

# **Money Lives: the financial behaviour of the UK**

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**Caroline Rookes**

**Chief Executive,  
Money Advice Service**

## Foreword

**The Money Advice Service came into being to help people manage their money better – both day-to-day financial management and long-term financial planning.**

But a crucial factor in this task is our level of understanding of what it really means to be financially capable. I am very pleased to be able to introduce this major new study the Service has commissioned from the independent research agency IPSOS Mori in partnership with experts from the Fairbanking Foundation and Imperial College London.

We have some very useful foundations on which to build. The UK has long been at the forefront of understanding people's strengths and weaknesses when it comes to managing money. Ground-breaking work by the then Financial Services Authority (FSA) identified a number of areas – such as making ends meet, keeping track of money and choosing financial products – in which people's financial capability could be measured – and such measurements were duly carried out in 2006.

Since then, our understanding of the influences on people's financial behaviours identified in the FSA study has been augmented by increasing behavioural understanding of the role of attitudes, aspirations and motivations in determining what people do – or don't do – with the money they have. The economic landscape has also shifted profoundly since 2006, changing not just people's financial circumstances, but their outlook on life.

As a guide both to our own work within the Service and, for the many other organisations active within this area, we commissioned the Money Lives project. Our aim has been to help establish a new, and deeper, understanding of what we mean by financial capability. In particular, we have been concerned to explore the range of influences on people's money management, and to test out the effectiveness of different interventions based on these influences. In turn, we have sought to develop a framework that will enable us and our partners to help people take greater control over their financial situation.

This study has covered an enormous amount of ground, including a literature review, 12 initial in-depth pilot interviews, 48 in-depth interviews with people who had recently experienced a significant life event, and a longitudinal study, spread over nine months, of 72 households across the UK. Some of the detail that emerges from the study confirms a lot of our existing suppositions. The sorts of behaviours our researchers have observed are similar to the things we often do ourselves, or see others doing: taking out cash without checking our bank balance, buying a coffee we don't really need, splashing out on impulse purchases when we shouldn't.

But the Money Lives project gives us a lot more than this. Part of its unique value comes in the collection, collation and ordering of these observations – in producing a body of evidence from which to identify and begin to understand better patterns of behaviour and the underlying forces that make our habits and instinctive decisions difficult to manage or modify. More fundamentally, the research has helped us to identify and categorise what types of intervention are most likely to help in any given situation. Many financial habits and attitudes are deeply ingrained, but it is not impossible to change them and give people a real sense of control over their lives.

The willingness of so many people to share their lives so intimately with us is helping us shape a new understanding of financial capability that will in turn, I hope, unlock a better future for millions of people. I would like to thank everyone who has taken part.



**Antony Elliott**

**Chief Executive,  
The Fairbanking  
Foundation**



**Professor Ivo Vlaev**

**Warwick University**

## Money Lives – the way forward

The study of what influences people is not new, but the burgeoning of the topic as a science reflects greater knowledge of how best to do it. Behavioural sciences are increasingly being used to the benefit of society as a whole – consumers, businesses, and governments. Understanding of the inner mechanisms of the human mind is enabling more effective interventions. Humans are not always rational; they are led by their emotional and fallible brain and influenced by subtle contextual factors. These effects are fast, automatic, and mostly unconscious. The human brain relies on such automatic mechanisms to allow it to cope with the large burden of complex choices it faces every day, but these processes can also lead us into systematic biases and errors. The scientific understanding of such decision-making is known as ‘behavioural economics’, which also informs us about how choices are influenced.

Choice is always paramount in the human condition – even more so in recent times due to the societal changes driven by opening up of opportunities and increased aspirations. So far, behavioural economics has been most prominent in public health, particularly in encouraging healthier lifestyles (such as improving diet and exercising more). The complexity of these challenges often stems from the lack of immediate, tangible benefits from change – the positive consequences are usually longer-term which demotivates individuals to act on their good intentions. This is why the new science of human behaviour is so beneficial: it helps us to find strategies that help people develop (automatic) habits which are both to their advantage and fit in with their way of life and sense of self. In Money Lives we used a model of behaviour change interventions that acts on several levels – structural (creating physical and social opportunities), cognitive (changing beliefs and attitudes) and behavioural (creating automatic habits and nudging impulsive motivations).

In designing the interventions and conducting the feasibility trial of those interventions we have ensured that the approach is focussed on outcomes. Behavioural change components were amalgamated to help people to alter their behaviour, whether this is being more aware of bank account balances, controlling expenditure or planning ahead. There is a good academic basis for applying this approach in a health context and this study has been a good opportunity to extend it into finance. We were pleased with the effectiveness of these pilots; they were not perfect, but there was much learning from each of them. We are hoping that this work will be a catalyst for a greater body of research into how to provide financial advice and products.

As with health interventions, it may be clear what actions would help people to have a healthier life, but it is as important to consider how to help people make the change. We are all influenced in making financial decisions in ways that we do not completely appreciate and have biases that we do not fully understand. This creates an obligation for those that offer financial advice, provide money management tools and develop products to put effort into understanding how people will respond.

The Money Advice Service has shown considerable foresight in conducting this piece of research. We hope that it will not only help the Money Advice Service develop its services, but be thought-provoking for the many organisations that are involved in personal finance.

# Summary

## A behavioural understanding of financial capability

Many people, for a variety of reasons, have difficulty managing money well. Against a backdrop of economic uncertainty and the rising cost of living it is more important than ever that people are able to manage their money effectively and confidently to keep track, make ends meet, and plan ahead.

Achieving this, however, is no simple matter. While it is important that people have the requisite skills and knowledge in order to handle their financial affairs and make the right decisions for their situation, information and aptitude alone don't always result in people behaving as rationally as they might themselves like or intend. This is because different opportunities, attitudes and motivations (what we believe, as well as our automatic and reflective responses) influence how we feel about money and what we do with it. Understanding all of these issues, and how they interplay, is essential in order to get a handle on how people's financial behaviour might be changed for the better.

To this end, the Money Advice Service and Ipsos MORI developed a comprehensive research programme to:

- explore the range of proposed influences on people's money management;
- identify and pilot test interventions based on those influences; and
- identify factors most likely to contribute to effective interventions.

The research programme included a literature review, pilot-stage interviews, four longitudinal ethnographic visits with 72 families across the UK over a nine month period, and 48 in-depth interviews with individuals who had recently experienced a significant life event with financial consequences.

## Financial Capability: Beyond Skills & Knowledge

### Skills

*The emotional, cognitive and/or behavioural skills and capacity to engage in the necessary thought processes for financial management.*

### Knowledge

*The level of knowledge and awareness needed to find, understand and evaluate information in order to make financial decisions.*

### Attitudes

*An expression of the underlying beliefs that may influence behavioural intention and may also be influenced by social norms.*

### Motivation

*The brain processes that direct behaviour, including automatic (unconscious) and reflective (conscious and considered) mechanisms.*

### Opportunity

*Factors that lie outside of an individual that may influence their financial behaviour. It includes both social opportunity (i.e. the networks they have) and physical opportunities (e.g. the area they live in or technology they have access to).*

Ipsos MORI Social Research Institute

## Money management influences

Building on research over the past decade or so, the Money Advice Service in 2012 developed a model capturing the key factors influencing people's financial capability.

The Money Lives research programme – the largest study of its kind – has confirmed the relevance and validity of this model. All of the elements are important, though thousands of hours of close observation have revealed that attitudes, motivations and opportunities are more significant than may previously have been recognised.

The programme has also provided new insight into the key factors influencing money management behaviour, notably:

- the ability to plan ahead has emerged as a key factor in determining how effective people are at managing their money - the more people plan when they are young, the more financially secure they are likely to be when older;
- the ability to plan is ingrained in people's attitudes, and tends to be learned from parents;
- preparing for a key life event with financial consequences, such as buying a first home, can stimulate people to develop positive longer term money habits; and
- learning to cope financially through difficult life events, such as divorce, separation or bereavement can also have a positive longer term impact on people's money habits.

## Interventions targeting influences

Drawing on analyses of its field observations, Ipsos MORI designed five interventions targeting specific automatic behaviours that influence money management.

For example, one sought to save participants money by asking them to substitute an item of regular spending for something less costly; another encouraged participants to work towards a financial goal (like saving for a holiday) with the aid of a budgeting tool.

These two interventions proved more effective than the other three, though from all five it became apparent that interventions appear to be most effective when people:

- work towards a clear and achievable outcome;
- experience positive feedback on their progress that helps them feel as though the changes they are making are worthwhile;
- receive a 'reward' that compensates for the feeling of being deprived by spending less; and
- have access to the salient information needed to make the appropriate decisions.

Taken together, these interventions helped to provide participants with a sense of control over their finances. This feeling of control in itself became a reward and a motivation encouraging participants to continue.

## Key factors for effective interventions

This research shows that it is possible to devise strategies to enable people to override their automatic behaviours with regard to how they manage their money. However, this is only possible when the time is taken to understand the whole person and the influences they are subject to something that, with this study, the Money Advice Service has been able to progress towards.

In short, interventions to help people improve their levels of financial capability are shown to be effective when people are:

- given a clear outcome to work towards;
- provided with a structure and the relevant tools to help them work towards the stated outcome;
- able to access salient information about the outcome they are working towards such as why it matters, and the difference it will make to them;
- informed about their progress regularly;
- not left feeling deprived by the intervention – it is important to acknowledge that spending fills an emotional and/or social need; and
- left feeling empowered, and in control of their financial situation.



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# Background and methodology

# 1. Introduction and methodology

## 1.1. Introduction

This report presents the findings of a longitudinal study into financial capability. It was commissioned by the Money Advice Service and conducted by the independent research agency Ipsos MORI in partnership with Antony Elliott, Chief Executive of the Fairbanking Foundation, and Professor Ivo Vlaev of Warwick University.

## 1.2. Background

The Money Advice Service was launched in April 2011 with the explicit aim of helping people across the UK manage their money better. To do this effectively the organisation sought to review, and update if necessary, the received understanding of what it means to be financially capable in light of the growing recognition of the significance of behavioural factors.

This existing position was determined by extensive research study undertaken in 2006 by the Financial Services Authority which led to a predominantly **skills-based** definition stretching over five domains: making ends meet; keeping track of money; choosing financial products; planning ahead; and, staying informed.

While useful, **this definition did not extend to people's attitudes towards money or how they respond emotionally to it.** Thus, the Money Advice Service was keen to develop and test the validity of a broader definition of financial capability incorporating behavioural factors and commissioned Ipsos MORI and its research partners, Antony Elliott of the Fairbanking Foundation and Professor Ivo Vlaev of Warwick University, to help it in this.

The specific objectives of this pieces of research were to provide the Money Advice Service with a comprehensive understanding of and insight into:

- people's **aspirations** in life, and the role that money plays in them
- the **impact that money has** on people's lives, and also on their emotions;
- **how people manage their money** – both day-to-day and also longer term. We wanted to gain a sense of how – and how often – money is thought about and what people's money habits are and, further, what the impact of seasonality is;
- **how money is talked about**, for instance, the situations in which money arises in conversation, who people talk about it to and the language they use;
- If, and how, people **plan for the future** – and how far ahead they look when they do so;
- how people **cope with unplanned events** that carry a financial penalty and whether or not these events encourage people to think or behave differently as a consequence;
- how people's **culture and the context** in which they live influences their approach to and feelings about money; and,
- the extent to which people's behaviours map onto the FSA's definition of financial capability and the other elements that need to be incorporated in order to produce the most rounded view.

In relation to all of these objectives, the Money Advice Service was also interested in understanding the difference between people's automatic and reflective behaviours in relation to their finances.

### 1.3. Research approach

Answering such complex research questions necessitated a thoughtful and in-depth approach. We therefore designed a **multi-staged, mixed-methods approach** to enable us to explore in depth how people manage and think about the finances, and the influences they are subject to as they do so. These stages and methods are outlined in more detail below.

#### Inception stage

To ensure that this project was **based on the very latest thinking** in the field of behavioural research (thus enabling us to understand the differences between automatic and reflective behaviours) and, further, to ensure that the methods we employed were fit for purpose and answered the objectives guiding the programme of work, we began with a **short literature review** and **twelve pilot interviews**.

Ten key documents were selected for the literature review by our academic partner, Professor Ivo Vlaev of Warwick University. The write up from this review can be found in the appendix (which is being published alongside this report).

Participants for the 12 in-depth interviews were chosen to represent a range of socio-economic backgrounds and different life stages. The purpose of these interviews was two-fold:

- to **determine whether the kinds of questions we were posing were salient** and likely to garner the kind of information of interest to the Money Advice Service; and
- to determine **what participants thought we should take into account for the main stage of the research**, so as to facilitate easy and successful recruitment.

#### Main stage fieldwork

A total of 72 families from across the UK were **recruited using free-find methods** – pen portraits complemented by detailed screeners – to give the recruiters a clear idea of the kinds of people we were interested in speaking to. These can be found in the appendix (which is being published alongside this report) for reference.

In order to determine who to recruit, **we worked with a segmentation study previously conducted by the Money Advice Service that categorised the population into six broad groups**. While this segmentation study was not completely comprehensive – for instance, pensioners who struggle for money were under represented – it provided a useful starting point. A description of these six broad categories is outlined below.

Group	Percentage of the Population	Key attributes	Number of interviews
1	25%	ABC1, 45-64, 75% married, in-work, IT-savvy and the least financially vulnerable	12
2	17%	Female, 25-44, C1, in full-time work, confident online, take financial action if needed (e.g. if struggling to pay bills)	12
3	13%	Young, lower socio-economic groups and relatively confident online. More vulnerable and not in control of their finances	12
4	10%	Young, single, happy – more likely to be men in C2 social grade. More impulsive spenders, but not worried about their finances	12
5	15%	Male, slightly older, in social groups D and E, less confident using online services, risk averse when it comes to money	12
6	19%	Older group (more retirees), few dependents, least confident online, comfortable with what the future holds	12

Additionally, to ensure representation<sup>1</sup> of the full cross-section of society, we included **minimum quotas** on gender, age, work status, receipt of state benefits, internet usage, ethnicity and household status. Further, **participants were recruited across all four nations**, the breakdown being as follows:

- 49 in England
- 7 in Wales
- 12 in Scotland
- 4 in Northern Ireland

Each household received four ethnographic visits, with each visit lasting at least three hours, and some taking the whole day to complete. **Ethnography is a participant-led research technique that places as much emphasis on observation as it does on questions**, allowing researchers to observe in some depth what is important to participants. In these visits, we spoke to as many members of the household as possible. As decisions around spending and finances are typically taken at a household level and it made sense to harness the views of all of those involved to better understand the dynamic and decision making process that families go through.

The **longitudinal nature of the research allowed us to build a strong relationship with the participants** – something that was necessary given the sensitive nature of the discussions that we had with them. As a result of this we were able to get to the heart of how they felt, talked about and behaved in relation to money. Further, as the work took place over the course of a year we were able to see how seasonality affected participants' approaches to their finances.

<sup>1</sup> Statistical representation of the UK as a whole was beyond the scope and resources of this qualitative study, but the quotas were sufficient to provide valuable insight into the experiences and beliefs of a broad cross section of society.

Each of the visits we conducted had a distinct purpose, as outlined below:

- **Visit One.** Taking place in August 2012, this visit sought to **familiarise participants** with the research programme and ensure that they were comfortable with it. In addition to this, it provided an ideal chance for the researcher to gather the participants' **spontaneous views of and attitudes towards money**.
- **Visit Two.** In October 2012, we visited the families for a second time to understand more about **how the families spoke about money** and the way it was linked to their aspirations. The timing of this visit also enabled us to determine how – if at all – the families were preparing for Christmas and the impact that this time of year had on their finances.
- **Visit Three.** Between December 2012 and January 2013 families were visited for a third time to **introduce one of the five** interventions developed with our partners for this work (Ivo Vlaev and Antony Elliott). These interventions were developed as a result of a behavioural analysis of the findings from the first two visits and were **designed to improve key elements of financial capability** related to keeping track, planning ahead and making ends meet.
- **Visit Four.** Between March and April 2013, the families were visited for a fourth and final time. In this visit, the focus was on **evaluating the impact on the behaviours of participants of the interventions** introduced in the previous visit.

Each visit was structured by a discussion guide with relevant stimulus material, all of which was designed collaboratively with the Money Advice Service and agreed in advance. These materials can all be found in the appendix (which is being published alongside this report).



Of the 72 families, **half agreed to have all of their interviews filmed**. In addition to the field notes, this provided us with an extensive library of film data for analysis purposes, enabling us to make observations about what people say they do, and what they do in practice. For instance, while some would say that they knew it was important to only buy what was needed to enable them to live on their limited income, this did not prevent them being attracted to spend money on what they believed to be bargains. A series of edited films on the key themes arising from the research have been produced and made available separately to the Money Advice Service.

Only three families dropped out over the course of the study.

### In-depth interviews

Mindful of the impact that **significant life events can have on how an individual approaches** their finances, we also conducted 48 in-depth interviews with participants who had experienced one of the following life events within the recent past:

- leaving home for the first time
- buying a first home
- joining assets with partner
- separating from or divorcing a partner
- losing a job
- struggling with debt
- living with poor health or needing long-term care
- experiencing the death of a partner

As with the main stage fieldwork, these participants were recruited using free-find face-to-face techniques. Each of these depth interviews was about an hour in length and sufficient for us to understand how the event that they had experienced had shaped their approach to money management. Interviews were conducted in-home both to allow us to understand more about the participants' lives and to ensure a safe and familiar environment in which to discuss a sensitive issue.

These interviews were conducted across the UK as follows:

- 34 interviews in England
- six interviews in Scotland
- four interviews in Wales
- four interviews in Northern Ireland

Full details about the depth interviews, including a rundown of where they were conducted and the research materials used to guide the discussion, can be found in the appendix (which is being published alongside this report).

## 1.4 Interpretation of qualitative data

Qualitative research is not by its nature designed to be statistically representative. It is **intended to be illustrative**, providing detailed and insightful levels of in-depth understanding around a research topic. Claims cannot therefore be made about the extent to which the conclusions may be generalised to the population. Instead, **we present the broad range of views given by participants**, and, where appropriate, make reference to overall balance of opinion or general consensus.

Verbatim quotes and case studies are used throughout the report to illustrate particular bodies of opinion, but these should not be taken to define the opinions of all participants. In some cases, sample sizes are small.

The names of the participants have been changed in all of the case studies, to protect their identity.

## 1.5 The structure of this report

This report begins with a brief discussion of the importance of financial capability. This is followed by a behavioural analysis of financial capability. Then, we look at how life events – like settling down, divorce or bereavement – can affect an individual's approach to managing their money. After this we discuss how people's financial behaviour can be changed, based on the results of interventions that were tested in the research. We conclude with a discussion of how the Money Advice Service can use the findings from this work.

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## **The importance of financial capability**



## 2. The importance of financial capability

How people manage their money is dependent on a wide range of influences – including the events that people experience...

As this report highlights, how people manage their money and how they feel about the money that they have, is subject to wide range of influences – from the **skills that they possess** with regard to budgeting, **the knowledge they have** about the tools that are there to help them through to **the services that are readily available to them** in the area in which they live and the example set by family, friends and their wider social networks.

However, **the extent to which someone is financially capable is also subject to wider forces over which people may have limited or little control**. While some of these events – like settling down with a partner – are happy times, they are equally just as likely to be challenging and stressful occasions like ill health, redundancy or bereavement.

**Also, people tend to ignore difficult decisions or assume things will get better, rather than planning for the worst...**

**Most participants in this study believed that, regardless of their current situation, things were going to get better.** So, even those who throughout the project were struggling to make ends meet on a low income looked to their retirement and assumed that, despite not saving for it, they would somehow be able to get by and enjoy themselves. For instance, **a common assumption among participants was that they would inherit money from their parents**, not understanding that this money had often been allocated by their parents in a number of ways – as a means of providing for the next generation, certainly, but also for their own retirement and, at worst, a means of paying for their care as they aged. **This innate sense that things would get better, therefore, acted a barrier to people making positive changes with regard to their future finances.** In this sense, many of the participants we engaged with were passive in relation to their financial behaviours; they only changed when they were prompted to by external stimulus.

So when things do go wrong, people can struggle to cope...

Precisely because of this belief, **when things did go wrong for participants they were all the more stressful** because the participants **did not have the appropriate financial plans in place, nor had they envisaged how they might cope** in the situation in which they now found themselves. To illustrate, some participants who had become unemployed found that getting by on their newly reduced income was that much harder than need be as a result of long term repayment plans (for things like loans or items bought on hire purchase) agreed to when they were in work. The reason for this was that participants had made the decision to buy the item in question or take out a loan based on their current circumstances; they simply hadn't assumed that in the near future they might have less.

### People's relationship with money is personal, and projects how we see ourselves...

Further, it is important to remember that people's relationship with money is intensely personal and is contingent with both how we see ourselves, and the version of ourselves that we want to put forward to the world. For instance, for **young people there was a sense that being careful with money and planning ahead were incompatible with having fun** and living in the here and now. In contrast, a few – especially those who identified themselves as being working class – believed that being careful with money was a positive signifier and something that they wanted to be associated with. Though when this crossed over into being miserly then it was a different matter altogether. Building on this, **older participants, who had grown up when cheap credit was less readily available believed strongly in the idea that you should always live within your means**, save for the things that you want, felt that this was an important value that they had lived their life by, and were all the better for doing so.

Because, however, people's relationship with money forms such a crucial part of their self-identity, when things go wrong, **seeking help can be hard**. Money is personal so, financial troubles can be taken as a sign of weakness or failure. This, in turn, made it difficult for many to seek help – at least before reaching crisis point.

### Social imperatives can present challenges to people trying to manage their money...

Significant life events were one thing but **social obligations and the desire to participate represented a more insidious challenge** threatening both participants' levels of financial capability and also how they were seen by others. To illustrate, **young people often spent more than they had or chose not to save for the future because they wanted to be seen by their friends as generous** and living in the moment. For them, being financially capable was incompatible with having fun and spontaneity. More generally, some spoke of the **social pressures posed by Christmas and weddings** in particular; both the imperative to participate in the first place and, further, expectations around what they would provide in the form of gifts.

It is important to note that these pressures were felt by everyone but **the impacts on those who were struggling financially were that much more damaging**. This is because, to an extent, **money enabled people to participate in society**. Without it, not only were they much more isolated, negatively affecting their wellbeing, but (and as we shall see later in this report) they were also cut off from sources of informal finance which compounded the difficulties they experienced.

## Summing up...

This report presents **a nuanced picture of financial capability** encompassing all these issues, largely focussed around a behavioural framework that goes beyond how skills and knowledge affect an individual's approach towards their finances, to look also at how opportunity – including physical opportunity (the places people live and travel to) and social opportunity (the people they know and meet) – attitudes and motivations impact on behaviour too.

Perhaps above all else, this research demonstrates that **being financially capable isn't just about behaving in a certain way**. And as much as anything else, financial capability can be thought of in the sense of how it makes people feel in control. **Those in control of their money felt in control of their lives** and able to cope with whatever events befell them. In contrast, those who lacked financial capability often believed that by actively managing their money more closely they would lose the control that they had over their lives – in that they would no longer be able to spend as they pleased or live for the day. Others felt constrained, and unable to make the changes they would need in order to remedy this financial situation.

Therefore **all the participants were looking for control over their often fragile circumstances in one way or another**. This report aims to illustrate how people's financial behaviours fit with this nuanced picture, and how positive behaviours can be encouraged.



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## **A behavioural analysis of financial capability**

### 3. A behavioural analysis of financial capability

In its 2006 study, *Levels of Financial Capability in the UK: Results of a baseline survey*<sup>2</sup>, the Financial Services Authority (FSA) outlined five key areas of personal financial management believed to underpin financial capability: making ends meet; keeping track of money; choosing financial products; planning ahead; and, staying informed. Given the growing evidence base for behavioural factors as significant influences on money management, the Money Advice Service commissioned this study to root a definition of financial capability more deeply in the context of people's lives.

#### Moving beyond a predominantly skills and knowledge based definition

Our analysis therefore applies a behavioural lens to the decisions people were making, the actions they were taking, and how they felt about these. Working in conjunction with our research partners, and based on the evidence from the literature review<sup>3</sup>, we analysed participants' stated and observed behaviours around money in relation to the following factors:

- **Skills and Knowledge.** Here, we sought to understand whether or not participants possessed the emotional or cognitive skills to engage with the necessary thought processes for financial management. Building on this, we also looked at whether they had the levels of knowledge required to find, understand and evaluate information to help them make financial decisions appropriate for their situation.
- **Attitudes and Motivation.** Attitudes can be taken to be an expression of the underlying beliefs that may influence behavioural intention and may also be influenced by social norms. Building on this, an individual's motivation refers to the brain processes that direct behaviour including automatic (unconscious) and reflective (conscious and considered) mechanisms.
- **Opportunity.** This refers to the factors that lie outside of an individual that may influence their financial behaviour. In this, we look at both social opportunity (i.e. the networks that people have including their friends and family) and the physical opportunities they are exposed to (for instance, the area they live in or technology they have access to).

<sup>2</sup> Levels of Financial Capability in the UK: results of a Baseline Survey, 2006 (Consumer Research Paper 47, FSA)

<sup>3</sup> Please see Appendix (which is being published alongside this report) for the literature review detailing the rationale for the approach and details of the academic model the research drew on.

### Applying this framework to the core areas of financial capability

This framework helped us move beyond an assumption that low levels of capability can be remedied by increasing an individual's skills through the provision of financial education alone. As this chapter goes on to highlight, **there are myriad of factors involved that need to be taken into account such as how a person identifies themselves**, how they want to be seen by others as well as the places people find themselves in and the people they come into contact with.

The in-depth nature of the project allowed us to explore the role of attitudes and motivations in a way that would not have been possible using an alternative method. Further, as a result of this study's ethnographic and longitudinal approach, **participants had the freedom to show how the places and people that are important to them have influenced their behaviour**.

So as to ensure that the findings from this work are of most use to the Money Advice Service we narrowed our application of this behavioural framework to three of the five core areas of financial capability underpinning money management actions:

- **Keeping track of finances.** By this we meant whether or not participants were able to accurately tell us how much money they had available to them at any one time, and the methods they employed to develop this understanding;
- **Making ends meet.** This was defined as living within your means and covered participants' approaches to budgeting and whether or not they typically ran out of money on a regular basis; and,
- **Planning ahead.** This referred to the extent to which participants thought about the future and, if so, whether or not they put appropriate plans in place to help them realise their goals or cover the costs of future occurrences (like retirement, or paying for social care).

The remainder of this section explores these three aspects of financial capability in relation to the behavioural framework.





### 3.1 Keeping track of finances

The literature review highlighted the importance of keeping track of finances as a key component in financial capability. While the act of keeping track of finances is a short, quite discreet moment in someone's day or week and, as a consequence, is difficult to research, it is nonetheless an important behaviour. **However, a person's ability to keep track of their finances depends on them having the necessary skills and knowledge to do this** – for instance, knowing the importance of checking balances, or having access to the internet to facilitate this.

#### The regularity of mental accounting – few people have a formal budgeting system

While many participants on lower incomes often had a good grasp of the cost of everyday items, they sometimes lacked the necessary skills to keep track of their finances. While this was true of those on higher incomes as well, the issue here was **more acute for those with more limited means because when they failed to correctly estimate their balance there could be serious consequences**. For instance, some reported that they experienced a shortfall and were unable to cover the cost of essential items, like food.

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#### *"I live in my overdraft; it's not good"*

35, female, Leicester, homeowner with partner and works full time, struggling financially

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#### *"I'm always in my overdraft, so I pay a lot of charges every month"*

43, female, Leicester, works with young people, financially getting by

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Participants who were more financially comfortable were often more aware of what was coming in and out of their bank accounts thanks to them having the knowledge of how to set up direct debits which made it easy for them to keep track of the state of their finances. As a result, these families were much less reliant on mental accounting.

#### Checking balances was the most common way to keep track of finances

Another way that participants kept track of their finances was by checking their bank balances. **Some of the less financially capable participants were reluctant to regularly check bank balances or interact with banks**. Some of this was wrapped up with confidence issues, as well as a lack of trust and a sense of scepticism with regard to financial institutions, but a large driver of this behaviour was not having the appropriate skills to deal with banks.

To illustrate, many of those struggling financially were not particularly technologically savvy and consequently did not make use of the tools available to them to help them keep track. For example, most could not see the point of online banking since they were able to use an ATM machine if they wanted to check their balance. This was partly related to a distrust of online banking, with these participants unsure as to whether their details would be kept safely. However, this reliance on checking their balance at an ATM meant they were much less likely to do this as frequently as those with internet banking.

Building on this, other participants in this study lacked basic literacy and/or numeracy skills. This, again, had a direct impact on their ability to keep track as, for instance, they struggled to understand bank statements. These types of issues could also be problematic for participants with chaotic lives related to drug or alcohol use.

In contrast, **those who were better off financially were much more likely to use technology to keep track of their finances.** To illustrate, these participants used both online banking and smartphone apps, which were typically checked every couple of days, in order to make sure that direct debits had gone through and that there was no unusual activity in their accounts. It was apparent that once people engaged in this behaviour it was something that quite easily became ingrained as a habit as typified by one participant in her late twenties who lived in London and had two bank accounts – one for her salary and one for spending – which she would check through her online banking app every few days. She found this approach easy and convenient and, further, stated that keeping track of her finances in this way gave her ‘peace of mind’.

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***“It’s really easy to set myself budgets – I’ll check both accounts every couple of days ... I know how much there is and therefore I know what I’ve spent”***

25, female, London, single person working full time, financially comfortable

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### **Only the most organised people keep receipts to keep track of expenditure**

Keeping receipts requires a certain level of skills; for instance, cross-checking bank statements against transactions made. To illustrate, one of the families we engaged with who were older and financially comfortable made a point of keeping hold of receipts when they went abroad. This practice meant that, after a recent trip to Greece, they were able to work out that they had been charged three times for one purchase and so they were able to rectify the mistake. For some, this behaviour was driven by a fear of being ‘ripped off’ and wanting a paper trail they could call on if needs be.

**More generally, those who were better off financially were more likely to keep receipts from shopping and used these to help them keep track of their finances.** While their records may not have always been entirely accurate – as this depended on the number of receipts they kept – it did at least ensure that they were aware of many of the transactions they were making and what it meant for their finances.

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***“I spend £25 per week on food ... I know because I record it ... food can run away with you”***

25, female, London, single person working full time, financially comfortable

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### A sense of 'control' often motivated people to keep track of their money

Those who were financially comfortable tended to check their balances regularly in order to make sure that direct debits had gone through and that there was no unusual activity in their account. **This was particularly true of older participants who generally worried more about their money than other age groups, especially about fraud.** For instance, one participant we spoke to monitored her finances by checking her bank balance at the end of every month after being prompted by an email reminder about her latest statement being available. She also made additional checks if she saw something on TV about fraud *"just in case someone has had a dip in it."*

Importantly, **the act of checking not only helped these participants to keep track but, further, engendered a feeling of control.** For instance, the same participant mentioned above also conducted a yearly check of her accounts at the end of the financial year justifying this by saying that she *"liked to see what's come in and where it's gone."* Doing this gave her a sense of control over what she was spending. It also enabled her to feel secure in the knowledge that all was as it should be with her account, and that there had been no security risks posed. **Of note, therefore, is that where keeping track of finances is linked to a stronger emotional connection, such as assurance or control, the habit of doing so is more deeply ingrained.**

The reverse, however, was also true. For instance, some participants stated that they felt **more of a sense of reassurance by not knowing their balances** and how much they were spending. These people worked on the basis that they would be more worried by knowing what state their finances were in. This approach worked for these people until something went wrong, such as their missing a direct debit payment, resulting in their being charged.

Depending on how many times this happened and/or the amount they were charged, **this could result in a change of behaviour.** To illustrate, one participant confessed that he had previously not been concerned with keeping track of his finances; he always had a bit of money in his account and, therefore, was easily able to cover his outgoings without worrying about them.

### *"As long as I had a buffer I didn't need to keep track"*

However, at the beginning of 2013 he was not able to get overtime, so his buffer reduced and he eventually ended up being taken over his overdraft limit by two standing orders going out at the same time: one for a car loan and one for car insurance. This caught him off guard and he only found out when he tried to pay for petrol and his card was refused.

### *"I totally forgot they were coming out and they just wiped out my wages. I'm terrible with this kind of stuff; it's not in me"*

As a result, he had to borrow money from his mother to cover the charges and, in response to this, he made an effort to be more vigilant about checking his balance by getting a mini-statement print-out at the cashpoint each Friday, when he also checked to see if he had been paid. **Negative experiences, such as the one described above, tended to motivate people into keeping track more frequently** – although it was often only when charges were of a significant amount that behaviour around checking balances really changed.

## Case study:

### Keeping track after experiencing significant debt problems

Deborah is in her late twenties and lives alone with her two children, aged six and two, in West London. After leaving school at eighteen she worked in numerous different jobs before having her first child. She split with her partner last year and moved into local authority housing, which she spent money modernising to create a nicer home that she would feel happy inviting people to.

***"It just wasn't how I wanted my home to look. It might have been alright for some, but I wanted it to be nicer."***

This left her with some debt to repay. The combination of splitting with her partner and taking on this debt has meant that she has kept a much closer eye on her finances, making sure that she checks her balance on her phone two or three times a week. Checking her balances with such regularity has meant that she doesn't overspend in her weekly budget, and she can manage paying back the debt.



### Keeping track of investments was often seen as enjoyable

**Financially comfortable participants were both more likely to have investments and to check them frequently.** Often, retired participants liked to do this as a part of their daily routine as an enjoyable activity, offering them a feeling of security knowing that their money is safe.

As well as being an enjoyable activity in its own right, checking investments also contributed to the sense of control these participants had over their finances. For instance, one participant knew how much he was going to invest in different areas at any given time, as well as exactly where he was going to move his investment next. This man wasn't looking to make a lot of money, but rather sustain his current situation into retirement through investments. By continually monitoring them, he knew about any fluctuations, so could make any changes if needed. This was reflected in the behaviour of other participants in a similar situation, who were mainly concerned with maintaining their finances at a certain level.

Other participants may not have taken pleasure in checking their investments, but did so in order to ensure they were getting the best return on their money. One married woman in her early sixties was very hands-on when it came to her bonds. She was aware they would mature every two years, so did research on current interest rates, in order to maximise her interest as much as possible. This meant reasonably frequent checking of rates and keeping track of what was changing. Checking financial information in this way helped participants to feel in control of their investments and as though their money was working for them.

### There are plenty of opportunities for people to keep track

Ways in which participants kept track of money was also **driven to some extent by both social and physical opportunity.** For instance, ease of access to ATMs coupled with technological developments such as apps for smartphones meant many had the opportunity to keep track of their finances on a regular basis. These issues, along with the influence of an individual's social network, are explored throughout this next section.

In relation to physical opportunities, **limited access to technology was a barrier to keeping track of finances;** older people and those on lower incomes were more likely to face problems with regard to this. Those on lower incomes, who tended to access the internet via a dongle or their mobile phones, reported that doing this was costly and, therefore, an activity that they tried to limit. As a result, however, they were prevented from checking their balances frequently.

In contrast, for those with smartphones with constant internet access, there was more opportunity to keep track. They did this by downloading apps provided by their bank which allowed them to develop a comprehensive approach to monitoring their financial situation. This approach was typically taken by those participants who were more financially comfortable, and under 50 years in age.

Those with physical and/or mental disabilities faced some very practical barriers to keeping track of their finances as simply getting to the bank or ATM could be problematic. One example of this was a single man in his sixties whose eyesight worsened over the course of the research. By the time of our third visit, his sight became so bad he was unable to work or drive, which not only excluded him from his social network but also meant he couldn't get around independently. This, in turn, made it hard for him to keep track of his finances as he was not able to get to the bank or make sense of his statements.

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***"Where I am right now is not where I would like to be. I would like to be still working and earning my own money and not having these eye problems and being able to go out....When your eyesight is very poor, you just get stuck in."***

60, male, Nottingham, single, not working, financially struggling

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### Ways to keep track are often learnt from other people

**Social opportunities also affected the extent to which people kept track** of their finances. For instance, there were some examples of participants starting to take a proactive approach to checking their balances based on the recommendations of those around them. To illustrate, one widowed participant in her seventies began writing down all of her expenditure and checking this against receipts after discovering that this was what her neighbour was doing. She felt that this gave her a sense of control over her expenditure, which she had been lacking previously.

The behaviour of individuals in a relationship also helped shape behaviour in relation to keeping track. **In many situations it was clear that one half of a couple usually had control over the finances, including keeping track of spending.** Some partners hoped to 'train' the other into learning better financial management, such as one older man in his sixties who encouraged his wife to learn online banking in the hope of preparing her for having to take charge of their finances in the future.

In other cases participants showed little interest in learning from their partner about how to keep track. For instance, one participant who was struggling financially said she let her boyfriend take care of all the household finances and had no idea (or interest in learning) the details surrounding them. They had a printed-out table stuck on the wall in the kitchen with all their monthly bills, including ticks underneath indicating whether they had been paid, but she did not appear to engage with this. For participants like this **there is the danger that if the relationship breaks down they will be left without the skills – or the opportunity to learn them.**

Indeed, this had been the case for some in the study who had been recently widowed and found themselves, for the first time in their life, responsible for keeping track of their finances. These participants then turned to their wider social networks as a means of understanding what approach they should take.

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***"Well, with what happened to George, something can happen quite rapidly, and if there is one person with all the knowledge of financial matters and the other person doesn't, it can become an issue".***

62, male, Glasgow, married, retired, financially comfortable (having helped a friend)

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## Case study:

### Keeping track and social opportunity

Paul is in his early fifties and lives with his second wife Rachel in Leeds. Between them they have 10 children and 16 grandchildren. Paul is currently unemployed after injuring his back at work, but would like to work again.

Difficulty reading and writing means that Paul relies on Rachel to manage his finances. He sees himself as bad with money, and when he was working would hand all of his wages over to her to prevent him from spending everything. He doesn't know anything about their incomings or outgoings and has to ask if they can afford anything before buying it. In contrast, Rachel writes a list of their outgoings on a monthly basis and uses online banking to monitor them regularly throughout the month. Paul occasionally looks at the internet banking when it is up but would not know how to access it himself.

***"I just leave it all to her, that's how it has been from the very start."***

His difficulty in keeping track with what they have, for example through not knowing how to log on to internet banking, means that Paul and Rachel have found themselves in debt. They are currently paying back two doorstep loans and also have debts they are repaying to Halifax. Paul and Rachel are unaware of the interest rates on their loans and this isn't something they try to find out. One loan for £1,000 that Paul took out while he was in work has now accrued ten times that amount in interest.



## 3.2 Making ends meet

By ‘making ends meet’ we mean **not running out of money and being able to cover all essential outgoings**, regardless of the frequency (weekly or monthly, for instance) with which wages or benefits are paid or other income received. To do so involves knowing what money is coming in to the household when, what is going out and when – and the tools and capability to manage both.

### Basic financial skills are a pre-requisite for making ends meet

The participants we spoke to employed a range of budgeting tools and systems. A few, **particularly those who were financially comfortable, had developed meticulous spread sheets** in which they logged all their outgoings and sources of income. To complement this, these participants tended to pay for their bills by direct debit and also made use of online shopping sites for their groceries. They stated that these methods made it easy for them to stay on top of what was coming out of their account and when. In addition, **others were adept at negotiating with their service providers** to ensure that their bills were paid at a time and at a rate that suited them and, further, at prioritising payments so that essential bills were always covered. This, however, **required an understanding that such negotiations were possible**, and the necessary skills to undertake them successfully.

Others took **a more manual approach to managing their money** to enable them to live within their means. To illustrate, some withdrew all their money on it being paid into their account. After doing this, they split out their funds into different piles – sometimes using envelopes or different sections of their wallet for instance – to give reassurance that all their living expenses would be covered. **This approach was typically taken by those on lower incomes or those reliant on state benefits who did not have a financial buffer** in case they overspent.

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*“What we do is we work out what we are doing the next month on and then we go to the bank and take out all that money out as a lump sum and split it up into envelopes, so any money that is left in the bank is solely there for shopping.”*

*We find it more difficult when we are just working off the debit card, the debit card is very easy, where as if we have the cash there in our envelopes to use, we seem to live much better.”*

Male, 45, Female, 41, Bristol, married, full time employment

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Not all, however, were equipped with the necessary skills and knowledge to live within their means. In fact, **few budgeted regularly**, with most relying on a mixture of **sporadic balance checking and mental accounting** – as discussed in the previous section – **which was prone to inaccuracies**. For those on a higher income, this approach rarely incurred any serious consequences. However, **those with limited resources were often left overdrawn or unable to pay for everyday necessities**.

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*“I totally forgot they [standing orders] were coming out and they just wiped out my wages. I’m terrible with this kind of stuff, it’s not in me.”*

Male, 23, Glasgow, single person living at home in full time employment

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Further, it is worth pointing out here that even if the participant in question had the skills and knowledge to live within their means, **their intention to do so could sometimes be undermined by personal circumstances**. For instance, those on an unstable or variable income often found it very difficult to make the money they received last as long as they needed to – simply because they did not know how much or when they would next be paid.

### Some on lower incomes found it harder to interrogate the value of financial products

An individual's **skills and knowledge also had a bearing on their ability to find, choose and engage with financial products** – which, in turn, impacted on whether or not they were able to live within their means. Those who were **struggling financially** tended to have the **least knowledge** about the kind of products they could use and certainly lacked the skills to use these products to their advantage. To illustrate, one participant on a low income paid a monthly fee for a premium current account simply because he did not know that it was possible to have a free one. The additional costs this product carried made it difficult for him to live within his already limited means.

Similarly, these participants also lacked any real understanding about interest rates and what, in practice, a high interest rate might mean for any repayments that they had to make. This led some to make what were, in retrospect, poor decisions about loans (and being unable to service a loan over time).

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***"I don't understand anything to do with money. All I know is that it goes into your bank when you get paid. I don't understand interest or anything like that."***

Female, 21, Bangor, single, living with parents at home in full-time employment

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Interestingly, **some participants chose to pay a premium for certain financial products or home goods**; a decision that, on the face of it, **may appear to betray a lack of skills or knowledge**. To illustrate, some took out payday loans while others paid for essential home goods using hire purchase from companies such as Brighthouse. While these **participants knew that they were paying more** by choosing to make their purchases in this way, or to use these financial products, **they argued that it gave them a sense of control**. This was because they had access to items that would otherwise have been unaffordable for them and, further, the **clarity provided over their repayment terms** meant they knew exactly what would be coming out of their account each month. This, in turn, **helped them to live within their means**.

People either try to emulate the way they were brought up, or reject it wholeheartedly

Participants' **attitudes and motivations** also had a bearing on the extent to which they were able to **live within their means**. In the first instance, the **influence of family members should not be underestimated and went both ways** with some following the example set by their parents and others rebelling against it. To illustrate, one participant explained how his carefree approach to finances was in part down to a reaction against his father's more controlling and cautious approach. He associated his father's cautious approach to money management with being denied the things that he wanted and, as a result, a constraint on joy – something to be avoided not emulated.

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*"If I've bought something and I come with it [my father's] first question is 'How much did that cost you?' He's averse to spending money. He doesn't just go out and buy stuff – my dad needs a bargain. I look at my dad and he's tighter than a crab's arse; it just pushed me the other way."*

Female, 23, Glasgow, single, living at home

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Another participant spoke of how her own childhood had been difficult due to a lack of money, describing the life she and her parents lived as 'austere'. Determined that successive generations in her family would not suffer the same deprivations as she did, she spent excessively on her grandchildren. Indeed, at birthdays and Christmas, whole rooms in her house were taken over by the sheer number of presents she had bought for them. While this is something of an extreme example, it does illustrate how **many of the participants we engaged with were motivated to give their family members more than they had had when they were growing up**, even if this placed them under significant financial pressure and made it difficult for them to live within their means. Further, that these participants got an immediate positive response from this kind of spending made it a habit that was hard to relinquish.

**The opposite, however, was also true.** Those participants who were aware of their parents having struggled financially when they were growing up stated that this gave them the motivation they needed to ensure that they themselves were never in a similar position.



## Case study:

### Attitudes and motivation and living within your means

Harry is in his sixties and lives in Portsmouth with his wife. After a spell of ill health from which he has now recovered fully, Harry has retired and is making the most of his free time.

Prior to his retirement, Harry had a good job. He was an IT consultant earning a good wage, and he enjoyed the lifestyle that this line of work afforded him; he travelled a lot, and was able to spend money on the things he wanted. Coupled with the perks he got from his line of work, like a company car, he looks back on this as a good time in his life and something that, to an extent, he misses.

However, even though he enjoyed what others might view as an extravagant lifestyle, he always took care to live within his means. He explained that a driver for this was the way he had been brought up and the attitude his father had had to the family finances. Harry spoke of how getting to the end of the week with money left over to buy essential goods was never certain given his father's profligacy with his earnings. Such behaviour forced his mother to become an expert financial manager and made him realise the importance of living within one's means.



### Conforming to an identity

The impact that financial behaviours had on **how participants thought they were perceived by friends, family and wider society also affected whether or not they were able to live within their means**. All felt a certain pressure to be seen to have certain items and objects – which obviously differed depending on the age that people were. Younger participants, for instance, were typically more concerned with the kind of clothes they wore, the holidays they took and the places they were able to go with friends. More generally, there was a **concern among some younger participants that being a good money manager and having a good time were mutually exclusive** concepts; something that might make promoting the benefits of financial capability challenging.

**Older participants** were by **no means immune** from the pressures of spending as a means of conveying a message about themselves to the outside world. However, they tended to spend their money in different ways to get across the point they wanted. For instance, those who were older believed that **the material possessions they owned**, including their home and the things in it, **marked them out as being successful**. This, however, did make it hard for some to live within their means. For instance, one participant explained how in decorating her new home she had run up a £2,000 debt on her credit card as she not only wanted it to be ‘liveable’ for her and her family but to appear inviting and appealing to her wider peer group.

Similarly, **many also wanted to be seen as generous**; something that was most easily demonstrated by outward expressions of material wealth – regardless of whether the participant in question could afford such spending. Indeed, of interest is that some of those who took the greatest care managing their finances stated that the benefits this brought them were offset by the fact that **they worried people might think that they were ‘tight’ or mean**. Some expanded on this and suggested that if they were careful with their money they would **worry that others might make the assumption that they were behaving in this way because they struggle financially** – something with which that they did not want to be associated.

### Pressure to spend can change at different times of year, or in response to particular events

These pressures were felt particularly acutely at certain times of the year – particularly **Christmas** – when participants spoke of feeling as though **overspending** was simply something that was expected of them at this time and was therefore unavoidable. Indeed, this was true to such an extent that one participant who, along with her whole family, fell ill with a virus in mid-December spoke of her relief at having a legitimate excuse for not attending the various social occasions to which she had been invited. As someone who struggled financially Christmas was a very difficult time for her and so being able to opt out of costly events and parties in this manner meant she was able to live within her means without feeling as though people would think badly of her.

Similarly, attending weddings could be particularly problematic for some participants given the outlay they felt was expected of them. Indeed, one participant suggested that she was going to cut back on the number of wedding invitations that she accepted each year as she felt that the money she would have to pay out on presents, travel and accommodation was too much.

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***“We had four weddings this year, spending £150 on each present since they were friends’ daughters. We took the hit financially. It didn’t change any of my day-to-day spending but it prevented me from taking a holiday or staying in a hotel.”***

Female, 50s, married, Northern Ireland, employed

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### The appeal of a ‘bargain’

Related to this is the fact that many of the participants spoke of how they found it **hard to resist what they believed to be a bargain**. Participants were proud of their behaviours in this regard; they thought that by hunting out good deals, they were saving themselves money – something they stated helped them to live within their means. While this was expressed as a positive financial behaviour by participants, **over the period of the research it became clear that it belied the fact that they rarely needed the items they bought in the first place**. Therefore, while they justified the purchase to themselves on the grounds of it being a bargain, it was often just unnecessary expenditure. On further discussion, it became apparent that some were simply buying these bargains because of the emotional response they got from doing so; **spending the money made them feel good regardless** of whether the item they had bought was actually needed or not. This behaviour, in turn, generated an interesting discussion around conceptions of value; for some it was based purely on cost while, for others, something could only be considered good value if quality and need were brought into the equation as well as cost.

In contrast, some participants spoke of the importance of **appearing to be careful with money and not spending to excess**. This was particularly true of those who described themselves as working class. They stated that they did not want to be seen as being frivolous with their money, believing this to be both foolish and unnecessary. Instead, they believed that by keeping expenditure to a minimum, they would be able to accumulate enough money to ensure that, if ever anything happened, they would have a buffer that they could fall back on.

### Using financial products to make your money go further was regularly linked to levels of physical opportunity

**Those who were most financially comfortable** tended to take a **sophisticated approach** to their use of financial products, with some even using them for monetary gain. **Store cards were a good example of this** with selected participants using them for purchases as a means of enabling them to accrue loyalty points or eligibility for a discount. However, having done this, they paid off the amount in full, sometimes immediately after making the initial transaction, so as to ensure that they did not incur any interest charges. Using financial products in this way not only ensured participants were able to live within their means but **helped to make the money they had go further**.

Aside from possessing a certain level of knowledge and being equipped with the appropriate skills, **participants' ability to live within their means also depended on the physical opportunities they were able to capitalise on**. To illustrate, having ready access to shops and services enabled some participants to more easily hunt around for the best bargains which, in turn, helped them better live within their means.

The flipside was also true. For instance, some of those living in more rural areas spoke of how the **constraints placed on them by their environment meant that they incurred higher living costs**. Many believed that their **transport costs** were greater than for someone living in an urban area as they simply had further to travel to access the amenities they needed. In addition, those who were more physically isolated also believed that their environment prevented them from easily changing their financial situation given that they **lacked ready access to job opportunities**. In this sense, those who lacked physical opportunities thought that it was potentially more difficult for them to live within their means.

**Health problems posed different physical barriers**. For instance, those participants with literacy issues were less able to read and understand their bank statements, which in turn made it harder for them to live within their means. Similarly, for those who were unable to get to their local high street easily – either due to mobility issues or more emotional ones like agoraphobia – these **health-related barriers could sometimes cause them financial difficulties**. More broadly, the extent to which participants felt confident in using the internet was also raised. In some cases this was correlated with age, with older participants feeling more unsure about engaging with their finances online.

### Many relied on friends and family to help them live within their means

Those who were **struggling financially** spoke of how they **often relied on those within their social network** to help them live within their means. This help did not necessarily come in the form of money; for instance, some described how within their community, **they would swap and share items** – like children's clothes and baby equipment. Another participant who lived alone spoke of how she made her money go further by shopping for 'buy one get one free' offers in supermarkets and sharing these offers with a friend. This creativity certainly helped those on limited incomes to live within their means.

Similarly, others spoke of how their social network was **a useful source of help and advice by building their understanding of what benefits they were eligible for** and how they should go about claiming these. To illustrate, participants with children mentioned that they frequently discussed with **other parents in their network** the sources of income that they were able to call on. In some cases, this acted as a prompt for the participants – or those they knew – to call HM Revenue & Customs and the Department for Work and Pensions to either see if they were able to access this same support or to check whether they were in receipt of the right amount. These same contacts were also used to help the participants fill in the necessary forms for state support, which were perceived to be complex and intimidating.

In addition, an individual's **social network** was often **a useful source of childcare** given that formal sources were frequently thought to be unaffordable. By making use of the help offered by family and friends some of the participants we engaged with were able to **combine having a family with work** which, in turn, made it easier for them to make ends meet as they were **able to boost their income**. To illustrate, a lone parent with two children who had been relying on benefits the first time we met her, had by the end of the research, had found a full time job, but was unsure whether she could take it due to the high cost of childcare. A solution suggested by her family was that her grandmother would look after the children while she went to work – a plan that was later put into place.

### Friends and family could also be a disruptive influence

Just as the **social opportunities that the participants had access to could be used for positive effect, they could also have negative consequences too**. One recurring issue we came across was how young people in particular were subject to peer pressure which affected what they spent and could result in them living beyond their means. **Even those with positive intentions in relation to their money struggled to turn down opportunities for socialising among their friends**. It is important to note that going out was also linked to their attitudes and motivations, something which is discussed in more detail later in this section. Suffice to say, however, this reluctance to turn down invitations was also linked to how they wanted to be perceived by their peer group and, among those who were young, **there was a desire to be seen to be living an exciting lifestyle where money was not a problem**. This issue is explored in more detail in the following case study.

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#### ***"I still think I'm young at the minute, so what the hell"***

Female, 21, Bangor, single, living with parents at home in full time employment

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## Case study:

### Social opportunity and living within your means

David is in his twenties and currently lives in Leeds with his mum and brother. After a three month period of unemployment he is working in sales. David enjoys clothes shopping and regularly goes out; he views his money in the short-term and spends all of his earnings on socialising. Despite this, he currently owes money to his mum after she paid off a debt of £1,000 in interest payments from a loan for the same amount that David took out as a student. There is no specific timeframe to pay this back and no interest accruing, so he feels much better about having a loan with his mum rather than with a bank.

***"I tend to spend the money before I have got it, so I have already planned what I'm going to buy before pay day and then it tends to get me to the second or third week of the month and I have run out of money and then I tend to get money off my mum."***

David has a love/hate relationship with money and always has good intentions of saving but feels that he is unable to control his spending. He makes calculations about how much he has to spend each month and regularly transfers money to his savings account but finds that he needs to access the money when something 'comes up', for instance if his friends make plans to do something.

***"I think I lack a bit of planning and I'm not necessarily the best with money."***

He feels pressured into going out and is reluctant to miss out on any social opportunities. One of his friends started using payday loans to finance a holiday and since then others in the group have taken them out when they are short of money. Recently David took out a £70 payday loan in order to buy festival tickets because all his friends were going and he didn't want risk waiting until payday in case the tickets sold out. He paid this back with £30 interest the following month.

***"With it being a festival I had to get it there and then but I don't use them regularly."***

There was also evidence to suggest that **those who lacked social opportunities sometimes found it difficult to live within their means**. This was because, without access to a trusted network, they were **cut off from sources of help and advice** – the benefits of which were illustrated earlier – and unable to borrow informally, making living within their means more difficult. To illustrate, one participant had been recently made redundant. Prior to this he arranged regular nights out with his friends. However, living alone and on benefits meant that he not only lacked the funds to afford these outings but, what is more, could not even afford the transport costs to get into town. As a result his social opportunities diminished, he felt isolated, and was affected emotionally. Previously, his close friends had always helped each other out with a bit of money if one or the other of them had needed it. Without seeing them regularly, he was denied this opportunity for informal borrowing.



### 3.3 Planning ahead

The **ability to plan ahead**, either through forecasting spending in advance, or through setting particular goals, was identified as a **positive outcome for financial behaviour** in the literature review. Participants' behaviours in relation to this are explored in more detail throughout the remainder of this section.

#### Pensions are the most common financial vehicle when planning for the future

Being able to plan ahead **requires people to have the skills to look ahead and think about the events that they might encounter in the future**. Generally speaking, most participants had some understanding of how pensions worked in principle, and it was the first financial product mentioned when discussing the future. There was awareness and some discussion about the new automatic enrolment scheme for workplace pensions, although there was often confusion about what this meant, with some participants believing they would no longer have a choice about whether or not they would have a pension. Among those who were saving in a pension, the decision of whether to start doing this had been based on a calculation as to whether they could afford to forfeit a small amount each month from their salary. That said, once they did start a pension, most admitted they did not notice the change in their income and knew that putting money away for the future was a good thing to do – especially when this was complemented by contributions from their employer.

**Those participants with a family also spoke of a sense of 'pension guilt,'** believing that they needed to plan for the future given they had dependents. Their ability to do this successfully, however, was **hampered by a perceived lack of trusted information** which made choosing the right pensions product difficult.

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***"[Pensions are] essentially luck ... more luck than judgement ... I could pay into a pension and there would be no point in it"***

25, female, London, single person working full time, financially comfortable

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#### Many saw owning a property as a good financial investment

**Some young people aspired to own their own home and believed that this would be a good investment for them for the future.** However, they lacked an understanding about mortgages and, in particular, the size of deposit for which they would need, which, in turn, prevented them from engaging with banks or mortgage providers as they felt they needed at least a base level of knowledge to enable them to ask the right questions.

That the younger participants aspired to own a home for investment purposes was something that was **endorsed by many of those who were more financially comfortable and had done just this**. These participants believed that property offered very little risk as an investment and represented a straightforward means of making money through capital gains. This, combined with the importance of leaving an inheritance for their children, meant that it was seen as a safe and practical investment for the future.

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***"I've got a thing that when I die, it [the house] will be my daughter's, so I'm trying to get it up together so she won't have to spend any money here."***

76, female, Bristol, widowed homeowner, financially comfortable

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The **importance of family in helping young people to plan ahead was particularly striking in relation to buying a house.** As mentioned previously, many participants aspired to owning their own home. However, aside from lacking knowledge about mortgage products, many young people found deposits prohibitively high. Indeed, it was **often the case that without the financial assistance of family members the aspiration of young people to buy remained just that.** As a case in point, one participant, a man in his early thirties, went through some dramatic changes in circumstance over the course of the research. When we first met him he was earning a relatively low wage and spending most of his disposable income on going out. By the end of the research he had a part-buy mortgage, was in a relationship, and about to become a father. His parents had been saving for him throughout his life so, when he came to buy his house, he used this money to enable him to afford the deposit – a story retold to us by many.

### Planning financial buffers into the future was varied and ad hoc

Participants' **levels of skills and knowledge were clearly associated with their purchase**, or otherwise, of **insurance products** when planning for the future. Some of those on lower incomes calculated that, as they did not own many possessions of high value, then it was not worth them spending money each month on insurance. In contrast, **older participants were much more likely to own insurance products**; something that was driven by a concern to avoid a large outlay of money should things go wrong in the future. Policyholders though did not necessarily have the skills and knowledge to get the **best deals on insurance products**. Many, for instance, stuck with the same provider for many years because they knew what they would be getting and trusted in them, despite the fact that they may have been able to find a cheaper deal elsewhere.

**Skills and knowledge also directly influenced participants' savings.** Those who were **most financially comfortable** had often built up a **buffer to protect themselves** from unforeseen expenditure, or had savings for a specific goal. That they were able to save in this way was, in part, due to having a higher income relative to others. They also tended to have **a better knowledge of the kinds of products available** to help them save for the future. ISAs, for instance, were perceived as being accessible and low risk.

**Social opportunity**, more than physical opportunity, **influenced the extent to which participants planned ahead for the future.** This centred largely on the people that the participants spoke to or came into contact with, as explored below.

**Family came across clearly as having a huge part to play.** Younger participants – including those in their thirties – spoke of how they frequently relied on their parents to help them out financially. While this was often greatly appreciated, it did act as a barrier to planning ahead for some who knew that their parents could provide a safety net.

**This relieved them of responsibility to be financially independent** – an issue that some of the participants recognised.

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***"I don't feel like an adult while I'm here [living at parents], I just feel like if I don't do something then... it sounds really bad but they are here to help. They're not going to let me get into debt, but I don't want to use that, but I've got that in the back of my head."***

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31, female, Portsmouth, single, working full time, getting by financially

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Others stated that putting money aside gave them a sense of security which was motivation enough for them to do this regularly. One participant stated that if she had less than £2,000 in her current account, she would be worried. Even though the interest was low on her current account, her behaviour was driven by her need for security in having money available right away, should she need it. This was not unusual for **older participants, who prioritised the sense of security from having money readily available over accumulating growth** on their funds.

### **‘Living for today’ can hamper people thinking about tomorrow**

Participants’ **attitudes and motivations influenced the extent to which they planned ahead**. Many participants described themselves as wanting to ‘live for the day,’ with this acting as a barrier in relation to them planning ahead. Other people were so **swept up in day-to-day family life that they struggled to think too far ahead** financially. Unlike some participants in other groups, people who were financially getting by appeared able to identify potential future problems, but often still failed to have a plan in place despite knowing there could be an issue in future. For example, one married woman with children could not imagine any other way of paying for household goods except by instalments through catalogues, despite feeling financially burdened by this. Once she has paid off an item, she would go back to the same company to buy more items, as the immediate gratification of buying something new was overriding the need to plan ahead.

There were **many who failed to plan ahead despite having a disposable income sufficient to get themselves out of difficulty**. These people would often spend a lot in a short amount of time but would be able to cope through repaying their overdrafts or credit card debt later. These participants were concerned mainly with spending money in the moment on events or goods they desired, and did not seek a lifestyle where they planned ahead.



### Many were unwilling to engage with the future needs of social care

For some, **the idea that they might one day require care and support seemed such a distant possibility that it was hard for them to conceive of it.** Usually these participants' parents were still active and not in need of support. As a result, they found it easy to convince themselves that their own life would run a similar course. For those with parents in need of support to get by, the possibility that they may themselves be in a similar position in years to come was more tangible – but still, more often than not, these participants were not making adequate provision.

Alongside this, **information provided about social care was thought to be too confusing**, and the potential cost of social care was unclear. Compounding this, some older participants lacked knowledge on how to maximise any investments that they might be able to make to fund such costs and were not aware of which financial products they should use to help them do so. As a result, **they did not see the point in making any provision at all**, believing that they would just have to rely on the state instead.

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***“How can I plan ahead? I don’t know at my age, so I don’t plan very far ahead. I stopped planning about 10 years ago because I got to an age where people started popping off and you start to worry.”***

76, female, London, widowed homeowner, retired, financially comfortable

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### Case study:

#### Avoiding planning for the future

Margaret is 59, married to Peter, 70, with two grown-up sons. They live in an affluent suburb of Glasgow and both come from working class backgrounds. Peter is semi-retired, having worked all his life in sales, and continues to work two days a week as a consultant. Both have suffered from significant health issues, though they have made no special provision to pay for any potential care they may need in the future. Margaret retired from her job as a book-keeper at the age of 40 after being diagnosed with MS, and a few years ago Peter was diagnosed with cancer (though he is currently in remission).

In spite of Margaret's fastidious approach to day-to-day financial management, Margaret and Peter don't plan for the future.

#### ***“We don’t invest anything longer than two years ahead”***

Margaret can't get life insurance because of her MS, and though her husband has life insurance as part of a package of products he once took out, they do not describe themselves as 'big' insurance people. Margaret does not like contemplating how her husband's or her health may deteriorate in the coming years, and therefore she is not comfortable planning financially for future healthcare costs. Consequently, the family does not have a clear idea of how care could be paid for but assume that their savings will be enough. If specialist care were required for Margaret's MS, it would have to be financed by selling the house, which is something she reluctantly accepts.

In contrast to perceptions of care costs, **funeral costs were cited as being inevitable and something that no one can get out of paying. As a result, significantly more participants had plans in place in the event of their death.** This was particularly true of those on low incomes who were **spurred on to plan ahead** as a result of knowing others who had died and left their relatives with the cost of a **large funeral bill at an already difficult time.**

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***“We don’t want our children to have to rally around for our funeral”***

Male, unemployed, financially struggling

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**A desire to provide for other family members was a powerful motivator** which encouraged people to plan ahead. For instance, one participant found that on becoming a father for the first time he was much more motivated to save money each month as a means of planning ahead and ensuring that he could provide for his family. More generally, many described ‘lending’ money that they suspected would never be returned, but justified this by saying they were investing for their children in a way that they would have invested themselves when they were younger. Interestingly, they were more likely to make ‘investments’ for their children rather than pay off any debts they may have had, and believed they were passing on good financial knowledge to their children. However, our researchers observed that **by continuing to support their children for longer**, they often weren’t passing on the knowledge that they learnt and used to manage money themselves, and **were instead actually encouraging a ‘live for today’ attitude.**

### People value guidance from friends and family in planning ahead

**Others used their family as a means of helping them to save.** For instance, some participants on lower incomes told us that money ‘burned a hole in their pockets.’ In order to help them plan ahead, they would ask people in their family or networks to look after any spare money they had as a means of helping them to save. **Physically giving cash to someone meant they could no longer access it.** Further, the person to whom they gave money would typically be a figure who represented authority in their lives and so would be strong enough to turn them down should their resolve weaken and they ask for the cash back.

**Friends and peers** also affected how younger participants planned ahead. More successful peers, for instance, inspired participants to think seriously about their career plans and how they might be better off. Seeing a friend earning more money made some participants begin to think more about how they would begin to accumulate wealth in the future. In this sense, **participants would begin to think more reflectively about their careers and earning potential and strive to make changes.**

Friends were also a useful source of **helpful advice about planning ahead.** Those who were more financially comfortable, for instance, tended to have friends who worked in financial services. In these cases, the subject of money and investments often came up when they were socialising; they would talk about what products were available, what would be a good investment for them for the future, and where they might go to get more help and advice. For instance, one participant in his mid-sixties had a friend who worked for the Institute of Financial Accountants (IFA). His plan was to sell the two properties that he owned and, from the proceeds, buy a smaller home in London and a retirement property on the south coast. He said with certainty that they could pay for it now and would not need extra savings or a loan. However, he would talk first to his IFA friend, whom he described as a ‘financial whizz,’ in order to make sure that he was using the right investments to fund these plans.

### People's workplace – both in terms of who they meet, and their workplace environment – played a large role in planning for the future

Those participants who were in work were also able to get **advice from their employers** which, in turn, **helped them to plan ahead**. To illustrate, one participant who was in his fifties worked for the police and was supported by them in various ways; they provided him with mortgage advice and access to pension providers. This was felt to be extremely helpful by him and his family, who had based some of their decisions regarding their plans for the future on this advice, such as the percentage of salary to put into his pension.

However, **discussing finances with friends and family did not always lead participants to make the right decisions for their future**. For instance, as a result of seeing what others around them had done some made future plans based on income which was not necessarily guaranteed. An older man in Wales, struggling financially, was left in a bad situation due to an injury that occurred at work, leaving him unable to continue in employment and therefore solely reliant on benefits. Having seen a colleague receive a substantial sum in compensation for a similar injury, he made a claim himself.

Confident that he would be awarded a similar amount he took out a loan from the bank in order to take a holiday and make renovations to his house. However, his compensation claim was turned down and he was left unable to pay back the loan.

The nature of the work that people undertook – which was often dictated by the physical environment they lived in – also influenced the extent to which participants were able to plan ahead for the future. Sporadic employment, for instance, led to a fluctuating income making it very hard for people to plan ahead as they often wouldn't know what they could expect to earn in the following weeks or months.

Participants on the Isle of Skye provided the most extreme example of this. The tourist trade means work on Skye is plentiful between April and October. But outside of these months participants were often out of work and reliant on benefits. These participants described the prolific spending which followed the six months of living on benefits and the issues they needed to consider. For example, as Christmas fell at a time when they were claiming benefits, they often tried to buy all their presents during the summer while they were working. They aimed to make most of their larger purchases, such as clothes and home improvements, during the summer period so that they would only need to cover basic costs while living on benefits through the winter.

One enterprising young single man living in London pursued an idea to learn Mandarin in order to accelerate his career progression by working in China. As his low income prevented him from paying for Mandarin lessons, he made use of a free Chinese online chat room and also began speaking to people using Google translate. As these online friendships developed, he managed to meet up with some of these people face-to-face in London to practise speaking Mandarin and help with their English-speaking. This became a regular occurrence and his Mandarin improved throughout the course of the research, strengthening his prospects of one day moving to China to work.

## Case study:

### Social opportunity and planning ahead

Charlotte is a 25-year-old graduate living in London. She works as a PA and is highly organised when it comes to her money. She has two bank accounts – one for her salary and one for spending – and a number of ISAs.

Charlotte saves one quarter of her salary each month and believes she gets her attitudes towards budgeting and investing for the future from her parents as they frequently discuss finances and have given her advice about saving.

***“My parents are both very savvy about money... they are both bargain hunters... they spend money lavishly, but wisely”***

Based on parental advice, Charlotte partitions her money and allows herself £400 a month to spend freely, without keeping track of where it goes. However, she considers a lot of her spending to be an investment, buying jewellery and handbags which she knows she will always be able to wear and, if necessary, sell on for a good price.

***“Designer handbags... I [can] spend hundreds of pounds... I have about five or six...diamond earrings, Vivienne Westwood jewellery... it holds its value, they are a good investment... if I had to, I could get my money back on [them]”***





### 3.4 Conclusions

#### Keeping track of finances: creating a habit out of checking balances is key

**Keeping track of finances is clearly an important aspect to money management. The skills and knowledge** associated with keeping track were **common-sense** to most participants. The more influential aspect of keeping track of finances lies in **the attitudes and motivations** of individuals to **engage with their finances on an emotional level**. For this reason, creating a habit of checking balances is an important driver to keeping track as it often relates to a small moment in a person's routine. It was clear that among those that made checking habitual, the habit was a small, but powerful way to improve financial capability. Many had the opportunity to engage regularly with their finances apart from a few in more rural locations, or where they weren't connected online.

#### Making ends meet: the importance of using financial products and social networks effectively

The **ability to make ends meet appears to be formed from being able to use financial products, such as direct debits, effectively and also being able to navigate some of the influences from friends and family**. The ability to use financial products to manage income and outgoings in an effective way **needs a certain level of skill and applied knowledge as a pre-requisite**. Where participants lacked this, the research shows that people can end up in unwanted debt, sometimes through taking out products that tie them into payments that they struggle to keep up. Beyond the use of financial products, **the social networks of friends and family can play a large role** in either helping people through difficult times, or more negatively, through tempting people to spend beyond their means. Recognising this combination of skills and knowledge, and various forms of social opportunity as key driver in determining financial capability will be important in helping people to improve money management.

#### Planning ahead: Creating a realistic picture of the future is a challenge for many groups

The breadth of the sample in this research alone has demonstrated that **those who successfully planned ahead when they were younger have a greater degree of financial security in their older age**. However, the ability to successfully plan for events that people have not yet experienced – and are reluctant to imagine happening – inevitably caused a barrier to doing this. In this sense, **one of the most important drivers of planning ahead**, and being able to imagine what may lie in the future, is the **attitude and motivation** people take on from their **friends, family and their workplace**. Events that are inevitable, such as a funeral, are likely to be planned for, whereas social care appears to fall under a category of an 'unforeseen event' and is not adequately budgeted for. This inability or unwillingness to imagine what may happen in years to come is also coupled with a lack information about particular events, such as retirement or social care, further encouraging inertia in planning for the future.

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## **The impact of life events on financial capability**



## 4 The impact of life events on financial capability

**Life events can often act as a trigger for someone to change the way they think about and manage their money and as such are used by the Money Advice Service as one of the ways in which it structures its advice, tools and other content.**

This chapter explores the relationship between financial capability and eight common planned and unplanned events of specific interest to the Money Advice Service. It highlights barriers to be faced when preparing for and coping financially during the eight life events listed below, and the extent to which advice and support is sought or accepted by those who experience them.

The eight life events are:

- leaving home for the first time
- buying a first home
- joining assets with a partner
- separating from or divorcing a partner
- losing a job
- struggling with debt
- living with poor health or needing long-term care
- experiencing the death of a partner.



## 4.1 Leaving home

Moving out of the family home was the **first major financial life event** experienced by most participants and the extent to which they were prepared for this depended on the level and quality of the guidance they received from their parents. Indeed, **parents were the only source of advice and information** used by participants who had recently left home though some did not proactively seek this, expecting their parents to tell them what they needed to know.

In order to be well prepared financially, participants who had recently left the family home felt that there were **three questions** in particular to which they needed to know the answers:

- how much can I afford to spend on rent?
- how much will I need to spend on bills?
- what are my legal responsibilities?

Participants who felt that they had managed their move well tended to report having thought about and answered each of these questions before they chose a place to live. Doing this ensured that they did not **overstretch themselves** financially, nor did they have to **deal with unexpected costs**. Indeed, some of these participants felt that the disciplines and skills of saving and budgeting that their parents had instilled in them meant that planning their move and keeping on top of rent and bills was not a problem for them.

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***"I think when I moved out there was a sense of satisfaction that all the stuff I knew I could actually use, I could actually put into practice and then there's sort of a satisfaction like yes I know what I am doing."***

Female, 25, England

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However, not all participants coped so well with the transition, with bills the main source of difficulty. When moving out of the family home some participants – particularly those who moved into flat shares – **only focussed on the amount they would need to pay on rent and disregarded the cost of bills**, normally assuming that they would not cost very much and that they would be able to cover them easily. These participants were then shocked when they began to receive large utility bills in their name or were asked for money from their flatmates for their share. **Council Tax seemed to cause the greatest number of problems**, not only because it tended to be one of the most expensive bills but was also the one least considered by participants before they moved.

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***"That's the big difference when you have to do your own bills; they cost much more than you'd think."***

Female, 21, Northern Ireland

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For some, the financial difficulties they faced due to overstretching themselves on rent and not budgeting accurately for bills meant that they began to **accumulate debts** which they could not afford to pay. This tended to result in them moving back to the family home for a while until they were able to get themselves straight before moving out again – this time with a more realistic financial plan. Some participants acknowledged that moving back to the family home owing to financial difficulty was a possibility even before they had moved out and, in this way, **leaving home was not seen as a permanent transition but more of a tentative step into adulthood** with the safety net of parents in case things did not work out.

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***"You have a fall back, you know, don't take all of your stuff out of the house in one go; don't sort of burn any bridges or anything. And then I would say that if you had trouble don't be too proud to go ask for help, so if you have planned it well enough I think you will be fine. You are not rushing out going 'I have to move out because I am this age and I have to go now,' but if you just think, 'no I want to do this, I am going to take these steps and then going to have a go...'"***

Female, 25, England

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#### Case study:

##### Leaving home: Gemma, 20, England

Gemma is currently in her second year at university, which she combines with working 28 hours a week in a local pub. In spite of working, she has **struggled financially since leaving home** having not considered how much this would cost her.

***"You just think about rent, that's it, you don't realise how much more there is to pay for."***

She moved into a nice house with some friends, but her **inexperience in budgeting** meant that she didn't take into account any costs in addition to her rent such as bills. Without any money set aside for these outgoings she quickly got behind on paying for these and confusion around Council Tax meant that it went unpaid for eight months, until the council demanded the total in full.

Initially she **ignored the debts, hoping that they might go away**. Then, as the problem worsened and fell increasingly behind on bills, she started borrowing money from friends. At its worst, she had to move home and increased her working hours to try and pay off her debts – though she still owes some money to those she borrowed from.

***"It doesn't really seem fair for the Council to keep asking me for money if I can't afford to pay. I don't really feel like it's my fault."***

Gemma has since moved into more affordable accommodation and she feels that she has become better at managing her money now she has a better **understanding of everything she needs to budget for** and is more realistic about what she can afford.

## 4.2 Setting up home

If leaving home was considered a tentative step, **buying a place of one's own was felt to be a giant leap both emotionally and financially**. For some, this event followed years of renting or living at home and so the move to home ownership symbolised independence. It was also one of the most financially demanding events participants experienced. Saving for a deposit, getting a mortgage and ensuring that this was paid was a challenge which few participants managed to do alone.

Most participants who had recently bought their first home had therefore done so with a partner, which meant that they **needed to join their assets** in order to pay for the deposit and qualify for a mortgage. This was normally done by setting up a joint savings account into which both partners would pay a fixed amount each month with an exact figure in mind which would cover their deposit. **This fixed goal, which they had committed to with another person seemed highly motivational for participants** as they said that they rarely paid in less than the set-amount each month, and most often would pay more. For some, this was the first time they had successfully saved for a financial goal.

Parents were also an important source of financial support and information for first-time buyers. Most participants had **received some help towards their deposit from their parents** and they said that it would have been impossible for them to have bought a property without this. However, this also meant that their parents had a stake in the investment – something which came with offers of advice about the kinds of properties their children should look at and the types of mortgage deals they should consider. It seemed that **when it came to getting a mortgage, everyone had an opinion** and while this could be helpful in understanding the different types available, it could also be overwhelming when participants received contradictory advice or were encouraged to change the decision they had made for themselves.

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***"I think I took too many people's advice. I thought, 'Oh, that must be the right [mortgage] to get,' and I kind of wish now I'd, say, taken a two year tracker. I'm sure when I picked it it probably was the wrong one.***

Male, 33, England

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### Case study:

#### Setting up home: Katie and Greg, 25,

Katie and Greg are 25 and they moved into their first home together two years ago. Katie works as a primary school teacher and Greg is a policeman.

After they made the decision to buy a house together they sought advice on where they could find the most suitable mortgage. However, they felt that **the banks were not very helpful** or effective in explaining or providing information on the different mortgages available, so they decided to speak to a mortgage adviser.

Once Katie and Greg had spoken to the mortgage adviser they started to research which type of account would provide the best return if they were to open a joint savings account to save for a deposit. **After a few weeks of searching and weighing up the options** they opened a joint ISA with a building society. Katie earns slightly more than Greg so she decided to contribute £500 per month to their ISA, in comparison to Greg's £300. Thanks to a £5,000 loan from Katie's mother, they had the money they needed for a deposit within the space of two years. They plan to repay this money when they eventually sell the house.





Although not all spoke positively about their experiences of mortgage brokers and providers, participants generally **trusted the advice they received** from these sources – especially in comparison to that which they got on other financial products. The reason for this was that mortgages were viewed as a serious and important financial product and not something which they would enter into without at least some understanding of what they were buying. This meant that **participants sought information about different types of mortgages available** from friends and family or looked online for information before they began to speak to advisers. Although some felt that it was difficult to compare different mortgages or know which type was best for them without the help of an adviser, being equipped with basic knowledge of these products meant that they **felt more confident about their ability to make judgements** about what they were offered and in shopping around for the best deal.

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*“He sat us down and went through everything we earn and how much we think we would have to spend and he worked out what kind of mortgage we could afford. Then he found us the best mortgage, and he arranged it all for us. He was really great.”*

Couple, 25 and 36, Wales

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By virtue of saving for a deposit, it seemed that **putting aside money regularly had become something of a habit** for many of these participants – even after they had achieved their goal of buying their house and moving in. The key driver of this appeared to be that, once participants had bought a house, the **consequences for poor financial capability became more serious**. Previously, most had been able to retreat to the family home or stay with friends when they faced financial difficulty but, once they took out a mortgage, the stakes were raised and their priority was ensuring that the payments were made each month. Having a financial buffer made them feel more confident that they would be able to do this. Additionally, their experience of successfully saving for a deposit had given them **confidence in their ability to achieve goals** and also to realise that they would not miss the money they were putting aside.

This seemed to coincide with a **general shift in financial priorities**, typically from wanting to spend money on socialising and luxuries to spending on their property, repairing it, maintaining it and making it their home. However, for some, the desire to do this meant that they overstretched themselves early on, because they wanted to buy all the things they needed or wanted straight away. Additionally, for those who had never lived outside of the family home before, the **cost of bills also came as a shock as these were often higher than they had assumed** which meant that their budget was much tighter than they had expected.

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*“I didn’t know how much things really cost, like how much I’d spend for electric, how much I’d spend for water. Also, for the first two or three months I was buying more stuff for the flat as well, buying furnishings and pictures and just random stuff, you lose track on how much you’re spending, you just keep flashing the card around. Now I’ve got to work out how much I can spend.”*

Male, 33, England

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### 4.3 Joining of assets

The decision about how and when to join assets with a partner was not clear cut. Typically, participants **first thought about this when they were planning to buy their first home** together in order to save for the deposit but the extent to which they combined their assets varied widely. Most commonly, participants reported that they had a shared current and savings accounts which were used for joint purchases but they also kept their own individual accounts into which their wages would be paid. **Complete combining of assets only tended to occur when one partner stopped working**, typically when the couple had a baby, and therefore became more dependent on the income of the other.

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***“We don’t see money as being ‘yours’ or ‘mine’ – it is ‘ours.’ We share it.”***

Couple, 25 and 36, Wales

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Such a move had the most impact in those cases where an individual **combined their assets with someone who kept a much closer eye on their money** than they did. Indeed, some participants, particularly those who were younger, suggested that this would be the only factor likely to encourage them to change their behaviour in relation to their finances. In some cases, encouragement or demands from a partner for them to take better control of their finances and to begin paying off debts or saving was welcomed and acted on.

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***“She works in a bank so she knows all that stuff; it’s really helped me out, she’s made me sit down and think it all through and now I’m getting my debts paid off. We’re hoping to get a place together soon.”***

Male, 23, England

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However, some couples felt that this **imbalance placed strain on their relationship** and could make one partner feel that they were perceived as nagging while the other felt constrained. This could become particularly difficult when the couple set shared financial goals, such as buying a house, as it would depend on both partners working together to achieve it.



## Case study:

### Joining assets: Natasha, 25, England

Natasha is 25 and works as a Personal Assistant. She is currently living in London with her boyfriend Simon. They moved in together very recently and they are planning to buy a house together in the next few years.

Natasha is **very organised with her finances**; she regularly checks her bank accounts, so she can keep track of her spending. She is also highly focused on saving for the future, so she ensures that she saves £500 per month. Simon, however, is a very different financial manager to Natasha; **he likes to spend rather than save**. He also has some credit card debt, which he has only started to address recently because his mother took the credit card off him and forced him to start repaying it on a monthly basis. These different approaches to their finance have **caused some friction** in their relationship as this affects their plans for the future.

***"He'll spend £200 on a Friday night ... he's always the first to the bar to buy a round ... and I hate it."***

However, since moving in together Natasha has encouraged Simon to save regularly and manage his finances more effectively. One of the approaches she has taken is to open a joint savings account so that they can start to focus on saving together. Through this joint account Natasha has been successful in getting Simon to start saving with her on a monthly basis.

***"I'm happy knowing that he's worried about it ... at least he's aware."***



Responsibility for financial management and decisions varied between couples. **Younger couples, aged between about 18-45, tended to take joint responsibility for managing money**, although if one partner was particularly interested or good at financial management, they would normally take the lead in budgeting, planning and choosing financial products. **Older couples, who had been together for many years tended to take a more traditional approach** with the female looking after day-to-day household spending and the male taking responsibility for longer-term planning and savings.

However, across all ages, there were couples in which one person took full control of household finances to the extent that their **partner would have no idea how much they had or how money was being used**. Living with this type of arrangement demanded a great deal of trust in the person taking control and, in some cases, this trust was abused. A small number of participants described past experiences of having partners who had spent everything they had and then taken out credit in their name without their knowledge. These situations, though extreme, were not uncommon – particularly for those who lived with a partner with a drug, alcohol or gambling addiction.

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***“Yeah, well I didn’t realise he’d got loans out in my name. He hadn’t paid the council tax. He hadn’t paid the rent. He hadn’t paid the gas, the electric. There was an overpayment of the child tax credit as well...he was spending it on this woman, taking her away, buying expensive gifts. It was nearly £25,000 in total... but because he won’t acknowledge the debt, I’ve got to pay it off.”***

Female, 47, England

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Taking full control of household finances was also a way of **exerting control over a partner**, by limiting their personal autonomy and forcing them into a position of dependency. This had a serious impact upon those who experienced it who said that **lack of financial power was a key reason for them staying in a relationship** in which they were unhappy. In most cases, these relationships had started at a young age, which meant that the partner who was being denied access or control of their money did not get experience of financial management until the relationship ended, often many years later.

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***“I’d never even seen a bank statement or used cash point before. We met when I was 17 and he did everything. It was really hard to know what to do, I was terrified when I left him but I knew I had to.”***

Female, 42, Northern Ireland

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While at least some joining of assets was normal and fairly necessary for couples starting out, **it was less common among those who met later in life**. Participants who were in their second or sometimes third marriage or long-term relationship, thought much more carefully about whether it was necessary for them to join assets. This was something which most **did their best to avoid** as much as possible so that they could maintain their financial independence, protect their assets and avoid needing to take responsibility for the financial behaviours of their partner. Having their own significant financial resources such as properties they already owned separately or high levels of savings helped here as it meant that they could approach any joint purchase equally, with each paying their half from their own income.

## Case study:

### Not joining assets: Lily and Terry, 50s, England

Lilly, 55, and Terry, 52, live in Nottinghamshire in a house that they bought together four years ago. Lilly works for Nottinghamshire County Council as an Administration Officer and Terry works as an Engineer for a large factory. Terry and Lilly have both previously been married and they are currently renting out the properties they previously lived in.

Lilly and Terry **keep their finances separate because they have both been through difficult divorces**. Lilly was left in debt by her ex-husband as he was in charge of the household finances and had a gambling addiction. He hid the extent of their debts by intercepting their bank statements and hiding them from Lilly. Terry lost his house to his ex-wife. Given this, they both decided that they would prefer to keep their finances separate. **They do not discuss their finances** and Lilly does not know Terry's income.

***"He is in control of his money and I am in control of mine, so as long as the mortgage gets paid I don't bother him."***

The only joint financial product they own is a current account that they use to pay the mortgage. They have split the household bills and they pay these through their own separate bank accounts.

Some couples were so adamant about keeping money out of their relationship that they had no idea at all of how much the other person had. While they did not feel that this was an issue for now, it did raise questions about **what would happen if, in the future, their partner was suddenly unable to handle their own affairs** and would need someone to do this on their behalf. Some participants who had recently been diagnosed with a serious illness were taking steps to hand over access and knowledge of their finances to their partner in case they became incapacitated or died.

## 4.4 Separation and divorce

The impact of separation or divorce **depended on the balance of responsibilities** for financial management within the relationship. In households where responsibility was split evenly, both partners tended to be able to manage their finances after the relationship ended.

However, for those participants whose partners had previously controlled the household finances, this **new responsibility was often intimidating**. These participants tended to struggle while they learned how to budget, pay bills and save until they found a system which worked for them. Once they managed this, they often revelled in their new found financial independence and quickly became keen financial managers, shopping around for the best financial products and taking budgeting and planning seriously.

Although in such cases separation or divorce could lead to improved financial capability, **issues around child or spousal maintenance payments** often meant that at least one partner had much less money to live on than they had had previously. In some cases, these participants had also been **left to pay off debts** or arrears for which their partner was jointly, or wholly, responsible which added additional emotional and financial pressure. This left some feeling abandoned, and struggling to make ends meet.

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***"He just wouldn't do it. He has a child with someone else before I met him and his theory was I'm not working 'because I'm not paying CSA (Child Support Agency) for somebody else.' So he just wouldn't work'. I should have known by that statement but I was young and stupid."***

Female, 38, Scotland

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Participants who found themselves struggling to make ends meet on a lower income often needed to **turn to the state for financial assistance** and for those who did not have experience of these systems, this was thought to be a difficult process. Many of these participants reported that they had **struggled to find the information they needed** to work out what benefits they were eligible for and did not always know where they should seek support for making a claim. Indeed, there was a common perception that, in order to know what you were entitled to, you **needed to ‘ask the right questions’ when visiting a Jobcentre or a local authority** as some felt that they had not been informed of benefits for which they were eligible simply because they had not asked if they could claim it.

Knowing which questions to ask, however, was very difficult for participants unless they knew someone in similar circumstances who could tell them what they were entitled to and how they should go about making a claim. While **informal networks were a vital source of information about benefits** this information was often coupled with the other person’s own experiences of these systems, affecting the participants’ perceptions of the process and their confidence in being able to make a claim. In some cases these anecdotes about complicated claims processes or incorrect awards meant that the participant decided that they would not make a claim for something they were entitled to. Participants reported that this was either because they did not feel that they had the skills to make the claim or because they did not feel that they could cope with an additional burden at such an emotionally difficult time.

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***“When you applied for Income Support you needed to go through the CSA (Child Support Agency) – that was a right rigmarole, so I couldn’t be bothered with that.”***

Female, 32, Scotland

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Participants who were providing financial support for their ex-partners also reported problems making ends meet. This, coupled with a **loss of the things which used to motivate** them (such as paying off their mortgage, making home improvements and saving for shared goals with their partner) sometimes led to them **shifting to a more short-term focus**, living from month-to-month and paying less attention to their financial future.



## Case study:

### Divorce case study: Jonathan, 52, England

Jonathan lives in Prestwich where he shares a house with one of his three children. Four years ago his wife unexpectedly asked for a divorce after 16 years of marriage.

Initially after his divorce he found that he had a lot of additional expenses such as legal fees and rent. Further, given that he was “financing his own individual life and his family life as well”, he found his financial situation was increasingly strained. Indeed, the only way he could manage to fund this was through using all of his savings.

He found the divorce was quite invasive when it came to his finances because everything was taken into account in the settlement, including the estimated value of both his pension and business which he felt was unfair. Further, as a result of this, Jonathan now feels that his pension is worthless and to make matters worse he can no longer afford to make contributions into it.

During his marriage he was self-employed; he imported jewellery for independent retailers until the market was affected by the increasing price of gold. After the divorce he decided to open a kosher restaurant so he could meet new people. He now works six days a week in the restaurant.

Jonathan’s financial priorities have changed since his divorce; he is less concerned about “non-essentials” e.g. charity donations and decorating/furniture. He feels he doesn’t “have a home anymore” and that his current property “is just a house”. He has also increased his use of credit cards to pay for day-to-day essentials.

Jonathan is hopeful that his financial situation will change in the future and allow him to prioritise contributing to his pension.



## 4.5 Losing a job

Most participants who had experienced a job loss said that this **happened suddenly leaving them unable to put a plan in place** to help them cope financially without their wage. Even those who did have some notice (typically just a couple of months) said that they did little to prepare themselves financially for unemployment beyond cancelling plans to make large purchases such as new cars or home improvements. **Day-to-day spending decisions rarely changed**, however, with a few reporting that they actually spent more immediately after becoming unemployed in order to make themselves feel better.

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***"I hadn't taken a holiday in two years, I felt like I deserved one. Then I needed a new suit, new shoes for job interviews. I didn't have much choice about that."***

Male, 42, Northern Ireland

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Given that few considered what the impact would be if they lost their job, many participants entered their period of unemployment with **debts and long-term financial agreements to service**. Indeed, some had taken out new loans just before being made redundant and, when doing so, had not considered how they would manage the repayments if their circumstances changed.

On losing their job, most believed that they would find work again quickly. This meant that participants **did not make drastic lifestyle changes and continued to spend** in the way they always had. Some even **took out new lines of credit** after becoming unemployed in order to maintain the lifestyle that they had become accustomed to. At this point, these participants lived from week to week or final demand to final demand and did not worry too much about how they would pay their debts as they **believed that a new job was just around the corner**.

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***"You never think you'll be unemployed for such a long time. To begin with you think 'oh well, I could do with a bit of time off, and I'll find something else soon,' but then you don't and it doesn't feel like a holiday anymore."***

Male, 36, Scotland

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Few of those who lost their job were aware of the **wider forms of state support** available to them. Given that they had typically worked for all their lives, they had no cause to know about this. For instance, while all knew about Jobseeker's Allowance (JSA) and Housing Benefit, **some did not realise that they could claim Child Tax Credit, free school meals or receive help with the cost of school uniforms**. Some suggested that Jobcentre Plus did not always help them as much as they expected, which left participants **reliant on word-of-mouth** advice or help from the Citizens Advice Bureau (CAB). Because many participants believed that the Citizens Advice Bureau was only for people in financial crisis, they did not tend to approach them until they were at this point themselves and even then, often did so reluctantly as they felt there was stigma associated with needing such support.

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*"I'd never claimed these things before, I've always worked, I don't know people who claim them, how am I meant to know. It turned out that we'd been eligible for tax credits for years, the whole time we were working we could have had it but we had no idea."*

Male, 36, Scotland

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Even when they knew of the help and support they were entitled to, not all participants necessarily claimed this. Indeed, some were reluctant to claim JSA because they did not want to be seen as a benefits claimant. This was particularly true for **those who lived in rural areas where there was a fear that the entire community would be aware if they went into a Jobcentre**, and would think badly of them. Some participants were also so keen to avoid asking their family for support that they would turn to high interest forms of credit such as payday loans even though their parents, siblings or children would have been happy to help them. The **determination to retain financial independence was hugely important** to these participants even if it meant that they would be worse off as a result. As a result of this perceived stigma these participants struggled financially for months, getting deep into debt. Given this, these participants welcomed the idea of being able to claim state financial assistance online and, therefore, were **supportive of the introduction of Universal Credit**.

Those who had been unemployed long-term often described the attendant **emotional impacts** of this such as depression and social isolation, which, in turn, made it more difficult for them to manage their money well or to seek help from others to do so. These issues are highlighted in the following case study.

## Case study:

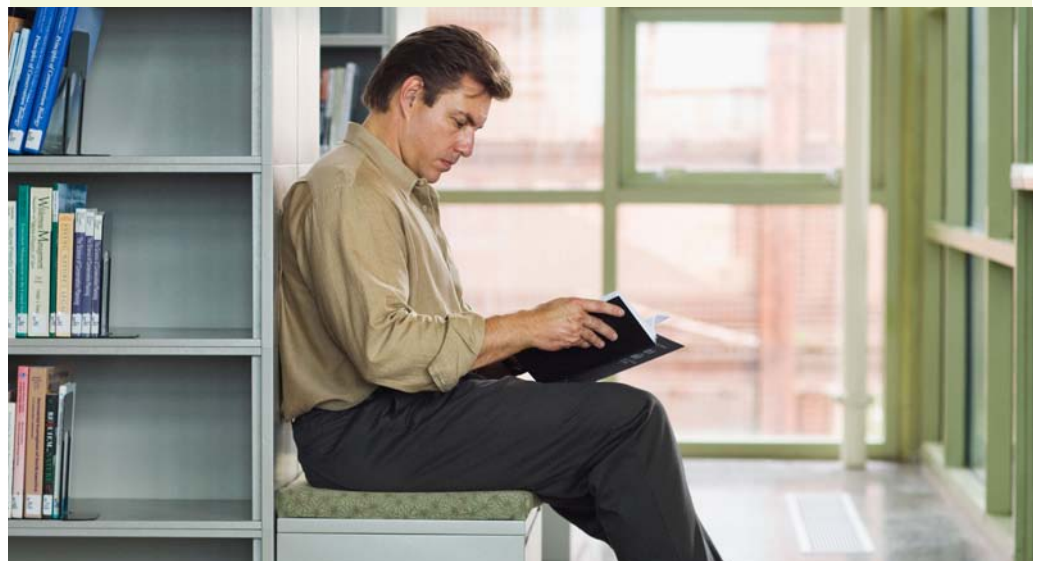
### Losing a job case study: Edward, 35, Scotland

Edward lives in Edinburgh where he grew up and attended university. He lost his job at a local record shop a year ago and **this is his first time on benefits**. He loved working at the shop due the sense of community among staff and the good social life it provided but now regrets not thinking earlier about long-term career plans. Losing his job has left him trapped in rental accommodation at the edge of the city and has had an impact on all aspects of his life including his health, his finances, and social life.

Since the shop closed Edward has suffered from **severe depression** and is taking medication. Dealing with the depression dominates his life and he feels that he needs to get on top of it before finding work. Initially he applied for Disability Living Allowance though this was rejected, and he spent the subsequent five months appealing the decision and living without any incomings. Edward eventually and reluctantly applied for Jobseeker's Allowance when he realised his appeal was likely to be unsuccessful, though he was concerned about the impact that being pressurised into the wrong job would have on his health. During this period he became **reliant on his credit card to pay bills and buy food**, though it was cancelled after he increased the debt on it from £1,000 to £3,000. He then turned to his mother for financial help – something he found difficult to accept.

***"I want people to think I am independent financially – it is a weakness to rely on others."***

**Edward's social circle has diminished** since becoming unemployed, to the point where the only person he sees with any regularity is his mother. While he used to meet up with his old colleagues in the city centre, his reduced income has meant that he cannot afford the transport costs to get there, nor the phone credit necessary to arrange meetings. This has been compounded by the fact that **he finds it difficult to meet new people without any money for socialising**. In addition, Edward can no longer afford to do things that make him happy; his biggest hobby is reading but he cannot afford to buy books. While he has started using the local library, this still costs 50p per visit.



## 4.6 Experiencing significant debt

Participants who struggled with significant debts, of around £12,000 or more, tended to be in this position after either a **relationship breakdown** or a **job loss** and, in cases where the two happened at the same time, participants could sometime struggle for many years to regain financial control. These debts were most often a result of years of **constant and systematic use of credit**, including loans, credit cards, overdrafts, hire purchase agreements and long-term contracts for services such as mobile phones. These participants tended to live at the limit of their means and then supplement this with **as much credit as they felt that they could service**. This meant that when an event occurred which affected their income, such as a job loss or a divorce, they were no longer able to make ends meet month to month or service their debts.

As debts tended to be accumulated over a long period of time and from many sources of credit, **knowing how much was owed and to whom was sometimes a problem**. Most participants said that they had not known how much debt they had and the act of sitting down and reviewing this in order to know how much they needed to repay was something that was avoided for as long as possible.

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*"You actually don't realise. You look at them all individually, thinking 'yeah, we can pay for that, it'll be alright', we had no idea how many different payments we had committed to, all the things we'd bought with interest free periods, all the mobile phone contracts, you don't think about how much they add up to or how you'll pay them when you don't have an income. I'll never be in that position again."*

Male, 46, Scotland

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Given this, many participants reported having been through extended periods of **not answering their phone** in case it was a debt collector, **selling all valuables** in order to pay off a debt, and continuously **taking out new debt** in order to service older ones. In one case a participant was declared bankrupt around five months after becoming redundant, after being advised to go down this route by the local Citizens Advice Bureau, and reported that it was one of the happiest days of his life as he would not need to hide anymore.

Others in the study were still trying to ignore debts and, indeed, had never spoken to anyone else about the problems they were in. There were different reasons given for this. **Some did not know where to access advice**. For others, the Citizens Advice Bureau was the only source which most participants were aware of and so if they did not have one available locally they did not believe that help existed for them. Some believed that their circumstances would soon change for the better and so they would be able to deal with the situation themselves. Others reported that **pride prevented them from seeking help** as they did not want to be viewed as a failure.

## Case study:

### Significant debt: Harry, 53, England

Harry lives in Kent where he shares a house with two of his friends. Harry used to be a full-time builder, but in 2010 work started to dwindle then eventually disappeared altogether. He has struggled to find anything but casual work since because of his age and the impact of the recession on the construction industry.

He **spent freely while he was working** and, just before his work situation worsened, he took out a £12,000 loan to pay for some home improvements.

**Six months after becoming unemployed Harry separated from his partner** and was left with all the debt they had acquired. By continuing to borrow money during this time, Harry made his financial situation more difficult and, living solely off benefits plus the income from occasional casual work, he is unable to decrease his level of debt.

***"I barely have enough to keep a roof over my head and buy food, there's nothing I can do."***

Harry does not like to think about his financial situation so **just ignores the repayment demands** that he receives. He doesn't believe that this situation will change until he finds stable work again but is unsure how to do this. He knows that one option would be to declare bankruptcy but he is worried about doing this and, in addition, is **reluctant to ask for help** from anyone as he does not want other people to know about his finance issues or see him as a failure. This **feeling of being judged** has deterred him from speaking to any advice-giving agency, even the Citizens Advice Bureau which is just across the street from his house.

***"I know someone who works in there, I can't let her see me in there, I can't stand in line and admit that I haven't been able to manage my money."***

Those who had either sought help with managing their debts or whose circumstances had improved to the point of paying off their debts all reported that they had **changed their approach to financial management**. Most said that they would no longer use credit, assuming they were still able to get it, and instead reported that they would save for things they wanted so that they would not pay interest or be left with unserviceable debt. They often **developed strict financial management approaches**, for example, by only dealing with cash and putting this in different envelopes or sections of their wallet for different expenses to ensure that they did not overspend and could pay their bills on time. More generally, these participants said that they were more aware of the incomings and outgoings and some monitored these very closely and scrutinised any new contacts they signed in order to prevent being tied into long-term mobile phone or television package contracts.

## 4.7 Poor health and long-term care

Participants generally had an **optimistic view of their future**. They believed that when things changed they would probably change for the better; they would be promoted, get a pay rise or inherit enough money to pay off the mortgage. **They did not think about what they would do if they or a member of their immediate family were diagnosed with a long-term condition**, or if they were to suffer from ill-health or a disability. These things, they believed, happened to other people. Given this attitude, when such events did come to pass, the impact of them was often devastating.

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*“At that age, any age, I never expected that to happen to me. You don’t know what’s waiting for you round the corner and this is something I think, so often I say, ‘Why don’t you just save it because you don’t know when you’re going to need it or what you’re going to need it for.’ A lot of them don’t know they’re born. It is a worry, but I mean you wouldn’t expect anything like that to happen to you.”*

Female, 58, England

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The financial impacts of these events occurring were twofold: preventing or **limiting the possibility of working** for the person experiencing poor health and curtailing the earning potential of partners, parents or children needed to provide care. Additionally, living with a long-term condition or disability often **brought new costs to a household** including prescription charges, mobility vehicles, increased use of taxis, parking costs to attend hospital appointments, equipment or home modifications and special dietary food. Coping with these additional costs when incomings had been cut was often a struggle.

Participants typically associated poor health with old age. Given this they **did not consider the possibility of having to give up work**. To begin with, most participants in poor health believed that they would get better and would be able to carry on as they had before. They found it difficult to accept that this may not necessarily be the case, and consequently **delayed giving their new situation serious consideration** and put off adjusting their household spending.

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*“It’s depressing. You think what’s going to happen? Because at that particular time as well I was earning more than [her husband] and we almost lost our house because I was concentrating on trying to get better, trying to get back to how I was and it never happened. He wouldn’t say to me that he couldn’t cope with all the bills.”*

Female, 48, England

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In order to cope financially participants often **needed to seek state support**, sometimes for the first time in their lives. Information and advice about this was normally sought from healthcare professionals but it seemed that this **advice was patchy** with not all receiving comprehensive information about their entitlements. Claiming benefits such as Disability Living Allowance, Carer's Allowance, or grants for home modifications was felt to be lengthy with the **forms difficult to navigate**. When support was accessed, participants felt that it was rarely enough to cover the costs associated with their condition let alone go towards household bills or expenses. Some participants discovered that they would not be eligible for support as their partner worked, which meant that they were faced with the choice of struggling to cover costs on one income or relying solely on benefits with their partner giving up work to provide care.

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***"They actually said to me, 'if you were to separate from him you can have everything that you need.' It's mind-boggling."***

Female, 48, England

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Participants described having to cut-back, typically by **buying poorer quality food, selling property and moving somewhere more affordable**, and sometimes relying on loans to pay for prescriptions, home modifications and trips to the hospital. Many participants were shocked by what they perceived to be a lack of support from the state for people in this situation which led many to believe that they had been penalised for working hard, saving and buying their own home. There was a common belief among participants that the best approach to take was to **spend what they had while they could still enjoy it** and to ensure that they would be able to access to the full extent of state support.

#### Case study:

##### **Long term illness and long-term care: Martin and Sue, 50s, England**

Martin is 58 and married to Sue. They live with Sue's mother, whose home they moved into in 2005. As they **both suffer from degenerative diseases they decided to sell their own property to free up some money to enable them to take holidays** together before they become too immobile to do so. Martin and Sue also care for Sue's mother, who has diabetes and a plate in her hip.

Once their flat had been sold they put the money into an ISA and use this solely to allow them to go on holidays

Neither Martin or Sue work at present as their illnesses prevent them from being able to do so. Sue used to receive Carer's Allowance for caring for their adult daughter who has ME, but having hurt her back Sue can no longer do this. Martin and Sue rely heavily on Martin's Incapacity Benefit and Disability Living Allowance payments to get by financially.

**Financially they think short-term and never plan more than three months in advance.** They intend to spend the small amount they have in savings as they believe that savings and pensions can negatively affect their eligibility for benefits. This view has been reinforced by Martin seeing his Incapacity Benefit award reduced after he claimed his workplace pension.



## 4.8 Bereavement

The extent to which participants were financially prepared for the death of their partner tended to depend on their age. Participants in their mid-60s or older tended to plan for this, discussing funeral costs, wills and their financial assets with their partner in case anything were to happen to them. This was particularly **important in households where one person was responsible for financial management** as they needed to ensure that their partner could manage things without them. There were many examples of participants taking steps to ensure that their partners could take over financial management should they die. This typically meant ensuring that their partner was aware of sources of income, could access and understand different accounts and investments, and knew where the paperwork for these was stored.

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***"I've started to sit down with her when I'm checking our account just so she knows how. I was worried about how she'd manage if I wasn't around."***

Male, 67, England

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Some participants' partners had died suddenly, denying them the time to do this. This meant **having to learn how to manage the household finances themselves** at a very difficult time in their lives. As with some participants who experienced separation or divorce, this was sometimes the first time that they had ever managed a household budget, ensuring that bills were paid on time, and monitoring savings or investments.

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***"I kept myself to myself for a good six months you know, 'cause it was quite a shock. He died within a month and it was totally unexpected, so he had cancer of the lung, but they didn't find it until it was too late, and from that moment, he went into hospital and that was it, he never came out. He used to do everything."***

Female, 69, England

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This process was particularly **complicated for participants who had kept their assets separate from those of their partner**. It tended to mean that they were less aware of what their partner had and where records were kept. Additionally, if they were not married to their partner, **gaining access or control of their partner's money was often difficult**. This was particularly stressful in cases where their partner did not have a will as they needed to go through probate to acquire their partner's assets. Solicitors were depended upon to help resolve these issues, although this often cost thousands of pounds in fees.

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***"She [the solicitor] done it all. I didn't have to do it, and do you know I was so grateful for that. She just took it off me and I was absolutely stunned when I had all this paperwork and I didn't know what to do, and she said bring it down to me, we will sort it out and she did. She was brilliant. I think I was very lucky."***

Female, 69, England

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### Bereavement case study: Rose, 69, England

Rose, 69, lives on her own in her bungalow in Kent. She retired at 57, having worked in security at Heathrow Airport for nearly 20 years.

Three years ago Rose's partner for 38 years, Peter, was diagnosed with cancer and passed away only a month later. The sudden nature of Peter's death meant that they **had not spoken about financial arrangements**, specifically what they would do with his pension. This caused some difficulties for Rose as they were not married. Further, Peter had dealt with the day-to-day financial management so **Rose was not very familiar with their incomings and outgoings**.

*"He was a planner, he was better than me at it. I just used to leave everything to him."*

In the short term she was able to manage financially as they had joint current and savings accounts, so she was able to access the money in both accounts. They also had sufficient savings for her to pay a solicitor to make all the necessary financial and administrative arrangements to access her partner's pension. While her solicitor covered everything for her, Rose **regrets that she and Peter did not discuss how his pension would be handled** as they were not married.

Rose now feels that she is much more engaged day-to-day with her finances. However, she is still finding it hard to make bigger financial decisions: **"you don't have anyone to talk to ... you've just got to make your own decision."**

*"Now I actively stop and think and I check how much money I have in my purse."*

The **cost of funerals** was commonly mentioned by participants whose partner or parents had died. These participants reported their shock at the cost of even modest funerals, and paying for this was **often a burden to a family**. This experience often prompted participants to make plans for their own funeral so that their family would not be faced with a significant financial burden after their death. While participants tended to take an optimistic view when considering issues such as long-term care, the inevitability of having to fund an expensive funeral was widely recognised.

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*"It's not till it comes up and hits you in the face and you think my God. The funeral was £5,000; I mean where would you get that sort of money from if you hadn't saved it. I'm even thinking of paying for mine now, but you never know do you. I would hate the girls to have to pay out for it."*

Female, 69, England

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## 4.9 Conclusions

The extent to which participants were able to cope financially with the life events they experienced **depended on their ability or willingness to plan** for them. Participants **generally planned for events they wanted to happen** and felt open to seeking and receiving advice and support to help them achieve their goals. A positive outcome often meant that participants were open to changes in their financial behaviour, such as budgeting and saving regularly, and these changes often developed into longer-term habits after the outcome had been achieved.

However, **participants were less likely to plan for events they did not want to happen** and were sometimes **slow to respond to negative changes in their financial circumstances**. Generally, they took an optimistic view of their future, believing that life would get better while choosing not to think about bad things that might happen. This meant that **most did not have money aside in case their circumstances changed for the worse** and **assumed that their incomes would increase over time**, taking on long-term credit agreements and loans on that basis. Hoping that things would improve without the need for action meant that **many participants did not change their behaviour or seek help when they most needed it** and were later reluctant to do so because they felt ashamed about their situations and wanted to retain control over their finances.

When advice and support was sought, participants were **sometimes unsure of where to go for help**. While Citizens Advice was known and trusted by all participants, there was a perception that it was **only for those in crisis** – something which they did not want to apply to themselves. Experience of seeking support from government organisations such as Jobcentre Plus or other **sources of formal support such as banks or solicitors was often found to be patchy** and not always helpful unless they asked the right questions. Informal support and online sources were depended on for finding out what the right questions were, but the anecdotal nature of this sometimes meant **receiving inaccurate or unbalanced information**.



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## **Testing interventions to improve financial capability**

## 5 Testing interventions to improve financial capability

**As well as developing a deeper understanding of financial capability, this study aimed to explore and test how interventions to raise financial capability could be made more effective by applying that deeper understanding.**

To date, the approach taken to raise financial capability has been predominantly to provide information and education to increase skills and knowledge, and to provide tools to facilitate action. It is reasonable to assume this approach benefits some, but evidence of its effectiveness on changing people's long term financial behaviour is limited.

Recent developments in behavioural economics show that **'changing contexts' can be much more effective than attempting to 'change minds'** as it accepts that not all behaviour is a rational or reflective choice but often a result of a person's deep-seated attitudes or motivations as well as the opportunities available to them. By making subtle changes to a person's environment, the context can be changed and this 'nudge' can lead to a change in behaviour.

Using the framework discussed in Section 3 the financial behaviours of participants were codified in order to identify **common barriers to financial capability**, specifically barriers associated with keeping track, making ends meet, and planning ahead. Interventions were then considered that would encourage the widest range of participants to be more reflective about their financial management and choices and so overcome these barriers.

**Five interventions were devised and then tested** using a quasi-experimental approach. While the aim of each intervention was based on the findings from this study, the underlying behavioural theory used to develop them has been used and proven in other areas such as public health.

At the third study visit (December 2012-January 2013) participants were asked to implement the interventions over the following three months and the impact of the **testing period** was evaluated during visit four (March-April 2013). A standard set of questions was developed to evaluate the impact of the testing period overall, along with specific questions for each intervention. The evaluation criteria explored how the concept was received by participants, the usefulness of the tools that were developed, the short term impact, and any evidence of habit-formation.

## 5.1 Intervention One: substitution

**What could I spend less on, what could I have instead?**

**Aim: to encourage participants to curb areas of expenditure they find difficult to control by substituting with similar, but less costly, purchases**

### Purpose

The purpose of this intervention was to help participants live within their means by **creating the opportunity and motivation to control expenditure**. Analysis of findings after the first two visits showed that many participants found it difficult to control spending in specific areas such as food, clothes or gadgets and that this acted as a barrier to living within their means or being able to save for the future.

These areas of spending were difficult for participants to control because they tended to provide a positive emotional reward. Although participants said that they would like to spend less on these items, **doing without the purchase and the emotional ‘hit’ associated with the purchase was a powerful barrier**. The substitution intervention was designed to overcome this barrier by compensating for the emotional ‘hit’ with an alternative but relevant and cheaper purchase, saving money overall.

The Substitution intervention contained the following **four behavioural approaches** that were thought to be effective for some participants:

- **Affect** – There was often an emotional element to spending which made it difficult for people to control. This intervention encouraged the participant to identify an alternative (less costly) activity which they believed might provide them with a similar emotional response.
- **Incentive** – the financial saving could be an incentive to take action and enable the money to be used for another purpose.
- **Evaluation** – the record could provide an immediate piece of feedback on progress against the commitment that they had made.
- **Salience of recording success** – through the recording, this intervention was able to provide immediate feedback on progress which accumulated over the course of the testing period. This may provide a means of establishing long term habits.

### Description

Participants were given a bank card sleeve to put over their debit or credit card and were asked to write the things they wanted to avoid buying on one side of the sleeve, and the substitutes for those things on the other side.

The sleeve served two purposes: as a means of recording the number of successful substitutions, with ticks or a tally; and a visual reminder to the participant, every time they took the card from their wallet, of the commitment they had made.

This intervention was tested with 12 participants.

## Testing

The concept of the substitution intervention was **fairly difficult for most participants to grasp**. While the idea of cutting back spending in specific areas was familiar, identifying a cheaper alternative to provide a similar emotional response was a struggle for many. Understandably so as it **requires reflection on the reasons for overspending** (on things such as food, clothes or gadgets) as well as thinking of something less costly but with an equivalent feel-good factor.

Most participants chose **food or clothing as the items to cut back on** as these were felt to be high cost areas in which significant savings could be made simply by switching to different shops or shopping around for deals or sales. The reward items chosen ranged from simple treats such as a scone from a local cafe or lunch once a week to putting savings aside for holiday spending money.

### Agnes, 59, Scotland

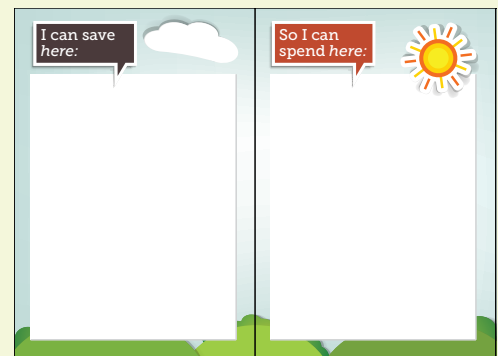
Agnes and her husband Gordon are a semi-retired couple, living in a fairly affluent suburb of Glasgow. Agnes has been fully retired for ten years due to health reasons. This has affected their income though they still have enough to live comfortably.

Agnes became very enthused with the substitution task and chose food shopping as the area in which to save, with a scone at a local cafe as a reward.

She started by making small savings on a few items, but the desire to find savings became infectious and spread across a range of shopping. She visited “every bargain store in Glasgow” looking for the cheapest deals on dog food.

***“It opens up a world of opportunity for you. It’s made me think differently about prices ... I started with one or two things then took into different areas – it spreads.”***

Although Agnes tended to spend all of the money she saved on treats for herself, she reported that the task showed her that she could get by on less and could quite easily cut her food and groceries spending by £200 per month without compromising on quality. As a result of this intervention, she reported feeling much more in control, stating that it has changed the way she shops. It kicked her out of her habits and got her into a bargain-hunting mindset, which she finds she really enjoys.



### Charlotte, 25, England

Charlotte is a 25-year-old graduate who recently moved into a flat in London with her boyfriend. Charlotte is highly organised with her finances and although she has always been careful with her spending she **tended to impulse buy cheap clothes**. This was something that she wanted to address as she felt that it conflicted with her ethics and her views on value. She chose to substitute her spending on 'fast fashion' (cheap clothing) for a regular donation to charity – something she had been planning to set up for a while. The **intervention made her feel “quite challenged” as she was not used to denying herself** anything.

*“I’ve told myself I deserve things for so long, that to deny myself was an affront...[I’d think] it’s only £4 ... I may as well just have it. [The intervention] made me ask ‘can I do without this? Is it really a bargain ... will I use it over again and get value for it?’”*

After a couple of months Charlotte **no longer felt that she was depriving herself** and she rarely went into cheap clothes shops anymore, even to browse. The exercise ‘leaked’ into other areas of her life in small ways too. On one occasion she bought something cheaper than she felt she ‘deserved’ for lunch and made a £5 donation to charity instead. This, in turn, prompted her to set up charitable giving at work, and she now makes regular donations to another charity.

*“I don’t think about it differently, but I act on it differently ... but it won’t continue because it’s done its job... it has had an impact on an area that was less disciplined and I didn’t want to be spending money on.”*





## Impact

This intervention appeared to have potential for **encouraging participants to take control of their expenditure** by providing them with the skills and motivation needed to address areas of poorly uncontrolled spending before they experienced financial problems as a result of this behaviour.

Most participants who took part in this exercise reported some success, the extent of which mostly **depended on the suitability of the alternative chosen**. Participants were normally overspending as they felt they deserved it: good food or new clothes were a treat for working hard and made participants feel good about themselves. For this reason, it was **crucial that participants chose an alternative which gave them equivalent instant gratification** so they did not feel that they were depriving themselves. Although one participant did have success in saving for a longer-term reward of spending money for their holiday, most that had success had chosen an alternative they could benefit from on the same day, such as a meal out.

Most participants **used the tool and took pleasure in recording their progress** with each saving. Some used the tally counting system on the tool in order to track each time they successfully completed the task. Although this was successful as a recording device, **creating a credit/debit card holder worked less effectively**. The reason for this was that, by the time the participants saw the holder, the decision to purchase a specific item had already been made.

As highlighted in the case studies above, towards the end of the testing period some of the participants had **begun to transfer the principles from the intervention to other areas of spending**. They reported that they were feeling more in control of their money as a result as they were making **reflective choices rather than sticking to habits** and it seemed that this **feeling of empowerment** began, to some extent, to replace the alternative spend as their reward. These participants had developed the habit of asking questions of themselves whenever they spent money to ensure that they were not buying something simply because it was cheap or because it is what they have always bought.

In cases **where the intervention did not work this was normally for one of two reasons**. The first was if the participant did not feel that they needed to cut back on their spending but were encouraged to do so by someone else such as their partner. These participants tended to resent having to cut back on an area of spending that they felt they deserved and were in control of. The other reason for failure was choosing an alternative which did not match the emotional response or timeframe substituted – for example, cutting back on weekly take-aways to save for a new dining room table. These participants tended to give up on the exercise fairly quickly, although most did still report that it had made them more conscious of their spending in these areas and, in some cases, resulted in them putting limits on what they bought.

## 5.2 Intervention Two: planning

### What's my potential to save?

**Aim: to encourage participants to work towards a financial goal with the help of a budgeting tool**

#### Purpose

Analysis of findings after the first two visits showed that many participants **had goals** – such as paying off credit card debt, or saving for a holiday or home improvements – **but no plan** to achieve them. A lack of basic knowledge around monthly incomings and outgoings meant that participants were unsure of their potential to realise these goals.

The planning tool was designed to enable participants to **set a goal and create a budgeting plan** to save towards it. Participants were encouraged to have an emotional link with the goal by including a picture which represented it within the planning tool as it was thought this might increase their motivation to stick with their plan.

The intervention explored a **number of behavioural approaches** intended to increase the likelihood of the participant engaging with a financial plan:

- **Commitment and goal-setting** – the participant made a declared intention by communicating the goal to the interviewer. In addition, they had a defined goal against which progress could be monitored.
- **Priming** – a picture was included to provide an emotional link with the activity and make the objective more immediate.
- **Evaluation and salient feedback** – feedback was provided and the tool attempted to make the user want to get to the end of the budgeting process. The colours and design were meant to be encouraging by giving quick feedback on progress.

## Description

Participants were provided with a budgeting tool which they were asked to complete, update and monitor. The tool enabled them to monitor cash flow, identify their savings or debt reduction goal and helped them to build a plan around this.

This intervention was tested with 12 participants.

To see how much you could save this month, fill in the blue boxes

Monthly Outgoings	
Mortgage / Rent	
Food & Supplies	
Electricity bill	
Gas bill	
Water bill	
Phone bill	
Mobile bill	
Council tax	
Travel	
Credit card bill	
Loan repayments	
Childcare	
School fees	
Pensions	
Investments	
Insurance	
Leisure & entertainment	
Holidays	
Special occasions	
Household maintenance	
Subscriptions and donations	
Other 1	
Other 2	
Other 3	
Other 4	
Other 5	

Total Monthly Outgoings: £0.00

Monthly Income: £0.00

Outgoings: 0%

Potential to save: £0.00 This month

Chart Area

It's always good to see what you are saving for.  
Click here to go to Google, search for the image of the item you wish to save for, then paste here!

I am saving for: £0.00

It will cost: £0.00

I have already saved: £0.00

This month I will save: £0.00

£0.00 To go!

## Testing

The idea of tracking incomings and outgoings as a means of working towards a goal was easily understood by participants. **The exercise was well received by participants** who had an existing goal but little sense of how they would achieve this. Others, however, needed some initial encouragement as they **assumed that the tool would be difficult** to use and that keeping track of spending would be complicated and time-consuming.

There was also **reluctance among some to find out how much they were spending** in specific areas or to get a better idea of what their outgoings were each month. Those who had received debt advice in the past or who had been criticised by family for their spending habits **wanted to avoid recording their outgoings as they felt it might open them up to judgement** by other people. Others simply did not want to know as they thought that this knowledge might lead to guilt or stress about needing to change their spending behaviour – similarly with some sensitivity to judgements from other people about how they used their money.

Most participants consistently completed the exercise throughout the testing period although a few only did it once or twice. The **main reason for non-completion was if the participant had technical difficulties** accessing the tool as it required them to use a compatible version of MS Excel.

Participants who completed the exercise reported savings or debt reduction during the testing period ranging from £60 and £2,000.

### Jennifer, 31, England

Jennifer lives with her parents and is currently working as an administrator for a local company. She has always thought about money in the short term and didn't really understand the point in saving as she thought **“you could die tomorrow so what's the point?”**

Over the past couple of years she has accumulated around £1,400 in credit card debt which she wanted to reduce as she felt that at 31, **she should be saving rather than getting into debt** and so she set this as her goal for the planning exercise. Although she had previously avoided planning her personal finances, Jennifer was positive about the experience.

***“I liked it because you can actually see what you're doing and it works it all out for you, which is even better. I do sit down and I do try and plan, but it was just easier on the sheet because it was more appealing and straight forward. I think it helped motivate as well to pay off my credit card.”***

Over the testing period, Jennifer managed to reduce her credit card debt from £1,400 to £650. In addition to the £30 standing order she already had set-up, she worked some over-time and used this money along with a tax rebate of £100 to help pay off the sum she owed. She felt that the tool gave her some focus which encouraged her to stop spending money on things like clothes and to put everything she had spare into paying off her debts.

***“[I feel] a lot better because you know it's at the back of your mind you know you owe that money and you know it's dead money.”***

The experience of using the tool successfully has led Jennifer to sharing it with some of her friends as well as giving her the confidence and motivation to start saving for a deposit for her first home.

### Debby and Paul, 31, England

Debby and Paul live with their three children in social housing and are reliant on benefits. Their eldest son, James, has multiple learning difficulties and they receive Disability Living Allowance at a high rate to help the family with costs associated with this. Before using the planning tool the family would **withdraw each benefit payment as soon as it was paid** and any money they had left over after paying for bills and shopping would normally be spent on things for the children even if they did not need or want them.

*"We get bits we don't need...because the money was there you think 'oh we can treat the kids to a toy.'"*

The couple's **habit of living month-to-month** meant that when they were confronted by a large cost such as Christmas or a new car they would **rely on high-cost credit** which would then be repaid over a number of months. When they first used the planning tool they were shocked by how much money they had spare each month after expenses, something they had never considered before.

*"According to this we have £1,972 every month...we definitely don't get that much...it definitely doesn't feel like that much."*

Their computer broke down early on in the testing period which prevented them from continuing with the exercise but the **realisation that their incomings were much higher than their basic outgoings** had a profound effect on the way they thought about their finances. During the testing period they decided to **open a savings account** for their son James so that some of the money they used to spend on treats could be put aside for him for when he's older. They also managed to save £500 to redecorate their living room with the help of a tax rebate and by leaving between £20 and £30 a week in their bank account, which they would never have considered to do before.

*"We used to take it all out but we know we don't need to now. We leave £20 to £30 a week in there because we know we can afford to leave it in there."*

## Impact

Many participants said that the **exercise had empowered them** and given them a sense of control over their finances. It did this by having everything in one place in black and white, helping the participants to make a commitment about what to do. One participant explained that she had previously sought financial advice and was disheartened when told to cancel her satellite TV subscription, which she believed was good value entertainment for her family and not something she was willing to give up. The planning tool, therefore, was thought to be particularly empowering as it meant that she **had all the information she needed to make a decision and was able to make choices for herself**. The positive impact of using the tool was so great that even participants who used it only once described thinking about their finances differently as a result and made changes such as opening a savings account for their child.

Those who used it consistently throughout the testing period spoke of the benefits of **aggregating spending in different areas** (such as the monthly cost of all food or travel) which was something that they had either not thought of before, or could only roughly estimate. This knowledge meant that some participants became **very conscious of spending** throughout the month and, in one case, after seeing how much he was spending on travel every month a participant decided that he would buy a bike to save money in the long term.

Despite being relatively rudimentary in comparison to many tools available online some of the **visual features and use of colour was appealing** to many participants who suggested that these elements could be developed further to motivate users towards their goal. However, for the tool to work effectively, the participant was required to have one clear goal in mind; those with a number of smaller goals felt that it did not work for them and they had less success overall. Additionally, it seemed that the tool was **more effective for those who were working towards a savings goal rather than paying off debt**. There seemed to be two reasons for this. Firstly, savings goals tended to be thought of more positively than debt reduction and so participants were often more motivated if they were working towards something that they wanted rather than something they wanted to be rid of. Secondly, **savings goals tended to be more tangible and more easily visualised**, and as a result more emotionally resonant.

Some participants were so pleased with their progress that they intended to continue to use the tool or to find a more sophisticated version online which would make it easier to update each month and to work towards more than one goal at a time.

## 5.3 Intervention Three: goal setting

### What do I want?

**Aim: to motivate participants to work towards a financial goal**

#### Purpose

As with the planning task, participants chose a picture which represented their goal and put it up in their home to remind them of their commitment.

This was a very light touch intervention to see whether a goal with a certain amount of priming would lead to helpful money management changes. In doing so, it used the goal-setting and priming elements from the planning intervention.

#### Description

Participants **made a commitment to save a certain amount for a specific goal** or to reduce debt. They were encouraged to think about how they could achieve this and to create an emotional link by choosing a picture related to their goal.

This intervention was tested with 14 participants.

#### Testing

Although this exercise demanded less from participants than the planning intervention and accordingly was less intimidating, the process of talking through the goal, discussing a realistic plan and choosing a picture to represent it often did not make sense to participants. This seemed to be because they **did not feel that this process was equipping them with anything** additional to what they would have been able to think through themselves. Some participants felt a little like the encouragement they received was like that from a parent; others reported finding the use of a picture slightly patronising or embarrassing and, consequently, most did not enjoy the process.

Although some participants chose to work towards existing goals, many found it difficult to choose a goal. As a result, several **changed their minds shortly after deciding**, or said that they had to give up because an unexpected bill or cost had arisen for which they needed the money.

At the end of the testing period, several participants had **forgotten the goal** they had set themselves and in some cases had forgotten making a goal at all. A small number of participants were successful in this task and managed to meet their goal, although not all who did this attributed their success to the exercise.



### Paul, 23, England

Paul lives with his mum and works in temporary roles as an administrator. Generally he **'lives for the weekend'** and spends most of what he earns either on nights out with his friends or on buying fairly expensive, branded clothes.

Paul has been struggling with a debt of between £500 and £800 that was initially with a bank but is now with his mum.

He is constantly paying a bit off and then borrowing back when he runs out of money at the end of the month. He **wanted to repay this debt to his mum** once and for all and chose this as his goal. However, immediately after setting this as his goal he changed his mind and **decided he wanted to set something more aspirational** and changed the goal from one of paying back his debt to long-term saving for a big house and a sports car.

Paul ended up failing in his attempts to save. Initially, he had put aside £200 but then spent all of this on going out over a bank holiday weekend. He did manage to start paying £100 per month to his mum towards and aims to continue doing this until the debt is cleared. **He felt he had failed in the exercise** as he did not have any savings and did not feel that the steps he had started taking to clear his debt were significant.





### Brian, 54, England

Brian lives with his adult son in a rented flat. After a period of unemployment during which Brian was reliant on benefits he has recently moved back into work, setting up a photography business.

Brian viewed the intervention as a **bit of fun and a bit of a challenge rather than a serious plan** to encourage him to save money. He set himself the modest goal of saving to buy a particular DVD box set. He decided to collect spare change at the end of each day which he put into a jar and did not count until the end of the testing period. He found that he had **managed to save around £30**, which he was really pleased about.

He had initially put a picture of the DVD he wanted to buy on the wall in his flat but he took this down almost straight away as thought he would get 'too engaged' with the challenge if he saw it every day which would ultimately put him off. As it was **it became a habit just to put change in a jar** and by the end of the testing period doing this was just second nature to him. He was really surprised and pleased at how quickly the money added up and has decided to fill the jar up completely and really treat himself with something more expensive.

### Impact

This intervention was felt to be more appropriate than the planning intervention for those who were intimidated or reluctant to use budgeting tools. However, the lack of routine or formal approach meant that the impact of this intervention was limited, and where there was an impact it was typically short-term. While a small number of participants did report making progress towards their chosen goal, their savings were generally much lower than for those participating in the planning intervention. Many gave up or forgot about the exercise before the end of the testing period.

## 5.4 Intervention Four: checking

### What do I have?

**Aim: to increase participants' knowledge and awareness of their balances**

### Purpose

Analysis of findings after the first two visits showed that many participants did not check their key balances throughout the month and, instead, **tended to rely on mental accounting which was often inaccurate**. The purpose of this intervention was therefore to create the motivation and opportunity to check key balances regularly.

It is known that frequent checking of balances helps people to live within their means. Research undertaken in the baseline survey for the FSA<sup>4</sup> in 2006 showed that keeping track of finances was important. The Fairbanking Foundation conducted research<sup>5</sup> in 2009 that showed that positive responses to 'I know the details of my financial situation at all times of the month' and 'I feel I am on top of my financial outgoings' are drivers of financial well-being or satisfaction. The hypothesis to be tested was therefore that encouraging participants to check balances more frequently would affect behaviour, particularly if a new habit could be developed.

This intervention was particularly informed by the need for people to 'evaluate' or weigh up the pros and cons of their actions. Participants were **asked to link the act of checking with a current activity in which they took pleasure**. The intention of this was to motivate the participant to check their balances, and to help with habit formation. For some, physical opportunity could be an element if the participant began to use a checking method (using the internet or mobile, for example) that they had not previously used.

<sup>4</sup> Levels of Financial Capability in the UK: Results of a Baseline Survey, 2006 (Consumer Research Paper 47, FSA)

<sup>5</sup> Fair Banking: the road to redemption for UK banks, 2009 (Fair Banking and CSFI)

The following behavioural approaches were incorporated into this intervention:

- **Physical opportunity** – the participant was assisted to use a balance-checking approach, such as online or using an app, that would be convenient for them.
- **Planning and habit formation** – the participant was asked to link the checking activity with another activity, to act as a reminder to check regularly and help with habit formation.
- **Evaluation** – greater exposure to the balance information was intended to lead to greater weighing up of expenditure and a greater sense of control.
- **Commitment** – the participant made a commitment to the interviewer to undertake the task. Taking the record card formed part of the commitment whether or not it was completed.



### Description

Participants were **asked to check their key balances** – such as current account, credit cards and savings accounts – regularly during the test period. Participants were given a credit card sized record card on which to record their balance and the date on which they checked their balance during the intervention period.

This intervention was tested with eight participants.

## Testing

Most participants said that they **did not really see the value in checking their balances** more frequently, typically because they felt they already did so often enough or because they were confident in their mental accounting abilities.

The request to link the act of checking their balances with an existing, pleasurable habit was taken up by most participants with most **linking it to an online activity such as checking emails**, which made it simple for them to check their balance online at the same time. However, some avoided this aspect of the task as they felt that checking their balance **might prevent them from taking pleasure in the activity linked to balance checking**. These participants were typically those who regularly ran out of money month-to-month and were reluctant to engage with their balances as they felt that there was little they could do to improve their situation.

For a small number of participants the exercise was their **first use of online banking or a mobile banking app**; others chose to simply check their balance when they were withdrawing cash from an ATM.

### Amanda, 43, England

Amanda lives with her husband Doug and their two teenage sons. Although their income is higher than average and they feel that they have a good lifestyle, they are just making ends meet as they spend what they earn every month. Circumstances have conspired to make them **feel as though their money doesn't go as far as it used to**. Neither of them has received a salary increase for the past two years and the bonuses they are awarded are much lower than they have been used to. Additionally, Amanda is very conscious of cost of living increases, especially food and petrol.

Amanda had been **fairly sceptical about the checking exercise** as she believes herself to be pretty organised financially. However, both Amanda and Doug tended to rely on mental accounting.

***"I thought it was a bit juvenile."***

Despite her initial reservations **Amanda checked her balances online without fail every Tuesday** – one of the three times each week when she logged into her email account. By going online to look at her statements she was able to check her balance and could also see where the money had gone. She stated that she is unsure as to whether she looked at her balance more often but she says her **checking activity became more 'structured'**, she assimilated the information better and was more conscious of how much money she had left.

***"I didn't think it would be of much use to me. But it made me think more about spending. Knowing what was in the account made me much more cautious."***

### Erika, 29, England

Erika lives with her husband Ben and their one-year-old daughter and she is currently expecting their second child. When it comes to financial management there is a great onus on Ben, who takes responsibility for paying the mortgage and all of the bills for the household. Erika acknowledges that he is the responsible one of the partnership and is far better with money, mainly because she **struggles with figures and so tends to avoid dealing with them.**

When she began the exercise Erika had agreed to check her balances twice a week but **she did not stick to this because she found it too depressing** to look and did not want to ruin her day.

*"I think it could be helpful to people. But at the same time I'd be thinking, if I'm going out to have a nice afternoon, then maybe I don't want to check my balance because if it's worse than what I'd thought that would upset me for the rest of the day. So I don't always want to check it because I'm thinking I don't want to spoil my day."*

Erika began to check her balance once a week at an ATM while she was withdrawing cash and by the end of the testing period **she felt that she had a better handle on her finances.**

*"I've got a lot better with it. I don't go overdrawn now so to me that is a good achievement. I am definitely more aware of it."*

### Impact

Most participants reported that they kept up with the checking exercise throughout the testing period although some did report that they stopped after a month or so or had not changed their checking habits at all. The reason for not completing the task was normally because they **felt they had enough of a buffer in their accounts to prevent the need to check more regularly** than usual. Others who did run out of money regularly and who may have benefited from completing the task seemed **reluctant to engage with it** as they felt that the negative emotional impact that checking had on them outweighed the possible benefits of being more aware of their balances.

Among those who completed the task consistently there was some feedback that their financial habits had changed. These participants reported that **checking their balances more regularly had made them more aware of their position** throughout the month and that this led to increased caution and restraint when making spending decisions. In some cases this meant that participants were **better able to live within their means** by no longer ending the month in overdraft. These participants reported that they would continue with the routine and those who accessed **new checking services such as online banking or banking apps** that they had not used before were likely to continue to use those services.

The card given to participants to remind them to check their balances and to record the dates they did so was not widely used. Some participants simply felt that there was **no need to keep track of when they checked** while others reported that using a piece of card to do this felt a little old-fashioned and that an app or a reminder set in the calendar of their phone or email would be more appropriate.

## 5.5 Intervention Five: reframing

### How should I think about my money?

**Aim:** to encourage participants to think about their incomings over different periods of time in order to prompt richer levels of evaluation and planning around spending, debt and saving

#### Purpose

Analysis of findings after the first two visits showed that many participants **tended to focus on one period of time when they thought about their money** – such as week-to-week or month-to-month – and that they were unaware of what their income was in shorter or longer timeframes. The intention of this exercise was to provide **salient income information** in order to encourage more forward planning around spending, debt and saving and to highlight opportunities to save for those who believe their income is too low to bother.

The following behavioural factors were potential influences contained within the intervention:

- **Salient information** – many households that had multiple sources of income and/or benefits did not have a sense of their monthly or annual income. For other participant more focussed on monthly or annual income, having a sense of an hourly rate was thought to be useful.
- **Social norms** – half the participants were shown a chart that enabled them to calculate their gross income for different time periods, but showed them that of other people.
- **Psychological capability** – this intervention at its most basic intended to make participants more aware of their post-tax income. Given that all jobs are advertised on a pre-tax basis (whether the rate is shown hourly, weekly, monthly or annually), having a clearer sense of how much is actually received may potentially be beneficial for making decisions and planning.



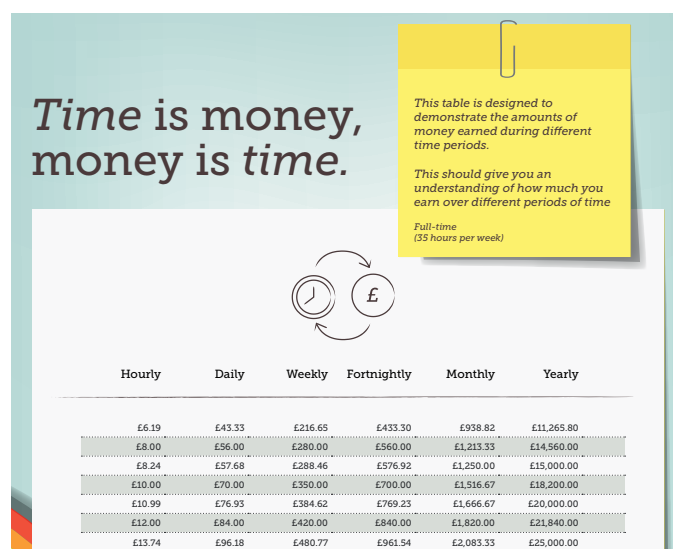
## Description

Participants were asked to think about their incomings over different periods of time: an hour, a day, a week, a month and a year. They were then asked to consider in their finances in one of two different ways.

Those who thought about their incomings in terms of monthly and annual salary were asked to think about how much they earned over shorter periods of time such as an hour, a day or a week to see if this impacted upon their spending decisions.

Those who typically thought about their income over shorter periods, such as weekly or fortnightly, were asked to consider how much they received in a month or year to see if this changed the way they thought about their potential to plan or save.

This intervention was tested with 12 participants. Half were shown an A3 card sheet detailing a range of incomes and were asked to identify the entry closest to their income and to consider their position in relation to others to see if this impacted upon their perception of their income level.



**Time is money, money is time.**

*This table is designed to demonstrate the amounts of money earned during different time periods.*

*This should give you an understanding of how much you earn over different periods of time*

Full-time (35 hours per week)

Hourly	Daily	Weekly	Fortnightly	Monthly	Yearly
£6.19	£43.33	£216.65	£433.30	£938.82	£11,265.80
£8.00	£56.00	£280.00	£560.00	£1,213.33	£14,560.00
£8.24	£57.68	£288.46	£576.92	£1,250.00	£15,000.00
£10.00	£70.00	£350.00	£700.00	£1,516.67	£18,200.00
£10.99	£76.93	£384.62	£769.23	£1,666.67	£20,000.00
£12.00	£84.00	£420.00	£840.00	£1,820.00	£21,840.00
£13.74	£96.18	£480.77	£961.54	£2,083.33	£25,000.00

## Testing

The reframing intervention was implemented in two different ways.

Those who **relied on benefits** and who typically thought about their income in terms of individual payments or fortnightly totals were given monthly and annual totals as well as approximate hourly 'rates', based on average working hours. The intention here was to see whether this would make the participants think about the level and use of their income differently.

In addition to the exercise above, **those who worked** were also presented with a table detailing a range of incomes. They were asked to find the figures which came closest to their own income and to put the table up somewhere visible in their home.

### Michael, 46, England

Michael lives with two of his four children in a housing association property. A number of health problems have left him unable to work for many years and he is reliant on benefits. His approach to financial management is to take all his benefits payments out of his account as soon as they're paid and to budget by earmarking different amounts for different outgoings. It's a fairly well-honed system, developed out of necessity, but not without stress and anxiety.

Seeing his monthly and annual income figures prompted quite a lot of consideration from Michael. He had never tried to think about his income as anything other than small individual amounts and was surprised at how much it added up to.

***"You think you get nothing when you're on benefits, but when you put it in the long run... even working people are not getting that much money. So why am I struggling? What am I wasting?"***

He even called family members to talk about it. His sister backed up the exercise by telling him that this is exactly how he should be thinking and he seemed to have used it as a way to make points about saving to his daughters. He feels that the exercise made him realise he did have control over how he spent his money and how he lived.

***"It was one of the things that really kicked me into gear, made me think."***

### Matt and Jill, 40s, Scotland

Matt and Jill are a couple in their mid-forties. They both have long-term health problems which currently prevent them from working and, with no savings; they live solely on state benefits. John and Jill had thought about their annual income 'once or twice' before, but as a rule they think of their finances over the fortnight as this is when they get their £190 each in benefits made up of income support and long-term sick premium. The exercise revealed that in benefits they each had £411 coming in per month, or just £4,932 coming in per year excluding council tax benefit and housing benefit. This figure just made them realise how poor they are compared to working people.

***"I didn't realise it was as low as that ... We couldn't really cut down much more anyway. We've thought about that." (Matt)***

The figures seemed to encourage Matt to consider the possible value of returning to work as a tiler given that he felt that they would never be able to save or have anything other than the most basic standard of living while they were dependent on benefits.

***"It makes me want to get my arse into gear and get out, I could be getting £25 an hour."***

## Impact

There was a stark contrast between the two testing groups for this intervention.

**Participants who relied solely on benefits seemed to take the most from the exercise** with a revelatory effect for some. This was because they had always viewed their income from benefits in terms of individual weekly or fortnightly amounts and had never thought about having a monthly or annual income. The impact of seeing figures which could be more easily compared to those of working differed somewhat between participants.

Some were **depressed to see how low their hourly 'rate' or annual income was** and this tended to prompt discussions about the possibilities of returning to work. For others, the longer-term figures were much higher than they had expected and this **encouraged them to think about how small weekly savings could add up across the year** and prevent them from needing to borrow for unexpected costs or seasonal costs. In some cases this realisation had a profound effect on participants who reported that the exercise made them **feel more in control of their finances** despite living on a low income and that, as a result, they felt more confident about managing costs such as Christmas which had previously caused them a great deal of stress and anxiety.

There seemed to be a lower impact on participants in work, who typically reported seeing **little value in being provided with different levels of income information**. Some did understand why it was useful to know their annual post-tax income, with many suggesting that they had not realised that their take-home income was so much lower than their salary. These participants tended to focus on their position within the chart they were shown. For some, particularly younger participants, this had a motivational effect as they reported that they wanted to get themselves to the highest income brackets. Others found the exercise less motivating. Those who were below the middle of the table typically reported feeling depressed by this, and to some extent, it made them feel less able than before to live within their means. Those who were placed in the middle, while fairly unsurprised by this, felt that the exercise was not only unhelpful to them but were concerned that it might encourage others to develop aspirations entirely based on earning more money – something they did not believe would necessarily lead to happiness.

## 5.6 Conclusions

The insight from developing and testing of these five interventions should be viewed within the limitations of this small-scale, short-duration pilot study. However, the principles behind the interventions, as well as the participants' stories, can be used to improve existing tools and services provided by the Money Advice Service as well as provide a basis for the development of new tools in the future. A number of key elements of the interventions emerged as significant in determining their level of impact.

### Having a clear outcome

The most successful interventions had clear outcomes which participants understood and wanted to achieve. The substitution and planning interventions both encouraged participants to **focus on the outcome rather than the process**, allowing them make a specific commitment and plan towards it.

**Making the outcome positive was also important.** Participants who were working towards buying something they wanted rather than reducing debt tended to be more successful. This seemed to be because they viewed the process as working towards a tangible gain rather than bearing an intangible loss. This suggests that future work on debt might helpfully focus on how to help those paying off debts to visualise a positive outcome to this process.

### Providing a structure

Structure and provision of tools was also vital. Interventions that **included tools and support to help participants to make financial evaluations and change their behaviour were more successful**. The clearest example of the importance of structure was shown by the differences in outcome between those who used the planning and goal-setting interventions. While the planning intervention helped participants to achieve a financial goal with a budgeting tool designed around the outcome, the goal-setting intervention relied solely on the participant's motivation to create and put in place a plan for themselves. Some did manage to achieve their goal in this way, but the goals they chose tended to be more modest than those who used the planning tool and many participants simply did not make any progress at all or forgot what their goal was.

The **four interventions that did provide structure for participants in the form of tools or exercises relied on different behavioural elements to help the participants succeed**. The design of these tools and exercises included features intended to change the context in which participants made their decisions, to keep them focussed on the outcome, and to help prevent them feeling deprived by changes which they made. Key to this were:

- **Salient information:** providing information to make financial decisions which may otherwise be based on mental accounting and to encourage planning ahead.
- **Making progress:** providing a way to measure progress towards an outcome which helps to maintain commitment to sticking to a plan.
- **Rewards:** acknowledging that spending often fills an emotional and social need which needs to be filled to avoid feelings of deprivation.

### Enabling a sense of control

Participants who reported success with the interventions spoke of **how they had given them a sense of control over their finances, often for the first time**. This was crucial in the forming of positive habits as participants felt that they had made the choice to change their financial behaviour themselves and did not do so simply because they were told they should. The provision of **information participants needed** to make decisions and put plans in place and the **enforcing of this with the ability to track their own progress and choose rewards** had an **empowering effect** – which became the motivation and reward in itself over time and led to habit formation.



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## Next steps

## 6. Next steps

**Money Lives will form part of the evidence base for the Financial Capability Strategy for the UK, which the Money Advice Service is developing and delivering in partnership with a wide range of organisations that are currently involved in improving the financial capability of the UK population.**

Together with the Service's other research (both qualitative and quantitative), responses to its call for evidence, a comprehensive mapping exercise of existing interventions and their effectiveness, and a review of international experience, Money Lives will inform a common understanding of what works at improving financial capability and where resources should be targeted to address needs.

In addition to the Financial Capability Strategy for the UK, the findings from Money Lives can also be more widely applied by those organisations seeking to understand more about why people behave the way they do so that interventions can be developed in a way that maximises the effect they have on existing behaviour.





## 6.1 Understanding what influences behaviour

The behavioural change literature review that was completed prior to the initiation of the Money Lives research explains in detail that there are several elements which need to be considered by those hoping to effect a change in behaviour. These include individuals' skills, knowledge, attitudes and motivations as well as the opportunity that they have to act.

Equipping individuals with the skills and knowledge they need to take control of their finances is an important first step that can be tackled through financial education across an individual's lifetime, especially when they are experiencing a significant life event that highlights the need for supplementary support. However, this alone is not enough to drive a change in behaviour – we must also address other internal determinants of behaviour such as attitudes and motivations and the external impact of the opportunities available.

For example, when starting a family, the need to budget more carefully and purchase additional items such as a buggy or cot, may be identified, but a person's approach to meeting these needs will be affected by a number of other factors. These might include their attitude towards debt and credit as well as the availability of savings to fund new purchases. An individual's capacity to focus on the future as well as the present is another important factor influencing their behaviour, as is their access and attitude to services and products.

## 6.2 Intervention design and evaluation

As discussed earlier in the report, several interventions were designed using the behavioural change framework and were then tested to see if they did change existing behaviours. This is a valuable first step in evaluating the effectiveness of interventions that have been specifically created to nudge individuals towards particular behaviours and has highlighted what's worked well as well as what has been apparently less successful.

The Financial Capability Strategy for the UK will use the learning from the intervention testing phase of the research to inform, in part, a design framework that will be shared with other organisations working in financial capability. This will be accompanied by an evaluation framework which will set out a consistent approach for organisations to use to measure the impact of what they are doing and identify areas where improvements could be made.

It is important to note that, in order to meaningfully measure the impact or behaviour change effected by different interventions a medium to long term view will need to be taken. The Money Advice Service will use its quarterly financial capability tracker as one of the tools to measure improvements in financial capability across the UK with additional qualitative and potentially longitudinal elements also included in the evaluation programme.



**the Money  
Advice Service**