MONEY AND MENTAL HEALTH POLICY INSTITUTE

Policy Note

November 2016

Policy Note Number 4

Author: Polly Mackenzie

The case for better budgeting support for those with mental health conditions and those on low incomes

About us

The Money and Mental Health Policy Institute is a new think tank, set up by Martin Lewis of Money Saving Expert, and devoted to finding new ways to help those with mental health and financial problems. We will develop policy solutions to end the cyclical relationship between financial difficulties and mental health conditions, where each can cause or worsen the other. All verbatim quotations below are sourced from our research with consumers with mental health problems.

Context

One of the many challenges faced by groups that are financially 'just managing' or 'not managing' is sticking to a budget which may or may not quite cover everyday essentials. 16 million families in the UK have less than £100 in savings, and 8.2 million adults, or 16.1% of the population, live with problem debt – with younger adults, larger families, single parents and renters particularly at risk[1]. There is evidence to suggest the process of living on a limited budget affects cognitive capacity available for other tasks.[2]

"Being on a low income and trying to budget is really difficult."

"I also sometimes miss payment dates and incur charges because I am so worried about things."

Sticking to a budget is even harder when you are living with a mental health condition. Not only is your income likely to be lower, mental health conditions can affect your ability to manage your money day to day.

"When you are on a tight budget it is sometimes difficult to plan what bills you need to prioritise. I have three kids and when you are depressed and anxious you can't think straight therefore it is easy to make mistakes and fall into debt."

"When I feel down, depressed or low I shop to cheer myself up."

Research by Money and Mental Health has shown people with mental health problems often find themselves unable to manage financial tasks appropriately, and often cause themselves financial detriment while unwell. In a survey of 5,500 people with mental health problems:

- 93% said they had spent more during a period of poor mental health
- 92% had struggled with making financial decisions
- 74% had put off paying the bills
- 71% had avoided dealing with creditors
- 59% had taken out a loan they wouldn't have taken out otherwise[3]

A quarter of those with a mental health condition have debt problems, and there is evidence to suggest serious debt can slow a patient's recovery from depression, anxiety and other conditions[4].

[1] https://www.moneyadviceservice.org.uk/en/corporate/a-picture-of-over-indebtedness
[2] Mani, Anandi, Sendhil Mullainathan, Eldar Shafir, and Jiaying Zhao. 2013. "Poverty Impedes Cognitive Function." science 341 (6149): 976-980.
[3] Holkar M, Mackenzie P, Money on Your Mind, May 2016

"With every week and month the relentless managing and dealing with financial issues compounded my already weak state."

We therefore believe it is vital to offer those on low incomes, and in particular, those with mental health conditions, more support and assistance with managing their money. Reducing the stress of financial management for those on low incomes is likely to have a significant impact on wellbeing. Research has demonstrated a significant cognitive impact of financial stress, equivalent to losing a night's sleep[5]. Reducing this stress will free individuals' cognitive capacity to focus on recovery, relationships and – where appropriate – finding work.

"Worrying about ... household bills ... exacerbated my anxiety levels making it impossible for me to think rationally or logically about budgeting. My mind became almost paralyzed and I was unable to make even simple decisions e.g to have cereal or toast at breakfast."

Approach under Universal Credit

Under Universal Credit, the default arrangements for those in receipt of benefits are changing. Unless they can prove their vulnerability, and need for "Alternative Payment Arrangements", individuals will be expected to pay their own bills, including housing, and manage with monthly budgeting with benefits paid only monthly.

These arrangements are being introduced because researchers had identified that many people on out of work benefits were frightened of the financial management burden associated with being in work – often through experience. This had become a real barrier to employment for some groups. The objective of the policy is to remove this barrier, with claimants required to maintain or learn the skills of financial management while out of work.

It makes sense to remove the artificial barrier between life in and out of work. However, a new wave of financial technology (FinTech), is now creating new financial management products that simplify the financial management of those in work. Examples include Squirrel, which breaks a monthly pay cheque into weekly installments, or MoneyHub, which gives individuals real-time access to a dashboard of their accounts, and upcoming bills, and uses behavioural economics nudges to improve people's financial behaviours.

At present, however, there is a cost to most of these products which makes it difficult for those who are out of work to access them. The move to monthly budgeting could therefore create a reversal to the current cliff-edge, where there is more financial management to do when in work. Instead, it will soon be those out of work, on the lowest incomes and with the worst mental and physical health, who face the largest administrative and emotional burden of financial management.

Policy proposals

Most approaches to supporting individuals with budgeting aim to boost financial capability through training and education. Money and Mental Health argue that, in particular for those with mental health problems, information and education are insufficient. It is difficult for all of us to control our behaviour exclusively with willpower; during periods of poor mental health intrapsychic ('in the mind') self-control mechanisms are often impaired and therefore it becomes almost impossible to rely on willpower alone to regulate behaviour.

Behavioural economics has demonstrated that people's behaviour can be dramatically altered by their environment. 'Nudges' influence behaviour by creating an environment that reinforces or suppresses impulses, to shift people's default behaviour towards a positive norm. We believe restricted financial products which are currently being developed by the FinTech industry could play an important role in shaping people's financial behaviour and helping them stick with a budget, resist impulses towards

[4] Skapinakis P, Weich S, Lewis G, et al. Socio-economic position and common mental disorders: Longitudinal study in the general population in the UK. British Journal of Psychiatry 2006; 189: 109-17.
[5] Mani, Anandi, Sendhil Mullainathan, Eldar Shafir, and Jiaying Zhao. 2013. "Poverty Impedes Cognitive Function." science 341 (6149): 976-980.

financial self-harm, or ensure bills are paid on time.

1. Universal Credit

1.1 Initial claims

Many people first apply for benefits after a life event - like redundancy, poor health, or relationship breakdown - that has caused an income shock. Adjusting to a new budget can be very challenging, both practically and emotionally, and often results in problem debt. In this context, the new requirement to wait two weeks before making a claim is problematic, as claimants will need to wait six weeks before receiving a payment. We believe this requirement should be dropped, as it will cause mental and financial distress to vulnerable consumers.

1.2 Ongoing payments

Instead of paying UC by default into a Basic Bank Account, DWP should work with banks and FinTech providers to offer a wider variety of supported financial products that help with budgeting. These could include functionality to enable claimants to choose:

- jam-jarring
- weekly payments
- direct payments to cover essential liabilities
  automatic savings
- access, support or oversight by a carer, family member or trusted friend
- blocking of payments to certain merchant categories (such as online payments or gambling – where this is chosen by the claimant themself)

Making this kind of arrangement the default will reduce arrears to creditors, reduce the costs of a complex process for proving the need for "Alternative Payment Arrangements", put welfare claimants on the same footing as premium consumers of financial services, improve wellbeing, and reduce the costs of mental ill-health.

2. Beyond Universal Credit

Sophisticated banking products like these can be of use well beyond those who are claiming state benefits. Many people on higher incomes, in particular the increasing number of self-employed people with fluctuating incomes, would also welcome support in maintaining a budget and increasing savings. The Government should continue to support fintech firms through initiatives like the regulatory sandbox to develop these and other supportive tools in the run up to the introduction of open banking in early 2018. Measures to strengthen competition across the current account market should also encourage providers to compete in terms of the wrap-around support they can provide for account holders, increasing availability of these tools and simultaneously making them more affordable.

The Equality Act (EqA) provides protection from discrimination.[6].If a person is protected under the EqA a service provider may be under a duty to make reasonable adjustments where that person is at a major disadvantage compared to other people who do not have a mental health problem.[7] If a consumer is unable to set up a direct debit, remember to pay bills, or switch providers as a result of their condition, they are at a major disadvantage compared with other consumers because they have to pay more for most things they buy. It is therefore worth exploring the implications of these EqA protections in the context of financial services provision, and what "reasonable adjustments" could be applied to ensure people with mental health problems are not disadvantaged as consumers.

Some supported financial products could be considered a "reasonable adjustment" for consumers with mental health problems, and therefore provided without cost.

[6] S6 Equality Act 2010
[7] S20 Equality Act 2010