The Money Charity Response – Financial Resilience APPG Call for Evidence (June 2023)

The Money Charity is a Financial Wellbeing charity whose vision is to empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives, helping them achieve their goals and live a happier, more positive life as a result.[1]

We welcome the opportunity to respond to the Financial Resilience APPG's call for evidence.

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[1] See box on back page.

Answers to call for evidence questions:

From your/your organisation's point of view, how is poor individual or household financial resilience reflected in people's lives and wellbeing?

Poor financial resilience among individuals and households has a negative impact on people's overall lives and wellbeing, and vice versa. There is evidence to support the idea that low levels of financial resilience are correlated with poorer levels of health. Studies have found that 31% of people in good health are classed as having good levels of financial resilience – whereas only 5% of people in poor health have good levels of financial resilience. Overall, 65% of people have enough savings to be able to support themselves in the event of an unexpected financial shock, but only 34% of those in poor health have enough[2]. Those in poor health, with long term health conditions are less likely to be in work and have regular incomes, and are therefore less likely to be able to save. And while health status initially impacts upon levels of financial resilience, poor levels of financial resilience in turn go on to impact overall levels of health and wellbeing. People in poor health and with low levels of savings, are less likely to take up opportunities to rest or take holidays and will instead use this time to work if they are able to do so. Similarly, they are less likely to be able to afford private medical treatments, lifestyle and wellbeing products, or to be able to pay for help around the household – i.e. personal care, childcare, cleaning, etc. The link between poor health and poor levels of financial resilience is a cyclical one, each having a negative impact on the other. Breaking this link will be necessary in improving people's overall levels of wellbeing – having good levels of financial resilience goes beyond just having the savings to allow you to cope with an expected financial shock. Spending money when you want to, and not just when you need to, allows you to benefit from more opportunities and expand your horizons further – not only increasing your own wellbeing, but also increasing your independence from the state and the amount you are in turn able to contribute in taxes – ultimately improving the wellbeing of others.

*How have the pandemic and cost of living crisis affected people's financial resilienc*e?

The pandemic saw people's financial resilience affected in a few different ways – firstly, there was a group dubbed the 'accidental savers'. Typically, these were people who were able to work from home through the pandemic. With holidays, travel to work and socialising coming to an abrupt end, they found themselves saving money and improving their levels of financial resilience. On the other hand, there were those who were not able to work from home during the pandemic. People who were not able to work from home typically had lower paid and/or insecure jobs – such as gig economy workers, those

[2] Hargreaves Lansdown, January 2023, https://www.ftadviser.com/protection/2023/04/17/ill-health-epidemic-wipes-out-financial-resilience/?page=1

working in hospitality and the NHS. Some of these people would have been furloughed and therefore only receiving 80% of their already low wage. Some people were even worse off - those who were not able to work, but also not able to access government support such as furlough, perhaps because they were not eligible to receive it due to their kind of work. For all of these groups of people, the pandemic had a negative impact on financial resilience. The cost of living crisis seems to have a much wider reaching negative impact for financial resilience – everyone in society is being affected by the rising cost of living, including those who managed to improve their financial resilience during the pandemic. People who have perhaps not worried about money before are now doing so. While those who were able to save during the pandemic have been able to use those savings to cover the rising cost of living, many people in this group will now be running low on reserves. A small silver lining is that the cost of living crisis has rapidly normalised openly discussing money concerns among wider social circles. It has also therefore made it much easier and more socially acceptable for people to seek help when they are struggling financially, including those who may have higher incomes and would never have needed to access this kind of support before.

How can we expect the issue to develop in the short, medium, and long term?

The two consecutive crises have caused a shift in political expectations – ideas about how the state should support citizens are changing. The level of support that the population has received from the government through firstly the pandemic, and then the cost of living crisis, has been unprecedented. While this support is now slowly being withdrawn, policies such as furlough support and the Energy Price Guarantee have set a precedent for a much higher level of welfare support during times of crisis., and a much wider expectation of who will receive it. During the pandemic and cost of living crisis, almost everyone has been eligible to receive some level of support, not just the traditionally more vulnerable. More difficult living conditions are also becoming the norm – for example, with interest rates seemingly stuck at much higher levels over the past 15 years, the current generation seeking financial independence are finding it much harder to do so than their parents and grandparents. In the event of any further economic crises, these groups of people will find it much harder to cope. It remains to be seen whether the government will extend the same kind of support that has been on offer during the recent crises.

What is the correlation between financial resilience and health? How do poor mental and physical health interact with individual finances, for example income and savings? Are the interactions different or similar for mental and physical health?

Please see above.

*What support is available if someone's heal*th is compromised by their financial situation?

Government support for people whose health is compromised by their financial situation is very limited. As a result, there is a huge pressure on families and wider social networks to support people who are less or unable to financially support themselves due to ill health. Some people finding themselves in this situation are also unfortunately turning to illegal money lenders such as loan sharks.

To what extent do state benefits provide financial resilience for:

- people with disabilities and long-term health conditions,
- people who experience short-term illness and injury that means they leave the workforce for a period, and
- people who leave the workforce due to caring responsibilities? Does the social care system affect financial resilience in later life?

For each of the groups described above, and in fact for the wider population, receiving state benefits provides nowhere near the level of financial resilience that is afforded from having a regular income from a job. Research has shown that low income households, including those described above, are experiencing a shortfall of £140 per month between the state benefits they receive and the real cost of food, energy and everyday basics[3]. The lack of an adequate social care system has a significant impact on people's financial resilience in later life. There is a huge amount of uncertainty on how much money it is necessary to save in order to be able to afford care if needed. This can result in people in later life sitting on large amounts of savings they are reluctant to spend. Some people are not able to accumulate this level of savings – these groups often rely on family and extended social networks to provide care in later years.

How do those with poor financial resilience deal with childcare responsibilities?

Childcare costs are a huge worry for every working parent in the UK, not just those who have poor levels of financial resilience. Childcare costs are often the second largest financial drain on parents after mortgage and housing costs. There is a wide sentiment that childcare is becoming impossible for most households to afford. Childcare is so expensive that many parents are choosing not to work and instead look after their children themselves. In heterosexual partnerships, it is often expected that the woman will give up work to stay at home with the children. This results in a disproportionate negative financial impact for women – long career breaks contribute to the gender pay gap, as women are less likely to be considered for promotions at work. In turn, this negatively impacts

[3] The Money Statistics March 2023, The Money Charity, https://themoneycharity.org.uk/money-statistics/

women's financial resilience – they are more likely to have lower paying jobs and are able to save less.

How do childcare costs impact the financial resilience of households with young children? What policy changes related to childcare and early years would improve financial resilience for these households?

Childcare costs significantly impact the financial resilience of nearly all households with children. As suggested above, for many childcare is the second most expensive outgoing apart from housing/mortgage costs. Indeed for some it is significantly higher. Those who are eligible for Universal Credit are able to claim back up to 85% of their childcare costs, which is clearly a good thing. However, for some, this may reduce the incentive to find a higher paying job. The choice not to find a job with a higher income/more hours, and instead to claim Universal Credit due to this child care benefit, can result in lower levels of financial resilience. Changes are being made to early years policy that does open up support to a much wider group of people earlier on and this is also to be welcomed.

However, many people continue to fall off structural ‘cliff edges’ such as these within social welfare policy, with child benefit and at the higher end tax free childcare for example. In addition, both of these last two policies are based on individual rather than family income, meaning that they discriminate against the children and families of single parents. Childcare costs also continue to impact parents beyond their children’s early years – throughout the primary school age, childcare continues to be a barrier to work or taking on more work. When making policy decisions in this area, more consideration needs to be given to parents with older primary school age children.

What short- and long-term changes should the government make to the benefits system to support financial resilience? Is employment the key to financial resilience?

Employment is the key to financial resilience – but many people in work are still not experiencing good levels of financial resilience. Due to the rising cost of living, only those with high incomes and/or savings are currently experiencing good levels of financial resilience.

Three out of every five people living in poverty are in a household where someone works (Health Foundation). What are the main drivers of this?

This is caused by wages failing to keep up with inflation over the past 15 years. In real terms, for the year to January 2023, regular pay decreased by 2.7%, while total pay fell by 3.4%. Due to pay growth being lower than inflation for most of the last fourteen years, total real pay (-3.8%) was below the pre-financial crash peak in February 2008 while

regular real pay fell by 0.6% over the same period[4]. Other research has shown that workers in the UK are worse off by £11,000 per year due to stagnations in pay growth since 2008 and soaring inflation[5]. Plus the childcare issues mentioned above which only come into play upon work. As a result, even households with regular incomes are finding themselves slipping below the poverty line.

Unemployment is at a near 50-year low, but since the COVID-19 pandemic there has been a significant increase in the number of people neither in nor looking for work, with 6.7 million of the working age population economically inactive, excluding students (Spring Budget). More than 2.5 million of these reported that they are inactive due to long-term sickness. What services are effective at keeping workers healthy and supporting people into work if they have long-term health conditions, or if they experience short-term illness or injury?

- Are these services available across all groups of employees e.g. senior managers and entry-level roles, and for people who work in large organisations and SMEs?

The Money Charity delivers Financial Wellbeing workshops to adults in workplaces and community settings across the UK. In our 2022 Impact Report, we highlight that before attending one of our workshops, just 56% of respondents reported feeling financially capable and able to plan for the future. After attending one of our workshops, that figure rose to 83%[6]. Supporting the financial wellbeing of workers is essential in maintaining overall wellbeing – further uptake of services such as ours could play a role in helping to keep workers healthy and active in the workforce.

To what extent are people saving enough during their working life to achieve financial resilience in their later life? What policy measures would promote lifelong financial resilience whilst a person is in employment?

The introduction of auto-enrolment has been a good starting point in encouraging people to start saving for retirement – however, the amount of saving encouraged by auto-enrolment is still not enough to foster good levels of financial resilience in later life. More work needs to be done to normalise saving for retirement as a practice that should start much earlier on in life. Policies that encourage general savings alongside pensions can be seen in New Zealand, where there is a voluntary government savings scheme called KiwiSaver. Sidecar saving is a similar idea that could be encouraged – savers would have an instant access 'sidecar' saving account that is tied to a pension.

[4] The Money Statistics April 2023, The Money Charity, https://themoneycharity.org.uk/money-statistics/
[5] The Money Statistics March 2023, The Money Charity, https://themoneycharity.org.uk/money-statistics/
[6] The Money Charity 2022 Impact Report, https://themoneycharity.org.uk/work/impact/

Are there any other policies that you would suggest the APPG investigate as ways to improve financial resilience?

There should be lifelong interventions from the government to support and foster financial resilience – and it must be clear who is responsible for funding such measures. We have been pleased to see that a portion of the funding from the Dormant Assets Scheme has been allocated to improving financial inclusion and financial education in the UK. It's essential that this actually happens, and that the figure allocated is significant enough and ringfenced for financial education and capability initiatives this time around.

The Money Charity is the UK's Financial Wellbeing charity providing education, information, advice and guidance to all.

We believe that everyone achieves Financial Wellbeing by managing money well. We empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives, helping them achieve their goals and live a happier, more positive life as a result.

We do this by developing and delivering products and services which provide education, information and advice on money matters for those in the workplace, in our communities and in education, as well as through influencing and supporting others to promote Financial Capability and Financial Wellbeing through consultancy, policy, research and media work.

We have a 'can-do' attitude, finding solutions to meet the needs of our clients, partners, funders and stakeholders.

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