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47

Financial Services Authority

Levels of Financial Capability in the UK: Results of a baseline survey

Prepared for the
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by Personal Finance Research Centre
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Copies of this report can be downloaded from the publications section of the FSA website - http://www.fsa.gov.uk/Pages/Library/Other_publications/Consumer/index.shtml

Detailed commentary on development of the financial capability baseline survey instrument can be found within the following two documents.

Financial Capability baseline survey: Methodological report
http://www.fsa.gov.uk/pubs/consumer-research/crpr47a.pdf

Financial Capability baseline survey: questionnaire
http://www.fsa.gov.uk/pubs/consumer-research/crpr47b.pdf

There is also a companion report, written by the FSA, which draws out the conclusions for our strategy to raise levels of financial capability in the UK.

Financial Capability in the UK: Establishing a Baseline
http://www.fsa.gov.uk/pubs/other/fincap_baseline.pdf

Contents

1. Executive summary

In 2005 the Financial Services Authority (FSA) commissioned the Personal Finance Research Centre to undertake an exploratory, methodological study to design a baseline questionnaire that could be used to measure levels of financial capability in the UK[1]. In this report we begin by outlining the development work that was conducted to generate the final questionnaire. We go on to describe the results of analysing the completed baseline survey of people's financial capability.

1.1. Development work

The development work prior to the main data collection was carried out in five stages.

- A literature and research review to help develop a model of financial capability and to review questions used in other surveys.
- Eight focus groups held in three different locations to explore people's perceptions of financial capability and to identify ways of capturing financial capability in a survey.
- A first wave of depth interviews with people who had participated in the focus groups to develop the content of the questionnaire.
- A second wave of semi-structured interviews to provide a cognitive test of the questionnaire.
- Two further waves of interviews to test the questionnaire.

Further testing was undertaken with people from black and ethnic minority communities in a separate but linked study undertaken by Ethnos Research and Consultancy.

One of the main conclusions from the development work was that financial capability could be conceived as encompassing four different areas, or 'domains'. These domains were *'managing money'*, *'planning ahead'*, *'making choices' and 'getting help'*. The survey analysis, however, suggested that the third domain was better named *'choosing products'* and the fourth *'staying informed'*.

[1] Kempson E., Collard S. and Moore N. (2005) *Measuring financial capability: an exploratory study*, Financial Services Authority.

1.1.1. Overview of questionnaire

The questionnaire for the main survey needed to cover the four key domains that make up financial capability. It was also important to collect detailed information about the respondents' personal circumstances, so that we could identify which groups of people had better and worse levels of financial capability. There was further interest in asking some questions about applied financial literacy, so we included a short set of questions that tested people's abilities regarding mental arithmetic, understanding information presented in graphical form, and their knowledge of particular mortgage and savings products. This we called the 'money quiz'.

1.1.2. The main survey

The full national survey to measure levels of financial capability in the UK was conducted between June and September 2005. A total of 5,328 people were interviewed. 4,905 of these were a general population survey, with booster samples in Wales, Scotland and Northern Ireland to allow separate analysis in each of the countries in the UK. In addition, there was a booster sample of 423 ethnic minorities. The sampling method used was a random location sample with tight quotas of eight people at each location.

On average, interviews lasted 44 minutes, ranging from 15 minutes up to 100 minutes for the longest. Shorter interviews tended to be with single people who had limited engagement with financial products; longer interviews tended to involve people living with a partner, who had more complex financial arrangements. There was little opposition to taking part in the study. The subject matter was not regarded as particularly intrusive or off-putting by those people approached to participate.

1.2. Analysing the survey

In analysing the data we had two distinct goals. First, we wanted to create a scoring mechanism to identify people's relative strengths and weaknesses in the four financial-capability domains. Second, we wanted to be able to describe the types of people most likely to display higher or lower levels of financial capability.

There is no presumption that individuals who do well in one of the four domains will necessarily do well in all the others. Because of this we analysed the data separately by each domain. Indeed, our findings indicate important differences between people in their scores across these four domains, as the development work suggested there might be.

1.2.1. Data analysis

The survey questions are largely based on patterns of behaviour and attitudes, with no ostensibly right or wrong answers. Consequently, it is not possible to simply add up the answers to questions in the style of a 'test', with some answers regarded as correct and others as incorrect or less capable.

The nature of the questions indicated that it would be most appropriate to use factor analysis (a statistical technique) to indicate levels of consistency in the ways that survey questions were answered and to create a financial capability score. This approach is well suited to the types of inter-related questions used in the survey as it makes use of many different pieces of information about each person. It is also a tried-and-tested statistical approach that has been widely used in both government-funding allocations and in academic work.

Our initial, investigatory analysis helped to identify those questions that might be most confidently added into a score of financial capability for each domain, and those questions which might be discarded from that part of the analysis. Ultimately, our decision about which questions to use in the scoring was based on a combination of statistical evidence and the findings of the conceptual phase of this research project.

In general, the factor score from the factor analysis reflects a particular combination and weighting of the questions used to derive that factor. In its raw form this score has an average value of zero, with values typically ranging from +3 to -3, depending on the patterns of people's answers to the key questions. In the case of our analysis of financial capability, the factor score represents the responses of each individual across a range of questions, taking into account the relative importance of each question. For ease of readability we have rescaled these values to vary between 0 and 100. It is important to note, however, that these values do not in any way represent a threshold between pass and fail. In other words, a higher percentage should not be seen as a pass, nor should a lower percentage be seen as a fail.

The factor analyses across the four domains have created five separate scores for each respondent. The first two scores relate to rather different aspects of the first domain, '*managing money*', whilst the final three scores each relate to separate domains, '*planning ahead*', '*choosing products*' and '*staying informed*'. We discuss these scores in detail later on, after describing how we met our second analytical challenge.

We wanted to find a way of identifying people at risk of having particularly low levels of financial capability, without having to test every individual. We therefore used cluster analysis (another statistical technique) to identify groups of respondents (or clusters) with similar patterns of financial-capability scores across the domains. Once the clusters were identified we were able to draw on demographic data to identify common characteristics within groups. These can then be used to identify the types of people most likely to be less capable in one or more domain. Again, we discuss the findings of this analysis in further detail later on.

1.3. Financial capability scores

We looked at the overall distribution of scores in each domain and also the variation in scores by key personal characteristics.

1.3.1. Managing money

In the initial developmental stage of the project, focus-group participants identified money management as a necessary, and indeed key, part of financial capability. They felt that those people who were financially capable would certainly be making ends meet. However, it was acknowledged that anyone with a sufficiently high income would be able to make ends meet without them necessarily having many money-management skills, and that one of the considerations for this group should be how well they kept track of their finances.

As mentioned above, the factor analysis confirmed that there were two distinct aspects to managing money: making ends meet and keeping track.

The first score thus indicates whether people are able to live within their means: to keep up with bills, whether they ever run out of money, and so on. It shows that a sizeable proportion of respondents appear to be relatively comfortable in this regard, but a significant group of people have scores some way below the average.

The second score relates to keeping track of one's own finances. The results of the survey analysis suggest that most people have average scores. Compared with how well people live within their means, there is less evidence of a highly capable group dominating the higher scores.

1.3.2. Planning ahead

Planning ahead was identified as the second domain of financial capability. It was felt that people who are financially capable may be expected to be able to deal with sizeable financial commitments that they know are coming. In particular, retirement would count as a long-term significant financial change for which people may be making plans, or at least be aware of the need to make such plans. Those successfully planning ahead may also have made provision for unexpected events. Again, *attitudes* towards planning for the future are also considered part of this domain of financial capability.

We found considerable diversity in people's answers within this domain. Clearly whilst some survey respondents were making considerable efforts towards planning ahead, it was almost equally common for people to display little or no evidence of planning ahead.

1.3.3. Choosing products

A key section of the questionnaire investigated people's choice and purchase of financial products. This was designed to assess their knowledge about financial products, their attitudes to risk, and their behaviour and confidence in selecting appropriate financial products. The questions were, of course, tailored to the extent of people's involvement with the financial services market. In practice, respondents were only asked about products they had purchased in the last five years, and then only regarding the two most complex products (if more than two products had been purchased).

Because the questions in this domain were only asked of those who had purchased (or had been sold) a financial product in the previous five years, the factor score for '*choosing products*' is only calculated for 74 per cent of respondents. This is in contrast to all the other scores for financial capability which are measured for all survey respondents.

The distribution of scores shows quite a sizeable group achieving relatively low scores. Few scored at the higher extreme; instead most people clustered around the bottom range of scores for choosing products.

1.3.4. Staying informed

The final domain of financial capability related to staying informed, including keeping abreast of changes in the economy, keeping track of new financial products and changes to existing ones, and knowing where to get help and advice.

Unlike the two money-management factors, the bulk of respondents were clustered towards the lower end of the financial capability scale in this domain.

1.3.5. The money quiz

It is interesting to compare these factor scores with the overall marks that were attained using the 'money quiz' element of the survey, which measure both applied financial literacy and product knowledge. A sizeable proportion of respondents (21 per cent) answered all, or almost all, of the quiz correctly. Two-thirds (66 per cent) scored 75 per cent or more.

Previous surveys (and those conducted outside the UK in particular) have been based predominantly on questions of this type. This analysis shows that they measure something that is rather different from the four main areas addressed by this survey.

1.4. Cluster analysis

We employed a statistical technique known as cluster analysis to gain a better understanding of the characteristics underlying the range of financial capability scores. We categorised cluster groups identified by the cluster analysis according to their average factor scores compared with the overall averages. The clusters were then labelled according to the numbers of areas of weakness in the four financial capability domains. It is important to note that within these clusters, particular individuals will have scored more or less than then the group average; we are comparing clusters according to the average scores within each cluster, and the overall average.

Table 1.1 Identities of key cluster groups

Number of weak areas	Cluster	Per cent of sample	Weighted base	Description (typical examples)
0	Ai	36	1929	Very capable, well-off, older couples, many financial products.
1	Bi	13	692	Older, lower income, good at money management generally, fairly capable given their circumstances.
	Bii	9	455	Not organised, middle-aged couples.
2	Ci	4	218	High-income, younger couples, living beyond their means.
	Cii	4	209	Young, well-organised, middle incomes, 'living for the day'.
3	Di	3	151	Older, lower income, less good at keeping track of money.
	Dii	3	163	Middle aged, very low-income group, reasonable at making ends meet, fairly capable given their circumstances.
	Diii	7	373	Young singles with some financial engagement.
4	Ei	16	854	Low-income, younger, single people, few products.
	Eii	2	108	Early middle-aged, few products, some planning.
5	Fi	3	175	Younger, with children, struggling on low incomes, disorganised.
Total		***100***	***5328***	

Further analysis of the cluster groups enabled us to provide descriptions of the typical person within each cluster.

1.4.1. Group A: no weak areas

This first cluster, which was the most financially capable, generally scored well above average on all factors except keeping track, where their scores were average. They tended to have higher incomes and also had high levels of product holding. They were also slightly older than average and included a disproportionate number of couples with no dependent children.

1.4.2. Group B: one weak area

Those in cluster [Bi] were particularly adept at making ends meet; indeed they achieved the highest scores on this factor. They also scored well on planning ahead, but below average on staying informed. They had below-average incomes, and close to two-thirds (62 per cent) of them were women. They were less likely than average to be parents with dependent children.

Those in cluster [Bii] scored very poorly indeed on keeping track of their finances, and they had only average scores for planning ahead, which was surprising given their high incomes and high levels of product holding. They were quite good at choosing financial products and at staying informed.

1.4.3. Group C: two weak areas

People in cluster [Ci] scored very badly indeed on keeping track of their finances, and were also quite poor at making ends meet. They were, however, good at planning ahead. They had high incomes and high levels of product holding. Indeed their characteristics suggest they may well have been living beyond their means, as they are not making ends meet *despite* having relatively high incomes. Of all the 11 clusters, this one had the highest proportion of couples and parents with children.

On average, people in cluster [Cii] were quite poor on planning ahead and did not do especially well on making ends meet; indeed they might well be considered to have been 'living for the day'. They were, however, very good at keeping track of their money and staying informed about financial matters. These people were young compared with the sample as a whole, and more of them had children. Their incomes were about average, but they had below-average levels of product holding.

1.4.4. Group D: three weak areas

Those in cluster [Di] did not do well at choosing financial products or staying informed, and were not at all good at keeping track of their finances although they were good at making ends meet. They were above average age, but both their incomes and levels of product holding were below average. They were particularly likely to be women, but few had dependent children.

People in cluster [Dii] were managing fairly successfully to make ends meet and did fairly well with regard to keeping track of their finances. Their real weaknesses lay in planning ahead, staying informed and choosing financial products, which can be largely explained by their very low incomes and levels of product holding. They had an average age of 48 (overall average was 47), and consequently included few parents with dependent children.

Those in cluster [Diii] did reasonably well at staying informed, but particularly badly at making ends meet and planning ahead. They were the youngest of all the 11 cluster groups, with an average age of 34. They were also particularly likely to be single. Their levels of product holding were low and their incomes below average.

1.4.5. Group E: Four weak areas

Group E scored well below average on all domains but they were above average at keeping track, the second of the two aspects of money management that we identified.

Those in cluster [Ei] were particularly good at keeping track of their money, but scored very low indeed on planning ahead, staying informed and choosing products. Furthermore, with an average of 2.8 products each, they would include many people who would be considered financially excluded. They were younger, and had the lowest levels of income, on average. They included a disproportionate number of women, single people, and parents with children.

Those in cluster [Eii] had slightly above-average scores for keeping track and were taking some relatively positive steps with regard to planning ahead, at least compared with others in this group. Their incomes were very similar to the survey average, and they included one of the larger proportions of couples and parents with children.

1.4.6. Group F: Five weak areas

Those in cluster [Fi] scored well below average on all five aspects of financial capability. They were young (average age 36), and included roughly equal numbers of single people and couples. Their incomes and levels of product holding were lower than average, but not the lowest of all the groups.

1.5. Conclusion

There is no single indicator of financial capability, but it may be conceived as encompassing four different areas or domains. We have called these domains *'managing money'*, *'planning ahead'*, *'choosing products'* and *'staying informed'*.

We have used factor analysis to create scores for each domain based on the combined information from questions within that domain. It is reassuring that the results of the survey analysis indicate that we took the right approach in identifying domains of capability rather than seeking to simplify capability into a single measure. We have found clear indications that individuals may be particularly capable in one or more areas, but lack skills or experience in others. We have also been able to identify those characteristics most strongly associated with low levels of financial capability.

In addition to this report, the dataset will be available for further detailed analysis. The methods used imply that a future survey could be conducted to track changes in financial capability.

2. Introduction

Financial capability is a relatively new concept, lacking a strong, established consensus about what it means. The FSA commissioned the Personal Finance Research Centre to undertake an exploratory, methodological study to design a baseline questionnaire that could be used to measure levels of financial capability in the UK[2]. The success of this initial phase meant that a full interview survey was appropriate and feasible.

A great deal of care was taken to adequately define the concept of financial capability and ensure that a series of survey questions was able to measure this concept. In this report we begin by outlining the development work that was conducted to generate the final questionnaire. We go on to describe the results of analysing the large baseline survey of people's financial capability. We use a range of statistical and descriptive methods.

2.1. Designing a survey of financial capability

2.1.1. Development work

The development work prior to the main data collection was carried out in five stages.

- A literature and research review to help develop a model of financial capability and to review questions used in other surveys.
- Eight focus groups held in three different locations to explore people's perceptions of financial capability and to identify ways of capturing financial capability in a survey.
- A first wave of depth interviews with people who had participated in the focus groups to develop the content of the questionnaire.
- A second wave of semi-structured interviews to provide a cognitive test of the questionnaire.
- Two further waves of interviews to test the questionnaire.

Further testing was undertaken with people from black and ethnic minority communities in a separate but linked study undertaken by Ethnos Research and Consultancy.

Financial capability is a relative, not an absolute, concept. It might be possible to define a basic level of financial capability that is required by everyone in a given society. Beyond that level, the degree and nature of the financial capability required by any given individual will depend on their circumstances.

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[2] Kempson, E., Collard, S. and Moore, N. (2005) *Measuring financial capability: an exploratory study*, Financial Services Authority.

One of the main conclusions from the development work was that financial capability could be conceived as encompassing four different areas, or 'domains'. These domains were *'managing money'*, *'planning ahead'*, *'making choices' and 'getting help'*. The survey analysis, however, suggested that the third domain was better named *'choosing products'* and the fourth *'staying informed'*. There is no presumption that individuals who do well in one of these areas would necessarily do well in all the others. Indeed, we will show that there are important differences between people in their scores across these four domains, as the development work suggested there might be.

2.1.2. Overview of questionnaire[3]

The questionnaire for the main survey needed to cover the four key domains that make up financial capability. It was also important to collect detailed information about the circumstances of the respondents so that we could identify which groups of people have better and worse levels of financial capability. There was further interest in asking some questions about applied financial literacy, so we included a short set of questions that tested people's abilities regarding mental arithmetic, understanding information presented in graphical form, and their knowledge of particular mortgage and savings products. This we called the 'money quiz'.

These six considerations meant that the questionnaire covered the following areas.

- Managing money.
- Planning ahead.
- Making choices about financial products.
- Getting help (information, advice, complaints).
- Money quiz.
- Demographics (details about the respondent and their household).

On average interviews lasted 44 minutes, ranging from 15 minutes up to 100 minutes.

2.1.3. The main survey[4]

The survey had to fulfil a number of key features. It had to provide a sample that could represent the population of the United Kingdom, but also have samples in each country that could generate reliable results. In other words, the numbers of actual interviews in Scotland, Wales and Northern Ireland were higher than would have been true for a random selection. There was also an additional sample of people from minority ethnic groups (most of the ethnic minority interviews were conducted in England). In the analysis, these groups are treated differently (more technically, down-weighted), to ensure that the results reflect the UK experience in the true proportions.

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[3] *Financial Capability baseline survey: questionnaire,* Financial Services Authority

[4] *Financial Capability baseline survey: Methodological report,* Financial Services Authority

In total, 5,328 people were interviewed regarding their financial capability. The respondents were selected as a part of a tightly-controlled quota sample, with just eight people in each location. Overall there appeared to be little opposition to taking part in the study. The subject matter was not regarded as particularly intrusive or off-putting.

The regional breakdown of survey respondents is shown in Table 2.1. This shows some of the effects of over-sampling people in Wales, Scotland and Northern Ireland. In a random sample of 5,328 respondents we would expect to include around 150 from Northern Ireland – too small a number to produce reliable results. Instead, we interviewed 512 people in Northern Ireland which provides a sounder basis from which to generalise.

Table 2.1 Location of main and booster samples

Column percentages and actual numbers of interviews

Sample description	Weighted percentages[5]	Unweighted numbers
England main	81	3318
Wales main	5	551
Scotland main	9	524
Northern Ireland main	3	512
Ethnic boost survey	3	423
Total (=100 per cent)		5328

2.2. Analysing the main survey of financial capability

2.2.1. Data handling

As with all studies based on surveys of the public, some people did not answer all the questions they were asked. This happened when respondents did not know the particular piece of information requested, or refused to answer a particular question. Where more than three per cent of responses were missing, because of a lack of knowledge or a refusal, a statistical model was developed to impute the missing responses. This approach follows the kind of standard methods routinely applied to government and academic surveys. Where the amount of missing data amounted to less than three per cent, the median value (among the non-missing data) was used to impute the missing information.

[5] Generally speaking most of the tables in the report have percentages that add up to 100 per cent. However, in some cases the total may be slightly more or less, because of the way that numbers are rounded. For instance, if there were three categories each representing one-third of respondents, the percentages would each be 33, and the overall total, whilst including everyone, would appear to be 99 rather than 100.

By design, respondents answered questions about their own situation and were asked few details that related to their partner (if they had one). It had been determined during the development work that many people would be unable to provide authoritative data relating to their partner's income or financial commitments in their own name only. Therefore, rather than having accurate data for some and not for others, it was decided to impute all relevant information on partners' incomes and their financial commitments.

This imputation was carried out using a method known as 'hot-decking'. In any household with a couple, only one would be interviewed. In some households the male partner would be interviewed, and in others the female partner. The hot-decking approach uses the characteristics of each respondent in a couple to search for the most closely equivalent survey respondent (also from a couple). The selected individual (also a survey respondent) acts as the donor of partner information for the original respondent. In this way, data on couples was reached, even though only one had provided the information in any given couple.

2.2.2. Data analysis

The methods used in the analysis were designed to mirror the substantial development work carried out for the study. The development work indicated that four domains were important constituents of financial capability. A range of detailed questions were asked that related to each domain.

Analysis of the resulting data was based around those four domains, and was used to investigate how well responses to the questions might be converted into 'scores' for each of them. Statistical analysis was also able to indicate levels of consistency in the ways that questions were answered. This initial, investigatory analysis helped to identify those questions that might be most confidently added into the scoring, and which might be discarded from that part of the analysis. However, the theoretical framework on which the ultimate decisions were based was clearly that which emerged from the long set-up and conceptual phase of the research project.

2.3. The report

In the next chapter we provide an overview of the methods used to construct the factor scores and simply describe the kinds of scores produced. We also consider whether the population may be split into a number of groups ('clusters') sharing similar levels of financial capability across the four domains. Then four chapters look in turn at each of the domains of financial capability. In each case they describe the kinds of questions that were asked, and how these were used to derive a score of financial capability within that domain.

It should be noted that in this report we restrict ourselves to presenting the results from the survey. A companion report, written by the FSA, draws out the conclusions for their strategy to raise levels of financial capability in the UK[6].

[6] Financial Services Authority (2006) *The National Strategy for Financial Capability: The UK Financial Capability Study (Establishing a Baseline)*.

3. Overview of the approach to measuring financial capability

Each of the 5,328 respondents gave answers to a wide range of questions. In this chapter we provide an overview of how the questions answered by the survey respondents were used to create a measure of financial capability – indeed five separate measures. It was clear from the development work that there could not be an overall measure of financial capability scale across the whole questionnaire. Instead we would need to develop a separate score for each of the four domains.

A separate measure of capability was derived for each of the four domains we believe make up financial capability, with the exception that managing money included two scores reflecting quite different aspects of how people managed their money.

We begin this chapter by describing a number of different ways that a score for financial capability could be derived, and the reasons for our particular choice of method.

3.1. Methods of developing a financial capability 'score'

The development work indicated that the survey questions would largely be based on patterns of behaviour and attitudes, and not on a set of questions with ostensibly right and wrong answers. It would not be possible to simply add up the answers to questions in the style of a 'test', with some answers regarded as correct and others as incorrect or less capable. By the same token it would be unlikely that we would be able to generate a 'pass mark', above which people are considered capable and below which they are not.

It determining the most appropriate approaches to test, we have adopted five broad criteria for the scoring system, agreeing that the scoring should be:

- *reliable* – it should produce accurate output and have internal consistency;
- *valid* – it should measure what it is intended to measure;
- *relevan*t– it should relate to the outcome being evaluated, with no bias for different income or ethnic groups;
- *comprehensible* – it should be possible to explain the outcomes to a non-technical audience; and
- *repeatable* – it should be possible to repeat the process in future surveys and compare the outcomes.

Turning now to the methods that might be used to develop a score, three broad approaches have been used in other circumstances. The first approach would involve assigning a score to each question and adding these up to give an overall score for each respondent. This might then be converted into a percentage from 0 (worst, or worst possible, financial capability) to 100 (best, or best possible, financial capability). This is the approach used in the UK by the Department for Education and Skills (DfES) in their *Skills for Life* survey of literacy and numeracy[7]. It has the advantage that it is simple and easily understood, but would be very difficult to apply to a questionnaire where the questions are mainly behavioural or attitudinal and where few of them have a correct answer. For this reason, we did not use this approach.

The second approach is more complex than the first and similar to that used for predicting longevity of individuals, or for credit scoring to predict individuals' likelihood of falling into arrears. It would involve building models using regression analysis of the data to predict key outcomes, such as the ability to live within one's means, which would be used to develop a score measuring the risk of an individual failing to live within their means. This is a tried-and-tested approach and one where the outcomes are well understood. Moreover, it would be able to handle the behavioural questions used in the questionnaire. It would work well for some areas where it is possible to identify an outcome that can be assessed, for example making ends meet. It is, however, more difficult to apply to other areas, such as information seeking, where it is difficult to identify a clear outcome that can be measured.

This approach has a number of further weaknesses. It places great emphasis – almost exclusive emphasis – on a small number of questions. A few answers would be used to represent each person's financial capability, which we know to be a rather complex concept and for which we collected a great deal of information. This outcome approach does not make use of the fine-grained information we have on people, but instead treats a few simple outcomes as having considerable priority.

The third approach is known as factor analysis. It is, among other things, the method used to derive the Index of Multiple Deprivation (for local authorities) and Health Indices. This method, like the other two, is robust and well tested. It is, however, particularly complex and not as easy to explain. The main theoretical point is that financial capability is treated as unknown but related to a number of pieces of information that we do have. Within a particular domain, the questions measuring financial capability are analysed to consider how far an underlying factor may be constructed that best explains the variation we observe in the replies. A new, single variable is then used to represent the best combination of information we have from the range of questions asked.

[7] See http://www.dfes.gov.uk/research/data/uploadfiles/RR490.pdf

This approach seems best suited to the types of inter-related questions that are being used to assess financial capability in the survey. It makes use of many different pieces of information about each person. It is a tried-and-tested statistical approach that has been widely used in government funding allocations and in academic work.

There are a number of different options for deriving factors. We are helped in this instance by the long period of development work, which led us to believe that a single main factor would best explain the variation in responses *within* each domain, with the exception of managing money.

It was also clear from the developmental work that the relative importance of each domain will vary according to individuals' circumstances. For example, day-to-day money management is of prime importance for people on low incomes, who often have little spare money to do much planning ahead and engage little with the world of financial services. On the other hand, for people with high incomes, money management is far less important than making appropriate choices with regard to financial products. With a sufficiently high income it is possible to make ends meet with very little skill, but with money to invest and incomes to protect, engagement with complex financial products is almost inevitable. It is because of these anticipated differences across domains that we have developed and used separate scores rather than combining factor scores into a single outcome measure.

One outcome from factor analysis is a 'factor score' for each individual, which reflects a particular combination and weighting of the questions used to derive that factor. In its 'raw' form this score has an average value of zero, with values *typically* ranging from +3 to -3, depending on the patterns of people's answers to the key questions. For ease of readability we have simply rescaled these values to vary between 0 and 100.

It is worth noting that any given score may have been arrived at in different ways. A middling score could be reflecting a pattern of responses close to the average; alternatively it might result from having given a mix of more capable and less capable answers to the relevant questions. There is no intention that any score should be regarded as a kind of percentage with particular thresholds indicating a pass or fail mark; the scores are relative to how others have answered. There are two important pieces of information to consider. First, the distribution of scores, which tells us something about differences between people and whether the lower end represents a smaller or larger group. Second, the kinds of responses that are needed to generate higher, lower and more mid-range scores.

There are alternative ways of rescaling the factor scores that would have resulted in different numbers for presentational purposes. These would not affect the ranking of people within each domain; the best fifth, say, are the same regardless of whether the scores vary from +3 to -3, or from 0 to 100, or for any other simple translation of the data.

The weighting of each question within the factor score depends on how highly it is correlated with the underlying characteristic of interest. It is certainly possible, and indeed likely, that some of the questions will perform rather better than others. The statistical work identifies the questions that best measure financial capability in each domain, and indicates how far a single constructed variable may represent the range of different answers.

3.1.1. Processing data

The statistical analysis required that respondents had answered a broad range of questions. On occasions it was necessary to combine the answers to two or more questions to make sense of the different routes taken through the questionnaire. Sometimes new codes were needed where the questions were not addressed to all respondents. The details of these kinds of changes, where needed, are discussed in the separate chapters devoted to each area of financial capability. Next, we recap the main areas of financial capability that we investigated, as a result of these having been important findings from the development work.

3.2. The domains of financial capability

In this section we outline the main elements included in each financial capability domain. In the chapters that follow we expand on this introduction, giving greater detail about each of the constituent elements.

3.2.1. Managing money

Focus group respondents identified managing money as a necessary, and indeed key, part of financial capability. They felt that those people who were financially capable would certainly be making ends meet. However, it was acknowledged that anyone with a sufficiently high income would be able to make ends meet, without them necessarily having many money-management skills, and that one of the considerations for this group should be how well they kept track of their finances. Other important aspects included the need to plan for predictable future expenses, or at least understand the need to do so. It was also felt important to consider people's *attitudes* towards the use of credit, and their spending habits.

3.2.2. Planning ahead

Planning ahead was identified as the second domain of financial capability. It was felt that people who are financially capable may be expected to be able to deal with sizeable financial commitments that they know are coming. In particular, retirement would count as a long-term, significant financial change for which people may be making plans, or at least be aware of the need to make such plans. Those successfully planning ahead may also have made provision for unexpected events. Again, *attitudes* towards planning for the future are also considered part of this domain of financial capability.

3.2.3. Choosing products

A key section of the questionnaire investigated people's choice and purchase of financial products. This was designed to assess their knowledge about financial products, their attitudes to risk, and their behaviour and confidence in selecting appropriate financial products. The questions were, of course, tailored to the extent of people's involvement with the financial services market. In practice respondents were only asked about products they purchased in the last five years, and then only regarding the two most complex products (if more than two products had been purchased).

3.2.4. Getting help, information and advice

The final domain of financial capability comprises people's knowledge of financial matters. It considers how often people keep abreast of key financial matters, and their use and awareness of mechanisms for dealing with problems or complaints should they arise.

3.3. Measuring financial capability using factor scores

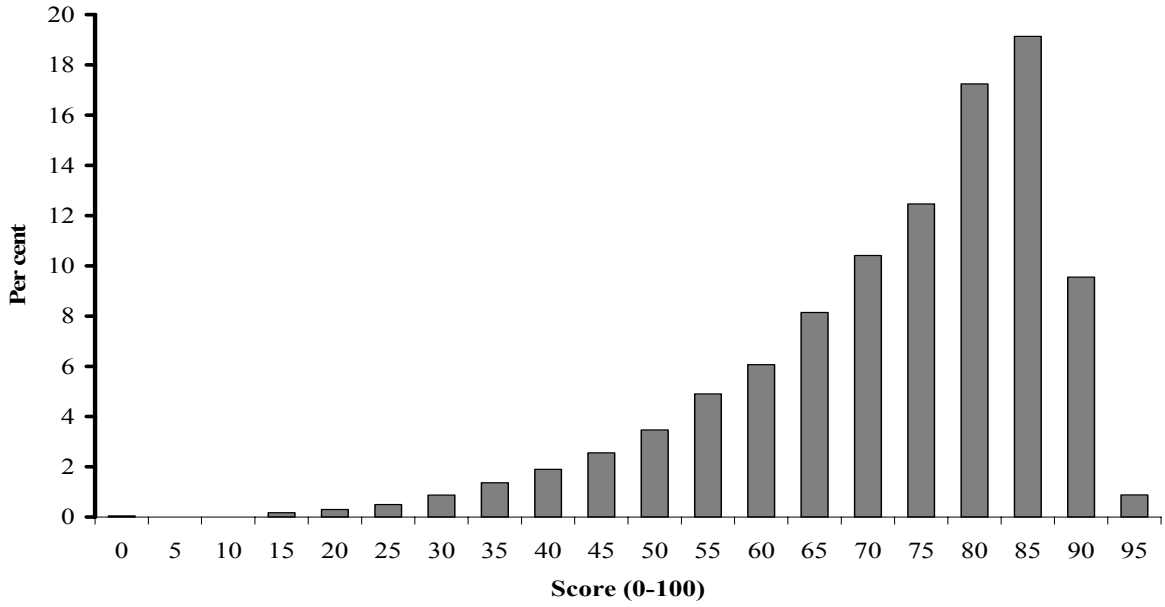
In the following chapters we describe in some detail the questions that were used to derive measures, or scores, of financial capability. Here we outline the overall scores within each domain, and explain how each may be used in further policy-related analysis.

Each domain was treated separately. The questions used in each domain appear only in that area, and are not used in other domains. This makes it possible to compare scores across the different areas of financial capability. In a series of charts we show the distribution of scores within each domain.

3.3.1. Managing money: making ends meet

In Figure 3.1 we show the scores obtained from the first element of managing money, namely making ends meet. This aims to measure whether people are able to manage within their available means – to keep up with bills, whether they ever run out of money, and so on. The financial capability scores derived from the factor analysis show a sizeable proportion of respondents appearing to be relatively comfortable in this regard, but also with a significant group of people having scores some way below the average. Most people were making ends meet, but quite a few were finding it a struggle, and some were clearly doing so badly as to become very much detached from the experience of the majority.

Figure 3.1 Managing money I: Making ends meet

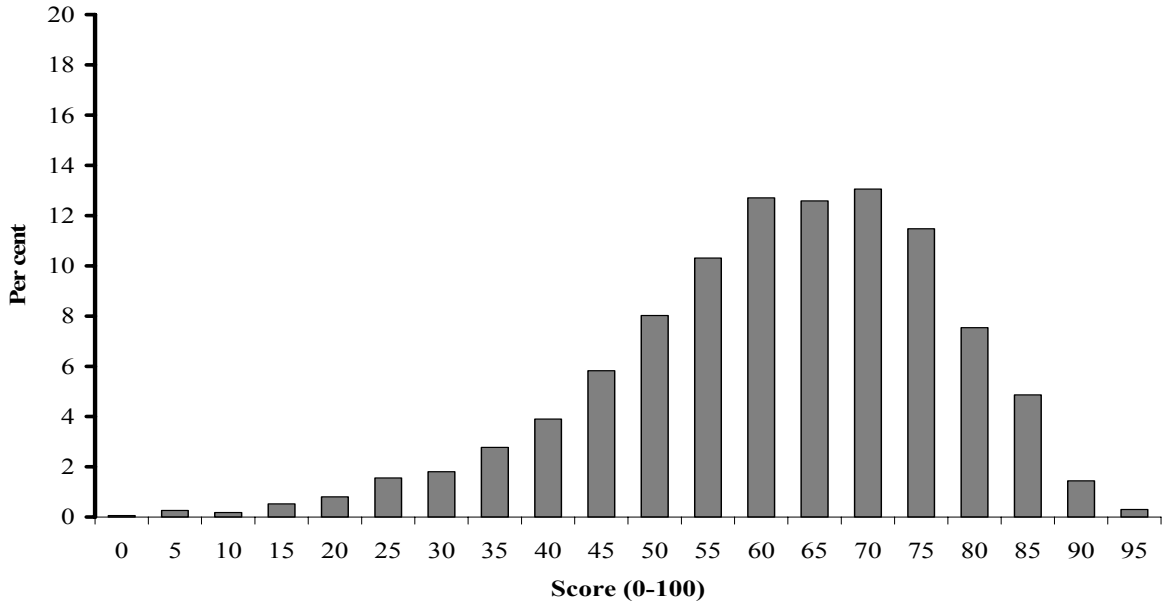


The shape of the distribution reflects a series of questions that were good discriminators between different shades of hardship, though perhaps with less capacity to distinguish those who were comfortably off from those who were very affluent. There was greater interest in degrees of financial difficulties than in degrees of doing well, at least as far as this set of questions is concerned. Some two-thirds (65 per cent) said they were managing to keep up with bills and credit commitments without any difficulties, and most other people (26 per cent) were keeping up, though struggling from time to time. The remaining one in ten were experiencing problems to varying degrees, though only one per cent believed themselves to have real financial problems. The overall 'shape' of people's responses to this question, which was an important constituent of the managing-money factor score, therefore resembles that of the overall factor score. A picture emerges where most are managing their money to live within their means, whilst a minority are becoming detached from such a relatively comfortable position.

3.3.2. Managing money: keeping track

The distribution of scores on the second element of managing money - how well people were controlling their day-to-day spending and keeping track of their finances - is shown in Figure 3.2. There was a relatively broad spread of scores, with most people occupying a middling range. Compared with how well people were making ends meet, there was less evidence of a highly capable group dominating the higher scores.

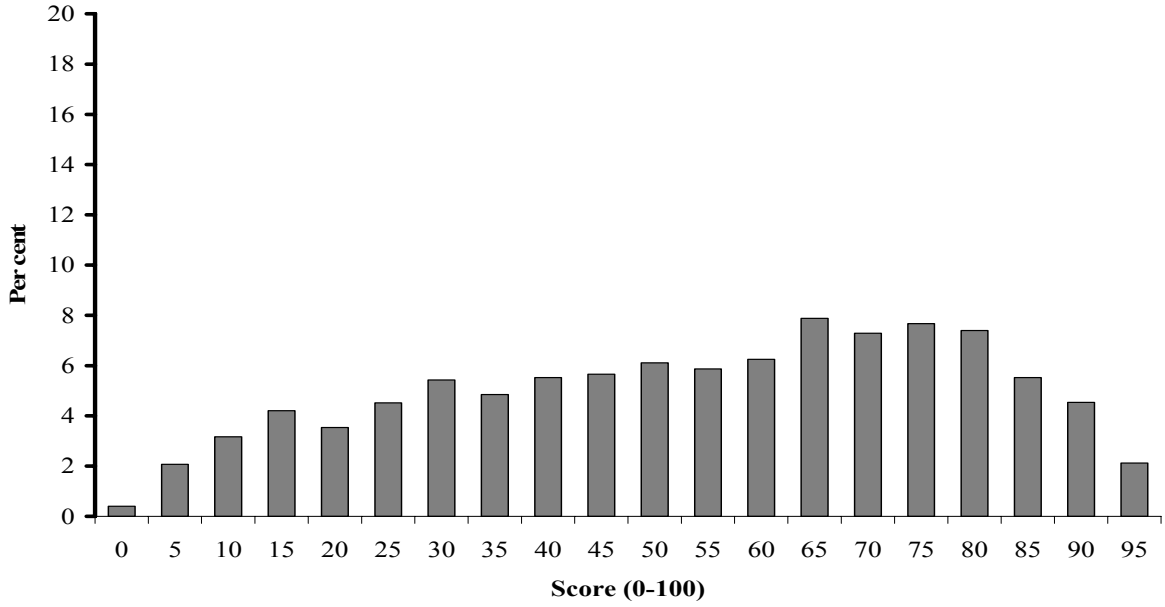
Figure 3.2 Managing money II: Keeping track of money



3.3.3. Planning ahead

There was a fairly flat series of scores related to planning ahead, indicating considerable diversity in people's answers within this domain (Figure 3.3). Clearly whilst some people were taking considerable efforts towards planning ahead, it was almost equally common for people to obtain lower and more middling scores. This perhaps indicates an area where greater attention may be needed to raise levels of financial capability.

Figure 3.3 Planning ahead

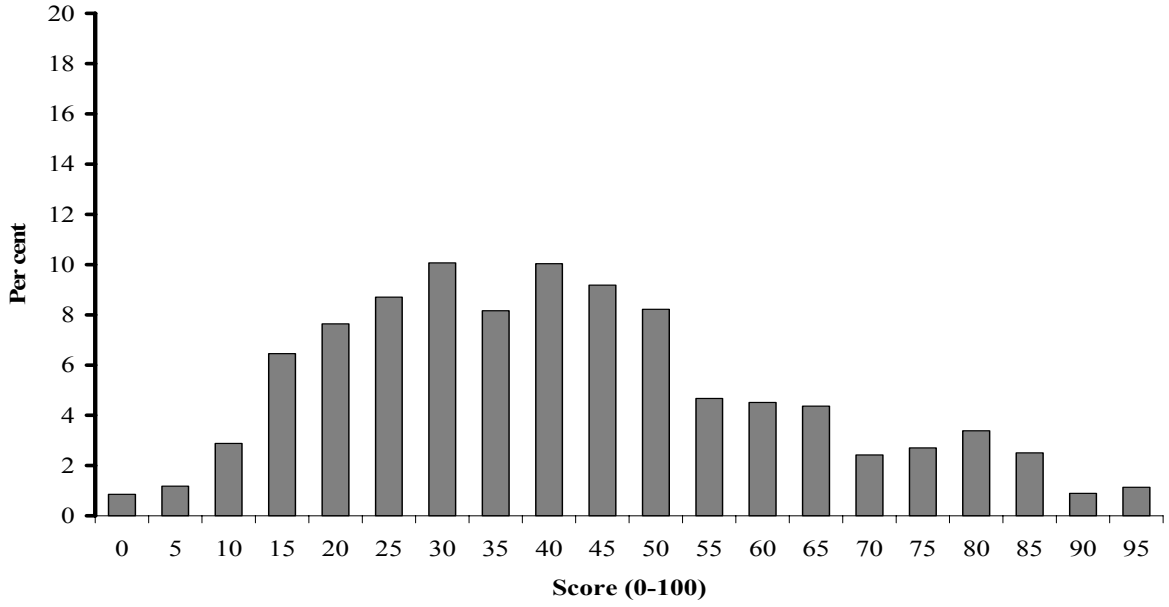


3.3.4. Choosing products

The factor score for choosing products is only calculated for the 74 per cent of respondents who had purchased (or had been sold) a financial product in the previous five years. This is in contrast to all the other scores for financial capability which are measured for all survey respondents.

The distribution of scores showed quite a sizeable group scoring relatively lowly. Few scored at the higher extreme, meaning that few people were consistently adopting behaviours that identified them as always responding in the most confident manner. Instead most people clustered around the bottom range of scores for choosing products.

Figure 3.4 Choosing products

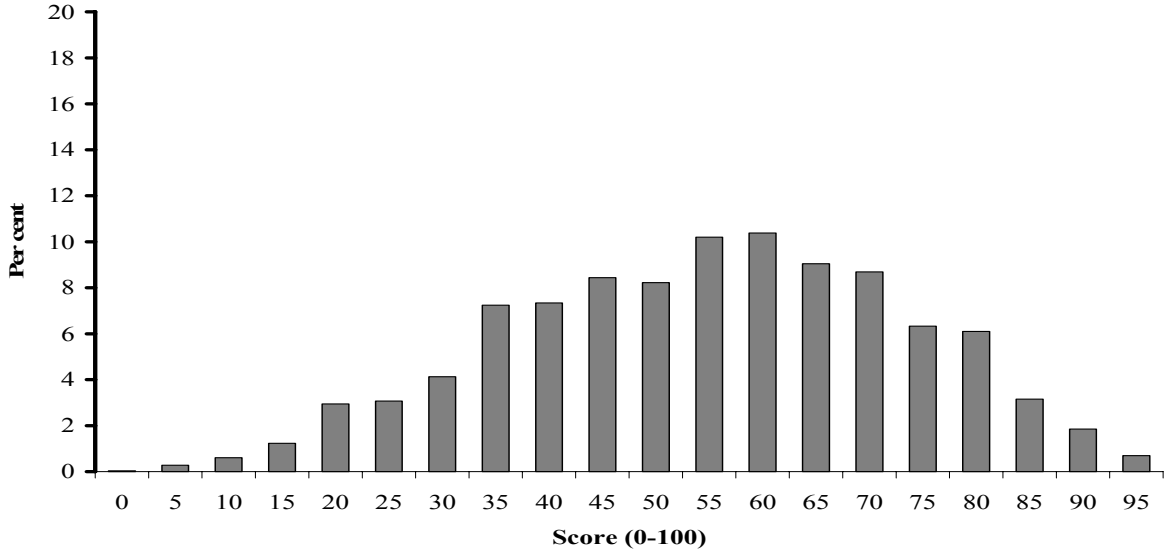


3.3.5. Staying informed

The final domain of financial capability related to staying informed, including keeping abreast of changes in the economy, keeping track of new financial products and changes to existing ones, and knowing where to get help and advice.

The relevant distribution of scores is shown in Figure 3.5. Again there was considerable diversity in people's behaviour, with most people scoring alike, and relatively few having behaviours that consistently set them apart.

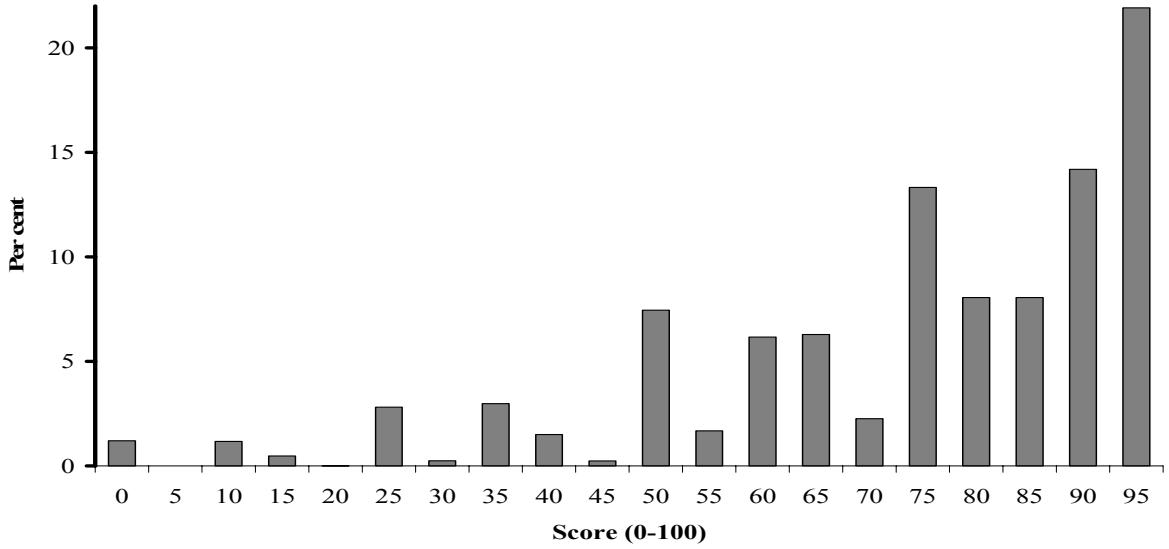
Figure 3.5 Staying informed



3.3.6. The money quiz

It is interesting to compare these factor scores with the overall 'marks' that were attained using the money quiz element of the survey (see Figure 3.6). A sizeable proportion of respondents (21 per cent) answered all, or almost all, of the eight quiz questions correctly. Two-thirds (66 per cent) scored 75 per cent[8] or more. This may indicate that the quiz is not discriminating very well at the higher end of ability to do well on this quiz, which we might label financial literacy (six of the eight questions) and product knowledge (the other two questions).

Figure 3.6 Financial literacy and product knowledge, as measured by the money quiz



[8] It makes sense to refer to this as a percentage, since it is essentially a quiz with right and wrong responses, unlike the factor scores.

Previous surveys (and those conducted outside the UK in particular) have been based predominantly on questions of this type. This analysis shows that they measure something that is rather different from the four main areas addressed by this survey, given the different distributions of abilities uncovered.

3.4. Associations between factors

Each of the domains was treated separately, and the factor scores derived independently. There are no questions that appear in more than one domain. This raises the question of the extent to which skills and expertise on one domain were related to the level of financial capability in each of the other domains.

In Table 3.1 we present a statistical measure of the degree of association between each factor score, taken across the domains. In most cases there was a strong positive relationship – doing better in one domain was generally associated with doing better in the other domains (and the reverse, of course). This was particularly true for measured scores on '*planning ahead*', where higher scores were strongly associated with doing better on '*making ends meet*', '*staying informed*' and '*choosing products*'. There was also a positive relationship with doing better on the money quiz. It is not surprising that the people who planned ahead were frequently those able to make ends meet. The development work had told us to expect that would be the case. It is, however, encouraging that those who planned ahead kept themselves informed and also chose products more carefully.

Doing well at '*staying informed*' was strongly correlated with better outcomes in the approaches taken to '*choosing products*'. Again it is encouraging that people who attempt to stay informed appear to be using their knowledge and making appropriate purchases.

An important exception to this general pattern relates to the second part of the 'managing money' domain, keeping track (and day-to-day control) of money. This was only weakly associated with other types of financial capability and in a *negative* direction (i.e. those doing best at keeping track of their money did slightly worse (on average) in terms of making ends meet, planning ahead, choosing products and staying informed than those with a lower score for this factor). Even so, the main point is that the correlations were weak – knowing how well a person was keeping track of their money does not provide much, if any, insight into their likely scores on the other domains. Similarly, the overall score for the other domains is not related to how often people were checking balances, how aware they were of their financial situation, and so on.

The development work provides a possible explanation for this finding. People were most likely to keep close control over their money if they had little money to spare. These same people were also less likely to plan ahead as a lack of money meant that they were more pre-occupied with day-to-day needs. Their engagement with financial services tended to be very limited, indeed they included people who had no engagement at all and who might be considered financially excluded.

Finally, there was a moderate degree of correlation between scores on the domains of financial capability identified in this research project and individuals' scores on the money quiz, which broadly set out to measure financial literacy and product knowledge.

Table 3.1 Associations between financial capability scores in each domain

Pearson correlation coefficients

	Keeping track	Planning ahead	Choosing products	Staying informed	Money quiz
Making ends meet	NS	0.56	0.22	0.18	0.08
Keeping track	1	-0.11	NS	-0.06	-0.11
Planning ahead		1	0.41	0.47	0.35
Choosing products			1	0.39	0.28
Staying informed				1	0.72*
Money quiz					1

The values shown vary from +1 (meaning perfect positive correlation) to -1 (perfect negative correlation), with values of 0 indicating no correlation.

NS: Non-significant correlations.

* This high correlation is expected because some of the quiz answers are included in the information domain factor score.

3.5. Using the resulting factor scores

Every respondent has a separate score on each of the four domains of financial capability, and two scores in the case of managing money. These scores may be used in various ways. In particular, it is possible to consider groups that score more and less highly on different domains, in order to identify some key groups of people that might be targeted with initiatives to raise their levels of financial capability.

3.5.1. Cluster analysis

Various statistical approaches are available to try to find 'typologies' in the data relating to financial capability. The aim is to dissect the sample into a number of groups (or 'clusters'),with similar scoring patterns.

Cluster analysis typically begins by treating each respondent as a separate group. It then considers which two individuals are the most alike and forms these into a single cluster. Next, that pair, and all the other respondents, are considered, and the two clusters/individuals most alike are combined. The process continues until, ultimately, the sample is merged into a single cluster[9]. In practice, though, the process is stopped before then, the sample having been aggregated into a manageable number of clusters. The decision about the precise number of clusters to use is based on a mix of statistical criteria and how readily the results make sense in relation to knowledge of the subject area (i.e. expert judgement).

We have used cluster analysis to identify groups with similar factor scores across four of the five financial capability scores (the two 'managing money' scores, 'planning ahead' and 'staying informed'). We have not included the 'choosing product' score in this analysis, as it is not relevant to the whole population. However, we do describe the *average* scores for choosing products when we investigate the characteristics of the clusters created from the analysis.

We have categorised groups identified by the cluster analysis according to their average factor scores compared with the overall averages as seen in Table 3.2. We have arranged these according to their areas of weakness in the four financial capability domains. It is important to note that within these clusters, particular individuals may have scored more or less than average; we are comparing across clusters according to the average scores within each cluster.

The results are grouped to show the proportions of the adult population who appear to be 'weak' in anywhere from no areas, to all five areas considered. A sizeable group (36 per cent) appeared to have no relative weaknesses. This group tended to be better off than average, and rather older. We provide more detailed results later on, for each of the groups. At the other extreme, around three per cent appeared to have relative weaknesses in each domain of financial capability. This group were typically younger than average, and more likely to have children. Often they were relatively disorganised in managing their financial affairs, and were living on below-average incomes.

Between these extremes are four other groups, which are sometimes themselves broken down into smaller subgroups. Around one in five (22 per cent) were relatively weak on only one financial capability domain. This breaks down further as 13 per cent weak on staying informed, and nine per cent weak on keeping track of their finances.

Among other groups, around eight per cent had two areas of weakness, 13 per cent were relatively weak in three areas, and 18 per cent were weak in four areas.

[9] What is being described is technically known as hierarchical agglomerative clustering. The 'complete-link' method was used in the analysis reported here. Other methods tended to generate many tiny clusters with little explanatory value.

Identifying simply numbers of weaknesses and population proportions we find the following pattern.

- None – 36 per cent
- One – 22 per cent
- Two - 8 per cent
- Three - 13 per cent
- Four - 18 per cent
- Five - 3 per cent

This suggests something of an important division with well over half (58 per cent) having only one or no weakness, whilst one in five (21 per cent) had four or five areas of relative difficulty, and a similar proportion (21 per cent) two or three more problem areas.

Table 3.2 Identities of key cluster groups

Number of weak areas	Cluster	Per cent of sample	Weighted base	Description (typical examples)
0	Ai	36	1929	Very capable, well-off, older couples, many financial products.
1	Bi	13	692	Older, lower income, good at money management generally, fairly capable given their circumstances.
	Bii	9	455	Not organised, middle-aged couples.
2	Ci	4	218	High-income, younger couples, living beyond their means.
	Cii	4	209	Young, well-organised, middle incomes, 'living for the day'.
3	Di	3	151	Older, lower income, less good at keeping track of money.
	Dii	3	163	Middle aged, very low-income group, reasonable at making ends meet, fairly capable given their circumstances.
	Diii	7	373	Young singles with some financial engagement.
4	Ei	16	854	Low-income, younger, single people, few products.
	Eii	2	108	Early middle-aged, few products, some planning.
5	Fi	3	175	Younger, with children, struggling on low incomes, disorganised.
Total		***100***	***5328***	

We describe below some of the differences between the 11 clusters. In Table 3.3, scores which are five percentage points above the overall average are underlined, while scores which are five percentage points below the overall average are underlined twice. The different social and demographic characteristics of each cluster are illustrated in Table 3.4. For this table, scores ten per cent above average are underlined, and those ten per cent below average are underlined twice.

Table 3.3 Factor scores by cluster groups

Average factor scores

Cluster	Making ends meet	Keeping track	Planning ahead	Staying informed	Choosing products
Ai	83	65	79	69	52
Bi	82	71	62	*46*	43
Bii	79	*50*	56	73	47
Ci	65	*41*	61	60	45
Cii	69	78	*45*	71	44
Di	84	*35*	62	*42*	*39*
Dii	78	66	*30*	*24*	*30*
Diii	*46*	62	*26*	54	*35*
Ei	*68*	74	*25*	*44*	*32*
Eii	*53*	68	*50*	*40*	*36*
Fi	*58*	*44*	*30*	*43*	*35*
All	**75**	**64**	**56**	**57**	**44**

Results five points above the average are underlined and those five points below average are underlined twice.

Table 3.4 Average characteristics of cluster groups

Average values

Cluster	Number of product types held	Median gross household income (equiv.)	Average age (years)	Per cent female	Per cent couples	Per cent with dependent children
Ai	10.3	1043	54	45	69	22
Bi	6.6	649	55	62	51	20
Bii	9.0	1040	46	46	62	27
Ci	10.1	1067	42	46	78	41
Cii	6.8	786	39	54	51	38
Di	7.6	800	54	51	77	18
Dii	2.5	477	48	56	36	19
Diii	4.8	607	34	53	40	33
Ei	2.8	477	38	62	32	32
Eii	6.4	778	40	62	51	41
Fi	5.1	620	36	54	49	32
All	***7.4***	***785***	***47***	***52***	***56***	***27***

Results ten per cent above the average are underlined and those ten per cent below average are underlined twice.

It is important to recognise that the average values described in Table 3.2 may hide some important variations. In Table 3.5 below we show the distribution of income within the cluster groups. This shows for example that respondents within (Fi), who on average have very low incomes, are almost uniformly distributed amongst the four lower-income quintiles, but only nine per cent have income in the top quintile. In contrast (Ei) also has lower than average incomes, but in this case it is because over a third are in the bottom quintile.

In the series of tables, Tables 3.6 to 3.8, we report the variations in other characteristics by cluster group. Points of interest are drawn out in the description that follows.

Table 3.5 Household income by cluster groups

Row percentages

	Quintiles of (equivalised) household income				
Cluster	**1 (low)**	**2**	**3**	**4**	**5 (high)**
Ai	13	15	19	22	31
Bi	23	29	18	16	14
Bii	17	11	19	23	30
Ci	7	6	17	36	34
Cii	17	18	22	28	15
Di	21	17	19	23	21
Dii	34	37	18	10	1
Diii	26	21	25	17	10
Ei	34	30	21	12	3
Eii	16	23	24	29	8
Fi	23	22	23	22	9
All	***20***	***20***	***20***	***20***	***20***

Similar variations in other characteristics can be seen within the clusters, as highlighted in Table 3.6.

Table 3.6 Current account usage by cluster groups

Row percentages

Cluster	Current account usage		
	Has account; uses it	Has account; not used	No current account
Ai	93	5	2
Bi	83	10	7
Bii	97	2	1
Ci	92	6	1
Cii	83	7	10
Di	97	1	1
Dii	69	9	22
Diii	82	6	12
Ei	65	9	26
Eii	82	13	6
Fi	93	4	3
All	***85***	***7***	***8***

Table 3.7 Housing tenure by cluster groups

Row percentages

Cluster	Tenure					
	Own home outright	Own home with a mortgage	Rent from private landlord	Rent from local authority or housing association	Live with family	Other arrangement
Ai	42	45	4	6	2	1
Bi	34	31	7	21	4	2
Bii	26	48	12	6	8	*
Ci	13	70	6	8	4	0
Cii	7	39	21	26	6	1
Di	39	36	6	14	3	3
Dii	12	6	14	55	10	3
Diii	2	25	21	38	13	1
Ei	6	11	17	50	14	2
Eii	9	33	17	32	7	2
Fi	5	30	16	32	14	3
All	***26***	***35***	***10***	***21***	***6***	***1***

Note * indicates less than 0.5 per cent, but more than zero.

Table 3.8 Work status by cluster groups

Row percentages

Cluster	Work status							
	In full-time education	Working full time (30+ hours) including temporarily off work	Working part time (up to 29 hours) including temporarily off work	Looking after the home or family	Retired from paid work	Unemployed	On a government work or training scheme	Permanently sick or disabled
Ai	2	41	15	5	35	1	0	2
Bi	6	52	14	5	42	3	0	4
Bii	6	52	14	5	17	3	0	3
Ci	5	63	13	7	10	1	0	1
Cii	8	41	14	15	4	8	0	10
Di	3	31	14	15	32	3	0	2
Dii	7	17	13	13	30	12	0	9
Diii	9	3	10	17	3	17	0	9
Ei	9	21	13	20	10	18	1	9
Eii	8	36	22	13	10	8	0	2
Fi	9	37	17	15	5	13	0	5
All	***5***	***36***	***14***	***10***	***14***	***7***	*******	***4***

Note * indicates less than 0.5 per cent, but more than zero.

Table 3.9 Qualifications by cluster groups

Row percentages

Cluster	Qualifications								
	Higher degree/ post-graduate qualifications	First degree (including B. Ed)	Diplomas in HE/HNC	A/AS levels/ SCE Higher	Trade apprenticeships	O level/ GCSE grades A-C	O level/ GCSE grades D-G	Other qualifications	None of these
Ai	12	16	15	13	7	15	5	3	15
Bi	7	15	6	5	2	7	9	12	36
Bii	13	18	12	17	6	14	4	2	12
Ci	11	12	10	25	7	16	7	1	10
Cii	8	14	14	20	3	21	6	5	9
Di	3	3	11	16	7	15	7	5	34
Dii	1	2	2	11	4	25	10	4	53
Diii	5	10	8	17	4	25	10	4	18
Ei	1	6	6	14	4	25	11	6	28
Eii	3	9	11	16	2	22	6	4	27
Fi	4	7	7	24	5	20	9	4	20
All	***8***	***12***	***11***	***15***	***6***	***18***	***7***	***4***	***21***

Note * indicates less than 0.5 per cent, but more than zero.

We have identified the key characteristics of the people within each cluster group, starting with the only group that has at least average scores in all five domains.

Group A: No weak areas

People in the first cluster, [Ai], which was the most financially capable, generally scored well above average on all factors except keeping track, where their scores were average (Table 3.3). They tended to have higher incomes and also had high levels of product holding (Table 3.4). Very few people in this cluster did not have a current account (Table 3.6). They were also slightly older than average, and more likely to be retired (Table 3.8). Given their age it is not surprising that they also included a disproportionate number of couples with no dependent children.

Over four in ten respondents in this cluster (42 per cent) owned their home outright compared with 26 per cent across the whole sample (Table 3.7). People in this cluster were also more likely than average to be buying their home. Conversely, just six per cent were social tenants, compared with 21 per cent of all respondents.

Group B: One weak area

Respondents in cluster [Bi] were particularly adept at making ends meet (Table 3.3). They also scored well on planning ahead, but below average on staying informed. They were older than average, and close to two-thirds (62 per cent) of them were female (Table 3.4). However, whilst on average they had below-average incomes, this cluster included people from across the income distribution (Table 3.5).

This cluster had similar proportions of people without a current account as the sample as a whole (Table 3.6), but they were slightly more likely to have an account that they were not using, perhaps indicating a preference for cash budgeting.

Housing tenure in this cluster was similar to the sample as a whole, except that higher proportions owned their home outright, as might be expected given their age (Table 3.7).

Those in cluster [Bii] scored well below average on keeping track of their finances, but they had only average scores for planning ahead, which was perhaps surprising given their high average income, and high levels of product holding (Tables 3.3 and 3.4). However, the distribution of income in this group shows that a sizeable proportion are in the lowest income band, which might help to explain these findings.

People in this cluster were above average at choosing financial products and at staying informed. Taken together with the findings above this suggests that they may well have lacked organisation.

This cluster group was much less likely than average to live in local-authority or housing-association accommodation; just six per cent did so (Table 3.7). They were also the most highly qualified group; one in three (31 per cent) held a first or higher degree (compared with one in five across the whole sample) (Table 3.9). They were very likely to have a current account; 97 per cent had an account that they were using (Table 3.6).

Group C: Two weak areas

People in cluster [Ci] scored far below average on keeping track of their finances, and were also quite poor at making ends meet (Table 3.3). They were, however, relatively good at planning ahead. They had high incomes, high levels of product holding and were more likely than average to use a current account. Income distribution in this cluster is clearly skewed towards the highest income bands (Table 3.5). Indeed their characteristics suggest they may well have been living beyond their means, as they are not making ends meet *despite* having relatively high incomes and being good at planning ahead (Table 3.4). Of all the 11 clusters, this one had the highest proportion of couples (78 per cent) and parents with dependent children (41 per cent).

This cluster group also included the highest proportions of people buying their home with a mortgage (Table 3.7). Whilst 35 per cent of respondents had a mortgage on their home, some 70 per cent of cluster [Ci] had a mortgage; correspondingly few had other types of housing tenure.

People in cluster [Cii] were below average on planning ahead (though not nearly as notably as some), and did not do especially well on making ends meet; indeed they might well be considered to have been 'living for the day' (Table 3.3). They were, however, very good at keeping track of their money and staying informed about financial matters. These people were young compared with the sample as a whole, and more of them had children (Table 3.4). Their incomes were about average, but they had below-average levels of product holding, and approximately average levels of current account holding. They also included above-average proportions of people who were unable to work due to sickness or disability (ten per cent, compared with four per cent of all respondents).

People in this cluster were twice as likely as respondents on the whole to be private tenants (21 per cent compared with ten per cent), and particularly unlikely to own their home outright (seven per cent compared with 26 per cent) (Table 3.7).

Group D: Three weak areas

People in cluster [Di] did not do well at choosing financial products or staying informed, and were far below average at keeping track of their finances although they were good at making ends meet (Table 3.3). They were very likely to have a current account (just one per cent had no account), and they were using their accounts (Table 3.6). There were above average numbers of women in this cluster, and they tended to be middle-aged (Table 3.4). Their incomes were average, and the income distribution within the cluster largely reflected that of the whole sample (Table 3.5).

They were more likely to be home owners than tenants, and more likely than average to own their home outright (39 per cent), which probably reflects their above-average age (Table 3.7). However, they were the least likely of all 11 clusters to hold degree-level qualifications; just six per cent had a first or higher degree, compared with 20 per cent of all respondents (Table 3.9).

People in cluster [Dii] were managing fairly successfully to make ends meet, and did fairly well with regard to keeping track of their finances (Table 3.3). Their real weaknesses lay in planning ahead, staying informed and choosing financial products, which can be largely explained by their very low incomes and levels of product holding.

A very large proportion of this cluster lacked a current account (22 per cent), and a further nine per cent were not using the account they held (Table 3.6). Just one per cent of this cluster were in the highest income quintile (Table 3.5). They had an average age of 48 (quite close to the overall average of 47) and consequently included few parents with dependent children (Table 3.4). This cluster included the largest proportion of social tenants (Table 3.7). Over a half (55 per cent) were renting from their local authority or a housing association. Only six per cent had a mortgage.

Cluster [Diii] did reasonably well at staying informed but particularly badly at making ends meet and planning ahead (Table 3.3). They were the youngest of all the 11 cluster groups, with an average age of 34 (Table 3.4). They were also particularly likely to be single. Their level of product holding was low and their current account holding was slightly below average. The majority of respondents were in the lower three income quintiles (89 per cent), and incomes were consequently below average (Table 3.5).

As with cluster [Dii], this group were more likely than average to be social tenants, although the proportion was smaller (38 per cent) (Table 3.7). They were also twice as likely as average to be private tenants (21 per cent).

Group E: Four weak areas

These two clusters scored well below average on all domains except for keeping track.

Cluster group [Ei] was particularly good at keeping track of their money, but scored very low indeed on planning ahead, staying informed and choosing products (Table 3.3). Furthermore, with an average of 2.8 products each and over a quarter of them without a current account (26 per cent), they would include many people who would be considered financially excluded (Table 3.4).

They were younger, and had the lowest levels of income, on average. Over one-third of respondents in this cluster had incomes in the lowest quintile (Table 3.5). They also had the highest levels of unemployment, at 18 per cent, compared with seven per cent of all respondents (Table 3.8). It is perhaps not surprising, given other characteristics, that people in this cluster were far more likely to be social tenants than home owners; 50 per cent rented from their local authority or a housing association (Table 3.7) while just 17 per cent owned their home outright or with a mortgage.

Cluster group [Ei] also included a disproportionate number of women, single people, and parents with children. Together these characteristics would explain their low scores on planning ahead and choosing products, as they would have little money to set aside either for unexpected or anticipated expenditure, nor would they have much experience of buying financial products.

Those in cluster [Eii] had slightly above-average scores for keeping track and were taking some relatively positive steps with regard to planning ahead, at least compared with others in group E (Table 3.3). Their incomes were very similar to the survey average, although they were more likely to be in the middle of the distribution than the top or bottom quintile (Table 3.5). They included one of the larger proportions of couples and of parents with children (Table 3.4). Not surprisingly, this group also had the largest proportion of part-time workers; 22 per cent worked part time, compared with a survey average of 14 per cent (Table 3.8).

The proportion buying their house with a mortgage was similar to the survey average (34 per cent), but this cluster had fewer people owning their own home outright (nine per cent) and more renting (17 per cent were private tenants and 32 per cent social tenants) (Table 3.7). Also in contrast to [Ei], this cluster had similar levels of account holding as the overall survey sample (Table 3.6).

Group F: Five weak areas

Cluster [Fi] scored well below average on all five factors (Table 3.3). They were young (average age 36), and included roughly equal numbers of single people and couples. Their incomes and level of product holding were lower than average, but not the lowest of all the groups (Table 3.4). They were more likely than average to hold and use a current account (93 per cent) (Table 3.6).

This cluster also had the lowest proportion owning their home outright (five per cent) reflecting their average age; the proportion with a mortgage was similar to the population average (33 per cent) (Table 3.7). Consequently this cluster also included above-average proportions of both social (32 per cent) and private tenants (16 per cent). In fact the proportions renting and buying were very similar to those in cluster [Eii].

4. Managing money

In the focus groups that preceded the survey, managing one's money was seen as a core component – often the *key* component – of financial capability. There was a strong sense that this was central to financial capability. A financially capable person would be able to manage their money day to day, would be likely to know where they were with their finances, and would plan ahead for 'lumpy' expenditure such as quarterly bills or annual car tax and insurance. The developmental work with the focus groups also indicated that people generally believed that someone who was not making ends meet could not be regarded as financially capable no matter how good they were at planning ahead, choosing financial products, or staying informed.

At the same time, it was recognised that inadequate or low incomes made the process of money management more difficult. In the focus groups, this view was emphasised, perhaps surprisingly, by those on about-average incomes. They commented that some of the most skilful money managers were on very low incomes, and if they failed to make ends meet this was often due to lack of money rather than lack of financial capability. In addition, it was generally thought that someone on a high income ought to have money left at the end of the month.

For most people, money management also involved being in control of one's financial resources, monitoring income and keeping some kind of record of expenditure. Critically, it required someone to be aware of regular outgoings and to ensure that they would always be able to meet these commitments. To do this successfully required people to be organised, and would probably involve spending time working out budgets, keeping records, and checking statements for bank and credit card accounts (either paper versions or, increasingly, online).

In this chapter we analyse all of these areas to present an overview of the first of the financial-capability domains – how people manage their money. In doing so, we follow a format that is broadly replicated in subsequent chapters.

We begin by providing more detail about the three main areas of this domain – making ends meet, keeping track of money, and dealing with irregular commitments. This looks at the replies given to specific questions asked in the survey, and gives a broad indication of how these varied across different groups of people. We then show how these questions were converted into an overall value (or 'score') using a statistical technique known as factor analysis, which was discussed in greater detail in Chapter 3. The overall score is then analysed for different groups, with a statistical model of different scores providing a good indication of which groups achieve higher and lower levels of financial capability, controlling for other background data.

4.1. Making ends meet

Considerable time was spent ensuring that the survey interview included questions that were appropriate to people at extremes of income. Questions were also designed to identify and accommodate people with limited responsibility for money management. As far as possible, questions tried to take account of the complexities of money management in extended families that are common in some South Asian communities.

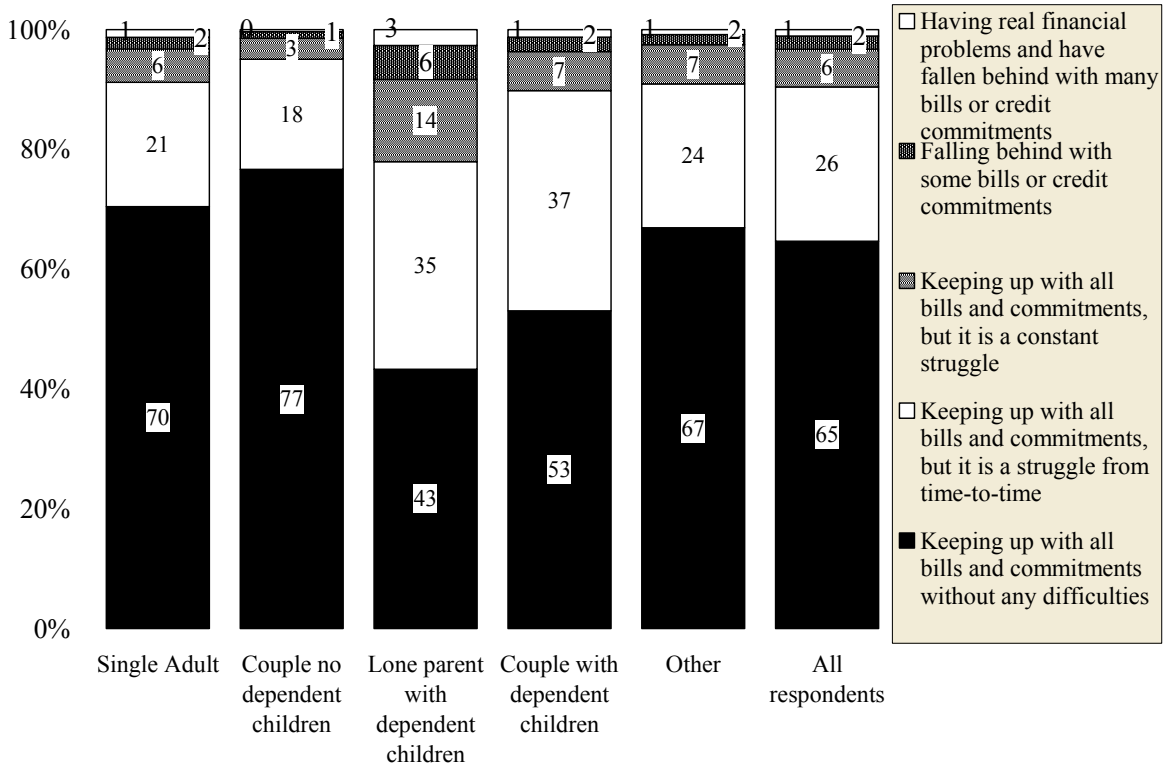
Previous surveys have included a variety of questions to capture people's ability to live within their means, and all seemed to have worked well. We decided to approach this in a variety of ways, asking people about going overdrawn, running short of money and the strategies used to manage when this happens, as well as the total amounts owed in relation to income. We also included questions about using credit cards to buy food and pay bills, but not settling the balance in full. Even so, it is fair to say that most questions were designed to discriminate shades of poverty and financial distress, more than they were designed to discriminate shades of affluence.

4.1.1. Keeping up with bills

Two-thirds of people (65 per cent) said that they were able to keep up to date with their bills and other commitments without any difficulties, and a further 26 per cent were able to do so, though sometimes it might be a struggle. Some six per cent were not falling into arrears, but noted that it was a constant struggle to keep up. That left just one per cent saying they had *'real financial problems'* and two per cent who were falling behind with some commitments.

These results are shown for different types of families in Figure 4.1. There was a fairly clear difference between those with and without children. Families with children were the most likely to be finding it difficult to manage. Only 43 per cent of lone parents said they did not have any difficulties (compared with 70 per cent of single adults). Similarly, whilst 77 per cent of couples without children could manage without difficulty, this was only true of 53 per cent of couples with dependent children.

Figure 4.1 How well respondent is managing commitments (bills and credit)



4.1.2. Making ends meet

Making ends meet was somewhat easier for families on higher incomes, but the link with income was not particularly strong (see Table 4.1). Overall half (52 per cent) of the respondents said they always had money left over at the end of the month (or the week, if that was how that planned) and never ran out.

This varied from a low of 46 per cent among the bottom fifth of incomes (equivalised to take account of differences in family size and composition) to a high of 61 per cent among the fifth of respondents with the highest incomes. Even so, people at all income levels included some who had difficulty stretching their incomes, and others who managed to live on those incomes and always retain a surplus. In other words, this question was capturing more than adequacy of income.

Table 4.1 Money left over at end of budgeting period (e.g. week, month)

Column percentages

	Quintiles of equivalised income					
Whether has money left over at end of week/month	**1 (low)**	**2**	**3**	**4**	**5 (high)**	**All**
Never runs out, always has money left over	46	50	55	49	61	52
Sometimes runs out, sometimes has money left over	30	31	29	35	28	31
Never runs out before end but never has money left over	10	7	5	7	7	7
Agrees that always runs out before end but also claims to always have money left over	2	1	*	1	*	1
Always runs out, never has money left over	12	10	11	8	4	9
Weighted base	***1068***	***1064***	***1066***	***1065***	***1066***	***5328***

Base: all respondents. Note * indicates less than 0.5 per cent, but more than zero.

4.1.3. Borrowing to make ends meet and getting into financial difficulty

In Table 4.2 we summarise the responses to a number of questions designed to capture the extent to which people relied on credit cards or overdrafts to help them meet day-to-day living expenses. Overall, around one in eight people (12 per cent) used credit cards for this purpose, and a similar number (13 per cent) had gone overdrawn on their current accounts. Slightly more (15 per cent) had experienced financial difficulties in the previous five years.

The average scores for those aged between 20 and 49 stood out as different from those of other age groups. They were the most likely to have an overdraft and to have found themselves in financial difficulties in the past five years. They were also the most likely to be using credit cards for day-to-day spending on basic items such as food, and not clearing the balance at the end of the month. Conversely, people aged 60 or older were the least likely to have overdrafts or to be using credit cards in such a way. They were also five times less likely to have had experience of financial difficulties than the average. These findings indicate some quite different money-management practices among the older age groups, compared to younger and more middle-aged groups.

Table 4.2 Overdrafts and use of credit cards for day-to-day spending, by age group

Cell percentages

Use of money	18-19	20-29	30-39	40-49	50-59	60-69	70+	All
Whether uses any credit cards that are not repaid in full each month for day-to-day spending	5	16	17	17	11	3	2	12
Is in overdraft on one or more accounts in own name	14	24	19	15	11	4	1	13
Whether found themselves in financial difficulties in last five years	13	23	23	16	13	5	3	15
Weighted base	***188***	***840***	***1035***	***947***	***834***	***739***	***745***	***5328***

Base: all respondents.

4.1.4. Levels of borrowing and saving

Information was also collected to allow calculations to be made of total borrowing in relation to income (and also to savings and investments), and also of levels of saving in relation to income. The analysis of these ratios is not straightforward. Many people have a level of savings or borrowing of zero, and this forms a large group in the analysis that can generate median values of zero. A number of respondents also had very low, and indeed zero, values for income. This is quite typical in surveys, but this is unlikely to represent their true income situations.

In Table 4.3 we show different levels of borrowing (stock of unpaid debt excluding mortgages) as a percentage of monthly income. As already discussed, over half the sample (55 per cent) had no borrowing of this kind. Of the remainder, some 13 per cent owed an amount greater than three months' income. This group with the highest levels of indebtedness (relative to their incomes) was most often found among those in their twenties (24 per cent) and thirties (18 per cent). Those older than 60 were the least likely to have any outstanding borrowing to repay.

Table 4.3 Outstanding borrowing, as a percentage of monthly income, by age group

Column percentages

Stock of debt (excluding mortgages)	18-19	20-29	30-39	40-49	50-59	60-69	70+	All
No borrowing	38	34	42	47	59	75	86	55
Zero income	19	5	1	1	4	6	5	4
Borrowing <50% of monthly income	14	17	16	17	12	7	5	13
Borrowing is 50-300% of monthly income	15	20	24	22	16	8	2	16
Borrowing is >300% of monthly income	13	24	18	14	10	5	2	13
Weighted base	***188***	***840***	***1035***	***947***	***834***	***739***	***745***	***5328***

Base: all respondents.

A similar analysis, but for level of savings, is shown in Table 4.4. A group of 14 per cent had savings equal to more than ten times their monthly income, and this was concentrated among those aged 50 or older. This was a sizeable group; 43 per cent had no savings and it was very unusual for younger groups, certainly those under 40, to have saved as much as ten times their monthly income.

Table 4.4 Level of savings, as a percentage of monthly income, by age group

Column percentages

Level of savings	18-19	20-29	30-39	40-49	50-59	60-69	70+	All
No savings	37	43	43	40	46	47	44	43
Zero income	19	5	1	1	4	6	5	4
Savings <50% of monthly income	20	24	21	16	10	6	6	15
Savings are 50-1000% of monthly income	22	26	29	31	22	16	21	25
Savings are >1000% of monthly income	3	2	6	12	19	26	24	14
Weighted base	***188***	***840***	***1035***	***947***	***834***	***739***	***745***	***5328***

Base: all respondents.

4.2. Keeping track of spending

A range of questions captured the extent to which people kept track of their money. This included things such as the extent to which people checked entries on bank and credit card statements, whether people checked the balance in their account before making a withdrawal, and how accurately they knew how much money they had to last them until their next pay day. We discuss the responses to these questions below.

4.2.1. Checking bank and credit card statements

Most people took some interest in the contents of their bank statements. Just over four in ten (42 per cent) said they kept and checked receipts against the statement entries. A slightly smaller proportion (36 per cent) checked the detail of the entries to ensure that they looked right. One in six (16 per cent) people were, however, content to focus on the final balance, whilst around six per cent appeared to ignore their bank statements altogether.

People tended to check their credit card statements more carefully than their bank statements (Table 4.5). Half kept their credit card receipts and checked them against the monthly statement, while a further third scrutinised the entries to make sure they all looked correct. Only one in ten (11 per cent) merely looked at the final balance, while one in twenty (five per cent) did not look at the statement at all.

Table 4.5 What people do with their bank and credit card statements

Column percentages

Action on receiving statement	Bank account	Credit card
Checks receipts against statement[+]	42	50
Checks entries and balance	36	33
Just checks final balance	16	11
Doesn't look at it at all	5	5
Never receives statement	1	0
Don’t know	*	1
Weighted base	5328	2959

Note * indicates less than 0.5 per cent, but more than zero.

[+]In the first column this category also includes cash budgeters.

4.2.2. Keeping track of money available

Overall, almost two in five (38 per cent) people always checked their balance before taking out money, and a further one in five (21 per cent) did so most of the time (Table 4.6). At the other extreme, though, a quarter of the people interviewed never, or hardly ever, checked their balance. Here there were some interesting differences by gender, with women making more frequent checks than men.

Table 4.6 Frequency of checking balance, before withdrawing cash

Column percentages

Frequency of checking balance	Men	Women	All
Always[1]	35	41	38
Most of the time	20	22	21
Sometimes	18	15	16
Hardly ever	12	9	11
Never	15	13	14
Don't know	*	*	*
Too hard to say	*	*	*
Weighted base	***2553***	***2775***	***5328***

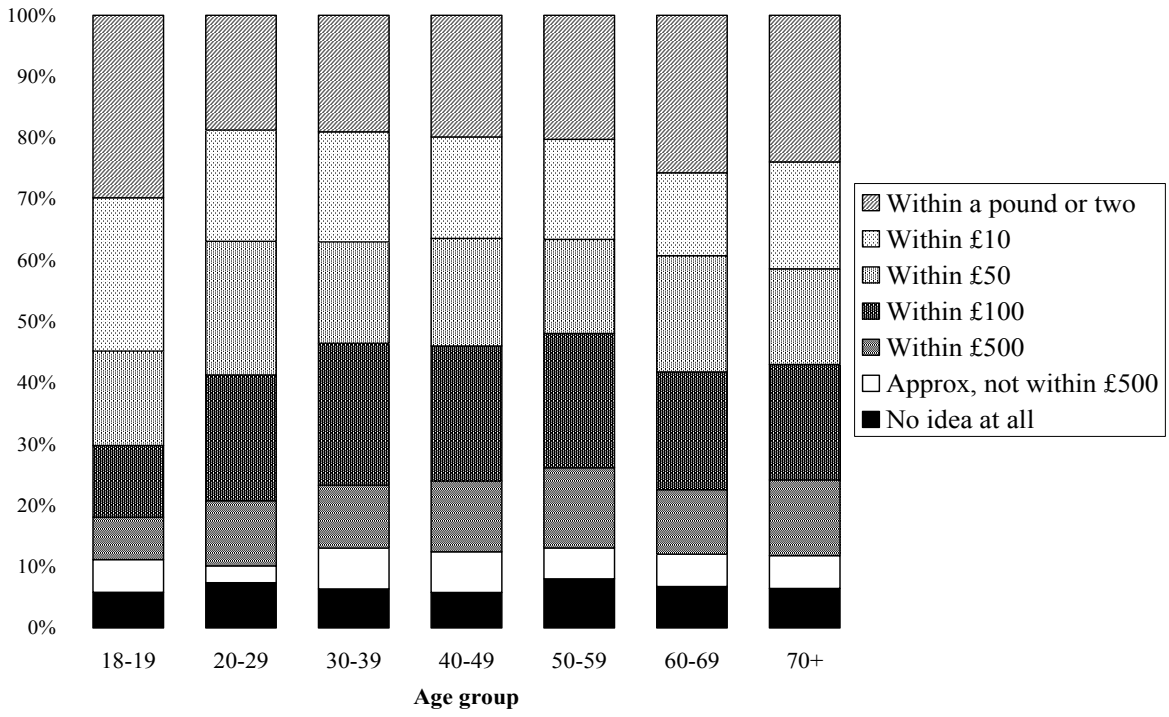
Base: all respondents. Note * indicates less than 0.5 per cent, but more than zero.

[1]This category includes cash budgeters.

When asked about how much they had in their current accounts (or cash at hand if they were cash budgeters), around one in five (21 per cent) knew their balance within a pound or two, whilst 17 per cent knew within about £10, and 18 per cent within £50. Conversely, seven per cent admitted to having no idea at all, not even to within £500.

These results are shown for different age groups in Figure 4.2. Respondents in their teens were the most likely to know their balance with complete accuracy, or very close to it. Those age 60 or older were the next most likely to be confident that they knew their financial status very closely. Those aged 30-59 appeared to be the least aware of their money balance.

Figure 4.2 Knowledge of current money position



Finally, we asked people whether they kept any records either of the money withdrawn from a current account or of their day-to-day spending. Whilst six per cent of the respondents did not use debit cards, credit card cheques or post office cards to withdraw money, the vast majority were doing so. But as Table 4.7 indicates, more than four in ten (43 per cent) respondents did not keep any records of the withdrawals they made from their accounts.

Table 4.7 Record keeping: withdrawals

Cell percentages

Keeping records of withdrawals	Per cent
Keeps receipt from ATM/cashback	42
Records amount in cheque book	9
Records amount somewhere else	11
Doesn't record it at all, even online	43
Refused	6
Don't know	*
Weighted base	5027

Note * indicates less than 0.5 per cent, but more than zero.

Table 4.8 Record keeping: daily spending

Cell percentages

Keeping records of spending on food and day-to-day activities	Per cent
Keeps receipts	31
Records amount spent in cheque book	3
Records amount spent somewhere else	9
Doesn't record amount spent at all	60
Refused	*
Don't know	0
Weighted base	5027

Note * indicates less than 0.5 per cent, but more than zero.

We collapsed the replies to these two questions to create a single variable that could be used in the factor analysis. This showed that only 54 per cent of people kept any type of records.

4.3. Planning expenditure

As we note above, a financially capable person might be expected to plan for irregular or 'lumpy' expenditure, such as quarterly or annual bills. Respondents were asked which of a list of bills of this type they paid, and whether (and how) they ensured they would have the money to pay when they were received.

In total, one in ten (ten per cent) of the people interviewed admitted that they (and their partner if they had one) made no provision for bills they received, and a similar number (nine per cent) relied on someone else to do the planning. Four in ten people (40 per cent) claimed they had no need to plan – they either had no bills to pay or they could easily find the money without planning. A similar proportion (37 per cent) put money aside so that they would have enough to pay bills when they fell due, and a small number (three per cent) kept their spending down when they knew that a bill was due to come in.

4.4. Involvement with money management

In the development phase, it became apparent that money is usually managed on a household level, so that couples often share the task. There are, however, instances where individuals may play no role at all but rely almost entirely on someone else to manage the household budget. This has two consequences for the survey. First, if the person managing the money for them is financially capable, they might look more capable than they actually are. Secondly, if they rely on someone who is financially *incapable*, this should be captured in their score.

We therefore asked who was responsible for five different aspects of managing money, which were making sure that bills were paid, and that money was put aside for 'lumpy' expenditure, for a drop in income, in case of a major expense or for retirement[10]. Half of the people we interviewed (48 per cent) took personal responsibility across all five areas, a further quarter (23 per cent) for four of them, and one in ten (11 per cent) for three. But that left a minority who were fairly heavily dependent on someone else for financial planning: six per cent took responsibility for just two areas, five per cent for one and seven per cent for none at all.

Those most likely to take little or no responsibility (defined as either one or none of the five areas) were predominantly young people (36 per cent of the under 20s, compared with an average of 12 per cent), those in full-time education (27 per cent) and people living in someone else's household (27 per cent). As might be expected, people living as a couple were likely to rely on someone else (i.e. their partner), particularly if they had dependent children (19 per cent). Interestingly, though, there was no difference between men and women. The development work had shown that in couples where responsibility is devolved to one person, it is normally to the one considered the more capable.

4.5. Attitudes towards spending and saving

A series of questions effectively captured people's attitudes to meeting commitments, using credit, and spending versus saving. The developmental phase had found that people felt these questions summed up their approach to money management quite accurately. In Figure 4.3 we show the overall responses to this set of attitudinal questions.

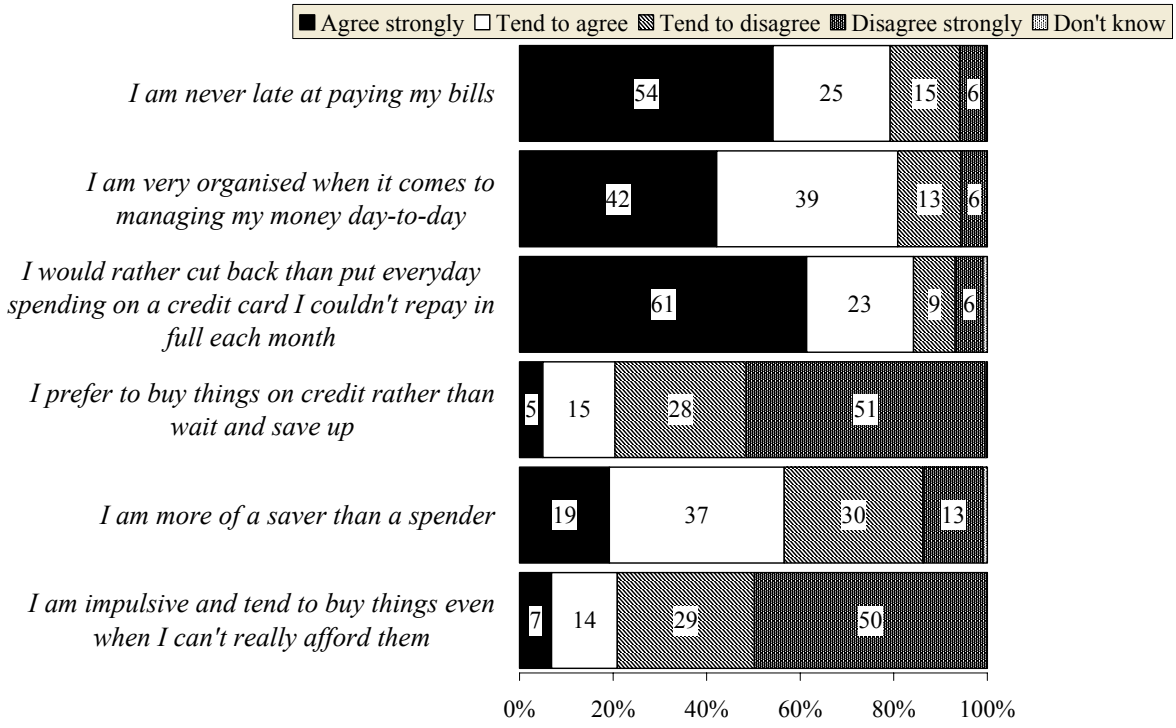
Many people had fairly positive descriptions of their approaches to money management. Just over half (54 per cent) strongly agreed with the statement that they were never late at paying bills, and a further quarter *tended* to agree. Even more (81 per cent) agreed that they were *'very organised'* when it came to managing their money on a day-to-day basis. This left minorities, around one in five in each case, who disagreed with these statements.

[10] Strictly speaking the last three of these form part of the second domain - planning ahead. After testing it was decided to derive a single variable across all five areas to give a picture of the extent to which individuals were involved in financial planning.

We also found mostly cautious views about credit. Over six in ten (61 per cent) strongly agreed that they would rather cut back on spending than accumulate a debt on a credit card. A further 23 per cent said they tended to agree with this perspective. Some 15 per cent disagreed with this view, with six per cent disagreeing strongly. By the same token, 79 per cent of people disagreed that they would *prefer* to buy things on credit rather than taking the time to save up to afford them.

Respondents were less able to give firm views on whether they were more of a *'saver than a spender'*. Some 37 per cent tended to agree, whilst 30 per cent tended to disagree. Finally, some 50 per cent strongly disagreed that they would buy things on impulse (when unable to afford them) and a further 29 per cent tended to disagree with this view. This left around one in five (21 per cent) agreeing that this statement represented a fair view of their habits.

Figure 4.3 Attitudes towards spending, saving, credit



4.5.1. Combining the attitude statements

As we show in Table 4.9, people tended to respond to the attitude statements in a consistent manner, with relatively strong correlations between the answers given to each question.

Table 4.9 Links between attitude statements (correlation coefficients)

Pearson correlations

	[1] impulse buyer	**[2] saver or spender**	**[3] buy now or save up**	**[4] credit or cut back**	**[5] very organised**	**[6] never pay bills late**
[1] *I am impulsive and tend to buy things even when I can't really afford them*	1	-0.412	0.371	-0.237	-0.387	-0.248
[2] *I am more of a saver than a spender*		1	-0.258	0.205	0.435	0.328
[3] *I prefer to buy things on credit rather than wait and save up*			1	-0.235	-0.203	-0.145
[4] *I would rather cut back than put everyday spending on a credit card I couldn't repay in full each month*				1	0.190	0.165
[5] *I am very organised when it comes to managing my money day to day*					1	0.395
[6] *I am never late at paying my bills*						1

Base: all respondents.

The correlations indicated that it would be appropriate to combine the set of six attitude statements into a single variable using factor analysis (see Table 4.10). This also ensured that the overall scores derived for managing money were firmly based on people's behaviour, with a lesser role for attitudes. It turned out that there was, however, a high degree of association between attitudes and behaviour.

Table 4.10 Factor analysis of managing money attitude statements

Statement	Loadings
I am impulsive and tend to buy things even when I can't really afford them	-.722
I am more of a saver than a spender	.724
I prefer to buy things on credit rather than wait and save up	-.553
I would rather cut back than put everyday spending on a credit card I couldn't repay in full each month	.474
I am very organised when it comes to managing my money day to day	.716
I am never late at paying my bills	.595

4.6. Factor analysis of managing money

After testing a range of possibilities, the final factor analysis for the 'managing money' domain was based on the following 16 variables.

- **Making ends meet**

  How well keeping up with bills and credit commitments

  How often run short of money/have money left over

  Whether in financial difficulties in past five years

- **Borrowing to make ends meet**

  Whether current account overdrawn at present

  Whether uses credit

  Ratio of borrowing to saving

- **Checking and recording expenditure**

  What does with bank statements

  What does with credit card statements

  Whether keeps records of money withdrawn or spent

- **Knowing where you are financially**

  How accurately knows how much money has

  Risk associated with savings and investments

  Frequency of checking account balance before withdrawing cash

- **Planning for 'lumpy' expenditure**

  Whether makes any provision

  What provision is made

- **Attitudes**

  Collapsed score for six attitude statements

- **Score for personal involvement with money management**

In the remaining areas of this report – the other domains of financial capability – we had a strong prior view that a single factor would be able to represent the range of different questions. This was the message from the development work. In contrast, we did not have such strong expectations of a single-factor solution for managing money.

In fact, the statistical analysis and our interpretation of the results tended to indicate that *two factors* were needed to adequately represent the considerable range of questions being included. It seemed clear that one set of questions related to how well people were making ends meet, and another related to their processes of account management and daily control[11].

The manner in which the range of questions separated across these two factors is shown in Table 4.11. There were ten questions that were important for the first factor extracted, and nine questions linked to the second factor (three questions loaded on both components, so-called cross-loaded questions[12]).

The first factor - *making ends meet* - was strongly associated with whether people kept up with bills, whether they ran short of money or had money left over at the end of the week/month, whether they had experienced any financial difficulties, plus their use of overdrafts and credit cards for day-to-day living expenses, and their ratio of (unsecured) borrowing to saving. The attitude statements were also strongly associated with this factor.

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[11] Technical note: a variety of 'rotation' methods were used in exploring the statistical analysis, both oblique (such as promox) and orthogonal (such as varimax). The precise choice did very little to affect either interpretations or size of loadings.

[12] In the other domains, the theoretical perspective and statistical evidence pointed in the direction of one-factor solutions, so there was no possibility of 'cross-loaded' variables becoming an issue.

The second factor - *keeping track of money* - was more strongly associated with people's approach to checking their statements, knowing their account balances, retaining key records of their financial products, and planning ahead for 'lumpy' expenditure. The extent to which people were personally involved with money management was also associated with this factor.

Table 4.11 Factor analysis of managing money questions

Item loadings

KMO = 0.70	Component	
Questions/variables	**[1] – making ends meet**	**[2] – keeping track of money**
Statement that best describes how well currently keeping up with bills and credit commitments	.731	
Attitude statements combined	.715	
Running out of money	.678	
Whether respondent found themselves in financial difficulties in last five years	-.551	
Ratio of unsecured borrowing to saving	.545	
Overdrafts on own account	.456	
Whether uses any credit cards for day-to-day spending	-.352	
Frequency check amount of money in current account	-.302	.579
What does with bank statement		.533
How accurately knows how much money has		-.526
Planning expenditure	.350	.495
Detail look at credit card statement		.453
Keeping records		-.436
Frequency of checking balance before withdrawing cash		.433
Score for involvement with money management		-.417
Planning ahead for bills and expenses paid quarterly, six monthly or annually (examples included utility bills, car tax and insurance, subscriptions and season tickets)	.361	.366
Variance explained by component	18%	13%

Varimax rotation.

4.7. Detailed analysis of the factor score

We have developed two separate scores for managing money: one for making ends meet and the other for keeping track of finances. The scores achieved averaged 75 for making ends meet, and 64 for keeping track.

This does not, in itself, tell us whether the UK population as a whole is good or bad at money management. However, the replies to individual questions (reported in Sections 4.1 and 4.5) would seem to indicate that, on the whole, the UK population does fairly well with regard to making ends meet. And the distribution of factor scores shown in Figure 3.1 shows that although most people were making ends meet, quite a few were finding it a struggle and a small minority were doing very badly indeed.

The situation with regard to keeping track of finances is less positive. As Sections 4.2 to 4.4 show, a sizeable minority of people were not keeping a close watch on their finances, and the distribution of scores in Figure 3.3 indicates a much broader spread of capabilities.

We may now use the factor scores derived to investigate variations in financial capability across a number of key population groups. In doing so, it is best to focus on the patterns among groups rather than any specific scores. In the sections that follow, the average overall factor score has been compared and contrasted for a wide range of groups. In addition, we have used an alternative approach which considers a wide range of variables all at the same time, and identifies which have important effects independently of other background variables. This was achieved using a statistical approach known as linear regression, and significant results from such an approach are shown in Table 4.12.

The interpretation of this table is straightforward. For each of the characteristics a positive number indicates that having that feature is associated with a higher score, whilst a negative number means that people with that characteristic tended to score lower than others – in each case controlling for the other pieces of information shown. The size of the number indicates the size of the effect on the score. To take one example, compared with those in the middle part of the income distribution (with higher incomes than the bottom 40 per cent, and lower than the top 40 per cent), those in the top 20 per cent of incomes tended to score 2.7 higher on making ends meet and 1.8 lower on day-to-day control of money.

A single asterisk means that the finding is statistically significant with a 95 per cent level of confidence, and a double asterisk means that the finding is statistically significant with a 99 per cent level of confidence. It is always possible that observed relationships have arisen by chance, as a result of random variation, but these two thresholds are often used to distinguish a level of confidence that goes beyond a chance finding.

Table 4.12 Significant variables from regression analysis of managing money

Explanatory variables	Making ends meet	Keeping track
(Constant)	69.7**	57.1**
Religion *reference group (ref:) is 'none'*		
Christian	1.0*	1.4**
Muslim	3.8**	0.2
Hindu	5.2**	3.1
Sikh	5.4*	3.1
Partner is main earner	1.5**	-2.8**
Gets free financial products from work	1.8**	0.3
Current account use *ref: 'has current account and uses it'*		
No current account	-5.0**	12.8**
Has current account but does not use it	-3.2**	10.6**
Age *ref: age 40-49*		
Age 20-29	-3.1**	-0.5
Age 30-39	-1.9**	-0.8
Age 50-59	2.8**	-1.0
Age 60-69	6.6**	-1.2
Age 70-79	9.0*	-1.5
Income *ref: quintile 3*		
Quintile 5 (highest)	2.7**	-1.8*
Housing tenure *ref: 'own home with a mortgage'*		
Own home outright	4.4**	1.1
Private rent	-2.3**	3.7**
Social rent	-3.6**	3.3**
Gender *ref: male*	0.1	2.2**
Country *ref: England*		
Wales	-1.5*	-0.1

Explanatory variables	Making ends meet	Keeping track
Qualifications *ref: GCSE A* to C*		
Higher/post-graduate degree	1.7*	-1.0
First degree	1.6*	0.3
Family type *ref: 'couple, no children'*		
Single adult	0.4	3.0**
Lone parent and dependent children	-2.2**	3.9**
Couple and dependent children	-1.5**	0.3
Work status *ref: full-time work*		
Part-time work	0.4	1.7*
Looking after home/family	-0.9	2.0*
Retired	2.0*	2.7**
Unemployed	-3.5**	2.7**
Permanently sick/disabled	-2.8*	2.2
Adj r-sq	0.267	0.166

** indicates significance at the 1 per cent level.

* indicates significance at the 5 per cent level.

Some of the most important factors in '*making ends meet*' were age (the older people were, the better they were at making ends meet) and housing tenure (tenants faring worse than owners). Families with children, and those out of the labour market, also tended to get lower scores on making ends meet. Certain religious groupings (Muslim, Hindu, Sikh) scored above average on doing so. Scores for making ends meet were also higher if people had financial products as perks of their job. They were lower for those without current accounts (or not using such an account), and this is after controlling for low income, family type, and so on. Income, on the whole, played less of a role.

Turning now to '*keeping track*' of finances, here respondents not using a current account appeared to do relatively well. Tenants also appeared to be better at keeping track of their money than home owners, and lone parents tended to be more capable in this regard than other family types (with single adults scoring almost as highly). Those out of the labour market also did better at keeping track than respondents in full-time paid work. Again income appeared less important than other factors.

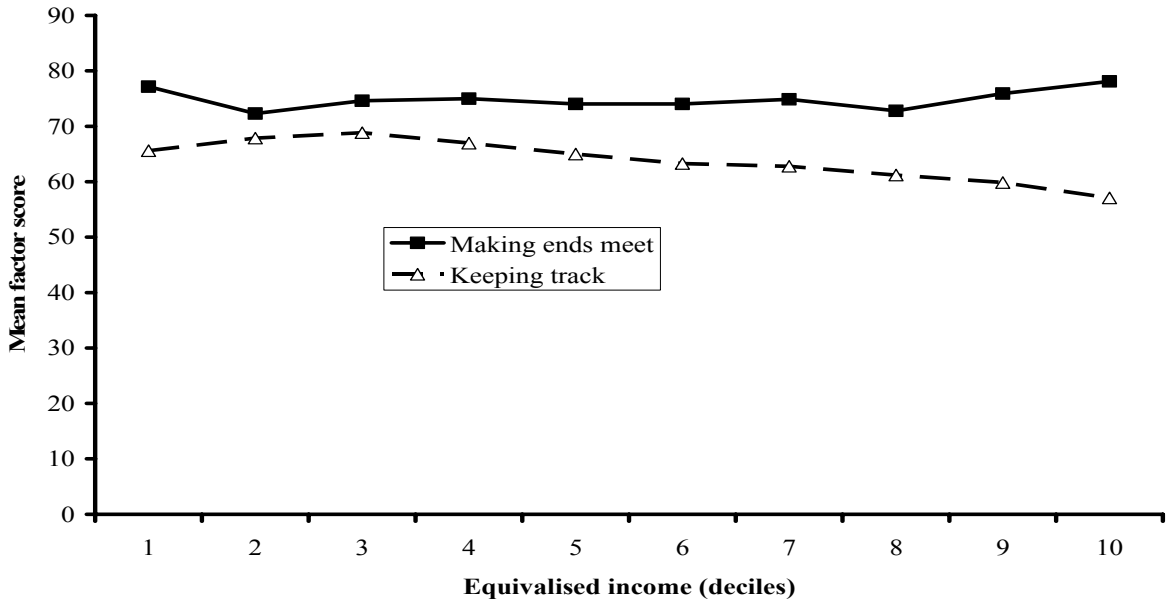
Overall the two regression analyses indicate that the characteristics associated with each of the two factors in this domain are rather different. *'Making ends meet'* is associated with a relatively wide range of personal and household characteristics including age, religion, work status and family type. In contrast, *'keeping track'* appears to be associated with particular circumstances (such as being a lone parent, having a long-standing illness or unemployment). The main exception to this is that gender is significant in explaining the keeping-track factor scores.

4.7.1 Income

As might have been expected, those respondents on higher incomes (particularly in the top three-tenths of the income distribution) tended to do better at making ends meet than those on lower incomes. Even so, the differences were not particularly large (see Figure 4.4). The same chart shows a reversed relationship between higher incomes and effectively keeping track of finances. Those on lower incomes scored more highly on keeping track of their money than respondents in the higher income groups.

The regression analysis, however, showed that, on the whole, other factors explained these apparent links with income (see Table 4.12). Only being in the highest income quintile had a significant effect, and was strongly associated with a higher score on managing money (an extra three points, relative to those in the middle of the income range), and more weakly associated with a lower score on keeping track (two points lower). In other words, people on high incomes were able to make ends meet despite not keeping records.

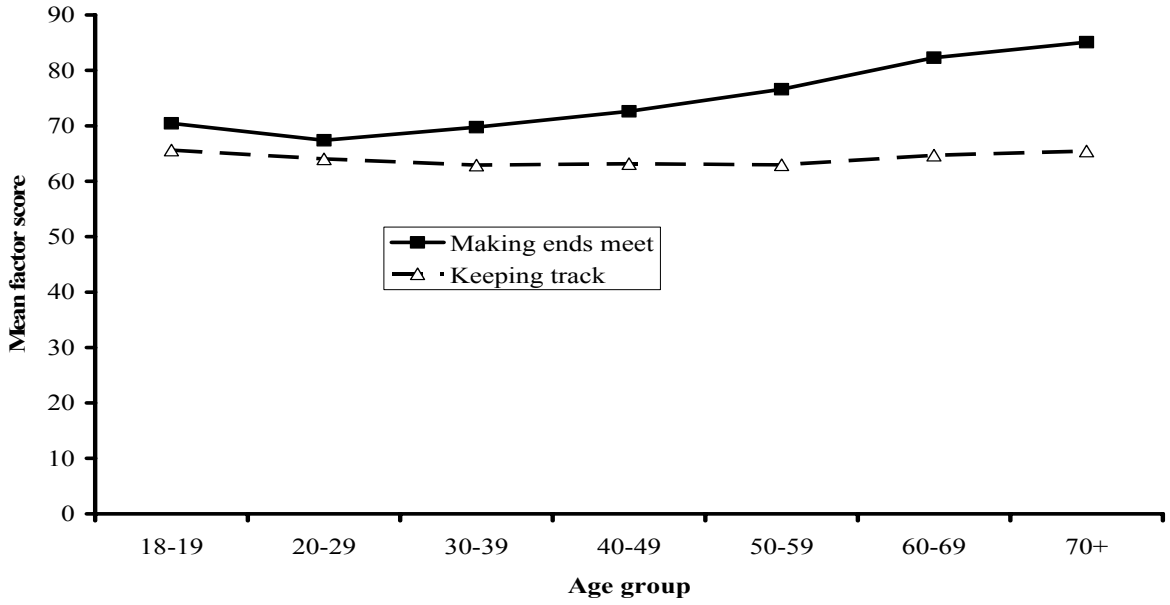
Figure 4.4 Managing money and income



4.7.2. Age

There also appeared to be a strong link between making ends meet and age. Successively older age groups scored higher on making ends meet. The differences were quite large, with increasing age seeming more powerful an effect than increasing income. There was, perhaps surprisingly, no clear or strong relationship between age and keeping track of money (see Figure 4.5).

Figure 4.5 Managing money and age



In this case, the effects of age on making ends meet could also be seen clearly in the results of the regression analysis. Average scores increased across the age groups so that people aged over 70 on average scored 12 points more than those aged under 20, even when other factors were taken into account. The regression analysis confirmed that age was not associated with people's ability to keep track of their money.

4.7.3. Employment

Respondents in paid work, and particularly those who had retired from paid work, achieved the highest average scores on making ends meet (see Table 4.13). People who were looking after the home, or unemployed, scored well below the average.

People who had retired also scored just above average on keeping track of their money. This was unusual as, on the whole, those tending to score highly on making ends meet scored less well on keeping their money under close scrutiny, and vice versa. People who were unemployed, or unable to work because of ill health or disability, took the most pains to monitor where their (limited) money was going.

Table 4.13 Work status and managing money

Average factor scores

	Making ends meet	Keeping track	*Weighted base*
In full-time education	71	62	***251***
Working full time (30+ hours) including temporarily off work	74	60	***1944***
Working part time (up to 29 hours) including temporarily off	75	64	***738***
Looking after the home or family	68	67	***529***
Retired from paid work	84	65	***1278***
Unemployed	64	70	***349***
On a government work or training scheme	[71]	[75]	***7***
Permanently sick or disabled	69	69	***233***
All	75	64	***5328***

Numbers in [ ] are based on relatively few respondents and so may be unreliable.

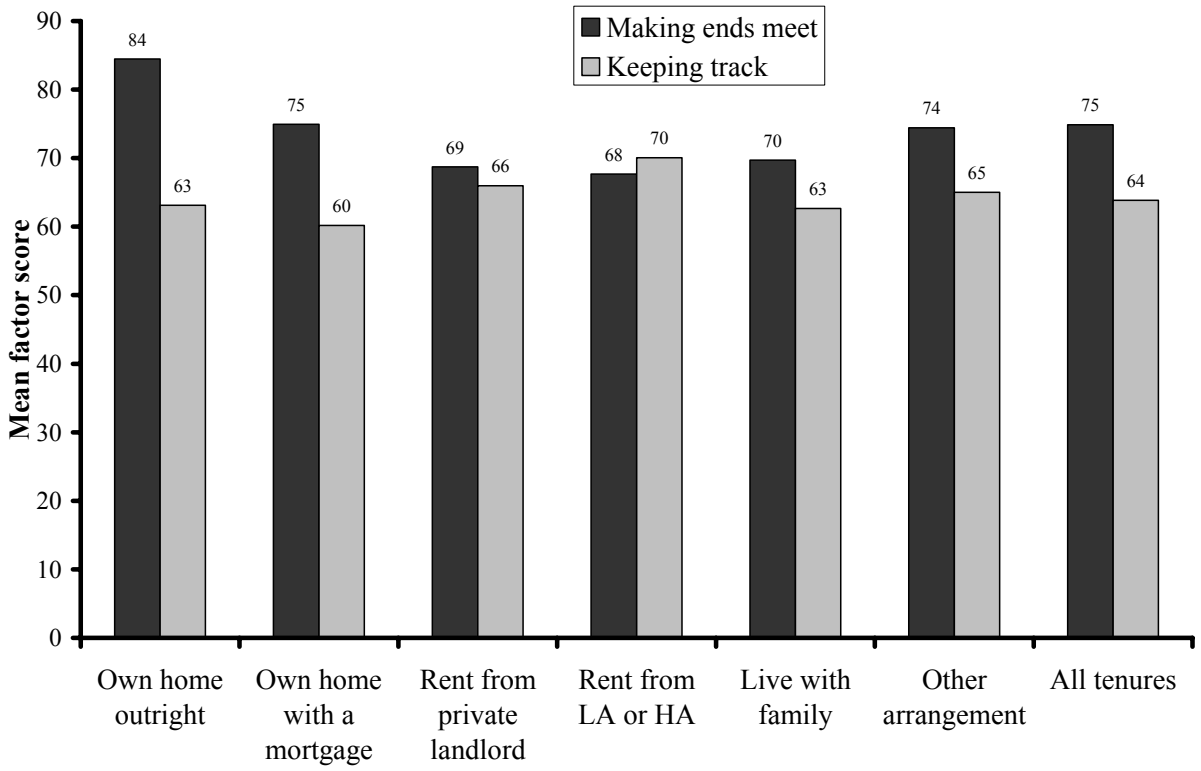
The regression analysis, which controlled for other factors, indicated some interesting findings. Compared with people in full-time work, retired people got higher scores on both making ends meet and keeping track. Unemployed people, in contrast, did less well making ends meet but rather better at keeping track of their money. People who were unable to work through sickness or disability also scored lower on making ends meet, but in this case there was no link with keeping track. Being in part-time work or looking after a home/family was associated with slightly higher scores on keeping track.

4.7.4. Housing and region

The most impressive scores on making ends meet were achieved by those who owned their homes outright. Owners, in general, scored more highly than tenants in this regard (Figure 4.6). By contrast, tenants tended to score well on keeping track of their money. Outright owners scored close to average on keeping track of money; this group is likely to comprise those which have tended to be more affluent than the average, and those who are older than average.

The regression analysis confirmed that these findings held even when other factors were taken into account. So, for example, local-authority and housing-association tenants scored four points less than home buyers on making ends meet, but three points more on keeping track.

Figure 4.6 Managing money and housing tenure



We felt that it was also important to test whether neighbourhood characteristics had any impact on financial capability. It might be expected that people learn from those around them, and look to neighbours when seeking advice. The survey data identifies each individual's area of residence according to ACORN classifications ('A Classification Of Residential Neighbourhoods'). This provides detailed information about the type of neighbourhood that each person lives in. For the analysis described here, we have used the five aggregate categories described in the ACORN coding. These are 'wealthy achievers', 'urban prosperity', 'comfortably off', 'moderate means' and 'hard pressed'. In the regression analyses described in this chapter we use the 'comfortably off' category as our comparison group.

In some of the other domains we detected some clear area effects. However, in the case of managing money, the type of neighbourhood (as captured by the ACORN classification) was not significant for either of the factors (see Table 4.12).

There also seemed to be few differences in financial capability (at least in relation to managing money) between the different countries of the UK (see Table 4.14). England tended to score a little better on making ends meet, and not so well as Scotland and Northern Ireland at keeping track of their money. However, the differences were very small and not significant in the regression analysis.

Table 4.14 Managing money and country

Average factor scores

	Making ends meet	**Keeping track**	***Weighted base***
England	75	64	***4465***
Wales	73	64	***261***
Scotland	74	65	***458***
Northern Ireland	74	66	***144***
All	75	64	***5328***

4.7.5. Family circumstances

In Table 4.15 we contrast different types of families. This shows that families without children were doing better at making ends meet than households with dependent children, and that lone parents fared the worst. The regression analysis showed that these effects persisted even when we had controlled for other factors such as age and income.

The relative scores for keeping track of money were somewhat different, with lone parents and single adults doing best, and little difference between couples on the basis of whether they had children.

Table 4.15 Managing money and family type

Average factor scores

	Making ends meet	Keeping track	*Weighted base*
Single adult	78	68	***1080***
Couple with no dependent children	79	62	***1516***
Lone parent with dependent children	67	70	***603***
Couple with dependent children	72	61	***1180***
Other	74	63	***949***
All	75	64	***5328***

4.7.6. Engagement with financial services

Ownership and use of a current account to manage finances proved highly significant for both managing money and keeping track (see Table 4.12) even when other characteristics such as age, income and work status were controlled. People who deployed cash budgets (using no account at all) scored five points lower on making ends meet than those who used a bank account. Even those who had, but did not use, an account also scored fewer points on average.

In contrast, people who did not use an account to manage their money scored significantly higher on keeping track, those with no account at all getting 13 points more than people who used an account day to day. People who had, but did not use, an account scored an average of 11 points more.

4.7.7. Other significant factors

For reasons that are hard to explain, practising certain religions seemed to be significantly correlated with higher scores on making ends meet (see Table 4.12). This applied especially to Hindus and Muslims, but also to Sikhs and, to a lesser extent, Christians.

Women scored more highly on keeping track than men, but there was no significant gender difference on making ends meet.

4.7.8. Factors with little or no significance

In other domains, as we shall see, education often played a significant role in relation to financial capability. On the whole it had hardly any effect on managing money (see Table 4.12).

4.8. Summary

On the whole, most of the UK population does quite well when it comes to making ends meet. Even so, there is a minority that scored really quite badly. The groups that were least likely to make ends meet were young, rented their home, and managed a cash budget. They included lone parents, unemployed people, and people unable to work through long-term sickness or disability.

In contrast, individuals differed rather more in the extent to which they kept track of their finances. Regardless of income, some knew to within a pound or two how much money they had at any one time; others had only the vaguest idea. Some checked to make sure sufficient money was in their account before withdrawing cash or making a big payment; others did not. Some kept records and checked statements on their bank accounts to make sure that no errors had been made by the bank and to make sure that all payments had been processed; others merely skimmed statements or did not look at them at all.

Often, the types of people who scored highest in this area were the ones who had done less well with regard to making ends meet. So scores were markedly higher if people did not use a current account to manage their money, as well as for tenants, lone parents and unemployed people. Here age played very little role, suggesting that people are either careful record keepers or not; it is not a skill that is learnt over time. On both measures, there was only a very weak link with income and none at all with education.

5. Planning ahead

There was clear consensus in the focus groups that a financially capable person would try to make adequate provision for their own future. They would plan ahead in order to minimise the impact of a reduction in income or a large outgoing. In this domain we therefore consider both the extent to which people are planning ahead for anticipated expenses (such as buying a car, paying for a wedding and for their retirement) and their ability to cope with unexpected expenses or a drop in income.

The qualitative research that preceded the survey also showed that planning ahead was sometimes an aspiration that was not realisable. Some people have insufficient resources to build up a buffer in case of financial emergencies even though they may want to do so. They may be particularly good at managing their money, and agree wholeheartedly that forward planning is financially capable, and yet be unable to build up their own savings. The survey questionnaire, therefore, included questions designed to capture a respondent's *attitude* towards planning for the future as well as identifying whether their behaviour indicates capability in this domain.

We discuss the responses to the questions in this section in more detail later on. We also indicate the information that has been used to derive the factor score for this domain, and explain why we used some pieces of information and not others. We then investigate how the resultant factor scores vary by circumstances and personal characteristics.

5.1. Substantial drop in income

The focus groups agreed that people should have some financial provision because they might well face periods when they need to find additional resources. It is therefore interesting to find out how many of the survey respondents had actually experienced financial shocks in the recent past. Answers to questions about the past were not intended to be included in the factor score, but to add context to the results.

The first question in the 'planning ahead' domain is one of these context questions. It asks whether the respondent or their partner had experienced a large, unexpected drop in income[13] in the last three years (retirement was not included in this). Just under three in ten (28 per cent) reported that they had experienced such a drop, and this varied little by characteristics such as gender, qualifications or current (equivalised) income.

[13] We did not quantify a 'large drop in income', but respondents were given a list of events to indicate the kind of reduction we were referring to. This list included redundancy and a drop in income following separation.

People who reported that they were currently unemployed or that they were permanently incapacitated were most likely to have suffered a recent substantial fall in income (51 per cent and 45 per cent respectively). Lone parents were also more likely than average to report that their income had unexpectedly fallen (36 per cent). So, too, were social tenants (37 per cent), whilst those who owned their home outright were far less likely to have suffered such a setback (19 per cent).

Most (97 per cent) of those who had recently faced a large unexpected fall in income had found ways of making ends meet. However, three per cent claimed that they had not, and had fallen behind with bills or other commitments. The permanently incapacitated and lone parents were most likely to find it impossible to make ends meet (seven per cent and six per cent respectively).

Respondents talked of many ways of coping with financial shocks, from drawing on savings to borrowing money. However, of those who discussed the methods they had actually used to make ends meet after an unexpected fall in income, it was particularly common to report that they had cut back on spending (55 per cent had done so). Only 16 per cent had withdrawn money from savings accounts, and even smaller proportions had claimed on insurance (three per cent) or cashed in investments (three per cent). Around one in ten had claimed social security benefits (12 per cent).

Everyone we interviewed was then asked how they would manage if their household income was significantly reduced for three or more months. This was framed differently depending on people's circumstances. Those in work were asked *'If you [or your partner if they earn more than you] became completely unable to work for three months or more due to ill-health or an accident, what would you do to make ends meet?'* Households where nobody worked were asked *'If your [household] income were to drop by a quarter tomorrow and that lasted for three months or more, what would you do to make ends meet?'* Respondents were able to give multiple answers to this question; for example they may have replied that they would use savings and also take out a loan. However, we only considered them to have *made* provision if their reply included stating that they would use money that they had saved or invested (including money in their current account), or that they would claim on an insurance policy.

The combined results of these questions indicated that slightly fewer than half of all respondents had made some provision to meet a substantial drop in income (44 per cent). Provision was found to be highly associated with income. It is unsurprising that it also varied by other characteristics known to be associated with income, for example those with particularly low levels of provision included social tenants (21 per cent) and unemployed people (14 per cent). Conversely, levels of provision were especially high among couples with no dependent children (55 per cent) and people with post-graduate degrees (57 per cent).

So far we have merely looked at whether or not people had made *any* provision at all. In reality, this provision also has to be adequate to enable them to make ends meet. We therefore asked respondents how long they thought they would be able to make ends meet if they did all the things they had previously mentioned to us (including, for example, borrowing money, claiming benefits and cutting back on spending, as well as drawing on savings or investments). We have included the replies to this question (Table 5.1) in the factor analysis.

A small number (six per cent) of respondents felt that they did not know how long they might manage for if they faced a drop in income. The largest group (39 per cent) thought that they would manage for over 12 months if they did all the things they had mentioned. However, further analysis indicates that only slightly more than half of these people (55 per cent) had actually made any provision. Almost all of the remainder were relying entirely on borrowing money and/or cutting back. A few said they would claim benefits (six per cent), and another small group (eight per cent) felt that there was no possibility that they might face a reduction in income, perhaps because they were in receipt of benefits or pensions that were very unlikely to be reduced.

Table 5.1 Length of time respondent could make ends meet

Column percentages

Length of time could make ends meet if faced unexpected drop in income	**All respondents**
Less than one week	3
More than one week but less than one month	8
More than one month but less than three months	15
More than three months but less than six months	16
More than six months but less than twelve months	13
Twelve months or more	39
Don't know	6
Weighted base	***5328***

The second aspect we looked at was whether respondents had *personally* made own provision to deal with a drop in income rather than relying on someone else. The qualitative research had shown this to be an important element of financial capability. Only three in ten (30 per cent) people had done so. An additional 14 per cent had household provision which would help them deal with such an event, but they had not been personally responsible for making this provision.

We felt that we should identify these people in some way in the factor analysis as we are developing a personal score of financial capability, rather than a household-level score. We therefore derived a variable that identified people who had savings, investments or insurance policies that they could rely on *and* had made this provision personally. This variable has been included in the factor analysis and has the following three categories, identifying people who had:

- made their own provision (30 per cent of the sample);
- household provision, but had not been personally responsible for the decision (14 per cent); and
- no provision (55 per cent).

We also tested a variable designed to distinguish among the people with no provision, those who had considered it but were prevented by low incomes, and those who had not considered it. There was, however, a very high correlation with the variable just described, and it was decided to rely instead on a factor capturing people's attitudes to planning. This is discussed more fully in Section 5.5.

5.2. Unexpected major expense

In addition to questions about dealing with a reduction in income, respondents were also asked whether they had experienced an unexpected major expense in the last three years, and about the kind of provision they had made against any they might face in the future. It was clear from the qualitative research that preceded the survey that questions of this type should reflect the income of the respondent. The question therefore quantifies a major expense as '*an expense equivalent to your whole income for a month, or more*'.

Altogether, one in five (21 per cent) of all the people surveyed had faced such an expense. Of these, only a very small number (three per cent) reported that they had been unable to find the money (either from their own resources or through borrowing), and fewer than one per cent said they had fallen behind with other commitments in order to find the money.

Some respondents were confident that they had sufficient resources to call on, should they face a large expense in the future. Others had made some provision against unexpected events, but did not have enough to meet a major expense. We have reduced the suite of questions relating to unexpected expenses for the factor analysis by identifying three types of people, those who:

- felt they had sufficient provision (45 per cent);
- had made some provision but would still have to use other means to manage, such as taking on extra work or reducing outgoings (nine per cent); and
- had made no provision (46 per cent).

5.3. Anticipated major expense

The third area that the focus groups had identified in relation to planning ahead was making provision to meet the costs of *anticipated* major expenses. Respondents were therefore asked whether they expected to face one of ten specific expenses in the foreseeable future (including buying a car, travel overseas and home improvements) or whether they anticipated some other major expense that was not on the list. Overall, around half of the people interviewed (49 per cent) anticipated such an expense. Cars were by far the most common items mentioned: one in five respondents (20 per cent) expected to buy or replace their car. The only other expense mentioned by more than ten per cent of respondents was home improvements, cited by some 15 per cent.

Additional questions were asked about respondents' levels of provision for the expenses they anticipated. As in other aspects of planning ahead we have attempted to create a single variable that categorises the respondents according to their responses. In this case we tested several combinations, and found the best solution was to use one that identified those who:

- had made provision (19 per cent) or had no anticipated expense (49 per cent);
- were relying on someone else to do so (three per cent); and
- had not made provision (29 per cent).

We wanted to include this derived variable in the factor analysis for the domain, but we faced the difficulty of knowing how to score respondents who had no anticipated expense[14]. This is always a problem in factor analysis when questions are not relevant to the whole population, but this was the only variable in this domain that posed any real difficulty. We tested various ways of dealing with this and decided to combine respondents who did not anticipate any large expenses with those who had made provision. We anticipated that the resultant variable would be correlated with provision for an unexpected expense but in fact the correlation was weak and the variable did not contribute significantly to the overall factor score, as discussed later on.

The other combinations of variables that we considered using to capture planning for anticipated expenditure included one that indicated whether the respondent had made full, partial or no provision. Again it was difficult to know how to code those who did not require provision – were they more like those with all or partial provision, or more like those with no provision? We concluded that it was inappropriate to make assumptions on this.

[14] When categories are used in factor analysis there is an assumption that they run in some meaningful order. It therefore matters which number is used to identify each action, and which number identifies people for whom the question is not relevant. If, for example, the most capable action is labelled 1, the least capable action is labelled 3, and the 'not relevant' group is labelled 4, it *appears* that 'not relevant' is exceptionally incapable.

We also tested a variable designed to capture those who were keen to make provision but could not afford to do so. This identified those with provision, those who had considered making provision and those who had not even considered it. This also did not contribute to the factor score, and has been replaced with an indicator of attitudes to planning ahead (see Section 5.5).

5.4. Retirement planning

The need for retirement planning was very topical during the period that the survey was being designed, and focus group participants felt that it was one of the key life events that everyone needs to plan for. The questionnaire therefore looked at respondents' retirement planning, from the perspectives of both those who had yet to retire and those who had already done so.

Respondents under state pension age were asked about the provision they had made personally and also whether they would be able to make ends meet on the state pension alone. They were first told the current pension levels to ensure that everyone was talking about the same amount. Over four in five (81 per cent) said that government pension would not provide them with the standard of living that they would hope for in retirement.

Despite this, only two in five respondents (42 per cent) who were not yet retired had a current personal or occupational pension, and 28 per cent had had a pension that they had paid into in the past. Of those who did not have any provision, three in ten (29 per cent) said it was because they either did not have a job or had not had one for long, and a similar proportion (28 per cent) had insufficient income. Moreover, the results of the survey indicate that over a third (37 per cent) of those who felt that the government provision would be insufficient did not have any additional pension provision, indicating a relatively small degree of planning ahead in this context.

Turning now to those who had already reached retirement age, 55 per cent had their own occupational pension and 17 per cent had a personal pension. These proportions include six per cent who had both types of pension. The most common reason stated for not having paid into an occupational or personal pension was that the respondent had not been able to afford it (34 per cent of those without a pension gave this response).

A very small minority (three per cent) of respondents reported that they were still working even though they were over retirement age. Of those, roughly the same proportion were working because they enjoyed their job as were working either to increase their income or because they wanted to retire later as their current income would otherwise be too low[15]. Conversely, some 13 per cent of the respondents had retired early (eight per cent through choice and five per cent for other reasons).

[15] The actual numbers are too small to know whether this finding would be replicated across all people of retirement age.

Retired respondents including those who were retired but still earned an income were asked *'is your current (household) income sufficient to give you the standard of living you hoped to have in your retirement?'* The majority (79 per cent) replied that it was, but over one in five (21 per cent) felt that it was not sufficient. People who had made their own provision more commonly felt that they had sufficient income in their retirement than those who had made none (82 per cent and 74 per cent respectively).

The factor analysis includes a single variable that identifies whether people had made their own pension provision. This draws together information from all respondents, retired or not, to create a simple indicator of whether the respondent was making (or had made) their own pension provision (59 per cent), or had no provision (41 per cent).

Again the qualitative research had indicated that it was important to take into account the fact that some people had good intentions when it came to planning for retirement but were thwarted by a lack of money. There was a general feeling that these people would be 'penalised' because of their low income on a financial capability score. We therefore considered including in the factor analysis an indicator of people who had considered making provision for their retirement but could not afford to do so. Again, though, we decided to rely on the attitude statements (Section 5.5).

5.5. Attitudes to planning ahead

The last set of questions in the 'planning ahead' domain was designed to capture respondents' attitudes to financial planning. Interviewers told the respondents *'I will now read you some statements made by other people about planning ahead'*. They then asked respondents to *'please tell me how strongly you agree or disagree with them'*. Four options were given: 'agree strongly', 'tend to agree', 'tend to disagree' or 'disagree strongly'. Those who didn't know or refused were also identified in the question coding. The statements used to capture attitudes can be seen in Table 5.2.

As Table 5.2 indicates, the majority of people (60 per cent) disagreed with the statement '*I tend to live for today and let tomorrow take care of itself*', indicating that most people placed some importance on the idea of planning ahead. Even more (75 per cent) agreed that they always made sure they had some money saved for a rainy day. Interestingly, despite the high number of rainy-day savers, 44 per cent of people reported finding spending more satisfying than saving.

The final attitude statement was only read to a subset of respondents as it related to retirement planning. We have subsequently coded the retired respondents neutrally. The responses to this statement may be of concern to policy makers, in that over two in five people (42 per cent) apparently put their current standard of living before their retirement planning, agreeing with the statement '*I would rather have a good standard of living today than plan for retirement*'.

Table 5.2 Responses to attitude statements about planning ahead

Column percentages

	I tend to live for today and let tomorrow take care of itself	I always make sure I have money saved for a rainy day	I find it more satisfying to spend money than to save it for the long term	I would rather have a good standard of living today than plan for retirement
Agree strongly	15	39	13	13
Tend to agree	24	36	31	29
Tend to disagree	34	16	37	26
Disagree strongly	26	9	18	8
Don't know	0	0	1	1
Over retirement age/refused	-	0	0	24
Weighted base	***5328***	***5328***	***5328***	***5328***

We did not want people's attitudes to form a large part of their score in the 'planning ahead' domain, as we felt that it was most important to recognise actual behaviour. For this reason we have reduced the attitude questions to a single score using factor analysis. We made the decision that those people who had answered 'don't know' in response to the attitude statements did not have a strong opinion on the matter and we therefore coded them as people who neither agreed nor disagreed. An alternative approach may have been to consider them as being at the end of the scale that indicated they were particularly financially incapable since they could not answer the question, but this would be a much bigger assumption to make.

The factor analysis of the attitude statements revealed that all four were highly correlated and, therefore, capturing the same underlying approach to planning ahead (see Table 5.3 for the results of this separate factor analysis). We have, therefore, included a single variable combining replies to all four statements in the overall factor analysis of the 'planning ahead' domain.

Table 5.3 Factor analysis of attitude statements: sorted by item loading

KMO=0.73	**Item loading**
I tend to live for today and let tomorrow take care of itself	0.815
I find it more satisfying to spend money than to save it for the long term	0.729
Would rather have a good standard of living today than plan for retirement	0.697
I always make sure I have money saved for a rainy day	-0.689

5.6. Other questions used in the factor analysis

The factor analysis for this domain also includes a derived variable identifying whether or not respondents held at least one of critical illness, income protection, payment protection (e.g. for mortgage or credit commitments) or home contents insurance. This variable identifies people who held at least one (70 per cent) or did not have any (30 per cent).

This was included as a way of picking up those people who acknowledge a need to make contingency plans in case they are unable to continue to earn their current income or they need to meet unexpected expenses. This is a very clear indicator of the kind of behaviour we associate with planning ahead, and the variable makes an important contribution to the factor score, as can be seen in Table 5.4.

5.7. Creating a factor score

As we have indicated above, the final factor score for this domain included six variables, each combining the replies to a number of questions in the questionnaire.

- **Fall in income**

  Whether made own provision against a future drop income

  Length of time could make ends meet if experienced large, unexpected drop in income

  Any protection insurance (income, payments, possessions)

- **Major expense**

  Having sufficient provision for an unexpected major expense

  Whether made provision to meet future anticipated expense

- **Retirement**

  Whether has made own pension provision

- **Attitudes**

  Factor score from separate analysis of the attitude statements

All but one of the variables that we have included in the factor analysis of the 'planning ahead' domain were correlated significantly as a single factor. In other words, the results of this analysis confirm the conclusions of the earlier qualitative research that 'planning ahead' is a meaningful domain to consider.

The results of the factor analysis for this domain are shown in Table 5.4, and clearly indicate that most of the items add significantly to the overall score, with the exception of one: *'whether respondent made provision to meet future anticipated expense, or relied on someone else to do so'*. As the focus groups indicated that provision for an anticipated expense was an important component of planning ahead, we have left it in the factor score even though it has little influence on the outcome. Other items have more influence on the factor score, and it can be seen that having sufficient provision for an unexpected major expense is the most important aspect of this domain.

Table 5.4 Factor analysis of items from the 'planning ahead' domain

KMO=0.81	**Item loading**
Having sufficient provision for an unexpected major expense	0.722
Length of time could make ends meet if unexpected drop in income	-0.657
Any protection insurance (income, payment, possession)	-0.655
Whether made own provision against a future drop income	0.630
Whether has made own pension provision	0.629
Attitude questions factor score	-0.615
Whether respondent made provision to meet future anticipated expense, or relied on someone else to do so	ns

5.8. Detailed analysis of the factor score

The 'planning ahead' domain has an average (mean) score of 56. We know from Chapter 3 that there was a fairly flat series of scores related to planning ahead, indicating diversity in people's answers and capability within this domain. In this section we consider how well people in different circumstances score in this domain.

As before, we have used regression analysis to look for significant relationships between the personal characteristics of respondents and their factor score for the 'planning ahead' domain. This indicated that age and housing tenure were the greatest predictors of capability in this domain, but that many other characteristics were also significant. These include the country and type of neighbourhood people lived in; their income, level of education and work status; their level of engagement with financial services; the extent of the role they played in managing the financial affairs of their household; and the ratios of their borrowing and saving to income (Table 5.5). Most notably, the regression results indicate that planning ahead is associated with life stages and expectations (age, retirement and housing), outside influences (such as financial products provided by work) and the ability to make provision (income). The results are discussed more fully later on.

Table 5.5 Significant results of regression model for the 'planning ahead' domain

Explanatory variables	Coefficient	Standardised coefficient
(Constant)	50.696**	
Whether born in the UK	-2.370**	-.032
Religion *reference group (ref:) is 'none'*		
Christian	1.302*	.025
Any long-standing illness or infirmity	1.230*	.021
Partner is main earner	2.172**	.036
Gets free financial products from work	6.890**	.128
Current account use *ref: 'has current account and uses it'*		
No current account	-8.097**	-.095
Number of active purchases	.910**	.048
ACORN: ref: *comfortably off*		
Hard pressed	-2.765**	-.052
Score: involvement with money management	1.594**	.101
Borrowing-to-income ratio	-.109**	-.030
Saving-to-income ratio	.003*	.023
Age *ref: age 40-49*		
Age 18-19	-13.579**	-.109
Age 20-29	-9.509**	-.146
Age 30-39	-3.769**	-.060
Age 50-59	4.417**	.065
Age 60-69	7.281**	.100
Age 70-79	8.005**	.107
Income *ref: quintile 3*		
Quintile 1 (lowest)	-3.376**	-.055
Quintile 2	-2.664**	-.044
Quintile 4	3.611**	.058
Quintile 5 (highest)	6.428**	.101

Explanatory variables	Coefficient	Standardised coefficient
Housing tenure *ref: 'own home with a mortgage'*		
Own home outright	5.917**	.102
Private rent	-10.759**	-.136
Social rent	-12.799**	-.214
Live with family member	-7.660**	-.083
Other living arrangement	-8.859**	-.043
Gender *ref: male*	-1.427**	-.029
Country *ref: England*		
Wales	-2.914**	-.036
Northern Ireland	-5.137**	-.061
Qualifications *ref: GCSE A* to C*		
Higher/post-graduate degree	5.669**	.059
First degree	3.419**	.044
Diplomas in HE/HNC	3.548**	.044
A/AS levels	2.381**	.034
Trade apprenticeships	2.373*	.023
Other qualifications	-3.745**	-.030
None of these qualifications	-3.472**	-.058
Family type *ref: 'couple, no children'*		
Single adult	-3.113**	-.050
Lone parent and dependent children	-5.397**	-.072
Other family type	-2.276**	-.036
Work status *ref: full-time work*		
Retired	6.654**	.111
Unemployed	-4.271**	-.045
Permanently sick/disabled	-3.957**	-.033
Adj r-sq	0.569	

** indicates significance at the 1 per cent level.

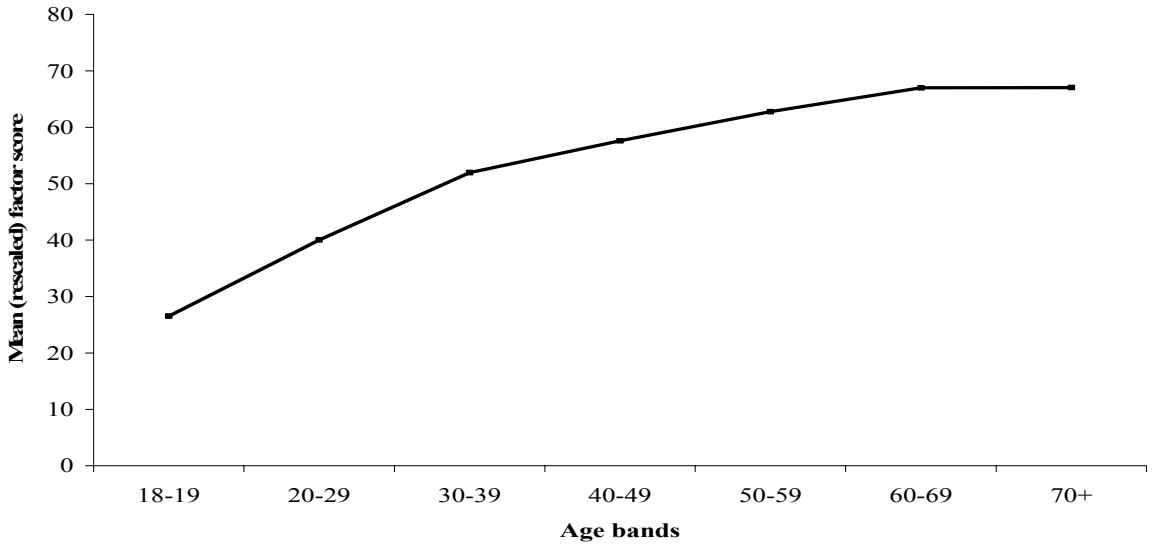
* indicates significance at the 5 per cent level.

5.8.1. Age

Somewhat ironically, whilst the need to plan ahead is perhaps greatest in early adulthood, financial capability in terms of planning ahead clearly improves with age. This can be seen particularly clearly in the distribution of factor scores: young people aged 18 to 20 scored an average of just 27, compared with an average score of 67 amongst those aged 60 and above. The results of the regression analysis also indicate the importance of age in explaining the factor scores in this domain; the age bands have some of the largest standardised coefficients.

Figure 5.1 illustrates graphically how the factor scores increase with age. It shows that the difference in average scores is most pronounced between the ages of 18 and 40 (where the line is steepest). Scores continue to increase until age 60, and remain high thereafter. It should be remembered that this does not necessarily mean that *individuals* will become more capable with age; rather it describes the average levels of capability amongst people of different ages at a moment in time. It may well be that the young people of today will be very different in their old age from the current older generations.

Figure 5.1 Relationship between factor scores and age



5.8.2. Housing and region

In the regression analysis, respondents with a mortgage were compared with people with other kinds of housing tenure. The results indicate that only those who owned their home outright scored more than those with a mortgage, and people with all other kinds of tenure scored significantly lower, when controlling for other factors. The largest difference was amongst those who rented their home from a local authority or housing association, as can be seen by the size of the coefficients, and indeed the standardised coefficients show that this was one of the biggest explanatory variables.

As Table 5.6 shows, the average score for social tenants was just 36, and young people living with their parents scored 34. In contrast, those who owned their house outright had scores that were twice as high (72). Clearly these three groups differ greatly in both age and income. The results of the regression analysis, however, indicate that after taking into account all the other characteristics listed in the table (such as age, income, qualifications and work status), social tenants scored almost 13 points lower on the factor score for planning ahead than those with a mortgage, and private tenants 11 points lower.

The explanations for these findings are not immediately obvious. It could be that people who are content to rent in the private sector are less forward-looking than those who buy a home, while social exclusion may be an explanation for the lower scores of social tenants.

Table 5.6 Average scores by housing tenure

Housing tenure	Mean factor score	*Weighted base*
Own home outright	72	***1371***
Own home with a mortgage	64	***1875***
Rent home from a private landlord	42	***543***
Rent home from a local authority or housing association	36	***1124***
Live with parents/grandparents/other family members	34	***337***
Have some other arrangement	47	***74***
All	***56***	***5328***

We have been able to identify neighbourhood or 'geo-demographic' characteristics of respondents through the ACORN classification, as described in the previous chapter. For the purpose of the regression analysis we are identifying five categories: 'wealthy achievers', 'urban prosperity', 'comfortably off', 'moderate means' and 'hard pressed', and we use the 'moderate means' category as our comparison group.

People living in 'hard pressed' areas had the lowest scores for planning ahead, while 'wealthy achievers' did best (Table 5.7). However, the results of the regression analysis show that only those in the 'hard pressed' category score significantly differently from the comparison group (around three points lower) (Table 5.5). This is almost certainly because the ACORN classification includes some of the other characteristics controlled for in the regression analysis, including work status and income. In other words, it is largely a person's own circumstances that determine their level of capability with regard to planning ahead, not those of the neighbourhood within which they live.

Table 5.7 Average scores by ACORN classification

ACORN classification	Mean factor score	*Weighted base*
Wealthy achievers	65	***1022***
Urban prosperity	57	***492***
Comfortably off	62	***1366***
Moderate means	55	***665***
Hard pressed	46	***1664***
All	***56***	***5328***

In contrast, the country in which people lived *did* make a difference. Table 5.8 shows that average scores in Wales and, especially, Northern Ireland, were somewhat lower than those in England.

The regression analysis (Table 5.5) showed that these differences persisted even when people's other circumstances were taken into account, with people in Wales scoring three points less than those in England, and people in Northern Ireland five points less.

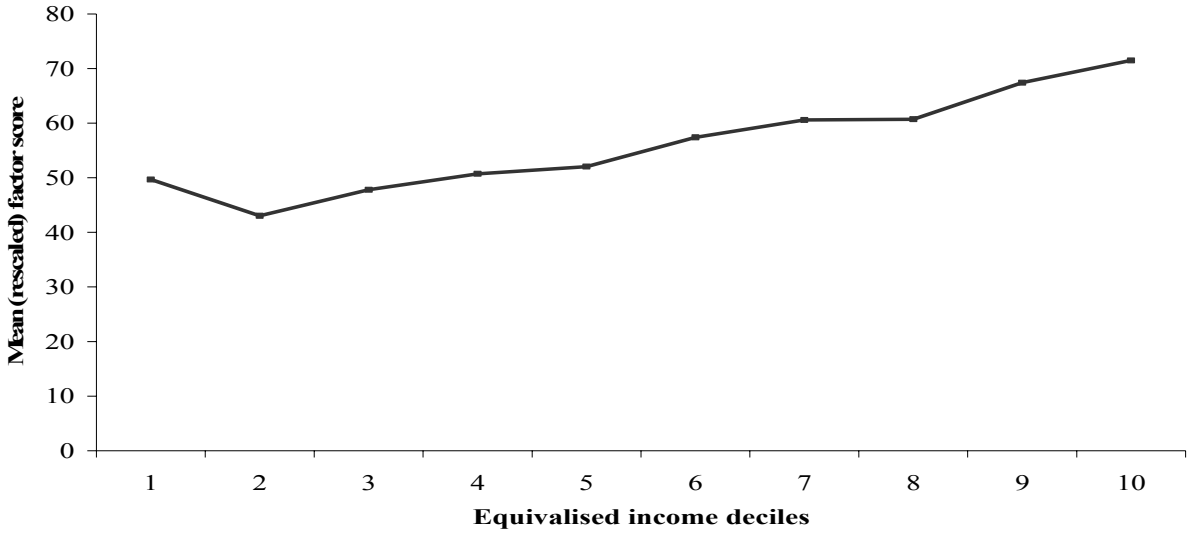
Table 5.8 Average scores by country

	Mean factor score	*Weighted base*
England	57	***4465***
Wales	52	***261***
Scotland	54	***458***
Northern Ireland	45	***144***
All	***56***	***5328***

5.8.3. Income

Although there was clearly a link between household income (adjusted for the number of people in the household) and people's score on the 'planning ahead' domain, it was nowhere near as great as on other domains. Nevertheless, as Figure 5.2 shows, average scores increased fairly steadily with income[16] (decile 1 being the lowest income group and 10 the highest). Even though we used attitude scores to pick up a desire to plan ahead amongst those without the resources to do so, people with the second lowest incomes scored only 43, while the highest income group scored 71.

Figure 5.2 Relationship between factor scores and income



The regression analysis confirmed that higher income is associated with better financial capability in this domain when other characteristics are held constant. Being in the highest income group has the largest effect, adding more than six points to the average score compared with people who have middle incomes. Even so, the effects are nowhere near as large as those observed for age.

5.8.4. Family circumstances

Family circumstances were also important, even when we took into account income per family member. The regression analysis showed lone parents scoring far lower than other types of household, with single people also getting low scores. We know from the qualitative work that preceded the survey that young single people are particularly prone to living for the day, and delay thinking about the future until they decide to settle down. Lone parents, however, are often left without provision, following a marriage break-up.

[16] It is not unusual for the lowest income group to be slightly different. In this case, their average score is higher than those in the second and third decile. This could be due to people misreporting their income, or it could be that the group includes people living off their own reserves.

Table 5.9 Average scores by family type

Family type	Mean factor score	*Weighted base*
Single with no dependent children	56	***1080***
Couple with no dependent children	65	***1516***
Lone parent with dependent children	39	***603***
Couple with dependent children	58	***1180***
Other family type	48	***949***
All	***56***	***5328***

5.8.5. Qualifications and employment

There was a clear link between people's capability with regard to planning ahead and their level of education. Respondents with degree-level qualifications scored an average of 69, some 18 points higher than those with no qualifications (Table 5.10).

Table 5.10 Average scores by qualification

Qualification	Mean factor score	*Weighted base*
Higher degree/post-graduate qualifications	69	***397***
First degree (including B. Ed)	64	***620***
Diplomas in HE/HNC	64	***575***
A/AS levels/SCE Higher	54	***785***
Trade apprenticeships	62	***303***
O Level/GCSE grades A-C	51	***946***
O Level/GCSE grades D-G	48	***348***
Other qualifications	50	***201***
None of these	51	***1132***
All	***56***	***5328***

The regression analysis results also show that factor scores increased significantly with level of qualification, even when other factors are taken into account. However, the standardised coefficients indicate that education is not as important in explaining the variation in factor scores as some other variables such as income or housing tenancy.

Similarly, work status was also significantly associated with the factor score in this domain. Retired respondents scored higher than those in work, while people who were unemployed or unable to work through sickness or disability achieved much lower scores. It was, however, those on a government work or training scheme that got the lowest scores of all (Table 5.11). Clearly work status has strong links with both age and income which might explain these differences in people's scores. The regression analysis showed, however, that it had an effect even when these and other factors were taken into account. Furthermore, respondents who received financial benefits from work (such as health insurance) scored an average of 11 points more in this domain than those who did not (64 compared with 53).

The results of the regression analysis show that the difference in scores between these two groups is significant even when controlling for factors such as income and qualifications, indicating that inertia may well be influencing people's lack of capability when it comes to planning ahead. We included in the regression analysis a variable denoting whether the availability of financial benefits had played a role in their decision to take the job. The fact that it was not significant lends support to the conclusion that inertia was more important than careful job selection.

Table 5.11 Average scores by work status

Work status	**Mean factor score**	***Weighted base***
In full-time education	41	***251***
Working full time (30+ hours) including temporarily off work	60	***1944***
Working part time (up to 29 hours) including temporarily off work	59	***738***
Looking after the home or family	42	***529***
Retired from paid work	68	***1278***
Unemployed	29	***349***
On a government work or training scheme	[16]	***7***
Permanently sick or disabled	38	***233***
All	***56***	***5328***

Numbers in [ ] are based on relatively few respondents and so may be unreliable.

5.8.6. Engagement with financial services

We used three different measures to capture people's level of engagement with financial services: having and using a current account (as a measure of financial inclusion); the number of *types* of product bought personally in the past five years; and how many purchases *in total* the respondent had made in that time period.

There was a very large variation in average scores between those with a current account and those without, and the regression analysis results confirm that holding an account (and by extension financial inclusion) is an important characteristic in explaining capability in this domain. Respondents without an account scored well below average in the 'planning ahead' domain (with a mean score of just 32), while those who had a current account achieved much higher scores, whether they used it (58) or not (54).

In fact there was still a very large effect in the regression analysis (lacking an account reduced average scores by eight points), showing that financial exclusion does play an important role in people's capability with regard to planning ahead. This may be due to the negative impact of not having *access* to financial services or it may be because there is a link between self-exclusion and a lack of forward planning.

The regression analysis also indicates that people scored more highly in the 'planning ahead' domain if they had actively bought financial products. It is, of course, quite probable that some of the products they had bought were specifically to make provision for the future. So, people who had bought more than ten different *types* of products had an average factor score of 68 in the 'planning ahead' domain. Those who had made a *total* of five or more active purchases of financial products in the last five years scored an average of 74.

The regression analysis scores increased with the *total number* of purchases made in the past five years, other things being equal; the *number of types of product* purchased, however, was not significant.

5.8.7. Managing money

We gave respondents a simple score for their involvement in managing the household finances, based on the number of financial activities they took responsibility for. This included bill payment and financial product purchase as well as responsibility for different aspects of planning ahead. The greater number of things people were personally responsible for, the higher their score on the 'planning ahead' domain. In other words there is a clear relationship between financial capability in this area and regular financial activity.

We also included both respondents' borrowing-to-income and saving-to-income ratios in the regression. Both of these were significant, with higher levels of borrowing indicating lower capability and higher levels of savings associated with higher capability. This is very reassuring in that it serves to validate the factor score as an indication of behaviour.

5.8.8. Variables with little or no significance

The qualitative work with ethnic minorities suggested that some groups (and South Asians in particular) were unlikely to have made formal financial provision for the future because they were able to rely on the support of their extended family. The Islamic religion also influenced the type of provision made, because of the lack of Shariah-compliant financial products. However, when we included ethnicity in the regression analysis, Black and Asian ethnic groups did not score significantly differently from the white British population. Consequently, we did not include ethnicity in the final version of the analysis.

Likewise, religion appeared to have only a small impact on financial capability (comparing various religious groups with the group of respondents who said they had no religion). The regression analysis also indicated that the influence of religion on decision making had not significantly impacted on factor scores.

Gender also had a small but significant impact on the factor scores, with women scoring slightly lower than men, even after taking into account possible explanatory factors such as income, work status and responsibility for money management.

5.9. Summary

On the whole, the UK population is not particularly good at planning ahead. Fewer than half of the people interviewed had any provision in case they experienced a drop in income, and only three in ten had made this provision personally. Similarly, fewer than half had enough money to meet an unexpected expense of a month's income or more, or had made adequate provision for an expense they anticipated in the near future. Provision for retirement was similarly poor.

In general, the older people were, the more capable they were with regard to planning ahead. Incomes were also important, showing that people with lower incomes were less likely to plan ahead, particularly if they were of working age but did not have an earned income.

There are also some interesting indications that capability is lower where people are not forward-looking or are either socially or financially excluded. On the other hand, it is higher if they are actively involved in managing finances or purchasing products, or have been educated to A level or above. It seems that inertia may also play an important role, and when people are presented with opportunities to plan ahead by an employer they are more likely to take them up.

Geographically, capability with regard to planning ahead is lower in Northern Ireland and Wales, and will be particularly low in areas with high concentrations of local-authority or housing-association accommodation.

6. Choosing products

The developmental work for this baseline survey reinforced the view that being able to make product choices appropriately is an important aspect of financial capability. Focus groups and interviewees agreed that people need a good general awareness of the types of financial products that are available. They were, however, less certain that a financially capable individual should constantly keep up to date with changes relating to terms and conditions of specific types of product. They felt that it was more appropriate to look for information or seek advice when necessary rather than spend time reading the money sections of the newspaper on a daily or even weekly basis (which they thought obsessive for the average consumer).

According to the qualitative work, a person who makes capable choices is someone who collects information on a range of products, compares key features as well as cost, identifies risk, and takes an overall view of the product on offer in order to make the right choice. This kind of person will know when to say 'no' to a salesperson and when to switch providers. They will certainly know the key features of the products that they buy. Interestingly, however, it was generally accepted that even this kind of highly capable person might struggle to understand the terms and conditions in the small print of the products they buy, as they are often not written in plain English.

There is a great deal of valuable information in the product-purchase section of the questionnaire, enabling us both to create a financial capability score and to give detailed information about people's purchasing habits. We sought to capture a number of aspects of product purchase in the questionnaire. Some of these are relevant to everyone (such as the number of recent purchases made), whilst others are applicable to a subset (such as questions specific to a mortgage purchase). We have also categorised products in terms of complexity, and the questionnaire asks more detailed questions about the two most complex products each respondent had purchased in the last five years.

Just over a quarter of the respondents (26 per cent) had not personally bought a financial product in the last five years. In some cases this will be because they were very young and had not yet started to consider financial products. Others may have been reluctant to switch providers, or uncertain about the products available. Some will simply have very low levels of engagement with banks and other financial service providers. The factor scores for this domain omit these people, and are only calculated for the subset of people who were personally responsible for choosing a product in the last five years. This is the only domain that does not look across the entire sample.

We have combined information from a number of questions in order to gain maximum insights into individuals' behaviour. In this way we have been able to pick up specific behaviours that were identified as being capable amongst the focus groups. Combining variables has enabled us to look for patterns of purchase behaviour *across* products, such as how the choice was made or whether an individual knows the key features of the products bought, regardless of the type of product. Combining variables has also allowed us to consider whether the respondent checked whether an adviser was authorised, *and* knew who by.

In the remainder of this chapter we begin by looking at overall levels of product holding and purchase before describing some of the key findings by product group. We then indicate how we have combined responses to survey questions to use in the factor analysis and consider how the factor scores vary by key characteristics of the people surveyed.

6.1. Product holding and purchase

Respondents were asked to look at a list of products and tell the interviewer which, if any, they *currently held* either in their own name or jointly with their partner. The great majority of people (98 per cent) said that they had held at least one of them; on average respondents held seven different types of products (Table 6.1).

Table 6.1 Number of product types held and products purchased

	Range	Average (mean)	Standard deviation
Number of product types held	0-25	7	4.6
Number of product types bought in past five years	0-18	3	2.8
Number of active purchases	0-12	1	1.4

As shown in Table 6.2, the most commonly held product was a current account (89 per cent); even so, one in ten people did not hold one in either their own name or jointly with their partner.

Between half and two-thirds of people held a savings account (61 per cent), a credit card (56 per cent), and various types of general insurance (home contents 66 per cent, motor 61 per cent and buildings 56 per cent). Slightly fewer (47 per cent) had a life insurance policy. All other types of product were held by only a minority of people; for example, just a third (33 per cent) of respondents held a mortgage, and almost one in three (28 per cent) had a cash ISA or similar. Only small proportions of the people interviewed held specific types of investment, unsecured loans or protection insurance.

Respondents were subsequently asked whether they had taken out any of the listed products *in the last five years*, whether or not they still had them. Three-quarters (76 per cent) said they had done so, and had, on average made three purchases in this time (this does not include renewals of insurance policies with the same provider). As can be seen in the last column of Table 6.2, the vast majority of those who reported recent purchases had personally played a role in choosing these products.

Table 6.2 Financial products held and purchased in the last five years

Cell percentages

	Products currently held	Products taken out in last five years	Active purchases[17]
Current account	**89**	**21**	**20**
Mortgage	**33**	**14**	**13**
Savings accounts	**69**	**29**	**27**
Savings account	61	14	13
Cash ISA/TOISA/TESSA	28	16	15
Premium Bonds	25	5	4
National Savings and Investments savings	7	1	1
Credit union account	2	1	1
Life and protection insurance	**52**	**19**	**17**
Life insurance that pays out on death	47	14	13
Critical illness insurance	17	7	7
Income protection insurance	12	5	5
Payment protection insurance	13	6	5
Other insurance	**78**	**41**	**37**
Home contents insurance	66	25	22
Buildings insurance	56	20	17
Motor insurance	61	29	26
Private medical/dental insurance	15	5	3

[17] By active purchase we mean a purchase that the respondent made themselves that was not a simple renewal.

	Products currently held	Products taken out in last five years	Active purchases
Investments	**46**	**19**	**16**
ISA (stocks and shares or life assurance)	13	5	5
PEP	8	1	1
Unit trust, investment trust or OEIC	6	2	2
Guaranteed equity bond	2	1	1
Savings bond (with bank or building society)	5	2	2
Investment bond	5	2	2
Gilts	1	0	0
Stocks and shares	18	5	4
National Savings Bond or Certificate	4	1	1
Endowment policy (not linked to mortgage)/ life assurance/savings plan	14	2	1
Personal pension or FSAVC	20	3	2
ISA (not sure what type)	9	4	3
Unsecured credit	**67**	**36**	**34**
Credit card	56	20	19
Personal loan (with bank, building society etc)	14	10	9
Loan from Student Loan Company	5	3	3
Loan from a credit union	1	1	1
Loan from the Social Fund	2	2	2
Loan from a pawnbroker	0	0	0
Car loan/credit agreement	7	5	4
Hire purchase/credit sale/rental purchase	4	3	3
Store card not settled in full each month	5	3	2
Mail-order catalogue	10	5	5
Don't know			
None of these	2	24	26
Weighted base	***5328***	***5328***	***5328***

The picture that emerges is one where most people had held the products they had for a considerable period of time, indicating considerable inertia despite a highly competitive market. So, whilst almost nine in ten respondents held a current account, just two in ten (21 per cent) had taken one out in the last five years. This was repeated across other products: just 20 per cent had taken out a credit card in the last five years; and even though 18 per cent held stocks and shares, only five per cent had made purchases over the previous five-year period[18].

The results also clearly show that many of the respondents held insurance products for long periods of time even though they come up for annual renewal. For example, just a quarter (25 per cent) of the respondents had taken out contents insurance in the last five years, fewer than four in ten of the people holding such policies. It is very likely that some will be paying more than they need to by staying with the same provider for many years.

We discuss the purchase of specific types of product in Sections 6.2 to 6.7. Clearly we could not ask about every purchase made in that time, and a decision had to be made about which purchases to cover in detail. As we note above, we decided to restrict the questions to just two products and to ask about the two most complex products each respondent had purchased in the last five years. The order of priority was as follows.

- Investments
- Mortgages
- Payment or income protection
- Credit cards
- Unsecured credit
- General insurance
- Savings accounts
- Current accounts

The report[19] on the development phase includes more detail on why this approach was adopted.

Consequently, everyone who had bought an investment or mortgage in the past five years was asked about these purchases. In all other cases they were only asked if it was one of the two most complex products they had bought. This should be borne in mind when interpreting information relating to purchase behaviour in later sections.

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[18] This is almost certainly explained by widespread share issues during the privatisation of national industries, and the demutualisation of many building societies.

[19] Kempson E., Collard S. and Moore N. (2005) *Measuring financial capability: an exploratory study*, Financial Services Authority.

6.1.1. Informal saving and borrowing

We wanted to know as much about respondents' financial behaviour as possible, and so we included additional questions about *informal* savings and borrowing in the questionnaire. The results indicate that slightly fewer than one in ten respondents (nine per cent) had money saved at home, and four per cent had given money to someone else to save for them. Just two per cent were paying money into a 'savings and loans' club.

A similar proportion of respondents had borrowed money informally. In all, 11 per cent answered 'yes' to the question *'Do you owe any money you have borrowed from family, friends, or someone else in the community?'* Of those people with informal loans, 16 per cent also had a personal loan from a bank or building society, 11 per cent had a student loan and seven per cent had a car loan, indicating that they were not necessarily borrowing informally because they were unable to access any other type of credit (although they may have been unable to access *additional* credit). Some types of loans were actually *more* common amongst this group than amongst the sample as a whole: for example, seven per cent had a loan from the Social Fund (compared with just two per cent of the whole sample) and two per cent had a loan from a pawnbroker (compared with just 0.3 per cent of the whole sample).

6.2. Mortgages

As discussed above, it would not be appropriate to ask all respondents about products such as mortgages. Instead we used a series of filters so that we could ask more detailed questions where necessary, and skip questions that were not relevant. We went into most detail if the product under discussion was one of the two most complex products purchased by the respondent in the last five years. We report here some of the key findings in relation to mortgage holding and purchase.

Repayment mortgages were the most common mortgage product, held by 62 per cent of those with a mortgage. These are the least risky mortgage products. Conversely, six per cent of respondents with mortgages were taking much bigger risks, claiming to have an interest-only mortgage with no linked investment.

We asked *all* respondents how much risk they were prepared to take when investing their savings. Over two in five (43 per cent) told us that they were not prepared to take any risk at all with their savings. However, five per cent of these risk-averse individuals had an endowment mortgage, two per cent had a part-endowment product, and a further one per cent had an interest-only mortgage without a linked investment.

There has been much discussion in the media about the sale of endowment mortgages, and whether or not people's policies will be sufficient to cover the outstanding debt. Of the 17 per cent of respondents with a mortgage who had an endowment mortgage, over seven in ten (71 per cent) anticipated a shortfall. We asked those people who did not think their mortgage would be paid off by the endowment policy about their plans to pay off the rest. They were probed to give us all the methods they might use (hence the responses will not necessarily add to 100 per cent). A third (34 per cent) said they would have to use their savings and other investments to pay off the mortgage, and 30 per cent said they planned to switch to a repayment mortgage. Seven per cent were relying on the sale of the property to meet the shortfall. Just three per cent intended to seek compensation, but more worryingly, ten per cent could not answer the question; they did not know how they would meet the shortfall.

The relatively small group of people with interest-only mortgages that were not linked to investments had slightly different approaches to paying off their loan than those with endowments, perhaps because they had opted for a product that would not pay off the mortgage, rather than discovering that this was the case some time after choosing it. So, it was far more common for them to rely on the sale of the property to pay off the mortgage (30 per cent) or the sale of another property (18 per cent). One in five intended switching to a repayment mortgage and 17 per cent already had savings that they could use to make the repayment with. Other responses were given by fewer than ten people and so are not reported here.

A mortgage is a major outgoing for most people, and so it is interesting to know how easy it was for respondents to keep up with the repayments. Table 6.3 shows that of those with a mortgage, the vast majority appear to have been managing well. More than four in five (83 per cent) reported that they were keeping up with repayments without any difficulties. However, a minority (five per cent) were constantly struggling or had already fallen behind.

Table 6.3 How easy respondents find mortgage payments

Column percentages

	Respondents with a mortgage
Keeping up with payments without any difficulties	83
Keeping up with payments but struggle to do so from time	12
Constant struggle or paid by Department for Work and Pensions	4
Falls behind with payments	1
Weighted base	***1751***

Whilst some people reported difficulty keeping up with payments, 14 per cent of those with a mortgage had made additional payments in the previous 12 months. The average amount paid off was £2,963 (median), but this ranged greatly; some people had made additional payments of less than £100, whilst others had paid off tens of thousands of pounds.

We were interested in how respondents chose mortgages, and asked detailed questions of everyone who had bought a mortgage in the last five years. The responses to the question *'Which of the following best describes the way you chose which mortgage to take out?'* indicate that whilst almost two in five respondents (39 per cent) said that they chose the product recommended by a professional adviser, almost as many people felt that they had made the choice entirely by themselves (36 per cent).

6.3. Life and protection insurance

Almost one in five respondents (18 per cent) had some kind of income-protection insurance. Of these, 80 per cent had sickness or disability cover and 72 per cent had accident cover, but just 58 per cent were covered against redundancy.

It is reasonable to assume that financially-capable people would only hold income-protection insurance if they had an earned income. However, a small group (two per cent of the sample) had income-protection insurance despite having no paid work. Of course, it may be that some of these were drawing on the income-protection insurance, and some may have had good reasons to keep the insurance going, perhaps if they had a realistic prospect of returning to work in the near future.

Similarly, we would argue that those without dependants do not need life insurance. However, seven per cent of the population described themselves as single, and report that nobody else lives with them in their household, and yet have life insurance. It is possible that some of these have insurance that is attached to other products, such as a mortgage or pension, but even that might suggest that the respondent has not shopped around to find the most appropriate product for their needs. It is also possible that some of these people, such as divorcees, might have dependants who they do not live with, but we would not expect this to be a significant number.

Worryingly, some 18 per cent of those with income-protection insurance did not know whether it would pay out immediately, and 35 per cent reported that neither they nor their partner ever checked whether the policy was continuing to provide adequate cover. It was even less common for people to check the adequacy of critical-illness and life insurance; 44 per cent and 48 per cent respectively had never done so.

Of those that had made a recent purchase of some form of protection insurance, 39 per cent made the choice themselves, and 31 per cent chose one recommended by a professional adviser. Choices were typically influenced by the cost of premiums (35 per cent) and the level of cover (39 per cent), but six per cent reported that they had not considered other policies.

6.4. Other insurance

The questionnaire also included a section on general-insurance policies (home contents, buildings, motor and medical/dental policies), but only asked about their purchase if this was the most complex product they had bought. More than three in six respondents (61 per cent) who had bought a general-insurance policy had personally collected information before making a choice, and 23 per cent got five or more quotes. However, a third (33 per cent) only got the one quote for the product they chose. The majority of respondents reported that they made their final choice based on the cost of premiums (65 per cent), with 32 per cent reporting that their decision was based on the level of cover.

As discussed above, one aspect of financial capability is the ability to choose appropriate products. As indicated in Table 6.4, a considerable proportion of the respondents interviewed did not appear to have home-contents or buildings insurance, despite their housing circumstances indicating that this would have been appropriate. Some also reported that they had buildings insurance even though this may not have been necessary, possibly because they were confused about which product they had, or possibly because they had an unsuitable product.

Table 6.4 Suitability of product holding; household insurance and tenure

Cell percentages

Housing tenure	Holds home contents insurance	Holds buildings insurance
Own home outright	88	87
Own home with a mortgage	88	90
Rent from private landlord	37	9
Rent from local authority or housing association	36	4
Live with family	6	2
Some other arrangement	47	29
Don't know	0	0
Refused	33	50
Weighted base	***5328***	***5328***

6.5. Saving accounts and investments

As in the general-insurance section of the questionnaire, those respondents who had recently bought a savings product other than Premium Bonds were asked whether they had personally collected information about different savings accounts from more than one company, if it was one of the two most complex products bought. Fewer than half (44 per cent) had done so, although two-thirds (66 per cent) said that they had made the decision entirely by themselves, indicating a low level of shopping around for savings products. Around a quarter had chosen a savings account based on the convenient location of the branch or cash machine (23 per cent), or because they had used the same provider before (25 per cent).

Almost two in five respondents (37 per cent) told us that they had based their choice on the rate of interest paid, but perhaps more interestingly, almost a half (49 per cent) could not even estimate the current level of interest on the account at the time of the interview.

All respondents with investment products were asked whether they personally monitored the performance of their investments. Whilst almost a quarter (24 per cent) claimed to monitor them at least once a month, at the other extreme 22 per cent said they never monitored their investments. A further nine per cent monitored them less often than once a year.

Turning once again to respondents' attitude to risk, we recall that 43 per cent of respondents did not want to take any risk with their savings. As shown in Table 6.5, a significant proportion of respondents own products with an element of risk to their capital, yet their preference is to have no risk exposure at all.

Table 6.5 Level of risk the respondent is willing to take when investing by current holdings of risky investment products

Row percentages

Investment product	No risk	Low-to-moderate risk	Higher risk	Don't know	*Weighted base*
Equity ISA	20	74	6	1	***633***
PEP	16	77	7	1	***418***
Unit trust, investment trust or OEIC	16	77	7	0	***310***
Investment bond	24	72	4	0	***250***
Stocks and shares	24	71	6	*	***952***
Endowment policy (not linked to mortgage)	30	66	3	1	***758***
All	***43***	***53***	***3***	***1***	***5328***

Note * indicates less than 0.5 per cent, but more than zero.

We also asked respondents about the perceived riskiness of the investment product they had bought most recently: *'Thinking about the period of time over which you are investing, in your view what is the risk that you might lose some of the money you have invested in the [INVESTMENT] you bought most recently?'* Table 6.6 shows that many people had made recent purchases of investment products without realising that they had an element of risk.

Table 6.6 Perceived level of risk of most recent investment purchase

Row percentages

Investment product	No risk	Low-to-moderate risk	Higher risk	Don't know	*Weighted base*
Equity ISA	21	77	2	1	***205***
PEP	0	100	0	0	***22***
Unit trust, investment trust or OEIC	16	82	2	*	***44***
Investment bond	31	68	2	*	***59***
Stocks and shares	18	74	8	*	***163***
Endowment policy (not linked to mortgage)	33	59	6	2	***54***

Note * indicates less than 0.5 per cent, but more than zero.

As with mortgages, everyone who had taken out an investment in the past five years was asked about the purchase. It was less common for respondents to collect their own information on investments than on insurance; just 39 per cent had done so from more than one provider. Despite this, almost half (49 per cent) claimed to have made the final choice entirely by themselves, with just 25 per cent relying entirely on a professional adviser. Just over one in five (21 per cent) based their final choice on the past performance of the investments they purchased, and a similar number (22 per cent) chose an investment with high potential returns.

6.6. Credit cards and loans

Most respondents (56 per cent) held a credit card, and over one in five respondents (21 per cent) had outstanding balances on their own cards that they did not pay off in full each month. The average balance (median) was £900. Nine per cent of respondents told us that in the last 12 months they had used a card that they did not pay off in full each month to pay for food or everyday spending, four per cent had used their card to withdraw cash and three per cent had used their card to pay regular bills.

If a credit card was the most complex product purchased by the respondent we asked additional questions about their choice. Almost everyone (82 per cent) told us that they had made the choice of credit card entirely by themselves, but perhaps surprisingly, some eighteen per cent felt that their choice had been informed or influenced by someone else. A quarter (25 per cent) had chosen the credit card because if offered zero per cent interest, and similar numbers (24 per cent) had chosen the card because of the interest rate. Over one in ten (11 per cent) had taken out the card because it came with their current account.

It was less common for respondents to have a loan than a credit card, but just over a quarter of respondents (28 per cent) had at least one outstanding loan agreement. The average (median) amount owed in loans and credit agreements personally by the respondent was £2,000, and average repayments by respondents across all their loans was £100 per month.

If the loan agreement was the most complex product purchased by the respondent they were also asked how they chose that particular agreement. Two-thirds (67 per cent) reported that they had made the choice entirely by themselves. The most common reason for the choice was the low interest rate (27 per cent) and a further 13 per cent had chosen interest-free credit. Interestingly 17 per cent said that they had chosen the product because the repayments were affordable.

6.7. Current accounts

Of all those who had chosen a current account in the last five years, over three in five (61 per cent) made the decision by themselves. However, it is perhaps surprising that a quarter (25 per cent) chose an account recommended by someone else.

The most common reasons stated for choosing a particular account were the recommendation of a friend, family member or colleague (31 per cent); having used the bank before (23 per cent); or the location of the branch (23 per cent). Two per cent of respondents said they had no choice in the account they could open.

6.8. Creating a factor score

The 'choosing products' domain is particularly complex because of the range of possible purchases and the detail of the responses (many of which can have multiple acceptable responses, such as making a choice based on location *and* interest rates). We therefore had to derive variables from a range of questions in order to capture financially-capable behaviour that could be compared across product purchases and also create a meaningful score.

We did not attempt to deal with missing values for those people who had not bought any products in the last five years, but instead restricted the factor analysis of this domain to those who had made a purchase. In turn, when we discuss the variables used for the factor analysis below, we also only report percentages for the subset of people who had actually made a purchase.

After testing a range of possibilities, the final factor score for the 'choosing products' domain is made up of six derived variables, capturing aspects of the following.

- **Information and advice**

  Whether any information was collected

  Main source of information for active product purchase

  Checking whether the adviser was authorised

- **Choice**

  How respondent chose product

  Why the respondent chose a particular product

- **Terms and conditions**

  Reading the terms and conditions

All the variables that we have included in the factor analysis of the 'choosing products' domain add significantly to the overall factor score for this domain, as seen in Table 6.7. We discuss how they were derived and why we chose them below.

Table 6.7 Factor analysis of the 'choosing products' domain: sorted by item loading

KMO=0.668	Item loadings
Main source of information for active product purchase	.797
How chose product bought	.755
Collecting information	-.665
Why chose the product they did	.479
Knowledge of authorisation of advice	.432
Who read terms and conditions	.371

6.8.1. Whether any information was collected

In the questionnaire we ask whether the respondent collected information about the types of products being purchased and whether an adviser collected the information. However, for the factor analysis we felt that the important issue was whether anyone had collected information that could be used in making a decision. This is particularly the case when looking across products, as some are more likely than others to be bought with the help of an adviser.

We have therefore created a single yes/no variable that identifies respondents who had *any* information collected for the products they had purchased, regardless of whether or not they had been personally responsible for getting the information. This variable shows that 54 per cent told us that either they had collected information, or that an adviser had done so on their behalf.

6.8.2. Main source of information for active product purchase

We have created a variable that describes the *main* source of information used by each respondent when choosing the most complex product they purchased in the last five years, the results of which are summarised in Table 6.8. This variable captures the level of faith placed in promotional literature and other product specific information and makes an important addition to the factor score, as can be seen in Table 6.7.

Table 6.8 Main source of information for active product purchase

Column percentages

Main source of information	Percentage
Best buy, active search	7
IFA or broker	14
Other, generic information	8
Product information or other kinds of advice	42
Unsolicited advice through post	6
No advice	21
Respondent does not know what advice used	1
Weighted base	***3924***

6.8.3. Whether respondent checked whether their adviser was authorised

As can be seen in Table 6.8, some 14 per cent of respondents who had made a purchase in the past five years indicated that an IFA or broker was their *main* source of information. Other respondents also indicated that they had used an adviser to help them make a decision. We felt that it was important to capture a measure of the amount of care taken when choosing an adviser in the factor score. We did this by asking whether the adviser used was authorised. However, as the majority of people did not use an adviser, we did not expect this variable to contribute greatly to the factor score.

Table 6.9 Checking whether the adviser was authorised

Column percentages

Checking authorisation	Percentage
Checked whether authorised and knows who by	12
Checked whether authorised but does not know who by	10
Unauthorised advice or does not know whether authorised	8
Not used adviser	70
Weighted base	***3924***

6.8.4. How respondent chose the product bought

This variable has been created from responses to questions about the use of independent advisers and the amount of information collected personally, summarising across the most complex products bought by each respondent. We aimed to differentiate between those people who actively sought to purchase the right product and those who were happy to rely on any information provided. It complements the two previous variables about gathering information, and has been added to the factor analysis to capture more of the decision-making process.

Table 6.10 How respondent chose product

Column percentages

	Percentage
Well-informed personal choice, using an IFA	12
Influenced by an IFA but did not collect best buy	1
Relied on independent advice	9
Relied on product information and/or non-independent advice	79
Weighted base	***3924***

6.8.5. Why respondent chose the product

Capable product purchase is about more than using impartial advice and information; ultimately the choice must be based on certain criteria. We therefore asked respondents about their key reasons for choosing one product over another, and we have combined responses from the various products to add to the factor analysis. These are summarised in Table 6.11. As we can see, only a third of people (34 per cent) bought a product having actively considered its features first, one in five bought on price, and a similar number simply bought on the basis of either the provider or the ease of purchase. One in eight (13 per cent) considered no other options at all.

Table 6.11 Why the respondent chose a particular product

Column percentages

What most influenced respondent's choice?	Percentage
Product features	34
Price - not other features	21
Recommended by someone else - not product features or price	12
Provider or ease - not product features, price or recommendation	20
Didn't consider other options	13
Weighted base	***3924***

6.8.6. Reading the terms and conditions

This question posed something of a dilemma. The qualitative phase of this research indicated that people generally felt that individuals could be financially capable even if they could not fully understand the small print in the terms and conditions of the products they bought because it was not written in plain English. We were also mindful of people who were financially skilled but had limited literacy skills or low levels of English. Nevertheless, the small print contains important information, and we felt that consumers who simply ignored it were not acting capably. We therefore designed a series of questions for each product purchase to capture whether the respondent had either read the terms and conditions themselves or someone else had done so for them, and if so, in how much detail they had been read.

As with the previous variables described above, we have combined the responses across products to add to the factor analysis. The results are shown in Table 6.12. They indicate that slightly more than half of people buying a financial product had read the terms and conditions in detail (54 per cent), with a small number relying on someone else to do so for them (two per cent). In almost one in ten cases (nine per cent) the terms and conditions had not been read at all.

Table 6.12 Reading the terms and conditions

Column percentages

Who read terms and conditions	Percentage
Read personally, in detail	54
Read briefly and got someone else to read them	5
Read briefly	30
Someone else read	2
No-one read	9
Weighted base	***3924***

6.8.7. Other variables tested

There are a series of attitude statements in the questionnaire that cover aspects of the 'choosing products' domain and of the 'staying informed' domain. We tested them in the factor analysis for this domain, but they did not correlate with the behavioural questions. As this domain is specifically about actual purchasing behaviour, we chose to create a single factor score using the behavioural questions, and omitted the attitude questions from the analysis.

We also considered including more detail about the *kind* of adviser used by respondents. We have information on whether the adviser was independent or a company salesperson, for example. However, there were several problems with including this. Firstly, most people had not used an adviser and so the categories became quite small. Secondly, it is difficult to put the categories in order; is it more capable to have not used an adviser than to have relied on your bank manager's advice?

A small number of people told us that their adviser had not given them clear advice. We matched this information to other questions to create a variable that identified people who said that they had made a decision based on the advice of their adviser, even when they had said the advice was unclear. This would appear to be a good indication of incapable behaviour, but it did not add significantly to the factor score, perhaps because it applied to only 139 individuals (four per cent of the subset).

The questionnaire included a series of questions asking whether people complained when things went wrong (described in more detail later on). The first of these questions asked *'Within the last five years, have you discovered that you had been sold a financial product that was clearly unsuitable for your needs?'* We tested the responses to this question in the factor analysis, but it did not add significantly to the factor score. This suggests that buying a product that is subsequently found to be unsuitable is not necessarily related to levels of capability in this domain. In other words, it might indicate mis-selling rather than mis-buying.

6.9. Detailed analysis of the factor score

The average (mean) score for the 'choosing products' domain is 44. It is clear from the analysis reported above that levels of capability in this area are generally not high. And, as Chapter 3 shows, most people clustered around the bottom range of capability. Few attained high scores (See Section 3.3.4.).

We have used regression analysis to identify characteristics that might explain variations in factor scores across respondents. Table 6.14 indicates that the number of products bought personally in the last five years is particularly important in explaining capability in this domain, suggesting that people learn from experience. Housing tenure also appears to be associated with the 'choosing products' domain score. To summarise the regression results briefly, they suggest that scores in this domain are less related to personal and neighbourhood characteristics than to household circumstances (such as dependent children), but that they are clearly associated with experience (number of products bought) and reasons to engage (buying a house). We describe the variations in scores in more detail in Sections 6.9.2 to 6.9.8. First, though we consider variations in the factor score by the complexity of the product people had been asked about.

6.9.1. Variations in factor scores by complexity of product

This domain is unique in that we have collated information to derive the factor score from a wide range of questions. We only asked the most detailed questions of people who had made a relevant purchase in the last five years, and based the factor analysis on the single most complex product they had bought.

It is entirely possible that purchasing behaviour may be linked to the type of purchase made. So, for example, one might expect people to do more research before buying a mortgage than they would if they got a current account. It might also be more important to read the small print on agreements relating to protection insurance than it is to do so for a current account. On the other hand, it may be that the types of people who buy complex products are more sophisticated with regard to product choice than those who only have much simpler ones. Table 6.13 shows how the average scores in the 'choosing products' domain vary by the most complex product respondents had bought.

Table 6.13 Average scores by product type

Most complex product	Mean factor score	*Weighted base*
Investments	54	***769***
Mortgage	56	***521***
Protection	45	***424***
Credit card	38	***476***
Loans	29	***539***
General insurance	45	***631***
Savings account	39	***315***
Current account	27	***248***
All	***44***	***3924***

It is clear that people who had recently bought either of the two most complex products, investments and mortgages scored considerably higher in the 'choosing products' domain (54 and 56 respectively) than those taking up a relatively simple current account (27). However, looking at all the product types, it is noticeable that the scores fluctuate between product types quite unpredictably: people taking up loans score an average of 15 points lower than average (29), whilst people choosing general-insurance products score slightly above average (45).

We have also tested a regression model that includes variables to indicate the most complex product purchased by each respondent. The regression analysis compares people who bought loans to those who bought any other kind of product, and the results indicate that differences in factor scores are significantly associated with different products purchased, and that the type of product can explain a lot of the variation.

However, and importantly, the same personal characteristics and circumstances were significant in both models (albeit that their influence appears to reduce once product information is included). The impact of age and income in particular is reduced, but nothing is removed entirely. This tells us that even after taking into account the fact that people were talking about particular products which may have been specific to their circumstances, their characteristics and circumstances still influenced their financial capability score. Another way of thinking about this is that personal characteristics and circumstances have an impact of financial capability *regardless* of the product being purchased.

Table 6.13 Significant results of regression model for the 'choosing products' domain

Explanatory variables	Coefficient	Standardised coefficient
(Constant)	43.007**	
Partner is main earner	2.772**	.055
Current account use *ref: 'has current account and uses it'*		
No current account	-4.334*	-.049
Number of product types bought personally	1.442**	.190
Number of active purchases	0.682*	0.044
ACORN: ref: *comfortably off*		
Wealthy achievers	3.379**	.063
Score: involvement with money management	.812**	.060
Saving-to-income ratio	.015**	.065
Age *ref: age 40-49*		
Age 18-19	-5.209**	-.054
Age 20-29	-3.258**	-.063
Age 70-79	-5. 759**	-.075
Income *ref: quintile 3*		
Quintile 1 (lowest)	-3.099**	-.057
Quintile 4	1.856*	.037
Housing tenure *ref: 'own home with a mortgage'*		
Private rent	-7.819**	-.122
Social rent	-7.739**	-.147
Live with family member	-4.471**	-.061
Other living arrangement	-5.544*	-.030
Gender *ref: male*	-3.351**	-.081
Country *ref: England*		
Northern Ireland	-3.562**	-.047

Explanatory variables	Coefficient	Standardised coefficient
Qualifications *ref: GCSE A* to C*		
Higher/post-graduate degree	5.532**	.073
First degree	4.062**	.066
Diplomas in HE/HNC	2.529*	.039
None of these qualifications	-2.970**	-.053
Family type *ref: 'couple, no children'*		
Single adult	-3.183**	-.057
Lone parent and dependent children	-2.807*	-.046
Couple and dependent children	-2.209*	-.046
Other family type	-3.618**	-.068
Work status *ref: full-time work*		
Retired	5.284**	.093
Adj r-sq	0.230	

** indicates significance at the 1 per cent level.

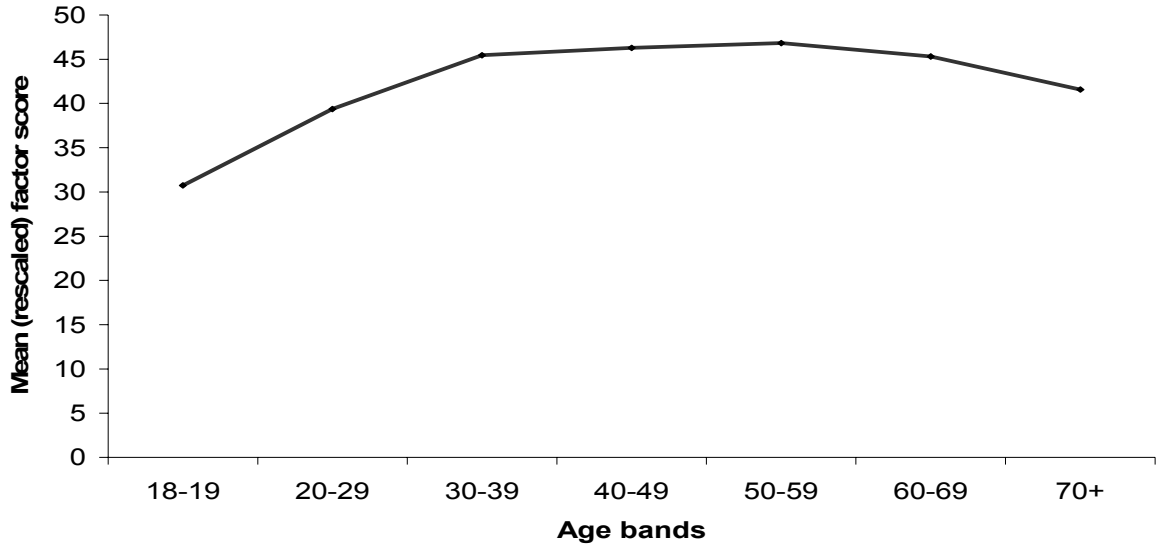
* indicates significance at the 5 per cent level.

6.9.2. Gender and age

Whilst the average score on this domain was 44, men scored slightly above this at 46, whilst women scored an average of 42. The difference is not large but the regression analysis indicates that gender is highly significant, and that even after taking into account other characteristics, women typically score around three points lower than men.

Gender is not the only personal characteristic that appears to be associated with financial capability in this domain. The graph of average respondents' scores (Figure 6.1) indicates a relationship between age and capability. It suggests that the very young have the lowest levels of capability, and that those in their middle ages are the most capable. The oldest respondents are not as incapable as the youngest but their scores are still below average. This would suggest that it would be most appropriate to target people aged under 40 with any programmes to raise levels of financial capability with regard to product purchase.

Figure 6.1 Relationship between factor scores and age



The regression results confirm that young people aged 18 to 29 score significantly lower than those in their 40s in the 'choosing products' domain, but that scores are roughly the same for those in middle age when controlling for other characteristics. As predicted by Figure 6.1, scores then fall off slightly for older respondents. This suggests that the current cohort of young people are finding it difficult to make appropriate purchases, and that their age has a significant impact on their level of capability even when taking into account, for example, the number of product purchases they have made and their qualifications.

6.9.3. Housing and region

Table 6.15 shows that local-authority and housing-association tenants scored an average of just 32, compared with an average score of 50 amongst those with a mortgage, indicating considerably higher levels of capability amongst home owners.

The regression analysis compares respondents with a mortgage with people with other kinds of housing tenure, and indicates that, other things being equal, social and private tenants score around eight points lower than respondents with a mortgage. So, even after taking into account variations in income and work status, for example, social tenants are lacking capability in choosing financial products relative to other respondents. It is not entirely clear what is driving this difference, since the regression analysis controls for a wide range of possibilities, including, for example, the exposure to financial services through the count of types of product purchases. One possible explanation is that there may be a local area effect, as we know that people often rely on friends and family for advice when making purchases of financial products. Living in an area where others are equally inexperienced with regard to product purchases could, therefore, affect an individual's score. However, the fact that this is not picked up by the ACORN categories indicates that it must be a localised phenomena.

Table 6.15 Average scores by housing tenure

Housing tenure	Mean factor score	*Weighted base*
Own home outright	47	***865***
Own home with a mortgage	50	***1560***
Rent home from a private landlord	38	***436***
Rent home from a local authority or housing association	32	***742***
Live with parents/grandparents/other family members	35	***274***
Have some other arrangement	[40]	***46***
All	***44***	***3924***

As discussed in previous chapters, for the purpose of the regression analysis we are identifying five ACORN categories: 'wealthy achievers', 'urban prosperity', 'comfortably off', 'moderate means' and 'hard pressed', and we use the 'moderate means' category as our comparison group. The average scores for people living in 'hard pressed' areas are some 10 points below those of 'wealthy achievers' (Table 6.16). However the average scores of the middle categories vary by just a few points, and the regression analysis shows that only those categorised as living in areas of 'wealthy achievers' scored significantly differently from those in the comparison group, even though we had controlled for incomes.

Again this would be explicable if there was an area effect. Living in a neighbourhood where most neighbours are experienced users of financial services could raise an individual's score. The fact that the same effect was not observable for people at the other end of the spectrum (and living in 'hard pressed' areas) suggests that the results need to be seen in relation to housing tenure. In other words, living in social rented housing is more significant than living in a 'hard pressed' area.

Table 6.16 Average scores by ACORN classification

ACORN classification	Mean factor score	*Weighted base*
Wealthy achievers	49	***785***
Urban prosperity	44	***367***
Comfortably off	45	***1017***
Moderate means	44	***512***
Hard pressed	39	***1152***
All	***44***	***3924***

There was some variation in the capability scores by country within the UK. The average scores range from 37 in Northern Ireland to 44 in England. The regression reveals that even after taking into account other characteristics, those in Northern Ireland scored an average of three points lower than their English counterparts.

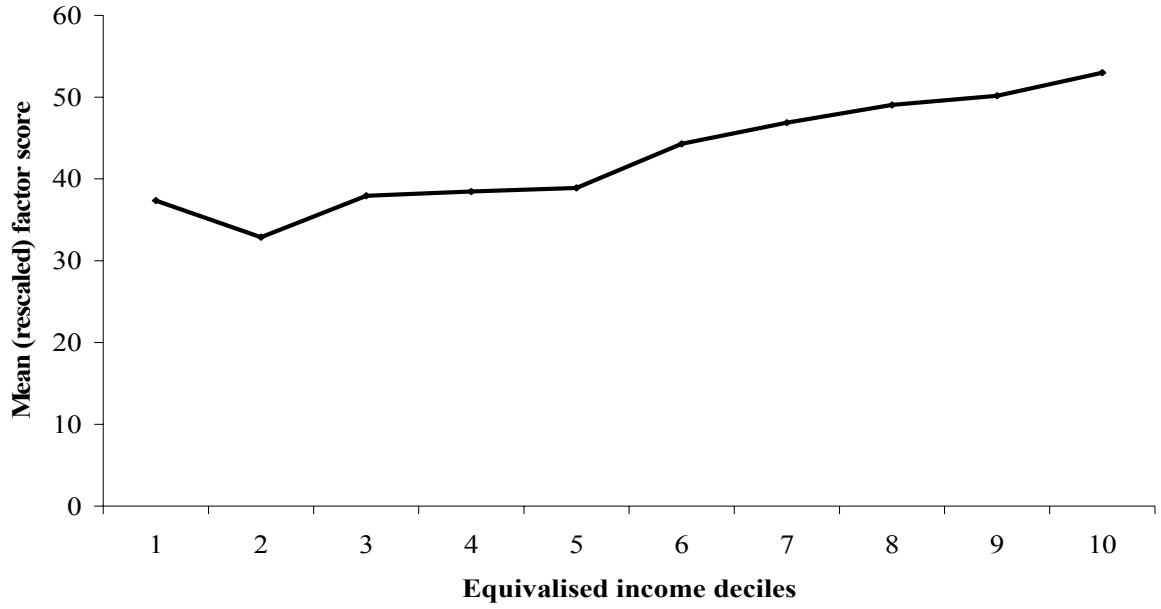
Table 6.17 Average scores by country

	Mean factor score	*Weighted base*
England	44	***3339***
Wales	41	***185***
Scotland	41	***315***
Northern Ireland	37	***85***
All	***44***	***3924***

6.9.4. Income

Average factor scores in the 'choosing products' domain tend to increase with income, suggesting that people with higher incomes have higher levels of capability when it comes to choosing products (Figure 6.2).

Figure 6.2 Relationship between factor scores and income



The regression analysis results show that once other factors have been taken into consideration, only people in the lowest quintile have scores that are significantly different from those in the middle income group (three points lower), and the low standardised coefficients indicate that income has less of an impact on the factor scores than some other characteristics.

6.9.5. Family circumstances

Average factor scores in this domain clearly vary by family type, with couples scoring an average of 10 to 12 points more than lone parents, depending on whether they have children or not. There appears to be a pattern of lower scoring amongst adults living alone and higher scoring for adults living with a partner, perhaps suggesting a level of shared learning. It may also be that family circumstance is picking up some of the variation by income or age, since these tend to be correlated.

The regression analysis indicates that family circumstances *are* significantly associated with the factor score even when income is taken into account, although the impact is relatively small. Interestingly, once other characteristics are held constant, it appears that all of the family types have scores that are significantly lower than those of couples without children.

Table 6.18 Average scores by family type

Family type	Mean factor score	*Weighted base*
Single with no dependent children	41	***680***
Couple with no dependent children	49	***1105***
Lone parent with dependent children	37	***485***
Couple with dependent children	47	***967***
Other family types	39	***688***
All	***44***	***3924***

6.9.6. Qualifications and work status

There appears to be a link between education and financial capability with regards to product choice that holds even when other characteristics were taken into account. In general, scores increase steadily with level of educational achievement.

Table 6.19 Average scores by qualification

Qualification	Mean factor score	*Weighted base*
Higher degree/post-graduate qualifications	52	*340*
First degree (including B. Ed)	50	*512*
Diplomas in HE/HNC	47	*458*
A/AS levels/SCE Higher	44	*650*
Trade apprenticeships	43	*203*
O Level/GCSE grades A-C	42	*729*
O Level/GCSE grades D-G	41	*261*
Other qualifications	36	*124*
None of these	36	*634*
All	***44***	***3924***

So, respondents with no qualifications at all scored 16 points lower, on average, than those with post-graduate qualifications (Table 6.18), whilst those with only low grades at GCSE (or equivalent) achieved five points more than those with no qualifications.

The results of the regression show that there is a link with educational attainment even when other factors are taken into account, with scores increasing steadily the more qualifications people have. Consequently, those with a post-graduate qualification score significantly better than the reference group (people with the equivalent of a GCSE grade C or above), achieving almost six additional points, with those with no recognised qualifications scoring almost three points lower than the reference group.

Average factor scores vary by work status, with full-time workers achieving the highest average scores at 47 and the unemployed gaining an average of just 33 (Table 6.20). The regression indicates, however, that when other factors were controlled for, only respondents in retirement score significantly differently from full-time workers (an average of almost six additional points). In other words, other characteristics explained the differences.

Table 6.20 Average scores by work status

Work status	Mean factor score	*Weighted base*
In full-time education	37	***221***
Working full time (30+ hours) including temporarily off work	47	***1623***
Working part time (up to 29 hours) including temporarily off work	46	***595***
Looking after the home or family	39	***384***
Retired from paid work	45	***699***
Unemployed	33	***242***
On a government work or training scheme	[33]	***7***
Permanently sick or disabled	35	***153***
All	***44***	***3924***

Numbers in [ ] are based on relatively few respondents and so may be unreliable.

6.9.7. Engagement with financial services

As in the previous chapters we have used three measures to take into account respondents' engagement with financial services. However, this domain is rather different in that it only includes those people who have made a recent financial product purchase and therefore excludes many of those who do not engage with financial services.

Current account usage is our first measure of engagement, as it is a recognised indicator of financial inclusion. 89 per cent of those who had bought a financial product in the last five years had a current account that they used, compared with just 76 per cent of those who had not made a recent purchase (and are therefore excluded from this part of the analysis). The average factor score for those with an account that they used was 45, compared with 40 for those who did not use their account, and just 30 for those without an account. The regression analysis indicates, however, that once we take other characteristics into account; not having a current account is only weakly significant.

In contrast, as mentioned at the beginning of this section, the number of product *types* people had bought personally in the past five years was one of the most significant variables in the regression. Each additional product type bought added 1.4 to the overall score, other things being constant.

6.9.8. Variables with little or no significance

Product purchase is one area where religious or ethical beliefs may be expected to restrict engagement and reduce experience. However, neither ethnicity nor religion made any significant difference to the scores once other factors were controlled for. We first tested a model that included *both* ethnicity and religion, and then a second model (as reported in Table 6.14) where we dropped ethnicity to ascertain whether religion would be significant on its own.

6.10. Summary

It seems that there are low levels of financial capability in this domain. People were generally poor at choosing products, they renewed existing products without considering alternatives, and even when they did look to purchase something new they did not necessarily shop around. Also many people did not read the terms and conditions carefully.

Only just over half of the respondents who had made a purchase in the last five years reported that anyone had collected information, and one in five had made a decision without seeking any advice or information from anywhere. Likewise, just over half had read the terms and conditions in detail, whilst almost one in ten had neither read them nor asked anyone else to do so on their behalf.

There are signs that a minority of people had bought products unwisely. Some people had products that they appeared not to need, such as life insurance for single adults with no dependants, or income protection for non-earners. Others had taken out mortgages or investments with levels of risk that were greater than they indicated they wished to take. Yet others had either taken out an interest-only mortgage or faced an endowment-mortgage shortfall and had no provision to pay off the money they will owe at the end of the mortgage term. Despite these findings, there was no clear correlation between responses to a question about whether people believed they had been mis-sold a product and the other questions forming part of this domain.

By far the most significant factor in explaining the financial-capability scores in this domain was a person's level of engagement with buying financial services. It is very clear that people learnt through experience. Those with more purchases and more products scored considerably higher than the rest.

It also appears that financial capability in this domain was highest amongst middle-aged respondents. In contrast, young people did particularly badly, even after taking into account their lower levels of engagement. Furthermore, men scored higher than women, perhaps indicating a greater responsibility for financial matters.

There may well be evidence of an area effect. People living in areas populated by 'wealthy achievers' scored appreciably higher than others, while those living in social rented housing did far worse. There was also regional variation in people's ability to choose appropriate products, with respondents from Northern Ireland scoring significantly lower than those from elsewhere in the UK.

7. Staying informed

In this domain we asked a range of questions that explored respondents' knowledge of financial matters, and ascertained whether respondents felt that it was important to stay informed about financial matters. We looked at their methods of keeping abreast of financial developments and asked how often they monitored key indicators such as inflation and interest rates.

The people interviewed in the developmental phase of this survey thought that a financially capable person would know when to complain about poor service, and would know how to complain effectively. We have therefore also included questions in this domain designed to find out what respondents did when they were dissatisfied with a financial product or service. We would argue that staying informed requires the ability to acquire and retain knowledge. For this reason we have also included questions that test financial literacy in this domain.

In the rest of the chapter we report the results of the survey, and explain how the 'staying informed' financial-capability score was created. We then discuss variations in average score by key characteristics and circumstances, and use regression analysis to identify which are most significant.

7.1. Keeping up to date

Al respondents were asked *'In your opinion, how important is it for people like you to keep up to date with what is happening with financial matters generally, such as the economy and the financial services sector?'* The results show that the vast majority of respondents (72 per cent) thought that this was *'quite'* or *'very'* important. Just under one in ten (nine per cent) did not think it was important at all.

Table 7.1 The importance of keeping up to date with financial matters

Column percentages

Importance of keeping up to date	Percentage
Very important	29
Quite important	42
Not very important	20
Not at all important	9
Weighted base	***5328***

Although only one in ten did not think keeping up to date was at all important, twice that number (22 per cent) were actually not keeping themselves informed (Table 7.2). Even more startling, Table 7.2 shows that more than one in ten (12 per cent) of those who felt it was important to keep informed were not actually doing so themselves. In other words, attitudes are not a particularly good indicator of behaviour in this area. For this reason this question was not included the factor score.

7.1.1. What people monitored

Turning now to the things people said they monitored, interest rates were mentioned more often than any other financial matter (Table 7.2). Almost half of people (46 per cent) said that they kept an eye on interest rates, and four in ten monitored house prices. In general, people were much more likely to keep an eye on a range of macro-economic changes than they were to look out for best buys in financial products, which only one in ten respondents (11 per cent) said they did.

Table 7.2 Areas people monitored

Cell percentages

Things the respondent keeps an eye on	Keeping up to date is quite/very important	All respondents
Changes in the housing market	47	39
Changes in the stock market	24	18
Changes in interest rates	57	46
Changes in inflation	34	27
Changes in taxation	38	31
Changes in the job market	20	17
Changes in state pension/benefits/tax credits	41	35
Best buys in financial products	14	11
None of these	12	22
Weighted base	***3808***	***5328***

On the whole, people who said that they believed it was important to keep up to date were more inclined to say they monitored each of the things we asked them about. But the differences were not large, and even among this group only 14 per cent kept an eye on best buys.

7.1.2. Number of areas people monitored

As seen in Table 7.2, respondents monitored a wide variety of financial indicators, from interest rates to changes in the job market. It is difficult to prioritise these indicators in terms of importance, or to say that people watching one thing are more capable than those watching another. To capture this aspect of financial awareness in the factor score, we have created a variable that reports the number of indicators that each respondent monitors.

This variable ranges from zero to eight, but three-quarters (76 per cent) of respondents kept an eye on no more than three indicators (Table 7.3). In other words, despite most people saying it was important to stay informed, in practice they monitored very little.

Table 7.3 Number of areas being monitored

Column percentages

Number of indicators	Percentage
0	22
1	23
2	17
3	14
4	10
5	7
6	5
7	2
8	1
Weighted base	***5328***

7.1.3. Sources of information

Respondents were also asked how they got their information. The question allowed multiple responses and did not prompt them with suggestions. Their responses are summarised in Table 7.4.

The mass media are clearly important in providing information about financial matters. Two in five respondents (41 per cent) followed financial indicators by reading the general sections of the newspaper. Similar proportions kept up to date through television or radio programmes. This indicates that most people hear and absorb information about financial matters whilst reading, watching or listening to other things that interest them.

In contrast, they are far less likely to use media specifically designed to give them information about financial matters. Only half as many respondents (19 per cent) said they monitored things by reading the financial pages of the newspaper, and just seven per cent of respondents followed specialist programmes on television or radio. It is noteworthy that virtually the same proportions kept up to date via the internet as read the financial pages of the newspaper (18 per cent and 19 per cent respectively).

Table 7.4 Monitoring financial matters

Cell percentages

How the respondent monitors financial matters	Keeping up to date is quite/very important	All respondents
Financial pages in the newspaper	24	19
Newspapers (not financial papers)	46	41
Specialist personal finance magazines	3	2
Specialist finance programmes on TV/radio	9	7
Other TV/radio	44	39
Internet	22	18
Ceefax/Teletext	5	4
Financial adviser/stockbroker	4	3
Friends/family/acquaintances	1	1
Social services	-	1
Information through post	1	1
Through work	1	1
Information from estate agents	-	-
Through banks	1	1
Chancellor's budget	-	-
Other answers	1	1
Refused	0	0
None of these	12	22
Weighted base	***3808***	***5328***

7.1.4. Frequency of monitoring

People could claim to be watching a wide variety of indicators, but they may actually do so infrequently. We therefore asked them how often they monitored the indicators they had mentioned, and we have included this in the factor analysis. This means that someone who watches a few indicators regularly is likely to have a similar score to someone who watches more indicators less often (assuming their responses to other questions are similar).

Table 7.5 Frequency of monitoring

Column percentages

Frequency	Percentage
At least once a week	34
At least once a month, but not once a week	24
Less than once a month	19
Never	23
Weighted base	***5328***

We can see from Table 7.5 that monitoring frequencies vary widely, but that a third of respondents (34 per cent) claim to monitor financial matters at least weekly. On the other hand, nearly a quarter monitor nothing at all, and one in five do so infrequently.

7.2. Mis-selling, disputes and complaints

The focus groups with both the public and experts indicated that a capable person would be willing and able to complain should the need arise. We asked all respondents about a range of situations where they might have encountered difficulties. It was not necessary to restrict this section of the questionnaire to recent purchases as we know that some problems do not come to light for many years, but we asked respondents to tell us about difficulties that had come to light in the last five years. Respondents were asked only to consider incidents that could not be resolved with a single phone call. These questions were always asked in the same order; if the respondent had experienced one of these situations they were not asked about other possible causes for complaint.

The order of the questions was:

- discovery of having been sold an unsuitable financial product;
- disputes with a financial company of £50 or more;
- disputes with shops and suppliers about the quality of goods or services costing £50 or more;
- an error on any state benefit of £50 or more; and
- errors in pensions of £50 or more (only asked if over state retirement age).

A small proportion of respondents (nine per cent) answered 'yes' when asked whether they had been sold a financial product that was clearly unsuitable for their needs. Four per cent of respondents felt they had been mis-sold an endowment mortgage and two per cent felt hey had been mis-sold investment products (including personal pensions). Very small numbers felt they had been mis-sold other products, such as current accounts, loans and credit cards.

Around half (49 per cent) of those who felt they had been sold unsuitable financial products subsequently complained to the firm that sold the product to them, and 39 per cent of those felt that they had managed to resolve the problem. That means, however, that over half took no action at all, and eight in ten (81 per cent) had not resolved the issue.

In contrast, it seems that people were much more likely to have taken up complaints relating to the errors and disputes in other areas. For example, we asked people if they had had a dispute with a financial service company that involved £50 or more and could not be resolved with a single phone call. In all, eight per cent said that they had had such a dispute, and most of these (88 per cent) complained to the company involved; however, only slightly over half (56 per cent) of the disputes were resolved.

The remaining 91 per cent of respondents who had neither been sold an unsuitable product nor had had a dispute with a financial services company were asked about disputes involving £50 or more with shops and suppliers. One in ten (ten per cent) had faced this kind of situation, and just about all of them (95 per cent) had complained to the shop involved - considerably more than complained to financial companies. Of those who complained to the shop, almost three in ten (29 per cent) found that the problem was not resolved, but this was still considerably better than amongst financial firms, where more than two in five (44 per cent) remained unresolved.

A small number (two per cent) of those respondents who had not faced any of the previous situations had faced problems with benefits payments or pensions that amounted to £50 or more and could not be resolved with a single phone call. Of these, 65 per cent complained to the benefits agency or pension provider, and two-thirds (65 per cent) of those who complained felt that the problem was resolved.

We combined these replies into a single variable capturing whether anyone who had experienced a difficulty of one kind or another had taken up the complaint. This gave us sufficient numbers of people to assess the extent to which people were willing to pursue complaints. Just over two in five people (44 per cent) with cause for complaint had taken up the matter with the service provider and had managed to sort things out. In contrast, a quarter (25 per cent) of people had not taken up the matter at all, and a further 18 per cent gave up having failed to resolve the matter with the provider. That left 12 per cent who had taken the matter further.

In fact, only 28 per cent of the people interviewed had experienced any of the difficulties described above, and when we tested the combined variable in the factor analysis it did not correlate with other variables. This could well be because so many people had not experienced disputes. It was therefore dropped from the score.

7.3. Applied financial literacy

At the end of the questionnaire, six of a total of eight 'money quiz' questions were posed to respondents to test elements of applied financial literacy. Unlike other areas of the questionnaire, they all had a correct answer that could be scored. These questions were devised by the FSA to capture a range of applied financial literacy competences that are needed by individuals in dealing with their finances. As the report on the developmental phase describes, these were subject to thorough cognitive testing, and the number and range of questions was consequently reduced.

We have dealt with the 'money quiz' responses in several ways in order to gather as much information from the responses as possible and to use them when creating the factor score for this domain. We looked at each question separately in order to identify those questions with the greatest variation in responses. Then we gave each respondent an overall mark out of six, based on the number of correct replies to the financial literacy questions. On seeing the breakdown of results by respondents' characteristics we opted for a combination of these approaches in the factor analysis.

We summarise below the variation in responses, paying particular attention to the impact of age and income, as we know these are correlated with general-education levels and qualifications, and so we would expect to see a similar relationship with aspects of financial literacy.

7.3.1. Reading and using a bank statement

The first task in the 'money quiz' section was to read out the final balance from a bank statement. Respondents were free to give any answer, and most were correct. Fewer than one in ten respondents (nine per cent) answered this question incorrectly.

People aged 60 and over were most likely to get the answer wrong; 15 per cent of those over 70 did so. Respondents in lower-income households were also more likely to give the wrong answer than those with higher incomes, so whilst just three per cent of those in the highest income quintile answered incorrectly, some 15 per cent of those in the lowest two quintiles did not get this question right.

As this first question depends on a person's ability to read from a bank statement, it is interesting to consider how it relates to current-account holding. We can see in Table 7.6 that those without an account were far more likely to say that they did not know the answer to the question; indeed they were almost twice as likely to do so as people who had an account but did not use it (11 per cent and six per cent respectively). They were also less likely to give the right answer if they did attempt the question.

Table 7.6 Responses to first quiz question (reading the balance from a bank statement) by current account holding

Column percentages

Quiz: reading bank statement	Has account; uses it	Has account; not used	No current account	All
Correct answer	93	86	79	91
Other answers	3	7	9	5
Don't know	3	6	11	3
Refused	1	1	1	1
Weighted base	***4550***	***351***	***427***	***5328***

The second question asked people to say whether or not there was sufficient money in the account to cover a direct debit payment that was due. It therefore tested basic arithmetic as well as the ability to read a bank statement and understand the concept of being overdrawn. Overall, only 15 per cent of respondents gave the incorrect response. Again, this was higher among the youngest and oldest people we interviewed. One in five (20 per cent) 18- to 20-year-olds answered this question incorrectly, and almost a quarter of adults over the age of 70 (24 per cent) gave the wrong answer.

As before, people with high incomes were more likely to get this question right; only seven per cent of those in the top quintile (i.e. the 20 per cent people with the highest equivalised incomes) did not give the right answer, compared with 21 per cent of those in the lowest-income quintile. In fact, people in the lowest-income quintile were much more likely than average to say that they did not know; nine per cent did so, compared with just one per cent of those in the top quintile.

7.3.2. Understanding percentages and the effects of inflation on savings

Respondents were asked '*If the inflation rate is 5% and the interest rate you get on your savings is 3%, will your savings have at least as much buying power in a year's time?*' to assess their understanding of the effects of inflation and percentages. Again it required a yes/no answer. More than one in five (21 per cent) of all respondents did not give the correct answer, but this proportion almost doubled amongst 18- to 20-year-olds (41 per cent of whom did not answer correctly). In contrast, only 14 per cent of respondents in their fifties failed to give the correct answer.

Once again there was a link with income, with the incidence of incorrect replies being highest amongst those on the lowest incomes; the proportions across the quintiles ranged from 29 per cent to 12 per cent not giving the right answer. Women were also less likely than men to know the answer (26 per cent and 17 per cent respectively).

7.3.3. Using graphs to determine returns on investments

Two questions were designed to capture people's ability to use an illustration in the form of a graph to be able to spot the best returns on three different investments. In this case, a quarter of people were unable to give the correct reply to each of the two questions (25 and 26 per cent respectively). Interestingly the proportions of 18- to 20-year-olds not getting the answer right did not vary by more than two percentage points from this average. Respondents aged 70 and over, however, were least likely to choose the best fund in either question (40 per cent and 39 per cent respectively). This contrasts notably with the proportion of those in their thirties who failed to choose the right answers (in each case 20 per cent did so).

As with the earlier questions, we found that the proportion not giving the right answer was linked to income. Just 11 per cent of those in the quintile with the highest incomes answered incorrectly, compared with 38 per cent of those in the lowest two quintiles. Unusually, it was also noticeable that the proportion of correct responses was lower in Northern Ireland than elsewhere[20]. Some 36 per cent of respondents in Northern Ireland got these questions wrong.

These questions were answered incorrectly by more women than men. Proportions differed by five percentage points on one question (27 per cent and 22 per cent respectively) and eight points on the other (30 per cent and 22 per cent respectively).

[20] Whilst there are variations in the proportions giving the right answer to other questions by country, they rarely vary by more than a couple of percentage points from the mean and are therefore not statistically significant.

7.3.4. Basic arithmetic, percentages and subtraction

Basic arithmetic was tested in the final question, where respondents were asked whether a cash discount of £30 was better than a ten per cent discount on a television with an original price of £250. Here, one in ten (ten per cent) failed to give the correct reply. There was little difference in the proportions getting the question right across the age bands from 18 to 60. However, respondents over the age of 60 were slightly less likely to give the correct answer, and one in five (20 per cent) of those aged 70 and above chose the wrong answer. The proportion of respondents struggling with this question was clearly associated with income. Just three per cent of those respondents with the highest household incomes answered it wrongly, compared with 16 per cent of those in the lowest-income bracket.

7.3.5. Overall scores

As we note above, we combined the replies to the financial literacy element of the quiz into an overall score, with a maximum score of six. The average overall mark for the quiz was 4.9 out of six. Forty- to fifty-year-olds scored the highest of all the age bands, on average, at 5.2. Men scored slightly more than women (5.1 and 4.8 respectively), and respondents interviewed in Northern Ireland scored less than those in the other countries, at just 4.7.

Respondents with household incomes in the lowest two quintiles scored below average in the quiz (4.5), and the average score increased with income; those with the highest incomes scored an average of 5.5.

7.4. Knowledge of financial products

Two further questions in the 'money quiz' were designed to assess people's levels of knowledge of products in general and of the products that they, themselves, held.

First, all respondents were asked which of four types of mortgage would be guaranteed to pay off the full amount if all payments had been made. It was possible for respondents to give multiple responses, but in fact only one response was correct. We therefore only gave this question one mark if the respondent had correctly identified the right type of mortgage and had not (incorrectly) mentioned any other type.

This showed that three in ten people (29 per cent) gave the incorrect reply. The oldest and youngest respondents were least likely to know the answer; 42 per cent of 18- to 20-year-olds did not answer this question correctly, and 45 per cent of those over 70 gave the wrong answer. Knowledge was, perhaps unsurprisingly, highest amongst those in their forties.

Ninety per cent of respondents with the highest incomes were able to answer the mortgage question correctly and, once again, answers were clearly associated with income. Also, in keeping with earlier questions, females were less likely to answer this question correctly than their male counterparts (32 per cent of women got the question wrong compared with just 25 per cent of men).

Not surprisingly, scores on this question varied greatly by housing tenure. Over nine in ten adults with a mortgage (92 per cent) answered the question correctly, compared with just 46 per cent of local-authority tenants. Interestingly, though, almost three in ten home owners (27 per cent) who owned their home outright got this question wrong, perhaps indicating that people do not necessarily keep up to date with things they once knew about.

We also asked all respondents which of seven types of savings could be directly affected by stock-market performance. We scored this question between 0 and 1, with a score of 0.2 for each product correctly identified, in order to capture some level of capability even when respondents had missed one or more products. This question was clearly the most difficult, and on average respondents scored 0.36. The youngest respondents scored an average of just 0.19, and the higher-scoring 50-year-olds still only managed an average of 0.44. The oldest respondents did not fair as badly as the youngest, but achieved average scores of just 0.29.

Unsurprisingly, those with the highest incomes scored highest on this question, but even they averaged only slightly over half-marks at 0.53. Scores also varied by product holding. For example, those without a bank or building society savings account scored an average of 0.24 compared with 0.44 amongst those with savings. People with unit trusts or investment trusts scored an average of 0.67, higher even than those with stocks and shares (0.57).

Finally, in discussing the products that they held currently, respondents were asked about the key features of these products. This included the interest rates for credit cards, loans and savings; the length of time before protection insurance pays out; and the amount of regular repayments and the total amount that will be repaid on money borrowed. We were not able to assess whether the replies people gave were correct or not, but the developmental phase had shown that where people did not know, they generally said so. We therefore derived a variable to identify people who did not know key features of at least one product that they held. In all, almost three in ten (29 per cent) answered ‘don’t know’ at least once. This is a fairly crude measure, and we did not expect it to load highly in the factor score. As Table 7.7 indicates, the measure does not add much to the factor score, but we have retained it in the analysis nevertheless. We tested other approaches to this area of capability, including counting the number of times a person replied ‘don’t know’, but these did not improve the analysis.

Table 7.7 Factor analysis of 'staying informed' domain: sorted by item loading

KMO=0.75	Item loadings
Number of indicators keeping an eye on	.805
Frequency measures economic indicators	-.720
Answer to question about risky savings	.691
Quiz mark (financial literacy)	.592
Importance of keeping up to date with financial matters	-.560
Answer to question about mortgages	.529
Don't know key features of at least one product discussed	.030

7.5. Attitudes

As mentioned in the previous chapter, there were two attitude statements that we had originally intended to use in the 'choosing products' domain as they were about financial advisers, but our initial investigations indicated that they would be more appropriate to this domain. The statements were:

- *"I've got a clear idea of the sorts of financial products that I need without consulting a financial adviser"*; and
- *"I do not know enough about pensions and investments to choose ones that are suitable for my circumstances without consulting a financial adviser"*.

However, because these attitude statements do not correlate with the other questions in this domain about staying informed, they would have created a second factor and, therefore, a second factor score. It would not have been appropriate to have a factor with just two items, and so we have not included them in the final financial-capability score for this domain.

We do still have an indicator of attitude in this domain, as we have included the question discussed earlier which asks respondents whether it is important to keep up to date in financial matters. This question is clearly associated with the questions relating to monitoring, but is picking up attitude rather than behaviour. As it is just one question out of seven, it does not bias the score in favour of attitude, something we are keen to avoid.

7.6. Creating a factor score

The questions we have used to capture financial capability in this domain look across all respondents at their levels of self reliance and the amount of trust they place in others when dealing with their finances. They include quiz questions that take into account knowledge.

We have also aimed to capture respondents' levels of engagement with financial news and information, through the derived variables made up of the economic indicators questions. We have included variables to capture the following.

- **Monitoring**

  Number of indicators keeping an eye on

  Frequency measures economic indicators

- **Financial literacy**

  Quiz mark (score on the first six questions on financial literacy)

- **Attitudes**

  Importance of keeping up to date with financial matters

- **Product knowledge**

  Types of mortgage

  Risk associated with savings and investments

  Don't know key features of at least one product discussed

7.7. Detailed analysis of the factor score

The average (mean) factor score in this domain is 57. As in the earlier domains, this average score is not an indication of acceptable levels of capability - it simply gives us a measure that can be used to compare the capabilities of individuals. We can, however, see from the analysis reported above that this denotes a variable level of capability. While most people did well on the financial literacy questions, they did rather less well when it came to product knowledge and, on the whole, badly with regard to keeping up to date with changes that might impact on their finances.

Chapter 3 showed that there was considerable diversity in people's behaviour. As in previous domains, we have looked at simple variations in factor scores across people with different characteristics, and used regression analysis to help explain these variations. We discuss the results later on. In short, the regression analysis indicates that a great many characteristics are associated with staying informed, but that those with the most impact tend to be personal characteristics (age, gender, education, income etc), experience and engagement (number of product types bought, use of current account, having a mortgage etc). External factors, such as neighbourhoods, were not found to be strongly associated with this domain.

Table 7.8 Significant results of regression model for the 'staying informed' domain

Explanatory variables	Coefficient	Standardised coefficient
(Constant)	61.204**	
Whether born in the UK	-2.714**	-.049
Choices influenced by religion	2.161**	.032
Whether have any long-standing illness or infirmity	1.419*	.032
Partner is main earner	1.535*	.034
Gets free financial products from work	1.656*	.041
Current account use *ref: 'has current account and uses it'*		
No current account	-4.836**	-.076
Has current account but does not use it	-2.208**	-.030
Number of product types bought personally	.735**	.102
Number of active purchases	1.015**	.072
ACORN: ref: *comfortably off*		
Hard pressed	-1.533**	-.039
Score: involvement with money management	1.383**	.117
Borrowing-to-income ratio	.072*	.026
Saving-to-income ratio	.002*	.028
Age *ref: age 40-49*		
Age 18-19	-5.451**	-.058
Age 20-29	-5.423**	-.111
Age 30-39	-2.614**	-.056
Age 70-79	-6.153**	-.109
Income *ref: quintile 3*		
Quintile 1 (lowest)	-2.777**	-.060
Quintile 2	-2.615**	-.057
Quintile 4	1.803**	.039
Quintile 5 (highest)	3.743**	.078

Explanatory variables	Coefficient	Standardised coefficient
Housing tenure *ref: 'own home with a mortgage'*		
Private rent	-4.632**	-.078
Social rent	-6.799**	-.151
Live with family member	-2.416*	-.035
Other living arrangement	-6.897**	-.045
Gender *ref: male*	-4.824**	-.130
Country *ref: England*		
Wales	-2.541**	-.042
Northern Ireland	-5.568**	-.088
Qualifications *ref: GCSE A* to C*		
Higher/post-graduate degree	7.375**	.103
First degree	6.328**	.109
Diplomas in HE/HNC	3.922**	.065
A/AS levels	3.166**	.061
Trade apprenticeships	-2.791*	-.029
None of these qualifications	-7.089**	-.157
Family type *ref: 'couple, no children'*		
Single adult	-2.940**	-.063
Lone parent and dependent children	-3.079**	-.055
Couple and dependent children	-1.467*	-.033
Other family type	-1.986**	-.042
Work status *ref: full-time work*		
Full-time education	3.443**	.041
Retired	3.383**	.075
Adj r-sq	0.396	

** indicates significance at the 1 per cent level.

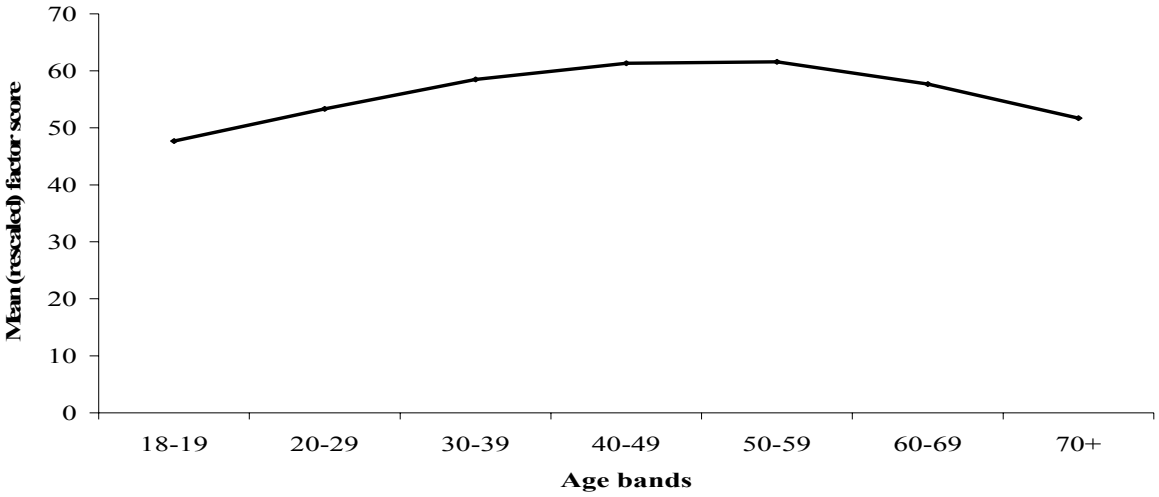
* indicates significance at the 5 per cent level.

7.7.1. Gender and age

The average scores achieved by men were seven points above those of women in this domain (61 and 54 respectively). It is difficult to explain this large variation. It may reflect the fact that girls tend to gain lower grades than boys in mathematics at school, and perhaps have lower levels of confidence in certain areas of financial literacy. It could also be related to traditional roles within the home, with men being delegated the task of keeping informed.

The regression analysis (reported in Table 7.8) indicates that gender is particularly important in explaining variations in scores in this domain, it is highly significant and has a relatively large standardised coefficient. Women scored around five points lower than men once other characteristics are taken into account.

Figure 7.1 Relationship between 'staying informed' factor scores and age



Factor scores also varied by age, as can be seen in Figure 7.1. As in other domains, scores were lowest for the youngest respondents, highest amongst those in middle age, and falling again amongst the older respondents.

The regression confirms that younger respondents have significantly lower scores than respondents in their forties, other things being equal. Adults over the age of 70 also score significantly less, but youthfulness appears to explain more of the variations in scores. This is interesting given that the regression also controls for engagement with financial services through a count of product types bought, number of active purchases made, and a score for involvement with money management.

7.7.2. Housing and region

As seen in Table 7.9, local-authority tenants scored 12 points below the average in this domain (45), whilst home owners with a mortgage scored eight points above average (64). This pattern by housing tenure has been replicated across all the domains.

The regression analysis results in Table 7.8 confirm that local authority tenants are scoring well below average, and that their scores are significantly different even after taking into account characteristics such as income and employment. Private tenants are also scoring significantly lower than average. Again, this almost certainly indicates an area effect among the social tenants.

Table 7.9 Average scores by housing tenure

Housing tenure	Mean factor score	*Weighted base*
Own home outright	60	***1371***
Own home with a mortgage	65	***1875***
Rent home from a private landlord	54	***543***
Rent home from a local authority or housing association	45	***1124***
Live with parents/grandparents/other family members	52	***337***
Have some other arrangement	48	***74***
All	***57***	***5328***

Turning to the five ACORN categories used to provide geo-demographic information, we see that individuals in 'hard pressed' areas scored 11 points less than the 'wealthy achievers'. This provides a further indication that there are large area effects impacting financial capability in this domain.

The regression analysis confirms that people's scores in 'hard pressed' areas are significantly below those of their counterparts in less poor areas, even after taking into account their own income, work status and other characteristics. This suggests that there is perhaps a lack of information or possibly motivation within these areas that transcends personal circumstances.

Table 7.10 Average scores by ACORN classification

ACORN classification	Mean factor score	*Weighted base*
Wealthy achievers	63	***1022***
Urban prosperity	60	***492***
Comfortably off	60	***1366***
Moderate means	57	***665***
Hard pressed	51	***1664***
All	***57***	***5328***

There were some interesting variations in scores across the UK (Table 7.11). Respondents in England achieved the highest scores overall while people living in Northern Ireland scored much less than those living elsewhere - some 11 points on average below those in England.

Table 7.11 Average scores by country

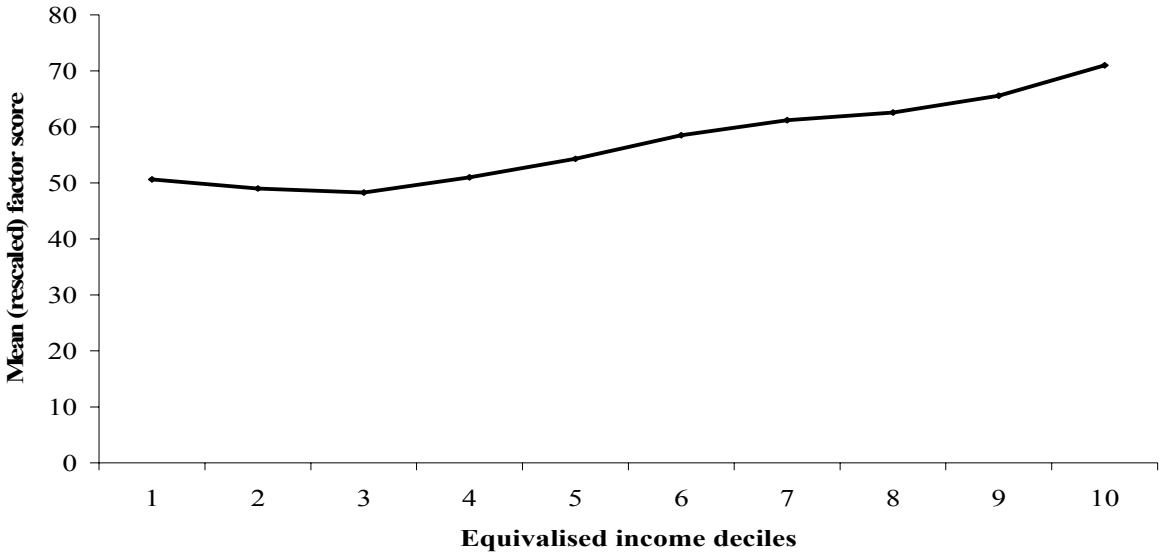
	Mean factor score	*Weighted base*
England	58	***4465***
Wales	53	***261***
Scotland	55	***458***
Northern Ireland	47	***144***
All	***57***	***5328***

The regression analysis confirms the variation in results across countries, with average scores in every other country significantly worse than in England. It indicates that after controlling for other characteristics, people in Northern Ireland score almost six points less than their English counterparts.

7.7.3. Income

Figure 7.2 shows that there was a link with income and, as in other domains, scores were flat across the three lowest-income deciles, but then increased with levels of income.

Figure 7.2 Relationship between 'staying informed' factor scores and income



The regression analysis results show that income is significantly associated with the factor scores, with people in the lowest-income quintile scoring almost five points less than those in the middle quintile, after taking into account other characteristics. The standardised coefficients suggest, however, that it has less impact than other characteristics, such as gender.

7.7.4. Family circumstances

There was a noticeable variation in results by family circumstance. Whilst lone parents scored an average of 51, couples without dependent children achieved ten points more. As in previous domains, respondents living with a partner tended to score more than others, whether they had dependent children or not.

Interestingly, despite the wide variation in average scores, the regression analysis results indicate that family type is not significant once other characteristics are taken into consideration. This suggests that other characteristics, such as income and housing, are driving the variations seen in Figure 7.2 (Table 7.12).

Table 7.12 Average scores by family type

Family type	Mean factor score	*Weighted base*
Single with no dependent children	53	***1080***
Couple with no dependent children	61	***1516***
Lone parent with dependent children	51	***603***
Couple with dependent children	61	***1180***
Other family types	55	***949***
All	***57***	***5328***

7.7.5. Qualifications and work status

Table 7.13 indicates that financial capability in this domain is clearly linked to education and qualifications. This should not come as a surprise, as the factor score includes information about the results of the money quiz which test financial literacy.

The regression analysis shows that qualifications are significant in explaining variations in the factor scores. In particular, the standardised coefficients for those without any qualifications at all and those with post-graduate qualifications indicate that these are having some of the biggest effects of all the characteristics and circumstances included in the model.

Table 7.13 Average scores by qualification

Qualification	Mean factor score	*Weighted base*
Higher degree/post-graduate qualifications	70	***397***
First degree (including B. Ed)	68	***620***
Diplomas in HE/HNC	64	***575***
A/AS levels/SCE Higher	60	***785***
Trade apprenticeships	58	***303***
O Level/GCSE grades A-C	56	***946***
O Level/GCSE grades D-G	52	***348***
Other qualifications	50	***201***
None of these	46	***1132***
All	***57***	***5328***

There was some variation in scores by work status, but it was nowhere near as extreme as the variation across qualifications seen above. Table 7.14 shows that full-time workers scored the highest marks (63) and unemployed people scored the lowest (47).

Table 7.14 Average scores by work status

Work status	Mean factor score	*Weighted base*
In full-time education	55	***251***
Working full time (30+ hours) including temporarily off work	63	***1944***
Working part time (up to 29 hours) including temporarily off work	58	***738***
Looking after the home or family	50	***529***
Retired from paid work	55	***1278***
Unemployed	47	***349***
On a government work or training scheme	[46]	***7***
Permanently sick or disabled	48	***233***
All	***57***	***5328***

Numbers in [ ] are based on relatively few respondents and so may be unreliable.

The regression analysis results relating to work status are very interesting. They suggest that the mean results are not telling the full story. Once other characteristics and circumstances are controlled for, those in full-time education and the retired gain three points more than those in full-time work. This suggests that age is driving the results shown in Table 7.14 rather than work status, and may also be picking up some aspect of education prior to qualification (for example, most students will not have a degree but may behave like graduates in terms of staying informed).

7.7.6. Engagement with financial services

As before, we have used three measures of engagement with financial services. The first is current-account holding, which we use as an indicator of financial inclusion. The factor scores vary considerably between those with an account and those without. Whilst regular account users scored an average of 59, those who did not use their account scored an average of 52, and those who lacked an account scored just 42 on average. As in previous chapters, this indicates that account holding is important, even if the account is not used, suggesting that financial exclusion is linked to financial capability. However, the regression analysis suggests that having an account is not enough; scores are still significantly lower amongst this group than amongst regular account users.

Factor scores also increased with the number of product types held and the number of active purchases made. The regression analysis results indicate that both of these are significant in explaining the variations in factor score, indicating that, unsurprisingly, people who buy a wider variety of financial products are more likely to remain informed about, and keep an eye on, financial matters.

7.7.7. Other characteristics

It appears from the results of the regression analysis that people who make financial choices based on their religious beliefs score higher than average in the 'staying informed' domain. We assume this is because of the greater attention to detail needed to assess the suitability of a product.

Respondents with a long-standing illness or infirmity also appear to score well in this domain. The regression analysis indicates that even after taking into account other characteristics, those with a long-standing illness score one point above average. This is possibly related to a fall in income and the subsequent need to monitor financial situations very carefully. It may also be related to an increased level of reliance on television and radio for information and entertainment.

7.8. Summary

The majority of respondents felt that it was important to keep up to date with financial matters and changes in the economy, but they did not necessarily do so themselves. Those who did relied heavily on information from the television, radio, or newspaper, and were far more likely to glean information from general-interest reports than from specialist items.

Developmental work suggested that an ability to deal with disputes and complaints when things went wrong was an important aspect of financial capability. We found that people were less likely to complain about problems with financial products than with financial services. However, they were most likely to complain when they had a problem with a shop or supplier, perhaps indicating that they felt more likely to be able to resolve these kinds of issues.

We have also tested financial literacy in this section. Respondents generally fared well with the questions about bank statements and percentages, but were much less sure about levels of risk and types of mortgage.

The financial-capability score in this domain indicates that some people were doing relatively well at keeping informed, but that there are some characteristics that are associated with lower than average scores. There is a clear relationship between keeping informed and income, qualifications, and age. We found that women scored less than men on average, and local-authority tenants scored considerably lower than home owners.

The regression analysis for this domain indicated some unusual results. Holding other things constant, people who are influenced in their financial purchases by religion score more highly than others, even though religion itself is not significant. Also, the relationship between capability and work status is obviously more complex than the difference in average results would indicate. The regression analysis shows that after controlling for other characteristics, those in full-time education score more than full-time workers, even though *on average* they score less.

8. Conclusion

8.1. Background

This report is the culmination of an important and quite ambitious project, aiming to measure the financial capability of the nation and to project a platform against which future progress could be measured. The data analysed in this report comes from a unique survey, designed and undertaken specifically for the purpose of measuring financial capability.

Painstaking and original development work and testing went into creating a survey that could capture those behavioural and attitudinal traits indicating levels of financial capability. One of the main conclusions from the development work was that there was no single indicator of financial capability, but that rather it could be conceived as encompassing four different areas, or 'domains', of people's involvement with money and financial products. We called these domains *'managing money'*, *'planning ahead'*, *'choosing products'* and '*staying informed'*.

In each of these areas, a number of questions were developed or adapted to gather information. These questions were designed to identify those with higher and lower degrees of financial capability. In the analysis, a large number of questions then had to be reduced to a smaller number of 'scores' which reflected people's *relative* performance within each of the financial-capability domains. A key point here is that the statistical approach has created a new measure, or score, based on the answers to a wide range of questions. It is also a relative measure, and does not attempt to identify a group whose financial capability may be said to be 'too low', 'inadequate' or 'failing'. We have created scores that take into account some differences in personal circumstances. However, we have not attempted to identify a pass mark. What we want to do, and believe is most appropriate to do, is to see how the distribution of scores varies. We want to know whether there is a group of people who are consistently failing to exhibit behaviour that is even nearly as capable as the majority of people, or if most people behave very similarly.

However, it is possible to identify the kinds of behaviour exhibited by those with relatively high or low scores, and to consider how far such behaviour (or attitudes) may be amenable to consumer education and other policy approaches.

We have found clear indications that individuals may be particularly capable in one or more areas, but lack skills or experience in other areas. It was reassuring that the results of the data analysis indicate that we took the right approach in identifying domains of capability rather than seeking to simplify capability into a single measure. The statistical method used to create scores for each domain, based on the combined information from questions within that domain, is known as factor analysis. This is a long-established method, and is a key part of the identification of deprived areas.

In addition to the investigation of the variations in individuals' scores across domains as described above, we have also looked at the variation of scores within each domain. Within some domains, such as 'planning ahead', we see rather flat distributions, indicating a wide variation in capability and a significant proportion of respondents achieving less than average. In other domains, such as 'managing money', most people are grouped around relatively high scores that are based on them managing to meet existing commitments without any great difficulties.

8.2. Next steps

One of the key outcomes from the project is not just a report, but a new database containing the answers to several thousand questions provided by over 5,000 respondents. This report has analysed that data, combining in it various ways to create new information. But there is much more that could be done. There are important groups of people within the data whose circumstances could be explored in greater detail. Further analysis could look separately at the different countries within the UK, and consider whether there are important regional differences in capability. The experience of groups with lower financial capability could be unpacked in greater detail, or groups that are relatively unusual (highly capable, younger people and less capable, older people) could be investigated in greater detail to consider if there are important lessons to learn.

Other analysts may wish to explore particular questions in greater detail, questions which a single report is unable to tackle. By providing a new source of information to be made publicly available, researchers, academics and policy formulators are able to address new lines of enquiry and look at people's financial lives in greater detail.

8.3. Looking to the future

Ultimately, the FSA will want to consider whether a future survey may be able to track changes in people's financial capability. There are three main issues in considering the usefulness and feasibility of such an undertaking. First, is the sample large enough to be able to track change? This seems clearly, yes. With a sample of some 5,000 in 2005, and assuming a comparable sample size in the future, even relatively small changes should be capable of being identified; the margin of error with a sample size of this kind (given various assumptions) is 1.4 per cent.

The second issue is whether the measures adequately capture the measures in which we are interested. On this we can also be confident that the rigour of the development work and the process of arriving at the questionnaire provides a positive answer. There may be changes in financial products that require some adjustments to the particular questions, but it seems likely that the questions will be able to capture the key elements of financial capability for the foreseeable future.

The third issue, and perhaps more difficult to gauge, is the kind of time period over which we might expect measured financial capability to change. It is worth adding that the approaches used in this report, and in particular the creation of the scores within each domain, may be updated in a future survey. Ensuring that a measure could be repeated in this way was one of the key criteria used for selecting the methods. To look again at financial capability within a year's time would seem to be very short, and there are few reasons to expect people's capabilities to have changed over such a time horizon. It will take time for policies towards financial education and financial capability to take effect, and (for instance) any changes in school-based financial information to have an effect on the 18+ population included in this study.

A measure of financial capability is important if the individual is expected to make important decisions regarding their mix of pensions, savings, investments and so on. The state plays a role in regulating the relevant markets in these areas, but people have to make selections between a large number of products. The importance of this issue reinforces the importance of revisiting the measures of financial capability identified in this report, to consider how far the areas of strengths and weakness are changing, and the groups requiring most attention.

9. Annex: detailed regression output

Table 9.1 Results of the regression analysis of the 'managing money' domain

Explanatory variables	Making ends meet	Keeping track
(Constant)	69.7**	57.1**
Whether born in the UK	-0.1	-0.8
Christian	1.0*	1.4**
Muslim	3.8**	0.2
Hindu	5.2**	3.1
Sikh	5.4*	3.1
Jewish	-2.5	-2.4
Buddhist	4.4	3.9
Other religion	1.2	1.8
Choices influenced by religion	0.8	0.4
Whether have any long-standing illness or infirmity	0.7	-0.3
Partner is main income earner	1.5**	-2.8**
Partner and respondent have equal income	0.9	0.3
Gets free financial products from work	1.8**	0.3
No current account	-5.0**	12.8**
Has current account but does not use it	-3.2**	10.6**
ACORN: Wealthy achievers	0.1	-0.9
ACORN: Urban prosperity	-0.5	-1.0
ACORN: Moderate means	-0.8	-0.0
ACORN: Hard pressed	-0.5	0.5
Age 18-19	0.8	0.5
Age 20-29	-3.1**	-0.5
Age 30-39	-1.9**	-0.8
Age 50-59	2.8**	-1.0
Age 60-69	6.6**	-1.2
Age 70-79	9.0*	-1.5
Income quintile 1 (lowest)	0.7	-0.4
Income quintile 2	0.3	1.0
Income quintile 4	1.0	0.2
Income quintile 5 (highest)	2.7**	-1.8*

Explanatory variables	Making ends meet	Keeping track
Own home outright	4.4**	1.1
Private rent	-2.3**	3.7**
Social rent	-3.6**	3.3**
Live with family member	-0.7	-0.2
Other living arrangement	-1.1	3.0
Gender	0.1	2.2**
Wales	-1.5*	-0.1
Scotland	0.2	0.0
Northern Ireland	1.2	-1.4
Higher/post-graduate degree	1.7*	-1.0
First degree	1.6*	0.3
Diplomas in HE/HNC	0.6	0.8
A/AS levels	0.7	-0.0
Trade apprenticeships	1.0	-0.5
O Level/GCSE grades D-G	-0.2	0.9
Other qualifications	-0.4	-0.3
None of these qualifications	-0.1	-0.93
Single adult	0.4	3.0**
Lone parent and dependent children	-2.2**	3.9**
Couple and dependent children	-1.5**	0.3
Other family type	0.1	0.1
Full-time education	0.1	-0.1
Part-time work	0.4	1.7*
Looking after home/family	-0.9	2.0*
Retired	2.0*	2.7**
Unemployed	-3.5**	2.7**
Permanently sick/disabled	-2.8*	2.2
Adj r-sq	.267	.166

** indicates significance at the 1 per cent level.

* indicates significance at the 5 per cent level.

Table 9.2 Results of regression model for the 'planning ahead' domain

Explanatory variables	Coefficient	Standardised coefficient
(Constant)	50.696**	
Whether born in the UK	-2.370**	-.032
Christian	1.302*	.025
Muslim	-2.026	-.018
Hindu	2.915	.014
Sikh	1.817	.005
Jewish	2.034	.004
Buddhist	5.923	.013
Other religion	-3.144	-.007
Choices influenced by religion	.591	.007
Whether have any long-standing illness or infirmity	1.230*	.021
Partner is main income earner	2.172**	.036
Partner and respondent have equal income	-1.735	-.016
Gets free financial products from work	6.890**	.128
Perks are quite or very important	.485	.007
No current account	-8.097**	-.095
Has current account but does not use it	.203	.002
Number of product types bought personally in past five years	.504	.053
Number of active purchases	.910**	.048
ACORN: Wealthy achievers	1.063	.017
ACORN: Urban prosperity	-.847	-.010
ACORN: Moderate means	-1.215	-.017
ACORN: Hard pressed	-2.765**	-.052
Number of product types bought by respondent or partner in past five years	-.033	-.004
Score for involvement with money management	1.594**	.101
Borrowing-to-income ratio	-.109**	-.030
Saving-to-income ratio	.003*	.023
Age 18-19	-13.579**	-.109
Age 20-29	-9.509**	-.146
Age 30-39	-3.769**	-.060
Age 50-59	4.417**	.065
Age 60-69	7.281**	.100

Explanatory variables	Coefficient	Standardised coefficient
Age 70-79	8.005**	.107
Income quintile 1 (lowest)	-3.376**	-.055
Income quintile 2	-2.664**	-.044
Income quintile 4	3.611**	.058
Income quintile 5 (highest)	6.428**	.101
Own home outright	5.917**	.102
Private rent	-10.759**	-.136
Social rent	-12.799**	-.214
Live with family member	-7.660**	-.083
Other living arrangement	-8.859**	-.043
Gender	-1.427**	-.029
Wales	-2.914**	-.036
Scotland	.600	.007
Northern Ireland	-5.137**	-.061
Higher/post-graduate degree	5.669**	.059
First degree	3.419**	.044
Diplomas in HE/HNC	3.548**	.044
A/AS levels	2.381**	.034
Trade apprenticeships	2.373*	.023
O Level/GCSE grades D-G	-1.548	-.016
Other qualifications	-3.745**	-.030
None of these qualifications	-3.472**	-.058
Single adult	-3.113**	-.050
Lone parent and dependent children	-5.397**	-.072
Couple and dependent children	-1.142	-.019
Other family type	-2.276**	-.036
Full-time education	1.871	.017
Part-time work	.529	.007
Looking after home/family	-.703	-.008
Retired	6.654**	.111
Unemployed	-4.271**	-.045
Permanently sick/disabled	-3.957**	-.033

** indicates significance at the 1 per cent level.

* indicates significance at the 5 per cent level.

Table 9.3 Results of regression model for the 'choosing products' domain

Explanatory variables	Coefficient	Standardised coefficient
(Constant)	43.885**	
Whether born in the UK	-1.683	-.027
Christian	-.137	-.003
Muslim	.169	.002
Hindu	.874	.005
Sikh	.591	.002
Jewish	5.183	.013
Buddhist	-4.719	-.013
Other religion	8.913	.027
Choices influenced by religion	1.758	.023
Whether have any long-standing illness or infirmity	1.339	.025
Partner is main income earner	2.788**	.056
Partner and respondent have equal income	.132	.001
Gets free financial products from work	1.719	.039
Perks are quite or very important	-1.254	-.023
No current account	-3.273*	-.037
Has current account but does not use it	-1.238	-.014
Number of product types bought personally in past five years	1.555**	.190
Number of active purchases	.393	.025
ACORN: Wealthy achievers	3.106**	.058
ACORN: Urban prosperity	.478	.007
ACORN: Moderate means	-.421	-.007
ACORN: Hard pressed	-.585	-.013
Number of product types bought by respondent or partner in past five years	-.254	-.033
Score for involvement with money management	.853**	.063
Borrowing-to-income ratio	-.049	-.018
Saving-to-income ratio	.014**	.063
Age 18-19	-6.148**	-.063
Age 20-29	-3.528**	-.068
Age 30-39	-1.142	-.023
Age 50-59	.473	.008

Explanatory variables	Coefficient	Standardised coefficient
Age 60-69	-2.491	-.038
Age 70-79	-5.577**	-.073
Income quintile 1 (lowest)	-3.352**	-.061
Income quintile 2	-1.049	-.019
Income quintile 4	1.856*	.037
Income quintile 5 (highest)	1.286	.026
Own home outright	-.286	-.006
Private rent	-8.339**	-.130
Social rent	-8.079**	-.153
Live with family member	-4.318**	-.059
Other living arrangement	-5.445*	-.029
Gender	-3.299**	-.079
Wales	-1.125	-.016
Scotland	-1.195	-.017
Northern Ireland	-3.140**	-.041
Higher/post-graduate degree	5.691**	.075
First degree	4.230**	.069
Diplomas in HE/HNC	2.738*	.042
A/AS levels	2.321*	.042
Trade apprenticeships	-.013*	.000
O Level/GCSE grades D-G	.073	.001
Other qualifications	-3.141	-.028
None of these qualifications	-2.881**	-.051
Single adult	-3.328**	-.060
Lone parent and dependent children	-2.912*	-.048
Couple and dependent children	-2.211*	-.046
Other family type	-3.911**	-.074
Full-time education	1.104	.013
Part-time work	1.708	.030
Looking after home/family	.739	.010
Retired	5.760**	.102
Unemployed	-.211	-.003
Permanently sick/disabled	.730	.007

** indicates significance at the 1 per cent level.

* indicates significance at the 5 per cent level.

Table 9.4 Results of regression model for the 'staying informed' domain

Explanatory variables	Coefficient	Standardised coefficient
(Constant)	61.204**	
Whether born in the UK	-2.714**	-.049
Christian	.536	.013
Muslim	-1.495	-.017
Hindu	-.659	-.004
Sikh	-2.256	-.009
Jewish	.951	.003
Buddhist	-2.707	-.008
Other religion	2.567	.008
Choices influenced by religion	2.161**	.032
Whether have any long-standing illness or infirmity	1.419*	.032
Partner is main income earner	1.535*	.034
Partner and respondent have equal income	-.664	-.008
Gets free financial products from work	1.656*	.041
Perks are quite or very important	1.189	.023
No current account	-4.836**	-.076
Has current account but does not use it	-2.208**	-.030
Number of product types bought personally in past five years	.735**	.102
Number of active purchases	1.015**	.072
ACORN: Wealthy achievers	1.130	.023
ACORN: Urban prosperity	-.042	-.001
ACORN: Moderate means	-.493	-.009
ACORN: Hard pressed	-1.533**	-.039
Number of product types bought by respondent or partner in past five years	-.209	-.031
Score for involvement with money management	1.383**	.117
Borrowing-to-income ratio	.072*	.026
Saving-to-income ratio	.002*	.028
Age 18-19	-5.451**	-.058
Age 20-29	-5.423**	-.111
Age 30-39	-2.614**	-.056
Age 50-59	.915	.018
Age 60-69	-1.426	-.026

Explanatory variables	Coefficient	Standardised coefficient
Age 70-79	-6.153**	-.109
Income quintile 1 (lowest)	-2.777**	-.060
Income quintile 2	-2.615**	-.057
Income quintile 4	1.803**	.039
Income quintile 5 (highest)	3.743**	.078
Own home outright	1.008	.023
Private rent	-4.632**	-.078
Social rent	-6.799**	-.151
Live with family member	-2.416*	-.035
Other living arrangement	-6.897**	-.045
Gender	-4.824**	-.130
Wales	-2.541**	-.042
Scotland	-1.192	-.019
Northern Ireland	-5.568**	-.088
Higher/post-graduate degree	7.375**	.103
First degree	6.328**	.109
Diplomas in HE/HNC	3.922**	.065
A/AS levels	3.166**	.061
Trade apprenticeships	-.597	-.008
O Level/GCSE grades D-G	-1.687	-.023
Other qualifications	-2.791*	-.029
None of these qualifications	-7.089**	-.157
Single adult	-2.940**	-.063
Lone parent and dependent children	-3.079**	-.055
Couple and dependent children	-1.467*	-.033
Other family type	-1.986**	-.042
Full-time education	3.443**	.041
Part-time work	-.128	-.002
Looking after home/family	1.161	.018
Retired	3.383**	.075
Unemployed	1.843	.026
Permanently sick/disabled	1.224	.014

** indicates significance at the 1 per cent level.

* indicates significance at the 5 per cent level.

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