Financial capability amongst adults with literacy and numeracy needs

Summary

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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 and analysed on behalf of the Financial Services Authority (Atkinson et al 2006).

The Basic Skills Agency has recognised the potential to use the baseline data to explore how financial capability and financial skills differ amongst people with few or no qualifications, 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 amongst three groups of adults who are likely to have literacy and numeracy needs. We focus on differences in the distribution of capabilities, we look at ways of predicting the kinds of people most likely to have low levels of financial capability and we consider which aspects of financial behaviour and attitudes amongst adults likely to have literacy and numeracy needs are of greatest concern.

Financial capability

The financial capability baseline survey was preceded by a lengthy development process, aimed at creating a definition of financial capability and developing a set of questions that could identify the various attitudes and behaviour traits that were deemed to be capable.

The development process identified four distinct aspects of financial capability *managing money*, *planning ahead*, *buying products* and *staying informed*. Analysis of the data collected subsequently showed quite clearly that there were two distinct aspects of managing money, namely *making ends* meet, and *keeping track.* There are now, therefore, five scores which cover the breadth of skills that collectively we think of as financial capability.

Adults likely to have literacy and numeracy needs

In the first substantive chapter of the report we summarise the ways in which financial capability scores vary **across** qualification levels. In the rest of the report we pay particular attention to the capabilities of working age adults in three groups: Group A, who have low qualifications (nothing above a GCSE grade D-G or equivalent); Group B, who have no qualifications, and Group C, who have difficulty reading English (a group which includes people from the first two categories, plus others). These three groups will include a large proportion of people with literacy and numeracy needs. We are interested to know more about the underlying pattern of achievement **within** each of these three groups.

We have looked to see whether the distribution of capabilities within the three groups is very different from the distribution of capabilities across the whole of the working age population. We have also undertaken new, detailed, statistical analyses to see whether age, gender, work status, income, housing tenure or health status are good predictors of who in our groups of interest will be amongst the 20 per cent of the working age population with the lowest financial capability scores.

Making ends meet

People in groups A and B were concentrated amongst the lower scoring quintiles at *making ends meet*. Nevertheless, 16 – 17 per cent of them had scores in the top 20 per cent.

The statistical analyses showed that none of the characteristics tested was statistically significant or powerful at predicting who in groups A had the lowest scores at *making ends meet*.

Younger adults in Group B were more likely to be poor at making ends than older adults, as were those who were renting their home.

People in Group C were six times more likely to be failing to make ends meet if they were also unemployed, but given their other characteristics older adults in this group had higher scores than their younger counterparts.

Keeping track

When looking at *keeping track* scores, we found that people in the three groups of interest were disproportionately concentrated amongst the most capable 20 per cent of working age adults.

However, the statistical analyses indicated that men in Group A were three times more likely than women to be poor at keeping track of their money, whilst the small number of home-owners with few qualifications were eight times more likely to be poor at keep track. Similar patterns were evident amongst the adults in Group B.

Young adults in group C were less likely to be poor at keeping track than older ones, but housing tenure and gender were not significant predictors for this group.

It is interesting that income itself was not a strong predictor of people keeping track once other things were taken into account.

Planning ahead

Few of the adults in the three groups were planning ahead effectively. Their scores were overwhelmingly concentrated in the bottom twenty percent. Even so, 13 per cent of Group A and ten per cent of those in groups B and C were adept at making plans for their future – with scores that put them amongst the top 20 per cent of working age adults.

The statistical models indicated that personal and economic characteristics were more powerful predictors of planning ahead than of the other aspects of financial capability.

People in groups A and B who were not working because of sickness or disability were less likely to be planning ahead than those who were employed full time, but no similar relationship was found in Group C. Housing tenure was significant across all three groups, with renters being less likely to plan ahead than mortgagors.

Young people in groups B and C were less likely than their elder counterparts to be planning ahead, but this relationship was not significant in Group A.

Choosing products

Those people in groups B and C were very likely to have scores that put them in the bottom 20 per cent in this domain.

Statistical investigations showed that tenure was an important predictor of low scores amongst adults in groups A and B. So renters 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 if we take into account an individual's experience at choosing products by including the number of product types that they had purchased, we still find that those without a mortgage were most likely to be poor at choosing products.

There were no strong predictors to indicate who in Group C would be poor at choosing products, even after taking into account experience.

Staying informed

The people in all three groups were particularly likely to have scores in the bottom 20 per cent for staying informed.

Income was a significant predictor of scores in this domain across all three groups. In all cases lower income was associated with lower scores.

Interestingly, the small number of people in Group B who were in full time education were significantly less likely than those working full time to have a low score in this aspect of financial capability. No similar relationship has been identified in the other domains.

Attitudes and behaviour

The financial capability scores are made up of a number of attitudes and behaviours. In this section we consider whether it is possible to identify any particular areas of strength or weakness within each domain for our three groups of interest.

Making ends meet
There was considerable variation in *making ends meet* scores within the three groups. Some typical aspects made them appear more capable, whilst others reduced their capability.

For example, 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. Furthermore, they were more than twice as likely to fall behind with bills or have real financial problems, making them less good at *making ends meet*.

Conversely, adults in Group B were statistically more likely than average to disagree with the statement *'I prefer to buy things on credit rather than wait and save up'* suggesting that they were the most credit averse. This would improve their scores.

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*. However, they were more likely than average to have faced a financial difficulty in the last five years.

Keeping track
It stands to reason that the three groups would 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 available resources.

Given the relatively high scores amongst the three groups in this domain, it is surprising that Group B were significantly more likely than average to say that they had no idea at all how much money they had (ten per cent compared with an average of seven per cent). However, the group was polarised- it also had the highest proportion of people knowing how much they had to within a pound or two (29 per cent).

Further investigation indicates that some of the adults studied 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. This may suggest that apparent capability in this domain was related to necessity rather than ability.

Planning ahead
All three groups appeared to have had attitudes to planning ahead that set them apart from the population as a whole. They were more likely to *live for today and let tomorrow take care of itself*, less likely to say they had money *saved for a rainy day*, and more likely to prefer a *good standard of living today over saving for retirement*. However they were only slightly more likely to find spending *more satisfying than saving*, suggesting that their attitudes may be malleable, given better circumstances.

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

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.

Choosing products

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. One in five working age adults had made no recent purchase.

People in groups B and C were less likely to have bought a product recently; indeed almost a third of those in Group B had not done so (31 per cent). However there was little difference between those in Group A and the working population. 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.

Around half (54 per cent) of all working age adults who had made a recent purchase had collected information about the product, or got an adviser to do so on their behalf. This did not vary significantly across groups A and C, but the proportion was notably lower amongst those in Group B – just 38 per cent had collected any information.

People in Group C were only half as likely to have sought the advice of an independent financial adviser (six per cent compared with 14 per cent) which is of particular concern given their increased likelihood of finding other sources of information difficult to negotiate.

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. 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.

We looked also for differences in the likelihood that adults read the terms and conditions of the product they bought, before signing the contract. We found that that people in groups B and C were less likely than average to read them (the difference amongst those in Group A was not robust). However, and of more importance, we found that people in Group C (who had difficulty reading) were **no more** likely than average to have sought help reading the terms and conditions before they bought a product. If people who find reading difficult 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.

Staying informed

The average working age adult was keeping an eye on more financial indicators than people in any of our three groups of interest. But not only were people in these groups keeping an eye on fewer indicators, they were doing this infrequently. And whilst slightly over one in five (22 per cent) of the working age population admitted to never considering economic indicators, this increased to over two in five adults in Group B (42 per cent).

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

The financial capability score for *staying informed* included the score from a *money quiz* which aimed to collect information about levels of financial literacy. Each question was answered correctly by the majority of people, but it appears that those people in groups B and C were slightly less likely than average to be able to answer the questions. And of particular note, not one person in Group A gained full marks.

Conclusion

We know that some aspects of financial capability are related to qualifications and we may assume that this also suggests that financial capability is related to skills. Despite this, we find considerable diversity when we focus on adults that are likely to have literacy and numeracy needs.

It would certainly not be appropriate to assume that all people identified as being likely to have literacy and numeracy needs would also have low levels of financial capability. We 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.

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 likely to have literacy and numeracy needs. 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.
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 these customers, rather than waiting for individuals to ask for support.

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

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 this is in fact the case then 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.

Figure 1 Financial capability amongst adults with literacy and numeracy needs

Predictor of having a score in bottom 20% (Likelihood of being poor at this aspect of financial capability)
Key M=More likely to be in bottom 20% L=Less likely to be in bottom 20%

		Making ends meet	Keeping track	Planning ahead	Product Purchase (including experience)	Staying Informed
Group A	**Personal characteristics**	No predictors	Male (M)			
	Work status			Looking after home, or sick (M)		
	Tenure		Outright owner (M)	Renter (M)	Mortgagor (L)	Renter (M)
	Income			Low income (M)		Low income (M)
	Attitudes and behaviours	More likely to run out of money and more likely to fall behind with bills(making them more likely to be in bottom 20%) More likely to have faced difficulty in last five years (M)	More likely to know how much money they had (L)	More likely to be focused on today than tomorrow (L) Most less likely to think they could manage for a month or more if income fell (M), Less likely to have pension provision (M)		Less likely to keep an eye on economic indicators, and doing so less frequently (M)
Group B	**Personal characteristics**	Age (older=L)	Male (M)	Age (older=L)	Age (older=L)	
	Work status		Retired (L)	Unemployed, or sick (M)		Full time education (L)
	Tenure	Own home outright (L)	renter (L)	Renter (M)	Mortgagor (L)	Renter (M)
	Income			Low income (M)	Number of product types bought (more products=L)	Low income (M)
	Attitudes and behaviours	More credit averse (L) More likely to run out of money and more likely to fall behind with bills (M) More likely to have faced difficulty in last five years (M)	More likely to know how much money they had to within a pound or two, but also more likely to not know at all (less or more likely).	More likely to be focused on today than tomorrow (L). Less likely to think they could manage for a month or more if income fell (M). Only half as likely to have made provision against income fall or for pension (M)	Less likely to have bought a product recently. More likely to have bought product without using any information (M) Less likely to have used IFA (M). Poor decision making (M) Less likely to read T&C (M)	Less likely to keep an eye on economic indicators, and doing so less frequently (M). Less likely to understand inflation and interest rates (M)
Group C	**Personal characteristics**	Age (older=L)	Age (older=M)	Age (older=L)	No predictor	
	Work status	Unemployed, or sick (M)	Long term illness (L)			
	Tenure			Mortgagor (L)		Mortgagor (L)
	Income					low income (M)
	Attitudes and behaviours	More likely to have faced difficulty in last five years (M)	More likely to put money aside for future expected expense (L)	More likely to be focused on today than tomorrow (L) Less likely to think they could manage for a month or more if income fell (M)	More likely to have bought product without using any information (M). Less likely to have used IFA (M). Poor decision making (M) Less likely to read T&C (M)	Less likely to keep an eye on economic indicators, and doing so less frequently (M) Less likely to know about mortgages (M)