Working-Age People

Financial Capability
Strategy for the UK

Working-Age People

- The Financial Capability Survey suggests the key priority for people in working-age life is to focus on: building resilience; saving for the future; planning ahead; and managing life events.
- A key aim for the Strategy will be to help people establish a buffer against financial shocks and, where possible develop a regular savings habit. For some people, the priority will need to be 'making ends meet' and focusing on reducing debt.
- There is a significant opportunity over the course of the Strategy to create a stronger savings culture in the UK in which it is easier for people to save for the short and longer term.
- For many people the transition to Universal Credit (UC) will be a significant life event. For some people it will create disruption and change but it does provide an opportunity to focus support with budgeting and accessing mainstream financial products on those who most need it.
- Evidence shows people tend not to consider and plan for negative life events. Information on products, guidance and support with financial capability need to help people to understand and make active decisions about risks they face.
- To maximise their impact and reach, more needs to be done to embed financial capability interventions in services that people already look to for support during major life events, and in accessible through the workplace.
- Financial capability in working-age life is dependent on being able to access and use financial products and services with confidence. The Strategy will build on existing initiatives to ensure a diverse range of accessible products and services are available to meet people's needs.

Introduction

This section of the Strategy provides an overview of evidence and key issues for working-age people across the UK (broadly those aged from 16 to 70). There are approximately 41 million people of working age in the UK.[66] Of these, nearly 74% are employed. Some of the areas of policy covered in this section are either wholly devolved or have separate delivery mechanisms in the devolved nations and where this is the case the priorities for action and initial action plan apply to England only, whilst other actions are UK wide. Please refer to the separate documents for Scotland, Wales and Northern Ireland for more detail on the specific actions being taken forward for working-age people in the devolved nations.

Financial capability interventions for this age-group need to address diverse needs and experiences including the financial pressures of making ends meet, balancing costs and commitments day to day with longer-term goals like buying a home, starting a family or planning ahead for later life.

Younger working-age adults are seemingly less likely than older cohorts to plan ahead and save. Those in the middle age-range are more likely to report struggling to keep up with bills and commitments and feel less confident managing money.[67]

Some working-age people do need more support to manage money day to day, but the main aim of the Strategy for this age-group will be to improve the financial resilience of working-age adults by focusing on the capability to save for the future, plan ahead and manage life events.

[66] Mid-year Labour Market profile (NOMIS, 2015)
[67] Financial capability in the UK: Analysis of the Wealth and Assets Survey Wave 3 (Office of National Statistics, 2015)

These areas of capability are dependent on being able to access and use financial products and services with confidence. More information on the approach the Strategy is taking to improving the ease and accessibility of products for working-age adults can be found on pages 76-81.

The Strategy also considers the role of the workplace and employers in supporting improved financial capability, and the scalability and sustainability of different interventions.

Evidence and key issues

Managing money well day to day

Half (49%) of working-age people are keeping up with bills and commitments without difficulty. Around a quarter (28%) are struggling from time to time and one in five (20%) constantly struggling, falling behind or have already fallen behind. People of working age are three times more likely to feel like they are constantly struggling or falling behind than older people in retirement (6%).[68]

78% of working-age people report regularly keeping track of income and expenditure and 63% regularly checking their bank balance. Half (53%) of working-age people with a current account claim to know their balance to within £50 or less. Less than half of working-age people (43%) have £500 in savings.[69]

A Department for Work and Pensions (DWP) survey of recipients of benefits and tax credits found that two-thirds (68%) of respondents budgeted regularly. Respondents with children, particularly lone parents and parents with children under 12, were more likely to budget regularly.[70]

There are a wide range of providers of guidance and information to help people to manage money well day to day. This includes consumer groups and charities who provide a mix of guidance online with face-to-face support where money management can be added on to wider interventions. There is also an increasing number of online commercial firms offering information and comparison tools for different products. This market is changing and evolving and although taking action in this area is not an initial priority for the Strategy, developments in this area will be kept under review.

Working-age adults are more likely than older people in retirement to demonstrate capability in choosing products.[71] Some working-age people face particular barriers to accessing support on managing money day to day.

Welfare Reform and Universal Credit (UC)

11.5 million working-age adults will move on to UC over the next five years, which will impact on how they manage their money. UC presents opportunities to test interventions to improve financial resilience and integrate effective financial capability interventions into wider services.

Claimants, many for the first time, will have to manage a transactional bank account and switch to monthly budgeting and payments. In 2013, Citizens Advice ran a pilot project, which found that 77% of claimants needed help with budgeting, 73% with monthly payments and 52% with banking.[72] In DWP's survey of benefit recipients in 2012, respondents thought that a change to monthly payments would make it harder for them to budget – the main concern was running out of money before the end of the month.[73]

[68] Financial Capability Survey (Money Advice Service, 2015)
[69] Financial Capability Survey (Money Advice Service, 2015)
[70] *Work and the Welfare System: a survey of benefits and tax credit recipients* (T.Tu and S. Ginnis, DWP, 2012)
[71] Financial capability in the UK: Analysis of the Wealth and Assets Survey Wave 3 (Office of National Statistics, 2015)
[72] *Universal Credit Managing Migration Pilot – final results* (Citizens Advice, 2013).
[73] *Work and the Welfare System: a survey of benefits and tax credit recipients* (T.Tu and S. Ginnis, DWP, 2012)

UC and other significant changes to welfare will affect large numbers of working-age adults on low incomes and in insecure jobs. Unpredictability of income can make it harder for working-age adults to manage their money well day to day and create barriers to planning ahead. Three-quarters of a million people are employed on contracts that do not guarantee a minimum number of hours as their main contract.[74]

Support provided to UC claimants will include elements of money management and how to make and manage claims online. This support will be led by local authorities but is also likely to include housing associations and voluntary sector partners. This provides an important new local network through which financial capability interventions for working-age adults can be targeted and prioritised.

The Welfare Reform and Work Bill is likely to introduce further changes over the first five years of the Strategy.[75] The Bill includes: lowering the benefit cap threshold, a four year benefit freeze, the introduction of loans for mortgage interests and reducing rents in social housing. Some of these changes will apply across the UK as a whole, others in England, Scotland and Wales only. These changes will require working-age adults to engage with their finances and create opportunities to engage people in financial capability.

Preparing for and managing life events

People are better at managing their money day to day than they are at planning ahead. Surveys conducted at different points of the economic cycle (2005, 2010-2 and 2015) have all found this.[76]

Over half of working-age people (58%) say they have financial goals for the next five years. While this is an encouraging headline figure, financial goals tend to be around positive life events, such as holidays (33%).[77] Optimism bias encourages us to plan ahead for positive life events that we look forward to, but we are less inclined to plan ahead to mitigate the financial impacts of negative life events. There is evidence that people's planning horizons tend to be limited. Standard Life estimates that the average adult in the UK is unable to think about more than eight years into the future.[78]

In Money Advice Service research individuals have reported a lack of information being provided, for example by employers, hospitals or solicitors, on the potential financial impacts of significant life events, and how to mitigate those impacts.[79]

[74] *Contracts with No Guaranteed Hours, Employee contracts that do not guarantee a minimum number of hours: 2015 update* (Office of National Statistics, 2015)
[75] Welfare Reform and Work Bill 2015-16
[76] The Baseline Survey of Financial Capability in the UK (FSA, 2006); Financial capability in the UK: Analysis of the Wealth and Assets Survey Wave 3 (Office of National Statistics, 2015); and Financial Capability Survey (Money Advice Service, 2015).
[77] Financial Capability Survey (Money Advice Service, 2015)
[78] *Eight Year Blind Spot* (Standard Life, 2015)
[79] Milestones and Millstones – Life Events Research (Money Advice Service, 2015)

Preparation for coping with unplanned life events

The level and nature of protection needed by individuals and households against the financial impacts of unplanned life events can vary considerably. Protection against such impacts can include building up a savings buffer, paying off unsecured debt, and buying protection insurance.

Low rates of saving mean a large proportion of people of working age are vulnerable to financial shocks, such as a sudden loss of income or an unexpected expense. This is particularly significant given the high levels of indebtedness of the UK population (see the section on People in Financial Difficulties for further information, page 68). A study by the Money Advice Service on the possible impacts of rising interest rates found that one in five mortgage holders said they would “really struggle to find the extra money” to cover any increase in repayments. Nearly half would find it difficult to cover up to £150 extra per month.[80]

While building a savings buffer is an important step to guard against financial shocks, it is important to recognise that for some people their priority should be either paying down debt or ensuring they can avoid further use of credit, rather than to save.

It is also important to recognise that the financial impacts of some life events can be so great that few people will ever have enough savings to cushion them from these impacts. This may include large unexpected expenses such as replacing a car after a serious accident, repairing a home after a fire, having to be hospitalised while abroad, or becoming unable to work due to serious illness or injury. This highlights the importance of helping people understand and access the types and levels of insurance appropriate to their circumstances, to ensure they are able to cope with large financial shocks.

According to an ABI report, each year 1 million workers suddenly find themselves unable to work due to serious illness or injury, and around 250,000 people leave employment permanently each year due to ill health.[81] But understanding of this risk and the financial impacts is very low.

Protection insurance is one way to prepare for coping with the potentially large financial impacts of ill health or early death of a household earner, but only around 1 in 6 working-age households have income protection insurance. Of those who are covered, around 1 million chose to purchase this type of insurance, with the rest, with almost twice this number covered by policies that are arranged and paid for by an employer.

1.18 million people in the UK have bought the insurance cover themselves, typically through a regulated financial adviser. Almost twice as many people – 2.02 million – are covered by policies that are arranged and paid for by an employer.[82]

Research conducted by the Money Advice Service highlights that 1 in 3 UK adults have had a serious financial shock in the last five years, yet of these only 1 in 3 of them had insurance in place to guard against it.[83] The Money Advice Service has partnered with the Association of British Insurers (ABI) to raise consumer engagement and knowledge on the importance of safeguarding finances. The campaign will encourage people to think about who and what they want to protect, breakdown barriers associated with saving or taking out protection insurance, and drive conversation around the importance of ensuring family and finances are safeguarded against an unexpected event.

Another consequence of the capability gap in planning ahead for negative or seemingly distant life events is the low number of people who have made a will. Only around 23% of working-age people say they have made a will, compared to 66% of older people in retirement.[84] See the section on Older People in Retirement (page 59) for more information.

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[80] www.moneyadviceservice.org.uk/files/final-interest-rates.pdf
[81] Welfare reform for the 21st century: the role of income protection insurance (ABI, 2014)
[82] ibid
[83] Press release (Money Advice Service, 2015)
[84] Financial Capability Survey (Money Advice Service, 2015)

Financial capability interventions need to support people in understanding and considering the key risks they face, and making informed choices about ways in which they could protect against them. The Strategy will explore whether additional messages, guidance or other actions are effective in helping working-age people better consider their financial risks, and to what extent barriers to managing risks surrounding negative life events can be overcome by delivering messages, guidance or other actions through trusted messengers.

The importance of savings

The Strategy's key aim for working-age people is to tackle the persistent under-saving in the UK. The Strategy will focus on:

- developing and maintaining a resilience buffer against financial shocks;
- promoting a regular savings habit; and
- working to reduce the attitudinal barriers to saving.

A buffer against financial shocks

The Financial Capability survey found that 30% of working-age adults have no savings and only 26% have the equivalent of three months' income. A buffer against financial shocks can provide increased resilience, helping individuals meet unexpected costs - and thus avoid unnecessary or inappropriate use of credit - and providing a base from which to build greater financial resilience. StepChange Debt Charity estimate that savings of £1000 could help 500,000 people avoid falling into problem debt.[85] Qualitative research by the Money Advice Service found that individuals who experience a financial shock find their financial buffer does not last as long as they planned for.[86]

The Strategy will bring together partners from the financial services industry, charities and consumer groups to develop and pilot clear and simple guidance messages to promote savings as well as build a shared agenda on products and mechanisms that will encourage and enable people to develop and maintain a buffer against financial shocks.

Promoting a regular savings habit

Saving is not just about creating a one-off buffer against financial shocks, but creating and maintaining a savings habit, for those that can afford to. Two-fifths (40%) of working-age adults say they save something every month. The likelihood to save every/most months rises noticeably with household income, but 26% of working-age adults are saving every month in households with income below £17,500.[87]

Research suggests that once developed, the strength of the savings habit increases over time and reduces levels of stress when faced with financial difficulties.[88] But there are still a number of key evidence gaps around how policy, products and different incentives can help raise household saving.[89] Over the lifetime of the Strategy it will be important to learn more about effective messages and interventions that support working-age adults to build and sustain savings habits.

There have been a number of policy interventions and product offers to promote and encourage savings in recent years, but the evidence base on what works in encouraging savings behaviour is patchy. A Savings Gateway was piloted twice between 2002 and 2007. This was a government-supported cash savings scheme designed to help people on low incomes initiate a habit of savings. It tested different matching rates for every £1 saved.

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[85] *An Action Plan on Problem Debt* (Step Change, 2015)
[86] *Financial Capability and Wellbeing* (Money Advice Service, 2015)
[87] *Financial Capability Survey* (Money Advice Service, 2015).
[88] Accounting for the Role of Habit in Regular Saving (Căzilia Loibl, David S. Kraybill, Sara Wackler DeMay, Journal of Economic Psychology, 2011)
[89] *Raising Household Saving* (Crossley, Emmerson, Leicester, IFS, 2012.

The evaluation of the Savings Gateway pilot found 65% of subscribers made additional contributions over the amount required for maximum matched saving.[90] It is unclear whether incentives like this increase total savings or simply cause assets to be shifted from one place to another. One of the challenges to evaluating the effectiveness of savings initiatives is the difficulty in isolating the impact of specific products or policy interventions from other possible drivers or influencing factors.

The Financial Inclusion Commission has highlighted the variety of mechanisms and incentives that have been piloted to enable more people on lower incomes to save.[91] These include matched savings schemes like Savings Gateway, Lloyd's Banking Group's 'Save the Change' initiative that rounds up purchases and transactions and move the difference to a savings account,[92] and mobile applications like the Westpac Bank's Impulse Save App in New Zealand,[93] and True Potential LLC's impulseSave.[94] These applications make it easier to move pre-determined sums into separate savings or investment accounts, aiming to make it as easy to save impulsively as it is to spend. A number of credit unions have partnerships in place with employers to offer savings schemes through payroll deductions to harness the power of inertia to increase saving.

To develop a clearer understanding of what works, there is a need to co-ordinate new work to better understand the feasibility and effectiveness of different mechanisms that can help people on low incomes who can afford to build a regular savings habit.

Existing research on saving in lower income households suggests that most saving is done over the short term for a specific goal or purchase. A key challenge for the Strategy is to work with the grain of existing goal-related savings habits and shift mindsets for planned saving further into the future and build confidence and attitudes towards saving.[95] The remedies proposed by the Financial Conduct Authority (FCA) in the Cash Savings Market Review, to improve the information provided to savers and simplifying the switching process, could help existing savers to engage with saving products and choices.[96]

To make saving easier, there is a need to improve access to relevant savings products, and provide clear and effective guidance about savings products and incentives available. This area of work will be part of this strategy's focus on Ease and Accessibility (see page 76).

Engaging with the barriers to saving

There is a need to reach and engage people who do not believe saving is currently achievable for them. Research by the Building Societies Association (BSA) found that people's decisions to save or not were made in advance of, and separate from, choices about savings product.[97] This suggests a need to engage with attitudes of non-savers to build motivation and practical opportunities to convince themselves they could save within existing budgets and pressures.

The Money Advice Service's Savings Initiative will work with partner organisations to pilot an approach to engaging non-savers in planning to manage their spending and creating headroom to save. This will be followed by support to set a savings goal to provide non-savers with a route into developing a savings habit.

The Strategy will explore and share learning on different ways in which current non-savers can be effectively supported and given opportunities to build a savings habit.

[90] Final Evaluation of the Saving Gateway 2 Pilot: Main Report (Harvey, P. et al., HM Treasury, 2007)
[91] *Improving the Financial Health of the Nation* (Financial Inclusion Commission, 2015)
[92] http://www.lloydsbank.com/savings/save-the-change.asp.
[93] http://www.westpac.co.nz/impulsesaver.
[94] http://www.tpllp.com/impulsesave/.
[95] Saving in Lower Income Households, A Review of the Evidence (Kempson et al, PFRC, 2009)
[96] Cash Savings Market Review Study (FCA, 2015)
[97] *The Individual's Saving Decision* (Building Societies Association, 2007)

The role of the workplace

The previous Financial Capability Strategy for the UK sought to increase levels of financial education in the workplace. There is evidence from the US on the effectiveness of workplace interventions in encouraging new savings behaviour by employees,[98] and that improved financial wellbeing can increase productivity and workplace satisfaction.[99]

The previous Strategy's workplace interventions were focused on one-off sessions and evidence has suggested this is not sufficient for improving capability.[100] The challenge for this Strategy will be to identify whether there is a successful model that can be delivered at scale and effectively engage employees.

Priority areas for action

This section has identified that the biggest gap for the Strategy to fill is increasing resilience by enabling more working-age adults to save and plan ahead. The Strategy will do this through collective action on:

Priority 1: Build a stronger savings culture in the UK

Making it easier for more adults to save regularly and develop a buffer against financial shocks.

Priority 2: Planning ahead and managing life events

The Strategy will improve the evidence of what works in designing financial capability interventions to build resilience to the financial impacts of planned and unplanned life events, and explore how the workplace could be used as a route for interventions in the future.

Priority 3: Improving the ease and accessibility of financial products

The capability to save regularly and plan ahead is dependent on being able to access and use financial products and services with confidence. There is also a need to improve ease and accessibility of products for working-age adults. Over the lifetime of the Strategy, there are a number of industry-led initiatives and potential policy and regulatory interventions that will affect the supply of products and services in the market. The Strategy can add value to this by building the evidence base on what works and sharing insights into needs and gaps in provision across the sector.

Working-age adults' needs for support to manage money well day to day are served through diverse sources of guidance, information and tools from the commercial and charity sectors. The focus of the Strategy will be to understand the barriers that stop people using existing tools and sources of information, and improve access to money management tools that will help working-age adults build their financial capability and resilience.

[98] The Effects of Financial Education in the Workplace: Evidence from a Survey of Employers (Bayer, P.J Bernheim, B.D and Scholz, Economic Inquiry, 47: 605–624, 2009)
[99] Understanding the Impact of Employer-Provided Financial Education on Workplace Satisfaction (Hira & Loibl, Journal of Consumer Affairs 173, 185, 2005)
[100] *Evidence of impact: An overview of financial education evaluations* (Adele Akinson, PFRC, 2008)

Action Plan

The section outlines the proposed actions to address the priorities outlined above. The Working Age Steering Group and Savings Steering Group will further refine, prioritise and evolve the action plan, which will be published and updated on the Financial Capability website.

1 Building a stronger savings culture in the UK

a. Develop a cross sector plan to encourage people to build a savings buffer and develop a stronger savings culture by:
   - more effectively targeting relevant messages and guidance to encourage a regular savings habit, developing and piloting clear and simple guidance messages;
   - securing agreement from trade bodies and industry groups to adopt and communicate common rules of thumb for lower income savers;
   - analysing and monitoring policy and impacts of market changes on savings and financial capability.

b. Co-ordinate across the financial services industry to build a shared agenda on products and mechanisms that will enable consumers to more easily develop a savings habit.

c. Understand and share learning from innovations in fintech that could make saving more accessible and compelling for consumers.

d. Build on work with the *Financial Inclusion Commission* to conduct a feasibility study into which savings schemes and mechanisms work best for households on low incomes.

e. The *Standard Financial Statement governance groups* will monitor the use and impact of the savings element in the Standard Financial Statement for debt advice clients and share this learning across the sector.

f. Conduct analysis to improve understanding of the impacts and trade-offs for consumers between short-term and long-term saving.

g. The *Money Advice Service* is developing a programme aimed at supporting key consumer groups who do not currently save, helping them to better manage their money, as a route into developing a savings habit in the longer term.

2 Planning ahead and managing life events

a. Improve the capability of people claiming Universal Credit (UC) to budget and plan ahead. This will include:
- co-ordination with the *Department for Work and Pensions (DWP)* to embed financial capability into the claimant journey;
- sharing learning and insights about the need for budgeting support, and working with relevant partners to design services and evaluate their effectiveness; and
- co-ordination with the financial services industry to understand and monitor take up of transactional accounts by UC claimants.

b. Support working-age people to make active decisions about whether, and what type of, protection insurance is right for them. This will include exploring:
- the potential for common benchmarks for protection insurance products to enable easier comparison; and
- whether additional guidance on protection insurance product features could help people choose protection insurance that meets their needs and expectations.

c. Work with the sector and employer groups to identify the most effective role for money management in the workplace. This will include:
- developing the business case for workplace money management;
- sharing insights and learning on different and distinct needs for support with money guidance and planning ahead across the workforce;
- drawing on evidence and experience of the sector;
- building on the roll-out of auto-enrolment, exploring the potential for workplace payroll savings schemes.

d. *National Numeracy* are collaborating with the *Money Advice Service* to make it easier for people to assess their numeracy and find tools to improve it.

3 Improving the accessibility of financial products, services and advice

a. Support existing cross-industry initiatives on access to mainstream banking including:
- work on identity requirements for opening current and savings accounts;
- monitoring the take-up of basic bank accounts and ‘jam-jar’ facilities and the introduction of ‘simple products’; and
- understanding the impact of industry approaches to improve access to banking services.

b. Embed financial capability in the development and delivery of the *Digital Passport* project to help consumers open and switch providers of savings accounts more easily and flexibly, in collaboration with *TSIP*.

c. Work with organisations, in particular credit unions, to co-ordinate existing projects monitoring access to affordable credit and to investigate and pilot different approaches to meeting identified gaps in demand.

d. As innovative products and payment systems are rolled out, partners involved in the Strategy will monitor their take-up and, where possible, develop shared understanding of their impacts on consumer behaviour.

e. Building on the *Financial Conduct Authority (FCA) Smarter Communications* paper, work with partners to co-ordinate industry initiatives to test and learn from different approaches to product communications that help consumers engage with the features, costs and risks of different financial products.