BORROWED YEARS

A spotlight briefing on young people, credit & debt

NATIONAL DEBTLINE

MONEY ADVICE TRUST

BUSINESS DEBTLINE NATIONAL DEBTLINE WISER ADVISER

August 2016

Foreword

With many young people beginning to build up debts soon after they turn 18, we face a real challenge as a society to make sure they receive the support they need to manage their money well. This is particularly important given the widespread money worries that 18 to 24 year olds are experiencing.

This 'spotlight briefing' from the Money Advice Trust aims to explore this age group's experience of debt and borrowing as they take their first steps into adult life – and offers a selection of policy ideas that might help them to avoid and deal with financial difficulty, and manage their money with confidence.

This selection of ideas – for consideration by government, creditors and the financial services industry, schools and universities, the advice sector and other charities – is designed to stimulate discussion of what more can be done to support 18 to 24 year olds to manage their money through these crucial years of transition.

Crucially, we know that far too few young people are seeking the free advice they need when they fall into financial difficulty. If we let this situation continue, there is a real risk that young debts will become old debts, with the financial prospects and life chances of young adults being negatively affected as a result.

I look forward to working with our partners and colleagues in the advice and other sectors to explore how we can address this gap in the years ahead.

Joanna Elson OBE
Chief Executive, Money Advice Trust

NATIONAL DEBTLINE

MONEY ADVICE TRUST

Introduction

Last year just 12% of callers to National Debtline were aged 18 to 24, an experience shared by other advice agencies[1] – and yet research by the Money Advice Service has shown that this age group makes up 21% of the UK's over-indebted population.[2] This equates to more than 1.8 million young people under 25 falling into financial difficulty as they take their first steps into adult life[3].

In the summer of 2016 the Money Advice Trust commissioned research[4] to throw a spotlight on this age group's experience of credit, borrowing and debt in these critical first few years of adulthood.

Our results paint a troubling picture – of debts being built up at an early age, widespread money worries and a significant minority falling behind. Despite these struggles, there is clear evidence that the majority of young people are striving to actively take care of their personal finances – but also that more needs to be done to equip young people to manage their money with confidence.

Against the backdrop of these findings we offer a selection of policy ideas that could help address some of the money management challenges that young people face – as well as a clear set of messages for young people on how to approach these challenging issues.

Later in 2016 we will continue our *Borrowed Years* series by publishing similar spotlights exploring two types of debt that are of particular relevance to many younger people – informal borrowing from family and friends, and mobile phone arrears. For more information visit www.moneyadvicetrust.org/researchpolicy

[1] StepChange (2016), Statistical Yearbook 2015, https://www.stepchange.org/policy-and-research/personal-debt-statistics-yearbook-2015.aspx
[2] Money Advice Service (2013), Indebted Lives, https://mascdn.azureedge.net/cms/cs-indebted-lives-the-complexities-of-life-in-debt_november-2013.pdf
[3] *Ibid.*
[4] Survey of 2,042 18-24 year olds commissioned by the Money Advice Trust and conducted online by YouGov in August 2016 – for full details see *Methodology*

BORROWED YEARS

Building up debt

Many young people are building up debt early in their adult lives. Credit cards, overdrafts and loans from family and friends all play a significant role in under-25s' borrowing habits.

- 37% of 18 to 24 year olds currently hold one or more credit card, an overdraft or other form of borrowing (excluding student loans and mortgages), owing a combined average of £2,989.
- This includes 16% with one or more credit cards (average debt £856) and 15% with an overdraft (averaging £1,180 overdrawn)
- Nearly one in eight (12%) are currently in debt to family or friends (owing an average of £4,644).
- 37% say they do not have a plan in place to repay the money they currently owe.

While the types of debt held by men and women under 25 are broadly similar, there are notable differences in credit card and overdraft borrowing.

- Women aged 18 to 24 hold higher credit card debts, on average, than their male peers (an average of £926 for those with credit cards, compared to £790 for men)
- On average, 18 to 24 year old men have bigger overdrafts (an average of £1,436 for men who have overdraft borrowing, compared to £941 for women)

Taking student loans and the small number in this age group with mortgages into account, more than two thirds (67%) of 18 to 24 year olds currently hold some form of borrowing, with the average student loan balance for those with student loans at £25,505.

BORROWED YEARS

Worrying about money

The findings also reveal widespread money worries amongst adults under 25, with many paying a high human cost as a result.

- 51% of 18 to 24 year olds say they regularly worry about money
- Around a third (32%) feel their debts are “a heavy burden”
- More than a fifth (21%) say they sometimes cannot sleep because of money worries

Women aged 18 to 24 are significantly more likely to regularly worry about money than men (57% compared to 45% respectively) and to lose sleep as a result (24% compared to 18% respectively).

Struggling, but striving

Despite these struggles, our research finds clear evidence that a majority of young people are trying to budget and actively manage their personal finances.

- More than two thirds (69%) of 18 to 24 year olds have set a budget that they try to stick to, and 71% log into online banking to check their bank account at least once a week.
- When it comes to borrowing, however, only 27% know what their credit rating is and how it affects them.
- 42% say they are finding managing their money harder than they had expected.

BORROWED YEARS

A minority falling behind

As well as showing many are building up debts at a relatively early age, the research shows that a minority of under 25s are begnning to fall behind with their finances.

- 10% 18-24 year olds who pay household bills have missed at least one payment in the last 12 months.
- The same proportion of those who have credit commitments (10%) have missed one or more repayments in the last year.
- Of those under 25s who are liable for housing costs, 7% have missed at least one rent/mortgage payment in the last year.

Too few seeking advice

The findings confirm widely held concerns that too few young people are seeking expert advice on managing money, debt and borrowing. In 2015 12% of people contacting National Debtline were aged 18 to 24 – despite Money Advice Service research showing 21% of over-indebted people in the UK to be in this group.

- Across all 18 to 24 year olds, while 63% have asked a parent for advice about money at some point, just 2% have sought advice from a money or debt advice charity.
- Only 20% of 18 to 24 year olds have ever turned to a money-related website for advice.

One client's story...

Emma*, 20, contacted National Debtline after getting into difficulty with credit card borrowing. When she turned 18 she was invited to apply for a card in the post and was encouraged to sign up by family members who told her that it would help her to build up a good credit history. Initially she was able to keep up with the repayments and she felt the card was a useful tool for her. The provider later increased her credit limit.

Her reliance on the credit card grew and she began to spend more than she could afford. The situation was brought to a head by a short period out of work. Being unable to repay due to her reduced income, she resorted to taking out a loan to try and clear the £3,000 balance that had built up on the card.

She turned to National Debtline for help where advisers worked through her situation and explained the options open to her. She is now back on track with her finances and reports feeling "more sensible" with her money, and better able to deal with her creditors.

** Name has been changed*

NATIONAL DEBTLINE

MONEY ADVICE TRUST

Policies that could help

Both reducing the number of young people who fall into financial difficulty, and improving outcomes for those who do, are problems with no single solution. Many of the challenges facing under-25s also run far beyond this age group – and require far wider policy responses in housing, welfare, student finance and other areas of public policy.

The high cost of rent, in particular, is impacting upon the ability of young people to afford their rent and other bills. The cost of a person renting a one-bedroom property in the UK has risen to take up almost half (48%) of the average young worker's take-home pay, according to data released by property firm Countrywide in June 2016[5]. Nowhere is this housing crisis more keenly felt than when looking at this age group – and the need for a significant public policy response from government on this key issue has been well-documented by Shelter[6] and other charities.

This spotlight briefing does not seek to address these wider public policy challenges. There are, however, a series of smaller measures that have the potential to address some of the issues young people are facing with borrowing and money management.

In this section we present a selection of policy ideas – for consideration by government, financial services firms, schools, colleges, universities, charities and other organisations that work with young people – designed to stimulate discussion.

[5] Countrywide (2016), Countrywide Lettings Index June 2016, http://www.countrywide.co.uk/news/countrywide-lettings-index-june-2016/

[6] Shelter (2016), Making renting more affordable for more Londoners, http://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/policy_library_folder/report_making_renting_more_affordable_for_more_londoners

Policies that could help

1. Earlier, more co-ordinated financial education

It is vital that young people develop the skills and knowledge to navigate an increasingly complex financial landscape. The introduction of financial education into secondary schools in 2014 was significant, but only a first step. With research showing that adult financial habits can be established as early as seven years old,[7] financial education must begin primary school – and with more than 60% of secondary schools now academies, able to set their own curricula, a more consistent and co-ordinated approach is needed.

- The Government should urgently consider the recommendations of the APPG on Financial Education for Young People in its recent report reviewing the 2014 curriculum changes.[8] In particular, the Department for Education should encourage all Academies and free schools, including Academy chains, to think about how they can integrate financial education into their curricula.
- Following HM Treasury's review of Personal Financial Guidance, the new money guidance successor body to the Money Advice Service from 2018 should have a statutory remit to co-ordinate financial education in schools, as part of a broader co-ordinating function on financial capability.
- Financial services firms should continue to build on their long-standing financial support for financial education good practice initiatives in schools, including the numerous examples of highly successful programmes including RBS MoneySense, Barclays MoneySkills, Lloyds' Money for Life and Nationwide Education.

---

[7] Whitebread, D and Bingham, S (2013), Habit Formation and Learning in Young Children, Money Advice Service, https://mascdn.azureedge.net/cms/the-money-advice-service-habit-formation-and-learning-in-young-children-may2013.pdf

[8] APPG on Financial Education for Young People (2016), https://www.pfeg.org/sites/default/files/APPG%20on%20Financial%20Education%20for%20Young%20People%20-Final%20Report%20-%20May%202016.pdf

2. Timely support for first-time borrowers

Financial education, of course, should not stop at 18 – and the new UK Financial Capability Strategy has recently focused welcome attention on the importance of 'life events'[9] in developing effective interventions to improve financial capability.

One such 'life event' that deserves greater attention is the act of seeking credit for the first time – whether applying for a credit card, high-cost credit or another form of borrowing from a financial institution.

This moment presents what could be a golden opportunity to offer timely support to help young first-time borrowers to better understand credit and debt.

- Credit providers should consider how behavioural insights could be used to develop a timely intervention to improve the financial capability of young first-time borrowers.
- This could include the use of a tailored online/offline resource from a trusted partner, to which young people are signposted at critical points – such as during the application process, on delivery of a credit card or in the event that they miss their first payment.
- Such an intervention should focus specifically on credit and borrowing – covering issues such as the importance of repayments, how borrowing affects your credit rating and sources of free advice if you fall into difficulty.

[9] UK Financial Capability Strategy (2015), https://prismic-io.s3.amazonaws.com/fincap-two%2Fd176f87b-48f9-4344-9d26-afc4df5d86f5_uk+financial+capability+strategy.pdf

3. Practical reforms to student finance payments

Student finance and the introduction and increasing of tuition fees will always be matters of fierce political debate. Within this, however, is an often overlooked issue – whether the practicalities of the current student finance system are helping or hindering young people's money management and financial behaviours.

- The Government should consider shifting the current termly payment of student loans to monthly payments, to help prepare students for the practicalities of monthly money management after graduation – an approach it already applies to the welfare system. Research by the National Union of Students shows support from students from such a move[10], which is also backed by the National Association of Student Money Advisers.
- The amount of maintenance support available to students should be linked to rental accommodation costs, which The Money Charity has shown risk swallowing up planned increases by 2020. Between 2014 and 2015, average rents increased by £277 outside London and £174 in the capital, outstripping the average rise in maintenance of £121[11].
- The Government should review the impact of the student loan system on young people's financial behaviour, in light of concerns that the system is 'normalising' debt for young people. This review should include recent interest rates changes. The government should be prepared to think radically, if necessary, including considering the case put forward by moneysavingexpert.com founder Martin Lewis[12] for student loans to be renamed, to reflect the system's tax-like repayment properties.

---

[10] NUS (2012), Pound in your pocket: Understanding the impact, http://www.poundinyourpocket.org.uk/downloads/PIYP-Survey-Report.pdf

[11] The Money Charity (2015), Not free at the point of entry: The reality of paying up front for university, http://themoneycharity.org.uk/media/Not-free-at-the-point-of-entry-The-reality-of-paying-up-front-for-university.pdf

[12] Lewis, M. (2013), Time to stop calling Student Loans a loan, http://www.telegraph.co.uk/finance/personalfinance/10245550/Martin-Lewis-Time-to-stop-calling-student-loans-a-loan.html

4. A bigger role for employers

Too often, discussion around young people's finances can quickly turn into a discussion of student finances and student finances alone – and yet only 42% of school-leavers in England, 36% in Wales, 43% in Northern Ireland and 30% in Scotland enter university within two years.[13] The majority of young people go straight into the world of work or an apprenticeship and, for many, this brings money management challenges.

- There is a need for discussion on what more employers can do to support new, first-time workers to manage their money. Recent years have seen a growing role for the employer in matters of personal finance, not least through pension auto-enrolment – but this remains an under-utilised channel.
- This support could range from allowing access to online banking at work and helping new first-time workers to understand their payslip, through to pastoral support on money management as part of HR induction processes.
- Many employers already have partnerships with credit unions to offer employees saving and affordable borrowing through payroll deductions. The Government should consider how employers could be encouraged or incentivised to provide this to their employees.

[13] UCAS (2015), End of Cycle Report 2015, https://www.ucas.com/sites/default/files/eoc-report-2015-v2.pdf#page=37

5. Help with building up a credit history

It is important that young people are supported in building up a credit history in order to access credit at affordable rates if they need to in the future. Many young people, however, do not realise how important it is to enhance their credit score[14] and the effect of missing a shared household bill whilst a student and financial links in credit reports may not be clear. It is also crucial that young people are included on the electoral roll, as this is another key factor in improving your credit rating.

- Universities, colleges and student unions should consider an awareness-raising campaign amongst students of the importance of understanding their credit rating, including the impact of shared bills and financial links.
- The government should consider working with industry and all credit reference agencies to introduce a national scheme to ensure that a wider range of payments are recorded on credit files, to provide a fairer reflection of people's ability to keep up with commitments. This should include rent payments, building on the scheme launched by Experian and The Big Issue, while ensuring that the possibility of administrative errors in housing benefit awards affecting rent payment records is appropriately taken into account.
- The Government should commission a specific review of the impact of the recently-introduced Individual Elector Registration system on students' credit ratings. As the Electoral Commission's latest analysis identifies students as one group that is particularly in danger of low registration rates[15], this review should recommend additional measures to increase student voter registration.

[14] uSwitch (2015), https://www.uswitch.com/media-centre/2015/02/over-a-million-young-people-refused-credit-more-than-five-times/

[15] Electoral Commission (2013), Confirmation dry run: results, http://www.electoralcommission.org.uk/__data/assets/pdf_file/0019/163144/Confirmation-Dry-run-2013-Results-report.pdf

6. Improved access to banking and savings

Opening and maintaining a functional bank account is an important part of getting off to a good financial start in life, and supporting young people to save where they can is a vital part of building the savings culture the UK needs. While some positive steps have been made, there can still be barriers to opening a bank account in relation to providing acceptable proof of identity, and these can be difficult to overcome for young people in particular.

- The industry should ensure that the recommendations of the recent BBA Financial Services Vulnerability Taskforce[16] result in a new cross-industry standard for ID verification, with an exception process for people who do not possess standard identification documents. This will also help many young people who face this barrier.
- While it might be natural to assume that young people prefer to manage their finances online, and a large majority use online banking regularly, banks, credit card companies and other financial services providers should still ensure that customers have the choice to receive paper statements if they wish. Research by London Economics for the Keep Me Posted campaign[17] shows that more than a third of under 25s prefer to receive bank statements by post as an aid to money management.
- The Government should consider how to create opportunities for young people to save regularly and to be incentivised to do so - including considering whether the eligibility criteria for schemes such as the Help to Buy ISA and the Help to Save scheme[18] are suitable for young people.

[16] BBA (2016), Report of the Financial Services Vulnerability Taskforce, https://www.bba.org.uk/publication/bba-reports/improving-outcomes-for-customers-in-vulnerable-circumstances/
[17] Keep Me Posted (2015), Managing Money Online, http://www.keepmeposteduk.com/keep-me-posted-reports
[18] HM Treasury (2016), Help To Save consultation, https://www.gov.uk/government/consultations/help-to-save-consultation-on-implementation/help-to-save-consultation-on-implementation

Policies that could help

7. Reaching more young people with free advice

With too few under 25s seeking advice on money and debt, all stakeholders – including the advice sector itself – must do more to pro-actively reach out to young people.

- The government must ensure that the issue of problem debt – and particularly problem debt amongst young people – is at the heart of its Life Chances Strategy. This should include consideration of an adequately resourced money and debt advice sector, able to do more to reach people of all ages who are not currently receiving the free advice they need.
- Industry and the advice sector should work together to explore what opportunities exist for new smartphone-based payment systems, such as Apple Pay, Samsung Pay and Android Pay, to be used to detect signs of financial difficulty, and deliver timely interventions as needed.
- There remains a need for full review of the options available to people struggling with debt, to ensure that an appropriate option exists for people in all circumstances – including younger age groups. This should include the proposed Breathing Space scheme, currently under review by HM Treasury, which has the potential to act as a significant incentive for young people to seek advice.

Methodology

The research findings presented in this briefing are based on a survey of 18-24 year olds commissioned by the Money Advice Trust and conducted online by YouGov. All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,042 adults. Fieldwork was undertaken 16-25 August 2016. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

Ten top tips for under 25s

BORROWED YEARS

National Debtline is sharing the following 10 tips for 18 to 24 year olds using the hashtag #BorrowedYears – for more information visit www.nationaldebtline.org/borrowedyears

1) Draw up a budget

This is the most important step you can take. Write down your income and then everything you spend in a typical month. You can do this on paper or work out a budget on our website at www.nationaldebtline.org. This will help you understand how much money you need to put aside for your bills and how much money you have to spend on other things.

2) Get more money in

It sounds obvious, but there might some ways you could increase your income.

- ✓ Have you checked if you can claim any benefits, tax credits, grants or bursaries?
- ✓ Can you get a part-time job while studying, or increase your hours at work?
- ✓ Is your employer paying you the correct minimum wage for your age and deducting the right amount of tax from your pay?

3) Spend less where you can

There are lots of ways you can try and spend less and make your money go further.

- ✓ Try selling unwanted items online, like clothes or old phones or other devices.
- ✓ Think carefully about streaming services like Netflix, Amazon Prime and Spotify – are you using all of them, and using them all enough to be worth the cost?
- ✓ Check www.freecycle.org and www.gumtree.com to see if you can grab a bargain.

4) Take care with contracts

Contracts are everywhere nowadays – from mobiles to gym memberships. Make sure you don't end up paying for more than you need.

- ✓ When looking for a phone, check you're getting the right minutes, texts and data.
- ✓ Shop around for the best contract using sites like www.moneysavingexpert.com
- ✓ Look for gym discounts and google your local council's provider, as they can be far cheaper.

5) Choose your bank wisely

Make sure you don't pay more than you have to for banking – and be prepared to switch. A lot of banks don't charge for having an account. If you do pay for 'extras' like mobile phone insurance, make sure you really need them and are getting a good deal.

6) Save if you can

It's easier said than done, but if you have money left over after your essential bills such as rent or food, think about saving some of the money for unexpected expenses. Shop around and check comparison websites for the best savings accounts.

7) Plan, plan, plan!

Write down what you want to spend money on for the next month / six months / year – it could be a holiday, going out or clothes. Work how much everything will cost, compare it to your budget and be prepared to adjust your ambitions if needed!

8) If you borrow, borrow safely

If you do decide to borrow money for a bigger purchase, make sure you have enough money to make the payments – and check how much you will end up paying back in total. Get organised! Open your bills, keep track of payment dates and try setting reminders on your phone.

9) Look after your student finances

If you are a student there may be different things to be aware of including rules about student loans and banking – see our student debt and money factsheet and check out Money Saving Expert's guide to student finance. Be careful not to spend all of your money at the start of term – and watch out for student overdrafts as they may be withdrawn after graduating.

10) Get free debt advice if you need it

If you have debts you are struggling to pay don't delay – visit www.nationaldebtline.org or call 0808 808 4000 to get free, confidential and independent debt advice.

www.moneyadvicetrust.org

www.nationaldebtline.org

Money Advice Trust Registered Charity Number 1099506
A company limited by guarantee. Registered in England and Wales Number 4741583