

**Financial capability amongst  
adults with literacy and numeracy  
needs**

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# 1. Introduction

There is growing interest in the areas of financial capability and financial literacy, and widespread acknowledgement that consumers need to be skilled to make the right decisions and to protect themselves from making costly mistakes. There is also now a wealth of data on the subject, thanks to the first ever survey of financial capability amongst adults in the UK, undertaken on behalf of the Financial Services Authority (FSA). This Baseline Survey of Financial Capability (BSFC) dataset has already been used to describe the distribution of financial capability, and to look for groups of people with similar skills (Atkinson *et al* 2006). More recently it has also been analysed to explore ways of identifying people most at risk of becoming over-indebted (Kempson and Atkinson 2006). However, there is much more that can be done with the BSFC, and many organisations have started to recognise how the data might inform them in a way that could help them to work more efficiently and effectively with their client group.

The Basic Skills Agency is one agency that has recognised the value of the BSFC. The Basic Skills Agency has funding from the Department for Education and Skills (DfES) Skills for Life Unit to work on financial literacy. It has a number of priorities, including funding research and developing ways of improving financial capability amongst learners. It is also involved in delivering the FSA's financial capability strategy. It has recognised the potential to use the BSFC to explore how financial capability and financial skills differ amongst adults with literacy and numeracy needs, and has invited the Personal Finance Research Centre to conduct this study.

## Aim of the study

In this study, we aim to provide a detailed picture of the financial capability of people with literacy and numeracy needs, by undertaking secondary analysis of the BSFC.

We begin by providing an overview of the variations in financial capability by educational qualifications. Our main aim is then to use quantitative research techniques to explore:

- whether working age adults with literacy and numeracy needs have different levels of financial capability from the working age population as a whole;
- whether it is possible to identify particular characteristics that could help predict who might have the lowest levels of capability in a particular domain, and
- the aspects of financial capability that cause the greatest difficulty for adults likely to have literacy and numeracy needs.

The study is intended to report to practitioners and policymakers with an interest in improving financial capability amongst adults with literacy and numeracy needs in the UK. It is written to inform their decisions on targeting help and devising suitable educational material by making it clear which areas of financial capability are likely to cause the most problems.

## The baseline survey

The Baseline Survey of Financial Capability was undertaken on behalf of the Financial Services Authority. Interviews were conducted by BMRB between June and September 2005, after a lengthy development process undertaken to identify the key components of financial capability and to test a raft of questions that might be used in the survey (Kempson *et al* 2005). Interviews were conducted with 5,328 people across the UK, using a random location sample.

It was clear from the development work that financial capability is not a straightforward concept to identify, much less to measure. It is a term encompassing four different areas, or 'domains': managing money, planning ahead, choosing products and staying informed. Survey questions were therefore broadly grouped into these four domains. Additional questions were asked to test the respondents' financial literacy, in a section called the 'money quiz'. The survey also collected a wide range of information about the participants' personal and characteristics and economic circumstances (FSA 2006).

The FSA has kindly allowed the Personal Finance Research Centre to undertake additional analysis of the BSFC for this study.

## Developing a scoring system

The BSFC provided a massive amount of information about the ways in which individuals conducted their financial affairs. It was designed specifically to create a measure of financial capability amongst adults in the UK. A panel of experts worked together to decide what that measure should look like.

A single score, taken from answers across the whole survey would have provided little meaningful information, since the questions covered such a broad range of topics. It was clear that any scoring system needed to reflect the different domains of financial capability identified during the development process. It also needed to take into account the different ways in which people dealt with their finances (such as operating a cash budget) so that alternative (but equally appropriate) methods had comparable scores. It was therefore agreed that separate scores would be calculated for each domain.

The method employed to create the scores in each domain was a statistical technique known as 'factor analysis' (further details are available in Atkinson *et al* 2006). There are many advantages to using this technique. One benefit is that factor analysis identifies whether questions are more or less important in explaining a particular factor, and allows the analyst to discard questions that do not add any meaningful information. Additionally, it allows the analyst to verify that the groups of questions actually belong together, and if not to test whether they would be better used to explain other aspects of financial capability.

In addition to developing a suitable method of scoring the data, it was important to know how to interpret the results. It was agreed that there would be no attempt to identify or choose a pass-mark. The survey was undertaken to provide a clear understanding of the baseline levels of financial capability. These scores represent the range of abilities **before** the financial capability strategy was implemented. The distribution of scores is of most interest at this stage, since this describes the variation

in ability. Where most people have very similar scores, ability is equally good across the population, whereas if the distribution shows wildly differing scores then some people are considerably more capable than others. If only a small group of people have very high scores we might assume that the majority of people could benefit from improving their own capability.

### **The financial capability scores**

It was clear whilst developing the scoring that there are actually two distinct aspects to the first domain *managing money*. Managing money quite clearly involves two distinct tasks 1) *making ends meet* and 2) *keeping track of finances*; these are not correlated. People may not be good at both, and so it would be wrong to combine them into a single score. Conversely, it also became clear that financial literacy (being able to calculate percentages, read and understand bank statements, etc) was correlated with questions that asked about ways in which people kept informed about financial matters, and so these two aspects were combined to create the *staying informed* score. There are now, therefore, five scores which cover the breadth of skills that we collectively think of as financial capability. Each of these is discussed in brief below.

#### *Making ends meet*

People who were making ends meet well:

- Kept up with financial commitments without difficulty
- Had a positive attitude to savings ('I am more of a saver than a spender')
- Never ran out of money at the end of the week/month
- Had not been in financial difficulties in the last five years

The majority of people had very similar high scores with a small minority scoring less; most were capable at making ends meet.

#### *Keeping track*

People who were keeping track effectively:

- Frequently checked the amount of money they had
- Checked their receipts against their bank statement
- Knew their current account balance
- Budgeted to cover 'lumpy' expenditure (such as car tax).

The majority of people had very similar scores; just a small group scored more than average and a few others scored less than average. So, most were reasonably capable at keeping track.

#### *Planning ahead*

People who were planning ahead:

- Had made sufficient provision for an unexpected expense/drop in income
- Could make ends meet for 12 months or more if their income dropped
- Had some insurance
- Had made provision for retirement
- Had a positive attitude to saving for a rainy day, and planning for retirement

The flat distribution of scores showed that whilst some people were very good at planning ahead, others were unable or unwilling to make some provision for their future.

### *Choosing products*

Not everyone had been responsible for choosing a financial product in the recent past. In order to create the baseline using relevant information, people were only given a score in this domain if they had personally made a financial purchase in the last five years.

People who were good at choosing products:

- Sought advice from professional advisers or shopped around
- Did not just rely on product information
- Compared products from more than one provider (personally or through an adviser)
- Compared product features and prices, not just brand
- Read the terms and conditions in detail

The distribution of scores in this domain is of real concern. Whilst a few people scored highly, most scored relatively little, indicating considerable room for improvement.

### *Staying informed*

People who stayed informed:

- Monitored financial indicators such as interest rates and unemployment figures
- Checked the indicators frequently
- Felt it was reasonably important to keep up-to-date with financial matters

They also had a good level of financial literacy, as indicated by their score in the 'money quiz'.

The scores indicate that whilst few people did particularly well (or particularly badly) in this domain there is considerable diversity in terms of the extent to which people keep themselves up-to-date with financial matters.

## **The report**

The rest of this report is laid out as follows. In Chapter 2 we describe the average financial capability scores attained by adults of all ages with different levels of educational qualifications. Chapter 3 focuses on the distribution of financial capability amongst working age adults who are likely to have literacy and numeracy needs (using educational qualifications and reading ability to identify groups of people most likely to have such needs). In Chapter 4 we look in more detail at the attitudes and behaviours that make up the various aspects of financial capability to try and understand which aspects cause people with literacy and numeracy needs to be more or less capable. We conclude in Chapter 5.

## 2. Educational qualifications and financial capability

### Key findings

- Four of the five aspects of financial capability are statistically associated with educational qualifications: the exception being *keeping track*.
- The level of qualification that is most likely to indicate a difference in capability varies across the different domains. Only particularly high qualifications were associated with significantly higher *making ends meet* scores, whilst having no qualifications was associated with significantly lower *choosing products* scores.

*People require a basic body of knowledge and understanding, upon which they can draw when managing their financial affairs. This knowledge will be acquired in different ways: through experience; through education and training; and through passive receipt of information from different sources such as family and friends, the media and information materials produced by the financial sector.*  
(Kempson *et al* 2005)

We might assume from the quote above that higher levels of education and training will lead to consumers who are more financially capable. In this report, we cannot consider the impact of education *per se*, but we can look at the relationship between financial capability and an output measure of education; i.e. educational qualifications. In this chapter we therefore describe the relationship between people's qualifications and their five financial capability scores, by looking at average scores for each qualification level. We also use the results of statistical analysis undertaken for the FSA to ascertain whether qualifications are significantly associated with each aspect of financial capability once other characteristics are taken into account (Atkinson *et al* 2006).

### *A note on qualifications*

The BSFC data does not include an exhaustive record of every qualification passed by each respondent. Rather, survey participants were shown a list of qualifications and asked to indicate the highest one they had personally achieved (FSA 2006). Some people had difficulty reading the list. In these cases the interviewers read the qualifications out loud so that every person had the opportunity to answer. The interviewer also made a note of whether the person had difficulty reading or understanding English and these people were subsequently identified in the dataset.

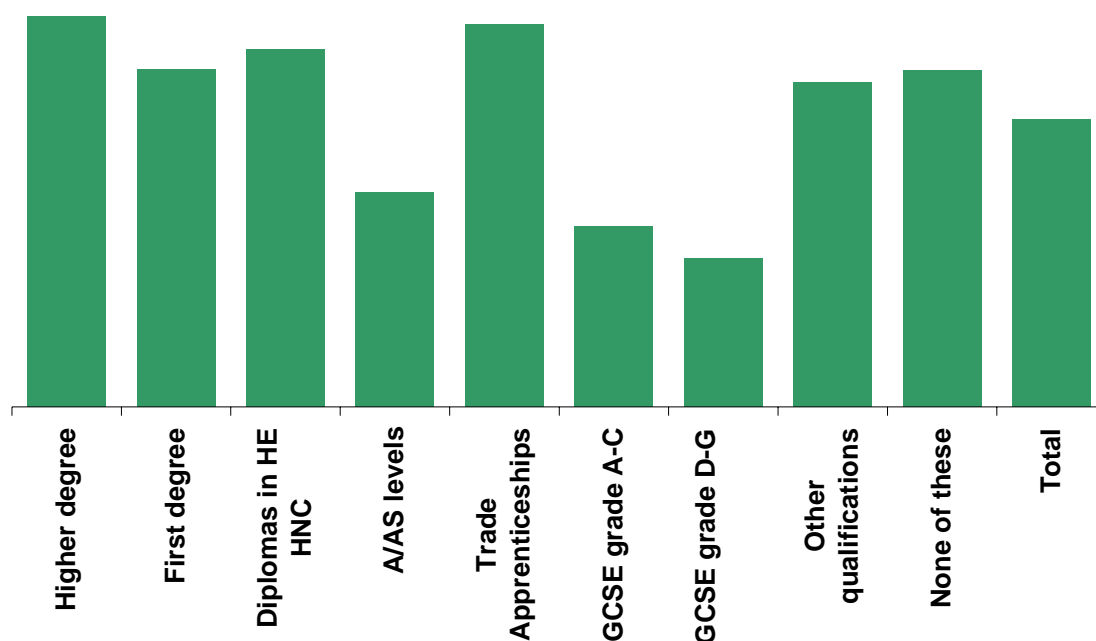
Figures 1 to 5 show the average (mean) score for each aspect of financial capability by levels of qualification. The qualification labels on these figures should be read as *a qualification equivalent to...*; for example columns entitled 'GCSE grade D-G' include people with O levels grade D-E, CSE grades 2 and below and the equivalent Scottish qualifications.



## Making ends meet

Most people across the population had similar *making ends meet* scores. Figure 1 below shows that scores did vary by educational achievement, but not in a uniform way. Indeed those with apprenticeships appear to have scored particularly highly.

Figure 1 Average *making ends meet* scores by highest qualification



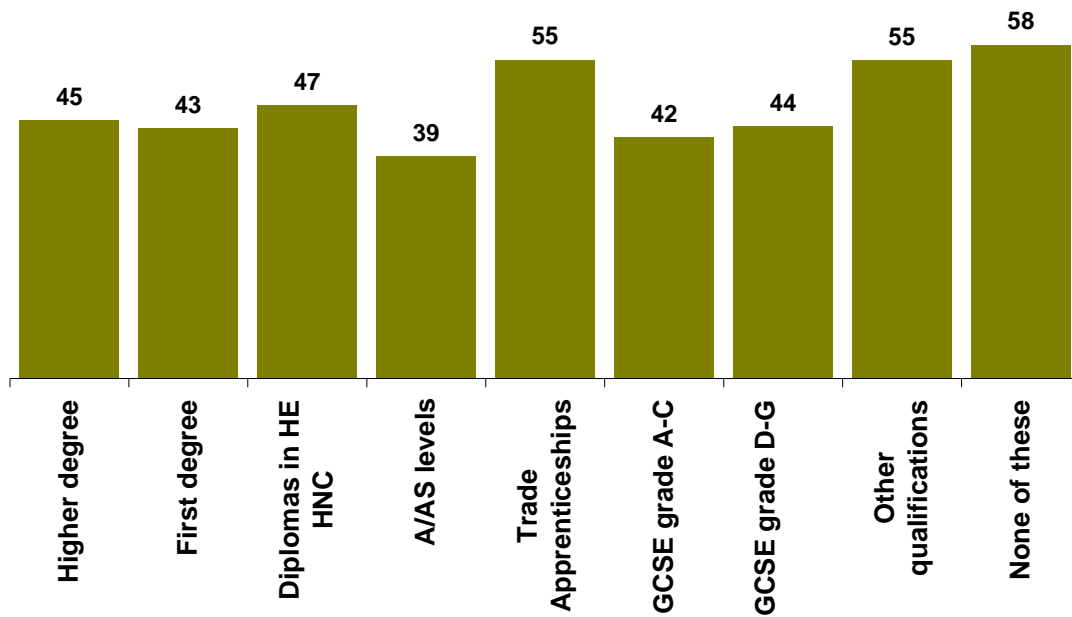
One striking feature is that adults with GCSE and A level qualifications were apparently least able to make ends meet. However, further investigations shows that the pattern of average scores by qualification shares many similarities with the pattern of average age by qualification (Figure 1a)<sup>1</sup>. It is likely then that age is as important a factor as the content of the qualification, suggesting that many of the **younger people** were finding it more difficult to make ends meet.

Statistical analysis showed that once other things were taken into account, such as family income and age, those people with the highest qualifications were more capable at making ends meet than other people. However, it also indicated that younger people were managing less well than their older counterparts with the same qualifications – in other words age is an important predictor at any level of qualification.

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<sup>1</sup> This is not surprising: in particular we would expect many young adults to have qualifications (just three per cent of school leavers in 2006 had no passes according to recent DfES figures). Conversely, many older people left school before they were 16 and so did not take exams (it was not until 1997 that children had to stay in school until a set date, ensuring they were in school during the examination period).

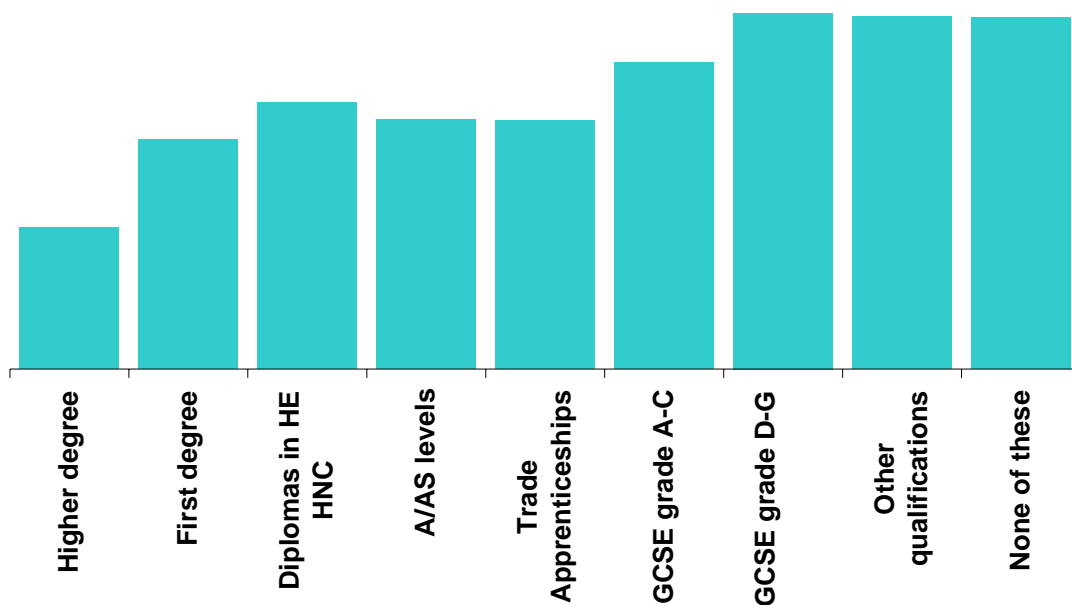
Figure 1a Average age by qualification



### Keeping track

We would expect the pattern of scores for *keeping track* to be different from those found in *making ends meet*, since we know that they are both very different aspects of managing money. However, it may be a surprise to see that the people who appeared to be **most** able to keep track of their finances had few or no formal qualifications (Figure 2).

Figure 2 Average *keeping track* scores by highest qualification



Statistical analysis did not indicate a strong relationship between *keeping track* and qualifications, once other factors were taken into account. Furthermore, it indicated that age could not explain the variations in scores. In fact the analysis showed that few characteristics were strongly associated with scores in this domain.

The analysis did indicate that women, lone parents, the unemployed and cash budgeters (without a current account) typically had higher *keeping track* scores than the rest of the population. The association with these characteristics may have masked any association with qualifications, since many of them are known to be related.

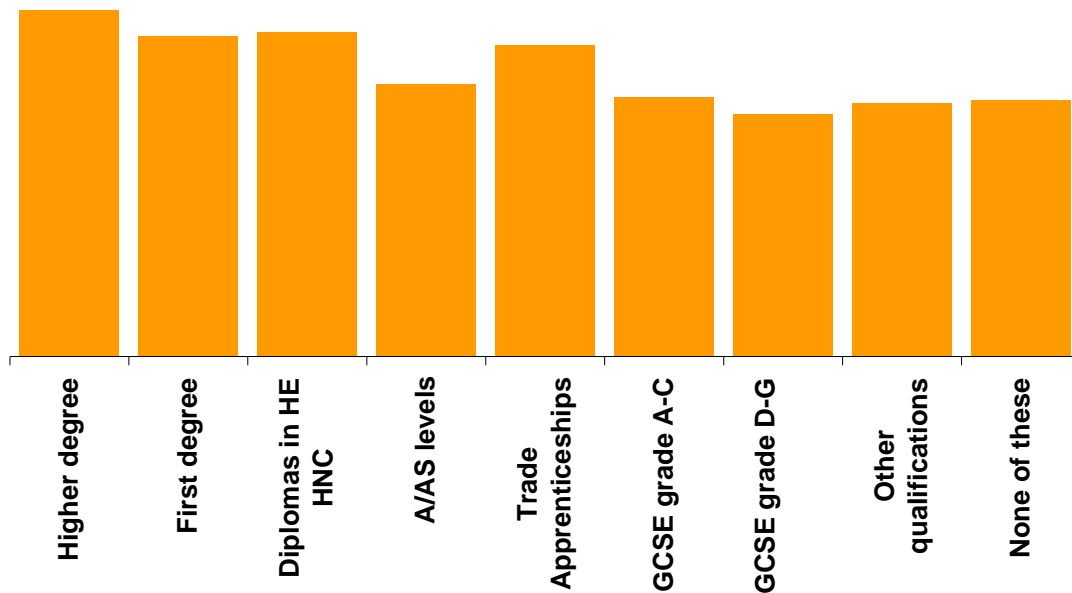
Strategies to improve financial inclusion and financial capability are very likely to impact on the groups who are statistically *most* likely to be good at keeping track. If, as we suspect, they are also amongst the people most likely to benefit from literacy and numeracy support they may potentially also receive financial capability training through this route. It is quite clear that they are the people least likely to need additional guidance on keeping track of their finances. This suggests that training in this area needs to be carefully targeted to have any benefit as more widespread training could amount to a misuse of resources.

However, there is an alternative way of thinking about these findings: it could be that the lowest qualified adults, including those who were unemployed, were the people most likely to have already sought help to develop their money management and budgeting capabilities. If this is the case, then the scores indicate that such help has worked well. But it should be noted that *keeping track* is not related to age which may imply that it is not something that is learned, but rather something that people simply choose to do. It is, at least in part, for practitioners to decide which is the more plausible explanation by considering the extent and success of current provision.

### **Planning ahead**

Average scores in *planning ahead* are of particular concern, since they suggest that many people were not making provisions for their future. There was some relationship between qualifications and scores in this domain. Generally speaking, those with higher degrees were planning ahead better than everyone else (Figure 3).

**Figure 3 Average *planning ahead* scores by highest qualification**



The statistical analysis indicated that there was a particularly strong relationship between *planning ahead* and age. Older people were much better at *planning ahead* than their younger counterparts, even after controlling for other factors. However, qualifications were also significantly associated with this domain. This tells us, for example, that well qualified older people were better at *planning ahead* than their unqualified peers, and poorly qualified young people were doing even less well than graduates of the same age.

### **Choosing products**

Some people had not bought a financial product in the last five years and so have been excluded from this part of the analysis. The distribution of scores amongst those who had made a recent purchase suggests that few of those who had bought a product had done so in a particularly skilled way.

**Figure 4 Average *choosing products* scores by highest qualification**

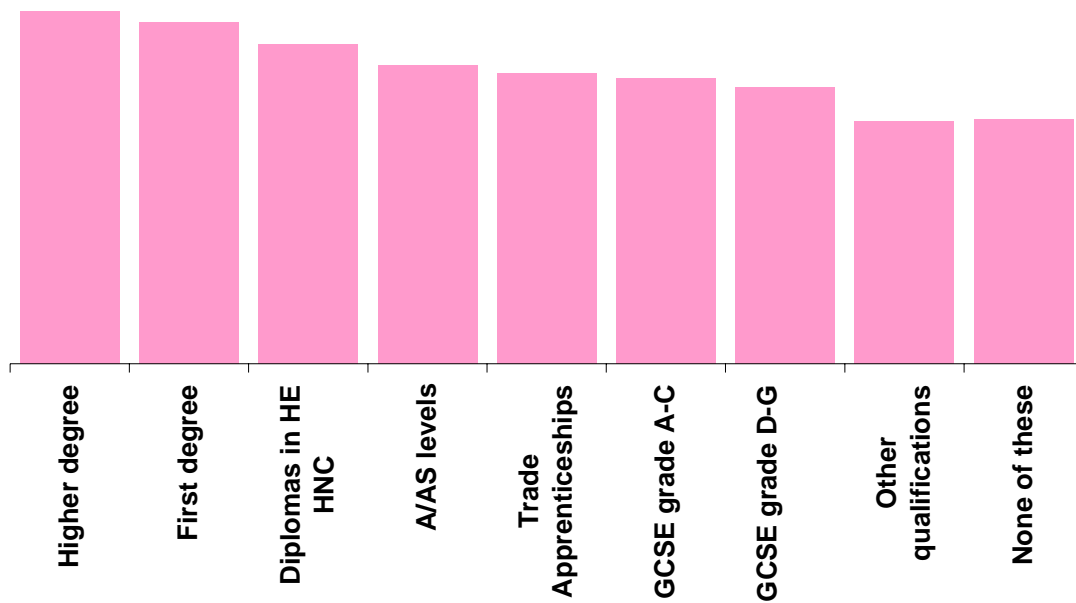
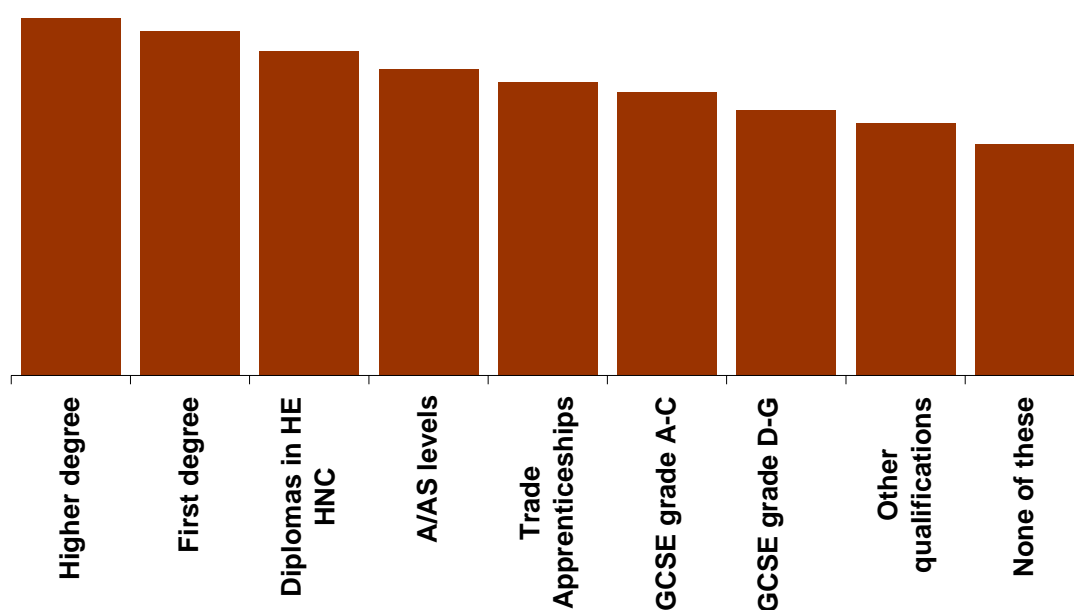


Figure 4 shows a clear relationship between levels of qualification and product purchasing capability. People with high qualifications were more likely to have shopped around carefully and to have used a wide range of information to inform their choices. Statistical analysis confirmed that people with no qualifications were less likely than their qualified peers to achieve a high *choosing products* score, even after taking into account a wide range of other possible factors, such as the number of product types they had bought, and their income.

### **Staying informed**

During the development stages of the baseline survey the research team asked people whether it was important to stay up-to-date with financial matters. One common response was that people only needed to read the financial supplements or product information if they were about to choose a financial product. However, there was general agreement that staying informed is an important aspect of financial capability, and we now know that there is a wide range of capabilities in this area.

Figure 5 Average *staying informed* scores by highest qualification



We can see from Figure 5 that, once again, highly qualified people were better at this aspect of financial capability than people with few or no qualifications. We might expect this relationship to be particularly strong because *staying informed* includes a measure of financial literacy that includes basic numeric questions.

The statistical analysis confirmed that qualifications were a good predictor of the extent to which people were *staying informed*. It also suggested that older people (aged 70 and over), younger adults (under 40) and lone parents were amongst those least likely to be staying informed, even after taking account of other characteristics such as their qualifications.

### 3. Adults with literacy and numeracy needs

In this chapter we explore the range of financial capability amongst working age adults (that is women aged 18 to 59 and men aged 18 to 64). We know from the previous chapter that average financial capability scores often vary **across** qualification levels. In this chapter we are interested to know more about the underlying pattern of achievement **within** a qualification band for those with low or no qualifications<sup>2</sup>.

Ideally, we would like to be able to identify people with specific literacy or numeracy needs. The survey did not ask people about these particular skills, but as mentioned above, the interviewer did mark those surveys where the respondent could not read the show-cards unaided. We have combined this marker with information about place of birth, to identify a group of people who were born in the UK and had difficulty

<sup>2</sup> Adults with no qualification above a level 2 are used in this paper as an approximate (or ‘proxy’) for adults most likely to have basic skills needs.

reading English<sup>3</sup>. We are therefore confident that those people who had difficulty reading were not struggling with English as an additional language. We are unable to identify people whose difficulty with reading was caused by poor eyesight or other physical difficulties but we have been able to control for long term health difficulties in our statistical analyses to take this into account.

We therefore concentrate on three groups of adults who were likely to have literacy and numeracy needs:

- **Group A:** those with no qualification above a GCSE grade D-G or equivalent,
- **Group B:** those with no formal educational qualifications at all, and
- **Group C:** those people who were born in the UK but had difficulty reading English.

It is important to note that ‘membership’ of Group C does not depend on educational qualifications, but on reading ability. Some people in Group C had no qualifications, and will therefore also be included in Group B, whilst others had a GCSE grade D or below and so are included in Group A. Those with higher qualifications who had difficulty reading (perhaps due to dyslexia or other specific learning difficulties) are only included in Group C. Further details of the three groups can be found in Annex 1.

The analysis reported in this chapter has been undertaken separately for each of the financial capability scores, and was developed as follows:

- First, we ranked each working-age adult respondent from lowest scoring to highest scoring.
- Second, in order of their rank, we apportioned respondents into five equal sized clusters, known as quintiles. The person with the lowest score is in quintile one whilst the person with the highest score is in quintile five. Each quintile includes 20 per cent of the working age population<sup>4</sup>.
- Finally, we have calculated the proportion of people in groups A, B and C in each of the quintiles. If their scores reflected those of the whole working age population then we would expect to find 20 per cent in each quintile. Any variation from this indicates that the groups are different from the population, and helps us to better understand their range of capabilities.

One of the most obvious advantages of looking at the scores in such detail is that it allows us to recognise that there are adults within groups A, B and C across the whole range of financial capability. It shows that whilst on average particular types of people may do better or worse, on an individual level anything is possible.

If some individuals are less capable than others in a particular aspect of their financial life it would be helpful to be able to identify them without having to put everyone through a lengthy test. If we could predict the kind of person most likely to be struggling then we could devise ways of reaching out to them with appropriate training.

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<sup>3</sup> 78 per cent of those with difficulty reading English were born in the UK

<sup>4</sup> Graphs showing the distribution of scores with the lowest quintile identified are included in Annex 1.

We have therefore undertaken new, detailed, statistical analyses to see whether we can use age, gender, work status, income, housing tenure or health<sup>5</sup> to predict who will be struggling with particular aspects of financial capability (i.e. who will be in the lowest scoring quintiles). We have chosen these characteristics as they are easy to identify amongst the general population and can therefore be used as real indicators of people who may benefit from additional financial capability support<sup>6</sup>. The analysis allows us to look at the impact of all the characteristics at once. If, for example, it indicates that age is a good predictor, it is telling us that even after taking into account gender, work status, income, housing tenure and health, age can help to predict who will find difficulty with that aspect of financial capability.

## Making ends meet

### Key findings

- Group A were very likely to be poor at *making ends meet* but we were not able to identify any characteristics that predicted who would do least well at this aspect of financial capability.
- Younger adults in groups B and C were more likely to be poor at *making ends meet* than their older counterparts. Housing tenure was also a predictor of capability amongst Group B, whilst work status predicted scores in Group C.

Figure 6 shows that those in Group C had a similar pattern of scores for *making ends meet* to the population as a whole, whilst those in groups A and B were concentrated amongst the low scores. Nevertheless, between 16 and 17 per cent of people in each group had scores in the top 20 per cent, showing quite clearly that it would be wrong to expect people in our three groups of interest to be poor at making ends meet.

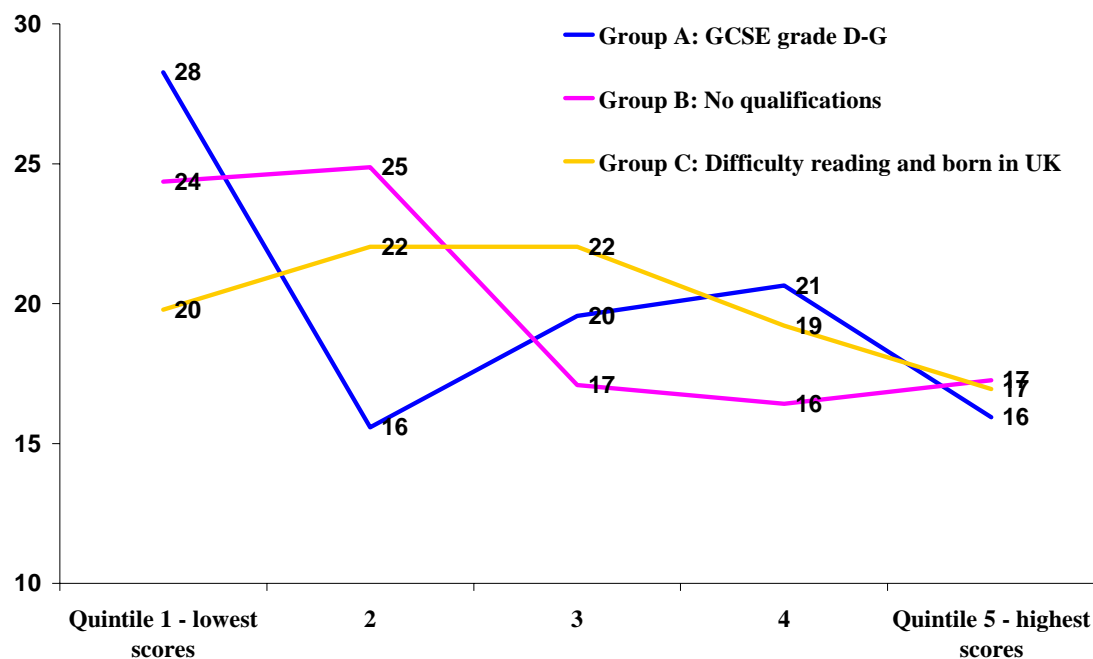
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<sup>5</sup> By including the health category: *long standing illness or infirmity* we hope that these analyses will pick up the variation in the scores of those with difficulty reading amongst those who face a physical barrier rather than a lack of basic skills.

<sup>6</sup> The total number of characteristics used is limited by the relatively small number of people in each of the three groups.



Figure 6 *Making ends meet* – percentage in each quintile



Statistical analysis showed that none of the characteristics was statistically significant or powerful at explaining which people in Group A had the lowest scores at *making ends meet*. The variations in scores were not associated with key, observable characteristics, and so we must assume that other factors were influencing them.

Housing tenure was a significant predictor of being able to make ends meet for people in Group B. In particular, people in private rented accommodation were three times more likely than those who owned their home outright to have had low scores in this domain.

The analysis also showed that younger adults in groups B and C were slightly more likely to be in the lowest scoring quintile.

Work status did not appear to impact on the likelihood of being poor at making ends meet for people in groups A and B. However, we found that people in Group C were six times more likely to be poor at making ends meet if they were also unemployed and 16 times more likely if they were permanently sick or disabled.

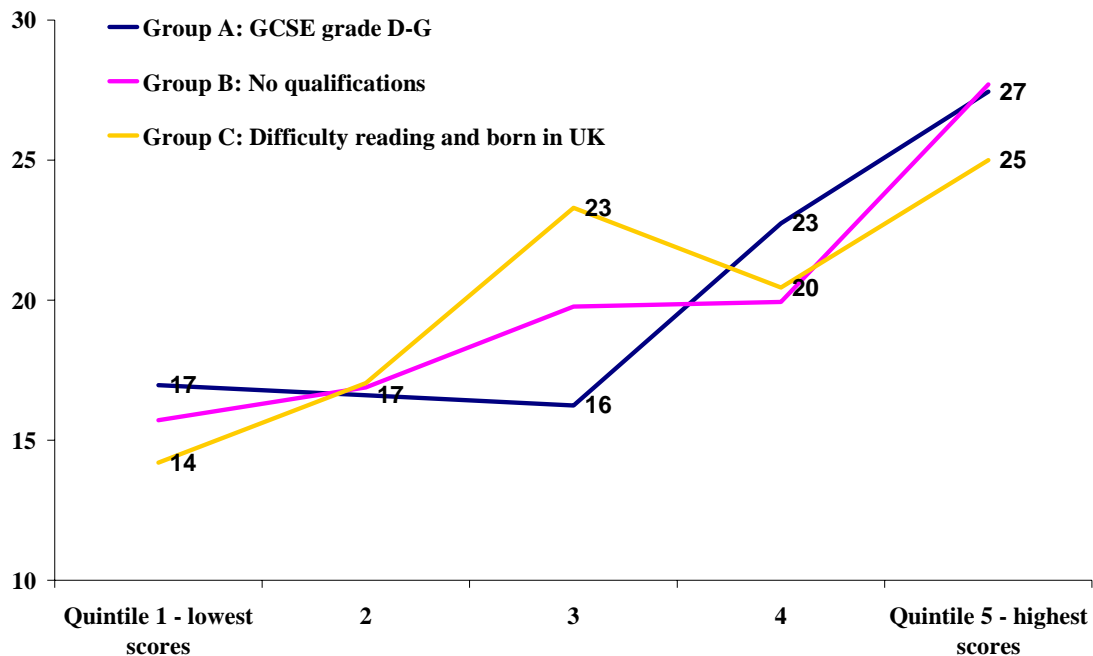
## Keeping track

### Key findings

- Adults with literacy and numeracy needs tended to be better than average at *keeping track*.
- We found some indicators of people who were less capable in this aspect of financial capability. Men in groups A and B were less likely to be keeping track than women, and older people in Group C were less likely to be keeping track than their younger counterparts.

Figure 7 shows that groups A and B in particular were disproportionately concentrated in the highest scoring group for *keeping track*, and Group C was also more likely than average to have high scores.

**Figure 7 Keeping track – percentage in each quintile**



The statistical analyses indicated that men in Group A were three times more likely than women to be in the bottom quintile for *keeping track*. Tenure wasn't a strong predictor, but the small number of adults who owned their home outright in Group A were eight times more likely than those renting privately to be poor at keep track. Other characteristics were not significant.

Housing tenure was a significant predictor of low scores at keeping track amongst those in Group B – indicating that these adults were less likely to have a low score if they rented their home privately or through the local authority, than if they had any other type of tenure. Gender was also significant, with men around 1.8 times more likely than women to be in the lowest quintile.

Whilst work status wasn't a strong predictor of *keeping track* scores, we found that people in Group B who had retired early from work were unlikely to be in the bottom quintile for keeping track, perhaps indicating that they were aware of the need to make their money last a very long time (remembering that the analyses are only looking at working age people).

Health was a statistically significant predictor of *keeping track* scores amongst those in Group C, – those with long standing illnesses or infirmities were likely to be relatively good at keeping track (i.e. they were less likely to be in the lowest quintile). However, it is important to remember that at least some of this apparent relationship reflects the fact that we could not identify people who had physical difficulties that prevented them from reading.

The analysis of Group C also indicated that older adults were more likely to be in the lowest scoring quintile than younger people. Given that the analysis took into account income levels and other characteristics, this indicates that low income adults with reading difficulties who were coming up to retirement were less likely to be keeping track than recent school leavers with similar incomes.

It is interesting that income itself was not a strong predictor of people keeping track for any of the groups once other things were taken into account. We might have assumed that low incomes were the main triggers for keeping a careful eye on balances and expenditure. However some of the characteristics that were significant are likely to be associated with income – such as renting social housing or having a long-standing illness.

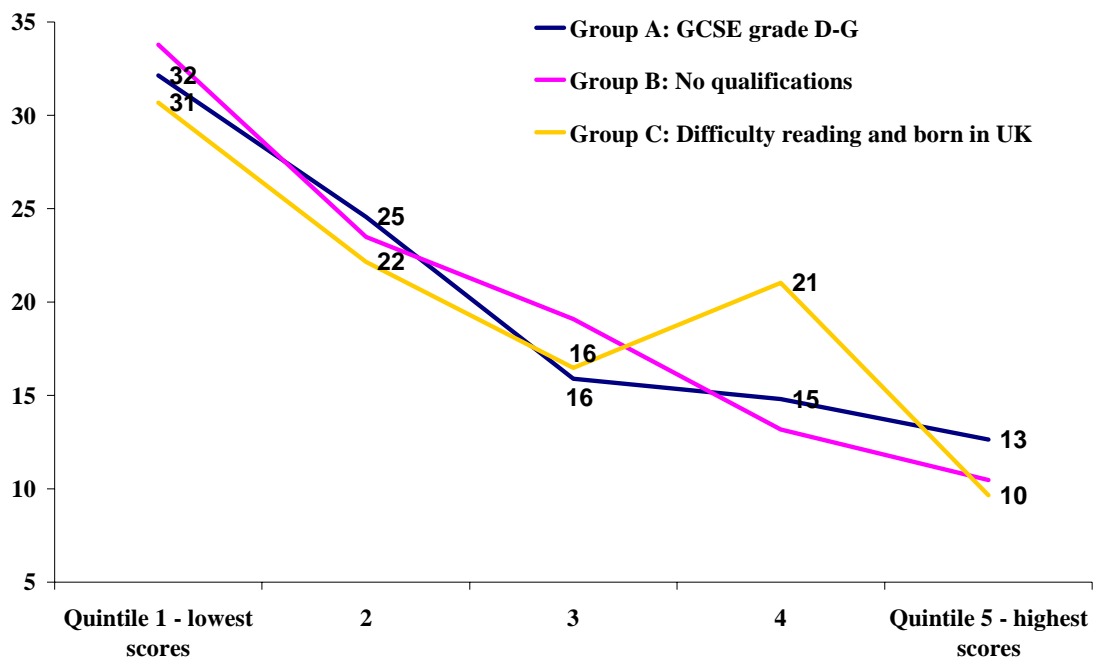
## Planning ahead

### Key findings

- The general lack of capability at *planning ahead* across the population as a whole is a concern. It is therefore particularly worrying that so many adults with literacy and numeracy needs attained scores in the bottom 20 per cent.
- In groups A and B low scores were associated with being out of full time work and renting rather than buying a home. Young adults in groups B and C were more likely to have a low score than their older counterparts.

Relatively few of those in groups A, B and C were planning ahead effectively. They were overwhelmingly concentrated in the bottom two quintiles. Even so, 13 per cent of Group A and ten per cent of those in groups B and C were particularly adept at making plans for their future.

**Figure 8** Planning ahead – percentage in each quintile



The statistical models in this domain showed that individual characteristics were better predictors of *planning ahead* than they were of the other capabilities. Other than gender, the characteristics tested were all significant predictors of scores in this domain in at least one of the groups.

Adults in Group A who were permanently sick or disabled were more than seven times as likely as full time workers to be poor at planning ahead, whilst those looking after the home or family were almost four times as likely to be in the lowest group.

Variations in work status also helped to predict the likelihood of being in the bottom quintile amongst adults in Group B; indicating that the permanently sick or disabled were three times more likely than the full time employed to be in the lowest scoring quintile. Work status was not a strong predictor amongst adults in Group C, however.

Tenure was a strongly significant predictor of *planning ahead* in all three groups. Adults in all three groups who owned their home with a mortgage were far less likely to have a low score than those in rented accommodation, as were those in groups A and B who were outright owners.

Age was significantly associated with *planning ahead* scores amongst people in groups B and C – in each group younger adults were most likely to be in the lowest scoring quintile.

Even after controlling for other characteristics low income was an important predictor of being in the bottom 20 per cent for *planning ahead* for people in groups A and B. This suggests that people may have been simply unable, rather than unwilling, to address their future financial security. However, low income adults in Group C were not significantly more likely to be poor at *planning ahead*.

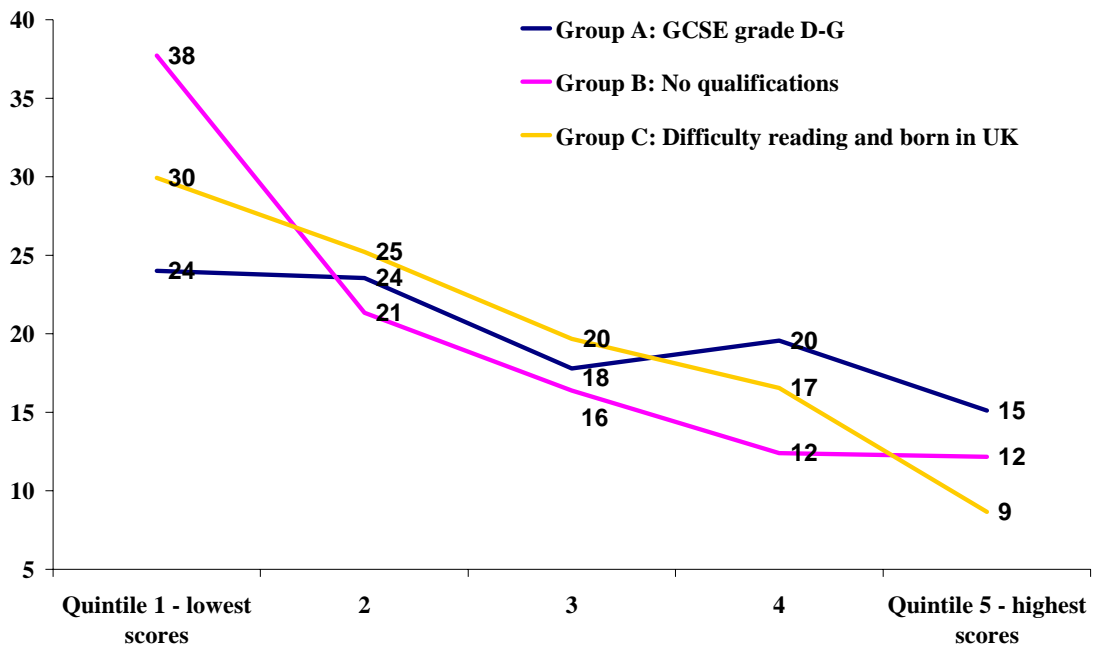
## Choosing products

### Key findings

- People in all three groups were more likely than average to be in the bottom 20 per cent in this domain. However, people in Group B were particularly likely to be poor at choosing products, and statistical analysis showed that this was particularly the case for renters, the young, and the less well-off.
- Renters in Group A were also more likely than mortgagors to have low *choosing product* scores.
- We did not find a strong predictor of scores for Group C.

As mentioned in the previous chapter, *choosing products* financial capability scores were only calculated for people who had been personally responsible for a product purchase in the last five years. In the next chapter we shall discuss those people who had not bought a product, but here we focus on the scores for those people in our three groups of interest who had made a recent purchase.

Figure 9 Choosing products - percentage in each quintile



People in Group A were faring only slightly less well than average at choosing products –the proportions in the middle quintiles were not vastly different from the 20 per cent expected. By way of contrast, people in Group B were very likely to be in the lowest quintile in this domain; almost twice as many (38 per cent) people with no qualifications were poor at choosing products domain as would be expected. And lastly, those in Group C were only half as likely as average to be in the highest scoring quintile.

We ran two sets of analyses for this domain, both of which focused only on people who had made a recent product purchase (remembering that scores were not

calculated for those who had not). The first set replicated those done for the other aspects of financial capability, using the same characteristics. The second set introduced an additional variable – the number of product types that the respondent had bought personally in the five years before their capability was measured. This addition has allowed us to consider whether people learned through experience.

Statistical investigations showed that tenure was an important predictor of low scores amongst adults in groups A and B. So those who were *not* buying their house with a mortgage were most likely to be poor at choosing products (they were roughly five times more likely to be in the bottom quintile than mortgage holders). Even after we took into account experience of choosing products by including the number of product types that an individual had purchased, we still found that those without a mortgage were most likely to be poor at choosing products.

Product buying experience was only significant amongst the adults in Group B. Taking other things into account, adults in this group were less likely to be in the lowest scoring quintile with each additional product purchase. This may indicate that the adults in Group B were learning from their experiences in a way that those in Groups A and C were not. However, we cannot be sure of the order in which these events took place and so we should treat this supposition with caution. For example, it may be that people who made good initial product purchases were more likely to make additional purchases, than those whose first experience had been poor.

It is interesting that income and age were also only significant amongst the adults in Group B. Wealthier adults were less likely to be in the bottom quintile. This association disappeared once we took into account the number of product types that an individual had purchased, suggesting that they are identifying similar factors. The impact of age was not reduced once product purchases were taken into account, indicating that younger adults were more likely than older people to make poor product choices even after controlling for their recent experience. Of course, the most likely reason for this is that the older people had far more experience than the five years asked about in the survey.

There were no strong predictors of being poor at choosing products amongst those in Group C, either before or after taking into account experience. We therefore assume that there are other characteristics of Group C that we have not been able to include in the analysis that are associated with capability in this domain.

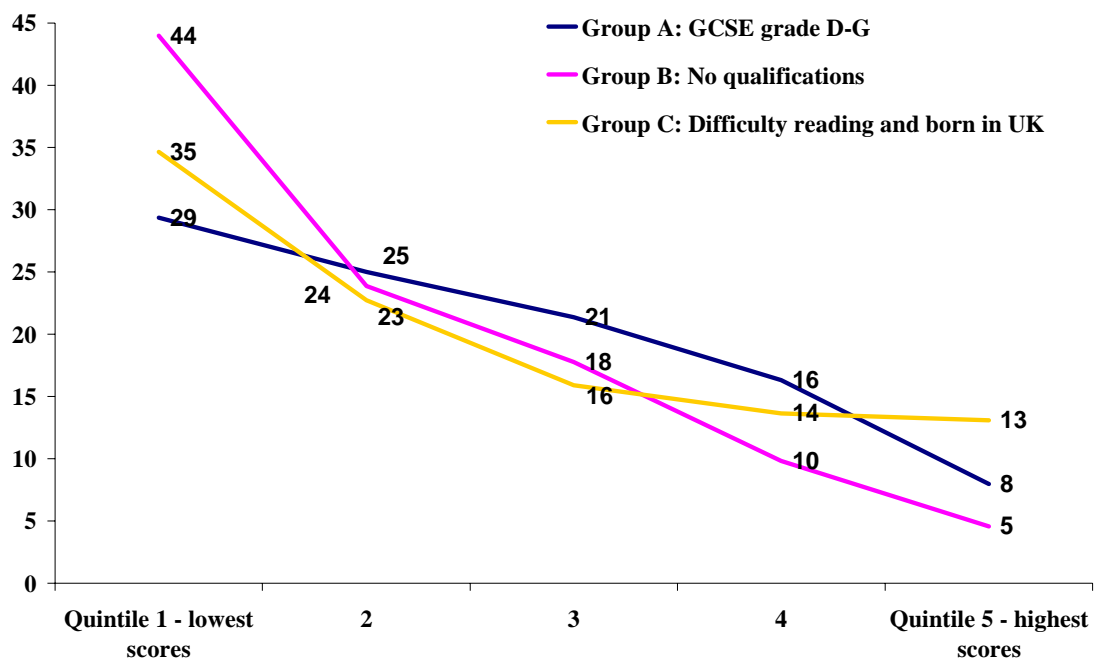
## Staying informed

### Key findings

- Adults in all three groups were far more likely than average to be poor at *staying informed*. 44 per cent of those in Group B were in the bottom quintile. However, those who were buying their home were less likely than others to be in the lowest 20 per cent.
- Adults in Group B who were in full time education were less likely to be poor at *staying informed* than those with any other work status.

Adults in all the groups were more likely than average to be amongst the lowest scoring in this domain. However, it is the distribution of *staying informed* scores amongst people in Group B that is particularly striking. More than twice as many (44 per cent) were poor at staying informed as in the working age population as a whole. Even more surprisingly, just five per cent of Group B adults were in the highest scoring quintile.

**Figure 10** Staying informed - percentage in each quintile



The statistical analyses showed that mortgagors in all three groups were less likely than renters to be in the lowest scoring quintile. Those in groups A and B who owned their home outright were also unlikely to have scores amongst the bottom 20 per cent.

Interestingly, the small number of people in Group B who were in full-time education were unlikely to have a low score in this financial capability domain. No similar relationship has been identified in the other domains, perhaps suggesting that education is particularly likely to have a rapid impact on improvements in willingness or ability to *stay informed* at any age.

Income had a similar significant association with scores in this domain across all three groups. In every case adults with lower incomes were more likely than their higher earning peers to be in the bottom quintile.



## 4. Attitudes and behaviour

In this final substantive chapter we discuss the attitudes and behaviour that make up the financial capability scores. We consider whether it is possible to identify any particular areas of weakness within each domain. As in the previous chapter we compare our three groups of interest with everyone of working age. To recap, the three groups are made of working age adults with the following characteristics:

- **Group A:** those with no qualification above a GCSE grade D-G or equivalent,
- **Group B:** those with no formal educational qualifications at all, and
- **Group C:** those people who were born in the UK but had difficulty reading English (recall that this group may include people also in Group A or B).

### Making ends meet

#### Key findings

- Adults likely to have literacy and numeracy needs did not have significantly different attitudes to managing their money from the working age population as a whole. However Group B were more credit averse, reflecting their older profile.
- People in groups A and B were more likely than average to run out of money before their next payday, and to fall behind with bills and payments. As we found in the previous chapter, people in Group C were fairly similar to the general population in all aspects of *making ends meet*.

We saw in the previous chapter that Group A were likely to be poor at *making ends meet* but that we could not identify any characteristics that were associated with low scores. In general, people in groups B and C were not as likely as those in Group A to be struggling to make ends meet. In this section we consider whether specific aspects of making ends meet were causing particular problems for any of the groups.

Table 1 shows that there were no big differences between the proportions of people in any of the three groups who were spenders or savers and the working age population as a whole (and the differences are not statistically significant).

**Table 1** Attitude to saving '*I am more of a saver than a spender*'

Column percentages

	Group A (%)	Group B (%)	Group C (%)	Total (%)
Agree strongly	15	17	19	16
Tend to agree	32	31	31	34
Tend to disagree	32	31	35	33
Disagree strongly	19	20	15	16
Don't Know	1	1	1	1
<b>Base (weighted)</b>	<b>277</b>	<b>589</b>	<b>176</b>	<b>3,990</b>

Attitudes to credit do not appear to have varied widely either. However, those in Group B were statistically less likely to agree with the statement ‘*I prefer to buy things on credit rather than wait and save up*’, suggesting that they were the most credit averse (**Table 2**). This is not surprising given that they were older, on average.

**Table 2 Attitude to credit ‘*I prefer to buy things on credit rather than wait and save up*’**

Column percentages

	<b>Group A (%)</b>	<b>Group B (%)</b>	<b>Group C (%)</b>	<b>Total (%)</b>
Agree strongly	3	6	7	6
Tend to agree	21	12	16	18
Tend to disagree	28	30	29	30
Disagree strongly	48	52	46	46
Don't Know	0	0	2	0
<b>Base (weighted)</b>	<b>276</b>	<b>590</b>	<b>175</b>	<b>3,989</b>

People in groups A and B were more likely than average to always run out of money by the end of the week or month. Indeed more than one in five (21 per cent) of those in Group A reported that this was the case. Group C were also slightly more likely than average to say that they always ran out of money, but the finding was not statistically significant.

**Table 3 How often respondent runs out of money**

Column percentages

	<b>Group A (%)</b>	<b>Group B (%)</b>	<b>Group C (%)</b>	<b>Total (%)</b>
Never runs out, always has money left over	33	36	38	45
Sometimes runs out, sometimes has money left over	38	34	36	35
Never runs out before end but never has money left over	6	11	10	8
Always runs out before end but always has money left over <sup>7</sup>	3	1	2	1
Always runs out, never has money left over	21	19	14	12
<b>Base (weighted)</b>	<b>278</b>	<b>589</b>	<b>176</b>	<b>3,991</b>

People in groups A and B were more than twice as likely to fall behind with bills or have real financial problems (**Table 4**), yet interestingly there was no statistically significant difference between the overall average and the proportions of those in Group C falling behind.

<sup>7</sup> It is probable that this small group of people relied on savings when they ran out.

**Table 4 Keeping up with bills and commitments**

Column percentages

	<b>Group A (%)</b>	<b>Group B (%)</b>	<b>Group C (%)</b>	<b>Total (%)</b>
Keeping up with all bills and commitments without any difficulty	51	48	53	58
Keeping up with all bills and commitments, but it is a struggle	32	33	35	30
Keeping up with all bills and commitments, but it is a constant struggle	8	11	6	8
Falling behind with some bills or credit commitments	6	6	3	3
Having real financial problems and have fallen behind with bills	3	2	2	1
<b>Base (weighted)</b>	<b>276</b>	<b>590</b>	<b>176</b>	<b>3,990</b>

Given the differences in proportions of people facing financial problems at the time of the survey it is not surprising that there were also differences in the proportions who had found themselves in financial difficulties in the last five years (**Table 5**). A quarter of those in Group A had faced difficulties compared with less than a fifth (18 per cent) of working age adults as a whole.

**Table 5 Whether respondent found themselves in financial difficulties in last 5 years**

Column percentages

	<b>Group A (%)</b>	<b>Group B (%)</b>	<b>Group C (%)</b>	<b>Total (%)</b>
Yes	25	24	23	18
No	75	76	77	82
<b>Base (weighted)</b>	<b>276</b>	<b>589</b>	<b>175</b>	<b>3,989</b>

## Keeping track

### Key findings

- Group B was the most polarised group in regard to knowing how much money they had. Ten per cent had no idea, whilst 29 per cent knew to within a pound or two. Those who did not know how much they had were most likely to be buying their own home.

Because keeping track was less of a problem than other aspects of financial capability for adults in any of the three groups we will not focus on the underlying questions in such detail. We therefore only report select findings of interest.

It stands to reason that the adults with literacy and numeracy needs will have had a good idea of how much money they had, as we know from their financial capability

scores that they were more likely than average to be good at keeping track of their money. However, the table below shows some interesting variations. For example, 29 per cent of those in Group B knew how much they had to within a pound or two (this includes cash budgeters), compared with an average of just 20 per cent. Just five per cent of those in Group A said they only knew how much they had to within £500 whilst 10-11 per cent of both other groups, along with the working age population gave this response. But perhaps most alarmingly, adults in Group B were more likely than average to say that they had no idea at all (ten per cent compared with an average of seven per cent).

This last finding indicates that whilst it is generally true that those adults in the three groups were very good at keeping track, some people did seem to be taking little interest in this important aspect of their finances.

We initially thought that the people who had no idea how much money they had would be the small number of young, unqualified adults who had yet to learn budgeting skills. This however, was not backed up by exploratory analysis. The analysis indicated that the average age of those in Group B who had no idea how much money they had was 46; that they had slightly lower incomes than those in Group B who some idea of the amount of money they had and that they were less likely to live in any kind of rented accommodation. All of this indicates a group of people who no longer felt the need to keep track of their money, perhaps because they had a very low mortgage and felt confident that they would not overspend.

**Table 6** How accurately respondent knows how much money they have  
Column percentages

	Group A (%)	Group B (%)	Group C (%)	Total (%)
I have no idea at all	7	10	5	7
Approximately, but not within £500	6	3	3	5
I know within £500	5	10	11	11
I know within £100	22	14	19	22
I know within £50	16	14	23	18
I know within £10	24	19	17	18
I know within a pound or two	21	29	22	20
<b>Base (weighted)</b>	<b>277</b>	<b>588</b>	<b>175</b>	<b>3,989</b>

Only amongst Group B was planning for future expenditure significantly different from average. People in this group were, for example, far more likely than average to say that they had no need to plan ahead or no bills to pay (49 per cent compared with 39 per cent across all working age adults). They were only half as likely to say that they made provision for future expenditure by keeping current spending down (two per cent compared with four per cent), and less likely than average to have put money aside. It may be that this group made more use of prepayment or direct debits to manage their money.

**Table 7 Planning for future expected expenditure**

Column percentages

	Group A (%)	Group B (%)	Group C (%)	Total (%)
Puts money aside	39	28	41	36
Keeps spending down	3	2	4	4
No need to plan ahead, or no bills to pay	38	49	33	39
Relies on someone else to plan ahead	10	9	9	9
No-one plans ahead	9	9	11	11
Don't know, other	0	2	2	1
<b>Base (weighted)</b>	<b>276</b>	<b>589</b>	<b>175</b>	<b>3,989</b>

## Planning ahead

### Key findings

Unlike attitudes to managing money, the attitudes to planning ahead were very different in the three groups of interest from the working age population as a whole. The three groups were far more focused on immediate gratification than long term security. They were also more likely than average to admit that they wouldn't be able to cope with a drop in income for more than a month.

We know that qualification levels can help predict people's scores at planning ahead and that the three groups of interest were more likely than average to have low scores. We also know that low income was an important predictor of low scores for people in groups A and B. This might suggest that *planning ahead* is something that requires financial resources. Yet low income did not predict low scores amongst people in Group C, and we know that across the population as a whole many adults on a higher income do not plan ahead effectively.

We have therefore investigated the attitudes of those people in each of our three groups of interest to see if they varied from the other working age adults. And indeed, all three groups had attitudes that set them apart from the population as a whole (and the findings were statistically significant). They were more likely to *live for today and let tomorrow take care of itself* (Table 8), less likely to say they have money *saved for a rainy day*, and more likely to prefer a *good standard of living today over saving for retirement*.

Even though their attitudes indicated that they preferred focusing on the present than the future, only around half of the people in each of the three groups found *spending more satisfying than saving*. In fact the proportions that found *spending more satisfying than saving* were not very different from average. This suggests that the increased likelihood of focusing on the present was not to increase satisfaction, but to meet essential needs. Such attitudes may be malleable given better circumstances.

**Table 8 Attitude statements**

Column percentages

	<b>Group A (%)</b>	<b>Group B (%)</b>	<b>Group C (%)</b>	<b>Total (%)</b>
<b>I tend to live for today and let tomorrow take care of itself</b>				
Agree strongly	27	27	27	17
Tend to Agree	30	29	30	25
Tend to Disagree	26	25	27	35
Disagree strongly	15	19	15	22
Don't Know	1	0	2	0
<b>I always make sure I have money saved for a rainy day</b>				
Agree strongly	24	27	28	32
Tend to Agree	36	34	35	37
Tend to Disagree	22	24	25	20
Disagree strongly	18	16	11	11
Don't Know	0	0	1	0
<b>I find it more satisfying to spend money than to save it for the long-term</b>				
Agree strongly	16	18	18	15
Tend to Agree	37	34	32	32
Tend to Disagree	29	31	30	37
Disagree strongly	16	17	16	15
Don't Know	2	1	4	1
<b>I would rather have a good standard of living today than plan for retirement</b>				
Agree strongly	24	25	20	17
Tend to Agree	39	39	40	38
Tend to Disagree	29	26	27	34
Disagree strongly	7	8	9	10
Don't Know	1	3	4	2
<b>Base (weighted)</b>	<b>277</b>	<b>589</b>	<b>176</b>	<b>3,990</b>

We have seen that those adults most likely to have literacy or numeracy needs were also likely to have a preference for immediate expenditure. We have also been able to investigate whether those attitudes translated into different behaviour.

We started by looking at the length of time individuals supposed they would be able to make ends meet if they experienced a large unexpected drop in income. There were indeed some variations across the skill levels as well between the groups and the population as a whole. For instance those in Group B were particularly likely to believe that they would not be able to manage for a month if their income fell; those in groups A and C were also more likely than average to report that they would not be able to manage for a month. It is interesting however, that over a quarter of those in groups A and B expected to be able to manage for 12 months or more. This could be because they were good money managers, or possibly because they were already

managing on low incomes or in receipt of benefits, and were confident that the state would support them.

**Table 9** Length of time could make ends meet if experienced large unexpected drop in income

Column percentages

	<b>Group A (%)</b>	<b>Group B (%)</b>	<b>Group C (%)</b>	<b>Total (%)</b>
More than one week but less than one month	24	33	29	18
More than one month but less than three months	19	17	10	17
More than three months but less than six months	19	16	20	18
More than six months but less than twelve months	13	8	11	14
Twelve months or more	26	26	29	33
Refused	0	0	0	0
<b>Base (weighted)</b>	<b>277</b>	<b>588</b>	<b>176</b>	<b>3,993</b>

We have attempted to better understand the extent to which people felt responsible for protecting their own financial circumstances by looking at the provision they had made for various adverse events. This provision might have been a savings pot, or protection insurance.

We found that those in Group B were only half as likely to have made their own provision against a drop in income as the population as a whole, yet they were equally as likely to rely on someone else to make provision. It may be the reliance on someone else that led some of them to feel confident that they would manage for a long period of time.

Those in groups A and B were also less likely to have made their own pension provision. Fewer than four in ten of Group B had made provision (38 per cent) compared with 57 per cent of the working age population.

**Table 10 Planning for the future**

Column percentages

	Group A (%)	Group B (%)	Group C (%)	Total (%)
<b>Whether made own provision against a future drop income</b>				
Yes, has made own provision	18	15	20	29
Yes, has relied on someone else to make provision	13	14	12	13
<b>Finding money for unexpected major expense</b>				
Sufficient provision	28	29	30	36
Some provision plus use other means	8	4	7	10
<b>Whether has made own pension provision</b>				
Has made own pension provision	43	38	46	57
<b>Any protection insurance (income, payments, possessions)</b>				
Yes	55	53	56	66
<i>Base (weighted)</i>	<i>277</i>	<i>590</i>	<i>176</i>	<i>3,993</i>

## Choosing products

### Key findings

- People in Group B were less likely than average to have chosen a product in the last five years.
- People in all three groups were less likely than working age adults on average to have bought investment products.
- Those in groups B and C were less likely to have used any information to inform their choice of product, or to have compared key features.
- Almost 40 per cent of the people in Group C (who had difficulty reading the BSFC show-cards) claimed to have read the product terms and conditions personally.

This is the only area of financial capability where some people have no score. This is because the scores were made up of information about product purchases, and a sizeable proportion had not been personally responsible for purchasing a financial product in the last five years. As shown in **Table 11**, one in five working age adults had made no purchase.

The proportion of people in Group A who had not bought a product was similar to the national average. This can probably be accounted for by their younger profile – it is very likely that young people will make financial purchases as they move into the adult world and become increasingly independent, whilst older people may already hold the products they need and decide not to shop around for better deals. Conversely, the oldest group, Group B were less likely than average to have bought a product recently; indeed almost a third had made no purchase.

Financial products are not all the same. Some are fairly straightforward to choose – consumers know what they want, and can easily see whether the product will meet their needs, as with a simple savings account. Others, like mortgages, come with a wide range of choices and decisions: fixed or variable interest rates, low interest rates but high repayment costs, or a flexible product and so on. In addition to identifying people with no recent purchasing experience, **Table 11** therefore also lists the



products in order of complexity and indicates the proportion of people for whom that particular product was the *most* complex they had bought. There were significant differences between our three groups of interest and the working population as a whole.

We can see that it was very unlikely that the three groups had bought investments in the recent past; just eight per cent had done so. Group B were also much less likely than average to have made a recent mortgage purchase, but this may again be explained by their age profile (remembering that they were older and may have taken out such a product many years ago).

At first glance it may appear that people in all of the three groups were more likely than average to have made a recent current account choice, but it should be remembered that this is simply telling us that they were less likely to have made a purchase of anything more complex than a current account.

**Table 11 Most complex recent product purchase**

Column percentages

	<b>Group A</b> (%)	<b>Group B</b> (%)	<b>Group C</b> (%)	<b>Total</b> (%)
Not personally responsible for product purchase	19	31	28	20
Investments	8	8	8	15
Mortgage	15	5	11	13
Protection	11	10	9	9
Credit card	10	8	9	11
Loans	11	13	16	12
General insurance	12	9	5	10
Savings account	5	6	2	5
Current account	11	9	11	6
<b>Base (weighted)</b>	<b>276</b>	<b>588</b>	<b>176</b>	<b>3,991</b>

This is interesting from a wider policy perspective, since current account holding is often used as an indicator of financial inclusion. Those without an account are more likely to face difficulties making financial transactions, and often pay more for goods and services if they cannot access electronic payments. **Table 12** shows clearly that Group B were more than twice as likely to be without such an account as the working age population. Groups A and C do not appear to have had different levels of account holding (and statistical tests confirm that the percentages are not significantly different from the average).

**Table 12 Has a current account with a bank or building society for personal use**

Column percentages

	Group A (%)	Group B (%)	Group C (%)	Total (%)
No	13	24	9	11
Yes	87	76	91	89
<b>Base (weighted)</b>	<b>277</b>	<b>588</b>	<b>176</b>	<b>3,990</b>

We now turn to the questions that had the biggest impact on the *choosing products* financial capability score amongst those who had made a recent purchase.

We know from the previous chapter that Group A was faring only less well than average, and so we would not expect to see wide variations in their behaviour compared with the working age populations as a whole.

People in groups B and C were more likely than average to report that they had not used any information to make their product choice. Additionally those in Group C were only half as likely (six per cent compared with 14 per cent) to have sought the advice of an independent financial adviser (IFA). This is of particular concern given the increased likelihood that they would find other sources of information difficult to negotiate because of their limited reading and comprehension skills.

**Table 13 Main source of information for active product purchase**

Column percentages

	Group A (%)	Group B (%)	Group C (%)	Total (%)
Best buy, active search	4	4	6	7
IFA	11	9	6	14
Other generic information	4	5	9	9
Product info or other kinds of information	53	45	45	42
Unsolicited information through post	6	6	5	5
No information	22	28	28	21
Does not know what information used	0	1	2	1
<b>Base (weighted)</b>	<b>224</b>	<b>403</b>	<b>127</b>	<b>3,203</b>

The final decision about which product to purchase was typically made after considering specific product features (the most capable way of making a choice) but there were important differences amongst those in groups B and C (**Table 14**). Both of these groups were significantly less likely to have based their decision on the features and more likely to admit that they simply did not consider their options.

**Table 14** Why respondent chose the product they did

Column percentages

	Group A (%)	Group B (%)	Group C (%)	Total (%)
Product features	34	24	19	34
Price not other features	16	18	28	21
Recommended by someone else - not product features	15	15	9	12
Provider or ease - not product features or recommendation	17	22	22	19
Didn't consider other options	17	21	22	14
<b>Base (weighted)</b>	<b>226</b>	<b>402</b>	<b>127</b>	<b>3,203</b>

When someone chooses a financial product they typically enter into an agreement or contract with the provider. This agreement will include written details about what is expected from each party – the consumer and the provider. A financially capable consumer will recognise that it is important to know what is in the agreement before they sign it and they will take some time to understand the terms and conditions.

Of course, it is well known that many people do not read the contract before they sign. **Table 15** shows that fewer than half of those working age adults that had made a recent product purchase had read the terms and conditions of the most complex product they bought in detail. More than one in ten admitted that they had not read them or asked anyone else to do so on their behalf.

People in groups B and C were significantly less likely to have read the terms and conditions than the working age population as a whole. What is perhaps more interesting is that more of those people in Group C had not sought help reading the terms and conditions before they bought a product; and that so many (39 per cent) claimed to have read them themselves (the reading requirement for the survey would have been considerably less daunting than a typical document listing terms and conditions). If people who face difficulty reading English are reluctant to seek help it may be necessary to find more proactive ways of ensuring that they are fully informed about the contract they are entering into.

It is interesting at this point to recall that we did not find any strong predictors of being poor at choosing products amongst those in Group C, and were led to conclude that other characteristics may have been associated with capability in this domain. It is possible (if difficult to prove) that the reason that we could not predict who in Group C would be better or worse at choosing products is because some responses reflected how people wanted to be rather than how they were. In particular, it is possible that some respondents felt uncomfortable admitting that they had not been able to read the terms and conditions themselves. Over a third said they *had* read the terms and conditions themselves, and this would have increased their score. If the response wasn't a genuine reflection of their behaviour then the scores in this domain will not reflect genuine differences in capability amongst everyone in this small group of people with literacy needs.

**Table 15** Reading the terms and conditions

Column percentages

	Group A (%)	Group B (%)	Group C (%)	Total (%)
Read personally, in detail	45	40	39	47
Read briefly and got someone else to read them	5	5	7	4
Read briefly	34	31	33	33
Someone else read	3	4	5	3
No-one read	13	21	14	12
No response	0	1	2	1
<b>Base (weighted)</b>	<b>225</b>	<b>404</b>	<b>127</b>	<b>3,204</b>

## Staying informed

### Key findings

- Adults with literacy and numeracy needs keep their eyes on fewer indicators than working age adults on average, and they do so less frequently. 26 per cent of adults in Group B who felt that it was important to keep up to date did not do so themselves, and similar large proportions in the other two groups failed to match their behaviour to their attitudes.

There is a vast amount of information available about personal finance and general economic matters. It may come from a wide range of sources including, for example, advertisers, consumer groups and journalists and can be of varying quality and benefit. Some information is easy to access, for example the media generally discusses interest rate changes in detail, whilst other kinds of information require researching, such as the likely return on a particular investment product.

It was recognised during the development stage of the BSFC that some people need more information than others, because they are more active consumers and have more complex product needs, and that an average person does not need to read the financial newspapers avidly. However, to some extent this is counterbalanced by the supposed need of less active consumers to interact with financial services more in order to benefit from reduced costs and improved services, as well as for them to become more aware of issues that may affect them, such as changes in benefit rates, or changes to tax rules. In this section we do not consider whether individuals are accessing the *right* amount of information, but we do discuss how the behaviour of our groups of interest compares with that of all working age adults.

We can see from **Table 16** that the average working age adult was keeping an eye on more indicators than those in our three groups of interest. But not only were the three groups keeping track of fewer indicators, they were doing this infrequently. **Table 16** shows that whilst slightly over one in five (22 per cent) of the working age population admitted to never looking at economic indicators, this increased to over two in five adults in Group B (42 per cent).

**Table 16** Frequency keeps an eye on economic indicators

Column percentages

	Group A (%)	Group B (%)	Group C (%)	Total (%)
At least once a week	26	21	29	34
At least once a month; but not once a week	23	20	16	26
Less than once a month	18	18	18	18
Never	33	42	36	22
Number of indicators keeping eye on (mean)	1.6	1.2	1.7	2.3
<b>Base (weighted)</b>	<b>277</b>	<b>588</b>	<b>176</b>	<b>3,990</b>

It is striking that whilst a third of Group A admitted that they never kept themselves informed about economic indicators, over a third felt that it was *very important* to do so (Table 17).

**Table 17** Importance of keeping up to date with financial matters

Column percentages

	Group A (%)	Group B (%)	Group C (%)	Total (%)
Very important	35	24	22	29
Quite important	32	34	43	43
Not very important	22	25	22	19
Not at all important	10	16	12	8
Don't know	0	2	1	0
<b>Base (weighted)</b>	<b>277</b>	<b>588</b>	<b>176</b>	<b>3,989</b>

Further investigation looking only at those people who felt that it was either *quite* or *very important* to keep up with financial matters, showed that around 13 per cent of the working age population who held this view nevertheless did not make any attempt to keep up-to-date themselves. This rose to 20 per cent of Group A, 23 per cent of Group C and 26 per cent of those in Group B. This shows that behaviour does not necessarily mirror attitudes.

#### *Financial literacy – the Money Quiz*

The Money Quiz was made up of two aspects; a suite of questions that tested skills (Box 1) followed by two questions testing knowledge (Box 2)<sup>8</sup>.

<sup>8</sup> Full questionnaires are available from the FSA website (FSA 2006)

### Box 1 Testing skill

Two questions using a real bank statement:

How much money is in the account at the end of February

If a direct debit of £179 comes in on 28th February and there is an agreed overdraft limit of £100 on the account, would there be enough money in the account including the overdraft limit, to cover the direct debit?

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?

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?

Two questions on understanding information provided graphically

This chart shows how a £10,000 investment would have performed in different types of investment funds over the last seven years. Assuming that fees and charges are the same for all funds, which fund gave the best return after seven years?

And which would have been the best fund to have chosen if you had to withdraw your money after four years

Suppose you saw the same television on sale at a discount in two different shops. The original purchase price of the television was £250. One shop is offering a discount of £30 off the original price, the other is offering a discount of 10% off the original price. Which is the better deal - £30 off or 10% off?

People generally scored well at the first aspect of the financial quiz, but our groups of interest were slightly less able to answer the questions correctly than the working age population as a whole, perhaps because of the greater reliance on specific skills such as numeracy. Of particular note, not one adult from Group A gained full marks. These findings were statistically significant, and so we have looked at the individual questions to find out whether there was a particular question that caused difficulties.

**Table 18**      **Quiz mark**

	<b>Average score</b>
Group A	4.9
Group B	4.4
Group C	4.5
<i>All working age adults</i>	<i>5.1</i>

None of the questions was unduly difficult. Indeed each question was answered correctly by the majority of people. However, it appears that those in groups B and C were slightly less likely than average to be able to answer each the questions. Those in Group A did not face significant difficulty answering the questions on bank statements, reading a chart or calculating a simple percentage, but they were less

likely than average to get the right answer on the question about inflation and interest rates.

**Table 19 Correct answers to quiz questions**

Cell percentages

	<b>Group A</b> (%)	<b>Group B</b> (%)	<b>Group C</b> (%)	<b>Total</b> (%)
1 Knows closing balance	92	86	84	93
2 Knows whether enough in account	87	79	82	87
3 Inflation question	71	68	72	79
4 Chart: rate of return	74	63	63	79
5 Chart: best fund	71	59	63	77
6 Percentages question	90	84	86	93
<b>Base (weighted)</b>	<b>277</b>	<b>588</b>	<b>176</b>	<b>3,989</b>

**Box 2 Testing knowledge**

Can you tell me for which of these types of mortgage you would be guaranteed to pay off the full amount borrowed if you kept up the repayments?

- Repayment mortgage
- Low Cost Endowment mortgage
- Interest-only mortgage with an associated investment in a stocks and shares ISA or PEP
- Interest-only mortgage with no associated investment

Which of these savings and investments do you think would have their cash value directly affected by stock-market performance?

- Cash ISA
- Insurance/Investment bond (e.g. managed bond, with-profits bond)
- Savings account with a bank or building society
- Equity ISA
- Endowment policy (with-profits or unit-linked)
- Unit trust
- Personal pension plan (with-profits or unit-linked)
- None of these

Group B were far less likely than average to know which mortgage was guaranteed to pay off the full amount borrowed, whilst those in Group C were not significantly more or less able to answer this question than the working age population.

**Table 20 Knew which mortgage was guaranteed to pay off the full amount**

	<b>Group A</b> (%)	<b>Group B</b> (%)	<b>Group C</b> (%)	<b>Total</b> (%)
Repayment mortgage	70	57	71	75
<b>Base (weighted)</b>	<b>277</b>	<b>588</b>	<b>176</b>	<b>3,990</b>

It is more difficult to simply list the proportions who answered the last question testing knowledge correctly, since the question had several parts. As Table 21 shows, the proportion of people opting for each product varied greatly. It is noteworthy however that those in Group B were twice as likely as average to simply state that they did not know the answer to this question.

Some of the findings below are of genuine concern. For example, fewer than half of all working age adults recognised that an endowment policy was linked to the stock market; and this dropped to just 24 per cent of those in Group B.

**Table 21**      **Believed product to be affected by stock market**

	<b>Group A (%)</b>	<b>Group B (%)</b>	<b>Group C (%)</b>	<b>Total (%)</b>
Cash ISA	18	15	27	17
Insurance/Investment bond	41	29	40	49
Savings account with a bank or building society	13	12	15	11
Equity ISA	26	20	28	37
Endowment policy (with-profits or unit-linked)	34	24	30	45
Unit trust	29	20	32	36
Personal pension plan (with-profits or unit-linked)	28	23	26	40
Don't Know	19	29	17	15
None of these	4	5	5	2
<b>Base (weighted)</b>	<b>277</b>	<b>588</b>	<b>176</b>	<b>3,990</b>



## 5. Conclusion

We know that some aspects of financial capability are related to qualification levels. We might assume from this that people who do not have educational qualifications will have low levels of financial capability. However, in this paper we have shown that there is considerable diversity in the financial capability scores of adults with literacy and numeracy needs.

We have shown that it would not be appropriate to assume that financial capability needs are an inevitable consequence of literacy or numeracy needs. We have found, for example, that 17 per cent of working age adults with no educational qualifications had financial capability scores that put them in the top 20 per cent of people for making ends meet and 10 per cent of them were in the top 20 per cent for planning ahead.

Our results show quite clearly that *keeping track* of finances is not an area of concern for most of the adults that we have studied. Yet budgeting in particular is an aspect of financial capability that very often gets special attention on courses that cover personal finances.

We have identified characteristics that are good predictors of weaknesses in particular aspects of financial capability. The predictors varied both across the three groups and across the financial capability domains. However, circumstances such as work status and housing tenure were often good indicators. Despite the general success at identifying associations, we were not able to identify any characteristics that significantly predicted an inability to *make ends meet* amongst Group A, nor ones that predicted low capability for *choosing products* amongst people in Group C. This suggests that other things influence the variations in scores amongst these groups.

We have been able to look beneath the financial capability scores, to understand the attitudes and behaviours that underpin them. Of particular concern are the differences in attitudes to planning ahead between the working age population as a whole, and the three groups of interest. All three groups were more focused on the short term than average, leaving the longer term to chance. Not surprisingly this meant they were less likely to be able to manage if they faced a drop in income or an unexpected bill. However, a quarter of those with low or no qualifications thought that they could cope for 12 months or more if they lost their main income, possibly because they were relying on someone else to make provision.

Also worrying is the relatively low levels of product knowledge (particularly in Group B) combined with high proportion of adults in Group B (21 per cent) and C (22 per cent) who had bought a product without considering their options. These people are very likely to have overspent on their purchase and may have unsuitable products.

More work needs to be done to understand why differences exist in the attitudes and behaviours of adults with literacy and numeracy needs, particularly in respect of *planning ahead*. However, irrespective of the reasons for these differences the findings of this report suggest that two things should be prioritised and these are discussed below.

Firstly, it is recognised that people who are vulnerable to being mis-sold or to mis-buying products need protecting, and this is something that the FSA and other bodies (such as the Banking Code Standards Board) take very seriously. However, their influence is not universal, for example not all financial products are regulated by the FSA (as made apparent by the recent collapse of the hamper savings scheme run by Farepak).

The findings of this research indicate that protection is needed to specifically safeguard individuals who do not have the necessary skills to read and understand the information they receive or the contract they enter into when buying a financial product. This cannot be achieved by education alone; people will not necessarily be able to wait until they have the skills before making financial purchases. A more immediate solution would be to impress on all financial service providers the importance of being pro-active in supporting customers, rather than waiting for individuals to ask for support. It should certainly not be assumed that all consumers will have someone on hand who can read and explain financial literature, or that they will actively seek out help. Neither should providers expect customers to be knowledgeable about the products they want to buy.

Secondly, there are some aspects of financial capability that are of real concern in the population as a whole that appear to be acute problems amongst adults with literacy and numeracy needs. In particular there is a clear lack of planning ahead amongst the three groups analysed. It is important that guidance and training aimed at improving these areas of financial capability is accessible for all learners.

It is interesting that the adults most likely to have literacy and numeracy needs were more focused on their immediate needs than other working age adults, yet half of them did not find spending more satisfying than saving. This suggests that they recognise that planning ahead could be satisfying, but need help to make this a reality, perhaps through initiative such as the Saving Gateway.

It may well be that adults who are seeking to improve their life chances through education or training will be particularly open to discussion about making the most of their money, and ensuring that they have a secure future. If so, there is real potential to improve levels of financial capability alongside literacy and numeracy. The bigger challenge will be to reach out to those adults who do not recognise the prospective benefits from either literacy and numeracy support, nor from improved levels of financial capability. These individuals may only increase their financial capability scores through more practical approaches that incentivise long term planning.

There is still a great deal of information within the BSFC dataset that could be used to gain further insights into the financial behaviour of the adults described in this paper. For example, it would be possible to undertake a detailed analysis of product holding, or to look at the risk of financial stress (see for example Kempson and Atkinson 2006). Such things were beyond the scope of this paper.

There are also a number of issues that may benefit from detailed qualitative studies to complement this analysis. For example, qualitative research could be used to understand why certain groups of people are delaying any thoughts of planning ahead.

## 6. References

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## Annex 1

**Table A1. 1**

	<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
Age (mean)	37	45	40
Total income (median)	£1,098	£867	£961
	%	%	%
Difficulty reading and born in the UK	13	23	100
Male	48	43	51
<b>Housing tenure</b>			
Local authority rent	34	46	37
Other tenure	8	6	7
Own home outright	7	15	9
<b>Work status</b>			
In full-time education	3	2	6
Working full-time (30 hours and above)	48	29	38
Working part-time (up to 29 hours)	12	16	11
Looking after the home or family	14	20	11
Retired from paid work	1	6	6
Unemployed	18	14	13
On government work or training scheme	0	0	0
Permanently sick or disabled	5	13	14
<b>Base (weighted)</b>	<b>276</b>	<b>588</b>	<b>175</b>

Figure A1.1 Distribution of *making ends meet* scores amongst working age adults

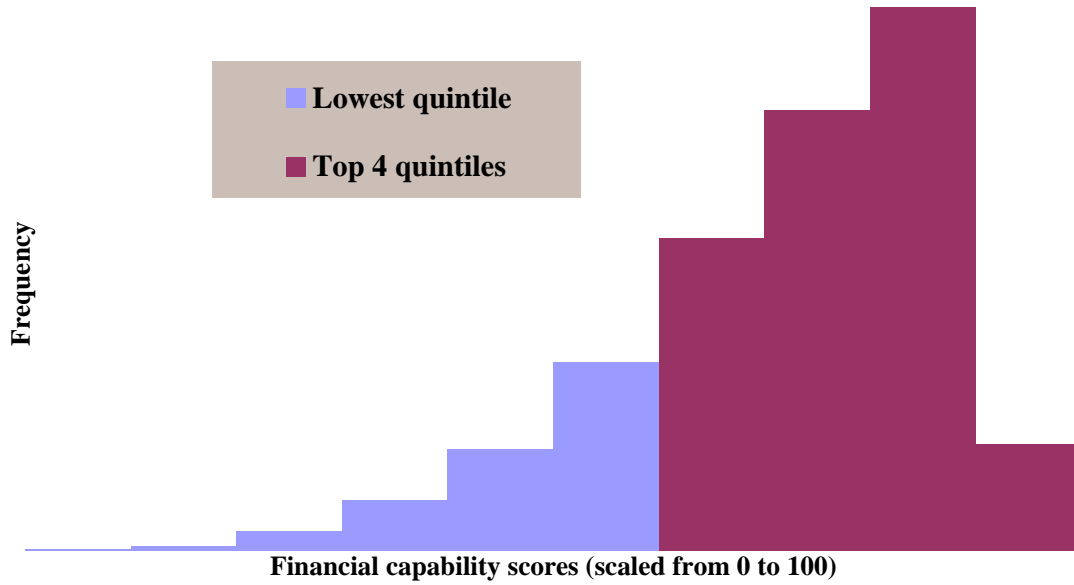


Figure A1.2 Distribution of *keeping track* scores amongst working age adults

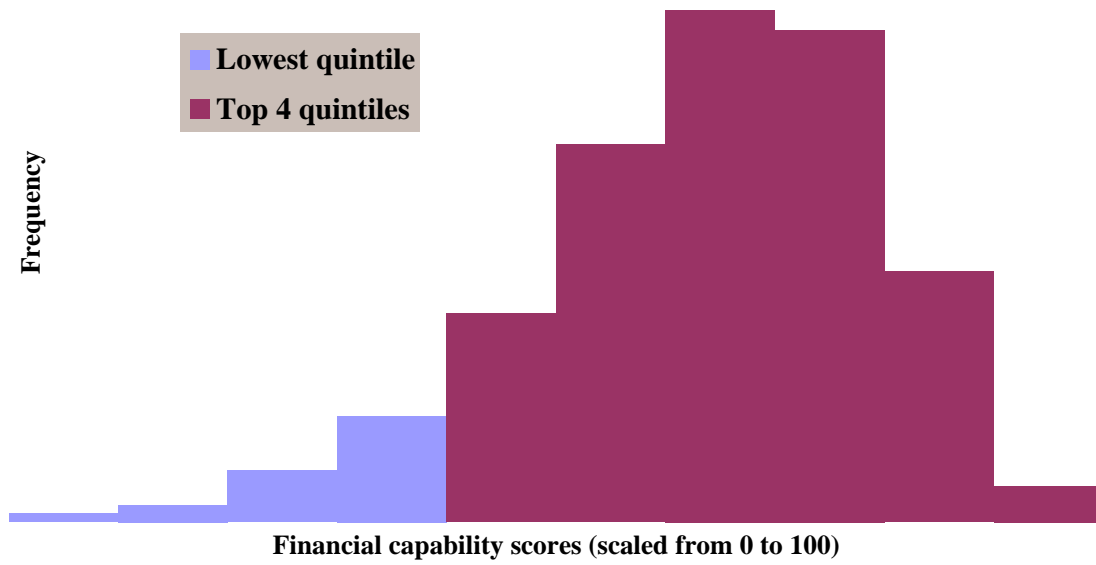


Figure A1.3 Distribution of *planning ahead* scores amongst working age adults

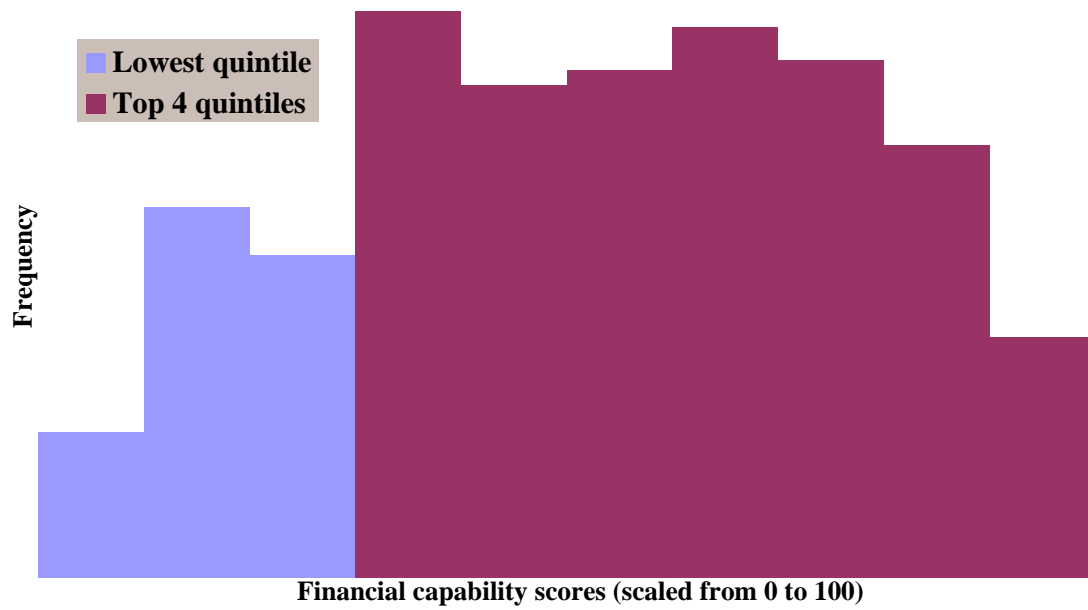


Figure A1.4 Distribution of *product purchase* scores amongst working age adults

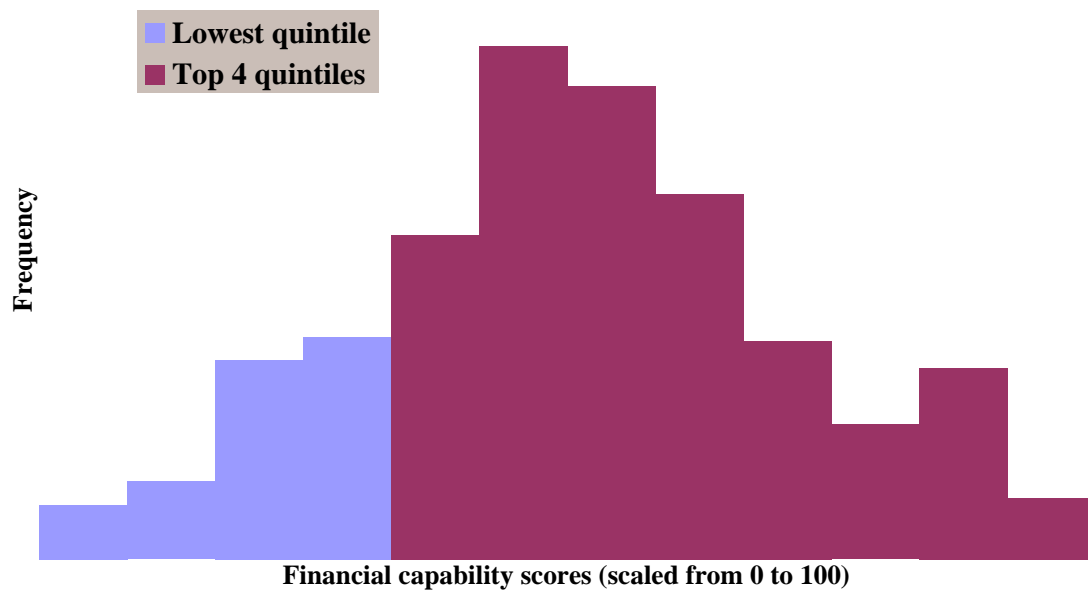
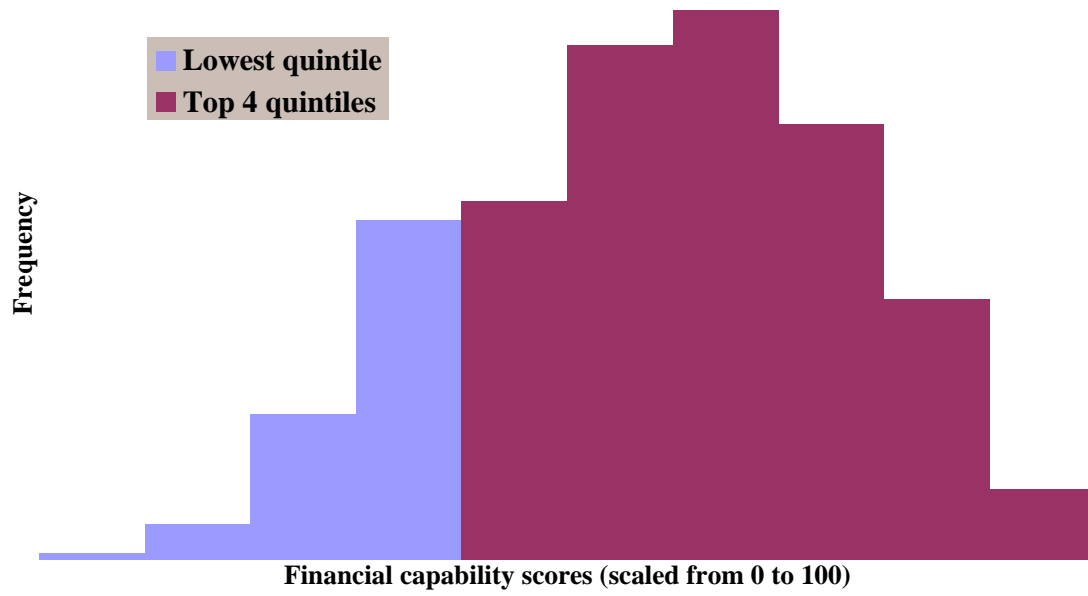


Figure A1. 5 Distribution of *staying informed* scores amongst working age adults



## Annex 2

**Table A2. 1 Likelihood of having a making ends meet score in bottom 20 per cent**

	<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
	R square 0.22	R square 0.163	R square 0.311
	Estimated odds ratio <sup>9</sup>	Estimated odds ratio	Estimated odds ratio
Male			
Age		0.973**	0.940*
<b>Work status</b> (Comparison group is full time work)			
In full time education			
Working part time (Up to 29 hours)			
Looking after the home or family			
Retired from paid work			
Unemployed			6.094*
Permanently sick or disabled			15.850**
<b>Tenure</b> (Comparison group is private rented)			
Mortgage			
Local authority rent			
Other tenure			
Own home outright		0.298*	
Income			
Has long term illness			
Constant			

\* Significant at five per cent

\*\* Significant at one per cent

<sup>9</sup> Odds ratio from logistic regression analysis. Only significant odds ratios reproduced to aid clarity (Tables A1 to A5). All output is available from the author on request.



**Table A2. 2 Likelihood of having a keeping track score in bottom 20 per cent**

	<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
	R square 0.208	R square 0.126	R square 0.276
	Estimated odds ratio	Estimated odds ratio	Estimated odds ratio
Male	3.248*	1.760	
Age			1.046
<b>Work status</b> (Comparison group is full time work)			
In full time education			
Working part time (Up to 29 hours)			
Looking after the home or family			
Retired from paid work		0.176*	
Unemployed			
Permanently sick or disabled			
<b>Tenure</b> (Comparison group is private rented)			
Mortgage		4.125*	
Local authority rent			
Other tenure		6.407*	
Own home outright	7.995*	5.874**	
Income			
Has long term illness			0.045*
Constant	0.015**	0.021**	0.024**

\* Significant at five per cent

\*\* Significant at one per cent

**Table A2.3 Likelihood of having a planning ahead score in bottom 20 per cent**

	<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
	R square 0.525	R square 0.466	R square 0.561
	Estimated odds ratio	Estimated odds ratio	Estimated odds ratio
Male			
Age		0.942**	0.931**
<b>Work status</b> (Comparison group is full time work)			
In full time education			
Working part time (Up to 29 hours)			
Looking after the home or family	3.784*		
Retired from paid work			
Unemployed		2.764**	
Permanently sick or disabled	7.033*	2.976*	
<b>Tenure</b> (Comparison group is private rented)			
Mortgage	0.153**	0.161**	0.088**
Local authority rent			
Other tenure			
Own home outright	0.091*	0.150**	
Income	0.999**	0.999**	
Has long term illness			
Constant	4.763*	17.191**	20.152*

\* Significant at five per cent

\*\* Significant at one per cent

**Table A2. 4 Likelihood of having a product purchase score in bottom 20 per cent**

	Model 1			Model 2		
	Group A	Group B	Group C	Group A	Group B	Group C
R Square	0.235	0.189	0.221	0.255	0.223	0.226
	Estimated odds ratio			Estimated odds ratio		
Male						
Age		0.975*			0.974*	
<b>Work status</b> (Comparison group is full time work)						
In full time education						
Working part time (Up to 29 hours)						
Looking after the home or family						
Retired from paid work						
Unemployed						
Permanently sick or disabled						
<b>Tenure</b> (Comparison group is private rented)						
Mortgage	0.227**	0.334*		0.275*	0.368*	
Local authority rent						
Other tenure						
Own home outright						
Income		1.000*				
Has long term illness						
Number of product types bought personally in last five years.					0.764**	
Constant		3.682*			6.299**	

\* Significant at five per cent

\*\* Significant at one per cent

**Table A2. 5 Likelihood of having a staying informed score in bottom 20 per cent**

	<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
	R square 0.280	R square 0.280	R square 0.367
	Estimated odds ratio	Estimated odds ratio	Estimated odds ratio
Male			
Age			
<b>Work status</b> (Comparison group is full time work)			
In full time education		0.062*	
Working part time (Up to 29 hours)			
Looking after the home or family			
Retired from paid work			
Unemployed			
Permanently sick or disabled			
<b>Tenure</b> (Comparison group is private rented)			
Mortgage	0.217**	0.497*	0.189*
Local authority rent			
Other tenure			
Own home outright	0.073**	0.446*	
Income	0.999**	0.999**	0.999**
Has long term illness			
Constant			

\* Significant at five per cent

\*\* Significant at one per cent