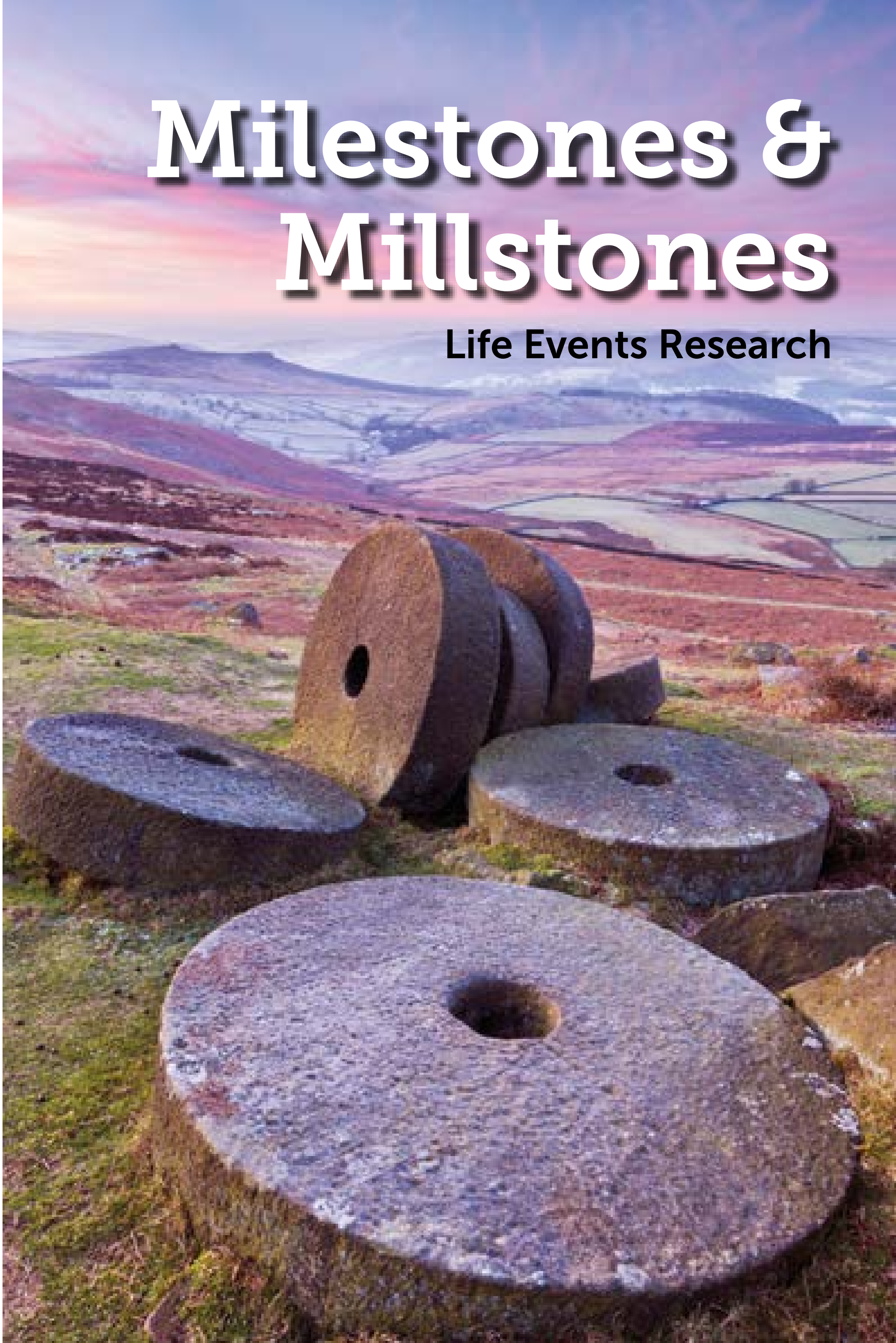


Milestones & Millstones

Life Events Research

the Money Advice Service

Introduction from Nick Watkins, Head of the Insight and Evaluation Team

This document, and the accompanying research seminar, aims to provide an overview of our research – and that of others – into how working-age people prepare for and manage life events. These events can be positive for consumers, as in buying a home or starting a family. Or they can be negative events such as divorce, redundancy or ill-health. We have labelled these **'milestones'** and **'millstones'**.

The Financial Capability Strategy for the UK, which the Money Advice Service is leading, has developed a framework that addresses all age groups across three behavioural domains – managing money well day to day, preparing for and managing life events and dealing with financial difficulties. The lifestages are defined as children and young people, working age people and older people in retirement. The focus for this study is on the effects of life events on the working-age group. We will be hosting additional events and publishing further material in due course on the other behavioural domains and lifestages.

When I joined the Money Advice Service, I inherited a library of research material. While some major studies such as Money Lives and Indebted Lives had been published and communicated to a broad audience, there are a number of smaller projects that had not been. Therefore as part of this work, we intend to make all our research accessible to as many people as possible – in order to stimulate debate and help in the collective task of improving the financial capability of the UK population. The aim of this work is to utilise as many of these studies as possible, whilst also collating research and data sources commissioned elsewhere to give a rounded view.

I should like take this opportunity to thank my colleagues and all the agencies that have helped to build our Insight base, and look forward to the next stage of our development.

Nick Watkins
Head of the Insight and Evaluation Team
Money Advice Service

Summary of the research findings

Major life events can have a significant impact on people's finances. The challenge is to understand their behaviour, so that we can help them improve their ability to withstand the shocks or achieve their financial goals.

Consumers don't believe – or don't like to believe – that negative events will happen to them:

- but more than three million people a year will experience a negative event
- when events happen, many consumers don't act or ask for advice until it is too late
- planning tends to be only for the good things in life, like cars and conservatories

Positive events are generally associated with an improvement in financial capability, but:

- having children can lead to a fall in capability with most people only starting to plan once the pregnancy is confirmed
- while buying a home has a positive impact, many first-time buyers under-estimate the full costs
- in the future, it is likely that fewer people will be able to own their own home
- the impact of 'Generation Rent' on financial capability is not yet totally clear

The challenge to the sector is how to drive positive changes in behaviour – whether through the development and communication of different social norms, incentivisation or exploiting technology to provide easy steps towards greater saving or better management of spending and credit.

"We wish we had put aside more money as a 'rainy day fund', as an emergency fund."

We’ve known for some time that life events have a big impact on people’s financial capability

In 2009, the Financial Services Authority analysed 16 waves of British Household Panel Survey (BHPS) data. Its analysis showed that some life events improve financial capability and others reduce it.[13]

Financial capability is improved by positive life events, which we are calling **Milestones**:

- Getting married
- Entering work
- Owning a home

However, financial capability is reduced by negative life events, which we are calling **Millstones**:

- A partner dying
- Getting divorced or separated
- Suffering ill health
- Losing your job (redundancy)

Having children is arguably both a millstone and a milestone – it’s a positive life effect but can make financial capability worse.

People don't think about Millstones

We know from our research that people have an 'optimism bias'. They don't think bad things will happen to them. They don't think about **Millstones**.

But unfortunately, these life events affect millions of working age people (aged 18 to 64) each year:

- 1.31m suffer a serious accident or illness
- 1.24m are made redundant
- 855k get divorced or separate from their partner
- 175k lose a partner[10]

When these things happen, people's responses vary

People react very differently to negative life events. It depends on the amount of notice they're given and their emotional response to the situation.

Some are in denial. For others, their initial focus tends to be on:

- Providing for their children
- Protecting their home
- Finding work[3, 4]

"Perhaps it was denial or because I knew I had redundancy coming, I kept thinking I would be alright for a few months because I was adamant I was going to get a job. I should have cut back earlier"

Many don't want to admit failure.
Or they assume that 'something will turn up'. Often, people don't ask for advice until it's too late or they're in crisis.
For example, only 17% of over-indebted consumers get advice.

"You never think you'll be unemployed for such a long time. To begin with you think "oh well, I could do with a bit of time off and I'll find something else soon." But then you don't and it doesn't feel like a holiday any more."

Planning for Millstones makes them more manageable

The ability or willingness to plan makes a big difference to how people cope with negative life events. They are best able to deal with negative life events when they have put the most into planning for them. However few people are very good at planning.[3]

"It's just too far ahead. Anything can happen and with the children around, I just think you can't plan ahead. I know in the future I will be alright... I know at least £250K is coming my way from one nan."

"I tend to think, for years now, of the 'now' and don't tend to think of the bigger picture of the future."

"As long as we get from the 26th to the 1st when the bills are paid, that's as far as we look at the moment."

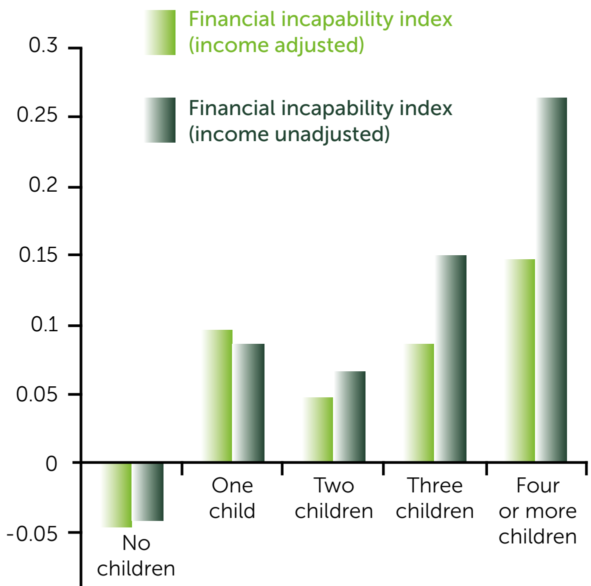
"...just want our heads above water. Don't have plans. Don't look ahead. Want a bit of money behind us."

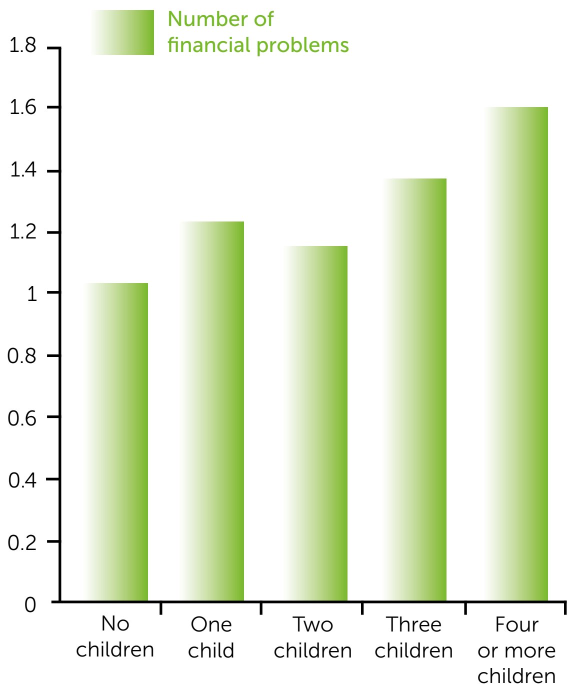
People's planning horizon is limited. Standard Life estimates that the average adult in the UK is unable to think about more than eight years into the future.[9]

In fact, people generally only plan for the good things in life such as cars, conservatories or a comfortable retirement.[1]

Even positive life events, like having children, can be Millstones

The FSA's BHPS analysis showed that families with more children have lower levels of financial capability and more financial problems, such as having to borrow to meet payments or being in housing arrears. The same is true for every additional child that's added to a household.[13]





More and more people are having children, so helping parents improve their financial capability is particularly important. Many women are delaying motherhood, and with better health and advances in fertility treatments, there has been a dramatic increase in the number of women over 30 having children.

The financial pressures of having children may, in part at least, explain why we have also seen an increase in the proportion of mothers who are working:[12]

- 53% in 1971
- 67% in 2013

Having children is a financial balancing act

Parents have to balance the different emotional and practical challenges of children. However, having kids also presents many opportunities for improving financial capability.[2, 3, 8]

Financial challenges

Emotional

- There is a strong desire not to appear financially disadvantaged
- There is a powerful compulsion to treat them
- Parents enjoy spending money on their children

Practical

- Increased household spending e.g. on childcare, food, clothes and hobbies
- Reduced household income as fewer earners or earnings
- Debt acquired before starting a family continues to hamper finances
- Having children older may mean having to care for elderly parents at the same time

"I feel it's like a competition with relatives and friends...people rub it in your face without meaning to. No one likes to admit they're having a struggle with money so we're never going to admit to our friends and family that we haven't got the money to spend on things."

Opportunities to improve financial capability

Practical

- Parents spend less money on socialising or going out
- And more money on their homes (potentially adding value)
- Parenthood can be a trigger to save, and to consider life assurance needs
- And for those on benefits, becoming a parent means an increased income and potentially a new home

Emotional

- Children are a driver of responsibility
- Children prompt a more mature stance on finances
- Parents want to provide a legacy i.e. leave their home to their children
- Parents feel responsible and want to teach good money management to their kids

New parents don't plan before pregnancy

Any financial preparation or planning normally starts when prospective new parents realise they are expecting a baby.

During pregnancy, mothers are hungry for information, especially online. They are interested in cost saving tips or baby timelines to help them plan. They also need pointing towards the available help and assistance, such as what benefits are available to them.

"I like (Netmums) as it gives real life examples and advice from other mums. It gives practical steps and processes which can help you in whichever situation you are in. I like actually hearing what other mums recommend."

"I tend to ask my mum or a friend with kids, and while I am talking to them, I Google to see if what they say matches up."

"I looked at online forums to see what other women bought for their child and how much it roughly costs to have a baby, but it looks like everyone has a different opinion and priority."

In many ways, pregnancy may be the perfect time to try to improve financial capability. The financial or emotional pressures of parenting have yet to bite. And most are keen to prepare themselves financially for the baby's arrival.[2]

Home buying is one Milestone that improves financial capability

Alongside marriage and entering work, buying a home has the biggest positive impact on financial capability:

- It promotes a sense of responsibility
- It helps protect the family – 'putting a roof over their heads'
- Saving for a deposit, in particular, builds financial confidence by showing that financial goals can be met

Homeowners also seem to understand the risks of owning. The consequences of poor financial management are greater. So they deprioritise luxuries and socialising, instead they are more likely to spend money on their home.

Longer-term, the equity they will have built up provides a significant boost to their assets. And it provides a legacy to pass onto their children.[3, 11, 13]

But home buyers may be storing up problems for the future

Three-quarters of recent first time buyers have stretched themselves to buy. They are finding the costs of buying and the ongoing costs of owning more than expected. As a result, one in five suffers financial difficulties.

"I wish I had known that the first month of bills might be a bit more than estimated. When you are setting up new direct debits the first payment is usually more."

"I wish I had budgeted for things breaking e.g. washing machine, and for buying furniture."

Having depleted their savings to provide a deposit, first-time buyers may be vulnerable. They may slip into debt to fund unexpected ongoing costs, such as a boiler breaking down. Also, having stretched themselves to buy, they may not have the disposable income to continue the good saving habits they acquired to build their deposits.[5]

A rise in interest rates is perhaps the biggest concern

Interest rates are historically low. And many current homeowners have never known them to be high.

With their 'optimism bias', few have contingency plans in place for an interest rate rise and the resulting increase in their monthly payment.

Half of recent first time buyers wouldn't be able to afford a £500/month rise in mortgage payments.[5]

"At the moment it is not a worry but when it comes to renewing the mortgage, if it goes up high, that is going to affect the rest or of our outgoings and will mean a complete financial re-buffering and figure out what we can and can't do."

"I think the rate has been static for so long I have almost stopped thinking about it."

"I wouldn't say I am actively monitoring it but I do sometimes hear announcements on the radio and I am usually thinking I am going to have kittens in a minute when it has gone up to 6%"

This could have a catastrophic effect on many home owners:

- They may have to use any remaining savings to fund normal monthly outgoings
- They might be forced to cut back on living standards
- They may also become less financially active, for example saving less, not buying insurance or not investing in pensions
- And in extreme circumstances, they might see their home repossessed[5, 6]

Yet many can't afford to buy

The number of 25 to 40 year olds renting has doubled in the past ten years.[11]

This 'Generation Rent' is struggling to get on the housing ladder. They are suffering the combination of high (and rising) property prices, a shortage of housing stock, tighter lending criteria, slow wage growth and high student debt. GfK predicts that over half of 'Generation Rent' is unlikely to ever be able to afford to buy.

Renting works for many people. Many appreciate a lower responsibility for maintenance and upkeep of the property, with the onus on the landlord to repair. It's the landlord's problem if the boiler breaks down. And it also means they are more mobile and less committed to a location or property.

However:

- People renting have suffered year-on-year increases in their rent.
  This is likely to make saving more difficult, especially saving for a deposit.
- Without housing equity growth, renters' wealth has remained flat over the past five years. This means they are not building up a legacy to pass onto their children or a nest-egg for retirement.
- Without the lessons of the home-buying **Milestone**, renters may not be able to build confidence in their ability to reach financial goals. This means they might disengage from other financial activities, like saving in a pension.[7, 11]

How do we help people cope with the Millstones?

Unfortunately, these negative life events will continue to happen to millions every year. Planning is vital to negate the effects of these events. But few do it. To encourage more and better planning we should consider:

- Creating new social norms – develop more messages around 'people like you plan like this'; reduce the communications about the number who don't plan
- Shrinking the change – make planning more manageable by helping people to start with small goals before tackling the bigger ones
- Showing the bright spots – identify the key consumer benefits of good planning for 'people like me'
- Extending defaults – consider more employer-based income protection alongside pension contributions

How do we help people make the most of the Milestones?

Having a child and buying a home are hugely positive events in a person's life. They are still the aspiration for much of the country. However, both have potential financial pitfalls. To guard against these, we should consider:

- Using heuristics – develop 'rules of thumb' about the proportion of mortgage repayment value that should be saved to cover unexpected costs
- Exploiting 'fin tech' – explore how banking apps can be used to prompt saving and reduce credit usage
- Setting habits – promote financial planning and saving during pregnancy, when soon-to-be parents may be most receptive
- Persuade parents that their instinct to provide for their children is better served by building a strong financial buffer than by buying them treats

Next Steps

- This booklet is part of the Money Advice Service's broader research programme to support the development and delivery of the UK Financial Capability Strategy. Future seminars and documents will focus on other lifestages and behavioural domains
- Autumn 2015 will see the publication of results from the Financial Capability Survey 2015

Sources

We have used several pieces of Money Advice Service research as well as some external sources in the creation of this document, and the accompanying research event.

Money Advice Service research

1. **Financial Capability and Wellbeing, TNS BMRB, 2015 –** Qualitative exploration of money management, financial wellbeing/capability and impact of negative life events

2. **Baby Journey, BDifferent, 2015 –** Qualitative exploration of approaches to finances among expectant and recent mothers

3. **Money Lives, Ipsos MORI, 2014 –** Qualitative and longitudinal ethnographic research exploring how people manage money, the impact of life events and testing interventions

4. **Redundancy journey, BDifferent, 2014 –** Qualitative research exploring experiences of redundancy

5. **Affording your home, BDRC, 2014 –** Quantitative research with recent and potential first time buyers to examine discrepancies between expected and actual costs of owning first home

6. **Affordability research, Mustard, 2014 –** Qualitative research exploring mortgage understanding, usage and affordability

7. **Do you want to be on or off the ladder? Mustard, 2014 –** Qualitative research exploring attitudes towards home ownership versus renting

8. **Foundation Research, Jigsaw, 2013 –** Qualitative research to understand the motivations and barriers to managing money effectively

All Money Advice Service research can be found on our website at **moneyadviceservice.org.uk**

External sources

9. **Eight Year Blind Spot, Standard Life, 2015 –** ukgroup.standardlife.com/content/news/new_articles/2015/27032015EightYearBlindSpot.xml

10. **GfK Financial Research Survey (FRS) –** 6 months ending March 2015, 23,729 adults aged 18-64 interviewed

11. **Generation Rent, GfK, 2014 –** www.gfk.com/uk/news-and-events/News/Pages/Generation-rent.aspx

12. **Women in the labour market, ONS, 2014 –** www.ons.gov.uk/ons/dcp171776_328352.pdf

13. **The impact of life events on financial capability: Evidence from the BHPS, FSA, 2009 –** www.fca.org.uk/your-fca/documents/research/fsa-the-impact-of-life-events-on-financial-capabilityevidence-from-the-bhps

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