Financial Wellbeing and Areas of Deprivation

Key Findings from Analysis by Aston CPFW for MaPS

Key Points

- People who live in the most deprived areas across the UK have lower levels of financial wellbeing. This applies even after controlling for factors such as household income.
- The main drivers of the lower financial wellbeing scores for people living in the most deprived areas are the ability to keep up with bills and payments, ability (or not) to save, and the need to borrow money if the main source of income was lost.
- Even when the income, employment, education and health domains of deprivation are viewed separately there is also a correlation with lower financial wellbeing

What is Financial Wellbeing?

MaPS defines financial wellbeing is feeling secure and in control. It's about making the most of your money from day to day, dealing with the unexpected, and being on track for a healthy financial future. In short: financially resilient, confident and empowered.

We measure someone's financial wellbeing using nine questions from our Adult Financial Wellbeing Survey. Respondents' answers to these questions are given points, and an overall score out of 100 for the questions is calculated for each respondent. A higher score shows better financial wellbeing and the middle score is close to the median of the UK population (i.e. around half the population would score under 50, and around half over 50).

The questions cover:

1. Satisfaction with financial circumstances
2. Confidence managing money
3. How well they are keeping up with bills and payments
4. What the biggest unexpected bill is that they could pay
5. How often they save
6. How often they use a credit card, overdraft or borrow money to buy food or pay bills, because they've run out of money
7. How long could last without borrowing if they lost their main source of income
8. Whether they agree they understand enough to make decisions about retirement
9. How much of a plan they have about retirement finances

What is deprivation?

Deprivation can be defined as the lack of material benefits considered to be basic necessities. Deprivation refers to someone's unmet needs across a number of areas, whereas poverty only focusses on whether someone has the money to meet their needs[i]. So, although income level is considered when looking at deprivation, it's not the only factor that determines the level of deprivation someone faces.

Deprivation is measured differently in different parts of the UK.

The table shows the different domains each nation considers when thinking local area deprivation.

Table 1 – domains of deprivation that make up each nation's Indices of Multiple Deprivation (IMD)

	England	Northern Ireland	Scotland	Wales
Domains of Deprivation	Income	Income	Income	Income
	Employment	Employment	Employment	Employment
	Education, skills and training	Education, skills and training	Education, skills and training	Education
	Health	Health Deprivation & Disability	Health	Health
	Crime	Crime & Disorder	Crime	Community and Safety
	Barriers to Housing and Services	Access to Services	Geographic access to services	Access to services
	Living Environment (property + outdoor environment)	Living Environment (property + outdoor environment)	Housing (the property)	Housing (the property)
				Physical environment (outdoor environment)

What are 'Areas of Deprivation'?

Deprivation in each nation is measured at Lower-layer Super Output Area[1] (LSOA -an area with about 1,000 to 3,000 people) or Super Output Areas (SOA - an area with about 2,000 people) in Northern Ireland.[2] It is done by looking at all of the domains of deprivation which, when grouped together are known as the index of multiple deprivation (IMD).

In each nation of the UK, the LSOA or SOA with a rank of one is considered to be the most deprived[3].

As there are so many small areas, they are often grouped together into 'quintiles'. This means that each quintile represents 20% of the total number of LSOAs or SOAs. There are therefore five quintiles, with quintile number one containing the most deprived areas and quintile number five containing the least deprived areas.

Living in an area that may be considered deprived according to the multiple deprivation index doesn't automatically mean that the person themselves is deprived or specifically affected by any of the domains.

[1] https://www.ons.gov.uk/methodology/geography/ukgeographies/censusgeographies/census2021geographies#lower-layer-super-output-areas-lsoas

[2] https://www.nisra.gov.uk/support/output-geography-census-2011/super-output-areas .

[3] England has 32,844 LSOAs; Wales has 1,909 LSOAs; Scotland has 6,976 LSOAs; Northern Ireland has 890 SOAs

What work did you do on this topic?

We worked with [Aston University's Centre for Personal Financial Wellbeing] who analysed our 2021 Adult Financial Wellbeing Survey dataset and mapped the respondents against the deprivation data using the LSOA/SOA as an identifier.

We wanted to find out if there were any correlations between levels of financial wellbeing and Areas of Deprivation.

We also wanted to know if any relationship between financial wellbeing and Areas of Deprivation was solely down to income or whether there were other, attitudinal factors - such as how satisfied or confident someone is with their financial circumstances and managing money.

Are there links between Areas of Deprivation and financial wellbeing?

The analysis found that people living in the most deprived quintiles (the 20% most deprived areas) have lower financial wellbeing scores than those living in less deprived areas.

On average, across the UK, people living in the 20% *least* deprived areas can expect a financial wellbeing score of 60.

However, for those living in the 20% most deprived areas, their average financial wellbeing score is 48.5.

Looking at the variation in the individual score averages from the questions by IMD quintiles:

Table 2 – differences in nine key questions of financial wellbeing between most and least deprived quintiles

Question topic	Most deprived quintile in each UK nation	Least deprived quintile in each UK nation
Financial satisfaction (out of 10 where 10 is completely satisfied)	6.6	7.5
Financial confidence (out of 10 where 10 is very confident)	7.7	8.7
Have difficulties keeping up with bills	63%	35%
Cannot pay an unexpected bill	18%	6%
Save every month	32%	46%
Borrow money to pay for essentials (very / fairly often)	22%	13%
Could last no more than a month without borrowing if they lost their main income	35%	14%
Understand enough to make decisions about saving for retirement	39%	51%
Have a rough or clear plan for retirement	37%	58%

Is the relationship between financial wellbeing and Areas of Deprivation related to income or other factors?

We examined this in two ways.

Firstly, we looked to see if the relationship still existed when we controlled for household income plus a range of other factors (ethnicity, marital status, educational attainment, employment status, number of adults and number of dependent children in the household, disability/long term condition and financial literacy).

We found that holding other factors including household income constant, residents in more deprived areas do have lower financial wellbeing.

Secondly, we looked to see whether the relationship was present when we looked separately at each of the nine questions that made up the financial wellbeing score.

We did this because some of these nine questions could be considered to have a stronger link to income, whereas others might be considered more attitudinal in nature.

We found that the links to deprivation were especially related to;

- keeping up with bills;
- being able to pay unexpected bills,
- saving behaviours,
- long-term financial security and
- being confident with their retirement planning.

Other than in Scotland and in Northern Ireland (but not in all quintiles), there was limited evidence that local area deprivation is related to financial satisfaction and financial confidence (i.e. attitudinal elements of overall financial wellbeing).

More specifically, we found:

Difficulties in keeping up with bills. In England, people living in the most deprived areas are 5.7% more likely to have difficulty keeping up with their bills and credit commitments compared to their counterparts living in the least deprived areas. However, this relationship does not hold in Northern Ireland, Scotland and Wales where this challenge is experienced more widely across all areas.

Capability of paying unexpected bills. In England, Northern Ireland and Wales, people living in the most deprived areas are 5.3%, 4.1% and 7.5% respectively more likely to say that they couldn't afford an unexpected bill of £50, respectively. However, our analysis suggests that people living in the most and the least deprived areas are equally likely to say that they couldn't afford an unexpected bill of £1,000 (a key level found in other research to be important for good financial wellbeing). However, less clear relationship is found in Scotland.

Active saving. In Scotland and Wales, people living in the most deprived areas are 9.3% and 11.2% less likely to save money every month and 6.5% and 7.8% more likely to say that they rarely/never save money, respectively, compared to those living in the least deprived quintile across the nations. A less clear relationship is found in England and Northern Ireland.

Long-term financial security. In England and Northern Ireland, in the case of the impact of losing their main source of household income, people living in the most deprived areas are 3.9% and 3.7% more likely to say they could not last more than a week, and 10.3% and 7.6% less likely to last 6 months or longer, compared to their counterparts living in the least deprived areas, respectively. A less clear relationship is found in Scotland and Wales.

Retirement planning. In England and Scotland, people living in the most deprived areas are 3.7% and 6.5% more likely to have no plan for retirement, and 3.3% and 6% less likely to have a clear plan, compared to the least deprived quintile. A less clear difference in choosing the answer options is found in Northern Ireland and Wales. We found no difference in claimed understanding of pensions between the most and least deprived quintiles.

Using credit for essentials: We found no statistically significant differences in whether people borrow for everyday living between the most and least deprived quintiles.

Do particular types of local deprivation matter more?

Indices of Multiple Deprivation (IMD) combine several different measures of deprivation into a single measure. This gives a useful overview of deprivation.

It is also possible to analyse each of these different domains individually. Each nation's IMD measure consists of several domains, some of which are common across all four nations. We wanted to see if financial wellbeing varied according to local levels of income deprivation, or whether it also varied according to other domains like employment, health, education or crime.

The key findings from this are that, holding other factors constant:

- In all nations except for Wales, we find a significant relationship between financial wellbeing and four of the five commonly used domains of deprivation.
- Income, health and education deprivation are linked to financial wellbeing in three out of four of the nations
- Employment deprivation is linked to financial wellbeing in two nations (England and Scotland)
- Crime deprivation is linked to financial wellbeing in only one nation (Northern Ireland)

The results of the analysis are shown in more detail in the table, which compares the 20% least deprived areas with the 20% most deprived areas, while holding other factors constant.[4]

There are two ways to describe the size of any difference:

1. The number of points by which the score is bigger.
    - This is the first figure in the table.
    - So, for example, in Northern Ireland, people in the least Income deprived areas had financial wellbeing scores 4.0 points higher than those in the most Income deprived areas.

[4] For some nations/domains, small sample sizes mean that we have had to include additional quintiles as well as the most/least deprived. For Northern Ireland, Education shows the difference between the most deprived three quintiles and the least deprived. For Scotland, Education and Crime show the difference between most deprived three quintiles and the least deprived. For England, Health shows the difference between the fourth most deprived quintile and the most deprived. Education shows difference between two least deprived and the most deprived.

2. The proportionate difference in the score, expressed as a percentage.
    - This is the second figure in the table.
    - So, for example, in Northern Ireland, people in the least Income deprived areas had financial wellbeing scores 8% higher than those in the most income deprived areas.

Table 3 – differences in financial wellbeing between areas that are less or more deprived in terms of income, employment, health, education and crime

	Domain of deprivation				
Nation	Income	Employment	Health	Education	Crime
Northern Ireland	4.0 8%	5.0 10%	5.1 14%	5.2 11%	No relationship
Scotland	4.3 9%	No relationship	4.7 12%	3.9 14%	3.7 12%
England	3.2 6%	2.1 4%	2.1 6%	2.0 5%	No relationship
Wales	No relationship	No relationship	No relationship	No relationship	No relationship

[i] English Indices of Deprivation 2019: technical report (publishing.service.gov.uk)