



Building the financial capability of UK adults

Initial findings from the 2018 Adult Financial Capability Survey

What is financial capability?

There are various definitions of financial capability, but almost all recognise that capability comprises more than just skills and knowledge. It also encompasses behaviours, attitudes, motivations and the degree of connection to the financial system.

"Financial capability is the ability to manage money well – both day-to-day and through significant life events."

Critically, financial capability is a key driver of consumers' financial wellbeing – that is the

ability to meet all their current commitments, without undue stress, and the resilience to cope with future income or expenditure shocks. Other factors, such as income, number of dependents or the cost of living, are typically outside people's control.

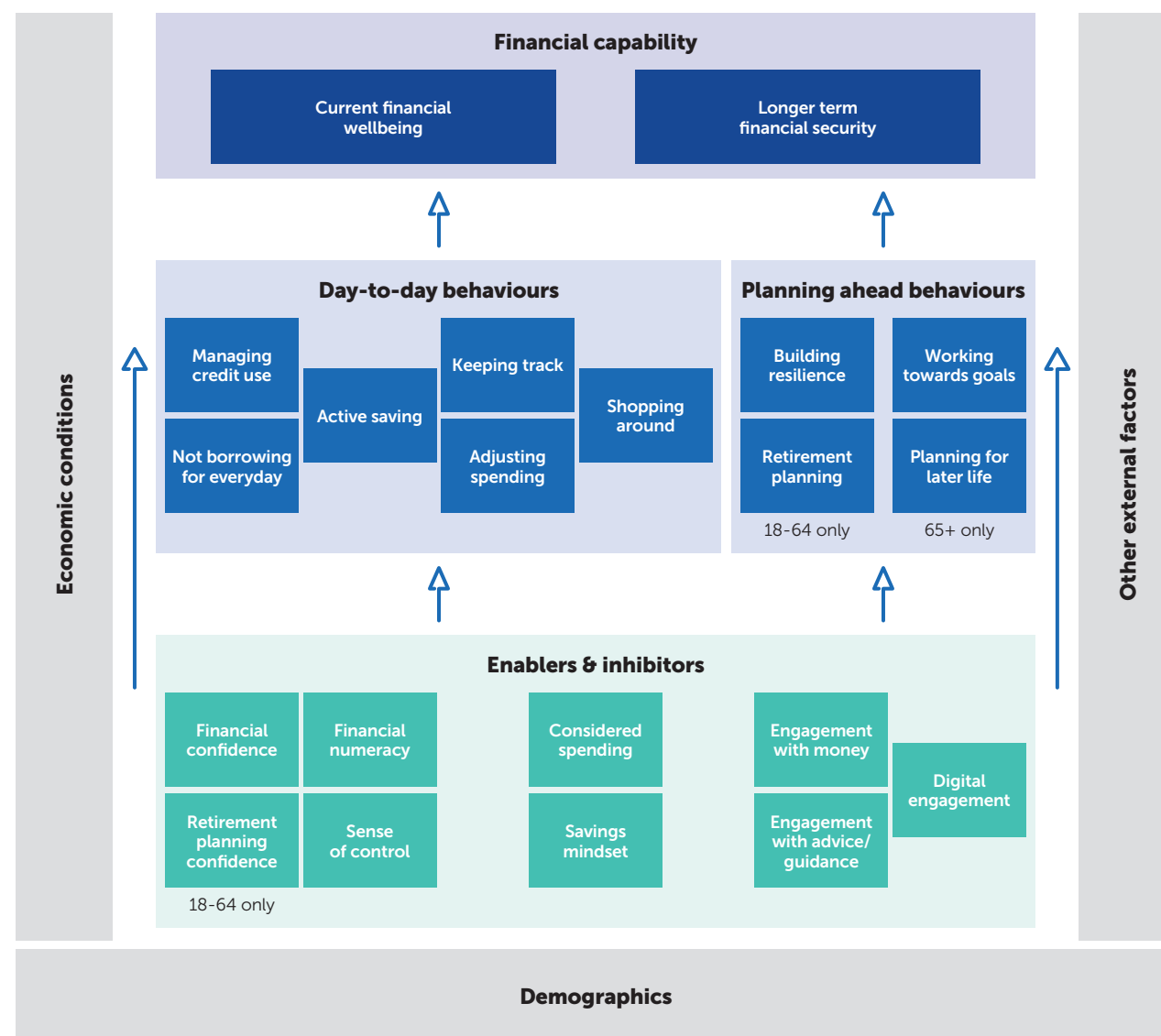
What influences financial capability?

The Money Advice Service surveyed nearly 6,000 adults living in the UK for the 2018 Adult Financial Capability Survey. This report outlines some of our initial findings. From the answers to more than 100 questions, we have identified the key components of financial capability and the inter-relationships between them. We have highlighted the differences between managing money now and planning for the future. And we have identified the barriers or enablers for achieving better financial wellbeing. These include key attitudes such as confidence and a sense of control over what happens to your money, as well as economic factors such as income and home ownership. We have also identified some of the key changes since the 2015 Adult Financial Capability Survey.

These key components, barriers and enablers are illustrated in the model opposite, and explored in more detail in the rest of the report.

We will be conducting further analyses and working on the policy implications of the survey results over the coming weeks and months. See page 8 for more about the survey and how to access more information.

The building blocks of financial capability



Source : UK Adult Financial Capability Survey 2018 (Principal Components Analysis)

The day-to-day behaviours that influence financial wellbeing

We define current financial wellbeing as being able to pay the bills and feel comfortable about money. The strongest predictors of current financial wellbeing are behaviours relating to savings and credit.

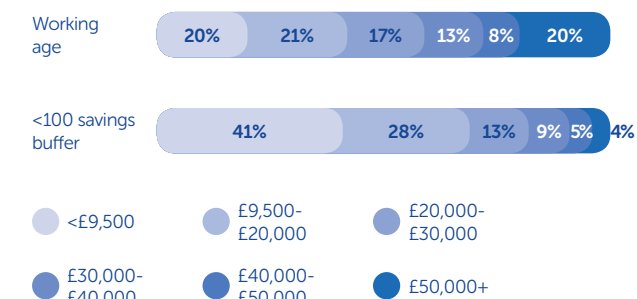
Savings

One of our key measures is **active saving**, that is how often people save money, and the number of things they are saving for. There is a lot of evidence that what matters most is developing a saving habit. The act of saving regularly seems more important than the amount saved.

As in many other surveys, we found that a lot of people aren't saving. We estimate that **10.7 million adults rarely or never save** - that is 21% of the population and, as a consequence, 11.5 million (or 22%) have less than £100 in savings. The proportion of people who have at least this amount in a formal savings account - as opposed to in a current account or held as cash - is even lower. Such low levels of saving are a challenge when we know that a high proportion of households experience unexpected bills every year. Encouragingly, however, the proportion of adults of working-age who rarely or never save has fallen from 25% in our 2015 survey to 21% in 2018.

While a low income undoubtedly makes it harder to save, especially when there are children to be cared for, this is not the only explanation. The diagram on the right shows that nearly 20% of working-age adults with less than £100 in savings have a household income of £30,000 or more. In comparison, this wealthier group account for 41% of the total working-age population.

Savings by income (working-age population)



We found that people's propensity to save is linked not only to income levels, but also to the extent to which they:

- make plans;
- focus on the long-term rather than just living for today;
- believe they can determine what happens in their life;
- are willing to make time for their finances; and
- think that saving is important.

In other words, simply teaching skills and imparting knowledge won't encourage people to save unless we can also win hearts and minds; that is encourage them to think about future savings goals and to believe that they are achievable.

Use of credit

The survey looked at two aspects of credit use:

- the total level of unsecured debt and how it is repaid
- the extent to which people borrow to cover everyday expenses.

Perhaps surprisingly, the total level of unsecured borrowing and how it is managed are not highly correlated with financial wellbeing. In other words, there are those with high levels of debt who are nevertheless content with their financial situation and those with low borrowings and greater

financial anxiety. Other studies have also found the debt-to-income ratio performs relatively weakly as a predictor of wellbeing or capability.

On the other hand, whether or not people use credit to pay off other borrowing, to buy food or pay bills, and whether they use high-cost short-term credit or an overdraft, or borrow from friends and family because they have run out of money are key predictors of wellbeing. This conclusion has also been reached from research in other countries, including Canada, Australia, New Zealand and Ireland.



We estimate that **nine million adults borrow money to buy food or pay their bills** – that is 17% of the adult population. As with savings, this is not just about income. 20% have a household in excess of £50k. Whilst almost half 45% have an income of less than £17.5k. Borrowing for essentials is linked to age. People under 45 are more likely to do so than older adults. The peak age band is the 25-34 year-olds, of whom almost one-third (30%) say they use credit in this way.

The financial wellbeing score of people who pay their essential bills with credit is much lower than

for the rest of the population as shown below. And the more that people rely on credit for everyday spending, the less satisfied they are with life in general.

Credit use and financial wellbeing

Use of credit	Financial wellbeing score (out of 10)
Use credit for essentials	5.5
Don't use credit for essentials	7.1

Other day-to-day behaviours

The other important day-to-day behaviours identified in the survey are keeping track and adjusting spending – which can be grouped together as budgeting – and shopping around.

Other research has shown that people tend to use a budgeting tool for a short period in order to achieve a financial goal or to get themselves out of a difficult financial situation.

Budgeting

Our survey, like others, shows that there is a negative relationship between budgeting and financial wellbeing. In other words, people who budget tend to have lower wellbeing. We are certainly not suggesting that people shouldn't keep track of their money or adjust their spending in response to their financial situation. Instead, we believe this simply reflects the fact that people on lower incomes need to keep closer control of their money, as demonstrated in the chart below. The chart also shows that more women have a more accurate recall of their current account balance than men.

How accurately people know their current account balance

Household income	Know to +/- £10
Less than £17.5k	50%
£17.5k – 50k	42%
£50K+	31%
Gender	
Male	39%
Female	48%

Shopping around

Whilst there is a positive relationship between shopping around and wellbeing, it is weaker than for active saving or credit use. Overall eight in ten adults (79%) say they shop around for at least one of either phone, internet, TV, utilities or financial products. The most 'shopped' product category was general insurance and credit cards was the least. Given the massive benefit of the internet for shopping around, it is not surprising that shopping around was less common for less digitally engaged older people. While two-thirds (66%) of 25-34 year-olds shop around for utilities, the same is true for less than half (46%) of 65-74 year-olds. Similarly, nearly three-quarters (71%) of people with a household income of £50,000+ shop around, compared with less than half (46%) of those with an income below £17,500.

Longer-term financial wellbeing

We define longer-term financial security as having the savings to deal with the expected, the unexpected and the longer-term; or having some form of loss protection such as home contents or life insurance. Our survey found that people are generally better at dealing with day-to-day events than at building financial resilience to help them through life events such as parenthood, redundancy, bereavement or critical illness.

Another finding is that financial capability generally improves with age. In this year's survey, we have looked in more depth at what financial capability in retirement means, and how this differs from capability among people of working-age.

People of working age

For the under 65s, the key behaviours linked to longer-term financial security are building resilience through saving, and retirement planning. The latter is an area that we have extended significantly in the 2018 survey, with new questions on the degree of planning and the sources of information or advice used.

We found that only one in eight working -age adults (14%) claim to have done a great deal of retirement planning. Even including those who said they had done 'a fair amount', the proportion is still less than half (44%). In the age group closest to retirement – that is the 45-64 year-olds – the proportion nudges up to only 47%. Similarly, only half (54%) of 45-64 year-olds have at least a rough plan for their retirement finances, while **one in five (21%) admit they have no plan at all.**

In line with the figures above, the survey revealed that just under half of working-age adults (44%) have sought some kind of information about

retirement planning. The most popular sources are logging into a pension account or reading the annual statement. All information sources are used most by those on the highest incomes and least by those on the lowest, two-thirds of whom have not sought any information at all.

While income levels clearly influence the level of engagement with retirement planning, we also found a very strong relationship between planning and people's attitudes – specifically, whether they know enough to make decisions and how confident they are planning their future. In other words, **if we want more people to plan better for their retirement, we need to find ways to improve their confidence.** A feeling of not understanding the topic or what to do, combined with the sense that retirement is a long time away, means decisions get put off and people do nothing.

Retired people

As with their younger peers, saving and not borrowing are important drivers of longer-term financial security for retired people. While this group have, by definition, made their retirement plans there is still a need to plan for later life. We therefore added a number of questions to the 2018 survey to find out the extent to which older people have made or updated a will or lasting power of attorney, and how many have planned for social care costs and funeral costs.

Overall, just over one-third (36%) have made a lasting power of attorney, reaching nearly half (46%) among people aged over 75. The older cohort are also more likely to have started to do something about long-term care.

Extent of planning for later life among the 65+

Activity	Not done anything	Thought about it	Talked to someone	Started doing something	Yes - have
Funeral costs – know how will pay	9%	6%	2%	1%	83%
Up-to-date will	12%	16%	7%	2%	67%
Power of attorney	38%	19%	7%	1%	36%
Long-term care's financial impact	43%	43%	18%	5%	Not Applicable

Factors making financially capable behaviour easier, or more difficult

The extent to which people can be financially capable depends on a number of factors. These include economic measures – such as the amount people earn and whether they have dependents and the cost of their housing – and demographics, such as age, gender or ethnicity. Financial capability is also linked to the individual's skills, knowledge, attitudes, motivations and connection to the financial system. We call this set of factors the 'enablers and inhibitors'.

Attitudes and motivations

Our analysis suggests that financial confidence is highly correlated with both financial capability and financial wellbeing. And this conclusion mirrors the findings from many other research projects. As explained above, a lack of confidence can be a major barrier to retirement planning.

What is less clear is the direction of causality. Does being confident make you more financially capable or does being capable make you more confident? Furthermore, we have to question the reliability of people's self-reported confidence. Our own research has shown that a significant proportion of people with lower levels of numeracy (based on a relatively simple test) reported that they were confident using numbers in everyday life.

There is a link between numeracy and longer-term financial security, albeit not a particularly strong one, but no link between numeracy and

current financial wellbeing. There is, however, a greater link between confidence with numbers in everyday life and confidence managing money and making decisions, which is a key component of financial capability.

The other key enabler, again found in research in other countries, is a **sense of control**. This refers to the extent to which people feel that, when it comes to money, they are able to determine what happens in their life, that they focus on the long term and stick to their financial plans.

The enablers and inhibitors also include the extent to which someone has a savings mindset. Not surprisingly, a savings mindset is a driver of active saving. This reinforces our view that people have to want to save and to believe that it is important. Not accepting the importance of saving is a bigger barrier to establishing a savings habit than not knowing how to save or even an individual's income.

Information, advice and guidance

People tend to be more engaged with money information, advice and guidance when things are going badly. Only 36% say that they have sought guidance in the last year and this proportion is noticeably lower among females and older adults.

We also know that many people who are in difficulties aren't getting the help they need. One in five people who experienced a life event in the last year, and sought guidance, didn't get the help or support they were looking for.

The Adult Financial Capability Survey

This survey has represented a major investment of both time and money. We would like as many people as possible to use and share the findings. The data is freely available and may be used with acknowledgment.

More about the survey and analysis

The Financial Capability Survey is a nationally representative survey of adults living in the UK, conducted via online and face-to-face interviews. In total, 5,974 people took part in the research across the UK; this includes additional interviews in the devolved nations to allow robust analysis in each country. It repeats the survey conducted in 2015.

We are grateful to Critical Research for conducting the research and to Professor Elaine Kempson for her guidance on the analysis. This has also helped comparisons with her work in other countries.

How MAS has used the survey

The survey results have informed the MAS approach to commissioning and have fed into the evaluation of the UK Financial Capability Strategy.

We also used it to profile the [Squeezed, Struggling and Cushioned segments](#) in the MAS segmentation model. And we have included key questions from the survey in our [outcomes frameworks and questionnaire banks](#), which are designed to help organisations measure changes in people's financial capability.

Going forward, we plan to conduct more in-depth analysis of the survey results and to consider the policy implications.

Additional information

[The full 2018 dataset](#) is available on the UK Data Archive.

[The 2018 survey technical report](#) details how we collected and processed the data.

[The 2018 building blocks technical report](#) describes the analysis in much more detail.



