# Measuring Household Financial Resilience

The report of the Financial Resilience Task Force

# Foreword

## Baroness Drake

Over recent years a growing body of evidence has shown that many families and households are living on the edge. They are getting by – some comfortably so - but a single adverse event can push them over the edge.

In this report, we explore what can be done to quantify this problem and to understand the underlying drivers.
A stark picture emerges. Each year, some 4-6 million people suffer one of four key life events that can cause a sudden loss of income. A further sizeable group experience other life events which can disrupt the household finances.
Some families and households are well placed to weather the storm. But many others lack the financial resilience to do so. The consequences for them and for others in society can be severe.

Our study has taken findings from a wide range of respected sources and presented them through the lens of financial resilience. This one-off exercise indicates that low financial resilience is a substantial and widespread problem. But only a regular and granular measure can illuminate the changing factors which contribute to low financial resilience, pinpoint the areas where action is most needed, and assess the effects of interventions. We have therefore focussed our work on developing a proposal for a new Financial Resilience Index.

While we have put forward a specific idea about how the Index could work we do not see this as the last word on the detail. We hope our report will encourage debate and discussion about the best way to track and report upon financial resilience.

Many stakeholders have a strong interest in this area. We hope that a consensus will form around the idea that financial resilience should be the subject of a regular, authoritative and granular statistical report. We hope that our work in promoting a regular Resilience Index will create extra impetus and focus in helping more families and households across the UK to become more financially resilient.

**“financial resilience should be the subject of a regular, authoritative and granular statistical report”**

# EXECUTIVE SUMMARY

## Resilience to household financial shocks

Financial resilience is the ability to weather the storm when events happen in our lives which have a negative impact on our finances. The Task Force's suggested definition is:

"The ability to cope financially when faced with a sudden fall in income or unavoidable rise in expenditure."

These financial shocks can arise in many ways including a drop in income due to sickness, job loss or reduced working hours, a relationship breakdown or bereavement, or a jump in housing costs including essential repairs to the home, or taking on new responsibilities such as caring.

In Britain today some 4 – 6 million working age people each year suffer a life event which is likely to cause an income shock, leading to a substantial temporary interruption, or more permanent fall in income.

The main causes of income shocks amongst working age people include:

- Ill health – affecting between one-and-a-half and two million people each year
- Relationship breakdown or death of a partner – affecting a million people each year
- Job loss – affecting one to two million people a year
- Caring responsibilities – leading to income drops for around half a million people annually.

Alongside these, recent research shows that some 73% of people in regular jobs face significant fluctuations in their monthly earnings[1].

### Factors that contribute to resilience

A range of factors – individually or in combination – can help people in increasing their resilience to these financial shocks. These include access to employment benefits (such as sick pay), state benefits, private insurance, savings, affordable credit and help from friends and family. Having strong financial capability and few pre-existing debts can also help. Owning your own home can also boost resilience but home ownership has declined markedly amongst working-age groups over the last 15 years.[2]

### The impact of low financial resilience

In the event of an income shock, where people lack financial resilience there are adverse effects on not only the individual and their household, but also on employers, landlords, utility companies, local authorities and numerous other service providers. At a societal level, if segments of the population lack financial resilience there is a potential impact to the economy and to financial and social stability.

A lack of financial resilience can magnify the impact of an initial income shock, leading to significantly more serious consequences – which can range from mental health issues to problem debt to reduced life chances for the children of those impacted. Businesses also suffer as employee productivity falls due to the stress of the income shock and the change in income or expenditure.

### The changing employment and welfare context

The nature of work is changing. While more people are in work, almost one in six are now self-employed. A further 1 in 12 work under contracts that provide reduced employment protections. Income is increasingly volatile. Fewer people now work for large businesses - which have traditionally been more likely to offer employee benefits that mitigate the effect of income shocks.

At the same time, the pattern of support from employer benefits and from the state welfare system has been changing. In most cases, this puts more responsibility on the individual. Occupational benefits like sick pay, redundancy pay or death in service payments are declining in coverage and value – recent research found only 28% of employers provide more than the basic statutory sick pay of £94.25 a week.

State benefit rates have fallen in real terms and help with housing costs has reduced, as has help for larger families. The duration of bereavement payments to widowed parents has been shortened and contributory benefits for long-term sickness are now limited to one year in some cases.

The effect of this growing employment insecurity and the increasing shift of responsibility for financial resilience to the individual is to create a widening resilience gap.

---

[1] Tomlinson, D. *Irregular payments Assessing the breadth and depth of month to month earnings volatility*, Resolution Foundation (2018) p.5

[2] English Housing Survey: Data on Tenure Trends and Cross-Tenure Analysis, Ministry of Housing, Communities and Local Government (2019)

## Personal savings and insurance

Many UK households lack the savings or insurance cover to enable them to weather an income shock. The Money Advice Service's Financial Capability Survey report found that 11.5 million adults (22%) have savings of less than £100, and the FCA's Financial Lives Survey found that 13% of UK adults have no cash savings whatsoever and a further one in three (32%) only have savings of between £1 and £1,999.[3] [4]

The same survey found that 65% of adults had no form of life or protection insurance.[5] Only 3% had mortgage payment protection and only 4% had income protection, the most relevant of the available insurances to cover sickness absence. [6]

## A financial resilience index

Our work has demonstrated the widespread nature of financial shocks and income volatility. It shows that many individuals and families lack the financial resilience to weather these shocks. This situation can be detrimental to individuals, families, institutions and our society as a whole.

We know from the discussions we have had that there is a genuine will in many quarters to address this problem and that many ideas have been put forward. Indeed building greater financial resilience is a key goal for the newly formed Money and Pensions Service.

We believe that action to tackle this problem must be guided by a sound analytical base. A regular and granular measure is vital to illuminate the changing factors which contribute to low financial resilience, pinpoint the areas where action is most needed, and assess the effects of interventions. We have therefore focussed our work on developing a proposal for a new Financial Resilience Index.

Our recommendation is that a Financial Resilience Index should be created to provide a regular, reliable, respected and insightful measure of financial resilience.

This financial resilience index would:

- Map the level of resilience in UK households;
- Allow changes in resilience to be tracked;
- Highlight segments of our society where action is most needed to improve resilience;
- Improve understanding of the underlying causes and drivers of low resilience;
- Be a useful tool for all organisations and agencies seeking to improve financial resilience;
- Provide a basis against which proposed policies or actions could be tested so that unintended impacts can be identified in advance.

## How would it work?

We set out in Chapter 5 a detailed proposal for the Index. In the short term, an initial version of the index could be produced drawing together data from existing sources. This would help provide an immediate focus on measuring resilience.

The Index could then be further developed making use of a dynamic microsimulation model. This more fully developed Index would be capable of segmentation by a range of characteristics so as to help pin-point segments most in need of action, whilst presenting its results in an engaging way so as to make it meaningful to the variety of people who will use it – from policy makers to product designers.

We recommend that the Office for National Statistics should be the governing body for the Index. As the UK's largest independent producer of official statistics and the recognised national statistical institute of the UK it has the standing, expertise and data access to make a success of the Index.

We believe the ideas presented in this report represent a promising way forward for the Resilience Index but recognise that its design, implementation and presentation should be a matter for its governing body. We hope the ONS will look favourably on the proposal that they assume this role.

---

[3] *Building the financial capability of UK adults: Initial findings from the 2018 Adult Financial Capability Survey*, Money Advice Service (2019) p.3

[4] *The financial lives of consumers across the UK Key findings from the FCA's Financial Lives Survey 2017*, Financial Conduct Authority (2018) p.68

[5] *Ibid* p.66

[6] *Ibid* p.107

# CHAPTER 1: FINANCIAL RESILIENCE – AND WHY IT MATTERS

## Introduction

In this Chapter we give a brief overview of:

- What we mean by financial resilience
- What helps people to be financially resilient
- Why financial resilience matters

### Defining Financial Resilience

By financial resilience we mean the ability to weather the storm when events happen in our lives which have a negative impact on our finances. Our suggested definition is:

**"The ability to cope financially when faced with a sudden fall in income or unavoidable rise in expenditure."**

Such 'storms' can arise in many different ways. A fall in income could be caused for example by sickness, job loss or reduced earnings, relationship breakdown or bereavement. A sudden rise in spending could arise for example from a jump in housing costs including essential repairs to the home, or from taking on new responsibilities such as caring. In some cases, such as becoming an unpaid carer or being diagnosed with an illness such as cancer, people can find that they face both a drop in income and extra expenditure.

We recognise that being financially resilient may mean different things in different situations:

- In the case of a short-term loss of income – or unplanned extra spending – it may mean having the financial resource to get through the period without suffering a marked drop in living standards or building up problems for the future (such as acquiring problem debt);
- Where the fall in income – or rise in outgoings - is longer-term or permanent, resilience may mean having the financial resource, capacity and capability to make a gradual and planned adjustment to the new circumstances.

### Factors that influence financial resilience

The means by which people are financially resilient and the extent to which they can mitigate a potential financial shock will differ between individuals and households, and from one situation to another. For example:

- Existing financial assets will often be drawn upon. But it may not be realistic for many people to hold savings sufficient to cover several weeks' or months' loss of earnings or reduced income;
- Support from State Benefits will be important for many but not sufficient or available for all;
- Employment-based payments can help some employees in particular situations such as sickness, bereavement or redundancy. These are a very important element of the support structure but their scale and availability will vary from one person to another – and are not available to the self-employed;
- Insurance pay-outs can make an important contribution in a wide range of situations ranging from sickness (through Income Protection and Critical Illness policies) to bereavement (through Life Insurance) and sudden unplanned expenditure (e.g. through household insurance.) But their take up by consumers, particularly of Income Protection, is low;
- Support from a partner, other members of the household and/or from family and friends can play a key role – where available;
- Appropriate use of affordable credit can be helpful, for those who are able to access it - whereas those who are already over indebted are likely to be less resilient.

In addition people with greater financial capability are likely to be better placed to take appropriate steps to address a financial shock; and homeowners may have more options available to them then renters.

### Why financial resilience matters

The ability to withstand income/expenditure shocks (resilience) is an important driver of people's financial wellbeing, itself an important element of general wellbeing.

Where people lack financial resilience the adverse effects can operate at three levels:

- Individual/family level. When a financial shock comes and resilience is low the immediate consequences can be a dramatic fall in living

standards and/or the build-up of problem debt. In some cases people may be unable to meet their housing costs and risk losing their home. Health problems (especially mental health problems) can be aggravated by financial problems – and this in turn can lead to problems at work and risks to continued employment[7]. Relationships can come under pressure and children can suffer mentally, physically and socially.

- Wider level. Employers (and fellow employees) can suffer when someone's financial difficulties impair their performance at work. Landlords and lenders can feel the consequences when a tenant or borrower is unable to keep up payments, as can utility providers and financial institutions.
- Macro-economic level. If segments of the population lack financial resilience this can create potential impacts to the economy and to financial and social stability. For example, many landlords are themselves now small businesses with little capital – if their tenants face financial shocks for which they are unprepared, the knock-on consequences can quickly spread.

## Conclusion

**Financial resilience provides a buffer against both income shocks and expenditure shocks. Our work has focussed mostly on the former but the conclusions are equally valid across both types of financial shock.**

**In the next Chapter we say more about the prevalence of financial shocks – especially sudden drops in income – and give more detail about the effects of low resilience to them.**

[7] Niedzwiedz CL, Katikireddi SV, Reeves A, et al. *Economic insecurity during the Great Recession and metabolic, inflammatory and liver function biomarkers: analysis of the UK Household Longitudinal Study*, Journal of Epidemiology & Community Health, Volume 71 (2017) pp.1005–1013

# CHAPTER 2 –THE PREVALENCE AND CONSEQUENCES OF FINANCIAL SHOCKS

## Introduction

In Britain today some four to six million working age people each year suffer a life event which is likely to lead to a substantial temporary interruption, or more permanent fall in income.

The extent of this income instability brings new challenges to individuals, families and communities across the country. In turn, their vulnerability to unexpected events creates additional pressures upon local and national government services.

In this Chapter we look at:

- The main immediate causes of income shocks for working age people:
  - Ill health – affecting between one-and-a-half and two million people each year
  - Relationship breakdown or death of a partner – affecting a million people each year
  - Job loss – affecting one to two million people a year
  - Caring responsibilities – leading to income drops for around half a million people annually.
- The consequences of financial shocks for individuals, households and wider society

Even amongst those who do not face these events, most employees in a steady job have volatile pay and cannot rely on the same amount coming in each month – a development we discuss in Chapter 3.

Our analysis draws on a number of research reports and Government documents. We have focussed primarily on people of working age, but note that some of the underlying pieces of research also include a wider range of ages.

The figures we quote above are focussed on several major and unavoidable types of income shock. We recognise that a further, still larger group of people may be affected by other life events which can leave people financially worse off. The recent "Life Happens" report by the StepChange Debt Charity [8] showed that up to 11.5 million people could be affected by such events each year.

### Ill Health

While sickness absence rates have fallen significantly since the 1990's ill-health remains a major cause of long-term absence from work. In 'Improving Lives – The Work, Health & Disability Green Paper 2016 (Cm 9342)' the government estimated that each year 1.8 million employees have a sickness absence of four weeks or more.[9]

The Government's more recent paper 'Health is everyone's business'[10] estimated that each year 1.4 million *working age* people have *at least* one sickness absence lasting four weeks or more. Of these around a third experience an absence of over 2 months.

The two most common causes of longer-term sickness absences are mental health and musculoskeletal conditions. Around 300,000 people with a long-term mental health condition fall out of work each year.[11] Other major causes of long-term absences are cancer and accidents[12].

It has been estimated that 60% of long term absences are accounted for by women.[13]

With the UK workforce ageing it is estimated that by 2030, 40% of the working age population will have a long term health condition.[14]

### Relationship breakdown or loss of a partner

Two further major causes of income shocks are relationship breakdowns and loss of a partner. In their Milestones & Millstones report (2015)[15] the Money Advice Service estimated that each year over a million working age people are affected by these events:

- 855,000 get divorced or separate from their partner

[8] *Life happens: Understanding financial resilience in a world of uncertainty,* StepChange Debt Charity (2019)

[9] *Improving Lives The Work, Health and Disability Green Paper*, Department for Work & Pensions and Department of Health (2016) p.4

[10] *Health is everyone's business: Proposals to reduce ill health-related job loss*, Department for Work & Pensions and Department for Health & Social Care (2019) p.12

[11] ibid

[12] *Building resilient households: The future of financial provision for those too ill to work*, Chartered Insurance Institute (2016) p.13

[13] Ibid, p.9

[14] *Health and Work Spotlight on Mental Health,* Public Health England & The Work Foundation (2016) p.3

[15] *Milestones & Millstones: Life Events Research*, Money Advice Service (2015) p5

- 175,000 lose their partner through death

The StepChange research puts the figure for relationship breakdown rather higher at around 1.25 million a year, perhaps reflecting a wider age range (all people over 18) being included.

Alongside the emotional upheaval associated with these events there are usually a whole host of practical and financial issues which rapidly press upon those affected. These may include issues about child-care and whether the surviving partner is able to sustain their own work pattern in changed circumstances. Housing issues can often need urgent action in these circumstances also.

While both parties can suffer a financial shock in the event of a relationship breakdown, the parent who becomes the primary carer of any children – usually a woman[16] - is likely to be most severely affected. Among parents whose children are no longer dependent, women see living standards fall by far more on average after separation than their former partners, and 30 percent of them fall into relative poverty after separation.[17]

Two further issues to do with relationships are also relevant here. First, the number of cohabiting couples has increased from around 1.5 million in 1996 to around 3.4 million in 2018, an increase of 131%[18]. In 2018, 21% of couples living together were cohabiting rather than married or in a civil partnership. Cohabitees lack many of the legal rights and protections offered to people who are married or civil partners so tend to be more vulnerable in the event of a break up[19], an issue which is amplified by the lack of understanding of the differences in rights.

Second, the phenomenon of economic abuse by partners is increasingly prominent, and women are most likely to be the victims[20]. Economic abuse can take many forms[21]. It can leave its victims unable to access their own, or joint, resources or finding them severely diminished – a further distressing type of financial shock.

## Job loss

The Milestones and Millstones report estimated the number of working-age people losing their job each year at 1.24 million. The more recent research for the StepChange report put this figure at 4.5 million in a two year period. While figures will clearly vary over time, and with different survey techniques it is clear that the number of people affected is substantial.

In some cases job loss will be through redundancy (possibly with some redundancy payment) but often there will be other causes. Whatever the cause, people losing their jobs will often face a period of worry and uncertainty. Happily, many will soon another job though even those facing the shortest gap between jobs will need a degree of financial resilience to cope with the transition.

## Assuming caring responsibilities

The last census (2011) reported that 6.5 million adults care for another adult – a rise of 11% on the previous census. Some 5 million of these are of working age and the majority (58%) are women. One in three women in their late 50s is caring for an elderly relative[22]

In their Policy Briefing (August 2019)[23] Carers UK point out that:

- Carers are not a static population and each year millions of people take on caring responsibilities whilst caring comes to an end for millions of carers as the person they care for recovers, moves into residential care or passes away.
- Every year over 2.1 million adults become carers and almost as many people find that their caring responsibilities come to an end. Three in five people will be carers at some point in their lives.

In Juggling Work and Unpaid Care (2019) Carers UK report on their latest research which shows:

- '5% of UK adults have given up work to provide care for an ill, disabled or older relative or friend, and 4% said they had reduced their working hours to care. This equates to 2.6 million people giving up work in order to care, a rise of 300,000 since 2013
- Just over 2.1 million people have reduced their working hours in order to care

[16] Currently 86.3% UK lone-parent households are headed by females. *Estimated number of male and female lone parent families by regions of England and UK constituent countries, 1996 to 2017* , Office of National Statistics (2018)

[17] Brewer, M. & Nandi, A. *Partnership dissolution: how does it affect income, employment and well-being?* Institute for Social & Economic Research (2014) p.2

[18] Fairbairn, C. *Common Law Marriage and Cohabitation: Research Briefing*, House of Commons Library (2019) pp. 6-7

[19] Ibid pp 9-18

[20] Sharp-Jeffs N. *Money matters. Research into the extent and nature of financial abuse within intimate relationships in the UK,* The Co-operative Bank & Refuge (2018)p.6

[21] *The Domestic Abuse Report 2019: The Economics of Abuse*, Women's Aid (2019) p.8

[22] *Risk, exposure and resilience to risk in Britain today: Women's Risks in Life - an interim report,* Chartered Insurance Institute (2018), p. 20

[23] *Facts about carers: Policy Briefing*, Carers UK (2019) p.2

- Nearly half a million people (468,000) have given up work over the past two years as a result of caring. This equates to around 600 people every day'

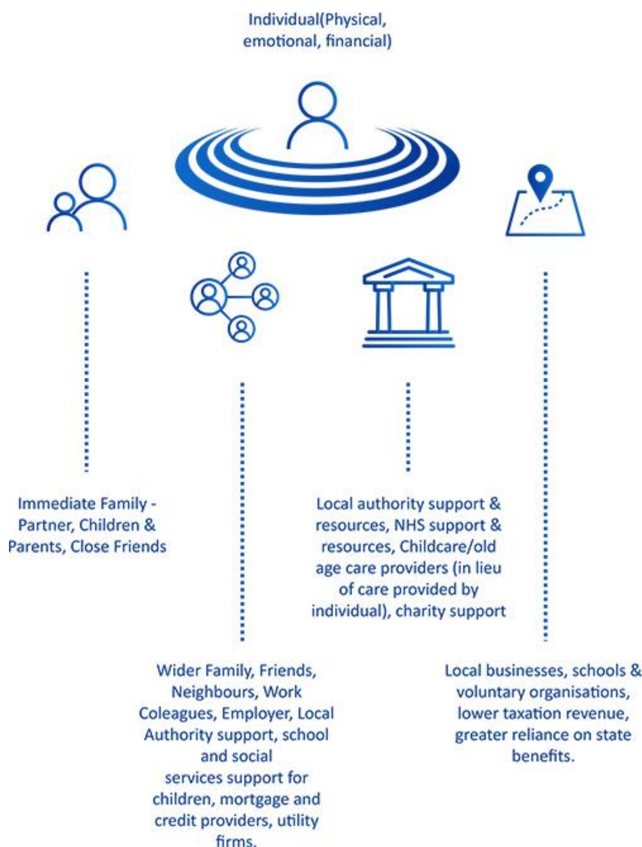
Based on these reports, we estimate that around 400,000 thousand people *each year* either give up work or reduce their hours to become a carer.

## The consequences of low resilience to financial shocks

### Individuals, families and wider society

A financial shock is likely to have a greater impact where an individual or household lacks financial resilience. In addition, there is often a wider 'ripple effect' as shown in Figure 1 below.

As the graphic shows, while the individual affected will directly experience the physical, emotional and financial impact there is also an effect on the family. As well as the reduction in resources there is likely to be added stress, relationships can come under pressure and children can suffer. Research by the Children's' Society shows that some combinations of family disadvantages – which notably include having debt combined with struggling with bills; and struggling with bills combined with risk of homelessness – are associated with the lowest levels of wellbeing.[24] They have also shown how a wide range of life events can lead to debt affecting children's physical, mental and social wellbeing[25]




[24] *The good childhood report 2017*, The Children's Society (2017) p.4

[25] *Life events: How any family can fall into debt: The case for a breathing space scheme* , The Children's Society (2018)

As shown in the outer ripples, the negative effects of a financial shock can then ripple out to the local community and to society more widely. We illustrate below how some of these wider effects may be easier to measure than others.

| Easier to measure | | Harder to measure |
|---|---|---|
| • Loss of individual's income in weekly, monthly or annual terms<br>• Cost to state of supporting the individual (SPP, UC, NHS, local council social services spend)<br>• Additional costs incurred by the business through delayed repayments (e.g. mortgage re-negotiations etc.)<br>• Numbers who return to work for part time following illness or not at all. | • Loss of tax revenue over time due to lower on-going income<br>• Loss of spending power in local and national businesses<br>• Loss of 'free' care provided to children and the elderly<br>• Impact upon children of affected individuals who have to become child carers<br>• Additional costs to the state due to second-order problems resulting from the intitial income shock (e.g. mental health issues, alcohol or drug dependence etc.) | • Loss of contribution to family development, local community and voluntary organisations.<br>• Loss of social mobility of subsequent generations of the impacted individual and loss of their wider contribution to society<br>• Impact upon children of affected individual in lower school achievement, lower financial support from parents and lower lifetime eearnings and security (studies exist, but specific impacts will be hard to prove). |

The impact of a financial shock also stretches out over time. As well as an immediate reduction in spending power, there may be immediate emotional – and perhaps mental health - impacts associated with the stress of the event leading to the financial shock, in addition to dealing with the shock itself. In the medium term there may be adjustments required to accommodate lower income levels and, of course, there may be an impact caused by those same adjustments. In some cases, inability to meet housing costs can lead to a need to move home (or to homelessness) – something which brings with it transition costs and stress as well as fracturing social support networks and relationships. There may be long term impacts on pension saving, or perhaps a longer-term fall in quality of life.

We illustrate this in the table below.

| Short-term | Medium-term | Long-term |
|---|---|---|
| • Reduction in spending power – some restriction over discretionary spending<br>• Mental health impacts associated with experiencing accident/serious illness and its implications/prognosis and loss of usual daily contacts (work colleagues, school run, social network etc.)<br>• Immediate adjustments required to accommodate physical changes (cost, time and emotional burdens)<br>• Re-organisation of caring responsibilities and other household tasks<br>• Need to apply for welcome support.<br>• The cognitive load of organizing (and worry about paying for) all of the above can impact the quality and timing of decision making . | • Structural adjustments to lower income levels – greater restriction of discretionary spending leading to loss of some essentials, may need to move to cheaper accommodation etc.<br>• May be unable to do original job, or only do limited hours. May lose income over longer-period due to need to re-train or work fewer hours.<br>• Impact upon children of individuals suffering income loss may be seen in behavior, school, results and life chances available.<br>• Adjustments required due to physical, mental and financial changes be impact close relationships. | • Reduction in pensions savings and loss of resilience through lower levels of disposable income available for insurances leading to greater reliance on the state, greater propensity towards mental ill-health and leader resilience to further knocks.<br>• Loss of confidence and resources to re-train or obtain alternative employment.<br>• Lower levels of financial support available for children of impacted individuals which may impact their educational levels and future wealth and security (e.g. ability to buy a house).<br>• Impact upon longer terms spending ability due to need to make up lost income or replace lost savings). |

## Relevant research findings

We look below at some key research findings about the effects of financial shocks and low financial resilience.

**Ill-Health**

People who are financially resilient are better placed to cope with the consequences of ill-health. They may be less likely to feel a need to go to work when they are unfit to do so. And an interruption in work due to sickness absence is less likely to create additional stress arising from an inability to make ends meet.

On the other hand, those who lack financial resilience may face a vicious circle where health problems are compounded by financial problems, leading to further sickness absence or a 'presenteeism' where they attend work when they are unwell and their performance suffers, which may lead to further difficulties with their employment.

Low financial resilience is a significant contributor to mental ill-health. The Chief Medical Officer has estimated that mental health problems cost the economy some £30 billion a year through absence, presenteeism and unemployment. Those off work for more than 6 months have only a 20% chance of returning to work in the next 5 years.[26]

These issues were highlighted last year by the Money & Mental Health Institute[27] which found that:

- 'People experiencing financial difficulty are substantially less likely to recover from mental health problems: someone experiencing problem debt alongside depression is 4.2 times more likely still to be unwell 18 months later than a person who is financially secure.'
- 'A person experiencing a mental health problem is likely to face trade-offs between their ability to work, their mental health and their financial wellbeing.'
- 'When people received adequate sick pay, they told us it made all the difference to their ability to recover.'
- 'The emotional impact of going without basic essentials and being pursued for debts can overwhelm people and exacerbate their mental health problems.'
- People who experience recurring periods of mental ill health can find the cycle becomes a downwards spiral, as savings, access to credit and sick pay entitlements dwindle, leaving people more financially vulnerable each time they are unwell.'

While some of these points are specific to those with mental health problems others could apply equally to other illnesses with a relapsing/remitting course.

**Carers**

As noted earlier in this chapter, around half a million people each year stop or reduce work to become a carer. Carers UK have pointed out[28] that almost 1 in 3 (30%) of carers who provide substantial care had seen a drop of £20,000 or more a year in their household income as a result of caring.

A third of carers who they surveyed had cut back on essentials like food and heating (32%) and 45% said their financial circumstances were affecting their health.

**Debt and financial distress**

StepChange's recent report[29] highlights that over 3 million people are in problem debt in Great Britain, with almost 9.8 million showing signs of financial distress. It found that that:

- People who had experienced a life event in the last two years were three times as likely to be in problem debt as those who had not experienced a life event.
- People who experienced two life events in the last two years were four times more likely to be in debt than those who experienced none.
- Those who experienced four or more life events were ten times more likely to be in problem debt
- Seven in every ten people who came to StepChange for advice said the primary reason they had got into problem debt was because of a life event or shock.

They note that

"With saving levels still low, work becoming more precarious for some and millions using credit to keep up with the cost of living, it is hard to build up any sort of protection against life shocks. Instead, people are relying on

---

[26] *Annual report of the Chief Medical Officer*, Department of Health (2013) p.10

[27] Bond, N. and Braverman, R., *Too ill to work, too broke not to: The cost of sickness absence for people with mental health problems*, Money and Mental Health Policy Institute (2018)

[28] *Facts about carers: Policy Briefing*, Carers UK (2019) p.10

[29] *Life happens: Understanding financial resilience in a world of uncertainty,* Step Change Debt Charity (2019)

a whole range of coping strategies to try and avoid debt. Yet, in many cases these are fundamentally failing to help people to keep their head above water."

**StepChange conclude that addressing the growing financial resilience gap is therefore ever more urgent - we will not be able to significantly decrease the stubbornly high number of people falling into problem debt in this country without breaking the link between life events and financial difficulty.**

**Impacts on businesses**

Businesses can be significantly impacted by employees dealing with financial worries, low financial resilience – and indeed financial shocks.

Research in 2018 found 35% of UK employees reported stress due to money worries, 33% reported feeling anxious, 26% reported losing sleep and 20% felt depressed as a result of money worries[30]

This stress affects productivity – improving UK productivity is recognised as a UK economic challenge. In 2018, research[31] found 11% of UK workers reported they had experienced a fall in productivity at some point over the preceding three years as a result of their personal financial situation. 55% of UK employees report that facing financial pressures affects their behaviour at work and ability to perform in their job, and 16% struggle to focus at work when they have money worries[32].

Small businesses can be particularly hard hit by income volatility. As the Money Advice Trust points out[33] cash flow issues caused by late payments can have a significant detrimental impact on both business and personal financial circumstances.

**Absenteeism and presenteeism**

UK research by the Centre for Economics and Business Research in 2018[34] estimated that workplace absences brought about by a lack of financial wellbeing costs business 4.2 million worker days each year. It put the financial cost of absenteeism and presenteeism (see below) at £1.56 billion each year, with the construction and hospitality and leisure sectors the worst affected. The Social Market Foundation reports that 6% of people in the UK reported having missed work due to money worries[35].

Presenteeism is harder to measure. Defined as "being present at work but being limited in some aspects of job performance by a health problem and thus experiencing decreased productivity and below-normal work quality", it presents a significant issue.

Estimates suggest that the extent of the problem is significantly greater than that caused by absenteeism. A 2018 study into the UK Workforce[36] found that "UK employees lost 13.6% of their working hours due to absence (1.2%), and presenteeism (12.5%). This figure translates into an average loss of 35.6 days of productive time per employee per year."

---

[30] *The DNA of Financial Wellbeing - Money and Mindset,* Neyber (2018)

[31] *Financial Wellbeing and Productivity: A study into the financial wellbeing of UK employees and its impact upon productivity*, Centre for Economic and Business Research (2018) p.5

[32] *The DNA of Financial Wellbeing - Money and Mindset,* Neyber (2018)

[33] *Taking care of business: Eight key challenges facing small business owners,* Money Advice Trust (2018) p.35

[34] ibid

[35] Evans, K. *Working Well: How employers can improve the wellbeing and productivity of their workforce*, Social Market Foundation (2016) p.10

[36] *Health at Work*, Vitality UK (2019) p.10

## Conclusion

The key points from this Chapter are:

- Each year, some 4 -6 million people of working age face a life event which is likely to cause a substantial fall or interruption in their income;
- A further group may face a sudden unplanned expenditure need. Taken together, these two factors mean up to 12 million people a year could face a financial shock;
- The consequences of financial shocks for individuals and families impact mental and physical health and have a direct impact on material wellbeing;
- There are wider adverse consequences for society such as increased welfare & NHS costs, loss of productivity and implications for the economy.

In the next Chapter we look at how changes in the pattern of employment and earnings have created an environment in which many people have less security and predictability in their income.

# CHAPTER 3: THE EMPLOYMENT CONTEXT TODAY

## Introduction

The last couple of decades have seen many changes in our labour market and wider society. One striking feature has been the growth in employment and the fall in the numbers of people receiving benefits due to unemployment.

Over the same period, policy has focussed increasingly on making work pay – through the minimum wage and later the National Living Wage, combined with changes to the state benefits system culminating in the Universal Credit.

Many more people who were not previously in work have therefore felt the benefits of employment.

**But there is also another side to the story. This side is one of reduced security and predictability of income – leaving people more vulnerable when things go wrong.**

In this Chapter we look at the changing pattern of work and employment and what this has meant for security and stability of household income.

### The changing pattern of work and employment

Key changes over the last two decades mean that:

- More people rely (in part or in full) on income from work
- Many more people are now self-employed or do work under contracts that provide reduced employment protections
- Fewer people work for large businesses which have traditionally been more likely to offer employee benefits that reduce the effect of income shocks

The table below gives further details:

| Change | Key details | Implications for Resilience |
|---|---|---|
| Participation | The employment rate has risen from 71.9% at the start of 1999 to 76.1% at the start of 2019[37]<br><br>The rise is greater amongst women (up 6.4 percentage points) than men (up 1.7).<br><br>The number of older workers has grown significantly over this period with 71.8% of 50-64 year olds now in employment compared to c.60% at the turn of the millennium.<br><br>Since 1992 the number of 50-64 year-old women in work has almost doubled[38] - partly reflecting the rise in women's state pension age.<br><br>Employment amongst the 65+ age bracket has doubled in the same time from 4.9% in 2000 to 10.4% in 2018.[39]<br><br>The employment rate amongst disabled people has grown faster than that amongst non-disabled people. In early 2019 the rate stood at 52.6% (still | More households for whom work contributes measurably to their income<br><br>Increasing numbers of people relying on work for income are past the age of 50 and/or have a disability. They may be more likely to suffer from medical events which interrupt their ability to work. |

[37] *Labour market overview, UK: May 2019*, ONS Labour Force Survey (2019), section 3

[38] *Risk, exposure and resilience to risk in Britain today: Women's Risks in Life - an interim report*, Chartered Insurance Institute (2018)

[39] *Economic labour market status of individuals aged 50 and over: trends over time*, Department of Work & Pensions (2018) p.7

| | | |
|---|---|---|
| | almost 30 percentage points below the non-disabled rate.[40]) | |
| Self- employment | Self-employment has grown by 49% since 1999 and now accounts for 15% of the labour force (4.93 million people)<br><br>The number of self-employed women has more than doubled over this period. | Key statutory benefits such as statutory sick pay and redundancy benefits are not available to this group.<br><br>Nor do they have employment benefits such as employer sick pay, bereavement or redundancy schemes.<br><br>Self-employed earnings tend to be lower than employed earnings and more volatile and subject to interruption. [41] |
| Atypical work | The proportion of the workforce reporting they are on zero-hours contracts rose from under 1% in 2012 to almost 3% by 2017.<br><br>1 in 30 women are on zero-hours contracts compared to 1 in 40 men.[42]<br><br>In addition government estimates assume 5% of employment is accounted for by people classed as 'workers' rather than 'employees' meaning they do not benefit from employment related protections [43] | People in these forms of work have fewer rights than those in more stable employment. They may lose work with little or no notice may have their hours adjusted on a weekly basis and not get other benefits usually open to employees such as sick pay, death in service benefit or an employer-contributory pension. These issues are described more fully in the TUC's Living on the Edge report in 2016[44] |
| Employers | The number of private sector businesses in the UK grew by 63% during the period 2000 – 2018 to reach 5.7 million[45]<br><br>Now 60% of private sector employees (over 16 million people) work for small and medium size enterprises (SMEs)[46]<br><br>Of these, more than half (8.8 million people) work for 'micro' businesses (those with fewer than 10 employees.) | Fewer people work for large businesses which have traditionally been better placed to offer employee benefits.<br><br>(In addition, employers who offer benefits increasingly do so through a 'menu'. Anecdotal information suggests that protection benefits may be less frequently chosen by employees than other benefits.) |

## Volatile earnings

Alongside these structural changes, recent research by the Resolution Foundation has uncovered new insights into the volatility of pay. Their report[47] examines volatility in take-home pay for those in regular work using transaction data from 7 million+ Lloyds Banking Group accounts. It shows that while *annual* earnings volatility has remained steady over the last two decades, the level of volatility *from month to month* is greater than might have been expected. Key findings include:

[40] Powell, A. *People with disabilities in employment: Research Briefing*, House of Commons Library (2019) p.4

[41] *Taking care of business: Eight key challenges facing small business owners,* Money Advice Trust (2018)

[42] *Risk, exposure and resilience to risk in Britain today: Women's Risks in Life - an interim report,* Chartered Insurance Institute (2018)

[43] *Impact Assessment: extending the right to a written statement to dependent contractors (non-employee workers*), Department for Business, Energy & Industrial Strategy,2018

[44] Living on the edge: Experiencing Workplace Insecurity in the UK, Trades Unions Congress (2018)

[45] Rhodes, C. *Business Statistics: Briefing Paper*, House of Commons Library (2018)

[46] *Business population estimates for the UK and Regions 2018: Statistical Release,* Department for Business, Energy and Industrial Strategy (2018)

[47] Tomlinson, D. *Irregular payments Assessing the breadth and depth of month to month earnings volatility*, Resolution Foundation (2018)

- The typical employee who remained with the same employer throughout 2016-17 (someone we term as having a 'steady job') had five months during the year in which monthly pay changed by more than five per cent.
- Most employees with a steady job (73 per cent) had volatile pay, defined as having notable changes in pay from month to month that are down to more than just pay rises, promotions or bonuses.
- The average notable monthly increase in pay was £530 and the average notable monthly decrease in pay was -£290. (The latter being more than average UK households spend on groceries each month.)
- Over 80 per cent of lower earners (those with annual take-home pay of around £10,000 a year) with a steady job have volatile pay, compared to two-thirds of those on higher earnings (with take-home pay of around £35,000 a year.)

Overall, gender differences in pay changes are relatively small. However, there is strong evidence that low-paid men have notably higher pay changes than low-paid women – both in monthly and annual data. In part this can be explained by the different sectors in which men and women on low earnings work.

While the research did not examine the underlying causes of volatility, factors such as flexible working patterns (e.g. term-time working), zero-hours contracts and one-off bonus payments may play a role.

In Resolution's focus groups, low earners with volatile pay spoke of how the challenges of living with low pay are exacerbated by pay volatility, leading to increased anxiety and stress as well as more debt, and fewer opportunities to save for the future. For those receiving in-work benefits (tax credits or Universal Credit) volatile pay will lead to volatile benefits. While these may compensate for each other in some weeks or months this is not always so – and juggling these two different volatile income streams can be stressful.

Finally, it should be noted that despite recent growth, average earnings in real terms are still lower than before the 2008 – 2009 recession. [48]

## Conclusion

**The UK labour market has been changing in a way that increases the risk of income shocks occurring while reducing the extent of protection offered by employment. Key points are:**

- **15% of the workforce is now self-employed. While self-employment has its advantages this does mean that almost a sixth of the working population has no employer to help cushion the blow when work dries up or sickness/accidents strike.**
- **A further group – around 8% - are in atypical forms of employment (service contracts or zero-hours contracts) which leave them exposed to greater risks of income security.**
- **Most private sector employees (60%) now work for SMEs.**
- **The demography of the workforce has been changing with women, older workers and people with disabilities all now playing a bigger role.**
- **Even most people in regular jobs (70%) are now likely to see significant monthly fluctuations in their earnings.**

**In the next Chapter we go on to look at the things that help people to be resilient to these income shocks & volatility – and at the extent to which they are present or absent for today's households.**

[48] *Average weekly earnings in Great Britain: September 2019*, ONS (2019)

# CHAPTER 4: SUPPORT WHEN THINGS GO WRONG

## Introduction

In earlier chapters we looked at the incidence and causes of income shocks and income volatility. In this chapter, we look at the main 'defences' people have to help them weather these events. The overall picture that emerges is that:

- The pattern of support from employer benefits and from the state welfare system has been changing;
- In many cases this is putting more responsibility on the individual, though they may be unaware of this;
- Many individuals and households are ill-prepared to take on this responsibility;
- Changes in the pattern of housing tenure may also be weakening the resilience of households.

Each of these areas is considered in more detail below.

### Occupational provision

Many workers have traditionally benefitted from some form of occupational provision for events such as sickness, redundancy, bereavement and retirement. The decline in employer-funded provision for retirement is well documented and led to the major reforms to the pensions system which began in 2012 resulting in an increase in workplace pension coverage. Information about the prevalence of employer-provided benefits for other life events is less well documented, but equally important. We have drawn together an overview below.

Sickness

Data about employer provision for sickness is relatively thin on the ground. However, there is some evidence that provision may be in decline. For example, the recent DWP/DHSC Paper 'Health is Everyone's Business – Proposals to reduce ill-health related job loss' reported survey evidence that in the event of sickness absence:

- 54% of employers pay Statutory Sick Pay (SSP) only (the current rate is £94.25 a week)
- 28% pay a combination of SSP and occupational sick pay
- 18% said they pay no sick pay at all, or did not know what they provided
- A fifth of those who pay more than SSP do so only for some employees[49]

This appears to be a significant fall compared to six years earlier when the 2013 Cass Business School report 'Keeping Pace – financial insecurity in the workplace' noted that:

**It is difficult to find reliable estimates, but intermittent UK government-funded and nationally representative surveys suggest a decline in the proportion of employers providing Occupational Sick Pay (OSP).**

The proportion of employers offering OSP as a normal entitlement for some staff has been estimated at 90% in 1988 (DSS 1988), 85% in 1994 (DSS 1994) and 48% in 2010 (Young and Bhaumik 2011)."[50]

While these surveys may not be directly comparable, they do suggest a long term decline in employer provision for sickness and a sharp decline during the current decade. We note that the figures give the proportion of *employers* offering more than SSP, rather than the proportion of *employees* who benefit from it. The latter is likely to be higher than the 28% figure mentioned earlier, since large employers are more likely to offer occupational sick pay. However the decline in the proportion of the workforce working for large employers reinforces the probability that the *trend* is downwards.

It should be noted that where employers do provide some form of occupational sick pay they may either finance it directly from their business or they may choose to take out an insurance policy ('Group Long-Term Disability insurance') or to do a combination of both. We note that the number of people covered by these Group LTDI policies has steadily increased over recent years – from 2.078 million in 2014 to 2.457 million in 2018[51]. While this is to be welcomed, the coverage still only represents 7.5% of the UK workforce and does not offset the overall downward trend discussed above.

---

[49] *Health is everyone's business: Proposals to reduce ill health-related job loss*, Department for Work & Pensions and Department for Health & Social Care (2019), Footnotes73 & 89.

[50] Bacon, N. & Hoque K *"Keeping pace? Financial insecurity in the modern workforce"*, CASS Business School (2013)

[51] Group Watch report 2019, Swiss Re (2019)

This decline in occupational coverage appears to be accompanied by misplaced optimism on the part of employees. Research for the Financial Services Consumer Panel found that "most participants who were employed had no knowledge of their employer's policy on sickness benefits, but generally believed that employers would give them sick pay should it be required. Most thought they would get paid for longer than the statutory minimum. These misconceptions may have led them to think there wasn't such a need to maintain an income in the event of a long-term illness."[52]

The Government's proposals in the Good Work Plan[53]for an enhanced 'employer statement' covering sickness entitlements may help to address these misconceptions.

Death Benefits

Where an employer provides death in service benefits these may be funded in a number of ways. In some cases they may be paid out of the company pension scheme or directly by the employer. In others, the employer takes out an insurance policy. We have only been able to track down figures on this last category. These show that some 9.8 million people are covered by such policies[54]. This figure reflects a gradual rise over recent years. It is of course quite possible that (as with sickness) the rise in the number of people covered by group insurance is outweighed by a reduction in the number covered by bereavement entitlements under a pension scheme or direct from an employer. The decline in Defined Benefit (DB) pension schemes, which often included death benefits, suggests this may well be the case.

As with sickness, lack of awareness is a further issue here. For example, the Insuring Women's Futures campaign report that 31% of women say they don't know whether their partner's pension is payable to them after death.[55]

Redundancy

We have not been able to find reliable data to give a clear picture of the extent and pattern of non-statutory redundancy pay. However, there have been significant cuts in the generosity of redundancy pay in the public sector. And in the private sector, the decline in the proportion of the workforce working for big employers (who often provided more generous schemes) may well mean that the extent of overall provision has reduced also.

Statutory redundancy pay provides 1 week's pay for each year of service between age 22 and age 41. Above this age range the rate rises to 1 ½ week's pay, while for service below age 22 the rate is ½ a week's pay. Reckonable pay is capped at £525 a week.[56]

## State Welfare System

Over the last couple of decades the state social security system has been substantially reshaped. Both the means-tested system and contributory benefits have seen radical change. The key changes most relevant to working age people who suffer income shocks are summarised below.

Means-tested support

Social security expenditure has focussed increasingly on those over pension age – whilst the value of many benefits for working-age people has fallen in real terms. The basic allowance for living expenses is now £167pw in Pension Credit compared to £73pw in Universal Credit.[57] Increases in most working age benefits and tax credits were limited to 1% for three years from 2013 to 2016 followed by a four year benefits freeze from that date. The standard basic single person allowance for living costs in Universal Credit is now set at £318 a month, though extra amounts are payable in certain cases. This compares to average pay for employees of £505 a week[58] (equivalent to £2188 a month.)

In addition larger families have faced further restrictions with benefits for children through Tax Credits and Universal Credit limited to two children for children born on or after 6 April 2017.

Two further reforms have reduced the support available to people at the point that an income shock arrives:

- Under Universal Credit, claimants face a five week waiting period before they are entitled to payment (advance are available in some cases but have to be repaid through deductions from benefit)
- The Social Fund, with its provision for crisis loans, has been abolished and replaced by local welfare schemes which provide significantly less support[59]

Alongside these reductions in the real value of out-of-work means-tested benefits, a series of reforms under successive

[52] *Understanding the protection gap: A Discussion Paper*, Financial Services Consumer Panel (2018) p.4

[53] *Good Work Plan, Department of Business*, Energy and Industrial Strategy (2018)

[54] ibid

[55] *Risk, exposure and resilience to risk in Britain today: Women's Risks in Life - an interim report,* Chartered Insurance Institute (2018)

[56] *Redundancy: Your Rights*, HM Government (2019)

[57] *Benefit and pension rates 2019 to 2020: Policy Paper*

[58] *Average weekly earnings in Great Britain: August 2019*, ONS (2019)

[59]Gibbons, D. *The decline of crisis and community care support in England: Why a new approach is needed*, Centre for Responsible Credit (2017)

governments have steadily reduced the support for housing costs:

- In the case of mortgage interest, the only support now available is a state loan which is subject to strict qualifying conditions;
- In the case of private sector tenants, only those whose rents are in the lowest 30% locally can get full help with their rent. And this limit has been frozen in cash terms for 4 years up to 2020;
- In the social rented sector, those who have a spare room – around 30% of tenants – no longer qualify for full help with their rent.

Finally, an overall benefits cap has been introduced and was reduced in 2016 to £20,000 pa (£13,400 for single claimants) with a slightly higher cap in London.

Contributory benefits

Reforms by successive Governments have substantially reduced the availability of non-means-tested support for contingencies such as longer term sickness and bereavement.

On bereavement, the latest reforms introduced for new claims from 2017 replaced existing benefits with the new Bereavement Support Payment (BSP). Under the new system a widowed parent can receive a lump sum of £3500 plus monthly payments of £350 for up to 18 months. Under the previous system the lump sum was lower (£2000) but the ongoing payments were higher (£519 per month) and would carry on until the youngest child was no longer dependent.[60]

For longer-term sickness, Incapacity Benefit was replaced in the last decade by Employment and Support Allowance. As part of this a Work Capability Assessment process is used to decide whether a claimant should be placed in the 'work related activity group'. People put in this group receive a lower rate of benefit (£73.10 a week) and the contributory (non-means-tested) element of this is limited to one year.

Overall implications

The overall effect of policy over the last two decades has been to increase incentives to be in work. Support for those who are out of work has been pared back.

Within this overall picture, some groups may face particular difficulties. As the Money Advice Trust has pointed out, it is more complicated for people who are self-employed to claim benefits due to their irregular and uncertain incomes, particularly as the assumption when calculating Universal Credit is that anyone who is self-employed earns the national minimum wage.[61]

## Personal Savings and Insurance

Despite these gradual shifts in responsibility, many UK households lack the savings or insurance cover to enable them to weather an income shock or to cope with major fluctuations in income:

- The Money Advice Service's Financial Capability Survey reported in 2018[62] that 10.7 million adults never/rarely save and that 11.5 million (22%) have savings of less than £100
- The FCA's Financial Lives Survey[63] found that 13% of UK adults have no cash savings whatsoever and a further one in three (32%) only have savings of between £1 and £1,999.

Different levels of protection will be appropriate for different households and insurance products will only be suitable for some. Even so, take-up of products specifically designed to cover interruption or loss income appears very low. The Financial Lives Survey found that:

- Only 4% had Income Protection[64] – the most relevant of the available insurances - to cover sickness absence
- Only 3% had mortgage payment protection

Overall 65% of adults had no form of life or protection insurance.

The Financial Lives Survey highlights that

- Over seven in ten (71%) 25-34 year olds have no protection product of any kind, compared with two thirds (65%) of the population as a whole.
- These levels of under-protection are even higher among those renting. Around nine in ten (88%) 25-34 year old renters have no form of protection cover (compared to 81% of all renters in the population).

[60] *Average weekly earnings in Great Britain: August 2019*, ONS (2019)

[61] *Taking care of business: Eight key challenges facing small business owners,* Money Advice Trust (2018) p.35

[62] *Building the financial capability of UK adults: Initial findings from the 2018 Adult Financial Capability Survey*, Money Advice Service (2019) p.3

[63] *The financial lives of consumers across the UK Key findings from the FCA's Financial Lives Survey 2017*, Financial Conduct Authority (2018) p.68

[64] This figure excludes Group Income protection arranged by employers, which was discussed earlier in this chapter.

Research for the Financial Services Consumer Panel[65] reported that the catalyst to buy a protection product is typically the mortgage broker or financial adviser but Income Protection is rarely mentioned by brokers or advisers. The Consumer Panel noted that since the introduction of the Mortgage Market Review, mortgage advice takes longer, and this left less time for discussions about customers' protection needs. It is possible that many intermediaries are not discussing income protection for this reason.[66]

Another factor may be the so-called 'advice gap' whereby people with investable assets under around £50,000 struggle to find a financial adviser[67] who could alert them to the need to consider protection. Access to advice is currently under review by the FCA.[68]

With most younger people now renting from private landlords (rather than buying) and lacking substantial assets, they are unlikely to encounter any type of financial/mortgage adviser. While their sickness and mortality risk is lower than for older workers, the lack of any insurance cover can leave them exposed if they have no other resources to cover the rent in the event of a health problem.

One further financial product can also play a key role in mitigating a household financial shock, namely access to credit. Low interest rates since the financial crisis mean that the cost of servicing debt is generally low for those who are able to access it. However the Government has noted that improving access to affordable credit is a key challenge[69] which it is seeking to address.

## Household composition and housing tenure

The makeup of households can also be an important factor influencing their resilience. Where there is only one adult in the household (with or without dependent children) the impact of an income shock may be harder to weather. The pattern here has not changed much over the last two decades, with around 29% of households having only one adult. Around 2.9 million households are headed by lone parents. Looking just at households with dependent children, 21% of these are headed by a lone parent[70]. And nearly 9 out of 10 single parents are women[71].

As Gingerbread has pointed out[72]:

**As both the main earner and main carer, single parents find it particularly difficult to enter and sustain work. They cannot 'shift parent' as couples do to manage nursery and school pick-ups and drop-offs and rely on childcare and part-time work to manage. Single parents' incomes take a hit as a result – either through expensive childcare or reduced hours of work.**

Single parents are also more likely to have a disability than the typical person in the UK – around one in four (27 per cent) single parent households had a disabled adult, compared with around a fifth (21 per cent) of couple parent households in the UK in 2015/16. The difference is even more pronounced for children – 16 per cent of single parent households had at least one child with a disability, compared with 9 per cent of couple parent households.[73]

It should also be noted that households where one (or more) adult is disabled are likely to be less well placed to weather financial shocks. Nearly half (48%) of people in poverty – totalling 6.8 million people – live in a family where someone is disabled.[74]

Housing tenure is another important factor. Depending on their circumstances, homeowners may be better placed to borrow or may be able to raise money through subletting. In the decade to 2017:

- Owner occupation fell from 68% of households to 62% (reflecting a 9 point drop in those buying with a mortgage and a 3 point rise in those who own outright);
- The proportion of households renting in the private sector rose from 13% to 20%;
- While the proportion of households living in social housing fell slightly from 18% to 17%.[75]

---

[65] Roux, T. *Understanding the protection gap in the UK: Consumer research findings into protection insurance purchasing decisions*, Financial Services Consumer Panel (2018)

[66] *Understanding the protection gap: A Discussion Paper*, Financial Services Consumer Panel (2018)

[67] Financial Times (https://www.ft.com/content/1b931788-7be1-11e9-81d2-f785092ab560)

[68] *Evaluation of the Retail Distribution Review and the Financial Advice Market Review: Call for input*, Financial Conduct Authority (2019)

[69] *Financial inclusion report:2018-19*, HM Treasury & Department for Work & Pensions (2019)

[70] *Families and Households*, Office of National Statistics (2019)

[71] *Single Parents: Facts & Figures*, Gingerbread (2019)

[72] *One in Four: A Profile of Single Parents in the UK*, Gingerbread (2018) p.4

[73] ibid

[74] *Measuring Poverty 2019*, Social Metrics Commission (2019) p.8

[75] *UK Private Rented Sector*, Office of National Statistics (2019)

The shift from owner-occupation to renting in the private sector has been particularly pronounced amongst younger families:

- Just 28% of 25-34 year old families were owner occupiers in 2018 down from 50% in 1990;
- In the 35-44 age group the number fell from 70% to 53% over the same period.[76]

The size of the private rented sector has doubled since 2002. In the 25-34 age range, 44% live in privately rented accommodation – up from 31% since 2007/8. Households in this age range are now more likely to be renting privately than buying their own home[77].

Tenants have faced further pressures over much of the current decade as growth in private rental prices, rose above that of average weekly earnings from 2011 until 2016; however the gap has narrowed since then.[78]

## Conclusion

**Key points to note from this chapter are:**

- **Data from a range of sources provides sufficient evidence to suggest that lack of resilience to financial shocks and volatility is a widespread problem;**
- **Changes over recent decades in provision by employers and the State will mean that more people are less well-protected against financial shocks;**
- **Many people lack the savings to weather even a short interruption in income, and very few have insurance for this eventuality;**
- **The changing pattern of housing tenure towards the private rented sector (especially for younger age groups) may leave more people exposed to the consequences of financial shocks.**

**There is no consistent and comprehensive source of information which enables us to measure, and track over time, the resilience of UK households to income shocks and volatility. As a result, there is no strong analytical basis for policy interventions to address the issue. We see this as a serious omission and we set out in the next Chapter our proposals for a Resilience Index which would fill this gap and provide a foundation for future action.**

[76] *Home Ownership in the UK*, Resolution Foundation (2019)

[77] *Family Resources Survey 2017-18*, Department for Work and Pensions (2018)

[78] *Home Ownership in the UK*, Resolution Foundation (2019)

# CHAPTER 5: THE NEED FOR A FINANCIAL RESILIENCE INDEX

## Introduction

As shown earlier in this report, there is a great deal of evidence that the financial resilience of many UK households is at a low level – and that falls in resilience have often been unintended side-effects of socio-economic or policy change. If we are to start to reverse this trend we need a regular, reliable, respected and insightful measure of financial resilience.

The recommendation of the Task Force is therefore that a Financial Resilience Index should be established and published regularly. This index would:

- Map the level of resilience in UK households;
- Allow changes in resilience to be tracked;
- Highlight segments of our society where action is most needed to improve resilience;
- Improve understanding of the underlying causes and drivers of low resilience;
- Be a useful tool for all organisations and agencies seeking to improve financial resilience;
- Provide a basis against which proposed policies or actions could be tested so that unintended impacts can be identified in advance.

The Index could also be of value to the Bank of England in both their macro-economic and financial stability roles and could assist in identifying emerging risks.

In this Chapter we say more about how the index could be constructed, managed and reported. We show how much of the data required for the Index can be drawn from existing sources, and suggest how remaining gaps could be filled.

## First steps in constructing a Resilience Index

The Resilience Index has to be constructed in a way that recognises the differing aspects discussed above. To be useful, practicable and affordable, we suggest it should:

- Be capable of segmentation by a range of characteristics so as to help pin-point segments most in need of action. This will include analysis by age, gender, ethnicity, employment status, sector, geographical location, income level, housing tenure, household status;
- Present its results in an engaging way so as to make it meaningful to people across society who may be engaged in public policy or design of products/services which have an influence on resilience. A geographic heat map would add a very useful dimension to the presentation, given the increasing importance of regional and local differences;
- Be independently governed, updated regularly, and draw on data from national statistics and other respected sources.

The Index will need to pick up on the main defences which help people and households be resilient to financial shocks and identify their absence, prevalence and sufficiency. The table below illustrates a number of key specific defences.

| Major causes of income shocks | Major defences that improve resilience |
|---|---|
| | |
| Death of a partner | • Employer-based bereavement benefits<br>• Life Insurance<br>• Partner having made a Will<br>• Having savings and assets<br>• State benefits<br>• Access to affordable credit |
| Sickness/incapacity to work | • Employer sick pay<br>• Insurance ( Income Protection, Critical Illness cover)<br>• Having savings and assets<br>• State benefits |

| | |
|---|---|
| | • Access to affordable credit |
| Redundancy | • Entitlement to redundancy pay<br>• Having savings and assets<br>• Access to affordable credit |
| Relationship breakdown | • Having own source of income<br>• Having own savings/assets<br>• Access to affordable credit |
| Fluctuating or intermittent earnings | • Having savings and assets<br>• Access to affordable credit<br>• Ability to flex outgoings to match income |
| Taking on caring responsibilities | • State benefits<br>• Having savings and assets<br>• Access to affordable credit |

In addition to the specific defences shown in the table there are a number of generic factors which are likely to be associated with greater resilience. Important ones include:

- Having low levels of debt, or being debt-free;
- Having a partner - a partner's earnings may help soften the impact of a financial shock, or a partner may be able to take work (or extra work) to boost the household income – though this may in turn reduce state benefits. Help from a partner of a non-financial nature (such as providing child care) may also help obviate costs which might otherwise fall on the un-partnered. On the other hand, some financial shocks – such as a serious injury or illness – may also reduce a partner's income if they have to assume caring responsibilities;
- Help from wider family and friends - the ability to borrow or to receive practical and/or emotional help in this way can make a big difference – but only where family and friends are well-placed (as well as well-disposed) to help;
- Owning your own home. For some home-owners, taking in lodgers may be a way of generating extra income. On the other hand, people with high mortgage payments to make and no (or negative) equity may be more exposed;
- Having financial capability, and having finances in good order before a shock strikes.

## Access to data

We have looked to see what data is available to assess these defences. Our headline findings are that:

- A good deal of relevant data is collected through a range of surveys
- The Wealth & Assets Survey (WAS) looks to be the best primary data source of official statistics covering most of the defences. This is a biennial survey conducted on behalf of DWP. It brings together detailed information on savings and other assets, income and state benefits, insurance, problem debt and financial distress and capability for some 18,000 households and the individuals within them.
- We note however that there is a significant time lag in WAS – not least as it is only produced every other year. There is therefore some merit in considering options for accessing more up-to-the-minute data.
- Cross-matching data from a number of different surveys may be possible and could supplement the WAS data, helping to build a more comprehensive picture which could start to achieve the objectives described at paragraph 2.
- Where there are gaps, the Digital Economy Act opens up new opportunities for the necessary data to be collected from a variety of sources

including the administrative data of government departments[79].

- The Government's plans (under the Good Work Plan[80]) to require employers to provide their workers with a 'written statement' of entitlements such as sickness pay could provide a valuable new source of data on employment-related benefits.
- Drawing together the data from these sources and presenting it through the lens of Financial Resilience is necessary to provide a comprehensive view which would enable the underlying problem to be tackled effectively.

In some areas –such as savings levels - the *data* alone is enough to give a sense of how strong a defence would prove when facing an income shock. In others – such as the state welfare system – what is needed is a *projection* of how much help a household would receive in the event of a particular unwelcome event such as sickness or job loss.

The table below gives further details, taking each of the 'defences' in turn and adding some further considerations at the end.

| Defence | Data sources | Comment |
|---|---|---|
| Savings | Data on savings levels is reported in several large-scale surveys such as - Family Resources Survey (DWP, annual, 20,000+ households)<br><br>- Wealth & Assets Survey (WAS) (DWP, biennial, 18,000 households)<br><br>- Financial Lives Survey (FCA, biennial, 13,000 consumers)<br><br>- Understanding Society ( ISER, annual, 40,000 households) | Given its stronger focus on savings and assets, WAS is probably the best primary source. |
| Insurance | The Financial Lives survey (FLS) collects data on Income Protection (sickness insurance); Critical Illness insurance; Life Insurance and household contents insurance.<br><br>The Wealth & Assets survey also covers these forms of insurance.<br><br>Understanding Society covers contents insurance. | Use of WAS would provide consistency with other items. But it is worth exploring whether the FLS data would add further information.<br><br>Self-reported holdings of insurance products are not always reliable. However, some cross-matching with insurance industry data could perhaps help to improve the precision of the figures. |
| State Benefits | Details of benefits received are picked up in a range of surveys including the WAS and FRS.<br><br>The State Benefits that would be available to an individual or household can be derived from micro-simulation models such as the Tax- Benefit model. Data from sample households (such as those sampled for the WAS) can be run through the model and it will show what level of support would be provided by the state system according to the circumstances of each household. | The key thing the Resilience Index would need to measure here is 'what amount of benefits would sample individuals receive *if they faced an income shock eg sickness absence or job loss?'*<br><br>The answer will depend on the cause of the income shock and the household circumstances. We think a modelling approach will be the best way to illustrate this. The ABI's protection calculator provides an example of how this can be done.[81] |
| Employer sick pay | Statutory sick pay at the basic rate can be modelled in the same way as state benefits.<br><br>We are only aware of limited data on employer sick pay above this level: | This is a key area where data is thin on the ground. The advent of the enhanced 'written statement' required under the Government's Good Work Plan provides an opportunity to address this gap. This statement will set out each |

[79] *Better Use of Data: Statistics and Research*, UK Statistics Authority (2017)

[80] *Good Work Plan, Department of Business*, Energy and Industrial Strategy (2018)

[81] *Percy: The Protection Calculator*, Association of British Insurers (2019)

| | | |
|---|---|---|
| | - Family Resource Survey asks whether the employer pays more than basic SSP. But this is only asked of those who had a sickness absence immediately before the survey. Moreover, the amount is not collected, and the question relates to people who receive sick pay rather than those who *would do so if sick.*)<br><br>- The Insurance Industry makes some estimates in this area based on overall data on employer-based Group Income Protection. But this does not include employers who finance sick pay directly (rather than through insurance.) Nor can it be matched to the circumstances of individuals.<br><br>- A number of one-off surveys (quoted in the previous chapter) have looked at this but they do not offer a regular source of data. | worker's sick pay entitlement. Once this is up and running to we suggest that the annual survey of hours and earnings (ASHE) could be enhanced to collect this information for the 180,000 job roles it surveys each year. |
| Employer /pension scheme bereavement benefits | The Family Resource Survey records such benefits when received. It may be possible to extrapolate from this data to show the likelihood of sample individuals benefiting from these payments.<br><br>WAS has questions about pensions (both current and expected) from a previous partner (covering both bereavement and separation.) | As with other employment – related benefits, we see a good case for these being included in the enhanced 'written statement' which employers will in future be required to provide by law. Data could then be collected through ASHE. |
| Redundancy Pay and Notice Pay | Since there are national conditions for *statutory* redundancy and notice pay it should be possible to model this in the same way as state benefits and SSP.<br><br>We have not discovered any regular information source about contractual redundancy/notice pay but believe the following are worth exploring:<br><br>- Where an employer offers a *contractual* redundancy/notice pay arrangement this could be captured in the 'written statement' described above, and this information collected through ASHE in the same way as employer sick pay.<br><br>- Another possible source is HMRC data since termination payments are identified separately for tax purposes. While this would show payments made – as opposed to what someone would be entitled to if made redundant – it may be possible to make inferences from the data about typical redundancy entitlement by segment. | At this stage it is not clear that the Government intends termination rights to be included in the 'written statement.' But we see a good case for doing so, both to help individuals in their financial planning and to provide data for the Resilience Index. |
| Access to affordable credit | We have not identified any direct data source here. One approach could be to explore whether the following data could be concatenated:<br><br>• From the MAPS Adult Financial Capability Survey, records of people who are borrowing heavily relative to their outgoings, and<br><br>• From a credit reference agency, the credit scores for those same individuals. | The Good Credit Index looks a promising development. It could provide a useful data source for the resilience index. |

| | | |
|---|---|---|
| | If the two data sets, could be matched it would indicate how many people who are over-extended in borrowing have to rely on high-cost sources.<br><br>Demos' recent Good Credit index report maps access to good credit across the country. It combines public and private data sets measured at the local authority level to map access to "good credit", using indicators of credit environment (e.g. number of pawn shops, payday lenders, rent-to-own shops, free cashpoints, bank branches, credit union branches) as well as indicators of credit scores and need for credit.[82] | |
| Support from partner/family/friends | We have not found any data-source focussed specifically on this area. But WAS asks how would you find the money to meet an expense equivalent to a month's income. Help from family/friends is one of the response options.<br><br>WAS also asks how long could you make ends meet if the main household income was interrupted. While this captures a great deal more than informal help it could be a useful statistic to include in the Index. | Within a household there might be additional earners or adults who can enter the labour force which provides some insurance against shocks at an individual level.<br><br>This factor could be picked up in reporting the results from the Index. |
| Further key considerations | | |
| Pre-existing debt | Pre-existing debt as a proportion of income could be a useful indicator of how well or ill-placed a person is to cope with an income shock.<br><br>The main measure of problem debt used by government comes from the Wealth & Assets survey. Under this indicator, a household is considered as being in problem debt if it falls into any of the following groups:<br><br>• At least one adult reports falling behind with bills or credit commitments and the household's debt repayments are at least 25% of the household's net monthly income.<br><br>• At least one adult reports falling behind with bills or credit commitments and at least one adult is currently in two or more consecutive months' arrears on bills or credit commitments.<br><br>• At least one adult considers debt a heavy burden and the household's debt represents at least 20% of the household's net annual income.<br><br>In addition ONS publish quarterly figures showing household debt-to-income ratios though these can't be broken down by segment/household characteristics.<br><br>MAPS publish annual figures for over-indebtedness. In these "over-indebted" individuals are defined as those who find keeping up with bills and/or credit commitments a heavy burden or have fallen behind | While different organisations use slightly different definitions of problem debt, the surveys appear to provide a good deal of information in this area.<br><br>It would be useful if the Index could include information showing different levels of debt – both in absolute terms and as a share of household income.<br><br>There is also an issue about 'hidden debt' as shown by the Citizens Advice report "The state of debt collection' (2016) which estimated that debt to local & central government – amongst their users – exceeded credit card debt. " We are not aware of any regular data source on this aspect, but it is an important part of the picture. |

[82] Hilhorst, S. & Jones, E. *Good Credit Index*, Demos (2019)

| | | |
|---|---|---|
| | on, or missed, any payments for bills and/or credit commitments in any three or more months in the last six months.[83]<br><br>- Bank of England produces monthly household debt data based on information from financial institutions. These figures are split into mortgage debt, credit card debt and other consumer debt. | |
| Pre-existing financial distress | Where households are already having difficulty coping, they are likely to be less well-placed to weather a financial shock. We have identified several relevant indicators:<br><br>- The ONS wellbeing dashboard reports on numbers of households finding it difficult to get by financially<br><br>- The Bank of England report twice-yearly on three subjective measures:<br>➢ Difficulty with accommodation payments<br>➢ Unsecured debt a heavy burden<br>➢ Very concerned about debt<br><br>(This draws on the British Household Panel Survey, NMG Consulting survey and Bank calculations.)<br><br>- The Survey on Living Conditions (which feeds into Eurostat statistics) reports the number of people who say they are unable to make ends meet.<br><br>-Understanding Society also has questions about how well people are managing financially and about being behind with mortgage, bills, and council tax. | There are several promising data sources here. |
| Pre-existing financial capability/behaviours | People who have greater financial capability may be better placed to weather a financial shock.<br><br>The MAPS (formerly MAS) Financial Capability Survey produces a composite rating for long-term financial security based on specific behaviours, enablers and inhibitors which are measured in the survey.<br><br>In addition WAS includes a set of questions about financial acuity. | Use of WAS data would align with the approach suggested for other items above. But some work would be needed to produce a composite rating (along the lines of the MAPS approach) as no single question provides an ideal proxy for financial capability. |

[83] *Levels of Over-Indebtedness in the UK*, Money Advice Service (2018)

## How the Resilience Index could evolve

We have discussed the data and modelling challenges with experts in the field and are very grateful for the input and ideas we have received from the Resolution Foundation, the ONS, MAPS, Bank of England, FCA, IFS and LSE. These discussions have helped us to establish that:

- An initial version of the Index could be up-and-running very quickly. It would draw on existing sources of data and add value by bringing the data together to create a real focus on financial resilience;
- But to maximise the usefulness of the Index some further development work would be needed both to fill data gaps and to find the best way of bringing together all the data to create a truly granular picture on which policy makers and institutions can base their actions.

We describe below a possible model for the fully developed index, and then go on to describe what the initial version could look like.

## A fully developed index using a micro-simulation model

Our discussions with the experts have identified a possible approach using a micro-simulation model. One such model is The Intra-governmental Tax-Benefit model (IGOTM). This is a modelling tool which uses data from the DWP's annual Family Resource Survey (FRS) covering 20,000 households. It is used by government and independent bodies to assess the impact of policy change or external change on the net financial position of individuals and households. Another micro-simulation model, the Lifetime Income Distributional Analysis Model (LInDA) has also been highlighted as a possible starting point. This has the advantage that it already uses the Wealth & Assets survey as its underlying data source.

The Resilience Index/Report could be based on running an adapted version of one of these models each year to demonstrate the effects of specified financial shocks (e.g. the loss of two months' earnings through sickness or redundancy) applied to each of the 18- 20,000 sample households. For each household it would show:

- The amount of their 'first effect' loss arising from the income shock;
- The extent to which this is compensated for by a range of other factors (as illustrated in the table 1 above) such as reduced taxation, entitlement to state benefits, entitlement to benefits from their employer (such as sick pay), pay-outs from private insurance;
- How long their savings would enable them to bridge the remaining gap.

It could then analyse these results to show, for example:

- The key characteristics of those households which would face most difficulty in bridging the gap;
- The extent to which these households are already in problem debt;
- The extent to which other factors are present that could help mitigate the problem (such as another adult in the household who may be able to bring in more income.)

The potential virtues of this approach are:

- Rather than simply bringing together data on the changing prevalence of (for example) employment-related benefits or private savings & insurance, it would highlight the actual impact on households/individuals;
- The large sample size (and richness of the underlying data) would allow extensive segmentation of results – putting the spotlight on problem areas;
- It would be based on actual data rather than individuals' subjective judgement about, for example, how long they could survive a specified income shock. (Subjective questions of this kind are already included in some surveys, but given widespread misconceptions e.g. about employer/state benefits the results must be treated with some caution.);
- It could provide analysis of underlying causes (e.g. is a change in national resilience due to a change in the pattern of employment, or to the benefits offered by existing employers changing.);
- Results could be produced both on an individual and household (or benefit unit) basis.

A number of issues would need to be tackled to get to this sort of fully-developed model:

- Filling gaps in the data collected. The most striking gaps at present are in data about employment-related benefits such as sick pay, bereavement benefits and redundancy benefits. The creation of the enhanced 'Written Statement' under the government's Good Work Plan provides a timely opportunity to close these gaps – probably through an addition to the ASHE survey;
- Where the best source of data for a particular 'defence' is a survey other than the WAS (which we are assuming would provide the base data for the microsimulation) some work would be needed on how to impute the data into the modelling;

- The subjective measures listed in Table 2 would not fit directly into this microsimulation approach but could be reported on alongside it;
- Some further issues are noted in Annex A.

We would emphasise that the Task Force is not composed of experts on statistics or modelling. But our discussions with experts suggest that the sort of approach we discuss here could be a very useful way forward. Our aim in this report is to put the idea on the table and encourage those with the expertise to explore it further and develop a workable and insightful index.

The importance of granularity

Over the longer run, we would envisage the Index being continually improved, for example by drawing on administrative data which would improve both its timeliness and precision. As the Chief Economist of the Bank of England recently observed[84]:

"Like our bodies, understanding our economic health means taking readings at many resolutions. It means understanding the moving body parts, and their interactions, in microscopic detail. It calls for new data, at a higher frequency and higher resolution, and new ways of stitching it together. It means making micro-to-macro a reality."

This theme is echoed in the Bank's quarterly reports[85] where it notes that:

"Assessing households' finances is important for both monetary and financial stability. However, aggregate data can only provide limited insight in this regard. Differences between individual households' holdings of debt and assets will affect how they respond to shocks and the likelihood that they will face financial distress."

In this report we have demonstrated that debt and asset holdings, while an important part of the picture, do not tell the whole story. Households can face a range of financial shocks and their responses to these will also be shaped by the presence or absence of the other nine defences or features set out in Table 2.

The Bank of England's understanding of the economy may be further enhanced if it could tap into the lived, local experiences of companies, individuals and households, through the provision of an index which measures changes in household financial resilience over time. The index could also assist with the 'human stress testing' recently described by the Chair of the FCA.[86]

An index of household financial resilience has the potential to assist in understanding how low levels of resilience can have a measurable effect on a range of outcomes including mental and physical wellbeing, family stability and workforce productivity. Such an index could also assist in identifying the build-up of vulnerabilities such as state exposure to greater financial risk, risk to businesses of lower productivity and exposure of banks to increased consumer credit risks, when economic conditions move from benign to stressed.

Use of benchmarks to help assess results

In reporting the results from the Index it may be useful to set benchmarks against which those results can be judged. A parallel here is in the measurement of poverty (the subject of a recent report from the Social Metrics Commission) where a benchmark is set for what constitutes poverty, enabling figures to show how many people are in poverty. While there is inevitably an arbitrary element to any benchmark it can be helpful in measuring progress, providing a focus and galvanising action. We therefore make the following suggestions about a benchmark for financial resilience:

***"Financial resilience is about being able to cope financially when an income or expenditure shock occurs. This may involve finding ways of continuing to meet existing outgoings and/ or ways to reduce expenditure over time.***

***An index should measure resilience to a variety of income shocks ranging from (say) the loss of a week's pay though to the sort of earnings loss that would occur with a 6-12 month sickness absence. Within this range it may be helpful to focus on a 'headline' figure which will help grab the attention of agencies/policy makers who can help build resilience. The benchmark would need to strike a balance between the sort of event that occurs quite frequently (loss of a few weeks' earnings) and less frequent but more problematic events (such as a 6-12 month sickness absence.) We suggest that the report accompanying the annual Index gives results for short and long periods.***

***The next question is then: what level of resource is needed to cope with a temporary loss of earnings? Is it enough money to stay above the official poverty line, or do people need enough cash to allow them to maintain their existing life style?***

***Perhaps it's a reasonable assumption that following a short-term income shock people should be able to maintain their lifestyle subject to some economies in certain areas".***

.

[84] Haldane, A. *Is all economics local?*, Bank of England (2019)

[85] *Quarterly Bulletin Q4 2018: The financial position of British households: evidence from the 2018 NMG Consulting survey*, Bank of England (2018)

[86] https://www.fca.org.uk/news/speeches/stress-testing-human-beings

Assessing the likelihood of different groups suffering adverse events

Alongside the output from the micro-simulation model it would also be useful to give some focus to the likelihood of different groups experiencing untoward life events (such as sickness, relationship breakdown etc.) which can create a household financial shock. The commentary accompanying the Resilience Index report could shine a light on the resilience outcomes for those groups (e.g. by age, income, gender, employment status etc.) who are most likely to face an adverse event.

## An initial version of the Resilience Index

As noted above, some further work would be needed to arrive at the fully-developed Resilience Index. Meanwhile, an initial version could be up and running quite quickly and we set out in this section what that could look like.

The ONS wellbeing dashboard [87] provides a useful example of an approach which brings together readily available data from a variety of sources to shine a light on one issue, namely national wellbeing. A similar approach could be used to form the initial version of the Resilience Index.

The table below makes some suggestions about what could be included in this sort of Resilience Dashboard approach.

| Subject | Data/graph that could be shown | Source |
| --- | --- | --- |
| Savings buffer | % of households with enough savings to cover 1 month's loss of income | Wealth& Assets survey |
| Sickness insurance | % covered by Income Protection & Group Income Protection<br><br>% with Critical Illness cover | Financial Lives Survey (or WAS)(possibly supplemented by insurance industry data) |
| Other insurance | % with Life Insurance cover<br><br>% of householders with contents insurance | Wealth & Assets Survey and/or Financial Lives |
| Sick pay | % of working people eligible for SSP<br><br>% of working people whose employer pays something on top of basic SSP | Labour Force Survey<br><br>No regular official data source. May be useful to show results from most recent one-off survey |

[87] *Measures of National Wellbeing*, Office of National Statistics (2019)

| | | |
|---|---|---|
| Having a Will | % of [working age] people with a Will | No regular official source. Could show results from most recent one-off survey[88] |
| Ability to cover outgoings if main breadwinner unable to work for a period | % of households which can do so without borrowing for<br>a) 1 month<br>b) 3 months | Wealth & Assets survey<br>(and data also from English Longitudinal Study on Ageing) |
| Pre-existing debt | Household debt to income ratios | ONS National Accounts supplemented by WAS (and Bank of England) |
| Pre-existing financial distress | % reporting<br>➢ Difficulty with accommodation payments<br>➢ Unsecured debt a heavy burden<br>➢ Very concerned about debt | Bank of England,<br>OR<br>WAS- based measure of problem debt, as used in Improving Lives strategy. |
| Pre-existing financial capability | Composite rating from Financial Capability Survey | MAPS<br>Or could use data from WAS |

Starting to publish an initial version of the Index such as this will help to raise awareness of the issue and build momentum. But moving forward to a better-developed index which can focus on different population segments and characteristics, and bring in new data sources, will be vital to ensuring that future efforts to build resilience are well-targeted.

## The importance of independent governance

While the data being used to calculate the index will be objective, the decisions about the methodology involve some subjective judgments. So too will the annual report accompanying the index – as analysing the factors underlying a change in resilience requires an element of judgement. It is important that there is independent governance so as to ensure that the Index is produced for the public interest, commands a high level of confidence, and is not swayed by commercial or political interests.

In the same vein, while we believe the ideas presented in this report represent a promising way forward for the Resilience Index we recognise that its design, implementation and presentation should be a matter for its governing body.

We recommend that the Office for National Statistics should be the governing body for the Index. As the UK's largest independent producer of official statistics and the recognised national statistical institute of the UK it has the standing, expertise and data access to make a success of the Index.

## Conclusion

**If the problem of low resilience to financial shocks is to be tackled effectively, a reliable evidence base is required. Our proposal for a Financial Resilience Index would create a tool which:**

- **Allows resilience to be measured in a granular way that can be used to plan policy interventions and assess their effectiveness;**
- **Could be used to 'impact – assess' any proposed government, regulatory or commercial policy to understand how it may affect the resilience of the UK population;**
- **Could help galvanise and support action to boost financial resilience where it is most needed.**

**We hope the ONS will give serious consideration to establishing an Index along the lines we have outlined. And that other parties and organisations seeking to improve resilience will encourage and support the ONS in this task.**

[88] *More than half of parents don't have a will. But what will happen to your children if you die?*, Which? (2018) is a recent example

# CHAPTER 6: CONCLUSION

In this report we have demonstrated the widespread nature of financial shocks and income volatility. There is clear evidence that many individuals and families lack the financial resilience to weather these shocks. We have shown how this situation can be detrimental to individuals, families, businesses, institutions and our society as a whole.

We believe that action to tackle this problem must be guided by a sound analytical base. The Resilience Index we propose would form such a base. Specifically we see four key uses for the Index:

1. **To put financial resilience on the map and create a new impetus to address low resilience.** As with other topics ranging from air quality to poverty, real progress is aided enormously once there is an agreed definition and measurement of the issue to be tackled.

2. **To present a granular – and regularly updated - picture of the state of financial resilience across the UK which can shape action to tackle low resilience.** This will enable initiatives to be targeted on segments most in need of greater resilience rather than relying solely on 'blanket' solutions.

3. **To allow the key factors causing changes in resilience over time to be highlighted and acted upon**. As illustrated in Chapters 3 and 4 a wide variety of trends and policies can affect resilience. Once these are highlighted it is possible to consider what actions may be needed.

4. **To allow new policies and practices to be 'impact – assessed' so their effect on resilience can be considered before they are implemented or become widespread**. Use of the index as a tool in this way will help ensure that initiatives to improve resilience have been 'lab-tested' before they are rolled out. It also means other new policies (government, regulatory or commercial) can be tested to see if they may have positive or negative effects on resilience.

Once established, we would hope to see the Index being used by a wide range of organisations such as:

- **Government Departments,** and the **Devolved Administrations** – in initiating, designing and testing policies and procedures in a way that has regard to their impact on financial resilience;
- **Charities – in gaining a better understanding of the financial resilience issues facing their client group and shaping** their programmes accordingly;
- **Financial Services companies** – in shaping their operating policies and service design to help customers achieve financial resilience;
- **The Money and Pensions Service** – in determining what actions are needed to pursue its goal of improving financial resilience;
- **Employers, employer organisations** and **Trades Unions**– in developing their understanding of employee financial resilience and how they can help improve it where needed, bringing benefits to businesses and employees alike;
- The **Financial Conduct Authority** – both in its role overseeing firms and in assessing the impact of its own initiatives and industry developments;
- The **Bank of England** – in providing richer information about the risks in households' financial positions to feed into monetary and macro-economic analysis;
- **Think-tanks** and **research institutions** – in enriching the data picture of UK households in a way that provides new insight into contingencies as distinct from 'steady state' situations;
- **Local authorities** and **Housing providers** – in improving the information to them about key segments of the population.

## Recommendations

We have undertaken this work under the auspices of the Money Advice Service (MAS) Our formal role has been that of a Steering Group within the UK Financial Capability Strategy[89]. We make the following recommendations:

1. A Resilience Index should be established along the lines set out in Chapter 5;
2. The Index should be developed and maintained under independent and expert governance. We believe the ONS to be well placed to play this role;
3. The Money and Pensions Service should promote the importance of household resilience within its forthcoming national strategy to improve financial capability.

[89] *The role of steering groups and forums,* Financial Capability Strategy (2019) https://www.fincap.org.uk/en/articles/role-steering-groups

We were set up as a time-limited group and with the publication of this report our work comes to an end. We very much hope that the Money & Pensions Service and the ONS will take forward the idea for the index we have set out here and that stakeholder groups will see this as a valuable development to which they wish to give encouragement.

# ANNEXES

## ANNEX 1: Further issues to note regarding the Resilience Index

**Relevance of different mitigations**

Different mitigations (e.g. sickness cover or redundancy pay) will be relevant to different types of income shock. The microsimulation model may therefore have to be run for specific income shocks rather than just a generic one.

**Weighting**

There might be a case for giving greater weight in the overall Index to those indicators which cover protections/mitigations that are most relevant to people who face the greatest risk from income shocks.

**Outcomes, behaviours and enablers**

It is possible to consider various aspects of Financial Resilience. For example, the MAPS Financial Capability Survey looks at:

- Outcomes e.g. the % of people who have enough rainy day savings to cover a month's loss of income.
- Behaviours e.g. the extent to which people set goals and work towards them.
- Enablers e.g. the extent to which a person is orientated towards saving.

The Survey has established that there appears to be a correlation between some behaviours/enablers and positive outcomes.

While we see the value of all three aspects we are conscious that behaviours and enablers are rather more subjective than outcomes. We think the Index is likely to be most useful, and best understood if it focusses mainly on outcomes. However, the proposed measure of pre-existing financial capability (in Tables 1 and 2) will draw on these more subjective factors.

**Household or Individual basis**

There is usually some pooling of resources within households so there is a good argument for looking at financial resilience on a household basis. Doing so would also allow the index to have regard to the impact of financial resilience, or lack of it, on children – who are often adversely affected by a household income shock.

However, a significant cause of income shocks is the end of a relationship, whether this arrives through separation or bereavement. (And indeed financial problems can be one of the factors leading to relationship breakdown.) In this situation, the financial resilience of each partner has to be considered separately. Very often, in the case of separation, women find themselves more financially vulnerable than men – and they are very often the main carer for the children.

We suggest the index should focus primarily on households but the accompanying commentary may be able to draw attention to any areas where individual results would show a marked difference.

**Presentation**

A geographical heat map would be a useful output. The 18,000 households in the WAS are enough to give a detailed breakdown by region but not by locality. But this could be achieved if data from several years were aggregated and updated. Looking further ahead, access to administrative data (e.g. RTI) could provide a very rich information source allowing detailed segmentation.

**FCA Measure of Financial Resilience**

The FCA use an algorithm for identifying the 'financially resilient' as below.[90]

If one (or more) of the following criteria apply then an adult is not classed as 'financially resilient'

- Payments for any credit commitments and/or any domestic bills have been missed in any three or more of the last six months
- Keeping up with bills and credit commitments is a heavy burden
- They have no investable assets
- Mortgage and/or rent payment increases of less than £100 a month would be a struggle to meet AND they do not have investable assets of £50,000
- If main source of household income lost, household could continue to cover living expenses for less than a month, without having to borrow any money or ask for help from friends or family AND they do not have investable assets of £50,000

On this basis the FCA assessed 65% of the adult population to be financially resilient.

This could be a useful starting point for the Resilience Index though, as noted in the main text, we think it would be useful for the Index to show results covering a range of income shocks/periods.

[90] https://www.fca.org.uk/publication/research/financial-lives-survey-2017.pdf (page 187)

The FCA Financial Lives Survey covers 12,865 adults mostly through an on-line questionnaire. Unlike our proposed Resilience Index it relies solely on responses from individuals and cannot draw directly on information about employer benefits or state benefits that might be available to an individual in the event of an income shock.

While it contains checks for internal consistency it ultimately has to rely on individuals' perceptions of how long they could cover living expenses in the event of an income shock. Given the misconceptions about employer sick pay highlighted by the FS Consumer Panel (see Chapter 4) this may be a significant limitation.

# ANNEX 2: Our Terms of Reference and Membership

**Terms of Reference**

The Resilience Task Force aims to produce a report which will:

- Raise awareness of Income Shocks and the need to build resilience to them
- Develop and embed a Resilience Index
- Make recommendations to public authorities and others
- Develop an initiative to help test what works in building resilience.

The Task Force will work collaboratively with MAS/SFGB and act as a steering group within the National Financial Capability Strategy. It will be time limited, completing its work by October 2019

**Membership**

Baroness Jeannie Drake – Chair

Tom Baigrie – CEO LifeSearch

Greg Davies – Head of Behavioural Finance at Oxford Risk

Sian Fisher, CEO Chartered Institute of Insurance

Jonathan Hollow – Head of Financial Capability, Strategy & Innovation at Money and Pensions Service; succeeded by David Marjoribanks

Paul Smee – Independent

Johnny Timpson – Scottish Widows and DWP Disability Champion for Insurance

Sian Williams – Toynbee Hall

Richard Walsh – SAMI Consulting - Secretariat

Alan Woods – SAMI Consulting – Secretariat