Financial Capability Strategy for the UK

the Money Advice Service

How can we improve the financial capability of young adults?

Young adults (16-25 years old) face many potential financial pitfalls on the road to independence, but these are also opportunities to take stock and take control; this review asks how we can encourage young adults to engage with money guidance, as they move towards financial independence, so they make good choices and form positive habits.

This review looks at young adults' financial behaviour, the challenges they face, and techniques for engaging them with Financial Capability support and money guidance.

Please contact us at whatworks@fincap.org.uk with your feedback and any suggestions for research that you think should be included in future updates.

What are the financial challenges for young adults?

Young adults (16-25 years old) face many points of transition as they move from school into work and further/higher education or training. At each juncture, they have access to some form of income - benefits, student finance or wages – and credit. Consequently, they need to take stock and make a financial plan for that period in their lives, in the context of the growing life pressures and responsibilities they face.

Unsurprisingly however, during such points of transition young adults are still developing the skills they need to manage their income and plan ahead. Research has shown that, although young adults are more likely to have goals than other age groups, as many as two thirds do not have plans in place to achieve these goals. They are not good at projecting forwards, planning tends to be for short term spending, and they can struggle to balance financial goals with immediate spending needs. They (and females in particular) also report lower levels of confidence managing money than working age adults.

This may be in part because young adults learn from experience. However this has implications for two groups in particular. Firstly, those who remain in the family home (which many are doing for longer than previous generations) have fewer opportunities to make financial decisions, independent of parental support. Secondly, vulnerable young adults often become fully independent at a younger age, before they have had time to practice the skills they need within the safety net of parental guidance and support.

Support and guidance exists to help young adults to manage their finances better, however research has shown there is little appetite to engage for a number of reasons: many young adults don't feel inspired, motivated or equipped to take up services on offer; talking about money is not considered fun; and they are more likely than other age-groups to believe that they have to pay to access debt advice. A lack of trust may also be holding them back; they are typically suspicious of banks, financial institutions and organisations viewed as 'authority figures'. Consequently, they would rather go to parents (or other trusted influencers) for advice, which can be problematic if their trusted influencers lack financial capability themselves.

Access to help and support does not therefore appear to be the issue. Rather, getting young adults to engage with guidance that is already available to them is a key first step to tackling poor financial capability and minimising the impact that poor money choices have on their wellbeing as they get older.

How can we encourage young adults to engage with money guidance?

Research indicates that the following techniques are helpful in getting young adults to engage:

- **Target transition points, when young adults are already thinking about money:** At these key 'teachable moments' (e.g. moving into work, claiming welfare or moving into higher or further educations) young adults may be more inclined to take stock and make plans for the future, and consequently may be seeking and ready to act on guidance and support.
- **Engage through trusted influencers:** We know that young adults often see parents as their main source of advice, but that their parents' skills and knowledge may not be up to scratch. Therefore information, guidance and support aimed at upskilling parents as key influencers on young adults may be an effective approach. In addition, teachers and youth workers may also be good advocates.
- **Channel advice through 'people like me':** Linked to the point above, peer, 'near-to-peer' and nominated experts can be powerful engagement tools. Other young adults, who are one or two years older, are seen as having more life experience, both good and bad, but are also 'someone like me' and therefore are able to provide relevant and relatable advice.
- **Start Young:** Start engagement at a young age, enabling young adults to embed the necessary skills and capabilities they need into their behaviours and lives more deeply.
- **Make it relevant by involving young people:** By involving young people in programme design, co-creation helps to ensure that content reflects the needs and points of view of the target audience; it feels relevant and personal, another key factor in getting young adults to engage.
- **Make it personal by looking at the bigger picture:** Particularly for vulnerable young adults, money problems and choices may be part of a range of wellbeing issues they face. To address poor financial wellbeing and capability it is necessary to employ a holistic approach, which seeks to understand and possibly tackle these wider problems.
- **Go digital, but only if accessible, engaging and trustworthy:** Young adults are already digitally engaged, they use the internet to search for information, but can find the range and volume of content overwhelming. Therefore easily digestible digital content, e.g. video content, can be a valuable engagement tool, but only if it is well advertised and signposted, and from a source that young adults consider to be trustworthy and impartial.
- **Make it fun:** Use humour and relatable examples to connect with the young adults you're targeting on an emotional level, and make talking about finances feel less formal. In workshops and groups, it can help to adopt an interactive approach and use experiential techniques such as small-group discussions, role-play exercises and brainstorming.

What doesn't work?

There is also evidence to suggest that certain techniques are unlikely to work, such as:

1. **Employing the 'fear factor':** Trying to deter young adults from doing something through scare tactics does little to change behaviours
2. **Zero tolerance policies:** In some instances, abstinence and zero tolerance policies have been found to increase the chances of risky behaviours
3. **Exaggerating:** Research indicates that young adults tend to be suspicious of unsubstantiated, unrealistic claims and overt attempts to sell

Where should future research focus?

Questions for future research include:

- What works to encourage young adults to engage with money guidance and develop their financial capability?
- What influences young adults' financial decisions and behaviours? What more can we learn about the differences between individuals and groups, for example, young men and young women or planners and non-planners?
- How does being part of 'Generation Rent' impact young adults' financial capability? Does this affect how they save and plan for the future? Do they understand the long term consequences, for example that they will be paying rent from their pension?
- How does graduating with thousands of pounds of debt affect attitudes to borrowing? How do young adults who are anxious not to increase what they owe differ from those who do not see the harm in borrowing even more?

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