ESSENCE SUMMARY 19

Providing debt advice: economic evidence

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BACKGROUND

About 3 million people in UK struggle with debt. This can be caused by factors including increasing household bills and irregular or uncertain incomes, as well as external traumatic events such as illness, job loss or divorce. In addition to financial burdens, it may also lead to serious physical and mental health risks.

KEY POINTS

- Debt advice helps people manage and repay money owed or make arrangements with creditors where debt cannot be fully repaid.
- While debt advice helps individuals get back control of their finances, it can improve mental and physical wellbeing as well as overall quality of life. Wider societal benefits include lower incidence of stress-related illness and smaller likelihood of family breakdown.
- According to economic modelling, over five years, society can gain at least £2.60 from every £1 invested in face-to-face debt advice services. In addition, avoiding an episode of depression or anxiety would have an impact of additional social costs avoided up to £24–£52 million annually. The benefit in terms of reduced mental health care costs due to debt advice is between £50 and £93 million annually in UK.
- Economic modelling on debt advice includes a number of assumptions based on limited data. As such, attribution of impacts to debt advice should be considered with caution.
- Debt advice services are provided across the UK and are regulated by the Financial Conduct Authority.

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CONTEXT

The average UK household debt, including mortgages, is about £58,540 (1). However, certain individuals are more likely to be in substantial debt than others, including people renting their home, families with children and individuals with annual incomes below £10,000 (2). Other populations at higher risk include young adults and people without savings or on welfare benefits (3). Also, individuals with existing mental health problems are at increased risk (4).

In addition to significant financial burdens, there is substantial evidence on the association between debt and poor health (5), including poor mental health (6). For example, debt is related to increased risk of suicide. In fact, among 20 EU countries in the recent recession, there was a 0.54% increase in completed suicides observed for every 1% increase in indebtedness (7).

Despite the serious health implications of debt, only about half of those with debt problems seek advice. This may be the result of low consumer awareness of the availability of free debt advice and the fact that many consumers wait 12 months or more before seeking help. However, without any interventions, up to two-thirds of people with unmanageable debt problems will still face health problems 12 months later (8).

This case summary reports on two studies that examined the economic impact of debt advice. One study by McDaid et al (2017) examined debt advice as preventing mental health problems in working age adults at risk of unmanageable debt and receiving debt advice (9). The other publication by Europe Economics (2018) examined how debt advice alleviates health issues for over-indebted adults with diagnosed mental health issues (10).

WHAT IS THE INTERVENTION?

The most common debt advice services that are available to indebted people in the UK cover (11):

- **Self-help** targeted to people that can deal with creditors and are capable of repaying debt and involves providing general information.
- **Assisted self-help** targeted to people that can deal with creditors and involves providing more specific information after an interview with the debtor and it is
- **Full assistance** targeted to people not financially confident or who have more complex debt problems involving advised face-to-face and support to negotiate with creditors.

Debt advice is typically provided in face-to-face meetings, but can also be delivered through telephone and online consultation. There is no established interaction between the debt advice models and the different delivery channels of debt advice. However, online advice may have an association with 'self-help' whereas face-to-face advice may imply greater adviser involvement (12).

Debt advice providers consist of both fee-charging companies and free-to-client debt advisors. In particular, McDavid et al (2017) considered volunteer-delivered, face-to-face debt advice services located in a GP surgery (9). In their study, this kind of debt advice was targeted at a hypothetical cohort of working age adults without mental health problems but at risk of unmanageable debt.

IS THE INTERVENTION EFFECTIVE?

- **Improved mental and physical wellbeing**: Evidence indicates that there is potential for debt advice interventions to alleviate financial debt, and hence reduce the risk of physical ill health (13, 14) and mental health (5) problems resulting from debt.

  Better management of debt can also have an impact on the use of health services. In a survey of 1,546 debt advice clients, 47% said that they had visited their GP as a result of their debts. Additionally, 5% of respondents stated that their debt led them to visit hospital accident and emergency departments and 7% other hospital departments. When asked about the impact of their debt, 71% reported experiencing insomnia, 70% experienced low energy and 66% experienced headaches (15).

- **Quality of life**: Compared to no advice, face-to-face debt advice may lead to a gain of 26.92 quality-adjusted life years in a hypothetical general adult population of 100,000 (9). However, this is a conservative estimate, and the gains may be even greater.

- **Employment and work productivity**: Debt advice may also help individuals remain in or return to employment. However, there is limited evidence that resolving financial problems through debt advice can lead to improvements in work productivity. In fact, some individuals may be reluctant to return to employment if it means that their debt repayments rise.

- **Reduced risk of entry to further debt cycles**: Debt advice reduces in the risk of borrowers entering further debt cycles. Debt advice can also help individuals develop financial literacy skills that may help reduce the risk of subsequent unmanageable debt.

- **Improved creditor recovery and more efficient recovery processes**: Debt advice can have a beneficial impact on creditors through improving the probability of recovery from problem debt (16). It can also make the process of pursuing debtors less expensive, through avoiding the courts, for example.

- **Others**: If debt advice reduces the risk that an individual becomes homeless, then it is likely to also reduce the risks of poor mental health linked to homelessness. Additionally, it may help relationships. For example, in one survey 55% of respondents put money worries in their top three strains on relationships (17).

IS THE INTERVENTION COST-EFFECTIVE?

McDavid et al (2017) examined the impact of debt-related stress and depression on working age adults at risk of unmanageable debt over a five-year period (9). It considered costs to the health and legal systems including creditors and costs from lost productivity due to absenteeism and reduced employment. Additionally, it examined potential costs and health impacts of individuals who have further unmanageable debts.

The model indicated return on investment of at least £2.60 from every £1 invested investing in face-to-face debt advice services. This analysis used a low estimate of the risk of developing mental health problems, assuming the risk was 33% higher for people with debt problems compared to those without. However, if the risk of mental health problems was actually three times greater for people with debt problems than for people without, then the return on investment would increase to £4.41 for every £1 invested. There are also broader economic benefits associated with debt advice services that were not included into the model (e.g. housing, relationship, etc.). In some further analyses using these additional benefits, the mean return on investment is greater than £6 for every £1 invested (18). Another analysis considered impacts on creditors and issues such as homelessness and indicated a return on investment of more than £50 per £1 (19).

By reducing the incidence of mental health problems, debt advice improves individuals' quality of life, which may lead to further societal benefits. For example, debt advice may prevent serious episodes of anxiety or depression, which would have an impact of £600–£800 per person, assuming that every additional quality-adjusted life year is worth £20,000 (suggested by NICE). This also corresponds to £24 to £52 million annual social benefits in the UK.

Europe Economics (2018) modelled the health of debt advice for adults who already have been diagnosed with mental health and other health problems (10). From the healthcare provider perspective, it indicated that debt advice has a beneficial impact of £74 to £145 million annually.

Europe Economics (2018) also considered providing debt advice to an over-indebted population in comparison with those that did not receive debt advice (10). Specifically, the model examined the impact of debt advice on improving the mental health states of those suffering from mental health issues such as depression and anxiety. Furthermore, they combined these impacts with estimates of healthcare system costs of treating those mental health conditions. In terms of reduced mental health care costs for those that received debt advice, the model indicated benefits between £50 and £93 million annually in the UK.

The model also used mental health wellbeing improvements to estimate the productivity gain associated with receiving debt advice. It suggested £67 to £137 million annually in productivity gains in the UK. Also, the social impact for the debt advice due to deferring the entry of a second debt cycle would be between £25 and £48 million annually for both consumers and creditors. In additional creditor recovery and reduced costs, the annual social benefit associated with receiving debt advice was estimated from £268 to £596 million.

WHAT IS THE QUALITY OF EVIDENCE OF THE INTERVENTION?

The McDaid et al (2017) (9) estimates are highly conservative since the model did not consider additional health benefits of debt advice such as improved physical health and protection of cognitive health. However, local authority social services may avoid substantial costs linked with community and residential care through avoiding or delaying physical health decline.

In the analysis, the potential costs avoided are restricted to those contacts that can be linked with loneliness and poor mental health. This is conservative as it does not look at any potential broader health benefits such as any impact on dementia or physical health. The model also does not include any estimate of benefits regarding the impact on premature mortality, nor does it factor in productivity gains that may be associated with social participation and more healthy ageing.

The quantitative evidence used to build the Europe Economics (2018) (10) models is primarily based on small numbers of observations. This may impose limitations on quantifying effects. Furthermore, the majority of the data available relate to the impacts associated with being over-indebted, and there is limited data on the actual impact of debt advice. Attribution of impacts to debt advice need to be considered with caution as the model incorporates a number of assumptions due to being built upon limited data.

HOW IS THE INTERVENTION IMPLEMENTED?

In 2010 the government set up the Money Advice Service[1] as a consumer financial education body to promote public awareness and understanding of financial services. The overall goal of the body is to enhance consumers' ability to manage their financial affairs. In 2012, it started providing free and impartial advice on money and financial decisions to people in the United Kingdom. In 2015, the Treasury published a review of the Money Advice Service in the UK (20).

Public bodies, such as Citizen Advice[2], or the private sector fund additional free debt advice services. Privately-funded advisors include StepChange Debt Charity[3], National Debt Line[4] and Citizens Advice[5] Payplan[6] and Christians Against Poverty[7].

Fee-charging companies may include large, well-established organisations that are typically members of a trade association. Smaller or newer organisations and claims management companies also provide debt advice services for a fee. However, smaller companies have been criticised for poor customer service and failure to act in the interest of their clients or creditors (11). However, the Financial Conduct Authority[8] helps regulate service provision form debt management firms (21).

The Personal Finance Research Centre, University of Bristol, published new evidence on the day-to-day challenges that advisers face on the frontline and also presents examples of best practice for working with clients in particularly vulnerable situations (22).

1 www.moneyadviceservice.org.uk

2 www.citizensadvice.org.uk

3 www.stepchange.org

4 www.nationaldebtline.org

5 www.citizensadvice.org.uk/debt-and-money

6 www.payplan.com

7 https://capuk.org

8 https://www.fca.org.uk

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