; and higher spending on essential items like fuel, transport and equipment,

<sup>35</sup> Acheson, D, *Inequalities in health: report of an independent inquiry*, HMSO 1998

which gives people some degree of independence.

Benefits such as Disability Living Allowance (DLA) are intended to help towards the additional costs faced as a result of disability, but such benefits often do not cover the additional costs in full, and many disabled people are forced to supplement them. This issue is compounded because DLA is often included in creditors' assessments of disabled people's disposable income, which is misleading, as it does not translate into a higher standard of living.

The additional costs faced by disabled people can develop from a number of areas, for example:

- inadequate statutory provision in the case of personal or domiciliary care services;
- the need to buy equipment or mobility aids; or
- disabling barriers in society which mean that disabled people need to pay to use a private service when a public service is inaccessible as, for example, in the case of public transport.

A recent study<sup>36</sup> investigated the additional needs and monetary costs associated with disability from the perspective of disabled people themselves. The study concluded that disabled people experience additional costs in most areas of everyday life, ranging from major expenditure on essential equipment, to ongoing higher expenses for food, clothing, utilities and recreation. Weekly budget standards were developed for five hypothetical people, each living

alone in suitably adapted rented accommodation, with varying levels of needs. The study found that benefits meet only:

- 28 per cent of the costs of people with low-medium needs;
- 30 per cent of the costs of people with intermittent/fluctuating needs;
- 35 per cent of the costs of deaf people and people with visual impairments;
- 50 per cent of the costs of people with high-medium support needs.

72 per cent of participants in our survey felt that they had additional costs arising from their impairment, and many participants identified a wide range of items and services for which they currently paid, but which they would not require were they not disabled. In a small number of cases participants said their financial problems could be wholly attributed to the need to meet additional costs.

Shortly after buying his first home Richard had an accident, which left him with reduced mobility. As a result he had to make a number of adaptations to his home and, after being refused both a Government grant and a loan from a mainstream lender, he turned to a doorstep provider:

***'I didn't qualify for a Disabled Facilities Grant, and then the Building Society refused me a loan. I needed to adapt the house so I could live in it... at the time I was desperate and I ended up***

<sup>36</sup> Smith, N, Middleton, S, Ashton-Brooks, K, Cox, L, and Dobson, B, with Reith, L, Disabled people's cost of living: more than you'd think, Joseph Rowntree Foundation 2004

***borrowing money from a loan shark...  
When I look back it was a stupid thing  
to do.'***

As might be expected, those participants who lived in households with more than one disabled person found these additional costs particularly burdensome.

Kate is a lone parent. She has a physical impairment which makes it difficult for her to walk any more than short distances. Her child has autism and attends a special school.

***'The school's not too far away, but my son doesn't have any road sense – and I couldn't manage the walk anyway. As I don't have a car, he has to have a taxi to take him to school. It costs me over £40 a week. He's hyperactive, so I have to watch his diet and the money gets eaten up. Also, he goes through clothes and shoes much faster than other kids. I buy him new shoes, and within a couple of weeks he's kicked them to pieces.'***

Many people with mobility-related impairments had spent large sums of money on electric scooters and wheelchairs. One participant had spent the equivalent of 50 per cent of his annual income on an electric wheelchair:

***'I first got myself into debt when I bought my electric wheelchair. I desperately needed it, but there was no way to get one unless I bought it myself. Now it's broken, and I can't afford to get it fixed... after I've paid out for my debts I'm left with just over £41 a week.'***

Participants frequently reported problems affording the cost of repairs or replacement parts:

***'I needed to replace the batteries in my electric scooter. Two batteries and a charger came to over £600. I warned the company that it would take me a while to pay for them. I paid a bit every week. I only had £150 left to pay when the manager called and said that he had to have the rest of the money within the week as he had to pay his costs, his lighting and staff and things. I was so stressed I ended up having to borrow money to pay him.'***

***'My electric wheelchair isn't holding a charge. It needs to be repaired but I'm afraid to call the engineers as they'll slap on a call-out charge and I just can't afford it. It's a vicious circle, and at the end of the day it's my chair that sits between me and the great outdoors.'***

67 per cent of people interviewed said their financial problems had meant they had been forced to cut back on services, equipment or aids which would help to manage their impairment. In many cases, such as that below, participants had cut back on items which could be considered essential:

***'It looks as though I will be having to cut down on my care because I can't afford it. How I will manage I don't know.'***

Other participants had very specific unmet needs. Tom has cerebral palsy and knows that his life would be much easier if he

could afford to pay for sessions with a private physiotherapist. Yet, since the cost of an hour's session would be almost half of his total weekly income, it remains a distant aspiration:

***'I've got to know a physio who's brilliant. I've been a few times, and she's said that, if I came regularly, we could work on improving my coordination and help with my muscle spasms and cramps. But she costs £60 an hour and, as my income's only £130 a week, I can't afford it.'***

In Rebecca's case the items that would help make her impairment more manageable are relatively inexpensive, and, without items such as a handrail she risks danger every time she uses the stairs. However, living on benefits and with three children to support, she feels too guilty to spend money on items that would benefit her and not the children:

***'A shower would help... we've only got a bath and I really struggle to get in it. I'd also like to have a hand rail fitted onto the stairs, as I find them difficult to manage. But money's tight and I can't afford it... and, even if there was some spare, I'd rather spend it on the kids than me.'***

The examples above demonstrate that living with unmet needs can have a detrimental effect both on an individual's impairment and on his/her quality of life and can contribute to social exclusion. That so many participants were falling further into debt as a result of the extra costs they face, further demonstrates the inadequacies of

Disability Living Allowance in meeting the true additional financial needs of disabled people.

These findings are consistent with research carried out on behalf of the Joseph Rowntree Foundation<sup>37</sup>. This found that home adaptations were successful not only in improving the health and safety of disabled people, but also in transforming the quality of their lives. Even in the case of minor adaptations, such as installing grab rails and handrails, the results were almost always lasting and positive. Researchers found that the positive effects of such adaptations included reduced need for hospital and residential care, demonstrating that spending in this area is a highly effective use of public resources. This in turn raises questions about the extent to which short term savings make economic sense in the longer term.

<sup>37</sup> Heywood, F, Money well spent: The effectiveness and value of housing adaptation, The Policy Press 2001

# The response of creditors

Participants were in debt to a wide range of creditors, from major high street banks to local doorstep lenders. The majority – 69 per cent – of those interviewed had made contact with their creditors. Participants' experiences of the response of creditors varied widely, and in some cases two people had very different experiences when dealing with the same creditor.

Creditors have a raft of options open to them to help recover a debt. These options range from informal measures such as reminder letters to formal actions such as issuing a default notice as a precursor to court action. 51 per cent of participants had at least one debt where formal action had been taken. Only 6 per cent of participants had not experienced any creditor action vis-a-vis any of their debts. Where creditors had taken no action, this tended to be because an individual had only very recently fallen into arrears.

Creditors' use of monthly administration charges, for example where a borrower had breached an agreed credit limit, was pushing some participants deeper into debt. Almost two thirds (64 per cent) of those interviewed had been charged administration fees.

## Creditors' responses

Some participants had had positive experiences in their dealings with creditors. These tended to be cases where participants had informed their creditors at an early stage of their difficulty to meet repayments. In this situation, a small number of participants found their creditor

willing to revise the original repayment schedule. James explained:

***'I dreaded telling them, but my bank has been really understanding. When I explained my situation they sat down with me and helped to arrange manageable repayments.'***

Another respondent found that, on hearing his predicament, his creditor agreed to waive the administration charges that had been levied on his arrears. Similarly, some utility companies had offered participants a practical solution by installing a meter payment system. Whilst providing utilities on a meter is often more expensive for a consumer, many participants preferred the system, as it enabled them to gauge exactly how much they were spending.

***'Going onto a meter, it felt like a weight had been lifted... I was in control again.'***

In contrast, just under half (46 per cent) of all participants felt that in general their creditors had been unhelpful. In the majority of cases this was because a creditor had been inflexible in its approach and unprepared to negotiate alternative repayment arrangements.

In Sally's case her creditor's refusal to negotiate realistic repayment plans meant that she felt cornered and that the only way out was by going bankrupt:

***'I contacted the loan companies, but they wouldn't accept what I was saying and just wanted me to pay more and more. I was living off credit and using one card***

***to offset another. In the end I had no choice but to go bankrupt – it was such a relief.'***

Many participants felt that creditors could improve their conduct by becoming more sensitive to the way clients might be feeling when they were struggling to meet their commitments. One in three (34 per cent) participants said they had experienced persistent calling from a creditor trying to recover a debt, and 21 per cent said they had felt harassed.

In a small number of cases a participant explained the worry that had been caused when they had agreed a particular course of action with a creditor only to receive an automatically generated letter a day or two later expressing a contrary position:

***'Sometimes I've spoken to my bank and agreed something with them and then the next day received a letter which has been turned out by a computer saying the opposite. It causes so much worry.'***

In circumstances like this, where consumers are experiencing clear financial distress, it is essential that creditors are sensitive in their approach and that this kind of administrative oversight is avoided to prevent unnecessary distress.

### **Understanding disability**

As has been demonstrated, disability is often a catalyst for poverty and disabled people's experience of living with debt differs from that of the general population in that its driver is often intrinsically linked to

a debtor's impairment rather than simply the availability of credit. There was an expectation among many participants, that if they explained to creditors how their impairment affected their financial situation, they would be met with a sympathetic response. However, many found that this was not the case; in fact, creditors often lacked an understanding of how disability might impact upon an individual's life by reducing income but, at the same time, raising costs.

Creditors' scant knowledge of disability is often most apparent when it comes to negotiating a financial statement or repayment plan with a disabled client. Creditors frequently fail to recognise that some disability benefits, such as Disability Living Allowance, are not intended to provide disabled people with disposable income but, instead, to cover the cost of equipment or services required because of an impairment. Such a misunderstanding can result in a creditor perceiving a disabled person to be in a stronger financial situation than is in fact the case, and as a consequence, expecting him/her to make higher payments than are feasible.

Many participants felt ashamed of their situation and were reluctant to be seen to 'use' their disability as a means of securing a positive outcome when negotiating with creditors. The following case illustrates how a creditor's lack of understanding combined with a disabled person's reluctance to explain his/her situation fully can combine to cause severe disadvantage for the individual.

Pam is in arrears with a credit card company, a mail order catalogue and various utility providers:

***'Most are reasonable but none seems to have any disability awareness whatsoever. I am too proud to beg, so those who aren't happy about reduced payments will have to be paid at the same rate.'***

Other participants felt disappointed that their creditors had shown little compassion or empathy. Linda had had a serious accident, which had led to her being off work for eight months. The impact of living on Statutory Sick Pay had pushed her into debt:

***'I'm not asking for any favours, just for someone to recognise that when you've had something like this happen you need a bit of time... When you're dealing with a huge life change and trying to remain positive it's tough, and then I've got these people who can't seem to show me an ounce of kindness.'***

Another participant reported that even when she explained her position to her creditor, the company displayed a complete unwillingness to make a reasonable adjustment to accommodate her needs:

***'I have a problem where my jaw dislocates and I can't speak – yet although I've explained this to my credit card company they won't give me a fax number which would allow me to get in touch with them when I'm experiencing this and can't talk.'***

The response of the credit card company was clearly unreasonable and could be seen to be in breach of the Disability Discrimination Act 1995, which requires service providers to change any policies, practices and procedures that may discriminate against disabled people.

### **Irresponsible lending?**

There is a fine line between providing consumers access to credit as a convenience service and ensuring that lending is not sucking them into a long-term cycle of indebtedness. Some participants described practices they had experienced that might be classed irresponsible – such as lending individuals money apparently without consideration of their ability to repay the loan.

***'My bank contacted me 18 months ago to ask if I was interested in Internet banking. I went to see some somebody in the bank to set it up, and while I was there they offered me a credit card. I wasn't working, but they gave me a limit of £1,500... I had no way of paying it back and they didn't ask.'***

***'A few months back I got a letter through the post from the credit card people... they said they'd put my limit up. I don't know where it came from, I hadn't asked for it.'***

The practice of raising credit limits without request, as recounted above, is particularly worrying given that most participants were already facing significant financial problems. A number of participants were

borrowing to pay off other commitments: most frequently by transferring a credit card balance to a different card that was offering a limited interest free period, whilst keeping the original card and building up credit on it again. Some people felt pressured by the array of credit on offer to them:

***‘They shouldn’t keep offering all these credit cards to you; they encourage you to spend more.’***

Many participants could barely manage to meet the minimum monthly repayments on their credit cards; there was little prospect of their clearing the balance. This situation favours neither borrower, who, by making just the minimum payment, makes virtually no progress in clearing the debt, nor the lender, who is ultimately unlikely to recover the full balance.

### **The accessibility of advice**

In total 62 per cent of participants had sought advice from an independent advice service, most commonly from the local Citizens Advice Bureau. The key times for seeking advice tended to be either at the point where an individual’s attempt to negotiate with a creditor had been unsuccessful, or when a creditor had commenced formal action. The majority of those who had sought advice had found it to be helpful.

Participants with mental health conditions had most difficulty in accessing advice. A small number of people were trapped in a downward spiral with their debt causing a level of distress which made it almost

impossible for them even to consider action that could improve the situation. Colin was clinically depressed when he visited his local advice service:

***‘I went to see them and they pointed me in the right direction... but it was left down to me to sort it out and at the time I wasn’t in a fit state to do it.’***

Another participant said that he had tried to seek advice but had found the local service to be physically inaccessible. The gentleman concerned felt uncomfortable seeking advice by telephone and, therefore, felt that no other avenue was open to him. It is very likely that the advice agency concerned would be in breach of the recent provisions of the Disability Discrimination Act 1995 which oblige service providers to ensure physical accessibility of their premises. Advice agencies need to make reasonable adjustments to ensure that they are fully accessible; and also perhaps consider providing an alternative service (for example, a home visit) to ensure that people can use their service. A significant minority of participants reported that their request for the local advice centre to provide a home visit had been refused.



# Conclusion

Disabled people's experiences of debt are often exacerbated by low income. Recent analysis of personal debt as a whole in the UK has concluded that easy access to different types of credit is at least in part responsible for what many consider a growing crisis. In this respect the evidence from this report suggests that disabled people's experiences of debt often differ from those of non-disabled people. More often disabled people's borrowing is borne out of necessity, an inevitable consequence of the fact that many disabled people face additional costs directly related to their disability, whilst at the same time, being far more likely to live on low incomes and dependent on benefits. Addressing the issue will require a holistic approach which looks also at the underlying causes of disabled people's debt and solutions which involve all stakeholder groups.

The credit industry has an important role to perform, centred on the need to improve the way in which it responds to a change in a borrower's circumstances. Individuals faced with a sudden change in circumstances, such as the onset of disability following an accident, too often find the response of their creditors to be inadequate or unhelpful. Whilst creditors are becoming increasingly alert to the problems of 'can't pay' borrowers and to the need to be sympathetic to this group, it remains that forbearance procedures, which deal with borrowers facing repayment difficulties, are often ad hoc or limited. Lenders need to become more transparent in outlining to borrowers what they can expect if they fall into difficulty.

Likewise insufficient attention is paid to the needs of disabled people facing both temporary and longer-term repayment problems. This is in part because many creditors lack sufficient knowledge and understanding of disability, and, whilst the industry has taken welcome steps in recognising the specific problems faced by people with mental health conditions, there is little wider appreciation of the impact that disability can have on borrowers.

Alongside tackling poverty and ensuring the credit industry is more responsive to disabled consumers, there is a need also to ensure that individuals can respond effectively to financial difficulties they may face. It is essential, therefore, both that disabled people feel confident about their understanding of financial services and that all disabled people are able to access free, independent debt advice when required.

Addressing the issues that can drive disabled people towards debt, as well as ensuring that the appropriate resources and support structures are available when debt problems do occur, requires sustained and joined-up work from the financial sector, government and advice agencies. If all these groups can work together, and work directly with disabled people, then there will be a better understanding of the causes, effects and routes out of debt for disabled people throughout the UK.

# Recommendations

- The Government should produce disability-adjusted poverty and inequality statistics along with the annual Households Below Average Income report, to reflect the additional costs of disability and to present an accurate picture of the extent of disabled people's poverty.
- A review is needed to ensure that benefits such as Disability Living Allowance, intended to compensate for the additional costs of disability, are adequate.
- Incapacity Benefit, an earnings replacement benefit designed to support people forced to leave employment as a result of disability or ill-health, is frequently insufficient to cover the drop in earnings. The average Incapacity Benefit payment is around £84 per week, significantly less than the minimum wage in a 'nine to five' job. Any reform of the benefit must address this problem to help alleviate disabled people's poverty.
- The speed and accuracy of decision making throughout the welfare benefits system must be improved and the time taken between an appeal being lodged and actually reaching a tribunal must be shortened.
- The Government should extend the £200 Winter Fuel Allowance to disabled adults aged below 60 who receive the middle or higher rate care component or higher rate mobility component of Disability Living Allowance. The Government has estimated the annual cost of this initiative to be £235 million<sup>38</sup>.
- Urgent reform of the Social Fund is required to ensure that it better serves the needs of people living on a low income. Specifically, the eligibility criteria should be extended, repayment rates reformed and both the Community Care Grant scheme and the discretionary fund expanded.
- The Government and employers must direct more resources towards supporting individuals in staying in employment rather than waiting to take remedial action once an individual has left the labour market. The Access to Work scheme, key in helping people to attain and retain employment, requires increased funding and greater publicity.
- The DTI's Financial Inclusion Fund has recently allocated £45 million to support a significant increase in the capacity of free face-to-face debt advice. The Fund is targeting these resources at geographical areas and social groups characterised by high financial exclusion. Whilst supportive of this overall approach, we think it important that the Fund does not neglect the needs of particular interest communities such as disabled people. The Fund should also support initiatives which provide home-based advice.
- The Government should amend the Consumer Credit Bill to place a statutory responsibility on all lenders to lend responsibly.
- Creditors need to recognise that some disability benefits compensate for the

<sup>38</sup> House of Commons Debate, 11 November 2004, vol 426, c779W



additional costs faced by disabled people and do not provide recipients with additional income. Such benefits should, therefore, be disregarded when considering a borrower's Financial Statement. The British Bankers Association and Money Advice Trust should issue creditors with guidance to this effect with regards to the Common Financial Statement.

- Creditors need to gain a greater understanding of the impact of disability on an individual's financial situation and to improve the way in which they respond to borrowers who experience a change in circumstance. All creditor trade associations, including the Financial and Leasing Association, Consumer Credit Association, Consumer Credit Trade Association, Mail Order Trade Association and Credit Services Association, should adopt guidance on dealing with disabled customers in financial difficulties. It should be modelled on the guidance to the Banking Code and should contain the following directives to ensure that disabled people in debt are treated fairly and sympathetically:

Lenders should:

- provide training for all collection staff on disability awareness.
- ensure that those disabled people whose debt problems are likely to be long-term are identified at an early stage in the collection process and are dealt with by special units who can provide an individualised service.
- be willing to write off debts where the customer's change in circumstances as

a result of the onset of disability or health problems means that his/her financial circumstances are unlikely to improve in the long-term.

- Credit card providers need to provide customers with more information about their debt. All credit card statements should state how long it would take the customer to clear the current balance should they (continue to) make the minimum monthly repayment until the debt is paid.

- The DTI needs to make provisions to ensure that credit card companies are unable to raise credit limits in the absence of a specific request from the borrower. Likewise provision should be made to prevent creditors from issuing unsolicited credit card cheques.

- Many credit and debt issues are yet to be tested under the Disability Discrimination Act. There is a clear need for the Disability Rights Commission to identify opportunities for cases to be tested in the courts, so that further case law can determine the responsibilities towards disabled people of financial institutions as service providers.



## **About Leonard Cheshire**

Leonard Cheshire exists to change attitudes to disability and to serve disabled people around the world. It has been supporting disabled people for almost 60 years and is active in 55 countries. The charity directly supports over 20,000 disabled people in the UK.

The organisation's Policy and Campaigns Team works alongside disabled people to secure a fully inclusive and accessible society with disability equality, social inclusion and social justice. The team is responsible for Leonard Cheshire's campaigns network, comprising over 2,000 individuals committed to campaigning for positive change on disabled people's lives.

For further information on Leonard Cheshire's policy work or to join the campaigns network, please contact us:

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