



The Xmas Poverty Premium: How the poor pay more to celebrate Christmas

Introduction

This Christmas two million British children will have no parent in work, and a household of two adults and two children on benefits could be living below the poverty line by as much as [£115 a week](#). But nobody wants their children to be left out at Christmas. One [survey](#) has claimed that 45 per cent of adults are worried about funding Christmas this year. So most UK families will be budgeting more carefully for their celebrations this year, and will be thinking about how to spread the bills. Poor families understand the need to do this better than anyone. It is therefore scandalous that the options available to poor families to spread the cost of Christmas are fewer and that in many cases Christmas will almost certainly end up costing them more.

Family Action has found that

- Spreading the cost of Christmas in advance through pre-payment plans such as hampers can cost between 20 per cent and 200 per cent more for the same baskets of goods, as well as incurring potential loss of interest on savings
- Home shopping installment plans for example through catalogues can mean poor families pay twice as much for goods.
- A poor family that borrows £50 on home credit to fund some modest extra Christmas spending could end up paying back £74.75 just a few months later

The meaning of the poverty premium and why we must tackle it

It is not news that the poorest families pay a poverty premium for goods and services. Since its 2007 [Poverty Premium report](#) Family Action has been highlighting the unequal way in which money comes out of the poorest families' pockets because of their inability to access mainstream financial products and methods of shopping, and payment.

Throughout the year poor families pay more for:

- their fuel bills because they do not have the bank accounts to take advantage of direct debits
- their insurance because they live in areas with higher property and car crime,
- their phone calls because no credit rating means a Pay As You Go deal rather than a contract phone,
- and for repairing a boiler or washing machine because not affording product insurance can mean resorting to a home loan with a back-breaking interest rate.

However the way in which the festive season imposes an extra Christmas poverty premium brings home the need for urgent action to tackle the financial exclusion of the UK's poorest and most vulnerable families.

In this report we expose the scandal of the Christmas poverty premium, and call for cross-party consensus on policies to combat the poverty premium now and all year-round.

Who the poor families are and why they pay more at Christmas

- [Recent research](#) shows that the public thinks the acceptable minimum income for a single person is £168 a week – the equivalent of £13,900 a year excluding housing costs. At least one in four adult's income falls below this.
- 16 per cent. of nursery and primary school pupils and 13.4 per cent of secondary school pupils are presently eligible for free school meals because they live in households where adults are on benefits, or earn less than £16,040 and are not eligible for the working tax credit. <http://www.theyworkforyou.com/whall/?id=2009-10-20a.230.0>.
- People in low-income households are more likely to report themselves living in [social housing](#). Sixty-six per cent of these households claim housing benefit. So even taking into account that some in low-income social housing may own their own homes, as a group low-income households are less likely to have enjoyed the rewards of a drop in mortgage interest rates this year.
- As a proportion of their income, food costs will have increased more steeply in 2009 with one consumer source calculating that earlier this year the average cost of [a basket of 24 staple grocery items had increased up to 18%*](#) over 2008.
- Low-income households are also less likely to have a buffer against costs flowing from life's more unexpected events, such as funeral expenses or broken household equipment such as washing machine or boiler, as they are more likely to have no savings or insurance: http://research.dwp.gov.uk/asd/hbai/hbai2008/pdf_files/full_hbai09.pdf
- Although a Social Fund exists to assist low-income households with unforeseen expenditure, large numbers of people are regularly refused either loans or grants. In 2008-2009 Family Action distributed 3,235 grants totaling over £641,000 to families and individuals in need who had been refused Social Fund assistance. According to 2008 Ofcom research low income households are also likely to be excluded from the digital revolution with up to 30 per cent of households in some of the UK's more economically depressed regions having no access to a telephone landline and internet connection.

This will make Christmas more difficult to budget for and more expensive in these four major ways for low income families

- 1) Households living on benefits, or with very low, or volatile incomes are less likely to have a current account with a bank because they are concerned about incurring bank charges or do not find them helpful to manage small amounts of income. However this then means they cannot earn interest or reward for holding a bank account while saving in advance towards Christmas spending; they are also unable to access overdraft facilities to spread the cost of their spending.
- 2) Most credit cards give 56-days interest-free on purchases so are a potentially useful way to budget for the festive shopping spend. For those with higher incomes who are certain they will clear the balance there is also the possibility of cash back. However obtaining a credit card with a competitive APR is usually dependent on having regular earnings, a bank account and an excellent credit history.
- 3) Because large numbers of lowest income households do not have credit cards, and are not online at home, or otherwise able to access the Web, they are unable to shop online. This also makes it difficult for them to compare goods for the best deals, for example by using sites such as Mysupermarket.co.uk, Pricerunner.co.uk and Kelkoo.co.uk. This means that cashback websites such as Topcashback.co.uk, Greasypalm.co.uk and Quidco.com, which offer shoppers an additional rebate, are also closed to people on low incomes.
- 4) Bulk buying in mainstream retail outlets. Most low-income families do not either have the cash flow or credit facility to bulk buy Christmas food and drinks. In addition many low-income families cannot afford a car and do not find it easy to travel to, or transport bulk-bought goods from, out-of-town supermarkets and retail outlets with larger price choices.

How poor families manage but pay more

The denial of these mainstream shopping, payment and borrowing methods means that when it comes to funding Christmas meals and presents, low-income families frequently resort to more expensive and restrictive budgeting tools, borrowing and credit. These can include

- 1) 45-week installment plans for vouchers and hamper schemes with companies such as the Park Group Plc which involve payment in advance of purchase, potential loss of interest to the consumer, and sometimes more expensive prices for goods in the case of some hampers
- 2) Home shopping and catalogue brands such as Kays, involving installment plans following purchase and a higher eventual price for the product
- 3) Home credit/doorstep loans, which even from a reputable lender such as Provident can involve interest rates amounting to 250 per cent or more APR; and use of pre-loaded Money cards, for example by Provident, which entail substantially higher rates of APR than mainstream credit cards

Prepayment installment plans for vouchers and hampers

Hamper schemes

The [Pomeroy report](#) published in the wake of Farepak's collapse estimated the UK hamper market to be around 700,000 people. While Pomeroy found there was evidence that some better-off households use hamper schemes, the review considered that the majority of customers would be characterised by the same attributes as those using home credit, of whom:

- 58 per cent are in socio-economic groups D and E
- 44 per cent have incomes of less than £13,000
- 74 per cent live in social housing
- and 69 per cent are female.
- Other evidence to the review showed that among former customers of Farepak, addresses in the industrial north Midlands, Scotland Wales and Northern Ireland predominated.

Customers using hamper schemes were mainly drawn to them because of their ability to “lock in” income and insulate Christmas saving from other spending pressures during the year. However this budgeting method means eventually paying more for the goods.

In a quick sample of three lower cost hampers offered by Park Plc (below) Family Action estimates that consumers could be paying up to 200 per cent more than the equivalent basket of goods as priced online at Tesco.com.

1) The Park Family Joints One hamper (code 50) costs £1.30 a week for 45 weeks=£58.50.

The Tesco.com total for the equivalent items if bought on 2nd November was £47.72.

That’s a price difference of £10.78 or approximately 22 per cent.

This is how the bill for the equivalent Tesco.com items was reached:

Promised Park hamper content	Weight compared	Tesco cost per Kilo as at 2 November	Tesco Cost per Joint
Topside of Beef Joint 1.6-1.8kg	1.7 kilos	£8.48	£14.41
Beef Joint 1.6-1.8kg	1.7 kilos	£5.97 (Value Beef Roasting Joint)	£10.14
Leg of Lamb 1.6-1.8kg	1.7 kilos	£6.00 (whole leg of lamb)	£10.20
Boneless Pork Joint 1.6-1.8kg	1.7 kilos	£3.98 (Fresh boneless leg)	£6.76
Gammon Joint 1.3-1.5kg	1.4 kilos	£4.44 (Prime Unsmoked Joint)	£6.21
Tesco.com total			£47.72

2) The Park Fresh Fruit and Veg One hamper (code 1018) costs 85 pence a week for 45 weeks= £38.25.

The Tesco.com total for the for equivalent items if bought on 28 October was £13.33

That’s a price difference of £24.99 or around 200 per cent more.

This is how the bill for the equivalent Tesco.com items was reached:

Promised Park hamper content	Weight/number compared	Tesco cost per Kilo/each as at 28 Oct	Total Tesco cost per item
Carrots 1Kg	1kg	0.68	0.68
Cucumber 1	1	0.60	0.60

Granny Smith apples 2	2	0.21p each	0.42
Grapefruit	1	0.28	0.28
Hand of bananas 1	5	0.09 (short-life)	0.45
Honeydew melon	1	£1.60	£1.60
Iceberg lettuce	1	0.98	0.98
Kiwi fruit	1	0.30	0.30
Large clementines 4	23p	0.92	0.92
Large onion 1	1	0.16	0.16
Large lemon 1	1	0.23	0.23
Tomatoes 8	8	0.15	£1.20
Parsnips	500g	£2/kg	£1
Pears 2	2	0.29 (per loose conference)	0.58
Quality local potatoes	2kg	Bartlett Rooster 2kg bag £1.46	£1.46
Gala apples	2	Pack only £1.27	£1.27
Spanish navel oranges	2	0.60 (based Tesco finest four pack)	£1.20
Tesco total			£13.33

3) The Park Cheese and Crackers hampers costs 65 pence a week for 45 weeks =£29.25.

The Tesco total for the equivalent goods if bought on 28 October was £10.63.

That's a price difference of £18.62 or nearly 200 per cent more

This is how the bill for the equivalent Tesco.com items was reached:

Promised Park hamper content	Weight compared	Tesco cost per Kilo as at 28 October	Total Tesco cost per item
Abbots choice mature cheddar 200g	200g	Tesco mature white cheddar £7.12kg	£1.44
Jacobs Biscuits for cheese 200g	200g	£1.14	£1.14
Jacobs Ritz 200g	200g	0.60	0.60
Wensleydale mild coloured cheddar 200g	200g	£1.45	£1.45
Mild white cheddar 200g	200g	£4.81 kg	0.96
Wensleydale double Gloucester 200g	200g	Tesco double Gloucester £6.32	£1.26

Wensleydale red Leicester 200g	200g	Tesco red Leicester £6.32 kg	£1.26
Wensleydale traditional	200g	Tesco Wensleydale	£1.26
White Cheshire	200g	Tesco white Cheshire £6.32	£1.26
			£10.63

Vouchers

The other form of pre-payment saving for Christmas is vouchers. While the vouchers pay out at their face value of goods in High Street shops and are useful as gifts they are potentially losing the consumer interest when saved for over a 45-week period as suggested by Park PLC. For example any new saver opening a [Citibank Flexible account](#) with a minimum of £1 is promised 3.30 per cent AER including bonus for a year. Access is by post, phone or online. However prospective savers need a current account to open the Citibank Flexible and similar accounts, which excludes many of those on lower incomes. In the meantime those who save into pre-payment plans, whether hampers or vouchers, are delivering a customer base of some 400,000 to Park Group PLC and 66 per cent of its £165.5 million revenue.

Home shopping by catalogues and online installment plans

- Home shopping is a diverse market embracing digital and online and television shopping, and a wide range of catalogues. The traditional catalogue retailers continue to [dominate the market](#) including where they have had to move online to do so.
- A number of catalogues offer installment options. They may be operated via agents or customers may order direct. According to [research published in 2004](#), the proportion of users of agent-managed mail order with an income of under £17,000 is 56 per cent, 46 per cent for direct mail order. More than a third of users of both types of catalogues are in socio-economic grades D and E. Over a fifth of users of agent-managed catalogues live in council accommodation
- Catalogues differ from pre-payment plans in that goods obtained can be paid for afterwards in installments, a potentially attractive option to those who cannot afford lump sum payments. The availability of the installment option is significant in [25 per cent of customers](#) choosing to make their purchase from an agent -managed catalogue.

However, once again installments via agent-managed or direct mail order catalogues can result in a higher price for goods.

For example the cost of an Apple iPod Touch (8 GB) [from Amazon](#) with a single payment is £139 including free delivery. [From Kays](#) online catalogue, using the option to buy it at a rate of £2.23 a week for 104 weeks (29.9% APR), it would cost £232.22 with free delivery.

A Nintendo Wii console plus Wii Sports Resort bought [from Amazon](#) costs £164.99 for a single payment. [From Kays](#) catalogue online it can be bought for £229 interest-free if paid for within a year, but this rises to £297.44 if paid for at £2.86 for 104 weeks (29.9 per cent APR) or £333.84 if paid for at £2.14 a week for 156 weeks (29.9 per cent APR). Someone using the longer payment option will pay more than double the Amazon price. Even someone paying back Kays within a year will pay £64 or around a third more than if they had been able to buy outright from Amazon.

Doorstep lending

Users of home credit are disproportionately poor. [According to the Chartered Institute of Housing:](#)

- 73 per cent of customers of home credit live in social housing,
- nearly a fifth of social housing tenants do not have a bank account,

- 66 per cent are in receipt of housing benefit and
- only 35 per cent are economically active.

According to the Chartered Institute of Housing's Credit Crunch and Cost of Living Survey in 2008, 23 per cent of its members reported an increase in doorstep lending. One mainstream door step lender is [Provident](#), which loans money to and collects payment from around 1.8 million customers through a network of around 11,000 agents. Many of these agents are women who live in the areas where they collect and are former customers themselves. Provident is probably the most reputable and trusted of home credit companies, but with repayments its customers can end up paying back 50 to 80 per cent more than they originally borrowed.

For example a family of two adults and two children under twelve might wish to borrow £50 for some modest extra spending at Christmas. From retailers such as Asda or Tesco this would cover a roast dinner with a large chicken, a small basic Christmas pudding, one bottle of wine and two bottles of soft drinks, one small bottle of sherry or spirits and mince pies to offer to guests calling on Xmas day, a new DVD and t-shirt each for the children, and a small Christmas tree with a few decorations.

Perversely Provident applies the stiffest rates of APR to those who pay back this sum of money more quickly. For example Provident's online calculator suggests a new customer wishing to borrow £50 would find themselves paying back £74.75 in total at a rate of £3.25 over 23 weeks, amounting to 545.2 per cent APR. Over 31 weeks at £2.50 the repayment would be £77.50, amounting to 365.1 per cent APR.

To borrow £100 would entail paying back a total of £149.50 over 23 weeks (£6.50 a week) amounting to 545.2 per cent APR. If paid back over a longer period of 52 weeks (£3.50 a week) this would amount to paying back £182 or 82 per cent more than the original sum borrowed but with an APR of 272.2 per cent.

Similar rates are applied to those who load their loan onto a Provident Money card. The card allows the freedom of spending without using cash but the minimum that can be borrowed this way is £300. Once again the rates reward those who take longer to pay back and pay back more. Borrowing £300 from Provident over 23 weeks would mean a weekly repayment of £19.50 with a total to repay of £448.50. This amounts to 545.2 per cent APR*. Paying back over 52 weeks means a weekly payment of £10.50 adding up to £546 with a typical 272.2 per cent APR.

Time to tackle the injustice of the Christmas poverty premium:

The injustice of the Christmas poverty premium is really the culmination of the poverty that families suffer from year-round. This is Family Action's plan for tackling it:

- More income needs to go into the pockets of the poorest families as it is lack of income which causes their lack of flexibility in budgeting and pressure on their attempts to save. In turn this causes many to resort to high interest home credit or to payment methods involving income lockdown. Family Action supports the End Child Poverty campaign for Government to invest at least £3 billion in tax credits and benefits. Other measures that would help would include the Government extending funding and access to social fund grants and interest-free loans; and extending the coverage of local education authority schemes to assist parents with children's school clothing costs. This package of measures to improve families' revenue and access to lump sums would help families to avoid having to take out home credit or home shopping instalment plans.
- Government and associated agencies such as the Office for Fair Trading or any new consumer financial authority should take the lead in raising awareness that home credit should be the last, rather than first, resort for a loan. It is argued that home credit companies need to charge higher interest rates because they are loaning to customers with poor credit histories. However interest rates of 545 per cent APR on home loans are stratospheric. It is pernicious that repayment under existing home credit schemes is structured so that those who pay back debt fastest are penalised for doing so. There also needs to be more competition in the range of lending that is effectively on people's doorsteps, for example through supporting the growth of credit union

capacity in local multi-agency outlets such as children's centres which have track records for engaging hard-to-reach groups. In particular Government should fund housing associations to extend the reach of their financial inclusion work with tenants given that low-income households are disproportionately living in social housing and housing associations are already active in developing financial product options and facilitating access to credit unions.

[http://www.housing.org.uk/Uploads/File/Policy%20briefings/CREDIT WHERE CREDIT'S DUE FINAL 060807.pdf](http://www.housing.org.uk/Uploads/File/Policy%20briefings/CREDIT%20WHERE%20CREDIT'S%20DUE%20FINAL%20060807.pdf),

- Too much consumer information is on the Web where we know the poorest cannot access it. The Government should ensure low-income households can access independent information about financial products like Christmas Clubs other than through the Web. For example many poor people may begin saving into Christmas club schemes in the New Year. This is when the Government could target benefit claimants and low income households with a marketing campaign, for example through Job Centres, or housing associations, warning that pre-payment Christmas savings clubs may not offer them the best deal for their money in comparison with other saving methods. The Government should also extend the practical advice on budgeting and finance such as the family finance learning courses that are already available through some community organisations.

For more information about this report contact Rhian Beynon, Head of Policy and Campaigns at Family Action on 020 7241 7457 or at rhian.beynon@family-action.org.uk