

## Low Contribution Individual Voluntary Arrangements - Are these affordable, achievable and do they represent debtors' best efforts?

### SUMMARY

- Incomes of people in IVAs are broadly similar to those of people in England and Wales in general.
- The poorest 25% of IVA debtors earn around two thirds, or less of national average income.
- IVA holders in the lower three income groups are less likely to require a payment break or variation than the top income group.
- IVA Terminations in the lower three income groups are similar and low (8-10%)
- The proportion of IVA clients with benefits as a component of income varies little in the bottom three quartiles and few clients have multiple sources of benefit, demonstrating that they are paying their IVAs mostly from earned income.
- Debtors in the lowest income group owe less and can repay less but contribute a similar proportion of income to debtors from higher income groups.

It is DRF's view that this data shows that IVAs at any level of income are being arranged appropriately and represent achievable debt solutions, offering reasonable returns to creditors and requiring substantial, but appropriate, effort from debtors.

### DATA

The data is taken from a file of 6,350 cases from three firms. The file includes full details of all cases whether active, in default or terminated.

### INCOME OF IVA DEBTORS

The tables in this report divide IVA debtors into quartiles by total monthly income (including any contribution from benefits).

Table 1

Income quartiles	Monthly	Annual	% of average income
1st	£1,423	£17,076	69%
2nd	£1,931	£23,172	94%
3rd	£2,539	£30,470	124%
Top	£10,115	£121,380	492%

UK average income is approximately £24,648 per annum (Aug 2013 - <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/october-2013/sty-average-weekly-earnings.html> ). The average (mean) income for IVA debtors in this database is £24,671, very similar to the national average.

Table 2

	Monthly	Annual
Mean IVA Income	£2,056	£24,671
Median IVA Income	£1,935	£23,220
UK Average Income	£2,054	£24,648

The median (50<sup>th</sup> percentile) income for a person in an IVA is £23,220, 94% of the national mean.

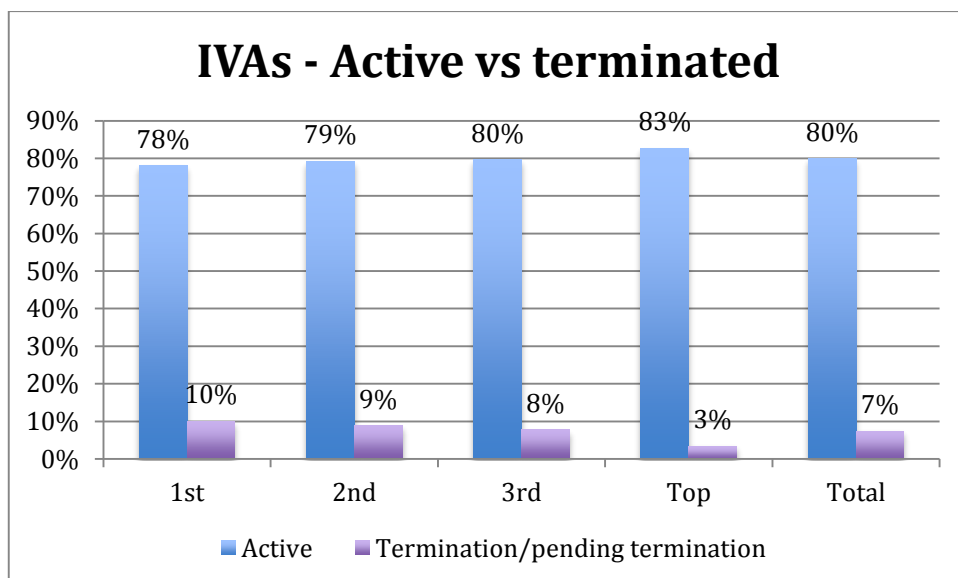
#### IVA ACHIEVABILITY

There appears to be little variance in debtor's ability, at any income level, to sustain an IVA .

Table 3

Income quartile	Active	Payment break or Variation	Completed/ pending completion	Termination/ pending termination	Default	All
1st	78%	1%	10%	10%	1%	100%
2nd	79%	1%	10%	9%	1%	100%
3rd	80%	1%	10%	8%	1%	100%
Top	83%	2%	11%	3%	1%	100%
Total	80%	1%	10%	7%	1%	100%

Completion rates are similar across all income levels. It is therefore likely that IVAs are arranged appropriately and can be achieved by clients. Clients in the lower three quartiles are half as likely to require a payment break or variation than clients in the top quartile. This is likely to be a reflection of the increased presence of variable income elements (bonuses, etc) in the most affluent group.



Termination rates (ie non-completion of the IVA) vary from 10%-8% in the lower three income quartiles. Termination is roughly two-thirds less likely in the top income quartile.

#### DOES RECEIPT OF BENEFITS IMPACT LOW INCOME IVAS?

Presence of benefits as a proportion of income does decrease as income increases. Perhaps perversely, people with benefits are slightly higher in the second income quartile.

Table 4

Income quartile	% of IVA clients with benefit income
1st	28%
2nd	29%
3rd	25%
Top	16%
Total	25%

The similarity of these figures may indicate that the presence of benefits as part of income, when taken into account alongside the IVA termination rates given in Table 3, above, does not affect the sustainability of an IVA.

Table 5

Income quartile	No benefits	One benefit	Two benefits	Three benefits	Four benefits	Five benefits	All
1st	84%	13%	3%	0%	0%	0%	100%
2nd	80%	15%	5%	2%	0%	0%	100%
3rd	75%	19%	4%	2%	0%	0%	100%
Top	80%	16%	3%	1%	0%	0%	100%
Total	80%	15%	4%	1%	0%	0%	100%

We looked at the number of sources of benefit income as a further indicator of earned income sustainability. In every quartile, where income was present most IVA clients were receiving only one source of benefit. None were receiving four or five sources of benefit.

The benefits noted were:

- Family credit (working family tax credit)
- Incapacity benefit
- Disability Living allowance
- Housing benefit (council tax benefit)
- Income Support
- Job seekers allowance

#### CHARACTERISTICS OF IVAS

IVA debtors in the first 25% income group owe substantially less, as a proportion of income than do debtors in higher income groups (table 6). However table 7 shows that returns to creditors are lower for debtors in the lowest income quartile (however, at 47p/£ these are still reasonable contributions from the debtor). Table \* shows that debtors across all income groups are contributing a similar proportion of income to their IVAs, demonstrating that contributions are calculated appropriately and that the lower returns for the lowest income group are based on indebtedness rather than inability to pay.

Table 6

Income quartile	% Debt /income
1st	79%
2nd	103%
3rd	128%
Top	133%
All	112%

Table 7

Income quartile	p/£ return
1st	47%
2nd	54%
3rd	65%
Top	80%
All	62%

Table 8

Income quartile	IVA contribution as percentage of income
1st	12%
2nd	12%
3rd	12%
Top	13%
All	12%