



# Why don't consumers engage with Millstones?

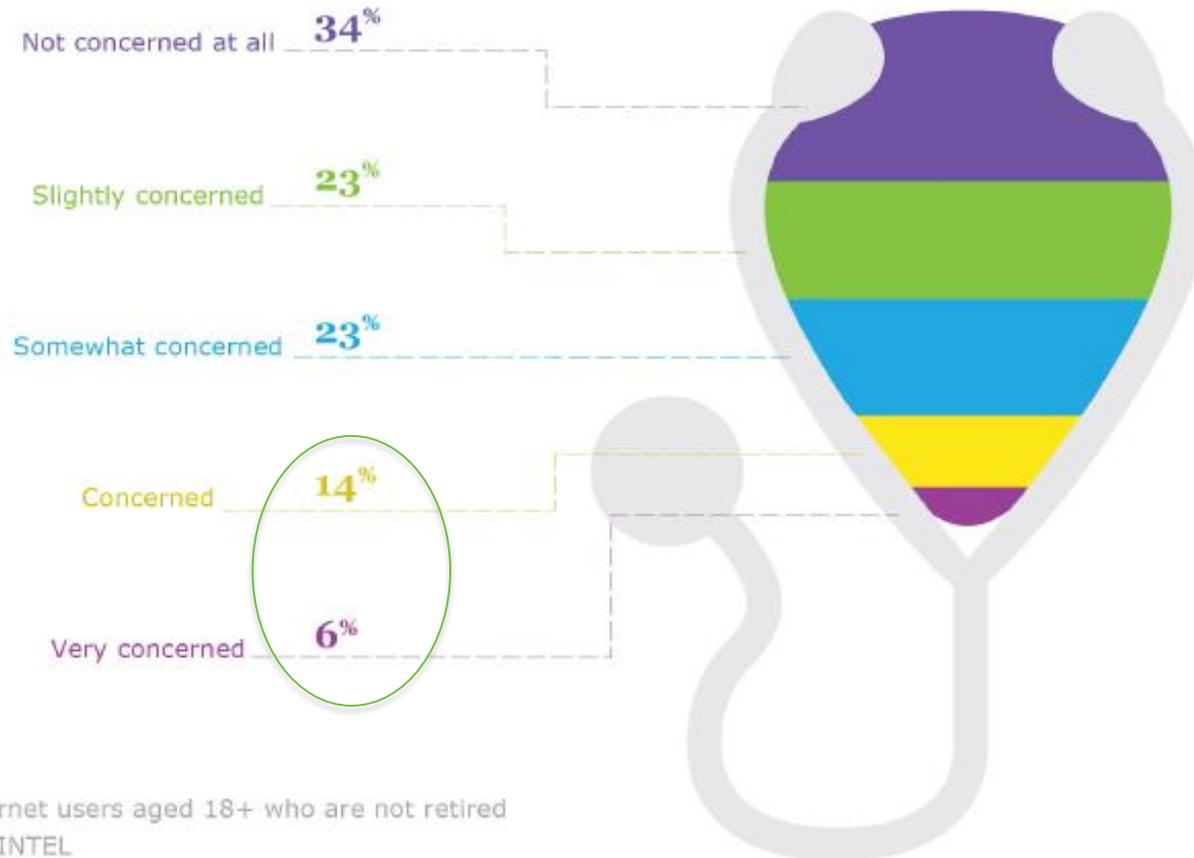
# A significant minority are affected every year

- Over **3.3 million** working-age consumers in last year (8.6%) \*
- Highest among 45-54 year old's (9.9%)
- Due to ...
  - Serious accident/illness : 1.31 million
  - Redundancy : 1.24 million
  - Divorce/separation : 855k
  - Death of a partner : 175k



# It's not really a concern

## CONCERNS AROUND INABILITY TO WORK DUE TO HEALTH REASONS, MARCH 2013



Base: 1,581 internet users aged 18+ who are not retired  
SOURCE: GMI/MINTEL

# Redundancy

- Often a very emotional time – especially if unforeseen; may be more so than expected
- Typical response : ‘wait and see’
  - Few examples of (significant) cost cutting
- Time taken depends on ...
  - Redundancy pay
  - Savings vs credit commitments
  - Perceived ease of getting another job – people generally believe it won’t take long



# “It will be alright”



the **Money**  
**Advice Service**

*“You never think you’ll be unemployed for such a long time. To begin with you think “oh well, I could do with a bit of time off and I’ll find something else soon”. But then you don’t and it doesn’t feel like a holiday any more”*

*“I spent 4 weeks of the summer on holiday, so I didn’t deal with anything until I got back. I should have been doing it the month before I lost my job”*

*“I hadn’t taken a holiday in two years – I felt like I deserved one. Then I needed a new suit, new shoes for job interviews. I didn’t have much choice about that”*

Source : Money Lives and BDiffereent Redundancy research

## In practice ...



the **Money**  
**Advice Service**

*“Perhaps it was denial or because I knew I had redundancy coming I kept thinking I would be alright for a few months because I was adamant I was going to get a job. I should have cut back earlier”*

*“My attitude to money has changed since it’s happened. I’ve been quite frivolous in the past but now, even though I’m earning a wage again now, I’m really analysing what I spend”*

*“It was the first time in a long time that we sat down and looked at our budget. It taught me a lesson to know where the pennies go because before we were spend happy”*

*“If I’d just saved my lump sum and sat with it and lived off it, I probably wouldn’t be in such a bad position now. Because I’ve used it to pay off some of my debts and kept some, it has only just about kept me afloat”*

Source : BDifferent Redundancy research

# Divorce and separation

- Response differs hugely between people
- Often a major shock to the system
- Focus on children and home, not finances
- Finances may be complicated and there can be 'shocks' and unexpected debts



- People often don't ask advice until it is (almost) too late
  - Optimism bias
  - Denial of facts / admission of failure
  - Shame / stigma : not for 'people like me'
  - Too public
- Some don't know where to go



# The effect of planning

- Ability or willingness to plan makes a big difference to how people cope with negative life events
- But people aren't very good at planning
  - Planning horizon typically not long-term (Standard Life : 'Eight Year Blind Spot' press release March 2015)
  - Plans tend to be for 'good' things
  - Few have some form of plan for things going wrong



Sources : Money Lives and Financial Capability 2005 and 2014

# Planning – qualitative research

- Planning is for cars, conservatories or a comfortable retirement (although they can ‘dip into’ these funds)
- When asked, people recognise they aren’t prepared for financial shocks
  - Not thought about it
  - Thought about it - but can’t afford
  - Thought about it – but won’t happen to me
  - Thought about it – but ‘life is for living’



***“It’s just too far ahead. Anything can happen and with the children around I just think you can’t plan ahead. I know in the future I will be alright... I know at least £250K is coming my way from one nan”***

(Making ends meet, high income)

***“I tend to think, for years now, of the ‘now’ and don’t tend to think of the bigger picture of the future.”***

(Making ends meet, medium income)

***“As long as we get from the 26<sup>th</sup> to the 1<sup>st</sup> when the bills are paid, that’s as far as we look at the moment.”***

(Making ends meet, medium income)

***“...just want our heads above water. Don’t have plans. Don’t look ahead. Want a bit of money behind us.”***

(Resilient, high income)

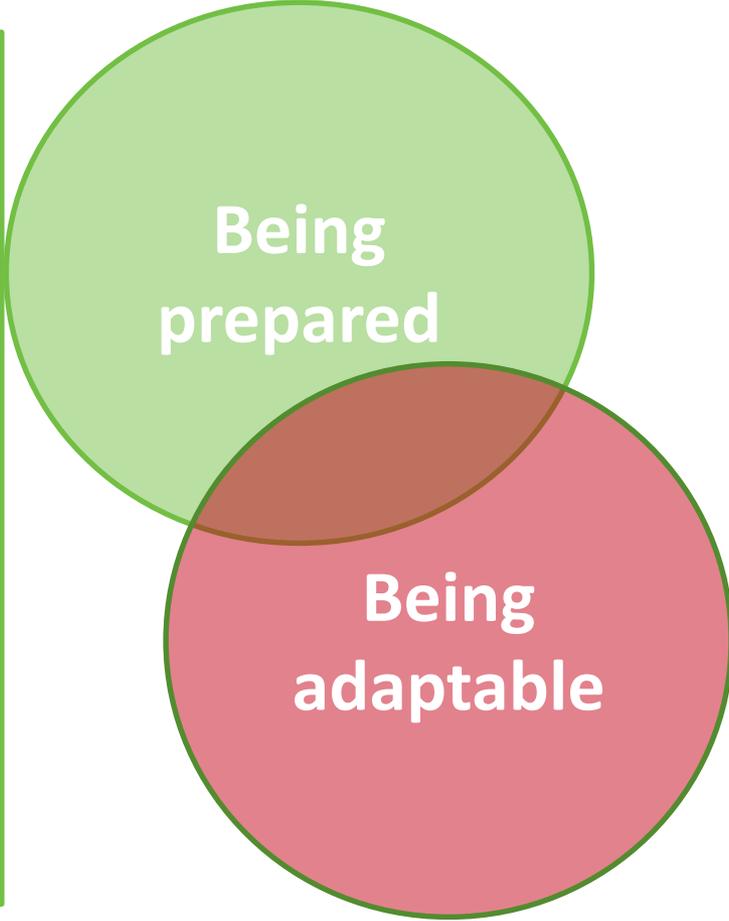
# What determines how well people cope?

## Being prepared

- Level of savings
- Holding insurance
- Awareness of their employment contract

### Behaviours:

- Build up some savings / larger savings
- Take out insurance
- Learn about financial products and become more financially savvy



Being  
prepared

Being  
adaptable

## Being adaptable

- How quickly they assess the length of time on reduced income
- How quickly they start to cut expenses
- How dramatically they cut expenses

### Behaviours:

- Change spending habits and cut costs
- Seek advice quickly

# Can consumers adapt?

Solutions found by those who **had** experienced a drop in income ...  
(MAS Financial Capability survey)

- Cut back on expenditure (65%)
- Draw down savings (32%)\*
- Sell belongings (25%)
- Claim benefits (21%) \*\*
- Get another/second job (14%)

What they **thought** they would do)

- Savings (40%)
- Benefits 30%

(Intel data)



# Can consumers cut back?

According to GRiD ...

- ESA (Employment & Support Allowance) : £108 pw (max)
- Average household expenditure : £489 pw (ONS)



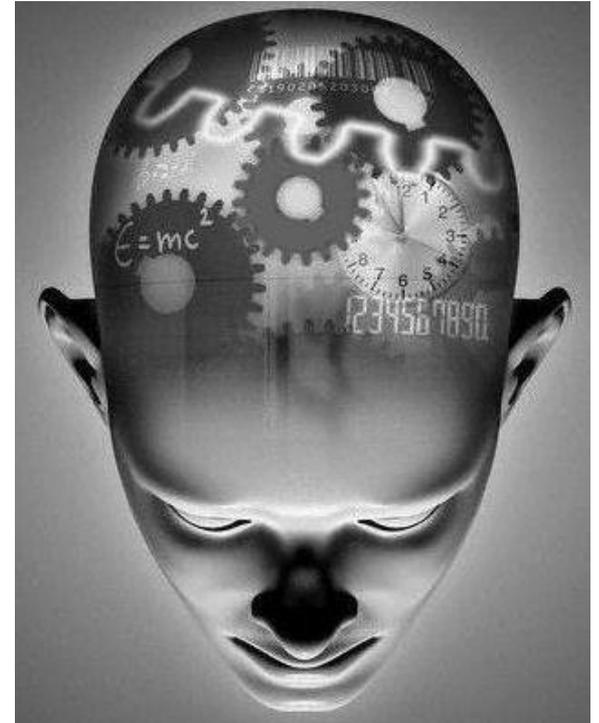
# The impact of Millstones

- Affects over 3.3 million working-age adults pa (8.6%)
- But people don't (want to) believe it will happen to them
- Huge variations in time to respond
  - Depends on emotional response
  - Amount of notice
- Initial focus often elsewhere
  - Protecting family
  - Finding work
- Optimism bias – “something will turn up”
  - Wait until savings have gone



# A lot of behavioural biases

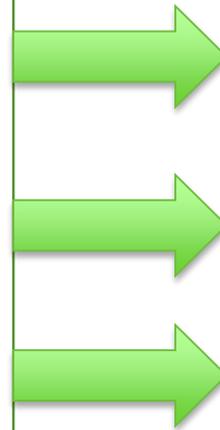
- Optimism bias
- Hyperbolic discounting
- Choice overload
- Confirmation bias
- Framing



## What doesn't work (for many)

### Messages about ...

- low level of holding
- “this could happen to you”
- You “should” cut spending



### Because ...

- reinforce ‘social norm’
- fall on deaf ears
- societal pressure too great