Problem Debt Among Older People

Age UK's summary of research by the International Longevity Centre – UK

About Age UK

Age UK is a charity that aims to improve later life for everyone through our information and advice, services, research, campaigns, products and training. In the UK we work closely with our partners Age Cymru, Age NI, Age Scotland and the many local Age UKs and older people's groups. We provide services at a local and national level including information and advice that reaches some 6 million people each year. We seek to play a constructive role in debates around ageing and older people's issues, drawing on the views, experience and expertise of older people and paying particular attention to the voices of disadvantaged and vulnerable older people.

About ILC-UK

The International Longevity Centre – UK (ILC-UK) is an independent, research led, think-tank dedicated to addressing issues of longevity, ageing and demographic change. Based in Westminster, much of our work is directed at the highest levels of government and the civil service in London and Brussels. We are aided in this work by our Chief Executive, Baroness Sally Greengross, former director-general of Age Concern and now a cross-bench peer. We are formally affiliated to UCL and are also part of the International Longevity Centre Global Alliance. Our policy remit is broad, and covers everything from pensions and financial planning, to health and social care, housing design, and age discrimination.

This work was completed as part of an Age UK Fellowship, a programme of policy-relevant research into the societal consequences of ageing. ILC-UK are grateful for this continued support from Age UK.

For more information on ILC-UK please visit www.ilcuk.org.uk

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The research findings

The research found that among those aged 50 and over, debt is more likely to affect younger age groups. The proportion in debt was lower in 2010 than in 2002 but of those with debt, the amounts owed had increased. For older people trying to manage ongoing debt, or facing problems for the first time, this can have a devastating impact on their life.

Age UK believes that more can be done to prevent debt in later life and to help those who are facing problems.

Key findings:

- Increasing age is still associated with more negative views towards debt.
- Very few older people would use credit to meet an unexpected £200 expense – many more say they simply could not pay.
- Among people aged 50+ credit use falls with age.
- The proportion of people aged 50 and over with debts fell between 2002 and 2010 with the biggest falls being for those aged under 65.
- While the proportion of older people with debts has fallen over time, the amount owed by those in debt increased substantially between 2002 and 2010.

- In 2010, 10 per cent of older people with unsecured debts were paying over £85 a week to service their debt.
- Problem debt fell by less than overall debt so while 23 per cent of older people with unsecured debts in 2002 were considered to be in problem debt, this had risen to 28 per cent by 2010.
- People towards the lower end of the age range were more likely to be in problem debt.
- Problem debt among older people is associated with self-employment, unemployment, depression, lower income, renting one's home, and being an owner-occupier with a mortgage. In 2010 owner-occupiers with a mortgage were five times as likely to be in problem debt as those without a mortgage.
- Around one in eight (13 per cent) of the people tracked between 2002 and 2010 had experienced problem debt on at least one occasion and one in 20 (5 per cent) were found to have problem debts more than once.
- Problem debt can develop quickly – nearly three out of 10 (28 per cent) of those who started to have problem debts had no unsecured debt two years earlier.
- Starting to experience problem debt was associated with moving from being retired to becoming self-employed, unemployed and having a fall in income.
- People who moved into marital debt were more likely to experience a decreased quality of life; there was also evidence indicating that problem debt was linked to marital breakdown.


The Last Will and Testament

Introduction

Debt is commonly assumed to be more of a problem for younger people than for those later in life. Traditionally, older people are seen as living within their means and very reluctant to use credit or get into debt. However, low returns from savings, decreasing annuity rates and rising prices for energy and other basic costs are adding to the financial pressures on many in older age.

There may also be generational effects, as those reaching retirement now are more used to credit cards and other forms of borrowing than older pensioners, and financial services have changed over time. For example recently, the Financial Conduct Authority has highlighted the large numbers of people approaching or in retirement with interest-only mortgages.

Age UK's information and advice services locally and nationally receive 6 million enquires a year, and money is one of the main topics we are contacted about. Few are specifically recorded as being about debt. However, anecdotally some advisers are reporting seeing larger numbers of older people in difficulties.

> 'We are experiencing many more cases involving older persons in debt – ranging from £1,000 to £200,000 – some relate to energy or water bills, rent or mortgage arrears, and payday loans. Debts are often caused because older people initially feel confident in paying back loan agreements but then suffer ill health in later life.'
>
> ***Age UK Information and Advice Service***

StepChange Debt Charity has reported an increase in the number of people of all ages seeking help with debt in 2012 – the first annual increase since 2009. This included 13,148 people aged 60 and over compared to 9,628 in 2009. Older people make up a relatively small proportion of their clients – 5 per cent in 2004, rising to 9.5 per cent in 2011, and then down to 6.7 per cent in 2012. However, people aged 60 and over seeking their help had, on average, higher debts than any other age group[1].

Some older people contacting Age UK for help have been in debt at other times in their life, perhaps due to persistent low income or limited money management skills, while others have ended up with money problems following a major life change such as bereavement or being forced to leave work in their 50s due to redundancy or illness. As people age they may face higher living costs due to disability or find managing finances harder.

We have also heard from older people who have been the victims of scams or who have acted as guarantor for a family member who has defaulted on payments. Others manage carefully on a very tight budget but then find they are tipped into debt by rising prices or one-off unexpected expenses like needing to replace their cooker or carry out home repairs.

Analysis of debt and older people has previously been carried out by researchers at the University of Bristol on behalf of Help the Aged[2]. This found that although the use of credit decreased with age, around a quarter of people approaching retirement had outstanding credit arrangements. This research was based on data from before the financial crisis which started in 2007-08.

To find out the latest information on debt and older people, Age UK commissioned the International Longevity Centre – UK (ILC-UK) to analyse more recent data. This summary draws on that research and includes comment and recommendations from Age UK.

We have gained valuable insight from analysis of the English Longitudinal Survey of Ageing (ELSA) which has tracked the same people over time, and covers 2008 when overall household debt in the UK peaked before starting to fall as people took advantage of low interest rates to pay off loans.

The data did not enable us to carry out sufficient analysis of individuals' exposure to interest-only mortgages to estimate the impact of mortgage debt although, as explained on page 13, people with mortgages were more likely to be in problem debt.

About the ILC-UK research

ILC-UK undertook analysis of large national surveys – the British Social Attitudes Survey (Great Britain), the Family Resources Survey (covering the UK) and the English Longitudinal Survey of Ageing (ELSA).

Most of the analysis in this summary is from ELSA, which has been carried out every two years since 2002 and tracks individuals aged 50 and over. There are currently five 'waves' of available data covering the years from 2002 to 2010.

In this paper any of the findings mentioned are statistically significant at the 5 per cent level unless stated otherwise. For more information about the background, methods and results see the full research report on ILC-UK's website at **www.ilcuk.org.uk**

Attitudes to debt

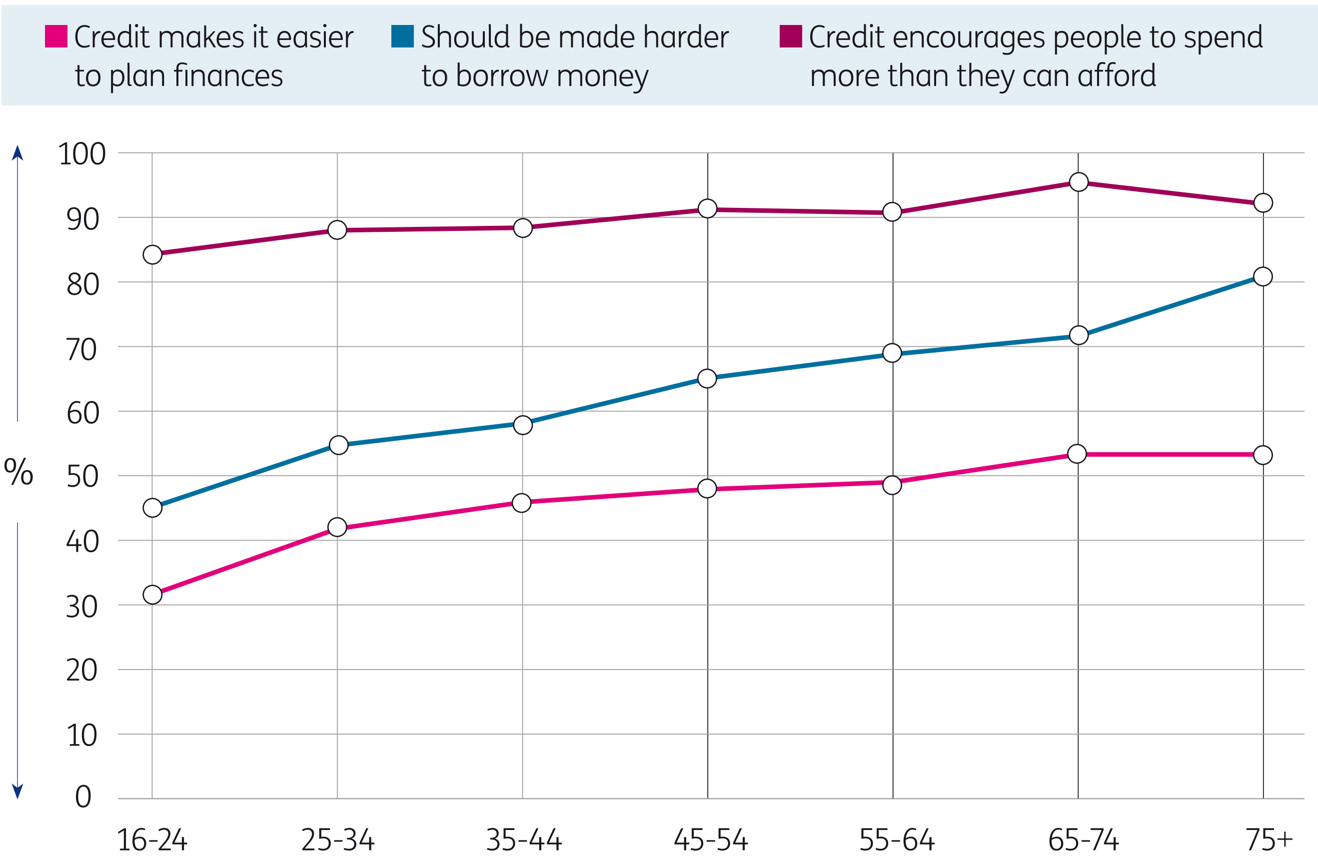
Increasing age is still associated with more negative views towards debt.

Figure 1 below shows the extent to which people agree or disagree with three statements about credit. For example, while under half (45 per cent) of 16-24-year-olds agreed that it should be made harder to borrow money, around four-fifths (81 per cent) of those aged 75+ agreed. Although a similar trend was found for the other two questions, the differences between age groups were not as great.

While age continues to be associated with more negative views about credit and debt this is not to say that views are completely polarised between age groups.

More than four out of five of people in all age groups agreed with the statement that credit encourages people to spend more than they can afford and nearly half of those aged 75 or over said credit made planning easier.

Figure 1
Attitudes to credit and borrowing by age group



SOURCE: ILC-UK analysis of British Social Attitudes Survey 2008

By controlling for a range of characteristics the researchers showed that the relationship between age and attitudes to debt was not explained by other factors such as gender or income. However, looking just at the 55+ age groups, the analysis found that women had more negative views about debt than men and married or cohabiting people were more negative about debt than those who were single.

Very few older people would use credit to meet an unexpected £200 expense – many more say they simply could not pay.

The research looked at the responses of people aged 65+ to a question on how they would deal with an unexpected expense of £200. Most people said they would meet the bill through savings or from their income, however, overall the research found that more than one in nine (12 per cent) said they could not pay, with only 3 per cent saying they would use credit.

Older people from ethnic minorities, those who had lower incomes and people living in rented housing were particularly unlikely to resort to the use of credit and were more likely to say they could not meet an unexpected £200 expense.

It is unclear if the reluctance to use credit arises from negative attitudes, a realistic view that they would not be able to repay a debt, or difficulties accessing financial services. And, whatever the reason, we do not know what people would do in practice when facing this situation, and if they would end up with another form of debt or living without essential services or items.

Secured and unsecured debt

Secured debt is outstanding debt that has an asset as collateral, with the most common arrangement being a mortgage based on property.

With unsecured debt, the arrangement is based on an agreement to pay back the money and is not linked to an asset. For example, this would include money owed on credit cards.

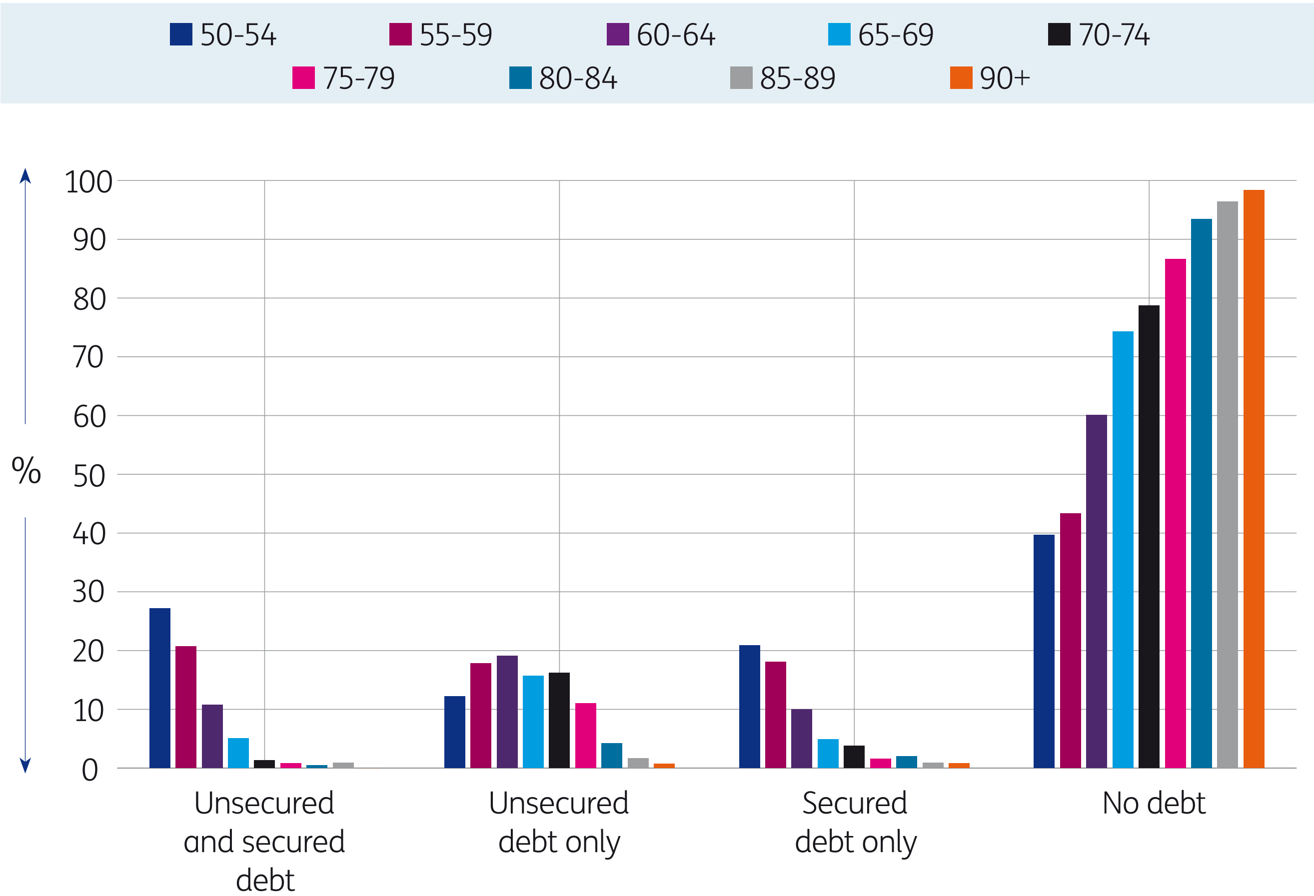
The use of credit among older people

Among people aged 50+ credit use falls with age.

The English Longitudinal Survey of Ageing (ELSA), which covers people aged 50+, shows that the use of debt and unsecured debt is lower among older age groups.

For example, Figure 2 below shows levels of credit by age group in 2010.

Figure 2
Secured and unsecured debt by age in 2010



Unweighted sample size

50-54 = 203 **55-59 =** 1,668 **60-64 =** 1,911 **65-69 =** 1,461 **70-74 =** 1,340
75-79 = 978 **80-84 =** 606 **85-89 =** 324 **90+ =** 125

SOURCE: ILC-UK analysis of English Longitudinal Study of Ageing 2010

The proportion of people aged 50 and over with debts fell between 2002 and 2010, with the biggest falls being for those under 65.

As can be seen from Figure 3 below, the proportion of older people with any kind of credit or debt fell from more than four out of 10 (42 per cent) in 2002 to less than a third (32 per cent) in 2010. The proportion with debt fell in 2004 and 2006, and then increased in 2008 before falling again in 2010. The overall fall in debt was mainly due to a drop in the use of unsecured debt, which fell from nearly a third (32 per cent) to less than a quarter (24 per cent).

The fall in debt was most pronounced among the 50-64 age groups. For example, in 2002 46 per cent of 55-59-year-olds and 37 per cent of 60-64 year-olds had unsecured debt, whereas by 2010 this had fallen to 39 per cent and 30 per cent respectively.

While the proportion of older people with debts has fallen over time, the amount owed by those in debt increased substantially between 2002 and 2010.

Overall, among those who had unsecured debts, the amount of money owed increased substantially – the typical (median) amount owed was £1,500 in 2002, rising to £2,500 in 2010.

This indicates that debt is becoming concentrated among fewer people. If debts had just risen in line with inflation the amount owed in 2010 would have been much less, at around £1,900.

In 2010, 10 per cent of older people with unsecured debts were paying over £85 a week to service their debt.

People aged 55 and over with unsecured debts typically paid around £14 a week servicing these in 2010 – but one in 10 were paying £85 a week. Those who were better off were paying higher amounts, but even among the poorest fifth of the older population with unsecured debts, one in 10 were paying more than £55 a week towards these debts. Over a third (37 per cent) of those with unsecured debts did not appear to be paying anything towards them – and while the older someone was, the less likely they were to be in debt, among those with debts the likelihood of non-payment of debts increased with age.

Figure 3
Debt among people aged 50 and over 2002-10

	2002	2004	2006	2008	2010
Unsecured debt	32.2%	28.8%	25.3%	28.1%	23.8%
Secured debt only	10.0%	7.8%	7.8%	9.0%	8.6%
No debt	57.8%	63.4%	66.9%	62.9%	67.6%
Unweighted sample size	**203**	**1,668**	**1,911**	**1,461**	**1,340**

SOURCE: ILC-UK analysis of the English Longitudinal Study of Ageing 2002-2010

Problem debt

Problem debt fell by less than overall debt so while 23 per cent of older people with unsecured debts in 2002 were considered to be in problem debt, this had risen to 28 per cent by 2010.

For many people, credit arrangements are a sensible way of managing finances, so we wanted to look at those for whom debt is likely to be a problem. See the box below for how we defined 'problem debt'.

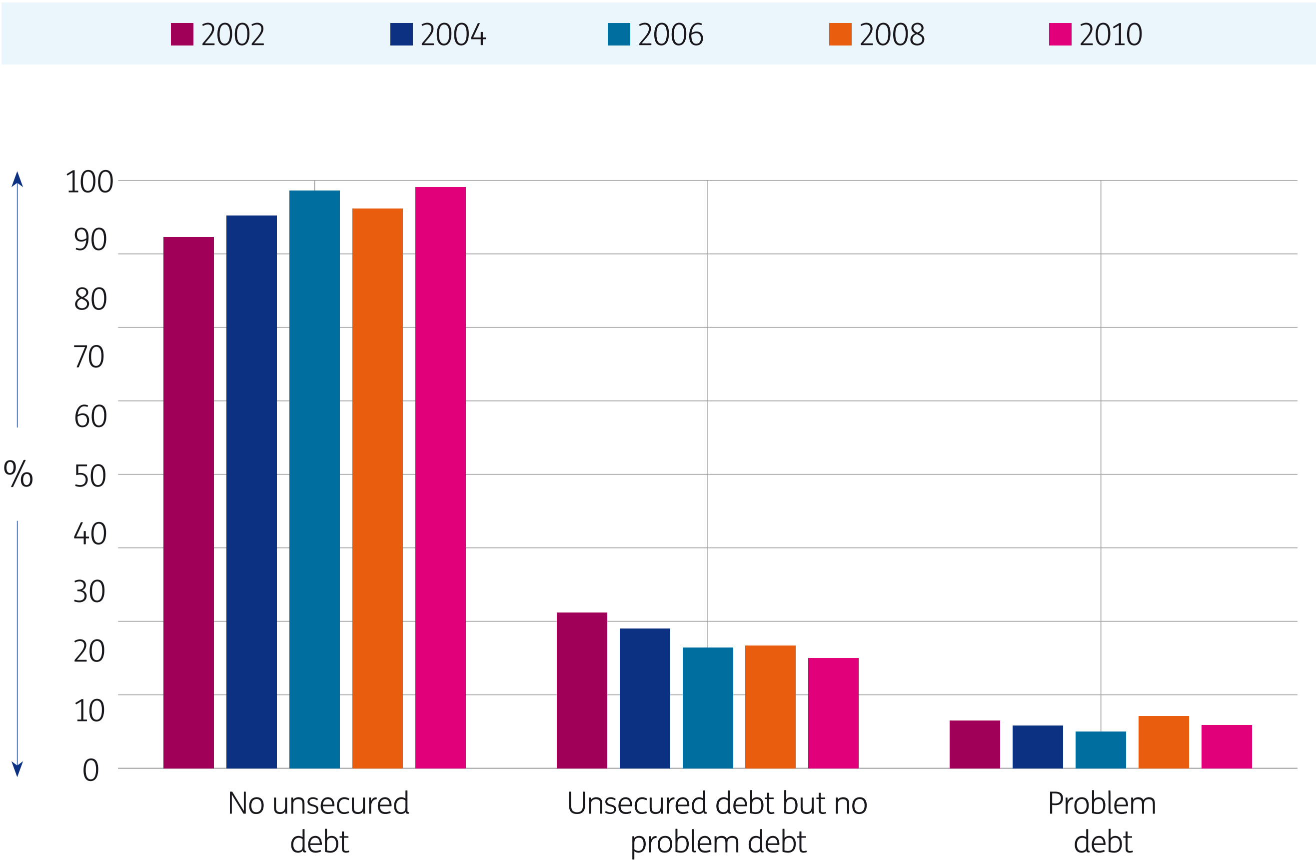
What do we mean by problem debt?

There have been many attempts to define when using credit or having debts becomes problem debt (also described as over indebtedness) but no consensus. Like others we therefore use a number of indicators. In this research we define problem debt as occurring where one of more of these indicators exist:

- People are paying more than a specified proportion of their income to meet the costs of unsecured debt varying from 10 per cent of income for the poorest fifth of the population to 25 per cent for the richest fifth.
- A subjective measure – when asked about their financial situation people with unsecured debts say they 'not getting along very well', they have 'some financial difficulties' or they have 'severe financial difficulties'.
- People have unsecured debt of £10,000 or more in 2002 terms. This is uprated by the Retail Prices Index so by 2010 the figure is £12,688.

Our definition of problem debt is based on unsecured debt so does not cover people with mortgages and those who have used capital in their homes to meet expenses. We would have liked to look further at mortgage debt, including interest only mortgages, and to explore whether people were having difficulties in meeting payments, but this was not possible due to issues with the data and missing variables.

Figure 4
Percentage of people aged 50 and over with debt and problem debts



SOURCE: ILC-UK analysis of English Longitudinal Study of Ageing 2002-2010

Using our definition, it can be seen from Figure 4 below that the proportion of people aged 50 and over with problem debt fell between 2002 and 2006 (from 6.5 per cent to 5 per cent), then rose (to 7.1 per cent) in 2008 before falling again in 2010 (to 5.9 per cent).

Between 2002 and 2010 levels of problem debt fell by less than overall levels of debt. As a result, while 23 per cent of those with unsecured debts in 2002 had problem debts, this had increased to 28 per cent by 2010.

Lower-income older people with unsecured debt were more likely to be in problem debt. Among those with unsecured debt, over half (51 per cent) of the poorest fifth were in problem debt compared to a quarter of the richest fifth.

Although it has been suggested that increasingly people will enter retirement with debts because they have been used to having credit cards and other forms of debt during their working life, this is not supported by these findings.

Indeed, levels of debt in 50-64-year-old age groups have fallen over time. However, eight years is a relatively short period of time to observe trends and it is unclear what the long-term impact of the recession will be.

It should also be remembered that mortgage debts, including interest-only mortgages, are not included in our definition of problem debt.

However, it is very worrying that among those with debts the amounts owed are increasing, so that those who do have debts are more likely to be facing difficulties.

A woman in her 50s had left her husband after years of abuse. She had been working but the job had finished and she had no income and increasing debts. She was temporarily sleeping on her daughter's sofa but was about to be homeless as her daughter was moving. She had physical health problems and suffered from depression and did not feel able to work. She was referred to Age UK from Jobcentre Plus. She had no money, so a priority was to obtain food vouchers for a local food project. Age UK also helped her to find accommodation and claim benefits and referred her to Citizens Advice for support to manage her debts. She now feels her life is under control and knows that she has someone to turn to if problems arise.

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Who is more likely to be in debt?

People towards the lower end of the age range were more likely to be in problem debt.

As seen earlier, older age groups are less likely to have unsecured debts and, as shown in Figure 5, a similar pattern is found for problem debt.

Problem debt among older people is associated with self-employment, unemployment, depression, lower income, renting one's home, and being an owner-occupier with a mortgage. In 2010, owner-occupiers with a mortgage were five times as likely to be in problem debt as owner-occupiers without a mortgage.

We used various statistical techniques to see whether debt in the 50+ age group was associated with factors other than age.

The main findings for 2010 are:

- Self-employed people were twice as likely as retired people to be in problem debt, while unemployed people were three times as likely.
- A third of older people with problem debt reported feeling depressed; those who reported feeling depressed were 50 per cent more likely to be in problem debt that those who did not, once we accounted for other individual characteristics.
- Income is strongly related with the risk of problem debt – being in the richest fifth of the older population halved the risk as compared to being in the poorest fifth.
- Owner-occupiers with mortgages were five times as likely to be in problem debt than owner-occupiers without a mortgage.

Figure 5
Problem debt by age in 2010

	Proportion with problem debt (full sample)	**Proportion with problem debt** (Unsecured debtors only)
50-59	12.2% (1,718)	34.9% (576)
60-69	6.0% (3,183)	26.2% (720)
70-79	2.1% (2,257)	16.2% (294)
80+	0.5% (1,046)	17.5% (30)

SOURCE: ILC-UK analysis of English Longitudinal Study of Ageing 2010

Moving into problem debt

Around one in eight (13 per cent) of the people tracked between 2002 and 2010 were experiencing problem debt on at least one occasion and one in 20 (5 per cent) were found to have problem debts more than once.

Problem debt can develop quickly – nearly three out of 10 (28 per cent) of those who started to have problem debts did not have unsecured debt two years earlier.

So far, we have looked at everyone aged 50+ who was interviewed as part of the ELSA study between 2002 and 2010. However, as far as possible, the same people are interviewed each time so we can track people's circumstances over the period.

More than half reported no form of unsecured debt at any time over the period. Others had unsecured debt at some point and 13 per cent of the sample were in problem debt on at least one occasion. One in 20 (5 per cent) experienced problem debt on at least two occasions.

While it is good news that the great majority did not have problem debt at any time over the period, it is still of concern that 13 per cent of people aged 50 and over did have problem debt at least once. And this may be an underestimate as those with long-term debt may be more likely to drop out of a survey that interviewed people over a period of eight years.

It is also worrying that, among those with problem debt in 2004 or later, nearly three out of 10 (28 per cent) reported no form of unsecured debt when interviewed two years earlier. They had therefore moved quickly from having no unsecured debt to being in problem debt.

A retired man who contacted Age UK had been widowed four years before. His wife had always dealt with all the paperwork and finances and he was now in debt. He was having difficulty understanding the statements, bills and insurance policies. The Age UK adviser visited and helped him go through the papers, check through all his finances and set up direct debits. Afterwards he said he felt much more confident about dealing with money.

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Factors associated with moving into problem debt

Starting to experience problem debt was associated with moving from being retired to becoming self-employed, unemployed, and having a fall in income.

While the great majority (87 per cent) of people aged 50+ were not in problem debt at any stage and only a very small number were in problem debt at every interview, others moved into or out of problem debt. The researchers looked at factors associated with such moves.

Unsurprisingly, a drop in income increased the likelihood of moving into problem debt.

The researchers also found that people who moved from being retired to being self-employed, unemployed or said they had started to look after home or family were twice as likely to move into problem debt as those who remain retired.

It is not clear whether this was because retired people who are in financial difficulty are likely to go back into the jobs market, or because the process of changing work status causes debt.

Health or partnership changes did not appear to predict transitions to problem debt.

What is the impact of problem debt?

People who moved into problem debt were more likely to experience a decreased quality of life. There was also evidence indicating that problem debt was linked to marital breakdown.

People who moved into problem debt between 2002 and 2010 had a statistically significant decrease in quality of life. However, the research did not find that those who moved into problem debt were more likely to have become depressed or lonely.

A small number of older people in the sample (181) experienced partnership breakdown between 2002 and 2010 – that is moving from being married to a different status (other than being widowed).

Those who entered problem debt were more than twice as likely to experience partnership breakdown as those who did not. However, this pattern was not found among those who entered unsecured credit arrangements but were not in problem debt. This suggests that problem debts could have contributed to the breakdown.

Those advising younger people with debts will not be surprised by the finding that getting into problem debt may contribute to relationship breakdown and reduced quality of life. However, this is the first time that this has been found in a longitudinal survey of older people.

A pensioner with memory loss had been persuaded to part with several thousand pounds in savings and taken out a bank loan for nearly £20,000, having been told by rogue traders that he needed house repairs. The 'repairs' caused major damage to his property and he had to bring in other workmen to rectify this. He sought help from Age UK as he was having great difficulty repaying the loan and the stress of the situation was having an impact on his health.

The adviser helped him claim benefits and challenge the bank about whether the loan had been irresponsible. This challenge was not successful but the adviser was able to negotiate manageable repayments.

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Conclusions

Although problem debt affects only a minority of people in later life and the level of unsecured borrowing and problem debt was lower in 2010 than 2002, the research has highlighted some concerns, particularly for those in their 50s. Problem debt has not fallen in the same way as the use of unsecured credit, and for those who are in debt, the levels owed are higher. The research also highlights some groups who are at particular risk, notably self-employed and unemployed people and owner-occupiers with mortgages.

This report and other evidence shows there was a fall in debt after 2008, but it is unclear whether this will continue, given the ongoing squeeze on incomes. 2013 marks the fifth year of historically low interest rates. This is a mixed blessing for older people. For households with mortgage debts, the low rates have provided very welcome breathing space and without this those in debt could be in a much worse position. On the other hand, retired people are more likely to be savers than borrowers, so many have seen their income erode as a result of low interest rates. At some point rates are likely to rise and while this may be welcomed by savers it could have serious implications for those with debts, particularly mortgages.

Our definition of problem debt excluded mortgage payments and we were not able to explore any difficulties people had meeting payments for loans secured against their home. Around three-quarters of older pensioners own their home, which can be a useful safety net to release money through downsizing or equity release.

However, more people are reaching retirement with a mortgage and the Financial Conduct Authority (FCA)'s recent report on interest-only mortgages found that 40,000 households aged 65+ will see their interest-only mortgage mature between 2017 and 2032. Half of these households will have a shortfall of more than £50,000[3].

While some older people may have been lent money they cannot afford to repay, others do not have access to the loans they need. Age discrimination legislation does not cover financial services and Age UK has found that blanket age limits continue in lending[2].

Recommendations

Adequate funding for money advice

Support for older people in debt is essential, especially as the amounts owed appear to be increasing. Funding for debt and money advice, including face-to-face debt advice, needs to be protected and expanded and providers should make sure that their services are appropriate for older people.

For example, amounts owed may appear low but create just as much hardship as larger amounts for younger people who may have the prospect of higher earnings in the future.

Better information on older debtors

Statistics on debt produced by the Government and others should provide a range of age breakdowns among those aged 50 and over. For example, as a minimum, these should include information on those aged 55-64, 65-74, and 75+.

Understand the reasons some older people fall rapidly into problem debt

There should be further research to understand why some older people fall into problem debt soon after taking on credit commitments. For example, is this because people are unrealistic about repayments, lenders are lending irresponsibly or due to a sudden change in financial circumstances? If evidence is found around inappropriate lending, there would need to be swift action.

Better support for older people in self-employment

Our results highlighted an association between problem debt and self-employment among older people. We need further information about why this is the case – are older people turning to self-employment because they need to increase their income and cannot find employment, is it due to a lack of suitable credit for older entrepreneurs, or do the debts link to the costs of setting up in self-employment? There needs to be appropriate support and advice for older people in, or considering, self-employment.

Improved industry-led support for debtors with mental health issues

Our results did not find that those who moved into debt between interviews and were more likely to have started to become depressed or lonely over that period but did find a general association between debt and depression among older people.

This is of concern as it suggests that some of the most vulnerable older members of society are encountering problems with debt. Lenders, debt advisers and medical staff should be aware that debt and money problems may both be present and refer people to other support where needed.

Appropriate access to suitable credit

While taking on debts may not be appropriate for older people who are struggling financially, those who can afford to repay a loan should not be denied credit or forced into expensive or risky lending by restricted access to mainstream alternatives. Automatic age limits on mortgages may cause problems for some older people reaching retirement with an interest-only mortgage and no repayment strategy in place. Access to financial services should be based on individual circumstances, not on arbitrary age limits.

Better understanding of how unsecured debt becomes problem debt

For the purposes of our research, we produced a new definition of problem debt for older people based on theoretical considerations as well as the available data. It is important to validate this measure through work with older people themselves, to ensure that it is consistent with their perception of problem debt.

Footnotes

1. **www.stepchange.org/Home.aspx**
2. Debt and Older People, Personal Finances Research Centre, University of Bristol and Help the Aged, 2008 (Age Concern and Help the Aged combined to form Age UK).
3. Thematic review of maturity of interest-only mortgages. Financial Conduct Authority, 2013.
4. Age UK mystery shopping on age limits for mortgages and loans 2012.

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