

"If Budgeting is the Answer, what is the Question?"

Household Over-indebtedness and Poverty
in Ireland and the Implications for Policy

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Context for the research

- Own money advice experience/interest
- Action v reflection
- Growth in indebtedness
- Lack of data on "over-indebtedness" and relationship with "poverty"
- "Over-indebtedness" = not defined

Possible policy responses to over-indebtedness & poverty

Preventative strategies

- Financial regulation
- Information and education
- Consumer protection

Curative strategies

- Access to financial services/lower cost finance
- *Money and budgeting advice*
- Debt settlement/fresh start

(Bohan, 2001)

Objectives of this study

To define "over-indebtedness"

Among households in poverty in Ireland: -

- To estimate the extent of o/debt
- To identify the characteristics, nature and severity of o/debt
- To identify the causes and consequences of o/debt
- To evaluate the effectiveness of our policy response

Methodology/ research methods

- Quantitative and Qualitative approach
- Literature review
- Trawl for existing data (little available on o/debt)
- Re-work survey data (Living in Ireland Surveys 94-01)
- Analyse administrative data (MABS services)
- Interview survey - sample of 36 (long-term) MABS clients

Definitions of "over-indebtedness" Six key elements

- Unit of analysis
- Deferred payment/debt
- Resource deficiency (income/assets)
- Inability to afford to live and pay debts
- Persistency
- Elements of "poverty" definition (conventionality)

Suggested definition of “over-indebtedness”

Households are over-indebted if their **net, habitual, maximised income**, including realisable cash assets, is so **inadequate on a persistent basis**, without recourse to extra borrowing, charity or gifts, as to render them objectively unable to meet both (i) **living expenses regarded as essential by Irish society generally** and (ii) **deferred payments as they fall due**

The extent of over-indebtedness among households in poverty

- Source - LIIS 2001 (via ISSDA) (LIIS - National random, representative sample of private households by questionnaire - 3000 surveyed in 2001)
- Method (1) – identify households which reported at least one of the following: - (“Yes” answer to at least one = indicator of o/debt)
 - Rent, mortgage, utility, HP/credit card, medical/hospital arrears and/or; Went into debt to meet ordinary living expenses
 - Finding - 184 h/holds over-indebted (7.5%, or ~97,000 in 2001)
- Method (2) – calculated eq. income/compared to 60% median pov. line (below = “OIP”, above = “OINP”)
 - Finding – 72 h/holds OIP (3.1%, or ~ 40,000 in 2001)

Significant features of profile of over-indebted households relative to the population

- Source – LIIS 2001
- Method - Used Census 2002 to make comparisons
- Findings - 4 significant differences: -
 - Social welfare - “Main income source”
 - Tenure status - “LA rented”
 - Composition = “H/holds with children” (inc lone parents)
 - Average equivalised income = 31% lower

Significant features of profile – OIP v OINP households

- Source – LIIS 2001
- Method - Used 60% median poverty line (individualised) to compare 71 OIP h/holds with 113 OINP h/holds
- 3 significant differences re OIP households: -
 - Social welfare - “Main income source”
 - Tenure status - “LA rented”
 - Savings - less “able to save”
- Noticeable that 3 different groups
 1. Below pov. line
 2. Between pov & median
 3. Above median(%ages of each increase as go down 3 income levels)

Persistence of over-indebtedness – “OIP” v “OINP” households

- Source – LIIS 2000 and 2001 (used “panel” survey)
- Approach: - Did any of the 184 households (2001) also report arrears/debt in 2000? Does the poverty line make a difference?
- Finding
- 54% (100 of the 184, ~52,000) had reported one of the 6 indicators in both 2000 and 2001
- Significantly higher proportion among OIP than OINP (x2)
- Again effectively 3 groups – proportions increased as go down the income distribution

Experience of basic deprivation – OIP v OINP households

- Source – LIIS 2001
- Approach – Did any of the 184 households (2001) report any of the indicators of basic deprivation? Does the poverty line make a difference?
- Finding
- 31% (57 h/holds) reported basic deprivation (Pop= 8.5%)
- Significantly higher proportion among OIP than OINP (x3)
- Again effectively 3 groups – percentages increase as go down the income distribution

Nature of over-indebtedness –
OIP v OINP households

- Source – LIIS 2001
- Approach– Are OIP households more likely to report any of the 6 indicators than OINP?

Finding

- In respect of just one of the 6 indicators: -
- Significantly higher proportion of OIP households report utility debt (x2)

Analysis of administrative data gathered by
Money Advice Services

- Purpose - Add value to LIIS findings (profile, severity and nature of low income o/debt)
- Sought access to “raw” anonymised data on clients (as recorded by advisers) –great cooperation (MABSndI)
- MABSIS = Integrated national recording & payment system used by all MABS offices
- Method – comparison on basis of Clients’ first income source – “Social welfare” v “Wage” (2006)

Profile of 2006 MABS (Debt) Clients
SW (2837) v Waged (1374)

	SW Clients	%	Wage Clients
Female		69	53
Tenant		70	44
Lone parent		49	23
Mortgage/own		16	36
Couple with ch.		18	33
Age 26-40		49	60

MABS 2006 (Inc/Exp) Clients –
SW (912) v Waged (518)

	SW Clients	Wage Clients
Avg. net wkly	€306	€573
Ind/eqv. income	€182	€326
Disposable wk. inc.	€22	€84
	Percent %	
Food exp	31	18
Fuel exp	6.5	3.5
Clothing exp.	6	4.5

Amounts of debt owed by 2006 MABS Clients
SW (2837) v Waged (1374)

	SW Clients	Wage Clients
Avg. debt (median)	€2,301	€13,294
0-5000	64%	27%
20,000+	10%	36%
Total Debt : Yearly Disposable income ratio	2:1	3:1

Note –figures do not include “mortgage” debt

Nature of over-indebtedness
2006 MABS Clients -by debt type

	SW Clients	%	Wage Clients
• Credit cards	15.3		39.1
• Credit union loan	27.0		39.2
• Hire purchase	6.8		12.1
• Moneylender	14.2		14.6
• Other	21.6		29.5
• Personal bank loans	24.0		55.6
• Fines	2.1		1.2
• LA rent	10.8		7.8
• Private rents	2.3		1.3
• Utilities	54.8		28.0
• Waste charges	2.2		1.4
• Catalogues	2.3		2.0

Interview survey (2007)- Long term MABS Clients

- Purpose – evaluate impact on clients /add value to previous findings
- Ethical approval (NUIM)
- Approached 5 “representative” services –cooperation (+pilot of questionnaire)
- Clients **6-12 months** with MABS and still “active”
- Anonymised data –clients = random and anonymous
- Asked advisers to make initial contact if appropriate, emphasis on confidentiality/independence
- Stratified random sampling - representative final sample

Profile of final sample relative to 2006 MABS client base

	Sample (36)	%	Client base (12,395)
• Female	61		64
• Male	39		36
• Urban	42		45
• Rural	58		55
• Social welfare	69		70
• Clients with ch.	69		57
• Tenants	53		52
• Purchaser/owner	31		26
• Age 26-65	89		84

Conducting of Interview survey by Questionnaire

- Confidentiality
- Independence
- Met at location of client’s choice
- Informed consent
- Avg. interview- 25-30 minutes

The Questionnaire

- Part 1 - Profiles/circumstances
- Part 2 - Resources (savings and income)
- Part 3 - Budgeting, spending and money management
- Part 4 - Debts and loans
- Part 5 - Causes and consequences
- Part 6 - Views on MABS

Findings of 2007 Interview survey (1) - Resources

- 39% had income below the poverty line (2006)
- 78% -income “not enough to live on”
- 66% - no savings
- 61% - income still the same
- 28% now had extra ongoing income
- 22% - extra “once off” income

Findings of Interview survey (2) – Impact - Budgeting/spending/money mgt.

- 78% - impact on debt repayments (53% “less”, 25% “more”)
- 64% - easier payment method (83% - current bank account)
- 61% -impact on food spending (44% “less”, 17% “more”)
- 61% - no difference to fuel spending
- 50% -impact on “family” spending (more/less)
- 42% -some degree of difficulty meeting repayments

Findings of Interview survey (3) – Impact - Budgeting/spending/money mgt.

- 80% -improvement in quality of life (36 % "little better" / 44% "much better")
- 78% -more able to budget
- 72% - understand more about money
- 66% -some degree of difficulty "making ends meet"
- 72% -unable to save / 66% - unable to socialise
- 75% - unable to cope if unexpected expense of €1,000
- 53% -unable to get loan of €1,000 that could afford to repay

Findings of Interview survey (4) – Debts

- 47% in crisis debt when approached MABS
- MABS intervened successfully in every case (asked)
- 92% - MABS helped make agreements with creditors
- 78% - debts not disputed
- 64% - overall debt reduced – (44%-by a "little", 20% "considerably less")
- 34 clients estimated time to repay debts (2 D/K)
 - 0-4 years – 44%
 - 5-10 years – 26%
 - 11-20 years – 15%
 - Never - 15%

Findings of Interview survey (5) – Causes and Consequences

- **Causes:**
 - 64% -root cause beyond client's control (unemployment/illness/accident/separation)
 - 33% - root cause within client's control (over-borrowing/budgeting/planning)
- **Consequences:**
 - 78% - stress associated with the debt problem
 - 61% - problems affected other family members

Findings of Interview survey (6) – Feelings about MABS

- 75% -MABS had a positive impact on effects of o/debt
- 92% - "very well treated" by MABS (top score)
- Supportive
- Not judging
- Buffer/Mediator
- Advocate

Summary of impacts of MABS intervention

- High impact
 - Budgeting, management, effects, crisis, support
- Some impact
 - Life quality, ability to repay, borrow, overall debt
- Little impact
 - Resources, debt dispute, future crisis

Conclusions -relationships

- Significant relationship between over-indebtedness and lack of resources/poverty
- Features of over-indebted households on lower incomes: -
 - On fixed incomes, with children and with few or no assets or savings
 - Persistently in debt and to be going without basic essentials
 - In debt to priority creditors thereby facing greater sanctions
 - Spending a greater proportion of their income on necessities
 - In debt for reasons to do with "force majeure"

Conclusions -policy

- Need for policy definition of “over-indebtedness” (stakeholders)
- Policy, by way of state-funded money advice, is making a significant impact, mainly in terms of management and support
- More strategic response required to build on this, focusing on increased preventative (e.g. resources and education) and curative measures (e.g. choices and a “way out”)
- It is the ***inadequacy of resources and lack of capacity*** to cope with ***changing circumstances and conventional demands***, that is at the ***heart of the problem*** of over-indebtedness among those in poverty