



UK Personal Debt

The media has recently given considerable coverage to the issue of personal indebtedness in the UK.

In this article we consider the latest data available on the extent of personal debt in the UK, the impact that such personal indebtedness could have upon the economy and the best approach for those finding it difficult to cope with the position that they find themselves in.

The Office for National Statistics (ONS) indicates that the increase in household indebtedness by £25bn in 2017, an average £900 per household. It has warned the Government that the current £200bn of personal debt is unsustainable.

The ONS report – titled “Making ends meet: are households living beyond their means?” – found that the deficit among UK households, equivalent to 1.2% of GDP, in contrast with a surplus equivalent to 2.7% of GDP in France and a surplus equivalent to 5.1% in Germany.

Phil Andrew – CEO of Step Change, a charity that works to help indebted households, has said that the ONS’s use of the term ‘living beyond their means’ is not helpful as the poorest sections of the population are in constant need of credit just to keep their heads above water.

Credit card spending in November 2018 of £11.3bn, was 7.5% higher than for November 2017. In fact, over that 12-month period credit card borrowing grew by 5.3%. Personal borrowing through loans and overdrafts growing by 2.5%. Of course this could indicate a general trend to the more frequent use of credit cards for transactions as a result of stronger consumer protection and value-added benefits.

However, when one looks at the level of gross mortgage lending for recent months in comparison to the previous year, a down turn can be observed. This may indicate a general slow-down in activity related to the residential housing market.

Gross mortgage lending for November was £23.1bn, a reduction in mortgage lending by 2%. The number of mortgages being decreased by 10.6%, while approvals for other secured borrowing saw a 12.2% decrease.

With the so-called UK housing shortage that is regularly highlighted in the media, and with much made of its impact upon rising house values, what other factors could be causing a slowdown in recent market activity?

Uncertainty surrounding the final outcome on Brexit may be one factor, and it is appreciated that this may be concluded by the time this article is published. Since the introduction of the Mortgage Market Review in April 2014 prospective house purchasers have of course had to understandably satisfy further requirements relating to the repayment of mortgage loans. It could be that in certain geographical areas of the UK the market is approaching close to a point where the house prices commanded have outstripped the market’s ability to pay. If that is the case and the impact is a reduction in average house values, then this could have an impact on the re-mortgage market (which is said to be down 20.3% year on year), ancillary markets as equity release and amounts available for older property owners.

The Bank of England raised interest rates in August last year from 0.5% to 0.75%. However historically this is still relatively low.

Should economic circumstances change following the outcome of Brexit discussions, this could cause a review of the UK Bank of England base interest rate. Such a review in interest rates is unlikely to see the rate reduced further. Therefore, although that would assist savers it would impact negatively upon borrowers.

Last year the National Audit Office revealed that 8.3m people were unable to pay off debts or meet household bills.

Pressures on household disposable income has a knock-on effect on the whole economy. For example the UK High Street has been hit by a number of developments (this being one of them), including the growth of online shopping. Therefore, concerns on household income have an impact on retailers, their margins, their share prices and their status as major employers. Indebtedness is an issue that can hit all ages and indeed backgrounds.

Although it could be argued that the responsibility for finding oneself in such an adverse position rests with the individual, for some it is the result of circumstances beyond their immediate control. These circumstances may include illness, bereavement, unemployment to name just three. Debt can soon get out of hand and can creep up on anyone due to a combination of factors.

Problems can escalate further due to individuals not feeling confident enough to discuss such issues with family, friends or an adviser. However, discussing such problems and mapping out potential solutions can be the first step to turning things around and getting affairs back onto an even keel.

This may all sound very obvious and straight forward; however, surveys and related articles, indicate that often family members or close friends are going through such difficulties without us being aware of it and leaving us therefore being unable to assist them.

For those in a position to assist, it is important not to judge but instead to concentrate on finding the most appropriate solution.

IFAs are often in an ideal professional position to help. They are able to assist clients in cashflow modelling and can either reduce a person's risk of indebtedness or address problems that have arisen since a previous review. Helping to ensure that those close to us, whether family or friends, take the right personal financial planning path for them is therefore extremely important.

Beware of Pension Scams

Pension freedom has enabled those approaching retirement to consider a much wider choice of alternative options as to how to employ the pension funds that they have accumulated through their careers.

However, unfortunately the introduction of such freedoms seems to have also attracted the interest of a number of undesirables and fraudsters.

A snapshot of the problem can be seen through the actions of the Insolvency Service. They detail on their website that they have applied to courts to wind-up 24 companies over the last three years where there has been evidence of them carrying out some form of pension misuse. The service indicates that there have been 3,750 victims of these 24 companies alone, and that the misconduct has resulted in individuals and businesses losing over £200m.

Common tactics used by pension scammers are cold calls, the offer of free pension advice, lying about their level of expertise and qualifications and the offer of considerable investment returns from the solutions that they offer.

It is worth noting at this point that cold calling related to pensions is now deemed illegal. Therefore, anyone making such an approach can automatically be dismissed as unethical. With individuals having taken forty or more years of hard work to accumulate such pension benefits it would seem right to take time to consider one's options.

Individuals that continue to liaise with a known and trusted adviser to consider the appropriate options for their pension funds are likely to be better positioned to avoid pension or other forms of scammers.

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