The financial health of precarious workers

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Overview

- This brief summarises findings from secondary analysis of data from work-ready adults in the UK with low-moderate household incomes. It highlights differences in income volatility, ability to make ends meet, and future financial expectations by work status.
- Income volatility was most common amongst the self-employed but more problematic for the unemployed and those on precarious contracts. More than half of those on precarious contracts had used credit to cover unexpected bills, and they were more likely than others to be in arrears across a range of expenses, suggesting that the reliance on credit to cover unexpected expenses is unsustainable.
- Logistic regressions suggest that (among other things), whilst savings enhance resilience and optimism for some, those who rarely or never saved were much less likely to be able to make ends meet or foresee future improvements in their financial circumstance.
- Policy makers and providers could develop more products such as payroll savings schemes that encourage saving as a means of income smoothing. Policy and practice could also be improved by increasing repayment flexibility.

This brief examines indicators of financial health amongst people facing employment precarity. Our study is based on secondary analysis of the 2023 UK Debt Need Survey, a survey developed by the Money and Pensions Service (MaPS), to better understand the debt advice needs of the UK population. We use a subset of the entire dataset comprising adults who are work-ready and have a low-moderate household income (below £3,332 a month), resulting in a sample of 7,947 individuals (unweighted).

Our approach looks across four employment categories: working on a precarious contract (fixed term or zero-hour contract, gig worker or casual worker); unemployed (not working but looking for work); self-employed; and working on a permanent contract. We consider people in the first three categories to be facing employment precarity.

According to MaPS, financial health or wellbeing is about "feeling secure and in control. It's about making the most of your money from day to day, dealing with the unexpected, and being on track for a healthy financial future" (MaPS, 2020). In this study we explore the extent to which employment precarity is associated with income volatility, ability to make ends meet, regular savings, and expectations of the future.

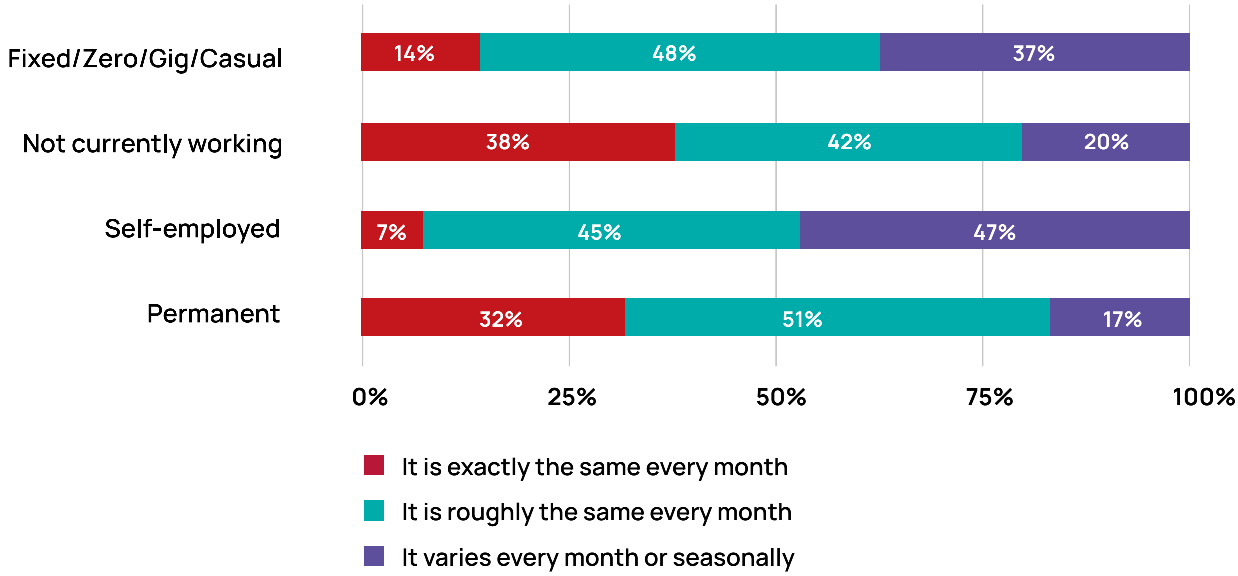
Key Findings

Is income volatility an issue?

Whilst most people reported that their income was exactly or roughly the same each month, volatility was relatively common across all work-ready adults with low-medium incomes, and particularly those facing employment precarity (Figure 1). Almost a half (47%) of the self-employed participants and 37% of those on precarious contracts reported that their income varied monthly or seasonally.

Despite income variability being highest amongst the self-employed, when asked about the timing of bills, it was the unemployed (31%) and those on precarious contracts (30%) who were more likely to respond to a follow-up question that the timing of their bills didn't align with their income *very often* or *fairly often*. This compares with 21% of the self-employed and those on permanent contracts.

Figure 1 **Income volatility and work status**



Is your income roughly the same every month, or does it vary? Unweighted n=7947.

Can precarious workers make ends meet?

Reflecting the challenges faced with the timing of bills, the unemployed were most likely to report *having real financial problems* (11%), whilst people on precarious contracts (12%) and the unemployed (11%) were significantly more likely to report *falling behind* with some bills and credit commitments. In contrast, 26% of the self-employed and the same proportion of workers on permanent contract were *keeping up without any difficulties* compared with 19% of the unemployed and 18% of those on precarious contracts.

Consistent with this, 39% of those on precarious contracts and 35% of the unemployed had been behind on credit commitments or domestic bills in three or more of the last six months, compared with 25% of the self-employed and 24% of those on permanent contracts.

Those on precarious contracts were also most likely to have used credit to cover unexpected expenses. Fewer than half – 46% - reported having used none of the types of credit listed in Table 1, and they were significantly more likely than at least one other group to have used every type listed. Buy Now Pay Later (BNPL), which at the time of writing is still an unregulated credit product, was the most frequently used form of credit to cover unexpected expenses in the previous six months across all categories of work status.

Table 1 **Using credit to cover unexpected expenses and work status**

	Fixed/Zero/Gig/ Casual	Not working	Self-employed	Permanent	n
Payday loan	11.1%	4.0%	4.1%	6.9%	520
*	a	b	b	c	
Other short-term credit	13.5%	6.7%	6.4%	6.6%	580
*	a	b	b	b	
Pawn broker loan	9.6%	4.7%	6.1%	3.6%	354
*	a	b, c	c	b	
Unauthorised overdraft	11.4%	8.2%	7.4%	7.0%	591
*	a	a, b	b	b	
Buy Now Pay Later	21.6%	15.3%	14.9%	20.6%	1600
*	a	b	b	a	
Logbook Loan	2.4%	0.9%	1.9%	0.7%	81
*	a	a, b	a	b	
None of these	46.4%	68.9%	65.9%	63.9%	4950
*	a	**b**	b	b	

People often use credit to cover unexpected expenses, or for other reasons. In the last six months, have you taken out any of the following? Unweighted n=7947.

*Each letter denotes a subset of categories whose column proportions do not differ significantly from each other at the 0.05 level.

Table 2 suggests that reliance on credit to cover unexpected expenses is unsustainable, particularly for those on precarious contracts. Fewer than half (43%) reported they were not behind on any of the bills and commitments listed, compared with 66% of those on permanent contracts (a figure which itself indicates the difficulty in making ends meet on low-moderate incomes). They were more likely than others to be behind on mortgages and loans secured against their homes, almost as likely as the unemployed to be behind with Council Tax and as likely as the self-employed to be behind with other taxes. They were also most likely to be behind with unsecured credit, utility bills and administrative bills.[1]

Table 2 **Falling behind with bills and work status**

	Fixed/Zero/ Gig/Casual	Not working	Self-employed	Permanent	n
Rent	11.3%	14.5%	8.3%	6.3%	554
*	a, b	b	a, c	c	
Mortgage	4.0%	1.8%	3.6%	2.7%	204
*	a	a	a	a	
Loan(s) secured against home	5.6%	1.3%	1.7%	1.8%	177
*	a	b	b	b	
Council tax	12.2%	13.4%	9.0%	9.6%	784
*	a	a	a, b	b	
TV license	10.5%	7.2%	4.0%	5.7%	479
*	a	a, b	b	b	
Child maintenance	4.0%	1.7%	1.9%	1.6%	166
*	a	b	a, b	b	
Court fines	4.5%	3.4%	3.7%	1.8%	172
*	a	a	a	b	
Tax debts	4.7%	2.2%	4.7%	2.7%	229
*	a	a, b	a	b	
Car finance hire purchase -essential	7.6%	2.7%	3.7%	3.6%	326
*	a	b	b	b	
Car finance or hire purchase -non-essential	6.7%	2.6%	3.0%	2.2%	231
*	a	b	b	b	
Over-payment of benefits/ tax credits	5.0%	3.4%	3.0%	2.6%	233
*	a	a, b	a, b	b	
Utility bills	15.2%	14.8%	10.7%	10.6%	882
*	a	a, b	b, c	c	
Water bills	15.4%	15.7%	10.7%	9.4%	795
*	a	a	b	b	
Phone/ internet bills	13.6%	12.7%	5.9%	8.5%	745
*	a	a	b	b	
Unsecured personal loan(s)	7.4%	4.1%	5.4%	4.0%	357
*	a	b	a, b	b	
Credit/store cards	13.0%	10.1%	11.4%	9.8%	853
*	a	a, b	a, b	b	
Catalogue or home credit	4.9%	3.7%	2.9%	3.2%	255
*	a	a, b	a, b	b	
Buy Now Pay Later	9.4%	6.3%	3.6%	5.4%	485
*	a	a, b	b	b	
Unpaid parking tickets	6.5%	2.7%	2.3%	2.2%	216
*	a	b	b	b	
None of these	42.8%	50.5%	61.1%	65.9%	4904
*	a	b	c	c	

Are you currently behind on any of the following bills or credit commitments? Unweighted n=7947.

*Each letter denotes a subset of categories whose column proportions do not differ significantly from each other at the 0.05 level.

[1] Note that in the UK the following are considered to be priority bills: Rent, mortgage, council tax, TV license, child maintenance payments, court fines, tax debts, car finance, hire purchase payments for essential goods e.g., white goods, business equipment, over-payment of benefits/ tax credits, utility bills (not water bills).

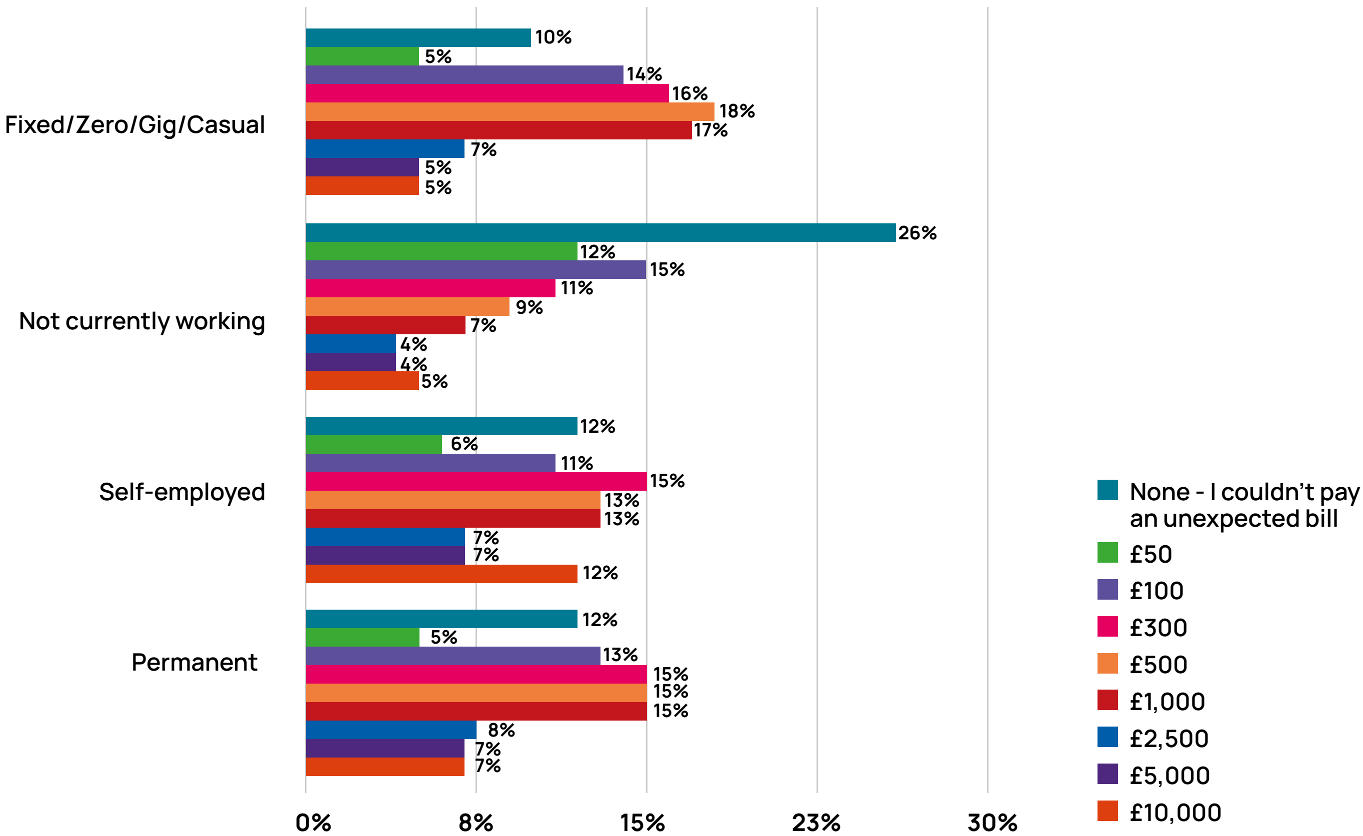
Financial resilience and employment precarity

Savings can provide vital protection in the event of an income or expenditure shock. Similar proportions of people on permanent (32%) and precarious contracts (30%) reported that they saved every month. Furthermore, those on precarious contracts were significantly less likely than any other group to report rarely or never saving (19%). In contrast, almost half of those who were currently unemployed rarely or never saved (49%), as well as 30% of the self-employed and 26% of those on permanent contracts.

When asked to think about the largest bill that they could cover from savings or easily accessed credit, a larger proportion of the unemployed said they could pay nothing (26%) or £50 (12%) than was the case in the other three categories (Figure 2). Those on precarious and permanent contracts gave similar responses, with both tending to say that the maximum they could pay within 7 days of the survey was between £100 and £1,000. The self-employed were most likely to be able to pay £10,000 – perhaps indicating that they would use money from their business or had access to larger credit lines.

Those on precarious contracts were more optimistic than others that things would get better in the next year, with 43% reporting that they anticipated things to get a little or a lot better, compared with 35% of the unemployed and self-employed and 33% of those on permanent contracts. At the other end of the scale, 36% of the unemployed and 32% of people on permanent contracts anticipated a deterioration in their financial position in the next year, as did 29% of the self-employed and 26% of those with precarious contracts.

Figure 2 **Paying an unexpected bill and work status**



Imagine you/you and your partner have to pay an unexpected bill within the next seven days from today. What is the biggest bill you/you and your partner could pay, either from money you already have, or money you could easily borrow in a way that you. Unweighted n= 7947.

Further exploration of financial health

Logistic regressions indicate that, other things being constant[2]:

- People on precarious contracts (but not the unemployed or self-employed) are significantly less likely than those on permanent contracts to make ends meet; as are those who rarely or never save and those using credit products to cover unexpected expenses[3]. People who identify as mixed and those who did not share their ethnicity are less likely to be making ends meet than those identifying as White. Households with any number of children are less likely than those without. People aged 55 and over are more likely to be making ends meet than the youngest cohort, and those with household income above £1,666 month are more likely to make ends meet than those on the lowest income. Variable incomes and gender are not significant predictors once other things are taken into account.
- After controlling for personal characteristics, the self-employed are significantly more likely than those on permanent contracts to anticipate future improvements in their financial circumstances[4], but there is no significant difference between those on permanent contracts and the other two categories. Those who use credit products to cover unexpected expenses anticipate future improvements more than those who don't, whilst those who rarely or never save are significantly less likely to anticipate an improvement. The likelihood of anticipating future improvements reduces with age, and is lower for women than men, other things being equal. It is somewhat higher in households with children, and higher amongst all groups that do not identify as White – with those identifying as Black being almost 3.5 times as likely as White respondents to anticipate future improvements. Neither household income, nor variable incomes are significant predictors of future improvements once other things are taken into account.

Implications

Financial wellbeing appears to be negatively impacted by precarious contracts. Those on such contracts are struggling more than others with the timing of bills and use a wide array of credit products to cover unexpected expenses, creating an unsustainable reliance on borrowing to make ends meet. They are more likely to fall behind on bills and credit commitments and have relatively few resources to draw on in the event of an unexpected expense. Even so, they are significantly more likely than others to be optimistic about their future, perhaps suggesting that they consider their precarious contract to be temporary.

Income volatility, which is more common amongst the self-employed and those on precarious contracts, is problematic. After controlling for differences in work status, it has a negative impact on making ends meet.

Savings appear to play an interesting role in building current resilience and future confidence. Those who rarely save are less likely to make ends meet or expect future improvements in their finances.

The findings highlight the need to prioritise saving over credit as a means of income smoothing and suggest that people could be helped to avoid some arrears by increasing flexibility to pay bills and credit repayments when income is received rather than paying fixed amounts on pre-determined dates. However, it is unlikely that this would solve all of the arrears reported, suggesting an urgent need to further support those in precarious employment.

[2] Controlling for work status, variable income, saving behaviour and the use of credit for unexpected expenses, as well as age, gender, ethnicity, income and the number of children in the household.

[3] n=7528 (not applicable, don't know and prefer not to say are excluded); Nagelkerke R2 = 0.267. Significance reported at the 0.05 level.

[4] n=7945; Nagelkerke R2 = 0.138. Significance reported at the 0.05 level.

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