

Factsheet 75 November 2009

Debt management

About this factsheet

Many older people get into debt because their income drops sharply once they reach retirement due to inadequate pension provision. They may also still have the same expenses to pay as before they stopped working. Changes in circumstances, such as divorce, bereavement, illness and disability, can also contribute to debt problems in retirement. And, of course, the recession may not have helped.

This factsheet provides information on how to increase your income, and explains the different categories of debt and how to manage them.

The information given in this factsheet is applicable in England. Different rules may apply in Wales, Northern Ireland and Scotland. Readers in these nations should contact their respective national Age Concern organisations for information specific to where they live – see section 11 for details.

For details on how to order other Age Concern Factsheets and information materials go to section 11.

Inside this factsheet

1	How do people get into debt?	3
2	Getting organised	4
3	Getting debt advice	4
4	Types of debt	5
	4.1 Priority debts and emergencies	5
	4.2 Non-priority debts	6
5	Financial statements	6
	5.1 Whose income to include	7
	5.2 Types of income to include	7
	5.3 How to list expenditure	8
6	Increasing your income	8
7	Minimising your debt	9
8	What if my creditors take court action?	9
9	Debt collectors	10
	9.1 Bailiffs	10
	9.2 Money owed when someone dies	11
	9.3 Debt adjustment/negotiation firms	11
10	Useful organisations	12
11	Further information from Age Concern	13

1 How do people get into debt?

Inadequate pension provision and changes in circumstances, such as retirement, illness and disability, divorce and bereavement, can all contribute to debt problems in retirement.

People who relied on credit cards while they were working may experience a large drop in income when they retire, but still have outstanding balances on their accounts and/or continue to use the cards.

Many older people get into debt using credit to buy essential household goods, such as furniture and clothing, because their income is too low to buy replacements. The cost of credit is often higher (especially during a credit crunch) for people on a low income because they cannot access the best deals and may be paying very high interest to money-lenders or loan sharks.

Note If you owe money you are not alone. In 2007 the Citizens Advice Bureau dealt with over 1.7 million new debt problems.

However, over the last 20 years or so attitudes to credit and debt have changed enormously. Banks and other financial institutions are now much more aware of the causes of debt, understand priorities and are more willing to negotiate when people are in difficulty. So don't ignore the problem: contact those you owe money to as soon as you can, most companies will be helpful.

Don't be panicked into taking out new loans to pay off debts. There are many companies offering 'consolidating loans' to help pay off debts, but this can often make the situation worse. Many of these loans are 'secured', which means you could lose your home if you don't keep up with the repayments. Don't allow creditors to harass you. You have rights, so get help and advice.

If you owe money to quite a lot of different creditors it is probably best to make an appointment with a specialist money adviser. Many people feel ashamed, depressed or guilty about their debts and coping with these emotions while trying to negotiate with creditors can be difficult. An independent, non-judgemental adviser should be able to take some of the pressure off and help you sort out your problems in a practical way.

Help For further information on getting debt advice see section 3 and contact one of the useful organisations listed in section 10.

2 **Getting organised**

Before you go to see a debt adviser you may want to gather all the information related to your debts, eg overdue bills, letters from debt collectors, etc, and put them all in one file. This will help you and your adviser list details of all creditors and debts, and decide how best to approach them.

If you feel able to do so you may also wish to make a separate list of creditors with their name, address, telephone number, account/reference number and letter references, and debt collectors'/solicitors along with their separate details, to take with you when/if you see a debt adviser.

3 **Getting debt advice**

Your debt adviser will work in your best interests. They will not judge you or your situation but they will explore your debt in detail so that they can better negotiate with creditors on your behalf and advise you about welfare benefits you may be able to claim. As part of this exploration they will ask you about the length of time you have had the debts, the reason(s) for getting into debt, whether you have any insurance, etc. They will also want to know whether you have had any warnings, court action or enforcement action against you.

Your adviser will deal with any emergencies first (explained in section 4) and then complete a financial statement (see section 5) with you. They will also go through all your paperwork and check whether you are actually liable/responsible for all your debts.

They will then decide with you what options you wish to take with each debt, eg whether you would like to continue paying the amount you are paying every month, whether you want your adviser to negotiate a lower monthly repayment or to try and get the debt written off (this may not always be possible).

They will then negotiate with your creditors based on what was agreed between you. They will work first through your priority debt, and then your non-priority debt. They may also challenge your liability for the debt if they believe you are not liable.

4 Types of debt

4.1 Priority debts and emergencies

It is more important to deal with some debts than others because of what can happen if you don't. Keeping a roof over your head, staying warm and having enough to eat are much more important than paying a credit card bill. But it is easy to be panicked into paying a credit card debt if you have been sent a threatening letter or a court summons. If you receive one of these and you also have priority debts like those below, get advice.

This is a list of the worst things that can happen if priority debts are not sorted out but, with help and advice, matters can be sorted well before you reach these stages.

Priority debts	Action available to creditors
Rent/mortgage/secured loan arrears	Eviction from your home
Fuel debt	Supply cut-off
Council tax arrears	Bailiffs/imprisonment
Magistrates' court fines	Bailiffs/imprisonment
Income tax/National Insurance and VAT arrears	Bailiffs/bankruptcy
Maintenance	Bailiffs/imprisonment
Hire purchase	Repossession of goods

You (or your adviser) will need to make offers of repayment to these 'priority creditors' before you deal with any other debts.

4.2 Non-priority debts

These are credit debts, such as arrears on bank loans, overdrafts, credit cards, catalogues, charge cards (eg American Express) and personal debts to friends and family. Apart from the personal debts, if you don't pay these types of creditors they can eventually take action in the county court, which is a 'civil' court and does not normally deal with 'criminal matters'. If you don't keep up with payments on a County Court Judgement the creditor can use bailiffs, but you can always go back to the court if you are having difficulty paying as described below.

4.2.1 Holding letters

While your priority debts are being sorted out you (or your adviser) should write to all the remaining creditors asking them to freeze interest on your accounts and provide you with an up-to-date balance. This usually gives you about a month's breathing space to sort things out. Keep copies of all your letters and make a note of any phone conversations.

5 Financial statements

All the companies you owe money to will expect you to draw up a financial statement showing how much income you have and how much you need to spend on everyday living costs. It is important to get a realistic picture so include reasonable amounts for cigarettes, alcohol, pets and money set aside for birthdays, entertainment, and so on. The statement should show how much (if any) money you have left over after you have dealt with your priority debts.

Any remaining money is then divided up between creditors on a pro-rata basis. If you are going to deal with your debts on your own it would be useful to get hold of a self-help pack from the National Debtline (see section 10 for details), which includes a blank financial statement and details about how to do the pro-rata calculation. It is important to include all the people you owe money to.

Don't offer more than you can really afford because you won't be able to stick to the arrangement.

Once you have worked out what you can afford to pay, send the statement off to your creditors. If you are on a very low income you may not have anything left over to offer. Send the statement anyway. Debts can be written off when creditors realise that it would be costly and pointless to pursue them, but you may need an adviser to help you negotiate this.

If you have multiple debts it is probably best to get independent help and advice to draw up this statement.

5.1 **Whose income to include**

This will depend on whether the debts are held in joint names. However, you and your partner may not want to have both your incomes and expenditure on one financial statement as one of you may have more debts or income than the other. Your adviser should discuss this with both of you to decide on the best course of action.

It may be easier dealing with debts of partners together given that many creditors expect financial statements to include income and debts of both, but the final decision of whether they should be dealt with on one financial statement should always be yours.

5.2 **Types of income to include**

All benefits should be included in the financial statement but many people leave out disability benefits such as Disability Living Allowance and Attendance Allowance. If you decide to do this you may also want to take out expenditure related to your disability. Your adviser will be able to advise you on whether this is a good idea.

All income, including your State and Occupational Pensions, should be included. If your income is unusually high or low then this should be stated. Any impending changes/additions should also be stated as this will ensure the financial statement is realistic and repayments agreed with creditors are sustainable.

5.3 How to list expenditure

You should list everything that you currently spend your income on. Do this on a weekly or monthly basis. This will allow you to add everything up faster and more accurately. You can use estimates if actual figures are not available.

Copies of financial statement sheets can be found on the National Debtline's website. You can find their contact details in section 10 'Useful organisations'.

6 Increasing your income

Sometimes people are in debt because they are not claiming all the money they are entitled to. See whether you can increase your income by, for example:

- checking with your local tax office that you have the right tax code and are not paying too much tax
- checking your entitlement to benefits such as Pension Credit, Housing and Council Tax Benefit, Attendance Allowance, Disability Living Allowance, Carer's Allowance
- checking to see whether you qualify for a Council Tax discount and/or the disability reduction scheme for Council Tax
- if you have grown-up children living with you make sure they are paying enough towards household expenses
- check to see whether you can get an energy efficiency Government grant which could help to cut heating costs (see Age Concern's Factsheet 1 *Help with heating costs*)
- if you are a home owner you may want to consider releasing some equity from your home (but seek independent financial advice before doing so)
- asking for help from charities (see Charity search details in section 10).

7 Minimising your debt

There are ways to minimise your debt, eg through the use of the Consumer Credit Act. If you feel that this may be possible in your case you should see a money adviser who will be able to go through this in more detail.

In general, a debt is only owed if:

- there is a valid contract between you and the creditor, or
- money is owed because of particular legislation, or
- you have been ordered by a court to make payments to someone else, or to the court itself, and there are no grounds to challenge the court order.

8 What if my creditors take court action?

Many people are frightened of the courts especially when they feel guilty because they owe money. But the county court is not there to judge anyone guilty or innocent, but to settle disputes about money owed and how to repay it. The court is not there to serve the interests of creditors alone.

If a creditor decides to take action against you in the County Court you will receive a claim form from the court. You will not usually have to go to a hearing, most of the procedure is done through the post. You do have to reply to the claim within a certain time limit. It is very important to fill in the reply form making your offer of repayment, including a copy of your financial statement. This is because the Court decides how much you owe and at what rate you can afford to pay, but only if you explain your circumstances. If you don't reply the Court will usually give the creditor the amount they are requesting.

If you want to dispute the claim or cannot afford to make an offer get advice and help from one of the organisations listed in section 10.

If you need to attend the County Court, don't worry; sometimes going to court can help because the district judge will take into account other debts and expenditure and suggest a repayment figure that you can afford. Interest will be stopped and, if you stick to the payment plan, creditors should not pursue you for the debt.

Unfortunately, however, having a County Court Judgement against you may make it difficult to get credit in future.

These cases are not heard in open court with all the wigs and costumes associated. Instead they are normally heard in a room (called Chambers) with you, your adviser if you have one, and the district judge, and sometimes a solicitor acting for the creditor.

There are many different ways that the court can deal with debts and we cannot list them all here. Court staff are usually very helpful and will guide you. Again, it may be best to see an experienced, independent money adviser who is familiar with all the processes and procedures.

If you need to attend a magistrates' court, eg for Council Tax arrears, get advice.

9 Debt collectors

Some companies use private debt collection agencies. If debt collectors call at your home you don't have to let them in. If they harass you, contact your local council's Trading Standards department. There are very firm rules about what they can and cannot do, and harassment is a criminal offence.

Examples of harassment include calling repeatedly at anti-social hours and calling on neighbours.

9.1 Bailiffs

If payments are not kept up after a County Court Judgement creditors may use bailiffs to try to get payments of debt. They ask the court to issue a 'warrant of execution', which means that bailiffs will visit your home and try to take goods unless payment is made. It can be frightening to receive one of these warrants but don't worry; it is not as bad as it sounds: bailiffs cannot break into your home and you are not under any legal obligation to let them in. They sometimes say that you have to let them in, but this is not true! Just talk to them through a closed door or window and say you will be getting advice.

The first time bailiffs come to your home they must enter peacefully. This means they can only enter if you let them in or if you leave a door or window open. If they do get in they will make a list of your goods (this is called Walking Possession) and ask you to sign it. If matters are not sorted out they can make a second visit to take the goods. If the bailiffs do get in and you sign the Walking Possession order, they can force entry on the second visit.

All this sounds very worrying but be reassured, in practice it happens very rarely and there is a lot you can do.

The best ways to deal with county court bailiffs are firstly to not let them in and secondly to apply to suspend the warrant of execution. Go along to the court and fill in a form called N245, take a copy of your financial statement to show what, if anything, you are able to offer as a repayment. Even if the creditor thinks the offer is too small the court can decide that this is what you should pay.

Margistrates' courts use private bailiffs to collect fines and Council Tax owed after a liability order is made. They do not have the right to force entry into your home either.

9.2 **Money owed when someone dies**

Some creditors may try to persuade a widow or widower that they are liable for the outstanding debt of their spouse. Usually, if the person dies with no assets, leaving debts, there is no liability for the widow/widower to pay unless there was, for example, a joint account of some sort.

If there is money in the estate then debts will be paid from it. But if there is not enough money the creditors should write the debts off.

9.3 **Debt adjustment/negotiation firms**

These companies have increased in recent years. You may see adverts for them in newspapers, on television and on the internet; some of them may also try to offer you a loan. They may seem attractive at first because you don't have to pay an upfront fee. Instead they usually offer to help in return for a percentage of the amount you pay the creditors.

However, some creditors refuse to deal with fee-charging debt negotiating companies, arguing that you can get free advice elsewhere. As there is indeed a lot of free money advice/debt counselling around it may be best to avoid these firms.

10 Useful organisations

● Citizens Advice Bureau (CAB)

National network of free advice centres including advice about national housing provision.

Tel: 020 7833 2181 (for contact details only – not telephone advice)

Website: www.citizensadvice.org.uk

● Community Legal Service (CLS)

The CLS has a directory of providers of advice including specialist money advice services.

Tel: 0845 345 4345 (local call rate)

Website: www.clsdirect.org.uk

● Consumer Credit Counselling Service

They have ten regional offices who give counselling sessions (lasting about 2 hours) in person or by phone. Through them some people can be put on a repayment plan (called a Debt Management Plan).

Tel: 0800 138 1111 (free call)

Website: www.cccs.co.uk

● Charity Search

A free service set up to help older people in financial difficulty. They can signpost to charities that might be willing to help.

Tel: 0117 982 4060

Website: www.charitysearch.org.uk

● Direct Gov

The official government website for citizens with easy access to and information about public services including money, tax and benefits and a specific section for the over-50s.

Website: www.direct.gov.uk

- **HM Revenue and Customs (HMRC)**

For information about taxes, including Income Tax and Inheritance Tax contact your nearest HMRC enquiry centre, details should be in phone book.

Website: www.hmrc.gov.uk

- **National Debtline**

The national telephone helpline for people with debt problems in England, Scotland and Wales. The service is free, confidential and independent. It has existed since 1987 and is now part of the Money Advice Trust.

Address: Tricorn House, 51-53 Hagley Road, Edgbaston, Birmingham, B16 8TP

Tel: 0808 808 4000 (free call)

Website: www.nationaldebtline.co.uk

- **Pension Service, The**

Provides details of State Pensions, including forecasts and how to claim your pension.

Tel: 0845 60 60 265

Textphone: 0845 60 60 285

Website: www.thepensionservice.gov.uk

- **Shelter**

A national charity providing telephone advice to people with housing problems on tenancy rights, homelessness, repairs and housing benefit.

Tel: 0808 800 4444 (free call) (textphone for deaf callers)

Website: www.shelter.org.uk

11 **Further information from Age Concern**

Visit the Age Concern website, www.ageconcern.org.uk, or call our national Information Line on 0800 00 99 66 (free call) if you would like:

- to order copies of any of the Age Concern information materials mentioned in this factsheet

- to request information in large print
- further information about our full range of information products
- contact details for your nearest local Age Concern.

Books from Age Concern

Age Concern publishes a wide range of books for older people and those who care for and work with them. The following title may be of particular interest:

Your rights to money benefits 2009/10. All you need to know about the full range of benefits for the over 60s. £5.99

To order this book, or to view our full range of books, please visit our website www.ageconcern.org.uk/bookshop or call our book order line 0870 442 2120.

Age Concern and Help the Aged

Age Concern England and Help the Aged have joined together to form Age UK, a single charity dedicated to improving the lives of older people.

Age Concern and Help the Aged across the UK

To find out more about Age Concern and Help the Aged's work in Northern Ireland, Scotland and Wales, contact:

Age Concern Northern Ireland
Tel: 028 9032 5055
Website: www.ageconcernni.org

Scottish Helpline for Older People (Age Concern Scotland)
Tel: 0845 125 9732
Websites: www.olderpeoplescotland.org.uk
www.ageconcernscotland.org.uk

Age Concern Cymru & Help the Aged in Wales
Tel: 029 2043 1555
Website: www.accymru.org.uk

Support our work

Age Concern is the largest provider of services to older people in the UK after the NHS. We make a difference to the lives of thousands of older people through local resources such as our befriending schemes, day centres and lunch clubs; by distributing free information materials; and through our national freephone helpline – the Age Concern Information Line 0800 00 99 66.

If you would like to support our work by making a donation please call Supporter Services on 020 8765 7527 (national call rate, Monday to Friday 9.15am–5pm) or visit www.ageconcern.org.uk

Legal statement

Age Concern England (charity number 261794) has merged with Help the Aged (charity number 272786) to form Age UK, a charitable company limited by guarantee and registered in England: registered office address 207-221 Pentonville Road, London, N1 9UZ, company number 6825798, registered charity number 1128267.

Age Concern and Help the Aged are brands of Age UK. The three national Age Concerns in Scotland, Northern Ireland and Wales have also merged with Help the Aged in these nations to form three registered charities: Age Scotland, Age Northern Ireland, Age Cymru.

Disclaimer and copyright information

This guide is not a comprehensive statement of the law in this subject and Age Concern and Help the Aged cannot give individual legal or financial advice. Some rules may have changed since the publication of this guide. If you have any queries that this guide does not answer, seek further advice from one of the organisations suggested.

Please note that the inclusion of named agencies, companies, products, services or publications in this factsheet does not constitute a recommendation or endorsement by Age Concern and Help the Aged. While every effort is made to ensure accuracy, Age Concern and Help the Aged cannot be held responsible for errors or omissions.

© Age UK. All rights reserved.

This factsheet may be reproduced in whole or in part in unaltered form by local Age Concerns with due acknowledgement to Age UK. No other reproduction in any form is permitted without written permission from Age UK.