It's time to talk:
young people and money regrets

Contents

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Foreword

Young people – particularly at the point where they are leaving school, perhaps starting full-time work for the first time, or heading to college – can be especially vulnerable to poor financial decision-making. As they gradually take on more responsibility for their own money, rather than relying exclusively on their parents, there is a very real potential for them to make mistakes which can affect them for years to come.

As this research shows, many do. There is much here which will inform our work as we take forward the development of a Financial Capability Strategy for the UK and especially our work to help young people manage their money better.

A particular 'tipping point' comes when people turn 18 and get access to credit. This is perhaps best illustrated by the example in this report of one young woman who spent up to her credit card limit straight after receiving it, landing herself with £1,500 of debt in just a few hours. We have shared this research with the Financial Conduct Authority, to help inform their regulation of the consumer credit market.

It is well established that effective communication depends in part on who delivers the message. Young people tend to think parents, teachers and others of an older generation do not understand them and the pressures on their lives, while immediate peers – classmates and others of the same age – are not considered sources of sound advice. Nor do young people necessarily want to talk about their private money issues with their friends and wider social group.

However, this research shows that hearing those just slightly older than themselves talk about the regrets they have from their own recent experience – while it is fresh in their minds and while, in many cases, they are still living with the consequences – can be a powerful stimulus for young people to think about how they could do better in their own lives.

That is an extremely important finding as it helps us, and others involved in working with young people, shape our services and design more effective interventions. As the report indicates, we will now be running a pilot project with our debt advice partners, to examine how this can be translated into practice.

I am very grateful to those who participated in the research and shared their experiences and thoughts with the researchers. Through their candid comments and responses, they have given us and others much food for thought as we think about how to help young people avoid the pitfalls that financial independence holds.

Chief Executive, the Money Advice Service

About the research

One-fifth of the over-indebted population are young people aged between 18 and 24, having fallen behind with their credit commitments in the previous three months, or feeling that their debts are a heavy burden[1]. The Money Advice Service wanted to explore why this might be the case, and how young people might be influenced to avoid falling into bad money habits.

Although the Service's previous research showed that children tend to be most influenced by their parents, with some evidence that this was the same for young people, the Money Advice Service believed that this influence might start to decline after the age of 16. Specifically, it hypothesised that 16-21 year-olds might be more open to advice and information based on the financial regrets of those only a little older than themselves (i.e. 22-29 year-olds).

It commissioned research to understand:

- what financial regrets young people have, and how these affect their attitudes to money;
- what impact hearing face to face about the regrets of people only slightly older than themselves might have upon 16-21 year-olds; and
- the implications this might have for potential interventions to help 16-21 year-olds manage their money better.

The Service and its research partner 2CV used a series of moderated group sessions to build a detailed understanding of young people's attitudes, and the influences on those attitudes towards money. This involved initial workshops with 22-29 year-olds to explore past behaviours and establish the 'territory' of good and bad decisions. These were then followed by 'exposure sessions' which enabled 22-29 year-olds to listen to the current attitudes and behaviours of 16-21 year-olds, then for 16-21s to hear about the experiences of 22-29s, before bringing the two groups together to reflect on how the younger audience might learn from the mistakes of their older peers.

[1] Segmenting the over-indebted population of the UK – Money Advice Service – November 2013

In summary

- Independence is everything to 16-21 year-olds, but they rarely appreciate that being financially responsible is an important part of becoming independent.
- Independence can be expensive: as the restrictions of childhood are lifted, 16-21 year olds have a desire to experience as much as they can, but tend not to worry about how much it costs.
- Their attitude to money, is typically 'spend today, worry tomorrow'; they spend money to have a good time, often funding their friends to do the same if they run out of cash; and credit is often regarded as 'free money' with little regard to how they will pay it back.
- The idea of being financially responsible, and saying 'no' to the numerous opportunities to spend that are available can feel boring and restrictive. Saying 'yes' is usually far easier, more socially acceptable, and above all, more fun.
- 'Good' decisions often feel 'bad' in the moment, as they involve an element of restraint or sacrifice; 'bad' decisions tend to feel 'good' in the moment as they free people up to do what they want.
- 16-21 year-olds are innately optimistic and even when they recognise they have made a 'bad' decision they assume that things will get better over time.
- They rarely have a clear idea of what being 'good with money' means, though they tend to imagine that it is boring and restrictive.
- Many have not been provided with an opportunity to learn how to be responsible with money growing up and so make mistakes when the stakes are much higher.
- Money continues to be the great taboo and is rarely talked about openly and honestly with friends or within the family, (at least, until they realise the consequences of their habits).
- Becoming 'good with money' requires 16-21 year-olds to change their attitudes and their behaviours.

The attitudes and behaviours of 16-21 year-olds

Attitudes	Behaviours
Living in the moment, worrying tomorrow	Living beyond their means/excessive spending
Little thought about the consequences	Taking credit when offered
Saying 'no' is boring; saying 'yes' is fun	Ignoring bills/repayments
Reliance on the bank of mum and dad	Ignoring knock on costs of major spending (upkeep, insurance etc)
Credit is 'free money'; debt is normal	Taking risks with their money (e.g. credit card roulette)
Blind faith that 'everything will be OK' in the future	

- The real stories of 22-29 year-olds bring hidden or unspoken experiences into the open, and can be very effective in providing a 'wake-up call' to 16-21 year-olds and prompting them to consider their own attitudes to money.

It’s time to talk

The financial regrets of young people

From hedonism to regret

It is striking how different the attitudes and experiences of 16-21 year-olds and 22-29 year-olds can be.

While the younger audience are typically living a relatively carefree existence, many of those only just over 22 have already faced huge financial difficulties and experienced seismic shifts in their expectations of life, and the opportunities available as a result.

Case study:
Kathryn[2], 18, student, Belfast

Kathryn is working hard at school and loves to go shopping with her friends at the weekend. She loves spending her pocket money on new clothes, make-up and shoes. When the pocket money runs out, it doesn't matter – a quick phone call to Dad and he can transfer money straight into her account so she can have that burger and chips. For Kathryn, it seemed there is unlimited money for fun and food, with no consequences to running out.

Case study:
Patrick, 22, unemployed, Belfast

Patrick was planning to go on holiday with his girlfriend, but when a better offer came up from a friend to go to Thailand, he jumped at the chance. He had an amazing holiday, saying' yes' to everything – scuba diving, beaches, partying – everything. Patrick avoided checking his bank account when he was on holiday as he didn't want to put a dampener on the trip. When he came back from holiday and finally plucked up the courage to check his bank balance, he had spent all of his student loan, and gone £2,000 into his overdraft. Not only that, but his girlfriend had broken up with him for messing her around. Several years later Patrick is still paying off the accumulated debt from that trip.

[2] All names have been changed to protect the anonymity of respondents

The power of 18

The fact that such a shift from optimism to regret can take place over a relatively short space of time at this age suggests that financial attitudes and behaviours are not solely driven by the ageing/maturing process.

At around 18 years old, pursuit of independence coincides with an explosion of financial opportunities and decisions, as financial and retail institutions compete to offer them a range of products, such as new accounts, credit cards, store cards and personal loans.

At this age, the opportunities available tend to overshadow individual ability to understand or deal with the associated responsibilities. As a result, many are driven by the promise of short-term benefits and ignore the potential consequences. This 'spend today, worry tomorrow' attitude is of particular concern around debt; easy credit is effectively translated as 'free money' and it is often only months or years later that young people start to understand the full impact of their actions.

Although not everyone has the same opportunities at 18, it is clearly a threshold of sorts. If they have not developed a certain level of financial resilience, understanding, and ability to say 'no' by this age, they are far more at risk of making bad decisions.

Mina, 24, sales assistant, London

"Getting that letter when I turned 18, saying I was eligible for a credit card was amazing! I said yes to it straight away – all I could think about was shopping! It felt so grown up."

What are financial regrets?

The hypothesis underpinning much of this research was that the younger audience would respond to their slightly older peers' financial regrets.

The project was designed to ensure we could unpick some of the following implicit assumptions which led to this hypothesis:

- that 22-29 year-olds have financial regrets;
- that 16-21 year-olds can learn from them; and
- that an intervention might make use of this.

To regret something, people need to have experienced the negative consequences of their actions (or inaction).

While this might seem obvious, the need for experience is crucial: most of the 16-21 year-olds we spoke to did not talk about their behaviour with any sense of regret because they had rarely had enough time or opportunity to look back on previous behaviour with a sense of disappointment. Most of the 22-29 year-olds had experienced the consequences, and thus had regrets.

What makes a financial regret?

From talking to people who do have regrets, whether major or relatively minor, we know they typically comprise two core elements:

Everyday bad decisions
Most people's financial regrets have mundane origins, rooted in everyday needs and desires. Many can trace their current situations back to a relatively small number of specific decisions they made; they are usually a chain of decisions indicative of a way of thinking about money, rather than a one-off. These decisions range from immediate and short-term (going shopping, having a night out), to the more fundamental (where to live, how to get around); they are almost all relatively commonplace. What they now realise made them 'bad' decisions is often only clear in retrospect (particularly as the decisions felt good at the time, typically because they involved spending to have fun).

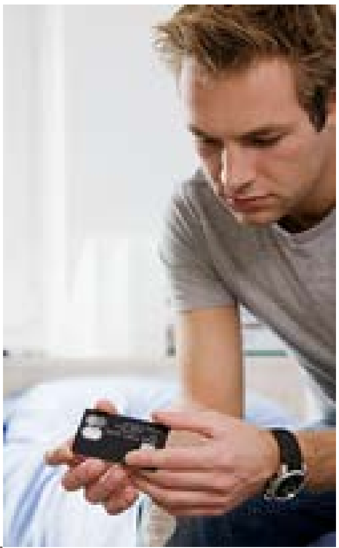
Spiralling out of control
While the decisions people regret might be unremarkable, their consequences rarely are. Most stories follow a similar trajectory: bad decisions lead to increasingly serious circumstances which lead to further decisions with yet more significant implications. This 'domino effect' means that seemingly innocuous decisions often lead to potentially life-changing situations.

Read Harry's story on the next page

"I'm working 6 days a week to pay off my credit card and loan debt..."

Case study:

Harry
25, Sales assistant,
London



Harry was studying at university and had decided to move out into his own flat, even though his parents didn't live far away from the university.

Even though he didn't need one, he decided to buy a car "to impress the girls", ignoring his family when they advised against it. He bought it using his student loan, but didn't bank on all the other costs and things that could go wrong. Harry didn't do his research when choosing the car and ended up making a poor decision on what he bought. He racked up several thousand pounds of debt because the car had so many problems and because of that had to drop out of university and take on three jobs. By the time we met him he was working hard to pay off his debts: he had moved back in with his parents, had a bike instead of a car and made a packed lunch every day.

"I'm paying for it now because I didn't make good decisions. I can't get a proper job because I don't have any qualifications. I'm working 6 days a week to pay off my credit card and loan debt. I should have bought books with that loan, not a car – but I wouldn't listen to the advice that my parents were giving me."

Should I go out or stay in?

The impact of parents, social norms and cognitive development on their behaviour

The search for independence drives financial behaviour

Regardless of location or social background, all 16-21 year-olds aspire to a future of independence and happiness.

This is a natural urge which drives much of their behaviour. Attitudes to money, an obvious and widely-held symbol of independence, are inevitably going to be affected as a result.

Dependence on parents lasts a long time

Being financially supported by parents is generally acknowledged as a relatively undemanding existence, one of instant gratification and constant support, even for those coming from less well-off backgrounds. Gradually, as young people get older, reliance on parents tends to diminish. This journey away from complete reliance often starts with part-time work and leads on to ever more significant steps: full-time work, leaving home, going to university, etc. At this point young people are often still receiving financial support from parents (especially university students); even if not, many are confident they could fall back on their parents if need be, even if only as a last resort.

This state of dependence is one that 16-21 year-olds are aware of and attempt to shrug off, but it is clear that many still treat their parents as a safety net. A number of those in their mid-to-late-20s had found themselves asking parents for help when they encountered financial difficulties.

The path towards independence is unclear

Regardless of the level of support they are currently receiving, few who are supported by parents at the moment seem able to envisage 'true' independence with any degree of clarity. When asked to think about the future, most focus on either next steps in the short term, or long-term goals.

What they need to achieve their goals, what difficulties they need to anticipate and similar specifics are regularly overlooked.

Rachael, 17, Student, Belfast

"I can't wait to get a car! I'm going to get one next year so that I can drive to my friends' houses ... How will I pay for it? Oh, I don't know, I'll figure it out - hopefully my parents will pay for it and I'm sure I'll get a job soon so that could pay for it I think."

Tessa, 17, Cardiff

"I'm going to get a part time job, get into Roehampton uni., get psychology degree, travel, get a car, get married, get a bulldog, be rich."

Financial Independence vs. Financial Responsibility

Perhaps unsurprisingly, given their tendency towards idealism, young people view independence in terms of its effects, not how it is achieved and maintained. Many 16-21 year-olds do not realise that financial responsibility is an intrinsic part of financial independence, and indeed independent living more generally. While they might expect to work hard to achieve their ambitions, they don't always recognise that responsibility is as much a mindset as it is a set of behaviours. Consequently there is little awareness that their current approach to money is likely to have a direct effect on their ability to live independently in the future.

16-21 year-olds' Goals

Short-term **Mid-term** **Long-term**

Short term:	Mid term:	Long term:
concrete, realistic goals the obvious next steps	unconsidered just 'happens'	broad, familiar goals belief that 'everything will be ok'

?

→

The Bank of Mum and Dad

Most young people cite their parents as key influences on their approach to money, yet among those who said this, there were a range of different behaviours that appeared to be related to how strongly parents took on this role.

Establishing habits and behaviours from an early age
Few appeared to have learnt the basic rules of money management from their parents; indeed, as outlined below, they often gave the impression that they had been taught the wrong lessons. This is not a case of neglectful parenting; if anything it comes from parents trying to help their children too much.

Parents are, to all intents and purposes, the first experience of a financial institution for most young people. Although this works while the children live at home, it's not a relationship that translates well when 16-21 year-olds have to deal with the professional banking sector. Yet they often treat their banks as they do their parents, acting as if they have a never-ending source of funds.

The Bank of Mum and Dad: an unbeatable service

Bottomless coffers!
Pocket money is topped up with additional hand-outs as and when requested.

Interest free, unconditional loans
Repayment requested but not necessarily expected, and The Bank of Mum and Dad rarely pursues its debtors.

Zero balance doesn't mean zero fun!
Having no money in your account doesn't mean you can't access more; the bank will provide.

There for you in a crisis!
If you are in financial difficulty and don't know how you're going to pay your bills, The Bank of Mum and Dad will be there for you, no matter what.

22-29 year-olds who have experienced financial problems often wish that they'd had an opportunity to learn these lessons sooner, and in a less harsh environment. 'The Bank of Mum and Dad' seems to offer the ideal opportunity for this: allowing 16-21 year-olds to come face to face with the consequences of their behaviours in a safe, controlled manner which can lead to disappointment and arguments, at worst, rather than spiralling debt repayments and a poor credit rating.

Harry, 25, sales assistant, London

"My bank account gets pretty empty towards the end of the month. When it comes to the end of the month, it is a struggle: what am I going to give up on to get through to payday? It's such a hard transition from thinking mum and dad will bail me out, to only having £30 for the week, thinking how am I going to afford things?"

The Elephant and the Rider

The financial behaviour of 16-21 year-olds can be seen in part as a result of the conflict between their emotional and rational sides.

This tension is best summed up by behavioural economists Chip and Dan Heath, using an analogy first suggested by psychologist Dan Haidt[3]:

"Haidt says that our emotional side is the Elephant and our rational side is the Rider. Perched atop the Elephant, the Rider holds the reins and seems to be the leader. But the Rider's control is precarious because the Rider is so small relative to the Elephant. Anytime the six-ton Elephant and the Rider disagree about which direction to go, the Rider is going to lose. He's completely overmatched...

You've experienced this if you've ever slept in, overeaten, dialled up your ex at midnight, procrastinated, tried to quit smoking and failed, skipped the gym, gotten angry and said something you regretted, abandoned your Spanish or piano lessons, refused to speak up in a meeting because you were scared, and so on."

The spontaneous, emotional, pleasure-loving Elephant typifies 16-21 year-olds' attitudes much of the time. Their knowledge that they should be sensible with money and think how they spend it (i.e. the Rider), is often overpowered, sometimes to the extent that it seems completely absent. So the Elephant's idealistic, emotional pursuit of independence is far easier to respond to than the Rider's focus on practicalities.

Hard-wired to act impulsively

The elephant/rider analogy fits with the latest neurological research on brain development which suggests that the brain structure of young people are different from those of adults.

It is tempting to think that an 18 year old is an adult and has all the same cognitive capabilities as a 30 year old. However, we know that brain development, particularly the development of the frontal lobe (planning, impulse control, reasoning) continues well into the early 20s. And for some young people who have had negative early life experiences, the frontal lobe can take even longer than that to come fully 'on line'.

In effect, younger people have brains that are less able to connect planning and sequential thinking with their behaviours, so they are more inclined to act emotionally and impulsively. The Rider's connection to the Elephant is weaker, so young people require assistance to strengthen these connections.

[3]Switch - How to change things when change is hard.
Chip and Dan Heath Random House Business Books, 2010

In our interviews this was exemplified by numerous stories in which 16-21 year-olds acted spontaneously to cater for their immediate needs, regardless of the associated risks.

Michala, 20, student, Cardiff

"I had run out of money until pay day, but all of my friends were getting take-away pizza, and I didn't want to be left out ... so I 'Wonga'd'... for a Domino's pizza. I feel ashamed of it now, but at the time there was literally no other option!"

Martyn, 21, student, Glasgow

"We're students, we all run out of money, that's just the way it is! Best way to deal with it is to go out with your friends on a night out and play credit card roulette ... you are all skint, but you all put your credit card in a pile ... whichever one gets picked has to pay! I can easily spend £100 without thinking about it."

Michala, 20, student, Cardiff
"I count my overdraft as my actual money. My £750 overdraft – as far as I'm concerned that's my actual money."

Live today, worry tomorrow

The influence of the Elephant is never more apparent than in the hedonistic approach to money to which many 16-21 year-olds admit - sometimes with shame but just as often with a sense of pride. Living for today is an intrinsic part of being young, and they know it.

Consequence-free living leads to optimism bias

Many have an unquestioning faith that everything will turn out fine ... eventually. In part this is borne out by experience: few, if any, 16-21 year-olds have faced serious problems as a result of their financial actions. A number seem to live in a consequence-free bubble, buoyed by interest-free credit and overdrafts that require no immediate thought; others are able to rely on parents if their own finances run dry.

Sanj, 24, Admin assistant, Glasgow

"It was getting my own flat that did it. When I got a job I thought I could afford the rent, but I hadn't realised how much it cost to pay for heating, electricity, water and that. And food! And I was still going out all the time, buying the drinks because my mates didn't have any money ... When I went to my parents to ask for help paying it all off it was horrible. It's not like I was 18 and could just ask them for a tenner anymore."

Little sense of the value of money

A contributing factor to this sense of optimism is that few 16-21 year-olds have a strong sense of the value of money. In particular, those whose parents heavily subsidise them, or those who have never earned money themselves, can seem conditioned to think money is effectively free: something they receive, rather than something they work for. This, coupled with a lack of understanding about the cost of living in general, can lead to an 'easy come, easy go' attitude.

Yet this is not limited to those who are more privileged. Many of those who have worked before are unprepared for the responsibilities associated with new, more independent ways of life. Having previously lived a form of premature affluence, with the freedom to spend their wages as they wish, they find it hard to adapt to a lifestyle demanding that they focus on what they need as well as what they want.

Intuitively it might seem that the least well-off should understand the value of money better than those with a more ready supply of money. However, those on benefits seem just as inclined as other audiences to 'earn and burn'; in this case it seems likely that this is opportunism: have fun while you can as you don't know when you'll next get the chance.

Laura, 29, beauty therapist, Belfast

"When I was 16 I fell into the most amazing job in the world – it was £12.50 an hour and flexi-time. I was living at home, earning £200-300 per week, and I was minted! I lived the champagne lifestyle! At the time it was amazing ... but I saved nothing. I feel sick now when I think about how much I could've saved – that money would have been really helpful to get me through university."

Sean, 21, unemployed, Belfast

"I'll admit that I don't know the value of money, it's meaningless for me because my parents just give it to me. They give it to me one day and it's gone the next. If you don't work for your money it's meaningless to you."

Why say 'no' when 'yes' is more fun?

Being young is about having fun and saying 'yes' to every opportunity that comes your way. Yet financial responsibility involves saying 'no' sometimes, which makes it a hard sell for even the most cautious of people.

Being good with money is boring

When asked what being 'good with money' entails, 16-21 year-olds tend to describe a set of traits which revolve around restraint, organisation and restriction. It is perhaps unsurprising that anyone displaying such traits, while commended as admirable, is seen as living somewhat dull, unexciting lives.

16-21 year-olds often see these traits as indicative of someone's personality type, rather than something one learns: thus they don't necessarily see being good with money as something that is in their control.

Saying 'no' when you could be saying 'yes'

The fundamental problem with being good with money is that it requires people to say 'no': to nights out, holidays, festivals, meals, drinks, credit cards, etc. There is a genuine fear that this might lead to less fun and, at worst, social exclusion. Saying 'no' means going out less and could ultimately affect who young people socialise with, what they know about what their friends are doing, wearing and talking about. It might sound simple, but saying 'no' at this age could have serious implications for their self-esteem.

Michala, 20, student, Cardiff

"I've got serious F.O.M.O. [Fear of Missing Out], if my friends are going out, even if I don't have any money I just have to go out too. I could miss out on something really fun. You don't want to be the boring one that ends up staying in and having nothing to talk about. You want to make the most of university and just do everything!"

Saying 'yes' is fun, but can be costly

Conversely, saying 'yes' feels good. It opens young people up to all manner of exciting opportunities and experiences, means they won't miss out and won't result in people complaining about them or trying to change their minds. It's easier, and far more fun. It also, almost inevitably, involves spending money; in many cases money they haven't got.

Even when the Rider is very clear about what they should be doing (looking after their finances, saying 'no' to excess spending), the Elephant's knee-jerk response is to say 'yes' to everything on offer: friends asking them to go out when they're out of money, buying those amazing designer shoes they don't really need, etc.

Hitting 18 and saying 'yes' to debt

As they young people 18, this is further complicated by the prevalence of new forms of credit that promise to make saying 'yes' far easier. This means they're likely to say 'yes' to credit too. Many agree to these major financial decisions on a whim, with little planning and only a limited understanding of what it might mean in the longer term.

Debt: acceptable for everyone

Social norms have seen debt normalised to the point of it being widely accepted, if not actively encouraged, even at the youngest age. Buying what we want, when we want it, is viewed as the modern way of living. A lack of available cash is rarely seen as an obstacle; in fact it is widely regarded as normal to live beyond one's means. Debt is effectively an alternative form of spending; another option for saying 'yes' to any opportunities that arise. It is worth noting that 18-21 year-olds in Northern Ireland are particularly accepting of debt, largely due to the fact that local legislation means they do not live in fear of debt-collectors.

Such beliefs are compounded by the sense that debt is now engrained into our lives on a cultural level. People aged between 16 and 21 have come of age during a period where reports about government deficits and the actions of bankers have rarely been far from the news. They have a strong sense that 'no-one is good with money', that being in a state of financial chaos is the norm. This feeling is exacerbated by the multitude of offers for new forms of credit to which they are exposed as they turn 18. Even payday loan companies are viewed as an everyday part of life now (although the majority treat these organisations with a great deal of suspicion).

Thus saying 'yes' to spending is a natural urge for many, and is rarely contradicted by society at large, or their families. Few seem to have been taught to say 'no' by their parents; if anything they often learn not to restrict their spending as they are used to receiving hand-outs on request. Even loans from the parents are relatively 'soft': few face any real consequences of not paying their parents back. Those parents who specifically talk to their children about the importance of resisting the temptation to spend seem very much in the minority.

Mohammed, 19, postal worker, London

"I don't feel bad about having debt, everyone has debt so why should I worry? I'll pay it off at some point in the future. I might as well try and enjoy myself while I'm young!"

Good decisions feel bad; bad decisions feel good

All this leads to a major hurdle for 16-21 year-olds to overcome in the moment when decisions need to be made.

The tendency to prefer smaller pay-offs now, as opposed to larger benefits later, is not restricted to young people. That said, the younger one is, the harder it is to see and appreciate the future: the Elephant often wins unless the Rider has been bolstered by some very specific goal-setting. When the moment of decision-making often comes down to a simple choice such as 'will I go out or will I stay in?', it is hard for 16-21 year-olds to visualise the point when they'll be pleased they made the right decision.

A glimpse into my future

The potential for change through personal stories

Connecting independence to responsibility

This disconnection between independence and responsibility does not seem to last forever, however. By the time they start to reach independence, many 22-29 year-olds have learned the importance of financial responsibility.

For many, this understanding has come the hard way, though it's clear some arrive at it early enough to prevent any serious repercussions.

Making this link is achieved in one of three ways:

1. Learning through encouragement
Whilst there were not many who could be described as 'good with money', of those who were, most had learnt directly from their parents how to do this. Not only had they learned the basics of money management, but they had also gained broader understanding and skills, such as the value of money and the ability to say 'no' when required.

As a result, they were:

- more aware of their financial situation, with a good understanding of their bank balances, credit limits, etc.;
- focused on their financial commitments and responsibilities, such as bills, repayments, etc.;
- in control of their spending and able to say 'no' when required; and
- goal-oriented, with a clear idea of the benefits of managing their money sensibly.

Case study:
Katie, 28, administrator, Belfast

Katie's parents have always been strict about living within one's means, and for as long as she can remember have established rules to abide by, and led by example where possible. When she wanted to buy a car, they banned her from getting a finance deal, telling her she had to pay for it outright, just like they did. At the time it felt painful, but looking back at it she could see how valuable it had been. They also encouraged her to get a pension from an early age, which is something now she is really proud of; making her feel like she is ahead of the game financially compared to her friends.

2. Learning through mistakes

Many end up being forced to learn about responsibility the hard way, by dealing with the results of their mistakes. This happens all too often when excess spending is a direct consequence of their thirst for independence: store cards, credit cards and overdrafts move from a new form of spending to a burden. The more fortunate experience this while at least semi-supported by their parents; others are not so lucky and end up living with their mistakes for some time to come.

Case study:
Mina, 24, sales assistant, London

Mina went on a shopping spree when she got her first credit card, aged 18. Seeing it as 'free money', she 'maxed it out', spending £1,500 in just a few hours, with little thought to the consequences. After some months the interest charges started mounting up and became unaffordable on her sales assistant wage. Finally she came clean to her parents and asked them for help. She's only recently finished paying the debt off. She felt that this expensive mistake showed her the importance of being careful with your money and planning for the future.

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3. Learning by assuming responsibility

Some find that the link between independence is made quite naturally as a result of changing lifestage and circumstances. Typically young people find themselves in a situation where they have no choice but to take responsibility. This applies to both major life events (having a baby; getting married) or, to a lesser extent, establishing concrete plans (deciding to buy a house).

Case Study:
Annie, 29, unemployed, Cardiff

Annie, by her own confession, was a bit of a 'wild child' when she was a teenager: she loved going out with her friends and would spend all of her money on drinks and cigarettes. When her own money ran out she would take out store cards, credit cards and payday loans, and purchase from catalogues, racking up a substantial amount of debt. It wasn't until she became pregnant that she realised that everything had got out of control. Annie decided she needed to face up to her actions so that she could provide for her daughter. It resulted in Annie seeking help from a debt charity, and taking out a debt relief order. After having done this she was able to sleep at night and feel confident that the future for her and her family is much brighter.

Identifying appropriate interventions

Who are 16-21 year-olds most likely to listen to? Could an alternative route be created for young people to learn through encouragement, using the mistakes of others to encourage them to take responsibility?

A key hypothesis informing this research was that 16-21 year-olds would respond to the regrets of 22-29 year-olds. The design of our methodology meant that we had the opportunity to compare responses to three potential types of intervention.

We found the following:

Friends
While 16-21 year-olds respect and trust their friends, they are unlikely to turn to them for advice. Put simply, 16-21 year-olds do not see their friends as a reliable source of information when it comes to their finances (in fact, they often encourage problem behaviours – urging them to go out, have fun and live beyond their means); neither do they feel comfortable discussing their finances in detail. Another key obstacle for friends is that 16-21 year-olds are less likely to have any financial regrets because they are less likely to have experienced the consequences of their actions.

➔ **Impact:** little evidence of any shift in attitudes or planning future behaviour.

Peers (young people they don't know of a similar age)
It is clearly liberating for 16-21 year-olds to have the opportunity to 'off-load' their experiences and concerns with a group of strangers who have all had similar experiences. While the shared experiences are important, other people the same age are again unlikely to have full exposure to the consequences of their actions.

➔ **Impact:** some potential for people to reassess what they think and do in relation to money, but lack of real experiences to respond to may limit how it affects their ability to identify a new approach.

Exposure to 22-29 year-olds

16-21 year-olds respond well to stories told by 22-29 year-olds who are only a few years older than themselves. The fact that they are older – but not much older – is important, as this instils a sense of credibility and relevance in the speaker. The more easily 16-21 year-olds can identify and empathise with the young adult, the more they think they are 'just like me', and are therefore more likely to invest in their story and find it credible. With this in mind, it is important for 22-29 year-olds to have had the same experiences as the 16-21 year olds are undergoing now.

Impact: credible stories told by people with whom they empathise can bring about attitudinal change swiftly, which can lead to immediate changes in planned behaviour.

Fundamentally, 22-29 year-olds need to come across as genuine and free of hidden agendas for 16-21 year-olds to learn from them; the fact that they have lived through these experiences, and may even still be recovering from them is crucial. It is this that adds the element of credibility and makes 16-21 year-olds think 'it could happen to me'. To provide credible advice, the 22-29 year-olds need to have made the link between independence and responsibility, and to be in control of their finances (though not necessarily fully recovered).

Dipesh, 20, sales assistant, Glasgow

"Hearing from them, wow, it's like everything has just fallen into place for me. What they have said has all made sense to me, and they understand my point of view. Man, I need to change how I am with my money."

"I'm skint": saying any more is taboo

As a society we avoid discussing the details of our financial situations; it's considered unseemly and we fear embarrassing ourselves or letting even those closest to us know that we've made poor decisions. When we do talk about bad financial situations there is a tendency to use broad, reductive terms ('I'm skint') with which everyone can identify, rather than focusing on the specifics, or the reasons for the circumstance.

As a result, young people don't have any real sense of their friends' financial situations; the person claiming to be 'skint' might be seriously in debt or bank-rolled by his or her parents. Without this kind of information, the consequences of poor financial decision-making are opaque, which only serves to reinforce the passive optimism ('everything will be OK in the end') that typifies 16-21 year-olds' approach to finance.

The power of personal stories

There is much that 16-21 year-olds can learn from hearing the individual experiences of others — many in our workshops had never discussed their finances in any kind of detail before. The very act of telling these stories helped to destigmatise and demystify the subject.

The effects of this can be quite powerful: once young people can see the journey from a single poor decision to a series of ever-worsening situations, they start to understand that this is something that could happen to them. This, in turn, is likely to mean that they are more open to the idea of addressing their own finances.

We saw this play out over and over again during the exposure sessions:

Sam, 20, unemployed, Cardiff

"Listening to them, it's like a glimpse into my future, it's easy to see how that could be me in a few years' time if I don't change the way I am with money. It's the cold reality."

Mohammed, 19, postal worker, London

"When you are just spending money on whatever, at the time you think you are clever, you think it will all work out fine, but from watching those guys, you could see she had got £1,700 on a store card, it's like whoa, that's never going to go away."

Bridging the empathy gap

The similarity in ages between the two groups is critical, as both use the same language and have similar frames of reference. This means the younger group found it easier to buy into the older group's experiences; it also means the older group were more likely to understand the younger group's concerns and priorities. This empathy set the older group apart from parents or other figures of authority: the older group understood why someone might want to spend their money on a PS4 rather than food, so the advice they gave – while ostensibly the same as that from other sources – carried extra weight.

Case study:
Luke, 21, nanny, London

Luke was still living with his parents, and hated the idea of being stressed about money, he just wanted to get new things then and there without having to wait for them.

To him the PS4 was not a question of something he wanted, it was something he needed – all of his friends were getting one. So there was no question about getting a payday loan to get a PS4.

After hearing advice from the older group he realised how by being careless with his money in this way he could be like them in a few years' time. It made the potential problems of the future seem much closer and made him want to take action now to be better with money. When his parents had tried to tell him the same thing it had just been frustrating, because what did they know about how important it is to have a PS4?

Exposure to 22-29 year-olds' regrets made 16-21 year-olds realise that:

- the decisions they were currently taking might turn out to be bad ones;
- even small decisions can have consequences later on;
- contrary to their hopes and expectations, things may get harder when they are older; and
- it's better to take action sooner rather than later.

All of these are important stages on the journey to realising that they need to take responsibility for being better with money.

Tim, 20, unemployed, Cardiff

"I need to man up and stop being a dick, if I don't the future looks bleak. I need to change for my daughter more than anything, to give her a better future. This has all hit me like a ton of bricks."

A framework for powerful and engaging stories

- A regret is a personal story, not just a list of things people feel disappointed about.
- These stories need to be delivered in a genuine, honest and empathetic manner by people who have 'been there, done it and survived'.
- Stories need to be founded on an accessible truth – a decision or behaviour that resonates with 16-21 year-olds and their focus on the emotional, short-term benefits (e.g. car, holiday, clothes, etc.).
- They need to start with a bad decision based on a relatively everyday situation; ideally it should be a bad decision that seemed good at the time, if only for superficial or short-term reasons.
- They should have consequences that quickly spiral out of control, such as:
  - a series of hidden, yet logical consequences;
  - the bad decision quite clearly detracted the person from short-term goals and negatively influenced their mid - to long-term goals; or
  - a combination of serious financial and emotional consequences.

A powerful story has the capacity to engage 16-21 year-olds' rational and emotional impulses, making them realise that true independence involves financial responsibility. In essence, it can align the Elephant and the Rider, and allow the Rider to take control.

Taking it forward

Conclusions

Attitudes and motivations

Young people need to have being 'good with money' reframed so that it seems less of a restriction and more of an essential step in the transition to adulthood and independence.

- Interventions involving 22-29 year-olds, as described above, are likely to address 16-21 year-olds' underlying attitudes and motivations around finance. 'Good decision' stories may also help the 16-21 year olds understand how small steps can make a big difference to their finances, particularly as they are often based on resolving the consequences of bad decisions.
- Parents need to be encouraged to have honest, open conversations at home so that their children can learn the value of money.

Skills and knowledge

Young people need the ability to make sensible decisions over their finances and get a sense of the long-term implications of making poor financial decisions.

- Parents need to allow their children to learn from making financial mistakes at home, where the consequences won't be too severe.
- Schools are widely viewed as an essential place to learn about financial management.
- The financial services sector needs to be transparent about the long-term consequences of taking products and/or failing to meet their requirements (e.g. missing payments).

Opportunities

Young people need a chance to use their financial education so that its 'shelf-life' does not expire.

- Educational opportunities need to be available at 'teachable moments', those points where 16-21 year-olds are exposed to a range of new financial opportunities (e.g. when leaving home).
- Again, if parents can create 'real but safe' opportunities at home, this may help ensure 16-21 year-olds are more prepared; examples might include:
    - making sure money they loan to them is paid back;
    - letting their children learn what really happens when they spend all their money, rather than providing interim hand-outs;
    - rewarding them when they save; or
    - giving them the responsibility of paying towards a bill.

Next steps

This report demonstrates the vital importance of helping young people as they transition to adulthood, with turning 18 being a pivotal moment. There is a lot in these research findings for the Money Advice Service to reflect on, whether that be the age groups we focus on, the language we use or the messengers we deploy.

One of our key initiatives in the period ahead is to provide greater integration between our work to help prevent people from falling into debt, and our responsibility to fund and co-ordinate those organisations who provide advice to people already in debt. In order to test whether people aged 22-29 can influence the behaviours of 16-21 year-olds in a real environment, we will work with debt advice partners to deliver a pilot that involves young people who have successfully used their debt advice services, and want to use their experience to help others. We want to test not only whether over time this reduces the proportion of young people who experience money problems, but also the effect it has on the young person giving the advice – are they less likely to return into problematic debt? What effect does it have on their confidence, wellbeing and broader life outcomes?

The findings have implications that reach beyond what the Money Advice Service can do. We will also work with the Financial Conduct Authority and partners in education, debt advice, consumer and youth groups to ensure that these findings, coupled with our understanding of young people and adults' neurological abilities is taken into account when considering structural changes in the consumer credit market.

The Money Advice Service is working with partners to co-ordinate these cross-sectoral opportunities through the development of a Financial Capability Strategy for the UK. A key part of the Strategy seeks to improve the financial capability of young people. We look forward to working with you in using these findings to help young people.

Methodological note

The Money Advice Service engaged the research agency 2CV to design a two-stage, mixed-methodology research approach that allowed its research team to explore young people's lives, attitudes and behaviours in depth while testing the Service's hypotheses regarding potential interventions.

The two stages took place in England, Scotland, Wales and Northern Ireland as follows:

- **Reflection:** a combination of peer-group workshops and groups of friends, all conducted with 22-29 year-olds, to encourage them to look back over their experiences, consider the good and bad decisions and identify their financial regrets.
- **Looking forward:** a series of friendship groups with 16-21 year-olds to explore current experience, alongside 'exposure sessions' that brought younger and older age-groups together to hear one another's point of view.

Exposure sessions

Exposure sessions are 2CV's innovative way of bringing groups of people with different points of view together, so that they can listen to one another's perspectives and exchange views in a safe and controlled environment.

The Money Advice Service exposure sessions took place as follows:

- 22-29 year-olds observed 16-21 year-olds discussing their attitudes to money in our research facility.
- The older group then discussed their reactions to this and shared their experiences of good and bad financial decisions they had made, all observed by the 16-21 year-olds.
- 16-21 year-olds discussed their responses to this in depth, again observed by 22-29 year-olds.
- Both groups came together to ask one another questions and come up with potential ideas for solutions and interventions.

These sessions allowed us to get a strong sense of what 22-29 year-olds wished they had heard when they were younger, what 16-21 year-olds responded to most strongly, the types of stories which resonated the most, the types of people whose stories they were most likely to listen to, and the language they used to describe these issues. All of this provided invaluable insight for understanding the complex interplay of the hopes, day-to-day living and expectations that drive responses to potential interventions.

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