

Financial Capability and Wellbeing

A qualitative report by



TNS BMRB

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Summary

Background and research design

Figure 1. Financial Capability Framework



The Money Advice Service was set up to improve the financial capability of the UK population and to help people make better decisions about their money. As part of its role in co-ordinating the development of the new Financial Capability Strategy for the UK, the Money Advice Service has created a model of financial capability known as the Financial Capability Framework (Fig. 1). This model is grounded in an understanding of the drivers of people's financial behaviour based on research such as the Money Lives study.¹ The framework encompasses the key components of

financial capability: ability (skills and knowledge), mindset (attitudes and motivation) and connection (ease and accessibility in relation to financial products), as well as external influences such as social norms. The model has been used to inform the Money Advice Service's Financial Capability Survey which measures levels of financial capability across the UK adult population and will be used to monitor progress against the Strategy's objectives.

The UK Strategy also explores the concept of Financial Wellbeing (Fig. 2). This is a broader measure of financial health and includes people's current financial situation and their ability to withstand financial 'shocks' such as a reduction in income. More information on both the model and the UK Strategy can be found at www.fincap.org.uk. The Money Advice Service wished to deepen its understanding of the constituent parts of the Financial Capability Framework, how financial capability and financial wellbeing inter-relate and to provide further insight about the kind of interventions that might help or encourage consumers to improve their financial behaviour, capability or wellbeing.

Figure 2. Financial Wellbeing Staircase



The aims of the research were to:

- explore the components of the Financial Capability Framework, their inter-relationships and importance;
- provide insight into the effects of unexpected financial 'shocks' and the drivers of greater financial resilience;
- explore the concept of financial wellbeing with consumers and provide insight into the barriers and triggers to movement between states of financial wellbeing; and
- consider potential question areas that may need to be included in future versions of the financial capability survey.

¹ Money Advice Service (2014) *Money Lives: the financial behaviour of the UK*.

The wholly qualitative research was undertaken in two stages and comprised 30 depth interviews (Stage 1) and six group discussions (Stage 2) with working-age people (25–55 years old). Participants for each stage were recruited on the basis of income, age, gender and household composition. Additional quotas were used for Stage 1 - financial capability and experience of a financial shock through a life event; and a measure of financial wellbeing in Stage 2. It is important to note that only the three middle levels of financial wellbeing were included in the study. This is because the Money Advice Service already has access to a considerable amount of information on those in crisis debt ('unable to keep up') and were of the view that the highest level ('secure') is focused around provision for retirement, a topic which requires more time and focus than would have been viable in this exercise. The sample did not include anyone who had significant issues around access to financial services, literacy or numeracy. Interviews and group discussions were undertaken during November and December 2014.

How people manage their money

While some participants had no strategy at all for managing money, most said they had adopted at least some approach to monitoring their expenditure, although this varied from recording every transaction (using software or in a notepad) to occasionally checking bank balances and 'mental reckoning' of expenditure. However, individuals who estimated their spending, rather than keeping a written record, found they invariably overspent and were unable to maintain any savings.

Participants were readily able to describe the difference between being 'good' or 'bad' with money and were able to assign themselves to either of the categories, although after discussion they tended to recognise they were not as good with money as they first assumed. Being 'good' with money was associated with having an accurate picture of their financial position coupled with planning for the future, spending only what was affordable and regularly saving.

It was considered much easier to be bad with money than good, as being good with money requires being strict with oneself and (if necessary) denying oneself spending on treats and things like holidays, which was at odds with consumer society. There was a perception that in today's society, people want to be seen to be able to afford expensive or luxury items and therefore people do not aspire to being 'good' with money. Therefore, despite recognising they could save small amounts, participants said it was difficult to move from a 'spend now' culture to a 'save and spend in the future' culture.

A number of participants held the view that saving small sums of money was worthless and demotivating as the sum saved over a year period may be quite small. However, when they set the amount they would save (say £120 per year) against the cost of a small emergency repair, the value of putting aside small amounts was more tangible.

Participants who said they were 'bad' with money sometimes said that managing finances required complicated financial know-how, and were therefore discouraged from adopting 'good' financial behaviours as they said this was beyond their capacity. However, this perception was dispelled when they heard about simple practices that others had adopted to monitor their spending or save small amounts. A critical aspect of money management was to have a good understanding of how much money they had available and to spend only what they could afford.

Despite being able to identify a range of opportunities to cut back on expenditure, participants also recognised that their (and others') motivation to reduce spending was low. In addition some of the

suggestions participants made, e.g. reducing loan repayments, could lead to greater costs in the longer term as individuals would ultimately pay more in interest.

There were a number of assumptions people made about their capacity to manage their finances. In order to change people's behaviour, it would be beneficial to challenge these beliefs:

- My approach to managing my financial affairs is working.
- I can keep a mental track of where my money goes.
- Saving small amounts is a waste of time.
- Saving is difficult.
- Being good with money requires complicated financial know-how.
- Using credit means I have more to spend.

Social norms can also act as barriers to 'good' financial behaviours as individuals want to be seen to afford what their social group can buy. However, positioning being responsible with money as the right thing to do for the family and for children may help to counter social norms around aspirational spending habits. These include promoting the social norms of:

- Responsible borrowing is the right thing to do.
- It is right for my children that I am careful with money.
- Being careful with money provides security for my family.
- Going bankrupt would be a negative situation for myself and my family.

Dealing with life events and a financial shock

How effectively an individual responded to a financial shock depended in part on how **prepared** they were (i.e. what savings or insurance they had to provide a financial buffer) and in part on how well they **adapted** – how quickly they changed their spending habits and whether changes were sufficiently substantial.

Emotion and an individual's sense of personal **responsibility** for managing their finances both shaped how motivated people were to prepare and adapt.

Participants were not always willing to prepare for unexpected life events that were beyond their control and some said that today's consumerist society promoted irresponsible behaviours and therefore it was not their fault if they made poor choices.



During and after a life event (e.g. ill health or separation) the emotional turmoil experienced made it more difficult for people to think clearly about their finances in order to adapt appropriately. They were also less willing to make drastic lifestyle changes that would further disrupt their lives and the lives of their children.

Preparing for a shock

There was limited evidence that the participants were actively preparing for a future financial shock by protecting their income through income protection insurance or saving a financial buffer. Most saving was short term and earmarked for spending on items such as holidays, Christmas and large consumer items.

Whilst having small saving pots did provide some resilience to smaller emergencies such as repairing white goods, there was a risk that this also gave a false sense of security as people overestimated their financial buffer. Individuals who had experienced a financial shock, such as ill health, redundancy or separation generally found that the amount they had saved lasted for less time than they had expected, partly because they over-estimated their financial buffer and partly because they did not cut their expenditure fast enough or substantially enough.

Being adaptable

This research found that people did not always respond appropriately to financial shocks and this has a detrimental effect on their financial wellbeing. Individuals were slow to respond, or did not do enough (in terms of the amount of spending they cut back). This was in part because they were reluctant to make lifestyle changes and in part because they had not thought about a range of options to cut back while they recovered from a financial shock, for example opportunities to reduce the cost of pay TV or mobile phone contracts by changing their tariff, or by deferring payments, spreading the cost of, or reducing household bills.

In the face of a significant life event, some participants continued to spend as usual, either because they wanted to minimise the emotional impact of the event or because they were simply following routines and habits without thinking about the consequences.

In some cases, individuals focused on alternative sources of income which did not then materialise, for example they assumed they would find a job faster than they did or they overestimated the level of support they would receive from the Government. Consequently, they delayed making lifestyle changes and cutting back expenses until they were unable to pay a bill or had spent all their savings.

Financial products such as high-cost credit were seen to contribute to poor financial resilience. It was apparent that it is more socially acceptable – i.e. it is the norm – to become (more) indebted rather than reduce one's lifestyle in the face of a financial shock.

Overall, there was limited evidence of seeking help to deal with a financial shock. Advice was seen to be more for those in 'real debt' rather than for those who were having financial problems. Alternatively, many participants assumed that 'money advice' would be very basic, designed for people with limited experience of everyday budgeting and therefore irrelevant (as most assumed they had a good basic understanding of how to manage their finances). Individuals commented on a marked lack of advice being provided by employers (after redundancy) or hospitals (after ill health) or solicitors (after separation or divorce). Some individuals were very passive and assumed that advice would 'come to them'.

Financial Capability and Wellbeing

The Financial Capability Framework (see Figure 1) shows that financial capability is made up of three core components: **mindset** – the attitudes and motivations that shape financial behaviours; **ability** – having the skills and knowledge to make appropriate financial decisions; and **connections** – the ease and accessibility of financial products, advice and support. This research found that mindset was paramount as this determined people’s motivation to apply their knowledge and skills and access appropriate products and support.

It is important to note however that participants in this research did not report significant ability or connections barriers. Those who lacked online skills or confidence were unable to make use of online banking and budgeting and were therefore less able to monitor their spending accurately. However, on the whole the sample did not include individuals with significant knowledge, skills or access issues.

Understanding mindset – Financial decision making is made up of both reflective (decisions that are thought through) and automatic processes. Reflective processes require conscious assessment of a situation and comprise: how people weigh up the costs and benefits of an action; whether an action will be effective; whether an action is the ‘right thing’ to do for an individual; and the impact of what others do or how others will see me. Automatic processes include: habits and rules of thumb that people use when making quick decisions without much thought.

Reflective		Automatic	
Cost / Benefit	The benefit of accumulating a savings buffer was often outweighed by the perceived pain (or emotional cost) of giving up treats and luxuries.	Habits and routine are highly significant in shaping spending behaviour. People can be slow to respond to changing income and find it difficult to reflect on where they can make financial savings.	Habit
Efficacy	Participants questioned the value of making small changes or savings which they considered to be within their grasp	Due to ‘optimism bias’ individuals overestimated the income they had to spend or their capacity to pay off debt in the future; however, some had developed self-control strategies to curb spending, such as limiting cash withdrawals and not automatically taking credit cards shopping	Heuristics
Legitimacy / Morality	There was considerable variation over perceived personal responsibility for spending behaviours. For example, some did not feel they had the right to deny their family treats while others felt it was morally wrong to be irresponsible with money.		
Social norms	Maintaining a lifestyle was more important in many cases than having poor financial practices and getting into debt, especially where there were children involved and who might be ‘picked on’ at school		

Understanding of Financial Wellbeing

Respondents intuitively associate financial wellbeing with resilience to financial shocks, their capacity and willingness to adapt to changing income and how their financial situation affects them emotionally. Whilst participants were clear that financial wellbeing was not solely based on income, people on very high or very low incomes were invariably at the top or bottom of the staircase as their wealth or income either protected them from shocks (so they did not need to be resilient) or prevented them from saving or adjusting spending in order to become more resilient.

Apart from life events which were a clear alert to a change in financial wellbeing, there was a series of behaviours which were also indicators of a fall in financial wellbeing:

Life Events	Behaviours
<ul style="list-style-type: none"> • Job loss or reduced hours (especially if tendency to work short contracts) • Ill health (short-term if employer doesn't cover wages) • Ill health (long-term) • Separation and divorce • House purchase • Pregnancy • Large purchase from savings (e.g. house extension, car) 	<ul style="list-style-type: none"> • Impulse purchases increasing in frequency or cost • Not paying off credit cards at the end of the month (when had usually done so) • Putting bargains on credit cards that are not paid off • Reducing amount saved • Stopping saving • Stopping monitoring money • Stopping planning or budgeting • Paying for day-to-day items on credit cards (and not paying off) • Dipping in to savings for day-to-day living expenses • Using payday loans

Conclusions

- Mindset is perhaps the most important component of financial capability, providing there are no significant barriers in terms of skills or access to support and guidance.
- Given the influence of automatic processes on decision-making, poor financial choices may be made with very little thought. Promoting behaviour change may therefore require changing norms as well as prompting people to actively think about their attitudes to spending and their spending choices.
- Social norms are clearly very powerful, but currently can have a negative impact on capability as people spend more than they can afford to. There may be scope to drive positive behaviours if responsible financial choices can be positioned as the right thing to do.
- Understanding the true cost of credit (in terms of the amount of interest paid over the longer term) may encourage people to think more carefully about their spending behaviours.
- Clear and easy behavioural approaches would also help to counter the perception that being 'good with money' requires complicated financial know-how (e.g. keeping a record of spending or checking balances and budgets online).

- It is critical that people both prepare for, and are able to adapt in response to, changes to their finances.

Possible drivers of preparedness:

- Identifying small (painless) steps to prepare for future shocks.
- Changing attitudes towards saving to maintain a stable level of savings over time.
- Adopting simple savings practices (e.g. saving 20p pieces in 'Smarties' sweet tubes totals £13 when full).
- Driving a sense of personal responsibility to prepare and adapt for financial shocks.
- Recognising that using credit means having less to spend (e.g. £250 credit interest per year is enough for a holiday).

Possible drivers of adaptability:

- Individuals need to be more aware of the importance of being alert to changes in income or resilience and have a suite of responses in mind (e.g. making tough decisions about non-essential spending and understanding contract terms).
- Becoming aware of the impact of the social pressures around them and reprioritising responsible choices.

Individuals intuitively understood that financial wellbeing can be summed up in terms of resilience and that changing their 'usual' spending and savings habits is therefore building resilience. However, on the whole they did not think about how secure they were financially to a major change in income or necessary expenditure.

The research has shown that participants generally shunned financial information seeing it as either too generic or not relevant to them, despite the fact that their method of budgeting was often insufficient to provide a clear picture of their finances; the provision of examples of simple, practical ways of saving and cutting expenses would be very helpful.

It was also clear that providing the right type of information at the right time – and via the right messenger – is important, especially where people have experienced a financial shock. For example, employers, doctors and lawyers could play a part in providing information about the appropriate response to job loss, ill health or divorce.

1. Introduction

1.1 Background

The Money Advice Service was set up to improve the financial capability of the UK population and to help people make better decisions about their money. As part of its role in co-ordinating the development of the new Financial Capability Strategy for the UK, the Money Advice Service has created a model of financial capability known as the Financial Capability Framework (see Figure 3). This model is grounded in an understanding of the drivers of people's financial behaviour based on



research such as the Money Lives study.² The framework encompasses the key components of financial capability: ability (skills and knowledge), mindset (attitudes and motivation) and connection (ease and accessibility in relation to financial products) as well as external influences such as social norms. The model has been used to inform the Money Advice Service's Financial Capability Survey which measures levels of financial capability across the UK adult population and will be used to monitor progress against the Strategy's objectives.

The UK Strategy also explores the concept of Financial Wellbeing (see Figure 4). This is a broader measure of financial health and includes people's current financial situation and their ability to withstand financial shocks, such as a reduction in income. More information on both the model and the UK Strategy can be found at www.fincap.org.uk.

The Money Advice Service wished to deepen its understanding of the constituent parts of the financial capability framework, how financial capability and financial wellbeing (Figure 4) inter-relate and to provide further insight about the kind of interventions that might help or encourage consumers to improve their financial behaviour, capability or wellbeing.

Figure 4. Financial Wellbeing Staircase



1.2 Aims of the research

The aims of the research were as follows:

- Financial Capability Framework
 - To provide greater understanding of the 'Attitudes, Motivation, Accessibility, Ease and other External influences' components of the financial capability model.

² Money Advice Service (2014) *Money Lives: the financial behaviour of the UK*.

- To provide insight into how the components of the UK Financial Capability Framework inter-relate and their relative importance.
- Financial Resilience
 - To provide insight into the effects of unexpected financial 'shocks'.
 - To consider whether there are messages that may enable consumers to recognise their financial state and take steps to increase it.
- Financial Wellbeing
 - To explore the concept of financial wellbeing with consumers.
 - To provide insight into the barriers and triggers to movement between states of financial wellbeing.

1.3 Design

The research was wholly qualitative in design and conducted in two stages.

Stage 1

- The aims of the first stage of research were to understand different approaches to money management, explore in detail the components of the financial capability framework, and consider how people prepare for and manage the financial implications of life events and financial shocks.
- The sample was designed to reflect the underlying broad spread of the working population for whom financial capability is most relevant. It also included people who had experienced some form of financial shock, due to a life event, in order to understand the effect on financial resilience and wellbeing as well as the financial recovery process. The sample did not include anyone who had significant access to financial services, literacy or numeracy issues.
- This stage comprised **30 face-to-face in-depth interviews** across five areas of England, Wales and Scotland (London, Birmingham, Oldham, Cardiff and Glasgow).
- Participants were selected on the basis of:
 - Income (low, medium and high – for definitions please see the Appendix)
 - Working Age (25-55)
 - Gender
 - Household composition (singles and couples with, or without, children)
 - Financial capability (low, medium and high – for definitions please see the Appendix)
 - For some participants, experience of financial shocks in the past twelve months (including divorce, separation, ill-health, reduced working hours and job loss).

Stage 2

- The aims of the second stage of the research were to consolidate the findings from the first stage of the research, refine the concepts employed in the financial capability framework and explore the concept of financial wellbeing in relation to financial capability.
- This stage comprised **six group discussions** conducted in London, Cardiff and Glasgow.
- Participants were selected on the basis of:
 - Income (low, medium and high – for definitions please see the Appendix)
 - Age (25-55)
 - Gender
 - Household composition (Singles and Couples with, or without, children)

- Financial Wellbeing categories. Only the three middle levels of financial wellbeing ('Resilient', 'Making ends meet' and 'Constantly struggling') were included in the study. This is because the Money Advice Service already has access to a considerable amount of information on those in crisis debt ('unable to keep up') and were of the view that the highest level ('secure') is focused around provision for retirement.

Recruitment of participants was undertaken using traditional free-find techniques, including door-knocking and on-street recruitment. Participants were screened to ensure they were eligible to participate in the research – copies of the screening questionnaire may be found in the Appendix. The interviews and group discussions were undertaken during November and December 2014.

The interviews and group discussions were facilitated using topic guides which provide a structure for the flow of the conversations. Copies of these may be found in the Appendix.

1.4 Report structure

Following this introductory section there are four further chapters:

Chapter 2 – How people manage their money: focusing on what being 'good' or 'bad' with money means to people, money management, saving behaviour and financial planning.

Chapter 3 – Dealing with financial shocks: exploring the impact of different types of life events and financial shocks on financial resilience and approaches to driving greater financial resilience.

Chapter 4 – Financial Capability and Wellbeing: focuses on refining the financial capability model using a behavioural analysis and exploring the link between financial capability and financial wellbeing.

Chapter 5 – Conclusions which draw together the findings and considers opportunities for influencing financial behaviour and potential routes for driving financial resilience.

2. How people manage their money

Summary

- While some participants had no strategy at all for managing money, most adopted an approach that varied from occasional checking of bank balances and 'mental reckoning' of expenditure to accurate record-keeping and spreadsheets. With the exception of those keeping accurate records of their expenditure, under-estimating expenditure was the norm.
- Those who felt most financially secure tended to have an accurate picture of their financial position, planned for the future and had a desire to save for the long term.
- People intuitively knew what being 'good' and 'bad' with money meant, but considered it was much easier to be bad than good. Being good with money requires being strict with oneself, an approach that was seen as being at odds with today's consumer society. Participants were able to assign their own behaviour to either of the categories.
- Most of those using anything other than an accurate record of their expenditure (or allocated pots of money) did not have a clear picture of their finances, invariably overspent on a regular basis and were unable to maintain any form of savings. This became particularly apparent as people thought about their finances in the group sessions. The critical aspect of money management was to have a good understanding of how much money they had available and to spend or borrow only what they could afford.
- Being able to manage finances well was described as complicated, although this view was dispelled when others described how they managed their money and put aside small sums of money as savings. People recognised that it was easier to rationalise their approach to money management than makes changes that could benefit them in the longer term.
- Despite having the view that it was impossible to save, when challenged people often recognised that they could change their behaviour to save small amounts of money. However, participants said it was difficult to move from a 'spend now' to a 'save and spend in the future' culture. Encouraging people to talk about money management may be beneficial as it can demystify what some people see as a complicated process.
- There was an often held view that saving small sums of money was worthless and demotivating as the sum saved over a year period may be quite small. However, as participants indicated, saving a small amount can grow into a significant savings pot which, in the case of having to find emergency money, would mean they had money available rather than having to use a loan or credit.
- Participants were able to consider where they could cut back on expenditure if they needed to manage their financial circumstances better. However, in some cases participants suggested not making loan payments or not paying off credit cards which could mean that in the longer term they are building up larger debts.
- In order to change people's behaviour there are a number of assumptions that people need to learn to question. These are : 'my approach to managing my financial affairs is working'; 'I know where all my money goes'; 'saving small amounts is a waste of time'; 'saving is difficult'; 'being good with money requires complicated financial know-how'; and 'using credit means I have more to spend'.
- There are also behavioural levers that need to be implemented in order to address people's reluctance to change their standard of living to fit within their financial means. These include promoting the social norms of:
 - Being responsible with money is the right thing to do;
 - Responsible borrowing is the right thing to do;
 - It is right for my children that I am careful with money;
 - Being careful with money provides security for my family; and
 - Going bankrupt would be a negative situation for myself and my family.

A great deal is already known about how the public manage money and their approaches to financial planning and saving.³ Without wishing to repeat well-known information this chapter presents a brief overview of participants' approach to financial management and saving to provide a context for the remainder of the report, drawing out the implications for potential ways of changing the behaviour people who fall into the middle three categories of financial wellbeing - 'Resilient', 'Making ends meet' and 'Constantly struggling'.

2.1 Managing money, saving and financial planning

Most of the participants in the research had an approach to managing money. However, there were some participants who said that they did not manage money at all, spending at a level that

"It's having the time to sit down and do it with children and work." (Struggling, low income, Oldham)

was unrelated to their income and using loans and credit cards to enable them to continue to spend. Others simply felt that they did not have time to manage their money. Of those who managed their money, they did so in a variety of ways:

- using software that brought together all their financial assets to give them an overall picture of their financial situation;
- maintaining a spreadsheet or a notebook that recorded every transaction, including keeping receipts for every purchase;
- maintaining a note of income and expenses, but not at the same level of detail as keeping receipts;
- daily checking of bank accounts;
- weekly, or less frequent, checking of accounts;
- allocating income into 'pots', sometimes using different bank accounts, sometimes physical pots of money, with spending being limited to the amount in the pot; and
- using 'mental calculations' to estimate how much they had available to spend.

By definition, the research excluded people with problem debt, with participants generally being able to maintain a balance between their incomes and 'keeping their head above water'. However, while there were some who were clearly more resilient as they had substantial savings, the remainder ranged between 'manageable debt', through income being used in its entirety, to small savings that were frequently used and depleted.

It was clear that those most likely to have adopted an accurate way of recording their financial position were also those who were most likely to be financially resilient; most of those using anything other than an accurate record of their expenditure (or allocated pots of money) did not have a clear picture of their finances, invariably overspent on a regular basis and were unable to maintain any form of savings.

Apart from a lack of time and lack of motivation to keep on top of their finances, there was also a feeling that being able to manage money well required complicated financial know-how. This was often dispelled in the group discussions when those with money management strategies described them. These included: allocating 'pots' of money to specific bills; using a notebook to record all expenditure, or just cash withdrawals; allocating a specific amount of cash to be withdrawn each week and not exceeding it; saving everything left over each week; and saving specific coins such as 20p or 50p pieces.

³ For example see Money Advice Service (2014) *Money Lives: the financial behaviour of the UK*.

While some of the participants said that they were simply unable to save because their expenditure was equal to or greater than their income, some were saving up for a house deposit or for a new car, others saved for short-term goals such as treats and holidays. Overall, there was very limited evidence of emergency or 'rainy day' savings outside of the resilient group and, where they did exist, it was common for people to dip into these emergency funds for impulse purchases or unexpected expenses and not to replenish them. Financial resilience could therefore be transitory and only maintained by those who had established an emergency fund of significant size.

"Sometimes I think I may be saving for a holiday, then something happens with that and then it changes." (Low income, Resilient, London)

Financial planning was equally variable and ranged from no financial planning at all through to long-term planning, taking into account selecting jobs for their security and pension planning, although long-term planning was in the minority. Participants generally fell into one of three planning groups, with Figure 1 showing the characteristics.

Figure 1 – Financial Planning	
None	<p>Participants had never thought about financial planning of any form, neither short- nor long-term</p> <p>Unlikely to budget</p> <p>Tend to live from salary to salary</p> <p>No savings</p> <p>Participants were low or middle income and tended to be 'Struggling' or 'Making ends meet'</p> <p><i>"I tend to think, for years now, of the 'now' and don't tend to think of the bigger picture of the future."</i> (Making ends meet, medium income, no savings, no plans, Birmingham)</p>
Short-term	<p>Likely to budget for the short term</p> <p>Saving likely to be short-term and for spending in the near future, rather than 'emergencies'</p> <p>Planning often a misnomer and likely to be saving whatever is left over at the end of the month</p> <p>Participants were low, middle and high income and tended to be 'Struggling', 'Making ends meet' and 'Resilient'</p> <p><i>"It's just too far ahead. Anything can happen and with children around I just think you can't plan ahead. I know in the future I will be alright...I know at least £250K is coming my way from one nan."</i> (Making ends meet, high income, plans for one year, no long-term goals, Birmingham)</p>
Long-term	<p>Likely to budget for the long term</p> <p>May have savings, or relying on an inheritance or retirement pension</p> <p>May have an 'emergency fund' but more likely to be saving for the future (new car, house move, retirement, etc.)</p> <p>Currently contributing to a pension</p> <p>May have opted for 'secure jobs' (such as civil service) and jobs with a pension scheme</p>

Participants were middle or high income and tended to be ‘Making ends meet’ and ‘Resilient’

2.2 Being ‘good’ or ‘bad’ with money

Despite differences in money management, saving and financial planning, participants were all able to consider what it meant by being ‘good’ or ‘bad’ with money (Figure 2).

Figure 2 – Being good or bad with money	
Good with money	Bad with money
<ul style="list-style-type: none"> • Awareness of what they can afford • Active budgeting • Prioritising / compromising on spending • Buying only what they can afford; minimising impulse spending • Minimum use of credit / avoiding credit interest • Active planning (short- and long-term) • Saving 	<ul style="list-style-type: none"> • Lack of budgeting • Lack of financial planning • Not knowing how much they have to spend • Impulse spending • Unmanageable loans and debts • Consolidating debt but still spending • Not saving, or trying to save

Participants were also readily able to assign themselves to being either ‘good’ or ‘bad’ with money. Those who were good with money tended to value the feeling of being resilient to financial shocks, even if their level of savings that gave them a ‘resilience buffer’ was small. They often recognised that the ‘spend now’ approach to money management could lead to future debt – and money being spent on interest payments rather than being saved or spent on consumer goods, holidays, etc. By contrast, those who assigned themselves as bad with money valued their freedom to spend and to maintain a lifestyle that in many cases they recognised as being unsustainable in the long term. These participants were also able to justify their approach to finances:

- They had insufficient income to be ‘good’ with money;
- A view that saving small amounts of money was not worthwhile;
- There is no money spare at the end of the month;
- A desire that their children are not seen to be different to other children and should not suffer;
- Spending was associated with maintaining a reputation. Sometimes this was about the level of presents that are bought for birthdays and Christmas, sometimes new clothes and sometimes regularly eating out.

There was a considerable strength of feeling that it was much easier to be ‘bad’ with money – “*You just have to spend*” – whereas being ‘good’ with money required being “*strict with yourself*” and actively managing money. Participants commented on how today’s consumerist society, with easily available credit, does not encourage self-control. Coupled with this was often a view that with their existing commitments it was not possible to save.

"I spend everything I earn. There is no way I could save anything at all. It all goes on bills, food and children. Even my last £5 goes on treats for the children...well I suppose I don't have to give the children treats every week; they don't do so badly now. I could save £5 a week... That's £250 a year, that's a holiday."(Making ends meet, low income, Cardiff)

However, when pressed, even those who were initially adamant that *"they spent every penny every week"* recognised that with thought they could save a small amount. Others had already thought about how to save money by cutting back on certain types of expenditure, or shopping in different supermarkets. But, while people can consider how they would allocate their spending in the face of reduced income,

in practice, the level by which people actually cut back is highly variable. For example, as part of the discussion process, participants were asked to consider how they would cut back their expenditure in the light of an assumed cut in income of a third to a half due to loss of work, separation or illness. They were also asked to consider what were essential items, those that could definitely be cut back and those that they might cut back on. Typically, areas where people felt they could definitely cut back were treats, hobbies, sports and holidays; where they might cut included clothes, food purchases and treats for children. Some suggested areas for cutting expenditure, such as loan and credit card repayments and insurance, could in fact result in higher expenditure in the long term (detailed findings are in the Appendix).

It was clear though that despite recognising areas where they could manage their finances better, begin saving and become more financial resilient to any financial shocks that may occur, there was a tendency for many participants to enjoy life now and not worry about the future.

"I would rather struggle and have a couple of days out and enjoy myself than be [financially] okay and in the house all day."(Low income, Constantly struggling, Glasgow)

2.3 Changing financial behaviour

In considering how to change people's financial behaviour it is clear that there are a certain mis-perceptions that need to be managed:

- **"My approach to managing my financial affairs is working."** With the exception of those participants who were recording their expenses or checking balances daily, the remainder generally recognised - as they were discussing money management in the group sessions - that they were almost certainly underestimating how much they spent. Adopting any strategy for managing money tended to reinforce the belief that they were in control, or good with money, yet the reality was that their financial affairs were more likely to be out of control. It increasingly became apparent to those who were using mental accounting methods that they were likely to be seriously underestimating how much they spent.
- **"I recognise where my money goes"**. It was very clear that it was only the exceptions who really understood, or recognised, how they were spending money. One participant, for example spoke about a friend who could not understand why she was constantly overdrawn. Taking her through her expenses, they realised that costs such as daily parking, multiple coffees a day, impulse clothes purchases and lunch out every day were being completely left out of her mental calculation of her expenses. Identifying all the small purchases throughout the week can provide a much better indication of overall expenditure and also point to areas where cuts could be made.

- **“Saving small amounts is a waste of time.”** As a number of participants mentioned, even relatively small financial shocks, such as repairing a washing machine, can end up costing significant amounts of money if they are dealt with using payday loans or expensive credit. One participant who had experienced this, mentioned that had he saved £2 a week for a period of time he would have had sufficient money to pay for the repair and it would have worked out much cheaper than using a short-term loan.
- **“Saving is difficult.”** There were participants that had adopted a range of ways of saving small amounts of money. This included: reducing the number of coffees they had each week and saving the money; saving specific coins (20p, 50p); saving whatever was left over each week; limiting themselves to one cash withdrawal per week; not taking credit cards out when shopping.
- **“Being good with money requires complicated financial know-how.”** As participants demonstrated to each other during the research, keeping up to date with one’s expenditure is not difficult, especially if it is undertaken daily. For example, most participants said that they know what their main outgoings were (e.g. mortgage, rent, utilities, etc.) and that they were relatively stable from month to month. Deducting these from their income they then knew how much they had to spend during the month. Some broke this down into weekly amounts and then wrote down how much they spent each day, making sure that they did not exceed their weekly allocation. The key requirement was to work out the amount that was available each week or month and to record expenditure daily.
- **“Using credit means I can spend more.”** As many participants pointed out there is a tension between knowing that they should save in order to be able to spend more money in the future and wanting to spend now. This is because spending now on credit (assuming interest is incurred) means that in the long term, people have less to spend as they use some of their income to pay interest. Equally, buying bargains on credit cards and not paying off the balance each month means that the bargains can sometimes work out more expensive than the original pre-discounted price. As participants said, if they spent less on interest (and often impulse buys) they would have more to spend in the longer term.

“I realised that what we spent on [credit card] interest we could have spent on a holiday.” (Making ends meet, medium income, Oldham)

between knowing that they should save in order to be able to spend more money in the future and wanting to spend now. This is because spending now on credit (assuming interest is incurred) means that in the long term, people have less to spend as they use some of their income to pay interest. Equally, buying bargains on credit cards and not paying off the balance each month means that the bargains can sometimes work out more expensive than the original pre-discounted price. As participants said, if they spent less on interest (and often impulse buys) they would have more to spend in the longer term.

Spending and saving can both be aspirational – spending allows people to attain a certain lifestyle, while people often aspire to save but find reasons for not doing so. In part this is because people do not have the mechanisms in place to help them (such as recognising how they are spending money, recording expenditure, saving strategies, etc.) and in part because they are conforming to social norms – *It’s what others do and have*. In this respect there are often barriers to change. These include concern about:

“It’s about the biggest and the best presents and the nicest stuff...I feel like it’s a competition with relatives and friends...people rub it in your face without meaning to. No one likes to admit they’re having a struggle with money so we’re never going to admit to friends and family that we haven’t got the money to spend on things.” (Medium income, Constantly struggling, Birmingham)

- what others in their social group may think of them if they reduce their spending, or cannot keep up with their current lifestyle;
- how others will think of them if they ask for advice or help to deal with their financial situation;
- what friends and family will think if their children have fewer treats, clothes, toys, holidays, etc.;

- what their children will think of them if they spend less on treats, clothes, holidays, etc.

In order to address these concerns there are behavioural levers that need to be implemented in order to address people's reluctance to change their standard of living to fit within their financial means. These include promoting the social norms of:

- Being responsible with money is the right thing to do;
- Responsible borrowing is the right thing to do;
- It is right for my children that I am careful with money;
- Being careful with money provides security for my family; and
- Going bankrupt would be a negative situation for myself and my family

3. Dealing with life events and financial shocks

Summary

- There was limited evidence that the participants were actively saving money as a means of managing a future financial shock; most saving was short term and earmarked for spending on items such as holidays, Christmas and large consumer items.
- There was very limited evidence of participants protecting their income through income protection insurance.
- Building up a savings pot through small amounts of weekly or monthly savings was recognised by participants as a useful way of building financial security where disposable income was limited and can help people manage small financial shocks, such as a washing machine or car breaking down. However, there is a danger that this can lead to complacency in the face of larger shocks, such as reduced earnings or illness.
- Individuals who had experienced a financial shock, such as ill health, redundancy or separation generally found that the amount they had saved lasted for less time than they had expected, partly because they over-estimated their financial buffer and partly because they did not cut their expenditure fast enough or substantially enough.
- Individuals respond very differently to a financial shock, reflecting their overall emotional response; some respond very fast, others took much longer. Those responding faster and adapting to their change in circumstances tended to minimise the impact of the financial shock.
- There was some evidence to indicate that in the face of a drop in income individuals would try to find ways of increasing their income rather than changing their lifestyle and cutting some expenses. For example, those who had lost their jobs tended to seek compensation or benefits; those who were unable to work through ill-health tended to seek benefits; those who had separated from their partner tended to look for work. Investigating alternative income sources may in fact be an unhelpful response to a financial shock as individuals may be avoiding or delaying lifestyle changes they need to make in order to manage their expenditure.
- While individuals recognised that cutting back their expenditure was the prudent response to a financial shock, people found it difficult to identify sufficient areas where they could cut back; there was also a lack of knowledge about how to manage contracts such as for television and mobile phones in the light of a financial shock.
- Financial products such as high-cost credit were seen to contribute to poor financial resilience. It was apparent that it is more socially acceptable – i.e. it is the norm – to become (more) indebted rather than reduce one's lifestyle in the face of a financial shock.
- Overall, there was limited evidence of seeking help to deal with a financial shock. Advice was seen to be more for those in 'real debt' rather than for those who were having financial problems. Individuals commented on a marked lack of advice being provided by employers (after redundancy) or hospitals (after ill health) or solicitors (after separation or divorce). Some individuals were very passive and assumed that advice would 'come to them'. There was also a tendency to ignore money advice as they saw it as being about everyday budgeting, which they generally thought that they could do.
- Individuals do not always respond in the most beneficial way to a financial shock partly because of an individual's emotional state and partly reluctance to make lifestyle changes.

- The research found that participants do not always respond appropriately to financial shocks and this can have a detrimental effect on their financial wellbeing. Individuals may be slow to respond, they may not do enough (in terms of the amount of spending they cut back) or they do unhelpful things (e.g. by relying on alternative sources of income that do not materialise, or borrowing more to maintain spending habits).
- Overall, those most able to manage a financial shock were those individuals who were able to deal with their finances despite the emotional turmoil of the situation and were either better prepared (in terms of savings or insurance) or more willing to adapt their spending habits. Individuals who are motivated to cut back on a wider range of everyday expenses may cope better, particularly those who understand the terms and conditions of contracts with service providers and are therefore able to take into consideration opportunities to defer, spread the cost of, or reduce household bills, while they recover from a financial shock.
- The key drivers of financial resilience in the face of a financial shock are:
 - **Being prepared** – whether they have savings or insurances and they use these appropriately;
 - **Being adaptable** – whether they make changes to their lifestyle and spending behaviours quickly and whether these changes are proportionate to the severity of the change;
 - **Taking responsibility** – whether the individual takes ownership of the situation and believes that taking active steps to prepare and adapt is the right thing to do;
 - **Dealing with emotions** – how clearly the individual can think about their financial situation, whilst dealing with the emotional turmoil of the life event.

Life events (such as a serious illness, separation or divorce, or job loss) can place an unexpected strain on people's finances, whilst also causing significant stress and upset in their own right. If people are not resilient (i.e. if they struggle to pay essential costs as the result of a financial shock and take a long time to recover) then a financial shock can cause significant hardship. Research has shown⁴ that people who suffer a financial shock can quickly spiral into unmanageable debt; they may find themselves unable to make ends meet as well as experiencing poor health as a consequence.

The ability to cope well with a financial shock is therefore an aspect of resilience and avoiding a decline in wellbeing. This was recognised by participants themselves who aligned the ability to cope well with a financial 'hit' to being 'good with money' and a sign of financial health.

"If you take a hit, it's about knowing that you can cover those payments."
(Medium income, Resilient, Cardiff)

It is therefore important to understand what makes some people more resilient to financial shocks than others. This chapter explores a range of factors that may influence resilience including how well **prepared** people were for a financial shock, how they first **responded** to a financial shock, including how quickly they took action to minimise the impact of the shock and the **factors that influence resilience** to shocks.

⁴ For example see Money Advice Service (2014) *Money Lives: the financial behaviour of the UK*.

3.1 Preparing for a financial shock

There was limited evidence that individuals were actively saving money to prepare for a drop in income due to a life event. Whilst participants said it was important to put money aside 'for a rainy day', in practice they found this difficult to do either because there were always things they wanted or needed to spend money on, or they found saving unaffordable and cited their low level of income as the reason. They did however manage to save for aspirational expenditure or treats (e.g. a new car, holiday or Christmas) which they sometimes dipped into in an emergency. Whilst having some savings set aside does provide a financial buffer, savings for specific items (such as treats, days out, holidays, etc.) cannot be relied upon because they are often earmarked and are therefore intermittently spent. Consequently, regular saving activity may offer some protection against a financial shock but may not reliably indicate financial resilience because individuals may be saving to spend rather than saving for an unforeseen eventuality.

Saving a small amount can grow into a significant savings pot which, in the case of having to find emergency money, would mean they had money available rather than having to use a loan or credit. However, having small savings pots could give individuals a false sense of resilience or reduce the perceived urgency to respond to a financial shock. As a result, some individuals waited until they had spent all of their savings before taking steps to assess their finances or adapt in line with changing income and pressures.

In some cases, individuals may believe they are better prepared than they really are – some overestimate how long they will be able to survive on relatively small savings pots or their redundancy pay out, while others had unrealistic expectations about the level of financial support available from the government.

Individuals who had experienced long-term sickness said that the period for which they received sick pay felt shorter than they had expected. In some cases individuals initially focused on healthcare needs or retaining work and said they had not properly considered how they would manage financially until they stopped receiving sick pay. They were then shocked by the drop in income when they started to receive statutory sick pay or other Government benefits – having assumed that they would receive enough money to meet what they considered to be basic living costs. In practice, they found the actual amount was not sufficient to cover their usual level of spending on bills and food.

There was limited use of income protection insurance amongst participants who took part in this research. These products were considered too expensive, particularly as individuals said *'you do not expect the worse until it happens.'* This research suggests that not only do people underestimate the likelihood and financial impact of a life event, they also overestimate their financial resilience – including how long savings would last and what other sources of income would be at their disposal. It is therefore unsurprising that people do little to prepare for a financial shock – they avoid thinking about 'bad events' happening and where they do consider them, they make optimistic assumptions about how well they would cope.

3.2 Responding to a financial shock

There was huge variation in how quickly people took action following a financial shock. At one end of the scale, individuals began thinking about their finances 'within minutes' of learning about the event, at the other end of the scale they 'hid their head in the sand' until they were forced to make

adjustments to their expenditure because they were no longer able to pay for essential items – at which point the options available to them were much more limited. This could radically change

“...months and months ‘cos I just put my head in the sand.” (Struggling, low income, Cardiff, ill health)

how well they coped with their change in circumstances or whether they were forced into hardship. Participants who took action quickly to adapt to their new circumstances were not only better placed to minimise financial hardships (e.g. avoiding unmanageable levels of debt or pre-empting

difficulties paying bills or affording essential items), they also felt more in control. Individuals who waited until they were struggling to make ends meet before taking any meaningful steps to adapt in light of their changing income or pressures, experienced emotional distress because they felt that they were unable to take control of their finances and that taking steps to resolve financial difficulties had become much more difficult or was beyond them.

When faced with a negative life event there were a range of ways people could adapt to changes in income and financial pressures including: adjusting spending habits and **cutting back** on non-essential spending; investigating and accessing **other income sources**; or using **appropriate financial products** such as pre-arranged insurance cover to deal with reduced income or changing income pressures. However, faced with reduced income, many participants while rightly pursuing alternative sources of income (such as benefit entitlement and finding work) generally failed to take hard decisions to reduce their spending. Ultimately participants did not respond well when they were too focused on maintaining the status quo. For a number of reasons, including social pressures and a desire to minimise disruption for their children, participants maintained ‘spending as usual’ behaviours which sometimes meant they did not properly respond to financial shocks until it was already too late – i.e. when they were unable to pay their bills and had no savings left to fall back on.

3.2.1 Cutting back

Most commonly people thought about ways to cut back on their spending. However, they had very different views about what spending was essential and where they could make savings. This included mixed understanding and confidence around dealing with utilities companies and telecoms providers. For example, when and how they could reduce or cancel contracts for internet, TV and mobile phone services or spread the cost of utilities bills.

Individuals who had not experienced a negative life event before assumed they would be able to make sufficient savings by cutting back on commonly mentioned non-essential spending such as socialising, nights out with friends, going to the pub or getting a takeaway meal. However, those who had experienced a significant financial shock found they needed to make further savings; commonly this included cutting back spending on food by switching to a lower cost supermarket, buying own brand food and cutting out luxury or treat items. Few looked into options to reduce housing costs and bills such as delaying or reducing mortgage payments, gas and electricity bills. It was only when they reached crisis point (i.e. they could not pay a bill) that they were forced to contact utilities or telecoms providers or a third party and then learn about options to spread payments or access hardship loans.

Whilst people say that they would cope with a financial shock by ‘cutting back’, this research found that the pool of expenditure where they are willing (or believe they are able) to cut back may be small and insufficient to cope with a major loss of income. Individuals who are motivated to cut back on a wider range of everyday expenses may cope better, particularly those who understand

the terms and conditions of contracts with service providers and are therefore able to take into consideration opportunities to defer, spread the cost of, or reduce household bills, while they recover from a financial shock.

3.2.2 Other income sources

“You think something will turn up so you put it off for another month, another month...I thought I would get some sick money so you bank on that this will come in...you're constantly telling yourself you'll get it from somewhere, but you don't.” (Struggling – was resilient, low income, Glasgow, motorbike accident)

Generally, participants wanted to maintain their current lifestyle. On the assumption that their time with a reduced income would be short, there was a tendency to maintain their current level of spending. Whilst they were rightly pursuing alternative sources of income they

continued to spend as if they had not experienced a drop in income. These participants were overly optimistic about how long their income would be reduced and were reluctant to adjust spending behaviours – consequently they delayed making difficult choices. They recommended that for others in this situation, individuals should both look for alternative sources of income as well as reducing their expenditure at the same time.

Investigating alternative income sources may in fact be an unhelpful initial response to a financial shock as individuals may be avoiding or delaying lifestyle changes they need to make.

3.2.3 Financial products

There was limited evidence that individuals were using appropriate financial products (e.g. insurances, consolidation loans, grants) to prepare for or recover from financial shocks. As discussed above there was limited use of income protection or household insurance products amongst participants as these were considered too expensive. Among the minority who had used a consolidation loan following a life event they did so because their focus shifted from juggling various income and credit sources to managing and paying off debt and reducing overall outgoings.

When asked about use of financial products, participants were concerned that the prevalence and ease of access of credit encouraged people to borrow beyond their means. Therefore these types of financial products were perceived to contribute to poor resilience, rather than providing a

“I probably didn't like to admit that you're skint and struggling financially. We had a good life and we're not on the street yet and I was an ostrich, maybe burying my head in the sand.” (Making ends meet, medium income, Glasgow, Redundant)

possible solution, as they enabled people to continue with habitual spending without having to make difficult choices in response to a financial shock, the use of which ultimately leads to reduced disposable income and potentially greater financial hardship. This may

be because a) there was limited use and understanding of products which can drive resilience (e.g. insurances) and b) people were prone to blame poor financial behaviours on external influences, rather than taking responsibility for bad choices themselves. They argued, for example, that promotion of various credit products has shifted perceptions of acceptability around credit to the extent that people are enticed to borrow more than they can afford. It also appeared that there was clear change in social norms with it being less acceptable to reduce one's standard of living compared to living in increased indebtedness.

3.2.4 Seeking advice and support

There was limited evidence that people were actively seeking out advice and support after experiencing a financial shock. This was in part due to a lack of awareness - participants did not know what advice was available or where to access it - and in part due to unhelpful beliefs about the types of people who need help managing their finances.

Only a small number of the participants in this qualitative piece of work had heard of the Money Advice Service.

Those who had heard of it believed that it principally targeted advice towards those with unmanageable levels of debt (perceived to be those unable to make credit payments or those who need advice about bankruptcy). Few in the sample identified themselves as such, including those who said they were 'juggling' multiple loans and credit cards. Respondents therefore assumed that advice from the Money Advice Service would not be relevant to them. Participants were aware of other potential sources of support, including Citizens Advice, but assumed that it would be difficult to book an appointment because these services were known to be over-subscribed.

"You know Wonga, you don't know Money Advice." (Constantly struggling, middle income,

Some were reluctant to identify themselves as needing advice because they held unhelpful beliefs about the types of people who needed help managing their finances. There was a perception that only people who were unable to cope financially or who were inexperienced dealing with household budgets would ask for advice about money. Participants generally believed they already knew how to live within their means and had developed practices to help them budget, despite not always applying these. Even those struggling to make ends meet believed they were doing everything possible to juggle income and expenditure, and in many cases they were doing so by carefully managing their finances and making difficult choices about things they could afford and things they could not.

This research suggests that people may quickly dismiss money advice as irrelevant because they believe it either comprises basic guidance on everyday budgeting (whereas many believed that they already knew what 'good' behaviour was) or is designed for people who have 'hit rock bottom' (and therefore irrelevant, unless one is thinking about declaring bankruptcy.)

Finally, there were some participants who expected advice to come to them, particularly when they were experiencing financial hardship that was caused by events outside of their control, for example illness, separation, or redundancy.

These individuals questioned why they were not given more information on dealing with loss of income from their employers (when made redundant) or when they first interacted with services like the Jobcentre or hospitals. This attitude was indicative of a wider reluctance or lack of impetus to take personal responsibility for responding to financial shocks. Individuals sometimes considered themselves to be 'victims of circumstance' and believed that more should be done to help them – including both the provision of advice and financial support to minimise hardship.

"I thought you had to cope with it all on your own, Then they say why didn't you ask...because I didn't know. You don't get given anything when the benefits stopped saying "Go to the electric, go to the gas", a tick off thing of what to do." (Struggling, low income, Cardiff, ill health)

3.3 Consequences of responding slowly to a life event

This research found that people do not always respond appropriately to financial shocks and this has a detrimental effect on their financial wellbeing. Individuals may be slow to respond, they may not do enough (in terms of the amount of spending they cut back) or they do unhelpful things (e.g. relying on alternative sources of income that do not materialise, or borrowing more to maintain spending habits).

There were a number of reasons why people did not respond to events appropriately during and after a life event including: the impact of emotional distress on decision making; a reluctance to change (or be seen to change) their lifestyle; the impact of dealing with wider consequences of a life event; and the tendency to underestimate the severity of their situation until it becomes critical. These are discussed in turn below.

When dealing with frightening or upsetting life events, an individual's **emotional state** can affect their capacity to make rational decisions about managing their finances. In some cases, participants said it took several weeks after an unexpected event such as illness or separation to feel emotionally strong enough to assess their financial situation and take steps to respond to their changed circumstances.

People also delay changing their spending behaviours because they are **reluctant to make the lifestyle changes** required to reduce their spending. This was often due to perceived social pressure to maintain a certain lifestyle and a desire to keep financial difficulties secret from friends and family. In households with children, parents were also concerned about adding to their children's upset by denying them activities or treats that were part of the family routine.

There were other **practical consequences of life events** that may take priority in the first few weeks of the event occurring, such as finding housing, or making arrangements for child visitation rights after a separation, or making arrangements for receiving medical treatment. Individuals may be so focused on other apparently more urgent needs and issues that they simply do not have time or energy to take into consideration the financial implications of their new situation.

The combination of any or all of the above can result in individuals giving little thought to changing or reducing their spending behaviour for several weeks after an event - during which time they may spend any savings they have, build up unmanageable levels of debt or reach a crisis point (e.g. unable to pay a bill) which then leads to increasing interest payments, bank fees, fines or penalties. Therefore, life events make people acutely vulnerable to adverse changes to financial wellbeing because: people experience acute changes in income or pressures; they are not sufficiently emotionally resilient to make difficult choices; and they focus on other, more pressing, issues including the welfare of their children, where they will live or accessing necessary medical treatment. However, this research has identified a range of factors which can promote resilience to financial shocks brought on by difficult life events.

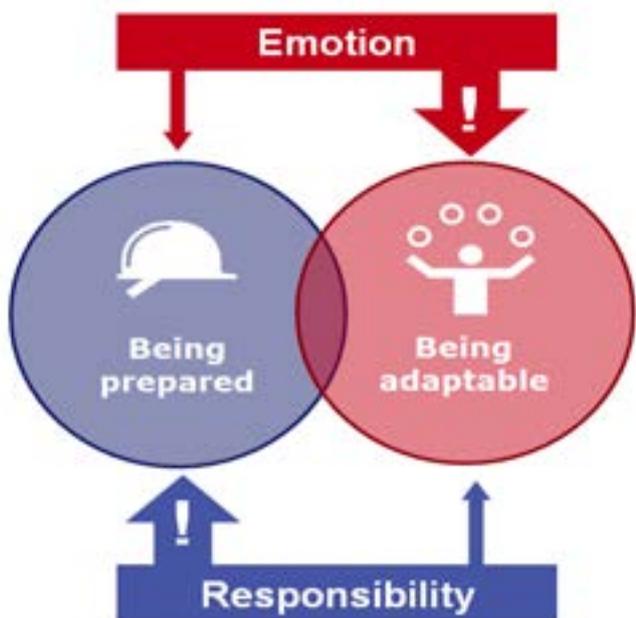
3.4 What drives financial resilience

This research suggests there are four factors that come into play in determining how well an individual copes with a financial shock:

- **Being prepared** – whether they have savings or insurances and they use these appropriately.

- **Being adaptable** – whether they quickly make changes to their lifestyle and spending behaviours and these changes are proportionate to the severity of the change.
- **Taking responsibility** – whether the individual takes ownership of the situation and believes that taking active steps to prepare and adapt is the right thing to do.
- **Dealing with emotions** – how clearly the individual can think about their financial situation, whilst dealing with the emotional turmoil of the life event.

Figure 5. The factors that drive financial resilience



As shown in figure 5, being prepared and being adaptable are two related sets of behavioural responses, whilst a sense of responsibility and people’s emotions influence their capacity to implement those behaviours. This is described in more detail below.

3.4.1 Being prepared and being adaptable

Resilience to a financial shock requires the individual to be **both prepared**, so they have a reliable source of income that they can draw on in an emergency **and adaptable**, to avoid maintaining spending habits that are not sustainable within their reduced income levels. Indeed, being prepared (i.e. having savings to fall back on) may do little to prevent a fall in wellbeing if people are not willing to adapt their behaviour and consequently quickly spend their savings before taking any other action to respond to changing financial pressures.

Being prepared includes building up savings, but as described above, there was very limited evidence that people were ring-fencing savings purely to use in an emergency. Savings were often aspirational (see section Chapter 2 on spending and saving behaviour), often earmarked for spending on treats, days out, holidays, etc., and consequently the amount of savings they had at any one time changed as saving pots were used as intended. In addition, participants commonly

had a small savings pot they regularly paid into but they had higher levels of debt. This was because they were not envisaging their saving activity as a means to increase resilience; they were mainly saving for a very particular purpose unrelated to their overall financial wellbeing or resilience, which they only wanted to maintain.

There were other means by which individuals prepared for a financial shock, for example, buying appropriate insurance such as income protection insurance, or taking a secure job. However, as discussed above, insurance was often considered too expensive and people tended to overestimate how long they could survive on their redundancy pay which may discourage other preparatory activity.

Individuals who have a better understanding of financial products and where and how to cut back on their expenditure may be better able to adapt to financial shocks. Therefore individuals could also prepare for a financial shock by taking time to learn about financial products and to develop a better understanding of where they could reduce spending, such as by understanding contractual arrangements with service providers.

Adaptability comprises how quickly and accurately an individual assesses the impact of a financial shock and adjusts their behaviour accordingly. As described above, this is primarily achieved by significantly reducing spending and by cutting back on a wide range of expenditure, but is also helped by accessing appropriate financial products (e.g. consolidation loans to reduce interest payments) and applying for benefits and other financial support.

3.4.2 Emotion and responsibility

Impact of emotion on preparedness and adaptability

Emotional distress hampers how adaptable people are in response to a financial shock. This is because they tend to focus on the situation rather than financial practicalities. Respondents were also more sensitive about making lifestyle changes in order to reduce spending as they did not want to cause further disruption for children / household or alert friends and family to their changing financial situation.

Impact of responsibility on preparedness and adaptability

Individuals were better prepared and more willing to adapt to life events when they believed it was their responsibility to manage and cope with financial shocks. Often participants said this was something they had learnt from a parent or as the result of their own experience, having recovered from high levels of debt in the past. At the opposite end of the spectrum, some individuals were reluctant to prepare for unexpected life events that were beyond their control. Instead, they expected to rely upon state-funded support (incapacity benefit or income support) should they lose a source of income and as a result of this expectation did not take active measures to prepare for or adapt to financial shocks. Individuals justified deferring responsibility because they argued that the social pressures brought about by consumerist society drove people to use easy-access credit to fund spending behaviours that were beyond their means. Consequently they believed they were not responsible for spending and borrowing behaviours which caused them to be less resilient to financial shocks.

4. Financial capability and wellbeing

Summary

- Financial choices were influenced by a person's mindset. This includes both reflective (decisions that are thought through) and automatic processes. Reflective processes require conscious assessment of a situation and comprise: how people weigh up the costs and benefits of an action; whether an action will be effective; whether an action is the 'right thing' to do for an individual; and the impact of what others do or how others will see me. Automatic processes include: habits and rules of thumb that people use when making decisions.
- Our research indicates that 'mindset' is critical as this both determines the extent to which people are driven to develop and apply the necessary skills/knowledge and to utilise financial products and support services, regardless of the ease or accessibility of these.
- For the participants in this study, their existing mindset (e.g. how motivated they were to behave in a responsible manner) strongly influenced both the ability and access components. The main barriers within both components were largely a result of their unwillingness to develop and apply skills or seek out information and advice. For example:
 - When thinking about changing spending habits the benefit of accumulating a savings buffer was often outweighed by the perceived pain of (or emotional cost) of giving up treats and luxuries.
 - Although most people were aware of what good and bad financial behaviours are, a key barrier to saving, or cutting back on expenses was the perceived effectiveness of any actions they could take.
 - There was considerable variation over perceived personal responsibility for spending behaviours. For example, some did not feel they had the right to deny their family treats while others felt it was morally wrong to be irresponsible with money. Some said that they had become more responsible as a result of upbringing or a previous financial shock, although the positive impact of a shock was not universal.
- Habits and routine are highly significant in shaping spending behaviour. People can be slow to respond to changing income and find it difficult to reflect on where they can make financial savings.
- There are a variety of rules of thumb that people use – such as estimating their expenditure – that lead to poor money management; there may be 'optimism bias' with an expectation that their financial situation will improve with an inheritance or a lottery win; people are acutely sensitive to the short term pain of changing spending habits and therefore reluctant to save. However, it is possible to develop self-control strategies to curb spending, such as limiting cash withdrawals and not automatically taking credits when shopping.
- Social norms played a key part in decision-making. It appeared that maintaining a lifestyle was more important in many cases than having poor financial practices and getting into debt, especially where there were children involved and who might be 'picked on' at school.
- Many participants did not recognise the real cost of credit. While they recognised that credit could be expensive they often did not realise how much credit would cost them over the year and generally failed to make the connection between the cost of credit interest and the overall amount they would have to spend.

- Financial capability does not necessarily require sophisticated skills and knowledge, only basic budgeting and monitoring skills. Being good with money is often wrongly assumed to require sophisticated skills.
- Access to financial products was not an issue amongst these participants; in fact access to high cost credit was considered too easy. However, there were participants that lacked confidence in using online banking which meant that they were less able to monitor their income and expenditure.
- Access to advice and guidance was more difficult; few had heard of the Money Advice Service and CAB were associated with severe debt and also seen as over-subscribed. However, access to advice and the ability to use it are largely determined by the motivation – or mindset – to use it and act upon it.
- Respondents intuitively associate Financial Wellbeing as resilience to financial shocks, their capacity and willingness to adapt and how their financial situation affects them emotionally, with the top and bottom ends of the Financial Wellbeing staircase being defined primarily by income
- There were a number of triggers that participants thought would be indicative of a fall in wellbeing; they believed that if people were alert to these triggers they might be more likely to adapt spending behaviours more quickly in response to changing financial circumstance to avoid a change in wellbeing.
- These triggers encompassed both life events, which would result in a reduction in income, as well as behaviours which may result in a fall in wellbeing. The alerts participants identified were:

Life Events	Behaviours
<ul style="list-style-type: none"> • Job loss / reduced hours (especially if tendency to work short contracts) • Ill-health (short-term if employer doesn't cover wages) • Ill-health (long term) • Separation and divorce • House purchase • Pregnancy • Large purchase from savings (e.g. house extension, car) 	<ul style="list-style-type: none"> • Impulse purchases increasing in frequency / cost • Not paying off credit cards at the end of the month (when had usually done so) • Putting bargains on credit cards that are not paid off • Reducing amount saved • Stopping saving • Stopping monitoring money • Stopping planning / budgeting • Paying for day-to-day items on credit cards (and not paying off) • Dipping in to savings for day-to-day living expenses • Using payday loans

- Apart from life events, which were a clear alert to a change in financial wellbeing, there were a series of behaviours such as no longer paying off credit cards, stopping monitoring money, etc. which were also indicators of a fall in financial wellbeing.

This research sought to understand the components of the Financial Capability Framework shown on the right (Figure 6) in more depth, in particular how different components interact with each other and their relative importance. These key components are ability (skills and knowledge), mindset (attitudes and motivation) and connection (ease and accessibility in relation to financial products) as well as external influences such as social norms.

Figure 6. Financial Capability Framework



The research indicates that mindset is critical as this both determines the extent to which people are driven to develop and apply the necessary skills/knowledge and to utilise financial products and support services, regardless of the ease or accessibility of these.

However, it is important to note that the sample did not include anyone who had significant access, literacy or numeracy issues. Where these issues exist for people the relative importance of these components is likely to change. In the sections below, we discuss the Mindset, Ability and Connection components, drawing out our learnings regarding the relative importance of each component and how these interact, starting with mindset as we found this to be central to capability.

4.1 Understanding the mindset component

As discussed in Chapter 2, which focused on spending and saving behaviours, people intuitively understand what financial capability is - they know what good financial behaviours are and understand that their actions can sometimes result in financial pain in the future. Some are motivated to be more resilient, but find it difficult to stop habitual spending, whilst others lack confidence in their capacity to change, are doubtful of the effectiveness of developing 'good' financial behaviours, or do not see why they should change. In these cases mindset is a more important component of financial capability than ability or connection to financial products and services. People know what they should do but lack the motivation to adopt new behaviours. Behavioural theory tells us that people's behaviours are not shaped solely by attitudes and motivators – they are also shaped by a number of cues and influences that affect people's subconscious decision making. This is why participants in this research said they thought they knew what behaviours they needed to adopt to be more resilient but said they *"couldn't help themselves"* spending money that they could not afford. However, in some cases it was clear that participants did not necessarily have the money management skills to recognise when and how they were over-spending.

People's spending choices were influenced both by reflective processes (i.e. thought-out decisions about the best or most rewarding course to take) and automatic processes (i.e. the unthinking behaviour – 'what I always do' or what feels right). These are summarised in the table below:

Reflective	
Cost / Benefit	How people weigh up the cost of spending beyond their means against the pain of denying themselves things that they want
Efficacy	Whether 'good' behaviour will actually be effective or is within my power
Legitimacy / Morality	Should I think about / change how I spend my money – what's the right thing to do

Automatic	
The tendency to stick to business as usual spending behaviours and routines	Habit
Relying on rules of thumb, built up over years, to make decisions about what I should / can have and how to quickly judge whether I'm spending what I can afford	Heuristics

Social norms	What do others do and what will they think of me if I do not follow suit
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In the sections below we discuss the attitudes and beliefs that come in to play during reflective decision making processes, as well as some of the unconscious drivers which underpin automatic processes.

4.1.1 Reflective Processes

Reflective processes require an individual to make a conscious assessment of the choices they are faced with. Reflective processes will not come into play for all financial behaviours, as many choices happen with very little thought, particularly routine purchases and spending. Reflective decision-making processes require some kind of trigger e.g. being short of money after a life event, an expensive purchase or unusual financial pressures such as paying to repair a car or buying white goods. Similarly, individuals may be prompted to think about their spending behaviours in response to money advice and guidance. Therefore it is important to understand the beliefs and attitudes which people think about when making rational choices about their spending - these are discussed in turn below:

Costs and Benefits

How people weigh up the cost of spending beyond their means against the pain of denying themselves things that they want

Saving for the future or cutting back in line with a reduced income involves a degree of short-term pain – giving up treats and luxuries that the individual wants or has become accustomed to. When thinking about changing their spending habits, people weighed up the short-term pain (or cost) of making the necessary changes against the likely benefits of paying off debt or increasing their savings. In some cases this can be a difficult choice, both because reduced spending can cause pain and guilt – for example, when cutting back family days out or treats for children – and because there are no immediate tangible benefits of saving for the future or paying off debt (unless the individual is highly motivated to feel financially secure, although this was not common in the sample.) It was more common to feel that *'life is for living'* and therefore the perceived benefit of

spending now to *'live for the moment'* far outweighed the perceived benefit of building financial residence.

However there were attitudes or behaviours which were instrumental in countering cost/benefit perceptions:

- Making the cost of credit *real* by envisaging money spent on credit in terms of desired spending e.g. recognising that £250 spent on credit card interest over one year would be enough to go on holiday
- Developing saving habits that minimise the perceived cost e.g. saving 20p pieces in 'Smarties' sweet tubes. This involves only small perceived spending sacrifices (20p a time) but will total £13.

The way different participants weighed up the costs and benefits of good financial behaviours resulted from a combination of their upbringing, past experiences and personality. In some cases, individuals aspired to being 'better off' in the future and felt an emotional benefit from saving. Others however valued a more 'laissez faire' attitude to spending and did not want to be (or *appear* to be) ungenerous or mean. There were a range of factors which influenced these attitudes including habit, social norms, perceptions about what is morally right and self-identity, which are discussed below. Importantly, however, individuals who recognised that they were more inclined to spend (because they enjoyed the feeling of spending over the feeling of saving) still aspired to becoming more resilient and consequently suggested financial products that would help them to save without feeling the loss. They discussed, for example, financial products that deducted monies from their salary which were then stored in a savings account or other product which they could not access for a set amount of time.

Efficacy

Whether 'good' behaviour will actually be effective or is within my power

Although people could list a number of 'good' financial behaviours, such as regularly saving or cutting back on non-essential spending, they were not always motivated to adopt these. This was because they did not believe these behaviours would be effective or worthwhile, making little difference to their overall position, or because they doubted their own capacity to implement them effectively.

A key barrier to saving or cutting back on non-essential spending was the perception that saving a small amount would make little difference to their overall finances. Participants who said they had little money to spare each week/month believed that putting this money aside would not be worthwhile because the amounts they could save were small. When they calculated how much they would save over a long period (say a year), they recognised that small savings could make a difference if maintained over time. However, they also felt entitled to spend any leftover monies on luxuries and rewards for working hard. Loss aversion meant they were more sensitive to the immediate cost of denying themselves treats, than they were motivated by the potential gain of having 12 times that amount in a year's time (this is discussed further in the heuristics section below.)

In addition, some individuals questioned their own capacity to apply good practices consistently over time. Some identified themselves as being 'bad' with money and therefore lacked motivation to adopt new behaviours, believing they were unable or unlikely to maintain these. This attitude was indicative of an underlying belief that adopting saving and budgeting behaviours that made a

real difference to someone's financial circumstances would require significant sacrifices and the motivation to continue these behaviours in the long term. This legitimised some individuals taking no action because they believed that the small steps they could realistically take would be ineffective. However, individuals who had thought about the long-term benefit of small, 'painless', saving activity in 'real' terms (e.g. saving £10 a month would pay for an emergency repair) were more motivated to maintain these because they understood the effect of making the savings that they did not consider overly burdensome.

Morality and Legitimacy

Should I think about / change how I spend my money – what's the right thing to do?

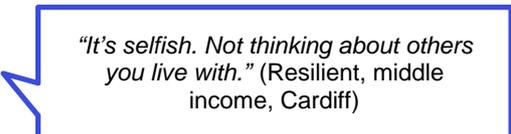
Being motivated to adopt and maintain 'good' financial behaviours not only required individuals to believe the behaviour would be effective, but also that adopting these behaviours was the right thing to do. There were a range of factors and beliefs that influenced this including the individual's sense of **responsibility** and **autonomy** over their spending choices and their views about **what was right** for them and their family.

There was considerable variation across participants in terms of how they perceived **personal responsibility** for spending behaviours. As is described in the previous chapter on drivers of resilience, some people felt under pressure (by friends and family to some extent, but more so society at large as portrayed in the media) to maintain a lifestyle that they could not afford. Therefore they lacked a sense of personal responsibility for making 'good' financial choices, given the perceived pressure to make 'bad' ones.

Individuals who felt a stronger sense of personal responsibility to plan for the future ascribed this to their upbringing or recovering from a life event. Participants who had experienced severe financial difficulties said that they had 'learnt the hard way' that it was up to them to recover from financial hardship, regardless of whether they had caused the change in income or pressures. However, not all individuals who had experienced a life event or had been taught to be careful with money as a child went on to develop good spending habits, for a variety of reasons including personality, social norms and heuristics.

In some cases, individuals questioned whether they should change their spending behaviour in line with advice about increasing resilience. In their minds, they should have autonomy over their spending behaviours and decisions about what they can spend their money on. For these groups, the perceived legitimacy of the messenger will be critical as they are highly liable to ignore any advice from sources they do not consider as credible.

How people determined what was right or wrong for them and their family came out strongly as influencing people's spending behaviours, particularly when making difficult decisions about what they can and cannot afford. On the one hand, people said that they spent beyond their means because they did not feel it was right to deny their family treats. By contrast, other individuals thought it was morally wrong to adopt irresponsible spending behaviours that could adversely affect others around them and were motivated to act more responsibly.



"It's selfish. Not thinking about others you live with." (Resilient, middle income, Cardiff)

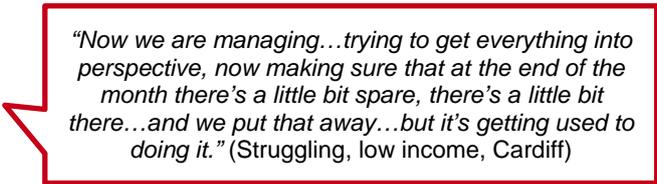
4.1.2 Automatic processes

We know from behaviour change theory that people do not like thinking too much about everyday decisions they make. Many of the choices people make are done with little thought or consideration. In this way automatic decision making processes allow individuals to make numerous everyday decisions without spending time and energy weighing up the pros and cons of each. We will see below that the prevalence of automatic processes is particularly pertinent to spending behaviours as this can lead to individuals maintaining behaviours that are financially 'bad' but enable lifestyle choices that feel good.

Habit

The tendency to stick to business as usual spending behaviours and routines

The power of habit and routine in shaping spending behaviours cannot be overstated. Changing spending behaviours requires wider adjustments to lifestyle and routines. Consequently individuals can be slow to adapt to changing income because they continue everyday habits, without thinking of the cost, or opportunities to save. For example, buying a coffee every day was given as an example of a habit which, if changed, could result in a significant saving of between £15 and £20 per week. Participants recognised that improving their financial capability (or being 'good with money') required them to develop and embed new behaviours and routines, which can be challenging to do. In order to develop financial capability, individuals must be willing to adjust habits or routines that they will maintain over time.



"Now we are managing...trying to get everything into perspective, now making sure that at the end of the month there's a little bit spare, there's a little bit there...and we put that away...but it's getting used to doing it." (Struggling, low income, Cardiff)

Heuristics

Relying on rules of thumb, built up over years, to make decisions about what I should / can have and how to quickly judge whether I'm spending what I can afford

There were a variety of heuristics, or rules of thumb, which people used to decide whether or not they could afford the purchases they made. Heuristics largely prompted poor financial choices, although in some cases there was evidence that individuals had developed strategies that enabled them to budget more effectively with little thought. Some of the key heuristics which shaped spending behaviours were:

Optimism bias: Linked to the point above, participants discussed future gains or changes they expected to make when explaining poor financial behaviours. Participants felt able to borrow money in the present because they expected that they would be better off or more responsible in the future. In other cases participants said they had not chosen to save for the future because they were relying on inheritances or housing equity in later life. This was particularly so in London where the rising value of housing was seen as 'money in the future'. However, there was a tendency for individuals to over-estimate the value of money arising from inheritances or future house sales, or how long that money could fund their lifestyle. In addition, participants often assumed that they would be 'better' with money in the future, although they gave no evidence as to why this should be the case.

Loss aversion: As described above, individuals were acutely sensitive to the short-term pain of changing spending habits. Consequently they were reluctant to save or pay off debt, particularly given that the perceived reward – an intangible sense of security – was little valued by participants.

Lack of thought in decision-making As indicated in the section on habit above, many poor financial behaviours may arise simply from individuals continuing as usual, giving little thought to how much they are spending and whether this is in fact affordable. It is only when forced to think carefully about their behaviours that individuals recognised opportunities for change.

Self-control: Many participants admitted to purchasing items they could not afford because they felt they deserved a treat. People were particularly susceptible to buying unaffordable luxuries when these were on special offer, legitimising their

"My friend couldn't understand why she was so overdrawn all the time...after we went through her expenses she realised she only counted up the big things and did not account for her three coffees a day and her parking or the little bits of shopping she does at lunch time." (Resilient, medium income, Cardiff)

choice by arguing that they were saving money by buying the items at a discount. However, there was evidence that people were not conscious of the real cost of using credit to purchase items they could not afford. Although they may intend to pay off the debt as soon as possible, where they fail to do so, interest costs can negate the initial reduction in cost.

In some cases, there was evidence that individuals had developed habits to safeguard against habitual spending. These included taking out a daily or weekly cash allowance; only taking out cash when going to the supermarket; and leaving their credit card at home when going shopping for clothes or luxury items. However, often people believed they had established self-control strategies but these were in fact ineffectual - for example, participants who said they kept a budget 'in their head' in order to decide what they could afford were still liable to experience difficulty because they failed to remember all their expenditure and consequently over-spent.

4.2 Social Norms

What do others do and what will they think of me if I don't follow suit

Beliefs about how other people act or interpret their actions were also key to the spending behaviours participants adopted. In some cases, people acknowledged that they may spend more than they could afford because they felt under pressure to match spending behaviours of friends and family – for example buying presents that cost more than they could afford to match the value of presents received.

"It's about the biggest and the best presents and the nicest stuff... I feel it's like a competition with relatives and friends...people rub it in your face without meaning to. No one likes to admit they're having a struggle with money so we're never going to admit to our friends and family that we haven't got the money to spend on things." (Struggling, medium income, Birmingham)

When faced with a reduction in income, participants said they had, initially at least, been reluctant to make lifestyle changes because they were concerned that doing so would make others aware that they were experiencing financial difficulties. They admitted to feeling embarrassed and ashamed that they could not afford to

maintain a lifestyle their friends could afford to lead or they had led in the past. Similarly people avoided seeking advice because they did not want to be seen to be the type of person who is unable to manage their finances effectively.

Anxiety about what others will think was heightened for individuals with children. They were concerned about how their children would be perceived and treated if they were unable to afford school trips, new clothing and other items that their friends had and consequently felt under pressure to pay for these items despite these being unaffordable.

There was limited evidence that people were concerned about what others would think of them if they went bankrupt or borrowed more than they could afford to pay back. For this reason, social norms tended to prompt poor financial choices as people were primarily concerned with hiding financial problems by continuing spending. However, given the power and resonance of norming, there may be scope to drive positive behaviours if irresponsible debt and spending behaviours were considered socially unacceptable.

4.3 Understanding the ability component

Individuals who were more financially capable had developed some basic skills and knowledge to help them budget and manage their money more effectively. This included: keeping a record of outgoings (a written budget or keeping receipts); regularly checking spending and balances using online banking; and having a good understanding of financial products they used, in particular the real cost of credit and ways to reduce interest costs through balance transfers and consolidation loans.

There was some evidence to indicate that financial ability was affecting participants' capacity to manage their money effectively. Some, for example, lacked online confidence. This both prevented them from accessing online banking which helped others effectively monitor how much money they had to spend. Others were discouraged from learning more about financial products or accessing advice because they found it difficult to read and interpret large volumes of information, particularly where this contained information which they found complex, such as percentages used to express the cost of credit.

Understanding the true cost of credit was a key aspect of this component. Participants did not always find it easy to think about the cost of credit in the long term. These individuals were reluctant to do so, because they wanted to spend money now, and therefore, where they found this difficult they were even more likely to ignore or underestimate the future cost of borrowing.

Importantly, individuals can develop some fairly basic budgeting skills that will help them to avoid overspending. Financial capability does not necessarily require skills and knowledge that are particularly advanced, and should be within people's grasp if they have basic literacy and numeracy skills. However, as described above, some people who identified themselves as being 'bad with money' also said that they found it difficult to understand complex information. Consequently people might assume that being 'good with money' requires a level of skills and knowledge that is beyond their capacity and this may further discourage them from being engaged with money matters or seeking advice. This therefore links to people's mindset and their perceptions of their own ability.

4.4 Understanding the access component

Lack of access to financial products wasn't an issue for any of the participants in the sample; instead they frequently raised concerns about the ease of access to credit. They believed that credit (particularly high-cost loans) and credit cards with increasing limits were too easily accessible and that excessive promotion of these products encouraged unmanageable debt.

Access to guidance and advice about managing money was considered more difficult to find. There was limited awareness of where people could go for this sort of advice and participants tended to assume providers like Citizens Advice would be oversubscribed. However, there was limited evidence that people were motivated to seek out this information and respondents tended to assume that it would be difficult to access, without having ever looked into getting advice.

For the participants in this study, their existing mindset (e.g. how motivated they were to behave in a responsible manner) strongly influenced both the ability and access components. The main barriers within both components were largely a result of their unwillingness to develop and apply skills or seek out information and advice. However, none of the research participants had significant numeracy or literacy barriers, or access issues. One might assume, in these circumstances, that the 'ability' and 'access' components of the financial capability model might increase in importance.

This research supports the assertion that the components of financial capability comprise multiple factors that both support and impede good financial decision making. It is difficult to know how many decisions are thought through by individuals. As an unavoidable research effect, participants were liable to post-rationalise their decisions. If automatic processes are more commonplace than research suggests, there may be two strategies for improving behaviour: the first is to prompt conscious, reflective processes and the second is to change attitudes and beliefs to value better decision-making. That is to say, it may not be enough to shift attitudes and motivators if financial decision-making is all too frequently shaped by habitual routine and rules of thumb.

4.5 Understanding Financial Wellbeing

On first hearing the term 'financial wellbeing' participants intuitively understood this to comprise how secure or stable an individual's finances were, their capacity to manage and adjust their spending as required and how the individual *feels* about their financial situation (i.e. the emotional impact that a person's finances had on them.) That is to say, participants interpreted wellbeing as encompassing an individual's resilience to shocks, their capacity and willingness to adapt and how their financial situation affects them emotionally. They also thought that the staircase approach was intuitively correct and reflected a person's potential to move up the steps of financial wellbeing – and resilience – given the right circumstances.



Participants were clear that financial wellbeing was not entirely dependent on income, although higher income helps people to be more secure, depending on their spending habits, and very low income is likely to place people on the bottom step of the wellbeing staircase. For the three middle steps, wellbeing implied having the right mindset to be able to cope with income changes, either by building a savings buffer or by adapting quickly, and to be able to budget within your means without causing emotional distress or worry. The emotional impact of poor financial wellbeing was clearly an important component for individuals who took part in their

research and suggested that having no financial worries and being able to sleep at night were indicative of good states of financial wellbeing.

Participants were asked to discuss the financial wellbeing staircase, to understand how they interpreted each of the steps and what might cause an increase or decline in wellbeing. Although participants rarely used the word 'resilient', they see financial wellbeing as being synonymous with resilience. They talked about resilience in terms of an individual's capacity to 'weather the storm', that is to be able to cope well with a change in income both by being prepared (having a pot of money) and being adaptable (being sensible, spending within your means). In the sections below we discuss participants' interpretations of each of the steps – and their views on what might cause people to move up or down the staircase.

4.5.1 Secure

Participants believed that individuals at the top end of the staircase would have considerable wealth – either from very high incomes, inherited wealth or wealth from other sources such as a lottery win. As a consequence of this wealth, participants thought it was unlikely that these individuals would move down the staircase even in response to a significant reduction in income; these individuals were well prepared, they had funds or investments to fall back on and were likely to own their own property or have other resources to access if they experienced a significant change in their financial situation. However, participants thought these individuals might risk moving down the wellbeing staircase if they chose to maintain spending behaviours they were accustomed to prior to a very significant financial shock. This was described as being a 'high roller', someone choosing to maintain their lifestyle rather than adapting spending habits in line with changing circumstances.

4.5.2 Resilient

Participants discussed two types of individual within this group – both were able to cope with financial shocks, although they differed in terms of their level of preparation. There were individuals, described as '**comfortable / stable**' who may have good levels of income but importantly they were careful with their money and always had money left over each pay period which they used to build short term savings (for treats/aspirational spending) and long-term savings (to support resilience by building a rainy day fund, a pension pot or to buy a house). They either did not use credit, or this was used responsibly and only within affordable levels (e.g. people who used credit cards to earn reward points rather than spend beyond their means, and ensured these were paid off in full every month).

The second group were described as '**Living within their means, content and sensible.**' They were good at keeping accurate budgets and ensuring they never spent more than they could afford. They differed from the 'comfortable / stable' group in that they were less motivated to build long term resilience. They were short-term savers, building up pots of money for future spending but these pots were small and spent in the short term. Consequently, these individuals may be able to cope with a small shock (e.g. needing to replace white goods) but they were likely to move down the wellbeing staircase if confronted with a major financial shock (such as loss of income). Although they may also be adaptable in their spending habits this may not be sufficient for them to retain their financial resilience without a significant pot of money to fall back on.

4.5.3 Making ends meet

Participants believed that individuals within this group were more motivated to spend rather than save; they were likely to be impulsive and poor at budgeting. They were unlikely to have any savings, instead choosing to use credit to purchase items they want. Therefore they would be managing debt across a range of providers. Participants believed that this group was not very resilient, and likely to move down a financial wellbeing step if confronted with a significant financial shock. However, people in this group were seen as very adaptable and used to adjusting their spending behaviours, for example paying unexpected bill payments or juggling bills and credit card payments. Consequently, they would be likely to reduce their spending quickly in line with changes to their income and therefore recover rapidly from a financial shock.

4.5.4 Constantly struggling

The perceived difference between 'making ends meet' and 'constantly struggling' was ascribed to an individual's mindset rather than income or pressures. Again, participants saw two types of person within this group – those on slightly higher incomes or with less pressure (e.g. single people without children) who are 'extravagant' and impulsive spenders – described as 'all show and no dough'. They believed these groups wanted to appear wealthier than they were and consequently bought expensive 'flashy' items which they could not afford. The other group within this level were thought to have either slightly lower incomes or greater pressures, e.g. young families. They also spent beyond their means but this was because they were embarrassed about their finances and wanted to keep up with friends and family rather than show off. In both cases, these were not resilient to financial shocks, having no savings and high levels of borrowing in order to fund a lifestyle that was beyond their means. Moving to 'making ends meet' would require a significant shift in mindset – i.e. for these individuals to value feeling in control of their finances rather than appearing better off than they were.

4.5.5 Unable to keep up

As with the 'secure' group, participants believed that income was a stronger influencer here than the other steps in the staircase. They thought it was likely that these people would have low and unstable income (e.g. from part-time or unpredictable employment). They were likely to have developed unmanageable levels of debt and to be poor at planning or adjusting their spending in line with changes to income. In order to improve their financial wellbeing, these individuals would need advice on managing their debt, as well as guidance about appropriate products, such as debt consolidation. However, they may also require basic skills to ensure they were better able to budget and live within their income.

4.6 Alerts to changes in financial wellbeing

Participants were asked about what might cause a change in financial wellbeing and what this means for how people can be helped to avoid a fall in wellbeing. There were a number of triggers that participants thought would be indicative of a fall in wellbeing; they believed that if people were alert to these triggers they might be more likely to adapt spending behaviours more quickly and hence avoid a change in wellbeing.

These triggers encompassed both **life events** which would result in a reduction in income, and **behaviours** which may result in a fall in wellbeing. People need to be prepared to respond to major life events, whilst also being alert to unhelpful behaviours which can also affect wellbeing if continued in the long term. The alerts participants identified were:

Life Events	Behaviours
<ul style="list-style-type: none"> • Job loss or reduced hours (especially if tendency to work short contracts) • Ill health (short-term if employer doesn't cover wages) • Ill health (long-term) • Separation and divorce • House purchase • Pregnancy • Large purchase from savings (e.g. house extension, car) 	<ul style="list-style-type: none"> • Impulse purchases increasing in frequency / cost • Not paying off credit cards at the end of the month (when had usually done so) • Putting bargains on credit cards that are not paid off • Reducing amount saved • Stopping saving • Stopping monitoring money • Stopping planning / budgeting • Paying for day-to-day items on credit cards (and not paying off) • Dipping in to savings for day-to-day living expenses • Using payday loans

When asked about what factors influenced wellbeing, income was a factor but it was not considered to be as important as one might expect. It was only at the top end (secure) and bottom end (unable to keep up) of the staircase that participants believed that income strongly influenced financial wellbeing. For the middle levels, behaviour and mindset were considered equally, if not more, important and therefore would need to be addressed in order to promote wellbeing.

5. Conclusions

5.1 Opportunities for changing behaviour

For participants in this research, mindset is perhaps the most important component of financial capability, providing people have adequate levels of literacy and numeracy to budget effectively and online skills to access their bank accounts and keep up to date. This presents both opportunities and challenges – on the one hand, people know what ‘good’ financial behaviour is and think they could manage their finances better. So it is not a difficult ‘sell’ to promote capability. On the other hand, this research suggests that poor financial choices are sometimes made with very little thought and consequently people tend to do what they have always done or what they want to do rather than what is most responsible.

There are attitudes which may be instrumental in driving financial capability, but this first requires individuals to be actively making thoughtful decisions. It is not therefore sufficient to change people’s attitudes; it will also be necessary for people to actively think about and reflect on their spending choices as often as possible.

Social norms are clearly very powerful, but currently have a negative impact on capability - people are motivated to spend more than they can afford to ‘keep up with’ friends and family. However, social norms can also drive positive behaviours, where individuals believe that they would be perceived badly if they were seen to be irresponsible with money or had built up unmanageable levels of debt.

Understanding the true cost of credit is also clearly an important issue that affects capability. Credit is used by individuals to maintain habitual spending behaviours that are beyond their means. All too often, individuals do not understand or think about the real cost of purchasing items using credit because they believe they will pay back sooner than they do or do not factor the cost of interest on top of the price of the item.

Clear and easy behavioural approaches would also help to counter the perception that being ‘good with money’ requires complicated financial know-how or that individuals need to adopt and maintain a range of challenging behaviours. Moving from a mental tally to a written budget for example may be effective in safeguarding against overspending. Although there was very limited evidence of participants using online applications that provide an overview of their financial situation, it was clear that this enabled much greater control of their finances. These were currently being used only by those who were recruited as being financially secure.

Unless they had experienced a significant change of income in the past, people were not generally prepared for financial shocks, nor were they geared up to adapt their spending behaviour quickly or extensively enough. People tended to underestimate the likelihood and impact of a financial shock, as well as overestimating their own resilience, for example, how long their savings would last or how much they could save by cutting back on non-essential spending. Where people fail to respond effectively to a financial shock, the impact can escalate through further debt or fines as a result.

Therefore it is critical that people both **prepare** for, and are **adaptable** in response to, changes to their finances.

Possible drivers of **preparedness**:

- **Identifying small (painless) steps to prepare** – given the clear sensitivities to short term losses (in terms of what people can buy now) and the limited value of long term resilience, identifying small steps towards resilience may be effective. It is important to recognise that this necessitates lifestyle changes and therefore tying this to real world behaviours may be effective in prompting individuals to apply these in their day to day lives, for example, showing what small everyday lifestyle changes such as cutting back on a coffee a day can have on expenditure and saving.
- **Changing attitudes towards saving** – saving was very much an aspirational activity with a perceived short-term reward and saving pots that grow and shrink intermittently. Consequently, saving is a potentially an ambiguous term and being a saver does not always equate to being prepared unless the individual values the feeling of being resilient and therefore maintains a stable level of savings over time.
- **Adopting simple savings practices** – by developing saving habits that minimise the perceived cost e.g. saving 20p pieces in ‘Smarties’ sweet tubes, which comes to £13 when the tube is full.
- **Driving a sense of personal responsibility** – not everyone believes they have a responsibility to prepare for the future or protect themselves against possible financial emergencies in the future. This may be a significant barrier to preparing and adapting to financial shocks and therefore needs to be targeted.
- **Recognising that using credit means having less to spend** – by making the cost of credit ‘real’ by envisaging money spent on credit in terms of desired spending e.g. recognising that £250 spent on credit card interest over one year would be enough to go on holiday .

Possible drivers of **adaptability**:

- Individuals need to be more aware of the importance of being alert to changes in income or resilience and have a suite of responses in mind, such as:
 - re-prioritising spending and making tough decisions about what bills / spending are essential;
 - having a better understanding of the terms and conditions of utilities and telecoms contracts to ensure opportunities to reduce spending are considered;
 - seeking advice about cutting back expenditure;
 - identifying support opportunities to help with budgeting; and
 - adopting self-control strategies to tackle ‘thought-free’ purchases or succumbing to temptation by, for example, having a strict cash allowance, leaving credit and debit cards at home, writing down spending, and checking their balance every day.
- People need to recognise the social pressures around them e.g. how their neighbours might be spending, or the perceived requirement to compete on the cost of family Christmas presents. Being aware of the impact of this on their behaviours may also discourage people from maintaining spending habits they can no longer afford. This may be achieved by repositioning adaptability as socially desirable by demonstrating that the individual is making responsible choices – although it is recognised that this is extremely challenging to do.

Whilst individuals intuitively understood that financial wellbeing can be summed up in terms of resilience – or the capacity to respond to and cope with changes to and pressures on their income – on the whole they did not ever think about what they would do in an emergency. Optimism bias means that people are acutely at risk of a fall in their financial wellbeing as a result of a life event if they are unprepared and fail to adapt. People need to acknowledge that there is a risk to their financial wellbeing from even small changes to their income – because they may be heavily indebted or only just making ends meet. Changing their ‘usual’ spending and savings habits is therefore key to financial capability.

The research has shown that participants generally shunned financial information seeing it as either too generic or not relevant to them. They believed that they were currently able to manage their financial situation, even if they were only just keeping their heads above water. From the discussions with participants it was clear that they often needed someone to show them how their method of budgeting or financial accounting was not sufficient to provide a clear picture of their finances; the provision of examples of simple, practical ways of saving and cutting expenses would be very helpful.

It was also clear that providing the right type of information at the right time is important, especially where people have experienced a financial shock. For example, where someone lost their job or had reduced hours, employers could play a part in providing financial information and guidance;. Similarly, for people with ill health, doctors and hospitals could play their part, as could solicitors in the event of a relationship breakdown.

Appendix

Income definitions used in the research

FOR LONDON ONLY

	A – living alone	B – living with partner
Up to £20k	LOW	LOW
£21k - £30k	MEDIUM	LOW
£31k - £40k	HIGH	LOW
£41k - £60k	HIGH	MEDIUM
£61k +	HIGH	HIGH

FOR OUTSIDE LONDON ONLY:

	A – living alone	B – living with partner
Up to £15k	LOW	LOW
£16k - £24k	MEDIUM	LOW
£25k - £30k	HIGH	LOW
£31k - £45k	HIGH	MEDIUM
£46k +	HIGH	HIGH

Financial capability definitions used in the research

Participants were asked to rate themselves on each of the following dimensions and were recruited as to how many 'weak' areas they had.

- 1) I am very organised when it comes to managing my money day to day
- 2) It is very important to have some money saved in case my life changes dramatically
- 3) I am confident in choosing the best financial product for myself
- 4) I like to keep up to date with and informed about financial and money affairs

	Agree strongly	Tend to agree	Neither agree nor disagree	Tend to disagree (WEAK)	Disagree (WEAK)
1) I am very organised....	1	2	3	4	5
2) It is very important to have some...	1	2	3	4	5
3) I am confident in choosing....	1	2	3	4	5
4) I like to keep up to date....	1	2	3	4	5

Spending priorities



Definitely cut back on:

Mobile phone, Snacks, Meals out, Giving to charity, Treats for self, sports, hobbies, holidays, days out

May cut back on:

Repaying credit cards, Loan payments, Car, Insurance, School trips, PC/laptop purchase, Clothes, holidays (cheaper), treats for children
Food (smarter buying)
Mobile phone, landline, TV packages (contract permitting)

Essential – Continue to spend on:

Council Tax, Utilities, Rent / Mortgage, Loan payments,
Food, School Uniform (but possibility of shopping smarter)
Children (School trips, treats, presents)
Car, Mobile Phone contract (especially if needed for work)

Print name: _____ Date: _____

BACKCHECKED

_____ Signed:

Print name: _____ Date: _____

Good morning/afternoon. I am asking for your help in a research study that has been commissioned by The Money Advice Service (MAS).

The Money Advice Service helps people manage their money. They do this directly through their own free and impartial advice service. They also work in partnership with other organisations to help people make the most of their money. They are an independent service, set up by government.

The aim of this research is to explore household finances, planning and the factors that affect them and is being conducted on MAS's behalf by **TNS-BMRB** an independent research organisation.

Would you be willing to participate in **a one to one interview**? We would like to speak to you, to hear more about your views and experiences. We may like to conduct the interview jointly with your partner, depending on how you manage your household finances. If you choose to take part in an interview it will last for approximately **1 hour**.

Any information you provide will be held in the strictest of confidence and will be handled securely throughout the study. The research findings will not identify you and no personal information will be shared with any third parties.

Everyone who participates in **a one to one interview will be given £30**, as a token of thanks.

I now need to ask you a few questions. This is to check that firstly you are eligible to attend the research, and secondly that you would be willing to attend the research. Please note that answering these questions alone does not necessarily mean you will be eligible for the research. May I continue to ask you a few questions?

Recruiter information – if the respondent has any concerns or wants more information about the study please give them the following contact numbers for TNS BMRB:
Andrew Thomas: 020 7656 5776 or Lizzie Jordan 020 7656 5746

Please contact Gary Bright
Tel +44 207 656 5652
if there are any other questions.

Explain to everybody

- ❑ The nature of the methodology – e.g. depth interviews (face-to-face / telephone)
- ❑ Confidentiality and anonymity of respondents
- ❑ That interviews will be recorded
- ❑ About TNS BMRB

Note: If respondent does not want to participate could you ask them to please provide a reason as to why and record their answer below:

1. Note sex of respondent (do not ask)

Male	1
Female	2

Recruit to sample; go to Q2

2. What is your age ? (NOTE age, then categorise as below)

AGE:.....

Under 25 **DO NOT RECRUIT**

25-34	1
35-44	2
45-55	3

Over 55 **DO NOT RECRUIT**

Recruit to sample; go to Q3

3. Who is in your household?

- Live alone - single/divorced/widowed/separated 1
- Live with partner but no others in the household 2
- Single parent with dependent children in household
- Note number and ages of children in household
..... 3
- Live with partner and dependent children in the household OR
Live with partner and dependent children NOT living in the household
(i.e. at University but are in part financially dependent on parents)
NOTE number and ages of dependent children in / not in household:
..... 4

Recruit to sample;
ALSO:
If a couple with or without dependent children ASK Q4
If a single parent or live alone SKIP TO Q5

4. Who is responsible for managing your household finances, budgeting and financial planning in your household?

- Myself mainly 1
- My partner mainly 2
- We do it jointly together 3

If 'myself mainly' go to Q5
If 'my partner mainly' **THANK AND CLOSE**
If 'jointly' if possible, recruit as a couple for a paired depth or recruit as an individual then go to Q5

5. Do you own or rent your home?

- Rent in the private sector 1
- Rent from the local Council / Housing Association 2
- Part rent / part own (i.e. shared ownership) 3
- Own outright or with a mortgage or loan 4

Recruit to sample; go to Q6

6. Have you had any changes in your household in the last 2 years that have affected your household income/finances such as job loss/ redundancy, bereavement, divorce, separation, ill health?

- None 1
- Loss of partner contributing to household income through unexpected/

Recruit to sample; go to Q7

- early death 2
- Loss of partner contributing to household income through divorce or separation
- Redundancy/job loss of self/partner contributing to household income OR a significant drop in income due to an unexpected cut in working hours 3
- Long term ill health of self/partner contributing to household income 4

7. What is your annual household income, including any benefits if you are:

- a) living alone; b) living with partner

Recruit to sample;
go to Q8

FOR LONDON ONLY :

	A – living alone	B – living with partner
Up to £20k	LOW	LOW
£21k - £30k	MEDIUM	LOW
£31k - £40k	HIGH	LOW
£41k - £60k	HIGH	MEDIUM
£61k +	HIGH	HIGH

FOR OUTSIDE LONDON ONLY:

	A – living alone	B – living with partner
Up to £15k	LOW	LOW
£16k - £24k	MEDIUM	LOW
£25k - £30k	HIGH	LOW
£31k - £45k	HIGH	MEDIUM
£46k +	HIGH	HIGH

8. For each of these statements, please say on this 5 point scale (READ OUT SCALE) how much you agree or disagree with each:

- 1) I am very organised when it comes to managing my money day to day
- 2) It is very important to have some money saved in case my life changes dramatically
- 3) I am confident in choosing the best financial product for myself
- 4) I like to keep up to date with and informed about financial and money affairs

	Agree strongly	Tend to agree	Neither agree nor disagree	Tend to disagree (WEAK)	Disagree (WEAK)
1) I am very organised....	1	2	3	4	5
2) It is very important to have some...	1	2	3	4	5
3) I am confident in choosing....	1	2	3	4	5
4) I like to keep up to date....	1	2	3	4	5

Recruit to sample as;

No WEAK areas (no questions with codes 4 or 5)

1 or 2 WEAK areas (1-2 questions with codes 4 or 5)

3 or 4 WEAK areas

9. CODE LOCATION (Recruiter judgement)

Urban	1
Suburban	2
Rural	3

Recruit to sample; go to Q10

10. Would you/and your partner (if joint financial management at Q4) be willing to take part in a one to one interview at your home with an independent TNS BMRB researcher about household finances?

We will be giving every person (household if joint interview) £30 as a thank-you for taking part.

Yes as a couple	1
Yes as an individual	2
No	3

Go to Q11

Thank and close

If No, please give reason.....

11. Before the interview we would like you to think back over the last 12 months and think about two things:

1) any unexpected life events that have affected your household income such as job loss/redundancy, ill health, unexpected bereavement, a period of ill health and,

2) any unexpected or unbudgeted for bills that came in over the year. Please fill in this calendar which the researcher will discuss with you in the interview

Show and explain calendar to respondent
Is respondent willing to do pre task?

Yes 1
No 2

RECRUIT

Go to Q12

Thank and close

RECONTACT QUESTION

12. Thank you for taking part in this research. There may be occasions in the future where we would like to contact you again. This will be solely for TNS BMRB research purposes. Would you be happy for us to do this?

1 Yes
2 It depends what the research is about
3 No, definitely not

Record and close

The interview will be held at your home on:

...../...../..... (date), at (time)

(place)

Contact details (e.g. best time of day/number to ring)

.....

**CHECK ADDRESS
AND CONTACT
DETAILS**

THANK AND CLOSE

Print name: _____ Date: _____

BACKCHECKED

_____ Signed:

Print name: _____ Date: _____

Good morning/afternoon. I am asking for your help in a research study that has been commissioned by the Money Advice Service (MAS). The aim of this research is to explore household finances, planning and the factors that affect them.

The research is being conducted on MAS's behalf by **TNS-BMRB** an independent research organisation.

Would you be willing to participate in **group discussion**? We would like to speak to you, to hear more about your views and experiences. If you choose to take part in the discussion it will last for approximately **90 minutes**.

Any information you provide will be held in the strictest of confidence and will be handled securely throughout the study. The research findings will not identify you and no personal information will be shared with any third parties.

Everyone who participates in **the discussion will be given £40**, as a token of thanks.

I now need to ask you a few questions. This is to check that firstly you are eligible to attend the research, and secondly that you would be willing to attend the research. Please note that answering these questions alone does not necessarily mean you will be eligible for the research. May I continue to ask you a few questions?

Recruiter information – if the respondent has any concerns or wants more information about the study please give them the following contact numbers for TNS BMRB:
Andrew Thomas: 020 7656 5776 or Lizzie Jordan 020 7656 5746

Please contact Gary Bright
Tel +44 207 656 5652
if there are any other questions.

Explain to everybody

- The nature of the methodology – e.g. focus groups
- Confidentiality and anonymity of respondents
- That interviews will be recorded
- About TNS BMRB

Note: If respondent does not want to participate could you ask them to please provide a reason as to why and record their answer below:

Recruiter please fill in:

1. Note sex of respondent (do not ask)

Male	1
Female	2

Recruit to sample;
go to Q2

2. What is your age ? (NOTE age, then categorise as below)

AGE:.....

Under 25 **DO NOT RECRUIT**

25-34 1

35-44 2

45-55 3

Over 55 **DO NOT RECRUIT**

Recruit to sample;
go to Q3

3. Who is in your household?

Live alone - single/divorced/widowed/separated 1

Live with husband/partner but no others
in the household 2

Single parent with dependent children in household 3
- Note number and ages of children in household
.....

Recruit to sample;
ALSO:

If a couple with or
without dependent
children ASK Q4

Live with husband/partner and dependent children
in the household 4
NOTE number and ages of children in household:
.....

4. Who is responsible for managing your household finances, budgeting and financial planning in your household?

- Myself mainly 1
- My partner mainly 2
- We do it jointly together 3

If 'myself mainly' or 'jointly' go to Q5

If 'my partner mainly' **THANK**

5. Do you own or rent your home?

- Rent in the private sector 1
- Rent from the Local Council 2
- Rent from a Housing Association 3
- Own outright or with a mortgage or loan 4

Recruit to sample; go to Q6

6. What is your annual household income, including any benefits if you are:
a) living alone ; b) living with partner

FOR LONDON ONLY

	A – living alone	B – living with partner
Up to £20k	LOW	LOW
£21k - £30k	MEDIUM	LOW
£31k - £40k	HIGH	LOW
£41k - £60k	HIGH	MEDIUM
£61k +	HIGH	HIGH

Recruit to sample; go to Q7

FOR OUTSIDE LONDON ONLY:

	A – living alone	B – living with partner
Up to £15k	LOW	LOW
£16k - £24k	MEDIUM	LOW
£25k - £30k	HIGH	LOW
£31k - £45k	HIGH	MEDIUM
£46k +	HIGH	HIGH

7. As a household, do you have a financial plan?

- Yes 1
- No 2

Go to Q8

Go to Q9

8. A good financial plan includes the following:

Providing for a secure retirement income for yourself and your partner
 Provides cover if the main income earner lost their income, for example through ill health or redundancy

Do you consider that you have a good financial plan for the household?

- Yes 1
- No 2

Thank and close

Go to Q9

9. How much money, if any at all do you have saved as a household:

- less than three months of your household income? 1
- between three and six months of your household income? 2
- more than six months of your household income? 3

1 Go to Q10
 2 Recruit as Resilient
 3 Thank and close

**10. Which one of the following statements best describe how well you are keeping up with your bills and credit commitments at the moment?
 (CODE ONE ONLY)**

	Agree	RECRUIT AS:
I am/we are keeping up with all bills and commitments without any difficulties	1	MAKING ENDS MEET
I am/we are keeping up with all bills and commitments, but it is a struggle from time to time	2	MAKING ENDS MEET
I am/we are keeping up with all bills and commitments, but it is a constant struggle	3	CONSTANTLY STRUGGLING
I am/we are falling behind with some bills or credit commitments	4	CONSTANTLY STRUGGLING
I am/we are having real financial problems and have fallen behind with many bills or credit commitments	5	THANK AND CLOSE
I/we don't have any bills or credit commitments	6	THANK AND CLOSE

Recruit to sample; go to Q11

11. CODE LOCATION

Urban	1
Suburban	2
Rural	3

Recruit to sample; go to Q12

12. Would you be willing to take part in a group discussion led by an independent TNS BMRB researcher about household finances

Yes	1
No	2

Go to Q13

Thank and close

If No, please give reason.....
.....

13. Before the interview we would like you to think back over the last 12 months and think about two things:

1) any unexpected life events that have affected your household income such as job loss/redundancy, ill health, unexpected bereavement, a period of ill health and,

2) any unexpected or unbudgeted for bills that came in over the year. Please fill in this calendar which the researcher will discuss with you in the interview

Show and explain calendar to respondent
Is respondent willing to do pre task?

Yes	1
No	2

RECRUIT Go to Q14

Thank and close

RECONTACT QUESTION

14. Thank you for taking part in this research. There may be occasions in the future where we would like to contact you again. This will be solely for TNS BMRB research purposes. Would you be happy for us to do this?

Yes	1
It depends what the research is about	2
No, definitely not	3

Record and close

The interview will be held on:

...../...../..... (date), at (time)

(place)

Contact details (e.g. best time of day/number to ring)

**CHECK ADDRESS
AND CONTACT
DETAILS**

.....
GIVE INVITATION/VENUE DETAILS, THANK AND CLOSE

DEPTH INTERVIEWS DISCUSSION GUIDE

1. To provide greater understanding of the ‘Attitudes, Motivation, Accessibility, Ease and other external influences’ components of the financial capability model. Key requirements include:
 - a. **The identification of the components** of each of these model factors;
 - b. The **relative importance of each of the components** on financial capability and financial behaviour;
 - c. **Whether there are variations in the role / importance of the components** according to consumer characteristics (e.g. such as income, life stage /event etc);
2. To provide insight into **how the components of the UK Financial Capability Framework (including financial wellbeing behaviour, means and pressures and capability) inter-relate and the relative importance of the components for different types of consumers** in a range of financial situations;
3. To provide insight into the **effects of unexpected financial ‘shocks’**, such as redundancy, long-term ill-health, or separation and divorce. Key questions that need to be addressed are:
 - a. **How consumers manage the effects of the financial shock and any changes to financial behaviour / capability that have resulted;**
 - b. **The time taken to recover** from financial shocks;
 - c. And the **learnings from consumers as to how they might have dealt with the financial shocks better;**
4. To **explore the concept of Financial Wellbeing** with consumers. Key questions include:
 - a. The **identification of the range of financial means and pressures on consumer income and assets** and the **relative importance of each** of these in terms of liquid versus fixed assets
 - b. insight into **whether the hypothesised ‘steps of financial wellbeing’ match the consumer experience;**
 - c. **the relationship between financial capability and financial wellbeing;**
 - d. **The relationship between financial wellbeing and wider wellbeing / life satisfaction**
5. To provide insight in to the **barriers and triggers to movement between states of wellbeing** and the **potential ‘alerts’ that may signify a future fall in financial wellbeing**, focussing on those consumers that are neither in ‘crisis debt’ nor ‘secure’;
6. To **consider whether there are messages that may enable consumers to recognise their state of financial wellbeing and take steps to increase it;**
7. To consider **potential question areas that may need to be included in future versions of the financial capability survey** in order to fully capture the financial capability and financial wellbeing models.

Protocol (participant-facing introduction to the research):

- About the research: on behalf of MAS, to explore views on household finances
- Length of discussion: 1 hour
- Audio recording
- Confidentiality and anonymity: their participation in and contributions to the research are kept strictly confidential, and they will not be identified to MAS

Introductions (5 minutes)

Researcher introduction

Introduce self

About TNS BMRB - independent research agency working on behalf of Money Advice Service (MAS)

About research - to understand views on household finances, budgeting and planning

Confidentiality / anonymity

Agreement to record the discussion

Respondent introduction

Tell us a bit about yourself:

- Name; household composition; what you/partner do; who contributes to the household income; any other income e.g. benefits; lodgers; from children etc.
- Who is involved in decision making about their household budget/saving; pays the bills?
- Interests; what you like to do in your spare time

Using Financial Products/advice and guidance (10 minutes)

Researcher - Use this section to gain an understanding of what financial products they hold and their level of comfort in this area

SAY: I'd like to start off by thinking about what financial products you have. Think about everything such as bank accounts; savings products such as savings accounts and longer term saving such as pensions; insurances for yourself and e.g. your home and car, both long term such as life insurance

and shorter term such as your yearly car insurance; borrowing products such as a mortgages, bank loans, credit cards and payday loans

GATHER INFORMATION ABOUT PRODUCTS CURRENTLY HELD THEN:

- Gather detail about the current account(s) they use for day to day finance. If more than one account what is each used for and why (e.g. household and personal accounts)?
- How do they do their banking? Probe: online; telephone; ATMs; visit branches with reasons for different routes? Different routes for different tasks? Any difficulties using any of the routes and/or accessing banking services generally?

Researcher ask them to look at their pre task calendar and think about the last year. Ask them to write in if there were any of the financial products they mentioned that they bought for the first time, renewed, reviewed or changed in the last 12 months.

Then say: I'd like you to think about...(the last product they bought/changed/renewed).... (Explore and gain an understanding of the purchase process and their level of comfort/skills with the process)

- How did they go about buying the product? What prompted them/what was the trigger for purchase? What did they do next? Explore whether they did any research e.g. online; asked friends/family; went to their 'trusted'/'usual' provider; used comparison websites etc.
- What did they take the most notice of/had the most influence on their decision and why? What did they end up buying, where from and reasons
- How easy or difficult did they find the purchase process? How comfortable or not did they feel, or not and why? Probe e.g. experience; level of understanding; perceived complexity/difficulty etc.
- How did it compare to buying other financial products they use and financial products generally? Probe whether any differences between ease/difficulty and comfort levels for e.g. short terms credit products/credit cards/pay day loans versus insurance products for home and car versus longer term/major products such as mortgages/pensions/long term insurance protection

- How comfortable or not do they feel buying financial products generally? Probe whether any differences between comfort levels for e.g. short terms credit products/credit cards/pay day loans versus insurance products for home and car versus longer term/major products such as mortgages/pensions/long term insurance protection
- How do they perceive planning for the future financially? Explore positives/negatives; barriers to doing it.
 - Explore awareness of financial products to help them in their future generally (e.g. pensions) and to insure them against income loss (e.g. critical illness; income replacement; PPI, life assurance)
 - Assess levels of comfort, or not and reasons
- If they wanted to set up an insurance or savings product to protect them for the future, how would they go about it? Explore if they would know what to do and levels of knowledge, where they would go, who they would ask and why
- How comfortable or not do they feel seeking out advice on finances and planning generally? Explore reasons and whether differing levels of comfort with different types of provider and different channels
 - Explore key issues/barriers to seeking advice/help on financial products e.g. not knowing where to go; lack of confidence; fear of not understanding etc.
- How easy or not do they think it is to get help and advice on financial planning for the future. Explore awareness of where they could get it and who they would/wouldn't go to and why e.g. banks/building societies; independent consumer organisation such as CAB/MAS; IFAs etc.
- What sort of support and help would they need to help them plan for the future financially? Explore types of organisations/people; preferred channels and formats

Spending and Saving behaviour (30 minutes)

General spontaneous attitudes and behaviour

Researcher - gather spontaneous comments on their general behaviour and perceptions of budgeting, saving and planning for the future to get a feel for context and to explore further later

SAY: We're going to be talking about managing household income and finances from day to day and planning for the future. I'd be interested in some first thoughts from you.....(Gather spontaneous responses/issues to build on later)

- How easy or difficult do you find it to manage your finances from day to day, month to month?
- And how well placed do you think you are to cope with any unexpected events or income losses in the future? (Spontaneous)
- Do you budget for your household/personal finances? Over what time period - e.g. weekly, monthly etc. Spontaneous reasons why/why not
- How do you deal with finances, incomes/outgoings generally; what are you aiming to do/achieve (e.g. balancing incomings/outgoings, paying off some debt, saving, just to get through the month etc.)
- How reliably do you achieve this – what can make it difficult? Is there anything you do that helps?
- How far ahead do you think and plan - e.g. month to month or save/plan for the future - how far ahead e.g. next week/month/year/midterm/long term/retirement
 - Explore whether the same/different for 'nice' events such as holidays/ Christmas versus more negative events such as illness, job loss etc.
 - How do you feel about planning for the future or the unexpected? Something you consciously do; will worry about it when it happens etc.
- What happens/what do you do when you have an unexpected/unplanned cost/expense to cover?
- So thinking about your household finances and where you are at the moment, how would you describe your financial situation?
- And looking ahead, where are you aiming to be financially in say 5 year's time, in 10 year's time? Explore whether they have they put anything in place and and/or have any specific plans on how they are going to achieve those goals?

Month Journey Mapping:

Researcher : Explain: We would like to work with you to map out how you managed your household income and outgoings during October and how you were feeling with regard to your household finances and generally along the way . We want to get a detailed picture of when money comes in and what it went out on, and when. We are interested in getting a sense of how your household finances are organised, what your in-goings and out-goings are: so when you receive money, how often, how you receive it and where it came from for instance your job(s), state benefits, borrowing, elsewhere, and what it goes out on in terms of bill payments, paying off debt/loans, any savings and other costs and outgoings you incurred for things such as travel/car expenses, leisure activities, cash for everyday expenses etc. Don't forget direct debits and standing orders going out of your account(s).

Please write each payment in or out to show how you felt at this point, whether it was positive, neutral or negative. (Researcher - suggest putting in income points/sources first then outgoings in different colour)

Discuss and explore when map is drawn or while being drawn as appropriate on the following areas and issues:

Researcher; build on issues gathered spontaneously at the start across the areas below. If any issues don't come up during the month mapping return to them afterwards and discuss. Order sections below in whatever way is appropriate to the respondent/mapping.

Overview

- How do they think the month worked out overall? Better/worse than expected and why? How did they feel at the end of the month. What could have gone better/what could have gone worse and why? Is there anything they could have done differently and why? (Probe if e.g. there were things they shouldn't have done/bought, things they should have saved/planned for and why that happened)
- Did they know how much money they had during the month/left at the end of the month? How? At what points in the month do they check balances? Why do they do it at those points and how do they do it? e.g. by phone/online/at bank/ATMs . Are they regular balance checkers or not? How aware are they of where they are financially during the month?

- Explore levels of satisfaction/dissatisfaction at different income/payment points across the week/month. Reasons for that feeling. Could they have done anything differently at the time, or earlier to improve their satisfaction level? What?
 - Where dissatisfaction/problems ask if there anything they could do in the future to stop it happening again
- Was there anything that they did that helped them manage their money in the month. Spontaneous then PROBE having savings to call on; budgeting beforehand; getting advice/help; making conscious decisions not to do/buy something etc.
 - How money aware/conscious do they feel they are? e.g. do they shop around on price; watch pennies versus just spend and deal with consequences later
- Ask them to look at the types of items they spent money on. How would they group/classify them and why? Spontaneous then probe categories and basis of inclusion e.g. 'basics' mortgages/utilities; other 'essential' spending - such as what/how classified e.g. things for children/socialising/clothes (what are their 'essentials?'); 'luxury/discretionary' e.g. as before, what does this include and why?
- Did they overspend at any point? What on/in which of their categories and why? How did the overspend come about? How aware were they of the overspend at the time? Explore drivers to the overspend e.g. peer/kids pressure; bargains/too good to miss; perceived 'essential' etc.
 - Explore overspending generally. Is it something they do or not and reasons. For those who do, what are the pressures they feel that lead to it e.g. struggling to meet basic bills/income; kids pressure re clothes/school trips/outings; peer pressure e.g. going out/clothes/cars; impulsive nature etc.
- Was October a typical month? If not why not? What happens/is different in a typical month?

Budgeting and planning

- Did they plan/budget beforehand or just deal with things/outgoings as they came along and why? Are there things/categories of spending (they identified earlier) they budget for (e.g. recurring bills) and things they don't (e.g. socialising, unexpected bills etc). Why are they different?

- Explore further why they do or don't budget or plan - planners by nature in life or live day to day/just react to what happens? How do they think their nature influences how they deal with their finances and budgeting?
 - IF THEY PLANNED IT ALL/BUDGETED BEFOREHAND - How long beforehand? Do they have a long term/short term budget? Why/why not? How far ahead do they plan/budget and why? What sort of things do they budget for? Explore planning for the unexpected as well as the expected
 - Do they use any tools for budgeting? Explore if formal/informal; spreadsheets/back of an envelope; specific budgeting tools from e.g. banks; advice services - explore reasons
 - IF NOT PLANNED/BUDGETED - Explore why not. Barriers against budgeting/ planning ahead - practical e.g. erratic or low incomes and emotional e.g. not in nature, lack of skills/numeracy; live for today, bury head in sand etc.
- What are the things that happen with regard to your life and/or household finances that cause plans to go off course or make it difficult to manage?

Saving generally and short/medium/long term

Researcher, build on product and spontaneous information gathered earlier:

- Do they incorporate saving into their budgets, save but just do as and when they have spare money/extra money come in, or rarely/never save?
 - If saving, do they use any saving tools e.g. specific accounts; online saving goal tools e.g. from banks or similar
- Explore reasons for and attitudes to short and long term saving, or not. How far ahead do they plan - when it comes to money and in their life generally and reasons
- What do they plan for; do they set life goals; where do they see themselves in 5/10/20/40 years? Have they put anything together financially to achieve those goals/plans? What and why?
 - IF SAVING: Explore what they are saving for and why they do it - 1) short term saving e.g. Christmas, holidays, annual/monthly bills e.g. mortgage/ utilities versus 2) long term saving for e.g. house maintenance; rainy day savings; in case of job loss, retirement/pension; care in old age etc.

- What influences them to think about planning/saving for the longer term. Spontaneous then PROBE media/news stories; advice from others - friends/family and e.g. agencies/ government advice; friends experiences/WOM/is what others do; previous life events/experiences e.g. previous job loss/debt when younger etc
- IF NOT SAVING FOR FUTURE: What puts them off planning and saving for the future - mid term? Long term to retirement? Spontaneous then PROBE Nature/personality; media/news stories; lack of income; friends/family behaviour/attitudes/WOM; lack of skills/don't know how etc

Use of Credit and Borrowing

Researcher, build on product and spontaneous information gathered earlier:

- Explore long term borrowing e.g. mortgages, loans
 - How and when did it come about; who from; how easy or difficult to get the loan mortgage; to choose where to get it from. Have they looked at changing their lender to get a better deal and why/why not?
- Explore shorter term borrowing. Explore why/why not used
 - IF SHORT TERM BORROW: Explore bank loans/credit cards/store cards/payday loan/overdraft usage. Reasons for using versus a different method. For what sort of purchases/their spending categories; why did they choose each type? How they manage them (e.g. pay off, use minimum payments etc).
 - Explore reasons/triggers for using short term high cost credit (e.g. payday loans/store cards/credit cards) versus other borrowing methods
- Explore attitudes to borrowing versus saving; why take former versus latter route and vice versa? For different uses? Pros and cons? Advantages/disadvantages?

Dealing with the Unexpected (13-14 minutes)

Researcher - use pre task as a basis for discussion (as well as month journey map if appropriate/useful) and say:

Let us have a look at the calendar you filled in. First I'd like you to think about the unexpected or unplanned for/forgotten bills that came in over the last year. (if none discuss on a 'what if' basis)

- Explore how each was dealt with at the time.
- Explore the decisions made at the time. What they decided to do and why e.g. substituted/didn't pay for or spend on something else; used savings; borrowing - short or long term/what method chosen and why; what were the drivers to those choices?
- How easy or difficult was the decision? What made it easy/difficult e.g. had planned ahead for the unexpected; easy access to credit; seen as only option etc.
- Did they seek help or advice? If not why not?
 - If not, explore barriers to getting help/advice.
 - If yes, explore reasons. Where did they get help/advice from and explore reasons for choice of route e.g. friends/family/advice services/bank etc. and channels e.g. online/face to face/telephone

Say: Now let's have a look at unexpected life events that happened in the last year (probe if any happened in the year before as well if needed). (If none, discuss on a 'what if' basis)

- What effect did the event have on them/their life and their household finances and why? How well, or not do they think they have coped. (spontaneous)
 - Explore whether it had a large or negligible effect on household finances; whether they had planned/back up/savings to cope with it or not and why/why not
- How easy/difficult was it to deal with household finances afterwards and why? (Spontaneous)
- From when the event happened, how long did it take them to realise any effect it was having on their household income/finances? Explore whether and why it took a short/long time for them to realise the effect.
- What did they do when they realised the effect it was having?
 - IF THEY DID/HAVE DONE NOTHING: Explore reasons for inaction. Is there anything that could have prompted them to address the issue?
 - IF THEY CHANGED THEIR LIFE/HOUSEHOLD FINANCES: What prompted them to do something to try and solve the financial effect (Probe triggers e.g. financial struggles; talking to friends/family; advice taken etc.)?

- What did they do next and why? (E.g. sought advice and from whom/why e.g. friends/family/independent advice service etc.).
 - What did they change about their finances/life and/or how they are managed. What are they now doing differently and why? What is different about how they arrange and/or manage their household finances?
- Looking back would they have done anything differently e.g. seek out help advice earlier/make the changes earlier/planned for this sort of event earlier in their lives etc.? Is there anything that would have been helpful at the time the event happened?
 - Explore further if they think they have recovered from the effect the life event had on their finances and if yes how they have done it. Probe further on the steps they have taken to recover.
IF THEY HAVE NOT YET RECOVERED: What have been the issues/problems encountered in their life/in their household finances. Why do they think they have not yet recovered? Anything that could have helped them recover more quickly? Probe what e.g. access to information/advice etc.
 - *IF NOT ALREADY COVERED:* Probe whether they looked for or got help/support/advice from anyone or anywhere (e.g. friends/family; independent advice services e.g. CAB/MAS; bank/financial product providers; employer re e.g. sickness benefit; Job Centre Plus re state benefit availability/entitlements e.g. sickness benefit/ESA etc.). Why did they take that route? What were the benefits/how did it help? Any drawbacks/disadvantages?
 - What channels did they use and why e.g. online/telephone/face to face visits to e.g. advice services/bank/job centre plus/direct.gov etc.
 - *IF NOT ALREADY COVERED:* Explore whether they had savings/insurance/had planned ahead specifically to manage financially in case of such an event and why/why not.
 - IF YES: What were the drivers to plan ahead? What had prompted them to prepare for such an event e.g. media/news stories; talking to friends/family; previous experiences of themselves/others; advice - from who/when etc.
 - IF NO; What were the barriers/things that stopped them? Explore e.g. lack of/easy access to advice; lack of knowledge where to go/who to ask; lack of income to put away; personality; peer group behaviour/people I know don't; not thought about it/live for today/attitude; other barriers?

- So overall, how well prepared, or not did they think they were to financially cope with the sudden loss of income and why/why not do they think that is?
- What do they think other people do in this sort of situation? Do they think they coped financially better or worse than others? Explore reasoning
- What would have helped them to manage better financially? Spontaneous then explore e.g. provision of advice earlier on/when younger; practical help and information on planning ahead - what sort and who from etc.
- Looking back, what would they liked to have known and/or have done differently to help them manage their household finances after the sudden income loss? What difference would it have made and how?

Overall views and reflections (2 minutes)

- Thinking about everything that's been discussed, what would they find most useful to help them better plan for their financial future a) in general and b) in case of unexpected income loss

Thanks and close

- Any other questions

GROUP DISCUSSION TOPIC GUIDE

1. To provide greater understanding of the ‘Attitudes, Motivation, Accessibility, Ease and other external influences’ components of the financial capability model. Key requirements include:
 - a. **The identification of the components** of each of these model factors;
 - b. The **relative importance of each of the components** on financial capability and financial behaviour;
 - c. **Whether there are variations in the role / importance of the components** according to consumer characteristics (e.g. such as income, life stage /event etc.);
2. To provide insight into **how the components of the UK Financial Capability Framework (including financial wellbeing behaviour, means and pressures and capability) inter-relate and the relative importance of the components for different types of consumers** in a range of financial situations;
3. To provide insight into the **effects of unexpected financial ‘shocks’**, such as redundancy, long-term ill-health, or separation and divorce. Key questions that need to be addressed are:
 - a. **How consumers manage the effects of the financial shock and any changes to financial behaviour / capability that have resulted;**
 - b. **The time taken to recover** from financial shocks;
 - c. And the **learnings from consumers as to how they might have dealt with the financial shocks better;**
4. To **explore the concept of Financial Wellbeing** with consumers. Key questions include:
 - a. The **identification of the range of financial means and pressures on consumer income and assets** and the **relative importance of each** of these in terms of liquid versus fixed assets
 - b. insight into **whether the hypothesised ‘steps of financial wellbeing’ match the consumer experience;**
 - c. **the relationship between financial capability and financial wellbeing;**
 - d. **The relationship between financial wellbeing and wider wellbeing / life satisfaction**
5. To provide insight in to the **barriers and triggers to movement between states of wellbeing** and the **potential ‘alerts’ that may signify a future fall in financial wellbeing**, focussing on those consumers that are neither in ‘crisis debt’ nor ‘secure’;
6. To **consider whether there are messages that may enable consumers to recognise their state of financial wellbeing and take steps to increase it;**
7. To consider **potential question areas that may need to be included in future versions of the financial capability survey** in order to fully capture the financial capability and financial wellbeing models.

Protocol (participant-facing introduction to the research):

- About the research: on behalf of MAS, to explore views on household finances
- Length of discussion: 1.5 hours
- Session may be viewed by colleagues from MAS
- Audio recording
- Confidentiality and anonymity

Introductions (5 minutes)

Researcher introduction

Introduce self

About TNS BMRB - independent research agency working on behalf of Money Advice Service (MAS)

About research - to understand views on household finances, budgeting and planning

Confidentiality / anonymity

Agreement to record the discussion

Respondent introduction

Tell us a bit about yourself:

- Name; age; and who you live with
- Whether working or not; type of work
- How they spend their spare time

Deciding how to spend money (25 minutes)

Explain that we know from our previous research that people find themselves in a range of different financial circumstances. Some people struggle to make ends meet, whereas others feel a little better off and have a little money left over at the end of the week / month. We know that in part this is likely to be due to how much money someone earns, but are there other reasons why people find themselves in such varied financial circumstances. In pairs, I would like you to think about why people find themselves in different financial circumstances.

Split the group into two:

- Group 1 – what is being ‘good’ with money; how would they characterise being good with money
- Group 2 – what is being ‘bad’ with money; how would they characterise being bad with money
- *Bring the groups back together:* Review ‘good’ and ‘bad’ with money
 - *What are the characteristics of being ‘good’ or ‘bad’ with money*
 - *Spontaneous and then probe:*
 - Whether people think about what they can and can’t spend
 - Whether people think about the future
 - Whether people control money
 - Whether they impulse spend
 - How they deal with the unexpected
 - Whether they do what their friends and family do
 - Whether they use credit
- How would they characterise their own approach to spending money?
 - Why do they think they are like this?
 - What have been the influences on their approach? (include people and other influences)
- Do they think about how to spend their money or do they just spend?
 - Are there easy decisions (e.g. things that don’t need much thought?)
 - What are they?
 - Are their hard decisions (e.g. things that need much more thought?)
 - What are they?
- If there was something they wanted to buy but didn’t have enough money at the time, what would they do?
 - Why would they do this?
- Is this how you’ve always make decisions / has it ever changed?
 - Why has it changed / why has it not changed (if relevant)

I want now to think about saving...

- When I say the word ‘save’ / ‘saving’ what does it mean to people?
- Spontaneous and then probe:
 - Getting a bargain

- Money off / discount (vouchers)
- Putting money away (what for?)
- Investing

- Does anyone save?
 - Why do they save / why don't they save?
 - How do they save? (Separate account, physical 'pots', what is left over in account, etc.)
 - What do they save for?
 - Imagine they had different savings 'pots', what would each pot have written on it (*explore long-term, short-term, Christmas fund, emergency fund, holiday fund, etc?*)
 - Which pot gets the most money and why
 - Which pot gets least and why

- Do they ever use these different pots of money for things they weren't intended for?
 - Examples; why?

Some people we have spoken to have said that they do not save because they don't have enough money to save?

- Views about this
 - Could people save but they choose not to?
 - Why is this? (e.g. not willing to sacrifice something)
- What are the consequences of not saving?
- Is it worth saving a small amount?
 - *Give example that people we have spoken to have said that if they had £10 spare at the end of the month it wasn't worth saving because at the end of the year there is only a small amount - £120 – saved.*
 - OR
 - *£2 a day instead of buying a coffee (could add to £500 a year); instead of £10 a month, save £10 a week (or £50 a month – could add up to £600 a year)*
 - What do they think about this?
 - Is it worth saving small amounts?
 - If we were trying to get people to save more, what would be the best way to express it? (per day, per week, per month, etc.)

You have all talked about how you manage money and your approach to spending and saving...

- Has anyone ever taught you how to manage money?
- How do you feel about getting advice about budgeting and making sure you have enough at the end of the month?
- Who is the right type of person and wrong person / organisation to give advice?

Essential versus discretionary spending (20 minutes)

I want you to imagine now that something happens in a person's life that affects the amount of money coming in to the household. It may be reduced hours at work, loss of a job, separation or divorce, or long-term illness of a partner. Imagine the household income was reduced by one third to one half. If you were that person what would you do in terms of your household finances?

- Spontaneous views

Task: In two mini-groups, imagine you are that person, I want you to think about everything you spend money on and decide how you would spend your reduced income. Please allocate these cards to THREE piles: essentials (cannot cut back – essential to pay), may be able to cut back, and definitely cut back.. If there are expenses that you have not listed then write out some extra cards...

Rent/ mortgage	Utilities (gas, electricity, water)	Car / transport	Insurance
Food	Holiday	Treats – e.g. coffee out	Treats – days out
School trips	School uniform	Clothes	Mobile phone - contract
Mobile phone – pay as you go	Landline	Computer / laptop / tablet	Satellite / cable tv
Repaying credit cards	Loan payments	Meal out (i.e. birthday meal)	Snack meal (e.g. burger) or tea out
Council Tax	Broadband internet	Giving to charity	Sports, hobbies

- Why allocate in this way?
- One of the things we learnt from earlier research is that it is easier for people to keep their heads above water financially if they can spot opportunities to cut costs or save money.

- What would they do to cut costs / save money
 - why
- When would they do this?
- How do you get people to do this all the time (i.e. to spot opportunities to cut costs if their finances change)?

Financial wellbeing (25 minutes)

We know from research that people have different states of 'financial wellbeing'. Show Wellbeing labels

Unable to keep up	Constantly struggling	Making ends meet	Resilient	Secure
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- Do these make sense to them?
 - Do they know people who fit into these categories
 - What sort of person are they?
 - What do they do financially that means they are in that category?
 - How do they think and feel about money
 - How does this make them behave
 - Probe fully to understand motivators behind behaviours
 - What are the characteristics of each of these wellbeing labels
 - Are there any categories missing; what are they; how are they defined?
 - How would they order these labels?
- Can people move between the categories?
 - How easy would this be to do?
 - How; what would they have to do?
 - Could they do this?
 - What would they have to do?
 - Would they be willing to do this / sustain this?
- What would people have to do to move up to a more resilient / secure label?
 - Besides earning extra money, what could help households to move up a step on the wellbeing staircase? (Flip Chart)

- How realistic is this?
 - Why doesn't everyone do this all the time?
 - How could people be encouraged to do this?
- What would have happened for people to move down the categories? (Flip chart)
 - What could people do to prevent / minimise this?
 - How could they be encouraged to do this?

We have been talking here about financial wellbeing...

- What do they think of the idea of financial wellbeing?
- How would a household know if they were in a good state of financial wellbeing, or not?
 - What are the signals that things are going well?
 - That things are not going well?
- What are the factors and influencers that contribute to a household being in state of good financial wellbeing? Probe on
 - How they behave
 - How they think and feel about money
- Does financial wellbeing relate to general happiness and satisfaction with life?
 - Does life satisfaction depend on household financial health or can you be happy with life but be in a poor state of household financial health/financial wellbeing, or conversely in a good state of financial wellbeing but dissatisfied and unhappy with your life generally?
 - How much of an influence on life satisfaction is financial wellbeing? Explore reasoning
- Do you have to have lots of money to be in a state of financial wellbeing?
 - *Challenge this if they say yes*
- If you don't have very much money can a person be in a good state of financial wellbeing?
- Does being in a good state of financial wellbeing mean that the household/person is capable/good with money?
 - Why / why not?

We know from previous research that income does not necessarily mean a household has a good state of financial wellbeing. People with lots of money can be in a state of poor financial wellbeing; people with much less money can be in a state of good financial wellbeing.

- What's the difference between people who have lots of money but poor financial wellbeing and people with less money and good financial wellbeing?

Let's think about the different features that might play into financial wellbeing. There may be:

- *(Means) e.g. income, savings, future inheritance*
 - *(Pressures) e.g. essential spend / non-essential spend (as discussed earlier)*
 - *(Behaviour) e.g. how people deal with money, spending, credit, etc.*
- In order for a household to have 'good' financial wellbeing, what would be the best way of balancing these features?
 - Give examples of income of £15K, £25K, £40K pa and explore relative importance of saving, spending and behaviour in relation to financial wellbeing
 - What should we advise people to do in order to have good financial wellbeing?

Promoting Capability and Resilience (10 minutes)

Researcher say: I'd now like you to think about everything we've been discussing about influencers on making financial decisions and dealing with financial shocks.....

- Out of everything we've discussed, what factors and/or influences lead to them personally making good financial decisions?
- *For each positive factor/influence:* Explore what affects whether a person is influenced by/uses this factor.
 - Spontaneous then explore e.g. education; financial skills; budgeting; planning/saving; personality; cultural pressure; getting help/advice; good and bad role models, etc.
- And what are the factors and/or influences that lead to them making poorer financial decisions?
- *For each negative influence/factor ask* - What sort of help and support would someone need to overcome this negative factor, to help improve their household income management?
 - Spontaneous then explore type of help needed; who from; where from; channels; formats; when needed

- Explore whether there are any other issues/factors not mentioned that someone would need help with or that would need to change to help them make good decisions
 - what type of help/action would be required.
- What additional help and support would people need to help improve their household's ability to deal with financial shocks?
 - Spontaneous then explore routes; channels; formats; type of information needed; when information should be supplied/lifestage etc.

Overall views and reflections (5 minutes)

- So thinking about everything that's been discussed, what would they find most useful to help people better plan for their financial future, to make them more financially resilient a) in general and b) in case of unexpected bills and/or income loss

Thank and close

- Any other questions