Working-Age Money-Management Commissioning Plan

June 2018

the Money Advice Service

Contents

Introduction

The Money Advice Service (MAS) is an independent organisation, set up by government to improve people's ability to manage their financial affairs. We operate across the UK and our free and impartial money advice is available online, by phone and webchat. From Autumn 2018, a new financial guidance body will bring together the functions of MAS, the Pension Advisory Service (TPAS) and Pension Wise[1].

One of our strategic aims is to help those most at risk from income shocks build resilience by growing savings while managing their money and credit well day to day.

To meet this aim, our 2018/19 Business Plan committed to producing a money-management Commissioning Plan for working-age people up to the age of 55. This call for evidence seeks submissions informing the Commissioning Plan. We are interested in evidence from stakeholders on who to target with money-management support, within proposed groups, how best to meet their needs and the environmental and policy contexts in which household financial decisions are made.

About the Commissioning Plan

Across the UK, many households find it difficult to budget effectively and save. Our research shows 4 in 10 UK adults have less than £500 in savings to cover an unexpected bill and almost three-quarters of working-age people do not have a savings buffer equal to or exceeding three months' income[2]. This leaves families vulnerable to over-indebtedness, places a great strain on relationships and can have a severe impact on people's physical and mental health.

Our Commissioning Plan, which we intend to consult on, will set out a programme of work, delivered by MAS and partners across the UK, enabling more working-age adults to manage their money better through budgeting, saving and credit use. It complements the existing MAS strategic approach to debt advice commissioning[3], which will ensure the best support for those repaying debts, and a forthcoming MAS Commissioning Plan aimed at improving the financial outcomes of children and young people.

Given the scale of the challenge, we suggest that the funding for external commissioning (i.e. funding flowing to external organisations for delivery) in the first three years covered by the Commissioning Plan should start in the very low millions, to prove that delivery at scale can have an impact. Alongside, our ambition is to maximize co-funding, encouraging interventions that have evidence of impact. The general principle is to start small and targeted and to prove the case for impact at scale.

About this call for evidence

Current economic predictions are for the household debt-to-income ratio to increase but not savings levels[4]. We want to work with partners to boost the financial capability of the adult UK population, to meet two long-term impact measures:

- A fall in the proportion of 'financially struggling' and 'financially squeezed' adults who regularly use credit for everyday spending.
- A rise in the percentage of 'financially struggling' and 'financially squeezed' adults who regularly put money into savings.

The intention of our Commissioning Plan is to illustrate how this might be done through our own channels, what we commission others to do and what we try to influence others to do.

Based on our segmentation model[5] and the best available evidence examined to date, we intend to focus our first round of commissioning activities on high need groups within three working-age cohorts:

- young adults aged 18-24
- couples and families aged 25-34; and
- couples and families aged 35-54.

For the latter two groups we believe targeting those in the MAS Squeezed and Struggling segments will have the greatest impact (see Table 1).

In total, these three target groups comprise 10.8 million individuals[6]. We intend to target provision across the UK, including in all devolved nations and are keen to hear from stakeholders in each.

[1] Financial Guidance and Claims Act 2018
[2] Money Advice Service, *Saving Evidence Review* (July 2017)
[3] Money Advice Service, *A strategic approach to debt advice commissioning 2018–2023* (December 2017)
[4] Office for Budget Responsibility, *Economic and fiscal outlook* (March 2018)
[5] Money Advice Service, Market Segmentation – An Overview (May 2016)
[6] Money Advice Service, *The Money Advice Service's 2018/19 Business Plan* (March 2018)

Table 1: The MAS Segmentation Model

STRUGGLING	SQUEEZED	CUSHIONED
The most vulnerable group, characterised by lower income levels, high incidence of social housing, high over-indebtedness with little or no savings buffer if things go wrong. 24% of the UK adult working age population (9.2 million people).	Working-age individuals on modest salaries, renting or buying with a mortgage. They have many family and work pressures, are heavily reliant on credit usage and lack sufficient savings buffers to cope with unexpected life events. 33% of the UK adult working age population (12.6 million people).	The most financially resilient group. Salaries or savings buffers are higher and they have a greater ability to cope with any unexpected expenditure. Within this group, there are comfortable and affluent sub-segments 39% of the UK adult working age population (15.0 million people).

Ensuring people save for their retirement and enjoy a comfortable later life is crucial and MAS focusses a range of activities on this area, including our annuities calculator and range of printed guides on retirement needs. Given these ongoing efforts and the work of organisations such as Pension Wise and TPAS we have decided to concentrate our resources for now at a younger cohort[7].

Younger adults are likely to have less money spare than other age groups and many competing demands for whatever money is available[8]. Often, they are striving to establish their own financial independence, entering the labour market or accessing limited welfare while job seeking. Many are managing money from student loans and other sources while completing their studies in further or higher education. They rate themselves as the least confident and knowledgeable of all UK adults about managing money and financial matters[9]. Data shows 13% of 25-34 year olds are in difficulty, having missed paying domestic bills or credit payments in three or more of the last six months[10]. Those in financial distress are typically younger, with lower income and higher debt-to-income ratios[11].

However, there is great potential for improving the outcomes of younger age groups. Young adults are both more likely to have financial goals over the next five years (69%) and to have plans to achieve those goals (41%) compared to all adults aged 18+[12].

Families likewise face significant financial pressures. We know having dependent children is a predictor a family will have problem debt, with the likelihood of problem debt increasing with the number of dependants[13]. When people start families, the proportion saving drops from 45% to 39%. When families add to their family size, the proportion of savers and amount of saving, already below average, falls further[14].

Yet, as with younger people, there is great scope to improve the financial position of families across the UK. People living in couples with children (dependent or non-dependent) and lone parents with dependent children tend to outperform other groups when it comes planning, staying informed and choosing products[15]. What they need is the opportunity and environment to best utilise these skills.

We recognise that within each target group there will be specific life events or transitions during which it would be best to reach them and that provide the best opportunity to increase their financial capability. We would appreciate responses to this call for evidence on what these specific life events or transitions may be and how they can best be used to achieve positive outcomes. We further understand there may be different channels, for example digital channels, or products, for example FinTech, that might appeal more to groups with higher online literacy.

There may also be additional social contexts through which money management interventions could take place, potentially linked to childcare and educational needs. It may be that financial capability outcomes can be delivered as part of more holistic approaches, for example while improving numeracy or literacy skills, and we would welcome evidence on this.

[7] Money Advice Service/The Personal Finance Research Centre, University of Bristol, *Financial capability and retirement* (August 2017)
[8] Money Advice Service, *Saving Evidence Review* (July 2017)
[9] Financial Conduct Authority, *Understanding the financial lives of UK adults* (October 2017)
[10] Ibid
[11] Financial Conduct Authority, *OP 20: Can we predict which consumer credit users will suffer financial distress?* (August 2016)
[12] Money Advice Service/The University of Edinburgh, *Young adults' financial capability* (September 2016)
[13] Select Statistics, *Savings and problem debt* (November 2014)
[14] Money Advice Service, *Saving Evidence Review* (July 2017)
[15] Social Market Foundation, *Fixing family finances* (April 2016)

The Commissioning landscape

MAS research has identified that two segments of the population, the 'financially struggling' and 'financially squeezed' (totalling around 24 million people) should be a focus of our work. Our corporate strategy stated that encouraging people in these segments to build a savings habit and a savings buffer is key, so they can survive a sudden financial shock.

Over the first two years of the corporate strategy, we have evaluated a range of interventions supporting this ambition. Our £7m What Works Fund piloted over 60 financial capability projects across the UK and these are providing evidence of their impact on consumer behaviours. Around two-thirds of the projects are targeting working-age adults, ranging from young adults to those moving into retirement[16].

We will be co-funding a range of further financial capability interventions, gathering vital data, including a field trial with employers, delivered by Nest Insight, to test a concept called 'sidecar savings'. All of this will help us understand barriers to financial capability and inform our Commissioning Plan.

However, we understand changing economic conditions can present challenges to families and organisations offering financial capability products. Although unemployment is low, income growth has been listless since the economic crisis of 2008[17].

We have seen a rapid rise in the number of people who are self-employed, from 3.3 million people (12.0% of the labour force) in 2001 to 4.8 million (15.1% of the labour force) in 2017. Typically, those in self-employment have a lower income than those employed full-time[18] and are less likely to have access to workplace-based protection products.

Excepting pension payments, the real value of working-age welfare has declined[19], which is most problematic for low-income households[20]. There has also been a steady rise in the number of families living in private rented accommodation, with the size of the sector doubling between 2002 and 2014/15[21]. Relative housing costs for people renting privately tend to be higher. One in seven people renting from a private landlord pay more than half of their income in rent. In comparison, just 2% of homeowners pay more than half their income on their mortgage[22].

The savings ratio has been trending downwards since 2010, saving returns from high street banks are poor, especially on easy access accounts for existing customers, and recently we have seen net outflows from cash ISA deposits[23]. Yet the FCA has found competition in the cash savings market is still not working effectively for many consumers[24] and ISAs are disproportionately accessed by higher income families[25].

We are addressing these issues through a variety of money management initiatives. For example, taking forward several of the 17 ideas tested in our Financial Capability Lab, a partnership between MAS, the Behavioural Insights Team and Ipsos Mori[26]. The Commissioning Plan may provide an additional opportunity to test ideas that showed promise in the Lab.

Who this call for evidence is for

Alongside this call for evidence, we will be gathering research, data and insight from our own and external sources. This will include results from What Works Fund activities, plus academic studies and a broad range of consumer insight about the working-age population.

However, we want to ensure our commissioning approach draws on the most robust information base possible and so we are asking stakeholders to provide any evidence or data relevant to creating the Commissioning Plan. This could include on who to target, how to target and what interventions are likely to have the greatest success. Given the wide range of stakeholders in this area, we welcome views from any interested parties, including academics, think tanks, financial services providers and third sector consumer groups.

[16] Details on the Fund can be accessed: https://www.fincap.org.uk/what-works-fund

[17] Office for National Statistics, Analysis of real earnings and contributions to nominal earnings growth, Great Britain: May 2018

[18] Resolution Foundation, *Living Standards 2017* (February 2017)

[19] Ibid

[20] Institute for Fiscal Studies, *Living standards, poverty and inequality in the UK: 2017* (July 2017)

[21] Department for Communities and Local Government, English Housing Survey Headline Report 2014-15 (February 2016)

[22] Local Government Association, *Briefing: Adjournment debate Government policy on local authority housing House of Commons* (December 2017)

[23] UK Finance, High Street Banking – October 2017

[24] Financial Conduct Authority, *Cash savings market study* (January 2015)

[25] StepChange Debt Charity, Becoming a nation of savers (October 2015)

[26] Details on the Lab can be accessed: https://www.fincap.org.uk/financial-capability-lab

Questions for consideration

Q1. Bearing in mind our proposed segments, from the evidence you hold, which specific groups should we look to target?

Q2. What does the evidence you hold tell us about the mix of channels or messengers we should use to target each group? For example, might digital approaches work better for certain consumer groups?

Q3. Have you conducted consumer research or do you know of any that has explored social, economic, environmental or policy contexts that may impact financial behaviours among the target groups?

Q4. Does the evidence you hold suggest that there are specific life events or transitions we should focus on for each target group e.g. linked to government policy, public service delivery or in local commissioning strategies (including the devolved nations)?

Q5. Our proposed target audiences are living busy lives, balancing work and family commitments. Given this, what evidence do you hold on potential barriers or challenges that might exist in targeting each group? We are interested in both initial and ongoing engagement.

Q6. Are you aware of any evidence that points to achieving financial capability outcomes as part of other services, interventions or pathways, e.g. holistic wellbeing services; through enhancing self-efficacy or confidence; through improving numeracy or literacy skills; by building digital skills; or through enabling greater inclusion and access to the market for financial services?

How to respond

Please send your responses by 9 July 2018 to callforevidence@moneyadviceservice.org.uk.

While we are keen to receive different types of evidence, it has to be available to us, so please include a link and a publication date or let us know how to access the research if not online. Evidence does not have to be national, local evaluations or geographically specific evidence is welcome.

We are particularly interested in surfacing and drawing on previous service evaluations and customer research that may have not been made widely available.

Confidentiality

The Money Advice Service will only process any personal data received as part of this consultation (e.g. any identifying material) in accordance with the General Data Protection Regulation. This means that your personal data will only be used for the purpose of the call for evidence, it will not be disclosed to third parties unless the law requires it and you will not be identifiable from any published reports.

If you want all, or any part, of a response to be treated as confidential, please explain why you consider it to be confidential.

Our privacy policy can be found:
https://www.moneyadviceservice.org.uk/en/corporate/privacy

Annex A: List of questions

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