Debt and financial insecurity mount for millions of UK citizens

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Mounting evidence reveals a marked increase in debt and financial insecurity for many people in the UK. *The Financial Capability of the UK*, a report published by the government-backed Money Advice Service (MAS), surveyed 5,000 people about their finances. The report also examined 72 families who were followed closely over a year, providing a detailed picture of how people are managing their money across the UK.

The report is considered to be one of the most in-depth pieces of this type of research to be carried out since 2006, when the Financial Services Authority (FSA) conducted similar research.

More than half (52 percent) of the 5,000 questioned said they were struggling to keep up with bill and debt repayments, compared with 35 percent in the study carried out by the FSA in 2006. This figure equates to 26 million people across the UK.

More than a third (36 percent of people) said they had experienced a shock to their finances in the last three years, and 21 percent have experienced a large drop in income in the last three years.

Forty-two percent said they would have to think about how to cover an unexpected £300 bill. Many individuals indicated being worried that they would not be able to make their money last until the next pay day, and 21 percent said they had experienced a large drop in income in the last three years.

It is estimated that 18 million UK adults now run out of money before their next payday. Many of these are not, for that matter, in low- to average-income groups; a third of those who earn more than £30,000 a year say they find it tough to live within their means.

Earlier this year, the independent think tank the Resolution Foundation published a report, *Squeezed Britain 2013*, showing the effects the financial squeeze is having on peoples' living standards in the UK. Nearly 7 out of 10 people said they were cutting back on spending.

The report focused on the UK's 10 million adults living on low to middle incomes (from £12,000 to £41,000), and did not include the poorest 10 percent of households

According to the findings, low- to middle-income families are having to spend more of their disposable income on essentials such as food, fuel and transport. Families in this group often go without everyday things that the more affluent take for granted: 40 percent said they cannot afford to replace worn-out furniture, and 46 percent said they cannot afford a week's holiday.

In the UK, one in ten of the adult population (4.7 million people) are "sandwich carers"—i.e., those described as caring for children and older family members simultaneously.

For this group, the situation has become a lot more difficult, with almost one in three struggling to meet basic living costs and one in five in debt and finding it difficult to cope. A quarter of this group have had to reduce working hours, and the same proportion have had to give up work altogether, leading to increased pressure on family budgets.

The Institute for Fiscal Studies recently reported that British workers have suffered unprecedented pay cuts of 6 percent in real terms over the last five years.

Between 2010 and 2011, one third of workers experienced wage freezes and 70 percent experienced real wage cuts. The Trades Union Congress estimates that since the start of the financial crisis, the UK's annual pay packet had shrunk by £52 billion.

Real wages are falling throughout the UK, with the south and northwest hit the hardest. Real wages fell 10.1 and 10.6 percent, respectively, in these areas, with Scotland and the West Midlands declining by 9.7

percent.

This situation is not expected to improve. Michael Pearce of Capital Economics recently stated, "We're not expecting this damage [to households' real pay] to be reversed any time soon, highlighting one reason not to get carried away by recent signs of economic recovery".

In fact, the financial situation is likely to get a lot worse and is very much dependent on interest rates remaining low. The *Financial Times* reported recently that up to 650,000 households in the UK face "debt peril" if mortgage rates were to rise unexpectedly.

Many people are now completely dependent on interest rates remaining at their current rock-bottom levels. Potential interest rate increases will place many people at risk of entering a spiral of increasing debt, with the real possibility of losing their homes as they struggle to keep up their mortgage repayments.

Matthew Whittaker of the Resolution Foundation told the *Times* newspaper, "There is now the real prospect that a large number of households already burdened with debt could collapse under its weight if economic conditions tighten".

Total household debt is set to rise to £1.8 trillion by 2018, up from about £1.55 trillion now. A report by Aviva Finances found that average household debt had already risen by more than 40 percent in the past year, with a large chunk being owed to family and friends.