Assessing the Levels of Financial Capability and Financial Well-being in Ireland

A report to the
Competition and Consumer Protection Commission (CCPC), Ireland

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Sammendrag

Denne rapporten analyserer økonomisk trygghet i Irland, basert på data samlet inn i januar og februar 2018. Innbyggerne i Irland forventes å ta ansvar for sin eget økonomiske trygghet, både i nåtid og i fremtiden. Likevel skåret de bare moderat godt på indikatoren for generell økonomisk trygghet og mange lå dårlig an til å sikre en rimelig god økonomi pensjonsalderen. Gjennomsnittskåren for generell økonomisk trygghet var bare 64 (ut av 100), noe som er betydelig lavere enn i Norge (77), men bedre enn i Australia og New Zealand (hver 59). Resultatene i denne rapporten peker på behovet for to viktige langsiktige strategier: utdanning for barn og unge og automatisk innmelding i pensjonssparing. På kortere sikt er det behov for å oppmuntre til mer sparing, særlig blant personer i arbeidsfør alder, men også blant pensjonister. Samtidig er det behov for støtte til mennesker i økonomiske vanskeligheter.

Summary

This report analyses financial well-being in Ireland, based on data collected in January and February 2018. Irish people, like their counterparts in many countries, are expected to take responsibility for their own financial well-being, both currently and in the future. Yet they were doing moderately well in terms of general financial well-being and had low levels of financial resilience for retirement. The average score for general financial well-being was 64 (out of 100), which is lower than in Norway (77) but rather better than in either Australia or New Zealand (each 59). The evidence in this report points to the need for two important long-term strategies: education for children and young people and auto-enrolment in pensions. In the shorter term, there is a need to promote higher levels of saving, particularly among people of working age, but also among retirees. At the same time, there is a demonstrable need for support for people in financial difficulty.

Stikkord

Økonomisk utsatthet, økonomisk trygghet, økonomisk dugelighet, økonomisk atferd

Keywords

Financial well-being, financial capability, financial literacy, behaviours

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English Summary

This report analyses financial well-being in Ireland, based on data collected in January and February 2018. Irish people, like their counterparts in many countries, are expected to take responsibility for their own financial well-being, both currently and in the future. They were doing moderately well in terms of general financial well-being but had low levels of financial resilience for retirement.

The main results can be summed up as follows:

- The average score for the general financial well-being measure in Ireland was 64 (on a scale from zero to 100). This is considerably lower than in Norway (77) but rather better than in either Australia or New Zealand (each 59).
- As might be expected, the average score was highest (80) for the meeting current commitments measure of financial well-being**,** which captures the inability to pay bills and other commitments on time and having insufficient money for food and other expenses.
- In contrast, the score for being comfortable financially was considerably lower, at 61, showing that a larger number of people did not have a lot of money left over after paying for essentials to allow them to do the things they want or enjoy.
- The longer-term measure of financial resilience for the future was lower still (52), indicating that the Irish population has very poor provision against financial shocks.
- The average score for financial resilience for retirement among the Irish population who were yet to retire was only 46.
- A quarter (25 per cent) of the Irish population appeared to be financially 'secure' with an average score of 87 on the general measure of financial well-being. Both their current financial situation and their provision for the future was strong, although their provision for retirement left room for improvement.
- Half (52 per cent) of the population might be considered 'doing fine now, but with little put by' with an average financial well-being score of 66. The main weakness for this group was their relative lack of resilience for the future, including retirement.
- People who were 'just about coping' accounted for 16 per cent of the Irish population. They had an average financial well-being score of just 41. These people appear to be at risk of falling into financial difficulties currently as well as having little financial resilience for the future.
- About 7 per cent of the Irish population were clearly 'struggling' financially. They had an average general financial well-being score of only 20 and very low scores across all of the more detailed measures, both short and long term. In other words, they were in financial difficulty now, had no reserves to protect them against possible income or expenditure shocks and those who were yet to retire had very little or no provision for their retirement.
- Financial well-being of individuals is influenced by a combination of the amount of money they actually have and how they use and manage that money. So, policies are needed both on income security and inequality as well as on promoting financially capable behaviours through financial education, in its broadest sense, and other interventions.

- The core behaviours that drive financial well-being directly are active saving, and not borrowing for daily expenses. Spending restraint has an indirect effect through its influence on saving and borrowing, while taking responsibility for one's financial actions and outcomes affects financial well-being both directly and in a myriad of indirect ways.
- Even though there is scope for improvement, compared with other countries the Irish population does not do too badly on the core behaviours that seem to drive financial well-being. The particular Achilles heel is (lack of) spending restraint, where scores are a lot lower than in other countries. Promoting improvement in all of the core behaviours will mean addressing attitudes to saving, spending and borrowing as well as an array of personality traits. Knowledge and experience have much less impact on financial well-being than attitudes and personality traits.
- There is a demonstrable need for two important long-term strategies: education for children and young people (both in school and at home) and auto-enrolment in pensions. In the shorter term, higher levels of saving should be promoted, particularly among people of working age, but also among retirees. At the same time, there is a clear need for support and assistance for people in financial difficulty, which in addition to helping people negotiate with creditors should both address income inadequacy as well as promoting capable financial behaviours.
- This points to the value of drawing up a strategy for the promotion of financial capability and well-being, as many other countries have done.

Norsk sammendrag

Denne rapporten analyserer økonomisk trygghet i Irland, basert på data samlet inn i januar og februar 2018. Innbyggerne i Irland forventes å ta ansvar for egen økonomiske trygghet, både nå og i fremtiden. Likevel skåret de bare moderat godt på indikatoren for generell økonomisk trygghet og mange lå dårlig an til å sikre seg en rimelig god økonomi pensjonsalderen.

Resultatene av analysene kan oppsummeres slik:

- På en skala fra null til 100 vår gjennomsnittskåren for generell økonomisk trygghet i Irland på bare 64. Dette er lavere enn i Norge (77), men bedre enn i Australia og New Zealand (begge 59).
- Som forventet var gjennomsnittlig poengsum høyest (80) for *'overholde økonomiske forpliktelser'* — en underdimensjon av økonomisk trygghet som måler manglende evne til å betale regninger og andre forpliktelser til rett tid, samt mangel på penger til mat og andre nødvendige utgifter.
- Til sammenligning var poengsummen på underdimensjonen '*komfortabel økonomisk situasjon'* lavere: 61 poeng av 100. Dette indikerer at et større antall mennesker ikke hadde mye penger igjen etter å ha betalt for det som var nødvendig for å leve et «normalt» liv.
- Det langsiktige målet på økonomisk trygghet i fremtiden var enda lavere (52), noe som tyder på at mange har svært lave økonomiske buffere.
- Den enda mer langsiktige indikatoren — *'økonomisk tryggheten i pensjonsalderen'* — lå på et spesielt lavt nivå. Blant de som ennå ikke er pensjonert var gjennomsnittsskåren bare 46.
- En fjerdedel (25 prosent) av den irske befolkningen kan karakteriseres som *'økonomisk trygge'*. De har en gjennomsnittlig poengskåre på 87 på det generelle målet for økonomisk trygghet. Både deres nåværende økonomiske situasjon og deres langsiktige trygghet var høy, selv om sparing til pensjon kunne ha vært bedre.
- Halvparten (52 prosent) av befolkningen kan betraktes som *'potensielt utsatte'* med en gjennomsnittlig poengskår på 66. Hovedsvakheten for denne gruppen var deres relative mangel på motstandskraft overfor hendelser i fremtiden, inkludert pensjonering.
- Folk som befinner seg i et grenseland og '*klarer seg akkurat'* utgjør 16 prosent av den irske befolkningen. De hadde en gjennomsnittlig poengskår på bare 41. Det skal ikke mye til før denne gruppen kommer i økonomiske vanskeligheter, og de har ikke mye å stå imot med på mellomlang og lang sikt, heller.
- Omtrent 7 prosent *'sliter økonomisk'*. De hadde en gjennomsnittsskåre på bare 20 poeng og lå også svært utsatt til på alle underdimensjonene av økonomisk trygghet. Med andre ord var de allerede i økonomiske vanskeligheter, hadde ingen reserver for å håndtere mulige inntekts- eller utgiftsjokk, og heller ingen midler eller sparestrategier for å trygge pensjonstilværelsen.
- Folks økonomiske trygghet påvirkes av en kombinasjon av hvor mye midler de faktisk har og hvordan de bruker og administrerer sine penger. Det er behov for god politikk både når det

gjelder inntektssikkerhet og økonomisk ulikhet, og når det gjelder brede tiltak på utdannings-siden for å sikre fornuftig økonomisk atferd.

- '*Aktiv sparing*' og '*det å ikke låne til daglige utgifter*' er typer av atferd som påvirker den økonomiske tryggheten positivt og direkte. '*Balansert forbruk*' er en tredje type atferd som har indirekte effekt på økonomisk trygghet gjennom at forbruksnivået påvirker både spare-evnen og låneatferden. Dessuten har det å erkjenne at man selv har ansvar for egne økonomiske handlinger stor betydning. Dette påvirker økonomisk trygghet både direkte og gjennom en rekke indirekte mekanismer.
- Selv om det er et potensial for forbedring, er ikke Irland nødvendigvis så dårlig sammenlignet med andre land. Akilleshælen er (mangel på) balansert forbruk, hvor irene skårer mye lavere enn andre land. Mulighetene for å øke den økonomiske tryggheten i Irland ligger bl.a. i å justere holdninger til å spare, bruke og låne penger. Kunnskap og erfaring ser ut til å være mindre viktig.
- Resultatene viser at det er behov for to viktige langsiktige strategier: utdanning for barn og unge (både i skolen og i hjemmet) og automatisk innmelding i pensjonsordninger. På kortere sikt bør høyere sparing fremmes, særlig blant personer i arbeidsfør alder, men også blant pensjonister. Samtidig er det et klart behov for støtte og bistand til personer i økonomiske vanskeligheter.
- Dette peker på nødvendigheten av å utarbeide en nasjonal strategi for å øke den økonomiske tryggheten i befolkningen, noe mange andre land har gjort.

1 Introduction

Irish people, like their counterparts in other developed economies, are expected to take responsibility for their own financial well-being, albeit supported by social welfare provisions and consumer protections. Over recent decades there has been a gradual shift in responsibility for social protection of individuals from the state to the individuals themselves. At the same time, rising prosperity has gone hand-in-hand with rising consumerism and pressures to consume. Financial services firms have responded to these changes by developing a diversity of products, whether that be credit cards, mortgages to buy a home, insurance for health care or savings for retirement. The decisions and conflicting pressures faced by individuals have never been greater, giving rise to concern that Irish people may lack the financial capability to deal with the responsibilities and decisions they now face and that their financial well-being could be adversely affected. This was brought into sharp focus when Ireland, like a number of other countries, was affected by the financial crisis in 2008. Both the economy and the finances of Irish population were badly hit leading to high levels of financial difficulty being experienced by households (Kempson 2016).

Yet our understanding of which financial capabilities are important in determining financial well-being, how these capabilities vary across the Irish population and what influences them is still relatively slight. This hampers our ability to design financial education and other interventions that are designed to promote financially capable behaviours and, ultimately financial well-being in Ireland.

The Competition and Consumer Protection Commission of Ireland has, therefore, commissioned this study to assess the levels of financial capability and financial well-being in Ireland, both to inform the Commission's work on financial education and consumer protection and to up-date an earlier study, commissioned by the Central Bank of Ireland, measuring levels of financial capability in 2008, just before the effects of the financial crisis began to be felt in Ireland.

The 2008 survey was based closely on the study designed to measure financial capability in the UK (Atkinson et al. 2006) and was ground-breaking at that time. Its primary focus was on behaviours and measuring levels of financial capability rather than focussing on knowledge and skills as in many previous studies of financial literacy (O'Donnell and Keeney 2009). Since then the survey instrument used in these two surveys has been further refined and developed, most notably in a large-scale project involving 12 middle- and low-income countries that was undertaken by the World Bank (Kempson, Perotti, and Scott 2013a, 2013b). This work was taken to another level with a study carried out in Norway, which built on this legacy and separated out the measures of financial capability (behaviours) and financial well-being (outcomes of those behaviours) as well as extending the range of factors likely to influence them (Kempson, Finney, and Poppe 2017).

The present study uses the approach and questionnaire that was developed in Norway, adapted to the Irish situation. Whereas the 2008 survey developed composite measures of capability that included both behaviours and outcomes, the present study separates these out and provides composite measures of both financial capability and financial well-being and explores the relationship between them. It also includes a wider range of measures of knowledge and experience, and of personality traits, as well as attitudes, confidence with regard to financial matters and the extent to which individuals feel responsible for, and in control of their financial affairs. This has enabled an investigation of how this diverse range of factors come together with socio-economic factors to determine levels of both financial capability and financial well-being.

1.1 Defining and conceptualising financial well-being and financial capability

While in 2008, the current debate was largely around capable financial behaviours (financial capability), in 2018 there is considerable interest in financial well-being but little empirical evidence on how capability and well-being relate to one another.

Based on qualitative research and a review of previous research, the study in Norway has proposed the following definition of financial well-being, which has also been adopted for the present study in Ireland:

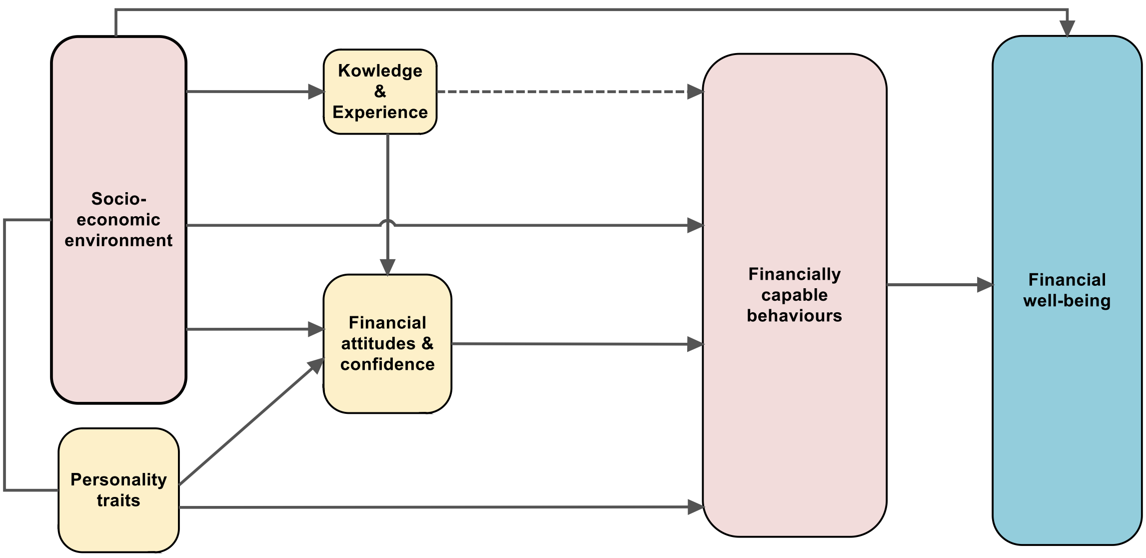
> *The extent to which someone is able to meet all their current commitments and needs comfortably and has the financial resilience to maintain this in the future.*

While financial capability can be considered as:

> *The behaviours and approaches to financial decision making that influence someone's financial well-being.*

The Norwegian study also proposed a working model of the direct and indirect determinants of financial well-being and showing the relationship between financial well-being and financial capability. This was refined following preliminary testing and a revision of the question and the model re-tested using new data collected in 2017 (Kempson and Poppe 2018). This model has also formed the basis of our thinking for the analysis of the data collected in Ireland in 2018.

Figure 1-1 Conceptual model 2018



There was, however, one significant difference between the Norwegian and Irish surveys. In Ireland a suite of questions was included for a potential fourth dimension of financial well-being: the extent of provision for retirement. This was of less importance in Norway, where a large proportion of the population is automatically enrolled into a state pension scheme for public sector workers.

1.2 The 2008 survey in Ireland

The analysis of the survey conducted in 2008 identified five overall domains of financial capability. These were:

- Making ends meet
- Keeping track of money
- Planning ahead,
- Choosing products and
- Being and staying informed.

Like the UK survey on which it was based, these measures included a mix of outcomes and behaviours. The analysis showed that, at that time, the Irish population seemed to be doing quite well at making ends meet, but less well at keeping track of money. Moreover, those who performed badly on keeping track generally did well on making ends meet suggesting that keeping a close track on eye on one's finances is not a prerequisite for making ends meet. It should be borne in mind that the data was collected just before the financial crisis hit and over the coming years Irish households would have fared much less well on the measure of making ends meet (Kempson 2016).

The 2008 findings with regard to planning for the future, however, gave cause for concern, with significant proportions of the population having inadequate provision should they experience either a large and unexpected drop in income or a major unanticipated expense. The extent of pension coverage was also poor and the majority of respondents who had not yet retired were not paying money into an occupational or personal pension.

The 2008 results from the choosing products domain were also of some concern and showed that people frequently did not shop around and actively seek information or independent advice before choosing which financial products to buy. Nor did they check the terms and conditions of the products they actually bought.

In contrast, the Irish population in 2008, generally did quite well in terms of being and staying informed about financial matters.

1.3 Aim and objectives of the 2018 study

The overall aim of the study was to assess the levels of financial capability and financial well-being in Ireland and to draw out the policy and practice implication of the findings. Within this the study has the following more specific objectives:

- To measure the overall levels of financial well-being of the Irish population as well as measure levels of both current well-being and levels of resilience for the future.
- To identify the key determinants of these levels of well-being. Previous research suggests that these are most likely to be behaviours such as borrowing, saving and spending, as well as various aspects of money management – which are generally considered to represent 'financial capability'. But it is also likely to include other factors such as income and income stability as well as the socio-economic characteristics of individuals (Kempson and Poppe 2018)
- To identify the most important factors that have an indirect effect by influencing the key behavioural determinants of financial well-being. Previous research suggests that these

are most likely to be attitudes and personality traits, with knowledge and experience of money management also playing a role (Kempson and Poppe 2018)

- To explore how levels of financial well-being and financial capability (behaviours) vary across different segments of the population.
- To draw out the implications of these findings for the design of effective financial education and consumer protection interventions to raise levels of both financial capability and, ultimately, financial well-being.

1.4 The 2018 survey and questionnaire

A face-to-face survey of a quota sample of 1,500 individuals aged 18 to 80 across Ireland was carried out by Amárach Research in January and February 2018. This was a larger than many other nationally representative samples. Quotas were set on age, gender, region and social class to ensure the sample attained was aligned to the Irish population based on CSO Census 2016 figures. The number of observations used in the analysis (1,401) is, however, somewhat lower. This is partly because respondents who replied 'don't know' or 'prefer not to answer' to 10 per cent or more of the questions were removed. In addition, some cases were omitted from the sample, because they involved young people living with their parents who, erroneously, gave information about the household's finances even though they were not responsible for managing them.

The content of the 2018 Irish survey questionnaire, has closely followed the one used in the 2017 Norwegian study to allow for comparisons between the two surveys. Since the decision to conduct the survey in Ireland, similar decisions have been reached in Australia, New Zealand and Canada, which further extends the scope for international comparisons (ANZ 2018a, 2018b).

The questions included in the Norwegian survey had been designed, following extensive qualitative research, to cover all domains in the theoretical model described above in sufficient detail to enable components within these domains to be identified and constructed (for full details see (Kempson et al. 2017; Kempson and Poppe 2018).

The questionnaire included the suite of 11 questions designed to capture financial well-being in the Norwegian and other surveys, as well as a sequence of six questions relating to provision for retirement that was added only to the Irish one. The wording of the retirement provision questions was adapted for people yet to retire and those already retired. These were used to create three measures of the provision were making (or had made) for their retirement.

It also included 40 questions which, in the Norwegian analysis, were found to capture key behaviours that had been identified in previous qualitative research. These were used to create 27 measures of behaviour that covered spending, saving, borrowing, money management and aspects of financial decision making, including product purchase. There was considerable overlap in the subject coverage with the five behaviour domains identified in the 2008 survey in Ireland. In the 2008 survey, however, some of the measures of making ends meet and all of those relating to planning for the future were actually measuring outcomes, and in the 2018 questionnaire these are included as measures of financial well-being. At the same time additional questions were included in the 2018 survey to capture a broad range of behaviours that correspond to these outcomes. The questions capturing informed decision-making, have evolved considerably from the being and staying informed domain in 2008. At the same time, some of the 2008 questions are included in the 'knowledge' measures.

The 2018 questionnaire also greatly extends the coverage of both knowledge and experience in relation to financial matters and attitudes to spending, saving and borrowing. It also included confidence regarding financial matters, the extent to which people feel they have responsibility for and control over what happens to them financially, as well as a wide range of basic personality traits, such as impulsivity and time orientation.

The range of socio-demographic questions included in the 2008 and 2018 surveys was very similar, although the 2018 one also included questions to capture financial education at school and from parents, as well as financial support from people living outside the household.

Finally, it is important to note that in both surveys the interview began with screening questions to identify whether the individual being interviewed had responsibility for managing both the household income and any personal income they might have, or solely for their personal income. They were then instructed to answer subsequent questions in relation to the money that they personally managed.

1.5 Identifying the key components of financial well-being, capability and literacy

The questionnaire, therefore, contained a large number of questions covering each level in the conceptual model (Figure 1-1). We began by combining these into a smaller number of meaningful variables using a technique known as Principal Components Analysis (PCA), which identifies groups of questions that correlate with one another and can be considered as measuring an underlying ‘component’ of the data. The procedure we followed is described in detail in Appendix 4 which also includes tables giving the PCA outputs. This analysis was conducted for each level in the conceptual model in turn: financial well-being, behaviours (financial capability), knowledge and experience (financial literacy) and psychological factors. These are described below and, together with the socio-economic variables described in section 1.5.5 below, were all included in the analysis that is reported in the remainder of this report.

1.5.1 Financial well-being components

The questionnaire contained questions that captured 14 measures of financial well-being. The subsequent analysis indicated that these combined into four underlying components, which were subsequently scored on a scale from 0 to 100. These components and the average scores for survey respondents were:

- Meeting commitments (three measures) – mean score 80
- Being financially comfortable (four measures) – mean score 61
- Resilience for the future (four measures) – mean score 52
- Financial resilience for retirement (three measures) – mean score 46 (not yet retired)

The analysis also strongly indicated a one-component solution for general financial well-being, covering the first three sub-measures above. Financial resilience for retirement, however, persisted as a stand-alone component. The mean score for general financial well-being was 64.

In other words, the majority of the Irish population is keeping up with payments on regular commitments, but the extent of provision against future financial shocks is low and for living standards in retirement lower still. This is explored in more detail in Chapter 2.

1.5.2 Key components of behaviours (financial capability)

The behaviour level of the conceptual model comprised the largest number of available measures, 27 in total, and eight underlying behaviours were identified from these. Again, these were scored on a scale from 0 to 100. Ranked by the score level these were:

- Not borrowing for daily expenses (three measures) – mean score 86
- Informed decision-making (three measures) – mean score 70
- Active saving (four measures) – mean score 68
- Spending restraint (four measures) – mean score 67
- Keeping track of money (three measures) – mean score 66
- Planning income use (budgeting) (three measures) – mean score 59
- Active product choice (three measures) – mean score 52
- Restrained consumer borrowing (four measures) –the nature of the questions capturing this behaviour meant that the PCA score could not be rescaled from 0 to 100.

1.5.3 Key components of knowledge and experience (financial literacy)

The questionnaire included 14 individual measures related to individuals' financial knowledge and experience, which the analysis indicated captured five underlying components of knowledge and experience:

- Experience of money management (three measures) – mean score 89
- Understanding of risk (three measures) – mean score 71
- Knowledge of money management (three measures) – mean score 61
- Knowledge of how to compare financial products (three measures) – mean score 36
- Experience of the financial product marketplace (financial inclusion) (two measures) – mean score 28

The analysis also indicated that ten further questions together captured three additional psychological factors:

- Financial locus of control (three measures) – mean score 67
- Financial confidence (three measures) – mean score 62
- Attitudes to spending, saving and borrowing (four measures) – mean score 48

1.5.4 Social and economic environment

The survey enabled us to produce a range of socio-demographic and economic variables, including: age, gender, family circumstances, income, income and expenditure changes, economic activity status, educational level, housing tenure, geographical area. It also including two questions designed to assess whether or not respondents had received any financial education as children either at school or from their parents talking to them about managing money or saving. Further contextual information was provided by a question about the availability of financial assistance from family or friends if needed and whether the respondent worked for an employer that automatically enrolled them into a pension.

It had been intended to create an index of mortgage-borrowing to income ratio, however, the large number of missing values, due to non- responses, on the questions capturing mortgage borrowing and income meant that this was not possible.

1.6 This report

This report begins with a chapter looking at how general financial well-being varies across the Irish population. This is followed by Chapter 3, which explores the factors that appear to promote or damage general financial well-being, drawing on the conceptual model in Figure 1-1 above. Chapter 4 focusses on financial resilience for retirement and shows how this varies across the population as well as the factors that determine it, doing so first for people who were not yet retired, followed by a similar analysis for people already in retirement.

Chapters 5 and 6 shift the attention to key behaviours (financial capability) and look at how these vary across the Irish population as well as the factors that promote capable behaviours. Chapter 5 focuses on those behaviours that have a direct effect on financial well-being: active saving; not borrowing for daily expenses and restrained consumer borrowing; while Chapter 6 investigates two further behaviours – spending restraint and informed decision-making – that influence financial well-being indirectly. Following this, Chapter 7 changes the focus again and looks at one further determinant of financial well-being, financial locus of control, which promotes financial well-being both directly and indirectly through its effect on all the behaviours covered in Chapters 5 and 6. Finally, in Chapter 8, we provide an overview of our findings and draw out some lessons from this research for policy makers and practitioners.

The report has been written so that it meets the needs of a diverse range of readers. Chapters 2 to 7 each conclude with a summary and discussion of the key findings, to assist readers without a detailed knowledge of statistics. For the technical reader, however, Appendices 3—7 provide the detailed outputs from our analysis. The questionnaire is included in Appendix 1, and a description of the survey data and sampling methodology is found in Appendix 8. Appendix 2 provides definitions of the variables used in the analysis, and Appendix 9 gives full details of how the components used in the analysis were derived from the survey questions and were scored.

2 How Financial Well-being Varies Across the Irish Population

In this chapter, we focus on the levels of financial well-being in Ireland and how scores for the measures of financial well-being vary across different groups in the population. We begin by looking first at the measures of general well-being before turning, later in the chapter to the three underlying components of general financial well-being. In both instances we identify key groups in the population where financial well-being is particularly low and who would be the key target audiences for initiatives to promote better outcomes. Financial resilience for retirement is covered in Chapter 4

2.1 Average scores for general financial well-being

On a scale from zero to 100, the average score for the overall financial well-being measure was 64, with considerable variation around this mean. In other words, while there were people doing a lot better than this, there were others with scores well below the average. Indeed 23 per cent of the people participating in the survey scored 50 or less and 7 per cent scored 30 or less.

Turning now to the three sub-measures of general financial well-being, as might be expected, the mean score was highest (80) for *meeting current commitments*, which captures the inability to pay bills and other commitments on time and having insufficient money for food and other expenses (see Text Box). In other words, relatively few of the people interviewed said that they were experiencing payment difficulties. Only 15 per cent of people scored 50 or less on this measure and just 4 per cent scored 30 or less.

Meeting commitments	
b3	How often has no money for food and expenses
b18	Ability to pay bills
b19	How often payment problems at the final reminder due to lack of money

In contrast, the score for *being financially comfortable* was considerably lower, at 61, showing that a larger number of people did not have a lot of money left over after paying for essentials to allow them to do the things they want or enjoy (see Text Box). Here rather larger numbers of people had low levels of well-being, with 30 per cent of people scoring 50 or less and 8 per cent 30 or less.

Financially comfortable	
b1	How often has money left over at the end of the month
a2	How good/bad is your current financial situation
a3	How confident are you about financial situation in next 12 months
a5x	My finances allow me to do the things I want and enjoy life

The longer-term measure of *financial resilience for the future* was lower still at 52, indicating that the Irish population has very poor provision against financial shocks (see Text Box). Over half of the people interviewed scored 50 or less on this measure and more than one in five (22 per cent) of them scored 30 or less.

Resilience for the future	
c3	How much could cover of an unexpected expense of one month's income
c4	How much would need to borrow to cover unexpected expense
c5	How long could cover fall of income by a third without having to borrow
c10	Savings in terms of number of months' income

To explore this further, we created a categorisation based on the scores for *overall financial well-being*, assigning people to one of four categories (see Figure 2-1). Only a quarter of the Irish population could be considered financially 'Secure' (scoring more than 80 points). The largest group – half of the population - were people who were 'Doing fine now, but with little put by' (scoring between 50.01 and 80).

A sizeable minority (16 per cent) can be considered to be 'Just about coping' (they scored between 30.01 and 50). With 7 per cent of the population obviously 'Struggling' financially (with scores of 30 or less).[1]

Figure 2-1: Overall financial well-being. Percent. Weighted. Ireland 2018. N=1401.

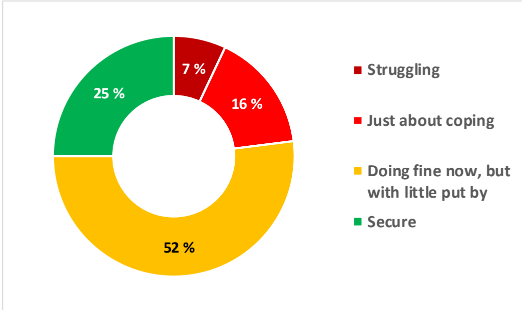
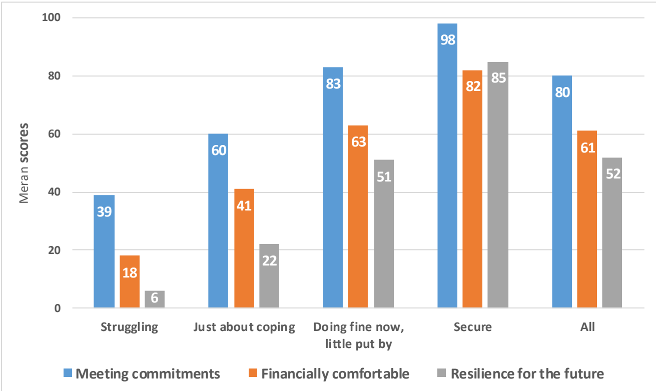


Figure 2-2 shows the mean scores that each of these groups achieved for the three sub-measures of general financial well-being. This illustrates quite starkly how badly some people were faring. Taking the struggling group first, their average (mean) score for 'meeting financial commitments' was just 39, indicating that they were all in financial difficulty and falling behind with payments on bills and other regular commitments such as consumer credit. They had almost no slack in their budget at all as evidenced by their average score of 18 on the 'being financially comfortable' measure. And, with an average score of just six on the 'financial resilience' measure, they had no protection at all against future financial shocks. They represented just 7 per cent of the overall population, and these people are likely to require the assistance of services such as the Money Advice and Budgeting Service (MABS).

Figure 2-2 Mean financial well-being sub-measure scores at different levels of overall financial well-being. Weighted. Ireland 2018. N = 1401



The just about coping financially group, was somewhat larger, and accounted for 16 per cent of the Irish population. With an average score of 60 for 'meeting commitments', a significant proportion of them would have been struggling to keep up with bills and other regular payments. They had little room for manoeuvre in their finances and scored just 41 on average for 'being financially comfortable'. Moreover, they had very little money put aside to cover them against income or expenditure shock – with an average score of 22 on the 'financial resilience' measure. These people would certainly be the target for interventions designed to avert financial difficulties.

Moving up the scale we come to the biggest of the four groups – the 52 per cent of the Irish population who seem to be doing fine for now but have little put by financially. These people were not doing too badly on the meeting financial commitments measure and had a mean score of 83. Even so, some of them had fairly limited slack in their budgets, with a mean score of 63 on being comfortable financially measure. It is, however, their relative lack of provision against future financial shocks that makes them exposed (their average score for financial resilience was 51).

[1] Even though some of the categories are named differently, the categorisation itself follows the Australian definitions, which means that the results can be directly compared across the two countries. See (ANZ 2018a).

That leaves the group of people we have classified as financially secure. Representing a fourth (25 per cent) of the Irish population they had above average scores on all the sub-measures. They were showing almost no signs of being unable to meet their financial commitments (average score 98. And they were doing reasonably well in terms of both being financially comfortable (average score 82) and resilience for the future (average score 85).

2.2 Personal and financial circumstances that determine financial well-being

To understand which of the personal and financial circumstances described in Chapter 1 (section 1.5.4) determine the distribution of financial well-being scores in the Irish population, we ran an OLS regression analysis for both the overall measure of financial well-being and also for each of the sub-measures in turn. The advantage of this method of analysis, compared with simple tables is that it is possible to identify the independent influence of each item, while taking all other items in the analysis into account. In simple terms, when we consider the influence of, say, gender on financial well-being, the analysis allows us to compare the scores of men and women whose other circumstances are effectively identical. This is referred to as 'controlling for other factors'.

The results of this analysis are reported in Table 2.1 on the next page. Each model in this table included the same variables, regardless of their level of statistical significance, to facilitate direct comparison of the size of the effects of individual variables across the different components of financial well-being. The number of stars next to each item indicates the level of statistical significance, with three stars being highly significant (at the 0.001 level) and one star indicating variables that just reach the level of significance (at the 0.05 level). The coefficients indicate the size of the effect that a variable has on each measure of financial well-being. All four models performed quite well, each explaining about 30 per cent or more of the variation in scores.

Taking overall financial well-being first, a very wide range of personal and financial circumstances played a role in determining well-being on this measure. As we might expect, income was very important and the higher someone's income the greater their level of overall financial well-being (Table 2.1). Indeed, additional bivariate analysis showed that the group of financially struggling people had an average annual income of just 23,868€, compared with the overall population average of 40,642€ (Figure 2-3). As we move across the four groups there was a steady increase in average incomes to 30,062€ for those just about coping; 38,834€ for the people doing fine now but with little put by, and 50,864€ in the group assessed to be financially secure.

Figure 2-3: Mean annual income (gross) in Euros at different levels of overall financial well-being. Weighted. Ireland 2018. N=1401

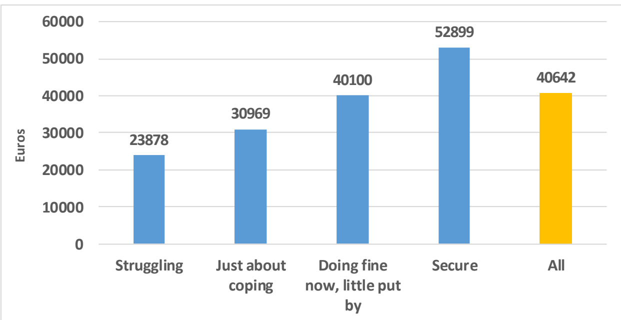


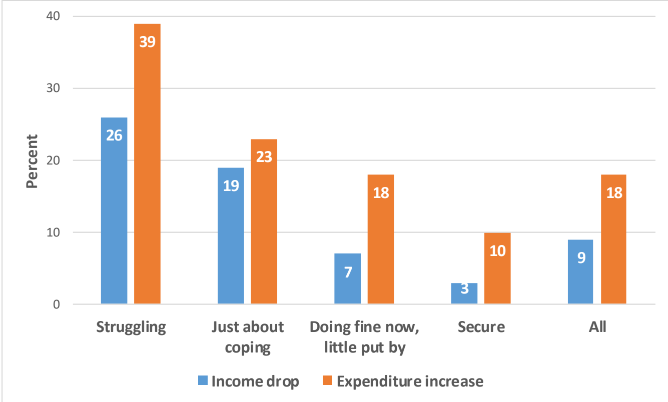
Table 2.1 Financial well-being. Social and economic characteristics.[1] Parsimonious models. OLS. Weighted. Ireland 2018. N=1401 [2]

	Meeting commitments		Being financially comfortable		Resilience for the future		Overall well-being	
	Coeff	Sig	Coeff	Sig	Coeff	Sig	Coeff	Sig
Answering about household and personal money	5.19	**	2.12		4.49	*	3.59	*
Income & expenditure								
Income	0.0002	***	0.0002	***	0.0002	***	0.0002	***
Income drop	-10.34	***	-8.25	***	-5.51	**	-8.21	***
Income increase	3.04		7.23	***	8.83	***	6.49	***
Expenditure increase	-9.99	***	-8.42	***	-9.07	***	-9.13	***
Economic activity status:								
Working full-time	-4.14	**	-3.47	*	-6.54	**	-4.55	**
Working part-time	-7.62	***	-7.94	***	-13.15	***	-9.28	***
Self-employed	-8.14	**	-5.38	*	-7.08		-6.90	**
Unemployed	-16.12	***	-19.19	***	-26.74	***	-20.49	***
Disabled	-12.96	***	-16.25	***	-17.51	***	-15.86	***
Not working for other reasons than retired	-6.38	***	-5.05	**	-10.61	***	-6.95	***
Age								
u/30	-2.19		-3.10		-7.43	**	-3.88	*
30-44	-1.11		-2.43		-3.35		-2.27	
45-59	-0.72		-2.24		-4.69	*	-2.40	
Gender and family situation								
Female	1.79	*	0.67		2.71	**	1.48	
Single	-1.61		-4.21	**	-8.34	***	-4.60	***
Divorced	-5.32	**	-4.10	**	-3.96		-4.50	**
Number of dependent children	-1.65	**	-1.58	***	-1.37		-1.56	***
Education								
Junior certificate	-10.26	***	-12.70	***	-12.23	***	-11.95	***
Leaving certificate	-3.49	**	-4.71	***	-7.37	***	-5.08	***
Vocational qualifications	-3.55	**	-4.74	***	-6.33	**	-4.89	***
Housing Tenure								
Tenants	-9.70	***	-4.15	***	-13.18	***	-8.10	***
Owners with mortgage	-4.19	**	-2.28		-7.49	***	-4.18	***
Provinces								
Leinster	7.28	***	2.01		-0.69		2.77	*
Munster	9.03	***	-0.60		3.80	*	3.19	**
Connacht or Ulster	8.98	***	-1.33		6.22	**	3.51	**
Constant	78.81	***	67.28	***	59.27	***	68.80	***
Adjusted R2	.29		.32		.31		.41	

[1] Income is measured in Euros. Number of children: Min/max: 0/8. All other variables are dummies coded Yes=1 and No=0. Reference categories: Ec. activity status: the retired; Age: 60+; Education: univ. degree; Tenure: outright owners; Province: Dublin excl. Leinster.
[2] More details in Appendix 3 (parsimonious). Full models controlling for a number of additional variables in Appendix 4 (explorative).

However, changes in income were also important in their own right. Controlling for income (and other factors in the model), having experienced a substantial increase in income in the past twelve months had a positive effect on financial well-being, while substantial income falls, and expenditure increases over the same time period had a negative and slightly larger effect (Table 2.1). This means that the mere fact of having experienced an income change influences financial well-being, in addition to the effect of income itself. Again, additional bivariate analysis illustrates this effect (Figure 2-4). As might be expected, the incidence of both income and expenditure shocks was markedly different across our four financial well-being categories. Looking at the two extremes, a quarter (26 per cent) of the people who were in the financially struggling category had experienced a substantial income fall in the past twelve months, which was about eight and a half times the proportion of those who were considered financially secure (3 per cent). Even more of those who struggled (39 per cent) had seen a substantial rise in their expenditure, which compares with only 10 per cent of the financially secure.

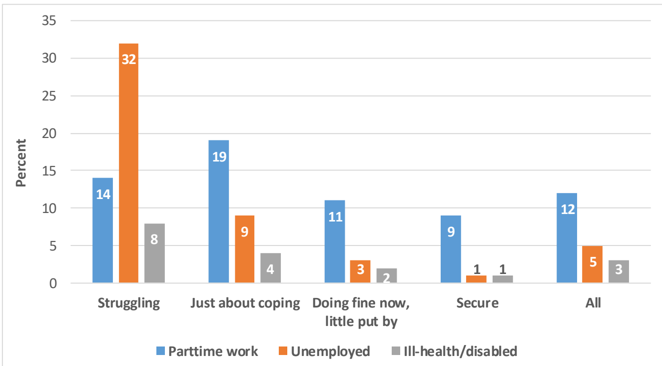
Figure 2-4: Percentage of people having experienced income drops or expenditure increases, at different levels of overall financial well-being. Percentages. Weighted. Ireland 2018. N = 1401



Whether the person was responsible for managing household finances, or for their own personal finances only, influenced their level of financial well-being, with household money managers having higher levels of overall financial well-being taking income level, age and other factors in the model into account (Table 2.1). This effect was, however, much smaller than that associated with income and expenditure shocks.

Economic activity status was also important and, compared to people who were retired, all other groups had lower levels of financial well-being (Table 2.1). Unemployed people and people unable to work through long-term sickness or disability – who are the most marginalised in the labour market – fared especially badly, compared with both full-time workers and retired people, even after taking their lower incomes and any income or expenditure changes into account. Figure 2-5 illustrates this effect, using the results of bivariate analysis, and shows that 32 per cent of the people considered to be financially struggling were unemployed and a further 8 per cent were unable to work through ill-health or disability. The proportion of unemployed people was also above the overall average among those who were financially just about coping (9 per cent). Only those who were financially secure had a below-average proportion of people in these two categories. Figure 2-5 also shows that part-time

Figure 2-5: Percentage of part-time workers, unemployed and disabled at different levels of overall financial well-being. Percentages. Weighted. Ireland 2018. N = 1401



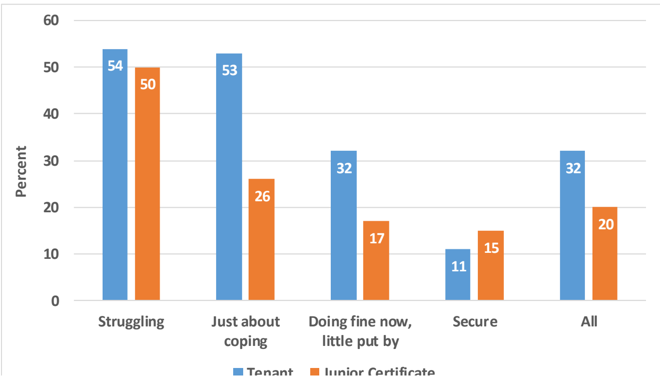
employees were over-represented among people who were financially struggling and those just about coping.

Young people aged under 30 had lower levels of overall financial well-being than all other age groups when other factors were taken into account (Table 2.1). The relatively small effect of age suggests that it is the personal and economic circumstances of the different age groups not age *per se* that is of greatest importance. Indeed, additional bivariate analysis showed that there was only a small difference in the average ages of people across the four well-being groups.

Gender did not have a statistically significant effect, but household circumstances did (Table 2.1). Living as a couple improved overall financial well-being, possibly because two can live more cheaply than one. Single people who had never married and people who were divorced, separated or widowed all had lower levels of financial well-being than people who were married or living with a partner. And having children reduced also overall financial well-being. The number of dependent children aged under 18 living in the household was statistically significant, with financial well-being falling the more children there were.

Housing tenure was important, with mortgagors and, even more so, tenants having lower levels of overall financial well-being than outright owners (Table 2.1). Since both age and income were included in the model it is most likely the housing costs that mortgagors and tenants incur that account for this finding. As the bivariate analysis in Figure 2-6 shows, tenants were especially numerous in the financially struggling and just about coping groups (54 per cent and 53 per cent respectively) and under-represented among people who were financially secure.

Figure 2-6: Percentage of tenants and holders of junior certificates at different levels of overall financial well-being. Percentages. Weighted. Ireland 2018. N = 1401



Education was also an important determinant and, relative to people who had been educated to degree level or above, those with vocational qualifications below degree level or who finished their education with only the leaving certificate fared much less well (Table 2.1). But it was those who had only the Junior Certificate or no qualifications at all who had substantially lower levels of overall financial well-being. These effects were all independent of the higher levels of income that accompany higher level of education since both income and work status were controlled in the model. So, education matters in its own right. As Figure 2-6 shows, people educated to Junior Certificate only were most numerous among those who were financially struggling (50 per cent).

There were also some differences by province. Compared with people living in Dublin, levels of overall financial well-being were higher for residents in the rest of Leinster, Munster and Connacht/Ulster. There are a number of plausible explanations for this, which include the higher cost of living in Dublin on the one hand, and, on the other, possible differences in spending, saving and borrowing behaviours, that result from the greater consumer pressures in a city. We explore these in subsequent chapters.

2.2.1 Meeting financial commitments

On the whole, the personal and financial circumstances that determined the distribution of scores for each of the sub-measures of financial well-being were very similar to this overall picture.

So, interventions to help people meet financial commitments would be targeted on those with low and low-to-middle incomes and especially so if they have experienced a substantial drop in income or a substantial rise in expenditure in the past 12 months (Table 2.1). Unemployed people and people unable to work through ill-health and disability would be a key target group – but so too would part-time workers and those who are self-employed. More broadly, this would suggest a review of policies that deal with incomes as well as ones focussing on financial education.

In terms of personal characteristics, the types of people who most needed assistance to meet their financial commitments (Table 2.1) included: tenants and lower-income home owners and people with lower levels of education (and especially those educated to junior certificate level or who left school with no qualifications at all). Age was not an important determinant of meeting financial commitments, but family circumstances were. The analysis shows that key target audiences for interventions would be families with children and also people who are divorced, separated or widowed. So lone parents would be a particular target group. On this measure women scored slightly higher than men although the effect was not as great as others already discussed. There was also a strong indication that people living in Dublin should be a prime focus for interventions related to meeting financial commitments.

2.2.2 Being comfortable Financially

Being comfortable financially and having some room for manoeuvre in one's personal finances, was also greatly influenced by income level and by having experienced an income or expenditure shock (Table 2.1). And being either unemployed or unable to work through ill-health or disability had an even larger effect than it did on meeting commitments. Working part-time also reduced financial well-being on this measure but the effect of self-employment was very much lower. Here, experiencing a substantial increase in income had a positive effect on financial well-being,

Neither age nor gender determined whether people were comfortable financially, but again family circumstances mattered (Table 2.1). In addition to families with children, and people who were divorced separated or widowed, single people would also be a key audience for interventions designed to raise financial well-being on this measure. People with lower levels of educational attainment would also be a key target group.

Housing tenure was far less important for being comfortable financially than it was for either of the other two sub-measures of financial well-being. Renting a home was associated with lower levels of being comfortable financially – but the effect was a good deal smaller for this measure – and buying a home was not statistically significant at all. There were no regional differences at all. So there is little case to be made for focussing interventions to promote greater financial comfort either on particular parts of Ireland or on particular housing tenure groups.

2.2.3 Resilience for the future

Resilience for the future was, like the other measures of financial well-being, greatly influenced by income level and by substantial income and expenditure shocks. This was the measure of financial well-being that was most strongly influenced (negatively) by unemployment, being unable to work through ill-health or disability and also by working part-time. Educational attainment was similarly very important.

Women were more likely to have resilience for the future than men, all other things being equal, but again the effect was not large. In this case age was statistically significant (unlike the other two sub-measures) with young people, aged under 30 having much lower levels of resilience than people aged 60 or over. And single, never-married, people also stood out as a group that might be targeted with interventions in this area. But, in contrast to the other measures of financial well-being, the number of children living in the household was not statistically significant, all other things being equal and nor was being divorced, separated or widowed.

There was a strong housing tenure effect – the strongest of all the measures – indicating that interventions designed to promote greater levels of financial resilience for the future should focus on people renting and, to a slightly lesser extent, buying their home on a mortgage. There were small regional effects indicating that Connacht and Ulster provinces in particular would probably be a lower priority than other parts of Ireland as financial resilience is highest in these provinces.

2.3 Summary

In this chapter we have identified the personal and economic characteristics that most predict a person's level of financial well-being. And, in general, economic factors have the greatest effect. So, policy and practical measures to raise levels of financial well-being would be focussed on people with low incomes and who have experienced a disruption to their household budget through either a substantial income fall or a substantial increase in the household expenses. The types of people in need of most assistance are people who are unemployed or unable to work through sickness or disability, followed by part-time workers. They include families with children, including both two-parent families, but more especially, lone parent families. Young single (never married) people would also be a target group. Dubliners would be given a higher priority than people living elsewhere as would tenants and mortgagors, compared with outright owners.

The form of intervention that might be provided is covered in the following chapter.

3 The Factors that Promote General Financial Well-being

In the previous chapter, we identified how scores for the measures of financial well-being differed across different groups in the population. In this one we turn our attention to the factors that promote financial well-being, drawing on the conceptual model presented in Chapter 1. So, to understand what promotes financial well-being in the Irish population, we extended the analysis from the previous chapter to include a range of variables that capture factors that are amenable to financial education and other initiatives to raise levels of financial capability and promote financial well-being.

In the sections below, we look first at the factors that promote overall financial well-being, before considering each of the three sub-measures in turn.

3.1 The factors that promote general financial well-being

To identify what promotes financial well-being directly we added a range of measures from all levels of our conceptual model that were identified in Figure 1-1 (Chapter 1). These included the eight components of behaviour, which our conceptual model proposes would be key drivers of financial well-being, as well as factors that it proposes would have an indirect effect:

- The five components of knowledge and experience
- The personality traits
- Attitudes to spending saving and borrowing and
- The two components measuring financial confidence and financial locus of control

Two measures of financial education were also included:

- Whether or not people said that their parents had discussed managing money or saving with them when they were a child and
- Whether or not people said that they were taught about managing money or saving when they were at school or college

As well as a measure of whether or not people had family or friends who were able to help them financially if they needed it.

Table 3.1 below focusses on these new factors but also includes the variables relating to financial circumstances and region of Ireland since these, too, are relevant for policy responses. It is important to stress that, although they are not presented in this table, the full range of personal and financial circumstances covered in the previous chapter were also included in this model (the full model can be found in Appendix 3).

The other thing to note is that this model is a 'parsimonious' one – that is it is restricted to those variables that were statistically significant for one or more of the measures of well-being in a more general model that included all the components (this general model can be found in Appendix 4). In doing so, three of the behaviours (*spending restraint*, *informed decision-making* and *active product choice*) were removed from the model as they did not have a direct impact on financial well-being. They were however, tested for indirect effects, as discussed in Chapter 5.

Also omitted from the parsimonious model were the two money management behaviours *planning income use (budgeting)* and *keeping track of finances*. In the general model (in Appendix 4) these correlated with all measures of general well-being but did so negatively. In other words, people who planned and monitored their money carefully had lower levels of financial well-being. Similar effects have been found in the analysis of the comparable data collected in Norway in both 2016 (Kempson, Finney, and Poppe 2017) and in 2017 (Kempson and Poppe 2018). It has also been noted in other analysis (Finney 2016a; Gutter and Copor 2011) and in personal communication from the Consumer Financial Protection Bureau team analysing the US financial well-being survey. Further detailed analysis of the Norwegian data showed that this effect is almost certainly because people who are inclined to strict money management, loosen their control when money is not tight. So, they are not behaviours that determine financial well-being directly and have been dropped from the model in Table 3.1. Again, though, they were tested for indirect effects in Chapter 5.

Table 3.1 Factors that promote financial well-being. Parsimonious models. OLS. Results controlled for social and economic environment factors. Ireland 2018. N=1401 [1]

	Meeting commitments		**Financially comfortable**		**Resilience for the future**		**Overall well-being**	
	Coeff	Sig	Coeff	Sig	Coeff	Sig	Coeff	Sig
Answering about household and personal money	-0.64		-2.23		-2.94		-2.01	
Money use behaviours								
Active saving (beh2s)	0.21	***	0.28	***	0.62	***	0.35	***
Not borrowing for daily expenses (beh3s)	0.42	***	0.12	***	0.04		0.19	***
Restrained consumer borrowing (beh4s)	0.17	**	-0.09		-0.01		0.01	
Knowledge and experience								
Experience of financial-product marketplace (kn4s)	0.09	**	0.08	**	0.21	***	0.11	***
Personality traits								
Social status (socs)	0.03		0.08	***	0.05	**	0.06	***
Confidence and control								
Financial locus of control (locs)	0.09	**	0.04		0.06		0.06	**
Financial confidence (att2s)	0.09	***	0.12	***	0.05	*	0.09	***
Financial education								
Taught about money or saving in school (e7)	2.76	***	1.32		2.49	*	2.04	**
Financial circumstances								
Income	0.0001	**	0.0001	***	0.0001	**	0.0001	***
Income drop	-5.79	***	-5.58	***	-1.13		-4.55	***
Income increase	1.81		5.22	***	3.72		3.90	**
Expenditure increase	-6.05	***	-5.62	***	-5.20	***	-5.70	***
Family or friends who can help financially (e5)	2.18	**	2.23	**	1.74		2.15	**
Constant	0.03	***	35.82	***	6.25	***	17.57	***
Adjusted R^2	.54		.46		.53		64	

[1] All variables under the headings money use behaviours, knowledge and experience, personality traits and control and attitudes are components derived from factor analysis that are standardised to vary between 0 and 100. Income is measured in Euros. All other variables are dummies coded Yes=1 and 0=No.

[2] Table 6.2 is an extract of a full parsimonious model reported in Appendix 3. Explorative models leading to the parsimonious model are reported in Appendix 4.

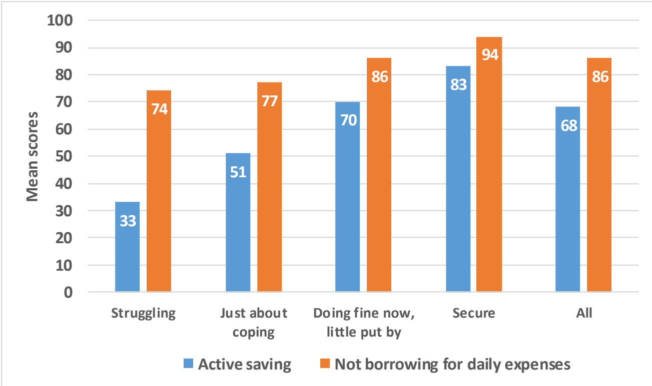
Before considering the findings in detail, it is important to note that the inclusion of these additional factors greatly improved the performance of the models. In general, they increased the proportion of variation in the scores that was predicted by around 20 percentage points. So, taking the overall measure of general financial well-being, social and economic characteristics of people explained 41 per cent of the variation in the score. The additional factors increased this to 64 per cent.

3.1.1 General financial well-being

Again, we start by discussing the model for general well-being, since the four measures of general well-being had a great deal in common with one another. The biggest direct influences on this overall measure were the two behaviours *active saving* and *not borrowing for daily expenses*, with active saving having by far the biggest effect (Table 3.1).

Further bivariate analysis showed that the average scores for these two behaviours varied greatly across the four groups that were characterised by their overall financial well-being scores (Figure 3-1). As we might expect, people who were struggling financially had very low levels of active saving (average score 33) and were the group that was most likely to be borrowing to meet daily living expenses (average score 74). Even so, most of them were not regularly borrowing in this way. Active saving increased steeply across the four groups, to a score of 51 among those just about coping, 70 for people doing fine for now with little put by, and 83 for the financially secure. The increase in the scores for people not borrowing for daily living expenses was less pronounced (from 74 among those who struggled to 94 for the financially secure), because it started from a much higher base.

Figure 3-1 Mean scores for active saving and not borrowing for daily expenses at different levels of overall well-being. Weighted. Ireland 2018. N=1401

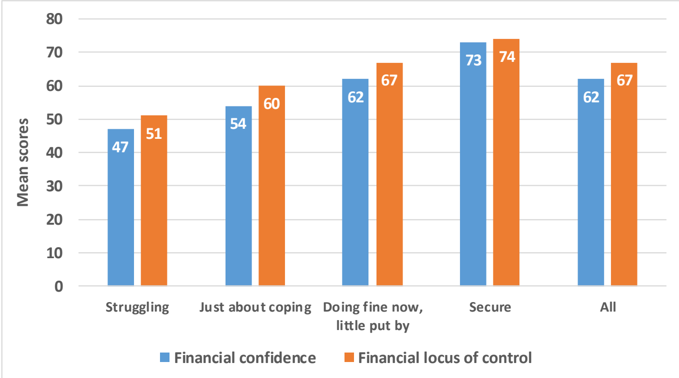


As noted above, other behaviours (*spending restraint, informed decision making* and *informed product choice*) were not statistically significant for any of the measures of financial well-being and were, therefore, omitted from the model in Table 3.1. *Restrained consumer borrowing* was also not statistically significant but was retained in the model because it was significant for the *meeting financial commitments* sub-measure of financial well-being (see below).

Experience of the financial marketplace (financial inclusion) promoted financial well-being and so too did being unconcerned about one's social status Table 3.1). Overall financial well-being was also promoted by people having confidence in their abilities to manage money and take financial decisions (*financial confidence*) and a belief that they are responsible, themselves, for what happens to them financially rather than believing that things are at the mercy of forces that are beyond their control (*financial locus of control*).

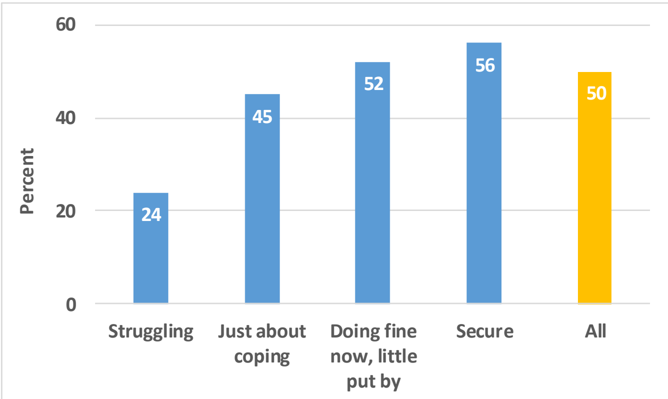
Because they played such an important role in determining general financial well-being we explored the effects of financial confidence and financial locus of control further (Figure 3-2). But first a word of explanation about these two variables. The financial confidence measure was derived from three questions asking people to rate their level of confidence about: managing money day to day, planning for their financial future and making decisions about financial products and services. Financial locus of control, in contrast, was based on questions designed to capture the extent to which people felt that they could, themselves, control and influence what happened to them financially during their lives.[2] In fact, the scores on these two measures were remarkably similar and they had a very similar relationship with overall financial well-being. People who were struggling financially did particularly badly on these two measures, with an average score of 47 for financial confidence and 51 for financial locus of control. Scores on both measures were slightly higher for people who were just about coping and slightly higher again for those who were considered to be doing fine, but had little put by for future financial shocks. But even people who were financially secure did not do especially well on these two measures, with an average score of 73 for financial confidence and 74 for financial locus of control.

Figure 3-2 Mean scores of financial confidence and locus of control at different levels of overall well-being. Weighted. Ireland 2018. N=1401



Financial education at school promoted financial well-being, although having parents who discussed money and saving with you did not (Table 3.1). Further analysis showed a strong link between formal financial education and financial well-being. As figure 3-3 shows, people who had received that kind of education were underrepresented both among those who struggled and those who just got by financially. The proportion was particularly low in the group that was struggling financially. In fact, compared with those who struggled, people considered to be financially secure were more than twice as likely to have received that type of education.

Figure 3-3 Proportions having received formal financial education at school at different levels of overall well-being. Weighted. Ireland 2018. N=1401



We have also presented the effects of financial circumstances on financial well-being in Table 3.1 since these are areas that are amenable to policy intervention. This showed that, even when you control

[2] For more details on *financial locus of control* and what influences it, see chapter 7.

for the important behaviours and other factors in the model, income was still highly significant statistically. In other words, there is a limit to which financial well-being can be improved by interventions that seek to change behaviours, without tackling income inequalities too. Moreover, the findings in Table 3.1 show that, at all income levels, experiencing a substantial income drop or a substantial expenditure increase damaged financial well-being, while an increase in income promoted it. Again, these effects persisted after the much wider range of other factors were included in the models.

Finally, it is interesting to note that the impact of living outside Dublin was reduced – indeed living in Leinster or Munster was no longer statistically significant, while people living in Connacht /Ulster had *lower* levels of general financial well-being compared with Dubliners once a wider range of factors, including saving and borrowing behaviours, were added to the model. This is explored further in Chapters 5-7, which investigate the link between region and key behaviours and financial locus of control.

3.1.2 Meeting financial commitments

Promoting well-being in terms of meeting financial commitments and avoiding falling into arrears with bills and credit commitments requires *restrained consumer borrowing* as well as *active saving* and *not borrowing for daily expenses*.

People were also more likely to avoid getting into financial difficulty the more experience they had of the financial marketplace, the greater their financial confidence and the more they felt responsible for what happened to them financially. Being taught about money and saving at school resulted in people being more likely to avoid financial difficulty and so, too, did having family and friends able to help out financially.

The worse off people were the more likely they were to get into financial difficulty – even when behaviours and a wide range of other factors were taken into account. And both income drops and expenditure increases increased the likelihood of getting into financial difficulty, regardless of income.

In contrast to overall financial well-being, having a low regard for social status was not important in this instance. Nor did an income increase promote a greater likelihood of keeping up with bills and other commitments.

Finally, the effect of living outside Dublin was greatly reduced by the addition of a wider range of factors in the model, and the effects were greatest for Munster and Connacht/Ulster, with the latter falling from have a large effect to being not statistically significant.

3.1.3 Being financially comfortable

This was the measure of financial well-being that was most similar to the overall measure of financial well-being in terms of what promoted it. So, people were more likely to have room for manoeuvre financially, and also felt more comfortable financially, if they were actively saving, and not borrowing for daily expenses.

They did better on this measure if they had experience of the financial marketplace, had low regard for social status and had higher levels of financial confidence.

Having a higher income also meant they had more room for manoeuvre financially regardless of their behaviours. And income and expenditure drops and having family and friends able to help financially all affected it in the ways expected.

In this instance neither believing yourself responsible for what happens to you financially nor financial education at school was important.

3.1.4 Financial resilience for the future

This was the measure of financial well-being where the factors that promoted it differed most from the overall measure of financial well-being. Of the behaviours tested, only *active saving* was important. Like all other measures of well-being, *experience of the financial marketplace* was important and so too was *financial confidence*. Having low regard to social status promoted greater resilience for the future. And so too did having been taught about money and saving at school.

Level of income was important, just as it was for all other measures of financial well-being. But changes in financial circumstance were relatively unimportant – only expenditure increases reduced levels of financial resilience for the future.

A belief in having responsibility for what happens to you financially did not improve financial resilience. And this was the only measure where the availability of financial assistance from family and friends was not important

3.2 Summary

The analysis has shown that the biggest gains in terms of general financial well-being would be through interventions to promote active saving. The next largest gain would be achieved by interventions designed to dissuade people from borrowing for daily living expenses. The same is true for both meeting financial commitments and financial resilience for the future sub-measures of financial well-being. To assist the small number of people in financial difficulty and scoring low on 'meeting commitments' the order of priority would be reversed, with greater emphasis being given to not borrowing for day-to-day expenditure. In this case, there is also a need to promote greater restraint with regard to using credit for consumer purposes. How we promote more capable behaviours is covered in Chapters 5 and 6.

There is also a clear link with financial inclusion, even when other factors in the model are taken into account. So, policies to promote greater engagement with financial services would clearly have a beneficial effect on all measures of financial well-being.

It is also important to note the positive effect of having received financial education at school – and especially so for meeting financial commitments, suggesting that making high-quality financial education part of the curriculum at schools and further education colleges would pay dividends in terms of greater financial well-being later in life.

But even when all these factors are taken into account, income is still important in its own right – as are substantial income falls. This suggests that there is a limit to what can be achieved in terms of improved financial well-being by simply modifying behaviour or promoting financial inclusion, without also tackling income inequality and improving levels of income protection for those unable to engage in the labour market, or who can only earn very low wages.

4 Financial Resilience for Retirement

As we noted in Chapter 1, retirement provision formed a component of financial well-being that was quite distinct from the other measures that were discussed in the previous two chapters. This is almost certainly because the timescale is very much longer than even the general financial resilience for the future measure.

In this chapter we focus on people's anticipated adequacy of the provision they were making (or had made) for their retirement. The majority of the chapter focusses on people who had not yet retired, since they would be the focus of both policy and practical interventions. We begin by looking at their average scores and then the types of provision people were making for their retirement. We then look at how levels of retirement provision differed across different groups the Irish non-retired population before exploring the factors that promoted more adequate retirement provision that are amenable to policy and practice responses.

In the second half of the chapter we switch focus to people who were already in retirement, again looking at their distribution of scores and investigating which factors seem best to explain the adequacy of the provision they had made for their retirement when younger.

4.1 People who were not yet retired

Financial resilience for retirement was assessed by the combination of three measures, including: the extent to which people would have sufficient income without needing to continue to work; the extent to which the provision they were making for retirement would be likely to provide sufficient income even without the state pension and the proportion of their total retirement income that they anticipated would be derived from the state pension (see Text Box).

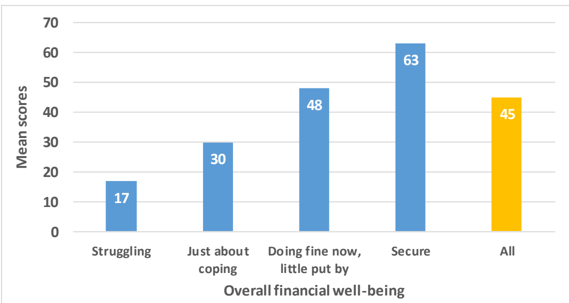
Retirement provision	
ret1	Adequacy of retirement income without working
ret2	Adequacy of retirement income even without state pension
Ret3	Proportion of retirement income provided by state pension

The average score for the Irish population who were yet to retire was 45, which was lower than the measures of general financial well-being, including general resilience for the future.

Although financial resilience for retirement appeared to be a separate aspect of financial well-being, there was some correlation between the two, as Figure 4-1 shows.

So, although provision was generally quite poor, people who, in terms of their general financial well-being were classified as struggling financially were on course for very low levels of financial well-being in retirement indeed, and the situation for those considered just about coping was only marginally better (see Figure 4-1). Even those considered financially secure scored only 63 index points on the financial resilience for retirement measure – almost 20 index points lower than their score for financial resilience (80) which was the lowest of their general well-being scores.

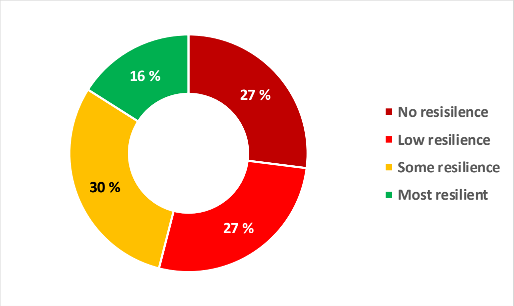
Figure 4-1 Mean scores for financial resilience for retirement at different levels of overall general financial well-being. The not yet retired. Weighted. Ireland 2018. N: 1035



Just as we did for general financial well-being, we created a categorisation based on the scores for *financial resilience for retirement*, assigning people to one of four categories:

- *No resilience*: people scoring 25 points [3]or less on the measure of financial resilience for retirement (27 per cent of the people who were not yet retired)
- *Low resilience*: people scoring between 25.01 and 50 (27 per cent of the people who were not yet retired)
- *Some resilience*: people scoring between 50.01 and 75 (30 per cent of the people who were not yet retired)
- *Most resilient*: people scoring more than 75.01 (16 per cent of the people who were not yet retired)

Figure 4-2: Financial resilience in retirement. The not yet retired. Percent. Weighted. Ireland 2018. N=1035.



This shows that very few people had high levels of resilience and anticipated having an adequate income in retirement and suggests that there is a real need for both policy and practice to focus on promoting greater provision for retirement in the Irish population. We pick this point up in section 4.1.3 below.

4.1.1 Type of provision made by the not yet retired

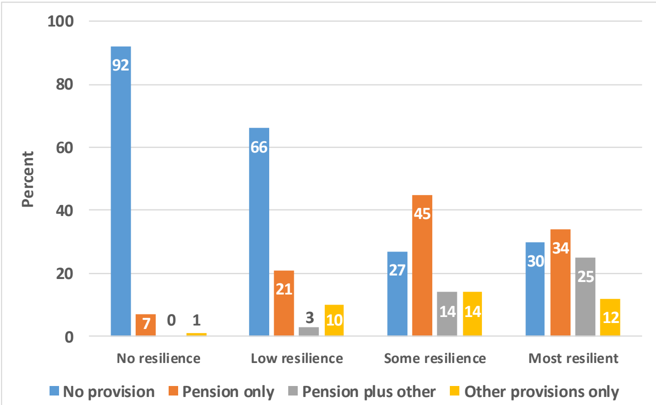
Only 44 per cent of people who had yet to retire said that they were making some provision to ensure that they will have sufficient income for their needs in retirement, and a further 9 per cent said that they planned to do so in the future. But this still means that almost half (47 per cent) of the non-retired adult population of Ireland had made no provision for their retirement and had no plans to do so either.

Just over a third (35 per cent) were paying into a personal pension and the rest were hoping to get an adequate income from other investments they held (9 per cent) from property that they owned (9 per cent) or a business they had set up (4 per cent). Most of the people who said that they planned to make some provision in the future, intended to pay into a personal pension (5 per cent of everyone not yet retired), with very small numbers intending to buy a property that they could rent or sell in their retirement (1 per cent) or to buy other investments (1 per cent). As we might expect, most of those intending to make provision were aged under 40.

[3] In this case, since comparability with scores in New Zealand and Australia was not an issue, the upper and lower ends of the categorisation are 25 points or below and above 75 points respectively.

As Figure 4-3 shows, the aggregate types of provision made differed greatly across the four levels of financial resilience for retirement. Over nine in ten of the people with no resilience for retirement had no provision at all beyond the state pension; just 7 per cent had a second-tier pension only and 1 per cent were planning to rely on non-pension income, which further analysis showed was property (either through rental or its sale). As we move across the four levels, we see an increase in all types of provision, so that only around three in ten of people at the two higher levels of resilience had none at all. The principal difference between these two groups was that many more of the people classified as most resilient had both a pension and other types of provision (25 per cent, compared with 14 per cent).

Figure 4-3: Aggregate types of provision at different levels of financial resilience for retirement. The not yet retired. Ireland 2018. Weighted. N: 1035.

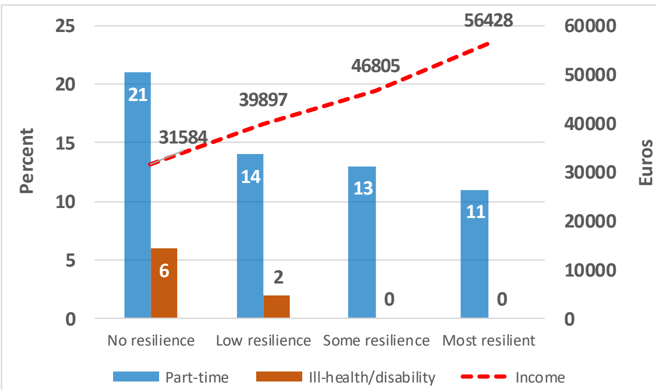


4.1.2 How financial resilience for retirement varied across the Irish population that was not yet retired

To understand which personal and financial circumstances determine the financial resilience for retirement of those not yet retired we ran an OLS model for this component of financial well-being. The results are given in Table 4.1 on the next page.

Again, income had a large effect, which was of a similar magnitude as its effect on the general measures of financial well-being. So, the higher someone's income, the better their resilience for retirement. Moreover, both substantial income and expenditure shocks had a negative effect that was also of a similar size to that for general financial well-being, while income increases had a positive and rather bigger effect (see Table 4.1). These effects are displayed graphically in Figure 4-4, using bivariate analysis.

Figure 4-4: Income and proportions of part-time employees and people unable to work through ill-health or disability at different levels of financial resilience for retirement. The not yet retired. Ireland 2018. Weighted. N: 1035.



Economic activity status was also important. Compared with full-time workers, those working part-time or who were economically inactive had lower scores (see Table 4.1). Further investigation showed that full-time workers were twice as likely as part-time ones to work for an employer who offered a pension scheme (60 per cent, compared with 30 per cent). But it was people who were unable to work through ill-health or disability who anticipated having the very lowest levels of provision (Table 4.1). The proportions of part-time employees and people unable to work through ill-health or disability at different levels of resilience for retirement is shown in Figure 4-4.

Table 4.1 Financial resilience for retirement. Social and economic characteristics.[1] The not yet retired. Parsimonious model. OLS. Ireland 2018. N=1035. [2]

	Coeff	Sig
Answering about household and personal money	1.38	
Income & expenditure		
Income	0.0002	***
Income drop	-7.84	**
Income increase	11.68	***
Expenditure increase	-8.88	***
Economic activity status		
Working part-time	-8.36	***
Self-employed	2.06	
Unemployed	-6.11	
Disabled	-20.64	***
Not working for other reasons than retired	-7.68	*
Age		
u/30	-6.50	*
30-44	-5.50	*
45-59	-1.19	
Gender and family situation		
Female	0.04	
Single	0.06	
Divorced	-7.26	*
Number of dependent children under 18	-1.04	
Education		
Junior certificate	-13.36	***
Leaving certificate	-9.19	***
Vocational qualifications	-8.14	***
Housing tenure		
Tenants	-5.30	**
Owners with mortgage	0.38	
Provinces		
Leinster	-8.99	***
Munster	-10.60	***
Connacht or Ulster	-7.88	***
Constant	57.29	***
Adjusted R^2	.30	

[1] Income is measured in Euros. Number of children: Min/max: 0/8. All other variables are dummies coded Yes=1 and 0=No. Reference categories: Ec. activity status: the retired; Age: 60+; Education: univ. degree; Tenure: outright owners; Province: Dublin excl. Leinster.

[2] [2] More details in Appendix 3 (parsimonious). Full models controlling for a number of additional variables in Appendix 4 (explorative).

Being unemployed, however, was not statistically significant. This is almost certainly because resilience for retirement was the most long-term of the financial well-being measures and the great majority of people who become unemployed are generally out of work for a short period of time. In contrast, part-time working and especially an inability to work through ill-health or disability tend to be much longer term.

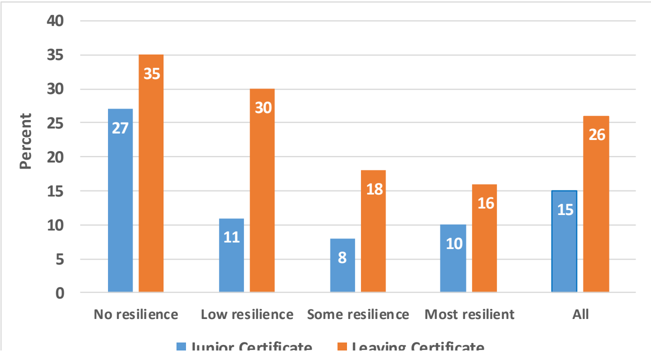
Younger people, aged under 45, had lower levels of financial resilience for retirement than their older counterparts. A possible explanation for this could be that they had not yet put a substantial sum aside and so were more pessimistic about their income in retirement. Certainly, there was greater uncertainty about their retirement income among these younger people, with many more of them replying 'don't know' to the questions that make up this measure.

Surprisingly, once we controlled for income, economic activity status and other factors in the model, gender was not statistically significant (Table 4.1), even though a simple bivariate analysis showed that women had lower levels of financial resilience for retirement income than men. This means that it is other factors in the model that account for the gender differences. Further analysis showed that women were twice as likely to be in part-time work and had lower incomes and both of these factors were associated with lower levels of pension provision.

Divorced, separated and widowed people had lower scores for financial resilience in retirement compared with couples and single never married (Table 4.1); quite possibly because they had been relying on a partner's pension provision and made no retirement provision of their own.

There was a strong link between financial resilience for retirement and education. Compared with university graduates the rest of the non-retired population had much lower resilience and the lower a person's level of educational attainment the lower their resilience (Table 4.1). Because income and work status are controlled for in the model, this means that it is education *per se* that is having an effect – not the higher income and better work history that education facilitates. Figure 4-5 shows this graphically, using bivariate analysis.

Figure 4-5: Education at different levels of financial resilience for retirement. The not yet retired. Percent. Ireland 2018. Weighted. N: 1035.



Tenants had lower levels of financial resilience for retirement than outright owners and mortgagors, although mortgagors are potentially at risk of being adversely affected by interest rate increases. Given the negative effect of substantial expenditure increases noted above, this could adversely affect their financial resilience for retirement.

There was also a very marked regional effect. Whereas people living outside Dublin did much better than Dubliners on the various measures of general financial well-being, the reverse was true for resilience for retirement. Here Dubliners expected much better retirement incomes than people living elsewhere – with the very lowest scores being in Munster province.

It is important to stress that these are direct effects of housing tenure and province and cannot be attributed to the lower incomes and other circumstances of tenants or the much higher incomes in Dublin, compared with elsewhere, since these factors are controlled in the model. So, this suggests an area effect – if the people you live among have low pension provision, there is less incentive for you to make better provision yourself.

4.1.3 The factors that promote financial resilience for retirement among the not-yet-retired

Again, we extended the analysis to include a range of variables that capture areas that are amenable to financial education and other initiatives to raise levels of financial capability and promote financial

Table 4.2 Factors that promote financial resilience for retirement.[1] The not yet retired. Parsimonious models. OLS. Results controlled for social and economic environment factors. Ireland 2018. N=1035.[2]

	Financial resilience for retirement Model 1		Financial resilience for retirement Model 2	
	Coeff	Sig	Coeff	Sig
Answering about household and personal money	-2.92		-4.51	*
Money use behaviours				
Active saving (beh2s)	0.17	***	0.18	***
Not borrowing for daily expenses (beh3s)	0.0001		0.02	
Restrained consumer borrowing (beh4s)	0.01		0.12	
Knowledge and experience				
Experience of financial-product marketplace (kn4s)	0.09		-0.003	
Personality traits				
Social status (socs)	-0.01		0.01	
Confidence and control				
Financial locus of control (locs)	0.12	*	0.10	
Financial confidence (att2s)	0.07	*	0.06	
Financial education				
Taught about money or saving in school (e7)	2.28		1.17	
Financial circumstances				
Income	0.0001	***	0.0001	***
Income drop	-5.78	*	-6.47	**
Income increase	8.20	**	7.58	**
Expenditure increase	-7.61	***	-6.48	***
Family or friends who can help financially (e5)	2.20		2.05	
Workplace pension				
Employer provides pension scheme (c32)	0.63		--	
Automatically enrolled in workplace pension (c33)	9.52	***	--	
Provinces				
Leinster	-8.03	***	-8.11	***
Munster	-12.32	***	-11.39	***
Connacht or Ulster	-11.22	***	-11.71	***
Provision made				
Pension	--		16.10	***
Investment	--		8.94	***
Property	--		11.45	***
Business	--		12.60	***
Constant	31.02	*	17.82	
Adjusted R^2	.36		.43	

[1] All variables under the headings money use behaviours, knowledge and experience, personality traits and confidence and control are components derived from factor analysis that are standardised to vary between 0 and 100. Income is measured in Euros. All other variables are dummies coded Yes=1 and 0=No.

[2] Table 6.2 is an extract of a full parsimonious model reported in Appendix 3. Explorative models leading to the parsimonious model are reported in Appendix 4.

well-being as described in Chapter 3 (Table 4.2). Two separate models were run – the first including two variables capturing access to, and auto-enrolment in, a workplace pension; the second including the types of provision people had made for their retirement. The models were run separately because of the correlation between the additional variables. Model 2, containing the broad range of provision for retirement explained a larger proportion of the variation in scores (43 per cent, compared with 36 per cent).

As we might expect, automatic enrolment into an employer's pension scheme had a big effect on financial resilience for retirement (Table 4.2 Model 1), but merely working for an employer offering a pension had no effect at all. So, auto-enrolment clearly has an important role to play in promoting higher levels of retirement provision. This accords with research in the United States and with practical experience in the UK and New Zealand. We therefore, investigated this effect further and found that the mean scores for the minority (28 per cent) of non-retired people who had been automatically enrolled into a work place pension was 61 compared with just 38 for the majority who had not been enrolled.[4] Even so, the score of just 61 suggests that some of these people did not anticipate a substantial private pension, questioning the adequacy of the private pensions that employees had.

Similarly, the type of provision people had made for their retirement was also very important (Model 2). All types of provision were highly significant statistically, relative to having no provision at all, with pensions having the largest effect.

Of the behaviours, only *active saving* had an effect, and this was fairly large in both models, suggesting that people who are inclined to save generally are also inclined to have adequate resilience for retirement.

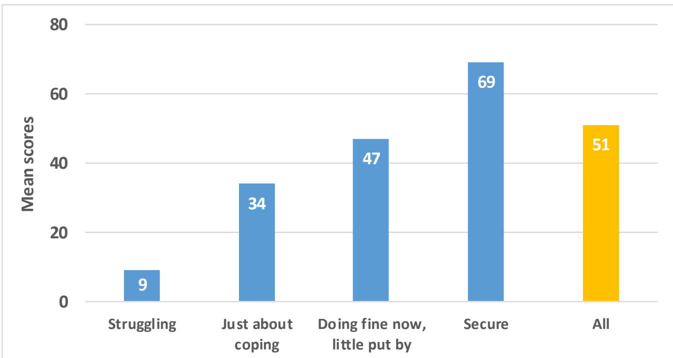
Financial locus of control and *financial confidence* were statistically significant in Model 1 (where pension auto-enrolment was significant) but not in Model 2. A plausible interpretation of this is that both these factors have their effect through increasing the likelihood that people will have made their own provision for retirement.

Finally, it is important to note that the inclusion of the additional factors in the models slightly reduced the effect both of income and also of substantial income and expenditure changes experienced in the past 12 months. The effects of region, however, persisted (Tables 4.1 and 4.2 Model 2).

4.2 People who were already retired

For the remainder of this chapter we shift the focus from the Irish population who had yet to retire to those already in retirement, retrospectively assessing the resilience they had built up when younger. Their average score for financial resilience in retirement was 51, slightly higher than it was for the non-retired population. Again, there was a clear correlation between the scores for financial well-being in retirement and the overall measure of general financial well-being (see Figure 4-6). The scores for retirees who struggled financially was as low 9, and 34 for those who were just about coping. In contrast, people considered financially secure scored 87.

Figure 4-6 Mean scores for financial resilience in retirement at different levels of overall general financial well-being. The retired. Weighted. Ireland 2018. N=366.

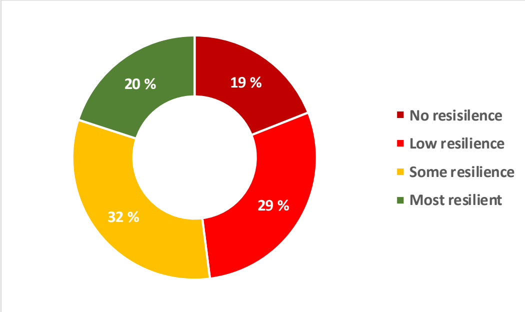


[4] Very similar figures were found for the already retired (60 compared with 41).

Again, we assigned people to one of four groups, according to the level of their scores for financial resilience in retirement:

- *No resilience*: people scoring 25 points or less (19 per cent of the people who were already retired)
- *Low resilience*: people scoring between 25.01 and 50 (29 per cent of the people who were already retired)
- *Some resilience*: people scoring between 50.01 and 75 (32 per cent of the people who were already retired)
- *Most resilient*: people scoring more than 75.01 (20 per cent of the people who were already retired)

Figure 4-7: Financial resilience in retirement. The retired. Percent. Weighted. Ireland 2018. N=366.

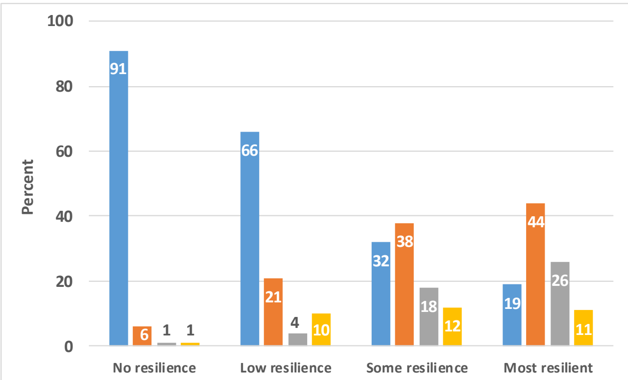


Although the distribution was very similar to those not yet retired, there were slightly fewer retired people in the group with the very lowest level of financial resilience in retirement and slightly more in the group with the highest level. This either means that people already in retirement had made better provision than their younger counterparts were currently making or that younger people were underestimating their anticipated incomes.

In fact, half of retired people had an income from a personal pension or some other form of investment: 41 per cent were drawing on a personal pension, 13 per cent had an income from other investments; 9 per cent had an income from either property and 3 per cent from a business they had set up. This means that, compared with people who were not yet retired, rather more of them had paid into a personal pension (41 compared with 35 per cent) or into other investments (13 per cent compared with 9 per cent). Given the intentions of the non-retired population this gap could be reduced but younger people would be unlikely to have better provision in retirement than those currently retired.

We also looked at how the types of provision retired people were drawing on for their incomes varied across different levels of financial well-being in retirement (Figure 4-5). Nine in ten of those with no financial resilience in retirement had no source of income other than the state pension, a similar level to their younger counterparts. The proportion of retired people with an income from a personal pension, either alone or in conjunction with other investments, increased steadily across the four levels of resilience. So that only 19 per cent of the most resilient group relied on the state pension for their income; 26 per cent had a pension plus some other provision; 44 per cent had a personal pension only; and 11 per cent had incomes from other investments, property or a business.

Figure 4-8: Aggregate types of provisions at different levels of financial resilience in retirement. The retired. Percent. Weighted. Ireland 2018. N: 366



4.2.1 The circumstances and other factors that promoted financial resilience in retirement among people who were already retired

Whereas the people who had yet to retire were answering questions about their anticipated income adequacy/ financial resilience in retirement, those who had already retired were answering about their current circumstances. However, since any provision they had was made before they retired the analysis should only use variables that will have remained more-or-less the same over that time when we explore both the distribution of financial well-being across different groups in the retired population and the factors that appear to determine those levels. In particular, it would not be appropriate to include the financial circumstances variables since they relate to the incomes people had after retirement and not at the time when they were making any provision for their retirement. So they represent the *consequences* of their retirement provision and not their influence on it. Similar arguments relate to current money use behaviours (saving and borrowing in particular), although the components measuring money management *were* included (informed decision-making, informed product choice, budgeting and monitoring finances).

Table 4.3 Financial resilience in retirement. Social characteristics, workplace pension and provisions made. The Retired. Parsimonious models. OLS. Ireland 2018. N=366.

	Financial well-being in retirement Model 1		Financial well-being in retirement Model 2	
	Coeff	Sig	Coeff	Sig
Answering about household and personal money	-2.46		-2.38	
Age, gender and family situation				
Age	0.30	**	0.16	
Female	-0.91		-.006	
Single	-7.43		-5.12	
Divorced	-10.72	***	-7.54	**
Education				
Junior certificate	-22.21	***	-19.11	***
Leaving certificate	-9.18	*	-6.96	*
Vocational qualifications	-2.55		0.93	
Housing Tenure				
Tenants	-5.63		-5.48	
Owners with mortgage	-21.17	***	-22.25	***
Provinces				
Leinster	0.80		-1.09	
Munster	-0.86		-0.93	
Connacht or Ulster	-0.71		-2.66	
Workplace pension				
Employer provided a pension scheme	10.50	*	--	
Was automatically enrolled in workplace pension	3.90		--	
Provision made				
Pension	--		18.50	***
Investment	--		4.84	
Property	--		17.31	***
Business	--		5.00	
Constant	47.04	***	45.10	***
Adjusted R^2	.29		.42	

[1] Age is measured in years. All other variables are dummies coded Yes=1 and 0=No. Reference categories: Education: univ. degree; Tenure: outright owners; Province: Dublin excl. Leinster. Provision made: none

[2] [2] More details in Appendix 3 (parsimonious). Full models controlling for a number of additional variables in Appendix 4 (explorative).

Consequently, the models reported in Table 4.3 are not directly comparable with the ones for people who had not retired (Tables 4.1 and 4.2). The value of these models, however, lies in the fact that we are predicting *actual* levels of financial resilience in retirement, albeit with a more constrained set of possible determining factors.

Again, two models were run – one including two variable capturing access to, and auto-enrolment in, a work-place pension (Model 1) and the other including the type of provision people had made for their retirement (Model 2). In both cases these variables had a large effect (Table 4.3).

Having worked for an employer that provided employees with a pension scheme increased financial well-being in retirement by over ten points compared with people whose employer had not (Model 1). While Model 2 showed that only personal pensions and income derived from property were statistically significant. However, the fact that these models still only explained 29 and 39 per cent of the variation in scores suggests one of two things. First, that some of the people with personal pensions did not find that they provided them with an adequate income. And secondly, that some people with an income from the state pension alone believed that their incomes were adequate for their needs, quite possibly because they were accustomed to living on a low income before retirement. In fact further exploratory analysis suggested that the first explanation was the more important one. Only 8 per cent of retired people with an income from the state pension alone were in the highest levels of financial well-being in retirement. In contrast, 20 per cent of retired people with a personal pension were in the lowest two levels and just 35 per cent were in the group with the highest level of financial well-being in retirement. This, together with other evidence above, suggests that retirement policy needs to address not only the low proportion of the Irish population with personal pensions, but the adequacy of those pensions too.

Turning to the other factors that were tested, financial resilience in retirement was reduced substantially by having been educated to junior certificate level or below (which reduced well-being on this measure by 22 points relative to people educated to degree level or above in Model 1 and 18 points in Model 2). Since we do not have a record of life-time earnings in the model it must be assumed that this very large effect is, in part, a reflection of the fact that people with only minimal education will have been in less well-paid jobs.

Still having a mortgage to pay in retirement had a negative effect of a similar size (compared with both outright owners and tenants) in both models, although this will be because of greater strain on their finances in retirement, it could also be because their mortgages were high, and they had less money to set aside for their retirement when younger. Being divorced, separated or widowed also had a large negative effect on well-being.

It was somewhat surprising to find that, in exploratory models (see Appendix 4) none of the psychological factors were determinants and nor were the money management behaviours.

4.3 Summary

Given the very low scores generally for financial resilience for retirement there is clearly a need for responses to promote greater retirement saving in the non-retired population as a whole. The evidence reported above suggests that this would mean implementing a scheme of auto-enrolment into workplace pensions, as in other countries and currently under discussion for Ireland. But the adequacy of pensions also needs to be addressed. There is evidence that many people with a personal pension are not achieving a high level of financial resilience in retirement.

Insofar as there should be any targeting it would be on part-time workers, only a minority of whom had access to a pension through their employer. It would also tend to focus on people aged under 45 and on people in the lower part of the income spectrum.

In part, initiatives to promote active saving and an acceptance of responsibility for one's own financial outcomes would improve the provision people make for their retirement, but this would be as an adjunct to the promotion of greater access to good pensions in the workplace into which people are automatically enrolled.

Finally, it is important to remember that people who remain out of the labour market for substantial periods through ill-health or disability will almost inevitably have little or even no opportunity to build up any provision for their retirement themselves.   For these people the state pension needs to offer an income that permits a decent standard of living in old age.

5 The Core Financially Capable Behaviours

Now turning to behaviours, Chapter 3 identified three behaviours that stood out as core capabilities with direct effects on financial well-being: *active saving*, *not borrowing for daily expenses*, and *restrained consumer borrowing*. The latter, however, only affected one of the dimensions of well-being: *meeting commitments*. Still, *restrained consumer borrowing* will be treated here as a core capability because of its substantial as well as statistical importance as a route to meeting one's financial commitments.

This chapter begins by examining the average scores for the core capabilities and establishing an analytical approach to improve our understanding of the distribution of those behaviours and the significance they have for promoting financial well-being. Hence, we proceed by looking at how the level of scores varied across the Irish population. Finally, we turn our attention to the factors that promote capable financial behaviours. In both instances, we focus particularly on identifying key characteristics of groups who would be the key target audiences for initiatives to promote better outcomes.

5.1 Average scores for core financial capabilities

As shown in the text box, the *active saving* component is based on four survey questions covering different aspects of saving behaviour, ranging from how frequent and how regularly one saves to efforts made to build up a buffer for the future. The average score was 68 points on a scale from 0 to 100. It indicates that the Irish population was only moderately good at saving in 2018.

Active saving	
c1	How often saves money to cover unexpected expenses
c6	Tries to save money for the future
c7	Tries to save money regularly
c8	Makes sure always has money saved

In contrast, the mean score for *not borrowing for daily expenses* was considerably higher: 86 points. It means that most people seldom used credit to pay for food and other daily expenses or borrowed money to pay off debts and were seldom overdrawn on a current or transaction account. However, as we shall see below, there was also a modest minority with low scores on this component, indicating that they were in a considerably tighter financial situation.

Not borrowing for day to day expenses	
b10	How often uses credit for food and expenses
b11	How often borrows money to pay off debts
b16	How often is overdrawn

These averages cover significant variation in the patterns of action of different social groups. To understand which personal and financial circumstances determined people's inclination toward capable — or sometimes less capable — behaviours, a regression model was developed for each of the core behaviours. Another set of models was developed to identify the key issues and target audiences for raising the capability levels of each of them. These models are reported in the sections to follow.

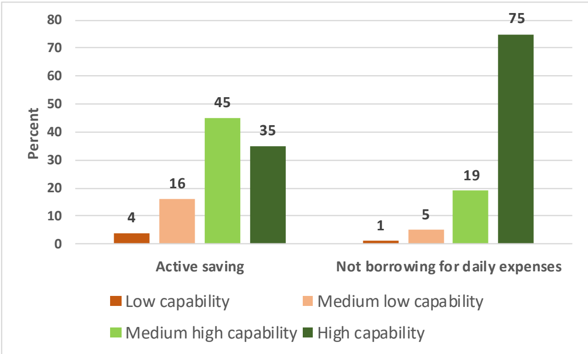
To convey the results from this analysis, key drivers identified by the regression models are presented graphically, using the results from bivariate analysis. For that purpose, we created a categorisation for each of these two behaviours, assigning people to one of four categories:

- Low financial capability: people scoring 25 points or less on the behaviour
- Medium low financial capability: people scoring between 25.01 and 50 on the behaviour
- Medium high financial capability: people scoring between 50.01 and 75 on the behaviour

- High financial capability: people scoring between 75.01 and 100 on the behaviour

Figure 5-1 shows, for each of these behaviours, how the Irish population was distributed across the different levels of core financial capabilities. *Active saving* had the larger spread of scores, and the higher proportion of low and medium low scores: 20 per cent in total. Hence, the distribution confirms what was noted above: that people in Ireland were only moderately good at saving. But it also shows that one fifth of the population either was unable to save or for some other reason did not save even if they could. In contrast, the proportion with high scores on the *not borrowing for daily expenses*, behaviour was high: 75 per cent on Even so, 6 per cent were assigned to the two lowest capability levels on *not borrowing for daily expenses*, indicating that the financial situation was tight in these households.

Figure 5.1 Distribution of core financial capabilities. Percent. Weighted. Ireland 2018. N=1401.



The *restrained consumer borrowing* behaviour comprises four measures including: the number of credit cards not paid off in full each month, the number of consumer loans held as well as the total amounts borrowed on these two types of unsecured credit. Although the principal components analysis resulted in a meaningful score for this behaviour which could be used in the regression analysis, it was not possible to rescale it from 0 to 100 as there was no fixed upper end to the amounts borrowed on cards and consumer loans. However, the data shows that whereas 60 per cent had no credit commitments including any use of equity release for consumption purposes, 6 per cent had three or more. And many of those who had taken out unsecured credit had done so extensively. In fact, the median amount owed (excluding equity release) by people with credit commitments was 8,796 Euros.

Restrained use of consumer credit	
numcards	Number of credit cards
numloans	Number of consumer loans (unsecured and secured)
totcards	Total amount owed on credit cards
totloans	Total amount owed on unsecured loans

5.2 Personal and financial circumstances that determine core financial capabilities

To understand further how core financial capabilities were distributed in the Irish population, we now turn to the regression models developed for each of the behaviours. The first set of models identifies how the scores vary across social groups and what characterises people with low as well as high capabilities.

The results are reported in Table 5.1 below. As in previous chapters, each model in the table included the same variables, regardless of their level of statistical significance, to facilitate direct comparison of the size of the effects of individual variables across three different behaviours. All models performed fairly well, each explaining between 13 per cent (*restrained consumer borrowing*) and 23 per cent (*active saving*) of the variation.

The independent variables of the three financial capabilities are grouped in the table under seven headings. The first two refer to basic economic circumstances, such as income, changes in income and expenditure and economic activity status. The variables under the remaining five headings measure

Table 5.1 Core capable behaviours. Social and economic characteristics.[1] Parsimonious models. OLS. Ireland 2018. N=1401 [2]

	Active saving		Not borrowing for daily expenses		Restrained consumer borrowing	
	Coeff	Sig	Coeff	Sig	Coeff	Sig
Answering about household and personal money	8.36	***	5.25	***	0.67	
Income & expenditure						
Income	0.0001	***	0.00003		-0.00001	
Income drop	-5.58	**	-6.30	***	-0.27	
Income increase	6.06	**	-1.87		-1.35	*
Expenditure increase	-4.99	***	-4.31	***	-1.77	***
Economic activity status:						
Working full-time	1.01		-3.70	*	-1.80	**
Working part-time	-4.88	*	-3.23		-0.58	
Self-employed	1.00		-6.67	*	-5.18	***
Unemployed	-16.29	***	-5.08	*	0.76	
Disabled	-10.74	**	0.17		-0.47	
Not working for other reasons than retired	-2.48		-0.61		-0.44	
Age						
u/30	-2.68		2.71		0.38	
30-44	-2.34		-1.01		-0.87	
45-59	-2.08		-2.10		-0.67	
Gender and family situation						
Women	3.99	***	0.10		-0.03	
Single	-4.73	**	-2.50		0.43	
Divorced	-1.99	*	-2.08		0.02	
Number of dependent children under 18	-0.91		-0.45		0.00	
Education						
Junior certificate	-9.25	***	-2.09		1.23	*
Leaving certificate	-3.88	**	-0.44		0.91	*
Vocational qualifications	-3.04		-2.23		-1.06	*
Housing Tenure						
Tenants	-3.93	**	-6.41		-0.92	*
Owners with mortgage	-2.73		-2.46		-1.52	**
Provinces						
Leinster	0.19		7.43	***	-0.70	
Munster	4.80	***	10.61	***	0.45	
Connacht or Ulster	10.06	***	11.17	***	2.19	***
Constant	56.66	***	81.68		97.34	***
Adjusted R2	.23		.14		.13	

[1] Income is measured in Euros. Number of children: Min/max: 0/8. All other variables are dummies coded Yes=1 and 0=No. Reference categories: Ec. activity status: the retired; Age: 60+; Education: univ. degree; Tenure: outright owners; Province: Dublin excl. Leinster.
[2] More details in Appendix 5 (parsimonious). Full models controlling for a number of additional variables in Appendix 6 (explorative).

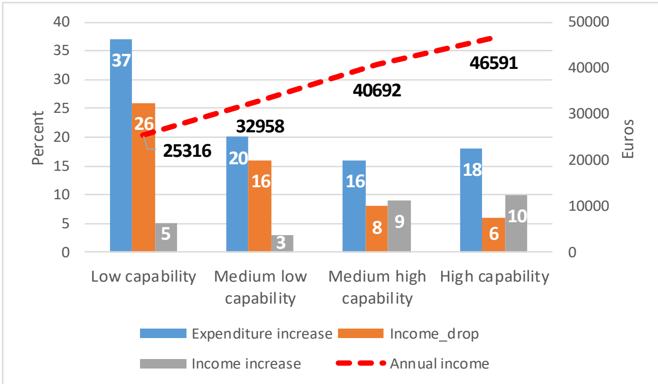
key personal characteristics, including age, gender and family situation and education, as well as housing tenure and the province lived in. As can be seen from the stars in the table, which denote levels of statistical significance, the various explanatory variables have different influence across the three behaviours. We shall look at them in turn.

5.2.1 Active saving

The results from the regression model (Table 5.1) suggest that *active saving* was largely dependent on economic factors but was also associated with higher levels of education and place of residence. In addition, certain personal characteristics such as gender and marital status matter.

Beginning with the economic situation, it is not a surprise that people's inclination towards saving increased with income (Table 5.1). This is clearly illustrated by the bivariate analysis reported in Figure 5-2 (the red dotted line), showing that the mean income for those with the lowest scores for *active saving* was around 25,000 Euros whereas it was nearly 46,600 Euros among the most capable savers.

Figure 5-2: Active saving and income. Percent & Euros. Weighted. Ireland 2018. N=1401



Even when income level was controlled, saving behaviour was also impacted by substantial changes in income (Table 5.1). For instance, the proportions of people having experienced a substantial increase in expenditure or a substantial drop in income over the last in the past twelve months were clearly higher among the least capable savers (Figure 5-2). The opposite was true for those who had seen a substantial increase in income; the proportion of such households was 10 per cent among the most capable, compared with 5 per cent among the least capable. Hence, the general picture emerging from Figure 5-2 is quite clear: people with low scores on *active saving* had the lowest average income, few of them had experienced a substantial rise in income, and a sizeable minority had recently had a substantial income drop or expenditure increase. Needless to say, these are all circumstances that — individually or combined — reduce the ability to save.

Moreover, at all levels of income and irrespective of recent changes in income and expenses, being either unemployed or unable to work through ill-health or disability determined the level of active saving. The regression analysis (Table 5.1) shows that both groups had much lower scores for active saving than retired people, who had the highest scores of all

Figure 5-3: Active saving and economic activity status. Percent. Weighted. Ireland 2018. N=1401

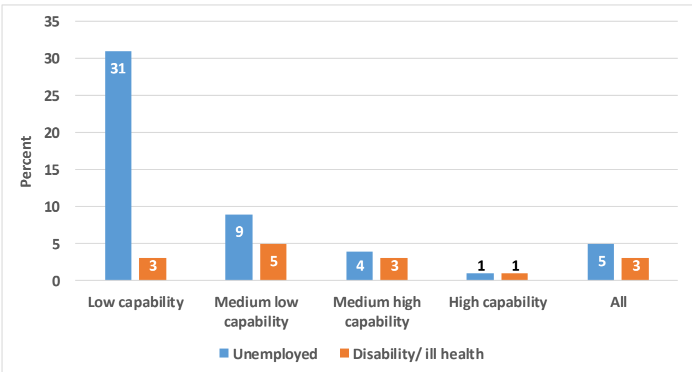
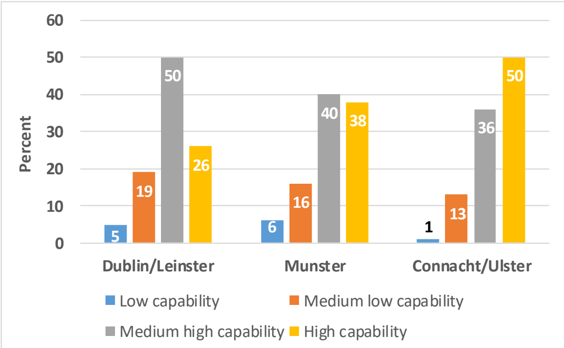


Figure 5-3 tells the same story but using bivariate analysis. It shows that unemployed people were significantly over-represented among people with low saving capability, while people who were outside the labour market because of ill-health or disability were slightly over-represented in the group with medium low scores.

Education also had an impact on the level of *active saving*. Those who left school with a Junior Certificate or no qualifications at all scored particularly low and much lower than university level graduates (Table 5.1). Further bivariate analysis showed that they also totally dominated the group with the lowest scores for active saving, 50 per cent of whom only had been educated to Junior Certificate level or below.

Equally striking is the spread of scores for *active saving* across the provinces. Both Munster and Connacht/Ulster stood out as regions with higher scores compared to Dublin, whereas there was no statistically significant difference between Leinster and Dublin (Table 5.1).

Figure 5-4: Active saving by province. Percent. Weighted. Ireland 2018. N=1401



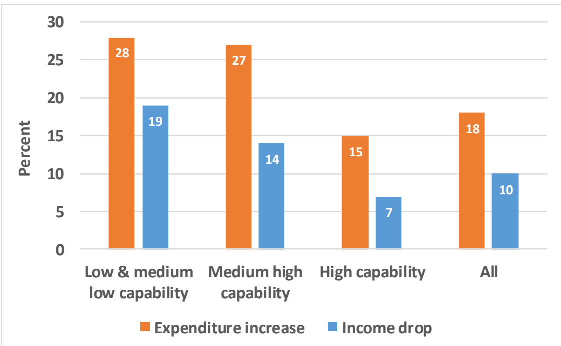
As shown in Figure 5-4, the highest proportions of committed savers were found in Munster and Connacht/Ulster; while Dublin and Leinster accounted for the largest proportions of the least capable savers. Active saving is, in other words, more typical for people living outside the Dublin/Leinster area.

Finally, we note that people who managed both personal and household money scored higher on *active saving* than those who managed only their personal finances. And women were more active savers than men. On the other hand, tenants had slightly lower scores than outright owners, and people who were single and never married or divorced, separated or widowed persons had lower scores than couples (Table 5.1).

5.2.2 Not borrowing for daily expenses

As shown in section 5.1 above, the average score on this behaviour was high, 86 out of 100, and 94 per cent of the population belonged to one of the two high-score categories — i.e. they were occasional or non-borrowers for daily expenses (Figure 5-1). The remaining 6 per cent had low or medium low levels of capability and appeared to be regular or sporadic borrowers. Since a large majority avoided borrowing for daily expenses it becomes harder to find distinguishing characteristics for social groups that deviate from mainstream patterns of behaviour. Still, the model in Table 5.1 offers some important insights.

Figure 5-5: Not borrowing for daily expenses and income change. Percent. Weighted. Ireland 2018. N=1401



In contrast to *active saving*, which was broadly income-related, *not borrowing for daily expenses* was predominantly a matter of changes in the households' financial situation. Controlling for income level, substantial income drops and expenditure increases over the last twelve months both particularly affected the scores negatively (Table 5.1).

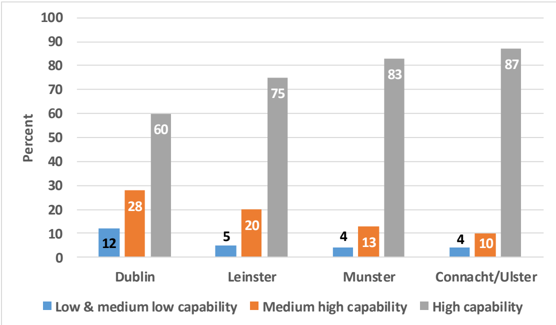
Figure 5-5 shows that people who had been exposed to these events were over-represented among those exhibiting lower levels of borrowing capability. [5] This was particularly visible in the low/medium low capability group, 28 per cent of whom said they had faced a substantial rise in expenditure and 19 per cent a substantial drop in income. This suggests that, regardless of income, the financial strain that follows an income or expenditure shock had triggered a need to borrow to meet daily needs among these people. However, it should also be noted that the proportions having been exposed to expenditure increase and income drops were also quite substantial in the high capability group as well — 15 per cent and 7 per cent respectively. The fact that borrowing by these people for daily expenses is less likely, suggests that borrowing is not inevitable following an economic shock.

Beyond income and expenditure changes, economic activity status also seems to be important. Compared with retired people, full-time employees (but not part-time ones) tended to have lower scores. This was even more the case for people who were unemployed or self-employed. But being unable to work through ill-health or disability seemed to have no effect. (Table 5.1). In other words, it was people who had left the labour market and lived on fixed incomes who seemed to avoid this kind of borrowing.

Not borrowing for daily expenses also varied considerably by place of residence. The further away from Dublin people lived, the higher their scores, and hence the lower their likelihood of engaging in this kind of financial behaviour. The difference in scores between residents of Dublin and Connacht/Ulster was considerable (Table 5.1). This suggests that the tendency to borrow for daily expenses is predominantly a characteristic of living in Dublin since income and other economic circumstances are included in the model.

Figure 5-6 shows the pattern identified in bivariate analysis. Again, a three-level capability variable was used. The proportion of non-borrowers varied from 60 per cent in Dublin to 87 per cent in Connacht/Ulster. Dublin also stood out with 12 per cent of its population being the least capable borrowers.

Figure 5-6: Not borrowing for daily expenses by province. Percent. Weighted. Ireland 2018. N=1401



Finally, the model in Table 5.1 shows that people who managed both personal and household money were less likely to borrow for daily consumption than those who managed only their personal finances.

5.2.3 Restrained consumer borrowing

Consumer borrowing is also a behaviour that seems to be avoided by many Irish people. However, the amounts owed by some of those who were borrowing was quite substantial. While 60 per cent of the Irish population had no outstanding credit commitments at all, 24 per cent had one, 10 per cent had two and the rest (6 per cent) had three commitments or more. Moreover, the average amount owed by borrowers was 8,796 Euros and 23 per cent of the population had borrowed 10,000 Euros or more.

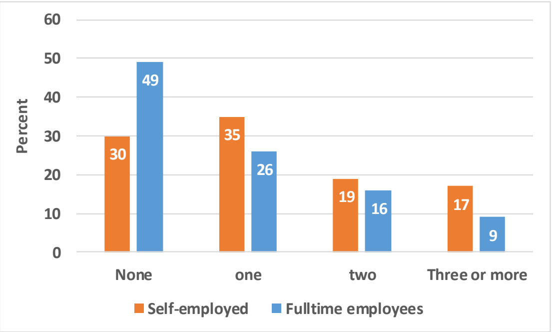
The model in Table 5.1 shows the characteristics of those who were borrowing. This shows that, controlling for income (which was not statistically significant), both substantial increases in income and substantial expenditure increases over the last twelve months were associated with lower scores and

[5] Since the number of observations in the low-score category is low (see Figure 5-1), the low and medium-low categories have been merged in Figures 5-5 and 5-6.

hence a higher tendency to engage in consumer borrowing. Intuitively it makes sense that households may turn to unsecured credit to solve challenges related to increased expenses. This is a well-known strategy in many countries. But that rises in income should lead to the same is perhaps less intuitive. Still, there is a feel-good factor about substantial income increases, and it may be seen as a chance to meet currently suppressed needs or to finance previously unattainable consumer ambitions by taking out a loan or borrowing on cards. If so, this could even be seen as responsible borrowing, which could be why it had a much more modest effect on financial well-being than either *active saving* or *not borrowing for daily expenses*. The effect of income increases was, however, rather moderate in terms of both the size of the effect and statistical significance (see Table 5.1).

Compared with retired people, full-time employees and, especially, people who were self-employed had a greater tendency towards borrowing for consumption (see Table 5.1). The bivariate analysis in Figure 5-7 shows that 49 per cent of the full-time employees had no unsecured credit commitments, compared with the national average of 60 per cent. The proportion of people with no such commitments was even lower among the self-employed (30 per cent) than it was for full-time employees. The data offer no insights into the causal mechanisms behind these findings. However, full-time employees are likely to feel secure financially, and hence more able to borrow. Self-employed, on the other hand, may face fluctuating incomes and also fluctuating liquidity in their business, for which personal, unsecured, credit is one possible solution.

Figure 5-7: Number of unsecured credit commitments including equity releases by economic activity status. Percent. Weighted. Ireland 2018. N=1401



The analysis further disclosed a relationship between housing tenure and borrowing for consumption (Table 5.1). Both tenants and mortgagors had a stronger tendency towards consumption borrowing than had outright owners. High rent or large mortgages appear to be plausible explanations for this behaviour. There was also a weak, but still statistically significant, effect of education, where people educated to Junior Certificate (or below) or Leaving Certificate levels were more likely to exercise restrained consumer borrowing than were university level graduates. But people with vocational qualifications were less likely to do so.

Finally, inhabitants of Connacht/Ulster had significantly higher scores than people living in Dublin or elsewhere, indicating that restrained consumer borrowing is more common in these two provinces.

5.3 Promoting core financial behaviours

We now turn our attention to the factors that promote capability for these core financial behaviours. Again, we proceed by extending the models for social and economic characteristics in Table 5.1 with a range of new variables that capture areas that are amenable to financial education and other initiatives to raise levels of capable behaviours. This will allow us to identify measures that promote the capabilities in question and, in turn, improve the levels of financial well-being as described in Chapter 3.

Table 5.2 Factors that promote core financial behaviours.[1] The results are controlled for a number of social and economic environment factors. OLS. Ireland 2018. N=1401 [2]

	Active saving		Not borrowing for daily expenses		Restrained consumer borrowing	
	Coeff	Sig	Coeff	Sig	Coeff	Sig
Answering about household and personal money	3.22	*	1.08		-0.55	
Behaviours						
Spending restraint (beh1s)	0.28	***	0.16	***	0.05	***
Informed decision-making (beh5s)	0.11	***	-0.01		0.001	
Knowledge and experience						
Knowledge of money management (kn1s)	0.04		-0.01		-0.04	***
Experience of money management (kn3s)	-0.05		0.06	*	0.04	***
Experience of financial-product marketplace (kn4s)	0.10	**	0.01		-0.04	***
Understanding of risk (kn5s)	0.00		0.05	*	0.05	***
Personality traits						
Time orientation (tos)	0.10	***	0.002		-0.01	
Impulsivity control (imps)	-0.01		0.05	*	-0.01	
Social status (socs)	-0.11	***	0.04		0.03	**
Confidence and control						
Financial locus of control (locs)	0.25	***	0.12	***	0.02	
Attitudes to spending, saving and borrowing (att1s)	0.10	***	0.12	***	0.02	
Financial education						
Parents talked about managing money or saving (e6)	2.79	***	0.26		0.64	
Taught about money or saving in school (e7)	2.48	**	0.50		0.01	
Financial circumstances						
Income	0.0001	**	-0.00001		-0.000003	
Income drop	-3.46	*	-6.23	***	-0.40	
Income increase	3.55	*	-1.77		-1.26	
Expenditure increase	-4.00	***	-3.77	***	-1.63	***
Constant	12.23	*	47.76	***	88.99	
Adjusted R^2	.48		.25		.19	

[1] All variables under the headings behaviours, knowledge and experience, personality traits and confidence and control are components derived from factor analysis that are standardised to vary between 0 and 100. Income is measured in Euros. All other variables are dummies coded Yes=1 and 0=No.

[2] Table 5.2 is an extract of a full parsimonious model reported in Appendix 5. Explorative models leading to the parsimonious model are reported in Appendix 6.

The new factors introduced to the analysis include the behaviours that did not have a direct effect on financial well-being, as well as factors that sit further back in the conceptual model; measures of financial knowledge and experience, personality traits, attitudes to spending, saving and borrowing, financial confidence, financial locus of control, and financial education at school and at home. The full (parsimonious) model is reported in Appendix 5. Table 5.2 above shows extracts from that model, highlighting the factors that are likely to raise the levels of the core financial behaviours.

All three models performed well. The one for *active saving* explained 48 per cent of the variation, while the two others accounted for 25 per cent (*not borrowing for daily expenses*) and 19 per cent (*restrained consumer borrowing*).

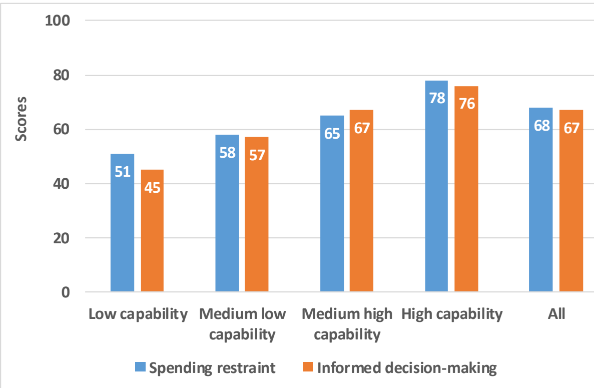
The discussion of each of the three behaviours in the sections to follow is based on Table 5.2, which identifies the factors that have the greatest impact, when all others are taken into account. As before, featured bivariate results are also presented graphically. For that purpose, we use the categorisation of the core behaviours that was described in section 5.1.

5.3.1 Promoting active saving

The biggest influence on *active saving* was another behaviour: *spending restraint.* In fact, an increase in the score on this component would lead to substantial increase on *active saving*. A second behaviour, *informed decision-making* also had a fairly substantial effect (see Table 5.2). So, although neither of these behaviours were found to have direct effects on *general financial well-being* or any of its specific dimensions (see Chapters 3 and 4), they do appear to have an indirect effect through *active saving* — and, as we shall see below, also through *not borrowing for daily expenses* and *restrained consumer borrowing*.

The bivariate analysis in Figure 5-8 shows the mean scores for *spending restraint* and *informed decision-making* for the four levels of *active saving*. The relationships appear to be linear, with the lower scores found at the lower levels of capability for both behaviours. More specifically, the scores for *informed decision-making* increased steeply across the four levels of *active saving*, from 45 index points among people with low capability to 76 points among the most capable savers. *Spending restraint* displayed a similar pattern with the highest score at 78 among the most capable savers but starting at a somewhat higher base (51 points) for those with the lowest level of capability. Hence, both cautious spenders and people who ensure they are well-informed before making decisions about their finances consistently appear as more capable of saving — or, for other reasons, more likely to save.

Figure 5-8: Mean scores on spending restraint and informed decision-making at four levels of active saving. Weighted. Ireland 2018. N=1401

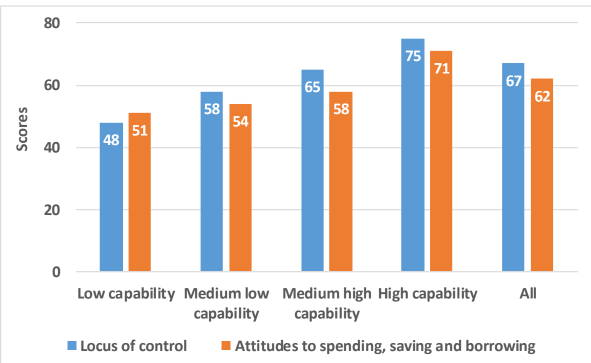


The second-biggest influence on *active saving* was *financial locus of control*. According to the model in Table 5.2, an increase in this measure is expected to raise the score on *active saving* substantially. This indirect effect through *active saving* is in addition to the direct effect that it has on financial well-being.

Attitudes to spending, saving and borrowing also affected people's inclination to save, but with only half the effect of *financial locus of control*.

The bigger influence of *financial locus of control* is apparent in Figure 5-9, with a steep increase from 48 points among the least capable savers to 75 points among the most capable. In other words, believing that you are responsible, yourself, for what happens to you financially rather than being at the mercy of forces that are beyond your control, typically turns people into

Figure 5-9: Mean scores of financial locus of control and attitudes to money at four levels of active saving. Weighted. Ireland 2018. N=1401

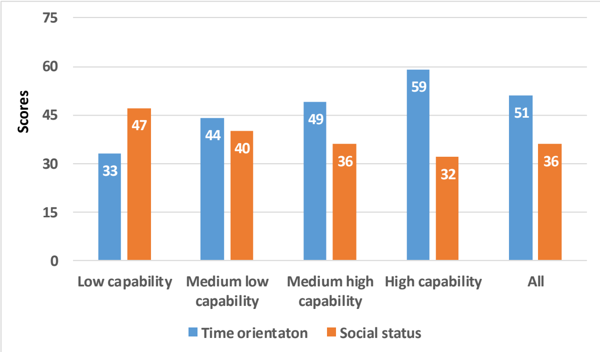


active savers. The pattern was less pronounced for *attitudes to spending, saving and borrowing*. Even so, the most active savers held slightly more conservative attitudes than the least capable ones, with scores at 71 and 51 respectively.

Two of the personality traits also affected people's saving behaviour, but in opposite directions. Whereas having a long-term *time orientation* had a positive effect, lack of concern about *social status* reduced the inclination to save all other things being equal. Numerically, the effects were about the same magnitude (Table 5.2).

The bivariate analysis in Figure 5-10 shows how the mean scores for these two personality traits varied across the four levels of active saving. Taking time orientation first, people who thought in the long term were also likely to be active savers, with the mean score for time orientation increasing from 33 index points among the least capable savers to 59 points for the most capable ones. Not being concerned about one's social status, in terms of how one is seen and respected by others, tended to lead to *less* active saving. As the figure shows, the mean score for social status was as low as 32 index points among the most active savers, as compared to 47 points among the least capable ones. One possible interpretation of this is that saving may be viewed as enhancing one's social status.

Figure 5-10: Mean scores of time orientation and social status at four levels of active saving. Weighted. Ireland 2018. N=1401



When we controlled for these additional factors, the impact of financial circumstances on active saving remained (Tables 5,1 and 5.2), with active saving being more common among people with higher incomes and those who had had a recent substantial increase in income. On the other hand, capable saving behaviour was vulnerable to income drops and, in particular, expenditure increases. These results indicate that even when other factors are controlled, income and financial shocks also have indirect effects on financial well-being in addition to the direct effects noted in Chapters 3 and 4.

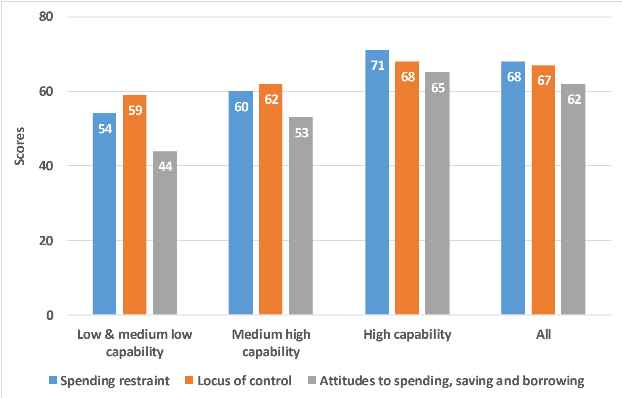
Finally, it should be noted that financial education was important. Both being taught about money in school and by parents increased saving capability. On the other hand, of the knowledge and experience indicators, only *experience of the financial market-place* had a statistically significant effect on active saving, which is, perhaps, unsurprising since saving involves engagement in the financial market. Also, people who managed both household and personal money had, on average, higher scores for active saving than those who only managed their personal money. (Table 5.2)

5.3.2 Promoting not borrowing for daily expenses

This behaviour was predominantly driven by *spending restraint*, *attitudes to money* and *financial locus of control*, other things being equal. Numerically, the effects were of about the same magnitude (see Table 5.2).

The bivariate analysis in Figure 5-11 shows how the average scores for these factors varied across the three levels of capability for *not borrowing for daily expenses*. As we see, the scores for *spending restraint* increased from 54 index points among the people with low and medium low capability to 71 points among the most capable. A similar pattern was found for *financial locus of control*, with comparable scores for this measure rising from 59 to 68 points. As for *attitudes to spending, saving and borrowing*, the scores started at a much lower base (44 points) among the least capable borrowers, rising to e 65 points among the most capable ones. The general picture is, in other words, that people who did *not borrow for daily expenses* were also the people who tended to curb spending, held conservative attitudes to money and accepted responsibility for their own financial situation. All of which is logical.

Figure 5-11: Mean scores of restrained spending, financial confidence and attitudes at three levels of not borrowing for daily expenses. Weighted. Ireland 2018. N=1401



Again, the effects of income drop, and expenditure increases on *not borrowing for daily expenses* were hardly affected at all by the inclusion of the additional factors in the regression model (Tables 5.1 and 5.2). Both continued to have a negative effect and the impact of a substantial fall in income was particularly notable. These results suggest that financial shocks have an indirect effect on financial well-being in addition to the direct effects identified in Chapters 3 and 4.

Finally, Table 5.2 indicates that *not borrowing for daily expenses* was positively related to one's *experience of money management* and *understanding of risk*, and also to impulsivity *control*, all other things being equal. But these effects were weak both in magnitude and statistical significance. Financial education did not seem to affect capable behaviour with respect to this kind of borrowing.

5.3.3 Promoting restrained consumer borrowing

The analysis suggests that this behaviour was predominantly driven by knowledge and experience. Whereas *experience of money management* and *understanding of risk* tended to raise the scores for restrained consumer borrowing, *knowledge of money management* and *experience of the financial product marketplace* had a negative effect. This means that better knowledge and more experience in terms of managing money and using financial products makes people less likely to borrow for consumption. The effects are rather modest in magnitude, though.

In addition, the model in Table 5.2 identified a small positive effect of *spending restraint*. There was also a corresponding small influence of *social status*. Interestingly, this effect was positive, suggesting that consumer borrowing is not seen as something that gives status in social relationships, unlike saving.

It is interesting to note that having experienced a substantial income increase was no longer statistically significant when controlling for the additional variables (Tables 5.1 and 5.2). Of the financial shock indicators, only the effect of a substantial expenditure increase persisted. People who had experienced substantial rises in expenses over the last twelve months had lower scores for *restrained consumer* *borrowing*. This indicates that, for some people, unsecured loans were the chosen solution to the financial imbalance that occurred. Taken together, this analysis also suggests that expenditure increases have an indirect effect on one of the financial well-being sub-dimensions (*meeting commitments*) through their impact on restrained consumer borrowing, which is in addition to the direct effects identified in Chapters 3 and 4.

5.4 Summary

Looking across the three behaviours considered in this chapter, raising the levels of capability would best be achieved by focussing, first and foremost, on *active saving*, and next on *not borrowing for daily expenses*. In both cases, the biggest gains would be through interventions to promote spending restraint. The next largest gains would be accomplished by addressing issues around financial responsibility (financial locus of control) and attitudes to saving, spending and borrowing. Further gains would be obtained by encouraging financial education at home and in school. In the case of active saving, interventions designed to improve informed decision-making should also be considered. The success of all these measures presupposes the existence of adequate and safe saving products, as well as good alternatives to borrowing for daily expenses.

As for *restrained consumer borrowing*, although the majority of the Irish population had no consumer credit commitments, there was also some evidence that lack of spending restraint and a concern about social status was fueling higher levels of borrowing for a small number of people. Putting the evidence together, although for the most part borrowing levels were low and taken on responsibly, a small number of people were borrowing to facilitate a consumer lifestyle that was beyond their means and this can lead to an inability to meet current commitments. These are the types of people would be likely to be in contact with MABS (the Money Advice and Budgeting Service) and it is here that any initiatives would take place.

The target groups for interventions would vary depending on which behaviour is under consideration. To raise saving capabilities, low-income groups and financially unstable households would probably be among the most important to reach. The same goes for people with lower levels of education and marginalised groups such as the unemployed and people out of the labour market because of ill-health or disability. But it is also important to remember that the analysis shows that income levels as well as financial capability affects people's ability to save.

As for *not borrowing for daily expenses* people experiencing financial shocks seem to be the main group to target, especially at the point where they experience a substantial fall in income. For both behaviours, the Dublin area should be prioritised.

A specific challenge is related to reaching people who are only responsible for their personal money, who systematically scored lower on these behaviours than those who answered about both household and personal money. For the most part they will be young people.

6 Behaviours with Indirect Effects on Financial Well-Being

In this chapter, we consider two additional behaviours: *spending restraint* and *informed decision-making*. They have in common that they do not have direct effects on financial well-being (see Chapter 3), but instead affect those measures indirectly through one or more of the three key behaviours (see chapter 5). Even though they sit behind in the chain of influences, they are nevertheless important capabilities to watch, both to understand the mechanisms responsible for the unequal distribution of financial well-being across the Irish population, and to target interventions to improve capability levels in selected segments of the population.

The chapter is organised in the same way as the previous ones. It begins by examining the average scores for the two capabilities, and then proceeds to look at how levels of scores vary across the Irish population. We then turn our attention to the factors that promote capable financial behaviours. In both instances, we particularly focus on identifying key characteristics of groups who would be the key target audiences for initiatives to promote better outcomes.

6.1 Average scores for the two behaviours

The *spending restraint* component is based on four indicators, measuring the extent to which one is more of a saver than a spender, considers needs before buying, does not buy things one cannot afford and avoids running out of money because of high consumption (see text box). The mean score on this component was 68 on a scale from zero to 100, suggesting that the Irish population was only moderately good at restraining their spending.

Spending restraint	
b8	Lack of money because high consumption
b9_new	Before buys something considers carefully whether really needs it
b20	Impulsive, buys things cannot afford
b24	Is more of a saver than a spender

Informed decision-making measures the extent to which one tries to stay informed about money matters, makes informed financial decisions and spends time considering options before deciding on an alternative. The three indicators used to define this component are shown in the text box to the right. The average score was 67 out of 100, which again suggests that the capability among the Irish population in this area is only moderately high.

Informed financial decision-making	
d12	Always gets information when has financial decision to make
d20x	Tries to stay informed about money matters
D21x	Spends lot of time considering options before making financial decisions

However, there is a large variation around the average score on both of these components. Using the same categorisation as we did for the core behaviours (see Chapter 5), Figure 6-1 illustrates how the respondents were distributed across the different capability levels of *spending restraint* and *informed decision-making* respectively. The two distributions are quite similar, and confirm what was noted above, that the Irish population, as a whole, seems to be moderately good at restraining

Figure 6-1 Distribution of scores for spending restraint and informed decision-making. Percent. Weighted. Ireland 2018. N=1401.

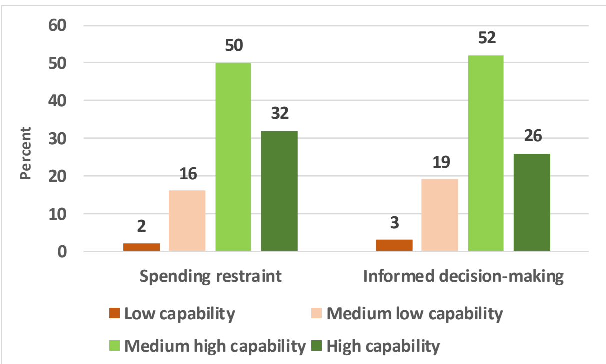


Table 6.1 Spending restraint and informed decision-making. Social and economic characteristics.[1] Parsimonious models. OLS. Ireland 2018. N=1401 [2]

	Spending restraint		Informed decision-making	
	Coeff	Sig	Coeff	Sig
Answering about household and personal money	5.91	***	8.64	***
Income & expenditure				
Income	0.0001	**	0.0001	***
Income drop	-1.55		-1.88	
Income increase	0.48		5.67	**
Expenditure increase	-2.42		-1.05	
Economic activity status:				
Working full-time	0.63		4.22	*
Working part-time	-3.81	*	1.61	
Self-employed	-0.18		5.04	
Unemployed	-3.71		-2.50	
Disabled	-1.00		-2.82	
Not working for other reasons than retired	1.52		0.52	
Age				
u/30	-6.34	***	-3.52	*
30-44	-4.03	**	-2.96	
45-59	-3.19	*	-1.64	
Gender and family situation				
Female	-0.91		2.98	**
Single	-0.06		-0.43	
Divorced	0.67		-1.99	
Number of dependent children under 18	0.39		-0.97	
Education				
Junior certificate	-1.57		-7.25	***
Leaving certificate	-0.96		-2.84	*
Vocational qualifications	1.36		-1.61	
Housing Tenure				
Tenants	-4.18		-2.88	*
Owners with mortgage	-2.82		1.33	
Provinces				
Leinster	5.23	***	2.41	
Munster	7.71	***	6.55	***
Connacht or Ulster	8.44	***	8.43	***
Constant	61.42	***	50.57	***
Adjusted R^2	.11		.16	

[1] Income is measured in Euros. Number of children: Min/max: 0/8. All other variables are dummies coded Yes=1 and 0=No. Reference categories: Ec. activity status: the retired; Age: 60+; Education: univ. degree; Tenure: outright owners; Province: Dublin excl. Leinster.
[2] More details in Appendix 5 (parsimonious). Full models controlling for a number of additional variables in Appendix 6 (explorative).

spending and making informed financial decisions. Just around 50 per cent scored medium high on both components, and another 26 to 32 per cent were categorised as highly capable. On the other hand, 18-22 per cent of the respondents were in the low or medium low categories, suggesting that around one fifth of the Irish population fares badly with respect to these capabilities.

The following sections are based on the regression models in Table 6.1. However, to convey the results from those models, Figures 6-2 to 6-5 present bivariate analysis of the key factors identified in the model graphically for the four levels of capability for each of the behaviours.

6.2 Circumstances determining the distribution of spending and decision-making capabilities

The first set of regression models seeks to identifying the financial and personal circumstances behind the unequal distribution of spending and decision-making capabilities in the Irish population. In other words, the models are designed to capture key characteristics of people with low as well as high capabilities.

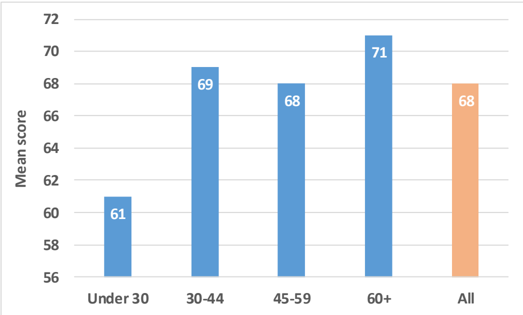
The results are reported in Table 6.1. As in previous chapters, each model included the same variables, regardless of their level of statistical significance, to facilitate direct comparison of the size of the effects across the two behaviours. The models explained 11 per cent (*spending restraint*) and 16 per cent (*informed decision-making*) of the variation in scores, respectively.

6.2.1 Spending restraint

The analysis in Table 6.1 suggests that *spending restraint* is predominantly determined by income, age and place of residence. As for income, the model indicates that higher-income groups are better at curbing consumption. The most likely explanation for this finding is that several of the survey questions defining spending restraint are not completely income neutral. For instance, to be more of a saver than a spender presupposes a certain level of income if one is to have a real choice between saving or spending some of it. We should not, therefore, conclude that people on low incomes do not exercise spending restraint; they may do so in other ways than reflected by the survey questions.

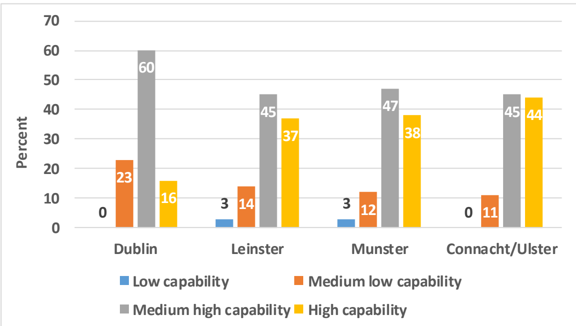
There was a clear influence from age and spending restraint seems to be a capability that is acquired over the years. As the bivariate analysis in Figure 6-2 shows, the mean scores rose from 61 among the under 30s to 71 among the people aged over 60 — a difference of ten index points. The 30-44 and 45-59 age groups both scored around the overall mean of 68.

Figure 6-2 Mean scores for spending restraint in different age groups. Weighted. Ireland 2018. N=1401



An equally important determinant of *spending restraint* was place of residence (see Table 6.1). Figure 6-3 shows that Dublin stood out, with far fewer people exercising high levels of spending restraint, compared with other regions of Ireland. The proportion of high scores was substantially greater in other parts of Ireland: 37 per cent in Leinster, 38 per cent in Munster and 44 per cent in Connacht or Ulster, compared with 16 per cent in Dublin.

Figure 6-3 Levels of spending restraint by province. Percent. Weighted. Ireland 2018. N=1401

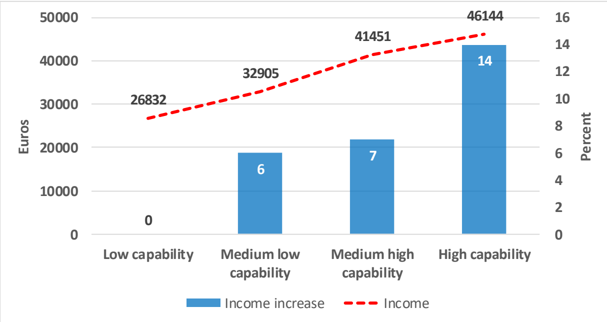


Finally, we note that people who managed both personal and household money scored higher on *spending restraint* than those who managed only their personal finances (see Table 6.1). And part-time employees had much lower scores than retired people – and, indeed, lower than people in all other economic activity categories (Table 6.1).

6.2.2 Informed decision-making

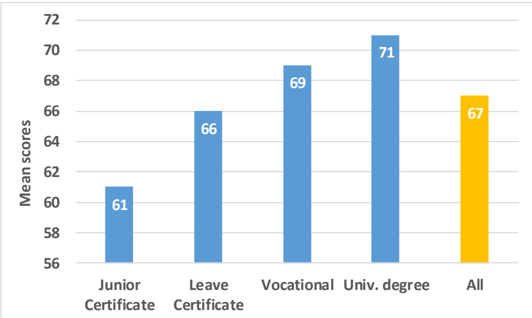
Informed decision-making was affected by a larger range of factors than *spending restraint*. To begin with financial circumstances, both income and income increases played a stronger role. Higher-income households, and people who recently had a substantial rise in incomes, typically scored higher on this component, all other things being equal, suggesting that they were better informed when making financial decisions. Figure 6-4 shows how both mean incomes and the proportion of people who had experienced a recent income increase rose as the level of informed decision-making rose. The dotted red line suggests that there was a significant income gap (over 19.000 Euros) between people engaging in the in the lowest level of informed decision-making and those in the highest. And while nobody with low capability for informed decision-making had experienced a substantial rise in income during the last twelve months, 14 per cent of the people with the highest level of capability had experienced one.

Figure 6-4 Informed decision-making. Mean annual income (Euros) and recent income increases (percent). weighted. Ireland 2018. N=1401



Unlike *spending restraint*, which was clearly linked to age differences, only the youngest age group stood out with significantly lower scores on *informed decision-making* compared to people aged 60 or more, when other factors in the model were taken into account. On the other hand, education played an important role. In general, people with lower levels of education were less inclined to make informed financial decisions, all other things being equal (see Table 6.1). The bivariate analysis in Figure 6-5 illustrates the effect of education in terms of mean scores on *informed decision-making* at different educational levels, rising from 61 points among those who left school at Junior Certificate level or earlier, to 71 points among holders of university degrees. In the larger model reported in Table 6.1, the same tendency appears in terms of mean differences in scores controlled for many other influences. For instance, the difference between people with the lowest level of education (no formal education or Junior certificate) on the one hand, and holders of university degrees on the other, was around seven index points on average.

Figure 6-5 Mean scores for informed decision-making at different educational levels. Percent. Weighted. Ireland 2018. N=1401



As for place of residence, a broadly similar pattern was found for *informed decision-making* as for *spending restraint*, with inhabitants of Munster and Connacht/Ulster having much higher scores than people living in Dublin, when all other factors in the model, including income, were taken into account (Table 6.1).

Moreover, it is interesting to note that, all other things being equal, women had higher scores on *informed decision-making* than men, suggesting that they were better informed when making financial decisions. The same applied to people who managed both personal and household money compared to those who managed only their personal finances. On the whole, economic activity status played a small role, although full-time employees on average had scores that were higher than retired people. Finally, tenants tended to engage in lower levels of informed decision making than either outright owners or mortgagors (see Table 6.1).

6.3 Promoting spending restraint and informed decision-making

Now turning our attention to the factors that promote *spending restraint* and *informed decision-making*, we proceed by expanding the models for social and economic characteristics that were included in Table 6.1. The new variables capture areas that are amenable to financial education and other initiatives to raise levels of financial capability. The expanded analysis includes measures of financial knowledge and experience, personality traits, and financial attitudes, confidence, control and education. The full (parsimonious) models are reported in Appendix 5. Tables 6.2 and 6.3 show extracts from those models, both of which performed very well, explaining 45 per cent of the variation in both *spending restraint* and *informed decision-making*.

Table 6.2 Factors that promote spending restraint.[1] The results are controlled for a number of social and economic environment factors. OLS. Ireland 2018. N=1401 [2]

	Coeff	Sig
Answering about household and personal money	1.77	
Knowledge and experience		
Knowledge of money management (kn1s)	0.15	***
Personality traits		
Impulsivity control (imps)	0.13	***
Social status (socs)	-0.06	**
Self-control (selfs)	0.11	***
Action orientation (aos)	0.04	*
Control and attitudes		
Financial locus of control (locs)	0.06	*
Attitudes to spending, saving and borrowing (att1s)	033	***
Financial circumstances		
Income	0.00001	
Income drop	-1.16	
Income increase	1.29	
Expenditure increase	-1.71	
Family or friends who can help financially (e5)	1.71	*
Constant	17.93	***
Adjusted R^2	.45	

[1] All variables under the headings knowledge and experience, personality traits and control and attitudes are components derived from factor analysis that are standardised to vary between 0 and 100. Income is measured in Euros. All other variables are dummies coded Yes=1 and 0=No.

[2] Table 6.2 is an extract of a full parsimonious model reported in Appendix 5. Explorative models leading to the parsimonious model are reported in Appendix 6.

The discussion about what promotes the spending restraint and informed decision-making is based on Table 6.2 (*spending restraint*) and Table 6.3 (*informed decision-making*).[6] As usual, key features of the two regression models are presented graphically using bivariate analysis with the categorisation of capability levels that were presented in Figure 6-1.

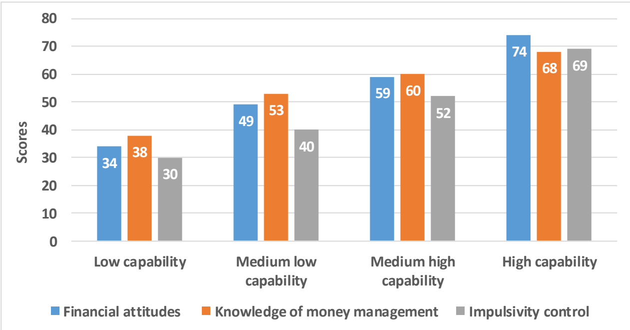
6.3.1 Promoting spending restraint

Table 6.2 identifies the key factors that need to be addressed to raise the levels of spending restraint. These were, predominantly, attitudes to money along with personality traits.

The biggest effect, by far, was associated with rising levels of *attitudes to spending, saving and borrowing*; the more conservative people's attitudes, the greater their likelihood of them restraining their spending, taking other factors in the model into account. And the influence was substantial. The second biggest effect came from *knowledge of money management* (see Table 6.2).

The bivariate analysis in Figure 6-6 tells the same story in terms of mean scores for these attributes across the four capability levels for spending restraint. Beginning with *financial attitudes*, the averages increased from 30 points in the low capability category to 69 in the high capability one. As for *knowledge of money management*, the scores started from a somewhat higher base at 38 among the least capable, rising to 68 among those in the high capability group. Both findings make sense intuitively: conservative financial attitudes and relevant knowledge ought to lead to more capable spending behaviour.

Figure 6-6 Mean scores of the three most influential components at different levels of spending restraint. Weighted. Ireland 2018. N=1401



Personality traits also influenced the tendency to restrain one's spending. As Table 6.2 shows, the third most important influence was *impulsivity control*. The bivariate analysis in Figure 6-6 again illustrates the effect. As we see, the average scores for *impulsivity control* increased from 30 points among the group with the lowest level of capability for spending restraint to 69 points among those assigned to the high capability group.

Self-control, *action-orientation* and not being concerned about *social status* also influenced *spending restraint*. But the magnitude of these effects, as well as their statistical significance, were more modest (see Table 6.2).

In addition, *financial locus of control* — believing that you are responsible, yourself, for what happens to you financially rather than being at the mercy of forces that are beyond your control — was found to typically increase scores on spending restraint (Table 6.2). But again, the effect was modest both in terms of magnitude and statistical significance. However, this finding does underscore the importance of this personality trait in determining financial well-being, since it has direct effects, indirect effects

[6] The list of variables needed to identify the factors that promote spending restraint and informed decision-making are quite different. Since the full (parsimonious) models (see Appendix 5) are not identical, the coefficients cannot be directly compared across models. For that reason, we report the findings in two tables.

through the behaviours that determine financial well-being and, now, even more-removed indirect effects still.

It is interesting to note that having friends or family who can help financially made a difference, raising the scores on *spending restraint* compared to people who did not possess such a resource. Clearly, one can rein in one's own spending if others are able to buy the things you want and need.

Finally, we can see that income ceased to be important in the expanded model. A closer inspection showed that this was due to a combination of effects from *knowledge of money management* and *attitudes to spending, saving and borrowing*.

6.3.2 Promoting informed decision-making

Whereas *spending restraint* was primarily influenced by *attitudes to money*, *knowledge of money management and personality traits*, *informed decision-making* was extensively driven by multiple indicators of knowledge and experience and locus of control. The multivariate regression analysis is reported in Table 6.3 below.

Table 6.3 Factors that promote informed decision-making.[1] The results are controlled for a number of social and economic environment factors. OLS. Ireland 2018. N=1401 [2]

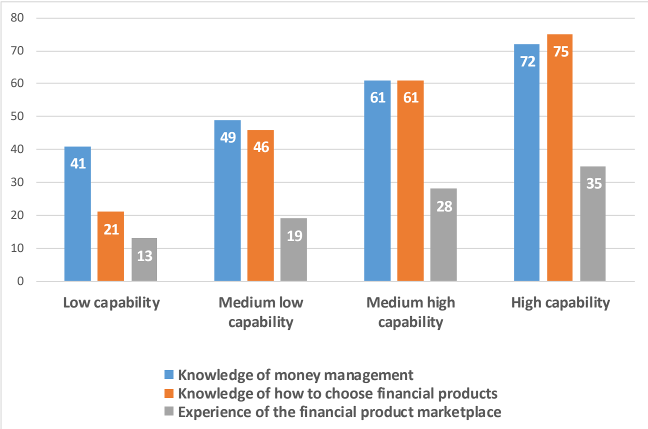
	Coeff	Sig
Answering about household and personal money	2.22	
Knowledge and experience		
Knowledge of money management (kn1)	0.19	***
Knowledge of how to choose financial prodcts (kn2)	0.24	***
Experience of financial-product marketplace (kn4s)	0.15	***
Personality traits		
Impulsivity control (imps)	0.10	***
Social status (socs)	-0.13	***
Financial control		
Financial locus of control (locs)	0.17	***
Financial education		
Parents talked about managing money or saving (e6)	2.11	**
Financial circumstances		
Income	0.00002	
Income drop	0.74	
Income increase	1.30	
Expenditure increase	-0.75	
Family or friends who can help financially (e5)	-0.77	
Constant	14.16	***
Adjusted R^2	.45	

[1] All variables under the headings knowledge and experience, personality traits and financial control are components derived from factor analysis that are standardised to vary between 0 and 100. Income is measured in Euros. All other variables are dummies coded Yes=1 and 0=No.
[2] Table 6.3 is an extract of a full parsimonious model reported in Appendix 5. Explorative models leading to the parsimonious model are reported in Appendix 6.

The regression analysis showed that the biggest effects came from *knowledge of how to choose financial products* and *knowledge of money management*. While *experience of the financial product marketplace* also had substantial influence (see Table 6.3). Figure 6-7 on the next page gives a different perspective on the same trend, but this time using bivariate analysis. Beginning with *knowledge of how to choose financial products,* the average scores started from a low base at 21 points for those in the lowest level of capability for informed decision-making, increasing to 75 points for the high capability group. The scores for *experience of the financial products marketplace* began at an even lower base (13 points), rising slightly to 35 points among the respondents assigned to the high capability category. The influence of *knowledge of money management* displayed a similar pattern, rising from 41 index points to 72 points. These findings all make sense intuitively. High capability levels on knowledge and experience of money and the financial product marketplace ought to lead to better-informed decision-making in financial matters.

Equally important was *financial locus of control*. The more people believed they were, themselves, responsible for their personal finances, the higher were the levels of informed decision making, even when other factors were taken into account. The same trend applied for *impulsivity control* and having a low level of concern about *social status* (see Table 6.3).

Figure 6-7 Mean scores of the three most influential components at different levels of informed decision-making. Weighted. Ireland 2018. N=1401



Just as we found for *saving restraint*, the inclusion of new variables in the model for *informed decision-making* rendered income statistically insignificant. The same was true for income increases (Tables 6.1 and 6.3). A stepwise inclusion of the new variables showed that this was not caused by a specific single variable, but by the three knowledge and experience indicators combined.

Finally, it is interesting to note that financial education from parents had an influence. Respondents with parents who had talked about money management or saving when they were children scored higher than those who did not receive that kind of input (see Table 6.3).

6.4 Summary

The two behaviours considered in this chapter are quite different with regard to both their distribution across the Irish population and the mechanisms that promote higher levels of capability. For this reason, interventions should be carefully designed to target *spending restraint* and *informed decision-making* individually.

Beyond that, promoting *spending restraint* would, first and foremost, involve addressing people's *attitudes to spending, saving and borrowing*. At the same time, *spending restraint* is driven by a number of general personality traits, including *impulsivity control*, *self-control*, and accepting responsibility for one's financial situation (*financial locus of control*). It is, however, probably even more challenging to address issues related to personality traits than it is to shape attitudes.

Informed decision-making, in contrast, is much more influenced by financial knowledge and experience, although personality traits such as *impulsivity control* and *financial locus of control* are also important. It seems to be particularly promising to address issues around knowledge and choice of financial products. Also, making people aware that they themselves are responsible for what happens to them financially is important. Last but not least, the evidence shows that parents can have an influential effect on their children's financial decision-making behaviour later in their life.

The most relevant target groups for interventions would probably be young people in the case of *spending restraint* and people with lower levels of education in the case of *informed decision-making*.

7 Financial Locus of Control

Financial locus of control is the belief that you are responsible, yourself, for your actions and what happens to you financially rather than believing that things are at the mercy of forces that are beyond your control. It has proven to be a very important mechanism, not only influencing *general financial well-being, meeting commitments* and *financial resilience for retirement* directly (see Chapter 4), but also all of the well-being indicators indirectly through its effect on five behaviours that themselves have either a direct or indirect effect on financial well-being (see Chapters 5 and 6). These cumulative effects make it very important both to understanding the distribution of levels of financial well-being in the Irish population, and also to develop appropriate interventions to raise those levels.

As in previous chapters, we first examine the overall scores for *financial locus of control*, then proceed to look at how those scores vary across the Irish population, and finally turn our attention to the factors that promote higher scores on this measure. As always, a prime goal is to identify the key characteristics of the groups that should be targeted, and the types of intervention needed.

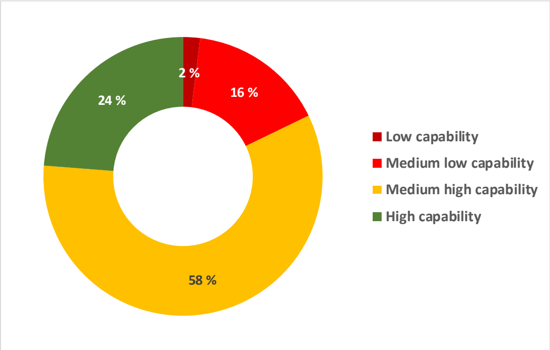
7.1 Average scores for locus of control

The *financial locus of control* component comprises three indicators, two of which explicitly refer to whether the financial situation and implementation of financial plans are believed to be under one's own control. The third indicator is more general and concerns the degree to which one can determine what happens in life — be it financial events or something else (see text box)[7]. The mean score on this component was 67 on the zero to 100 scale, which suggests that the belief that you, yourself, are responsible for what happens to you financially, was only moderately present in the Irish population.

Financial locus of control	
f13	I can pretty much determine what happens in my life
f14	My financial situation is largely out of my control
f15	When I make financial plans, I do everything I can to succeed

Using the same categorisation as we did for the behaviours (see Chapters 5 and 6), Figure 7-1 shows how the scores were distributed across the different levels of *financial locus of control*. The distribution is clearly skewed towards the higher levels as 59 per cent of the population scored moderately high on the component and an additional 24 per cent were in the high-capability category. On the other hand, as many as 18 per cent were inclined to think that what happens to them financially was down to fate or forces beyond their control. This part of the Irish population may fare badly with respect to capable behaviours as well as financial well-being.

Figure 7-1 Distribution of financial locus of control. Per-cent. Weighted. Ireland 2018. N=1401.



The following sections are based on the regression models in Tables 7.1 and 7.2. However, to convey the results from those models, featured results are also presented graphically, again using bivariate

[7] These questions were drawn from the Rotter's scale of Financial Locus of Control.

Table 7.1 Financial locus of control. Social and economic characteristics.[1] Parsimonious models. OLS. Ireland 2018. N=1401 [2]

	Financial locus of control	
	Coeff	Sig
Answering about household and personal money	9.40	***
Income & expenditure		
Income	0.0001	***
Income drop	-3.18	*
Income increase	4.21	**
Expenditure increase	-1.40	
Economic activity status:		
Working full-time	2.70	
Working part-time	-1.53	
Self-employed	3.08	
Unemployed	-5.44	*
Disabled	-10.39	***
Not working for other reasons than retired	0.46	
Age		
u/30	-1.63	
30-44	-2.85	*
45-59	-2.94	*
Gender and family situation		
Female	-0.96	
Single	0.50	
Divorced	-2.56	
Number of dependent children under 18	-0.55	
Education		
Junior certificate	-4.17	***
Leaving certificate	-2.44	*
Vocational qualifications	-0.74	
Housing Tenure		
Tenants	-2.91	**
Owners with mortgage	-1.31	
Provinces		
Leinster	0.06	
Munster	2.71	*
Connacht or Ulster	8.36	***
Constant	59.13	***
Adjusted R^2	.17	

[1] Income is measured in Euros. Number of children: Min/max: 0/8. All other variables are dummies coded Yes=1 and 0=No. Reference categories: Ec. activity status: the retired; Age: 60+; Education: univ. degree; Tenure: outright owners; Province: Dublin excl. Leinster.
[2] More details in Appendix 7 (parsimonious). Full models controlling for a number of additional variables in Appendix 7 (explorative).

analysis with the categorisation of levels described above. However, since there are only 2 per cent in the lowest category, we merge it with the medium-low category in the sections to follow.

7.2 Circumstances determining the distribution of financial locus of control

The first regression model, reported in Table 7.1, seeks to identify the financial and personal circumstances behind the distribution of scores for *financial locus of control* in the Irish population. Hence, it is designed to capture key socio-economic characteristics of people scoring high as well as low on the component. The model performed reasonably well, explaining 17 per cent of the variation in scores.

This analysis showed that *financial locus of control* was mainly determined by income-related factors and labour market marginalisation. Age, education and place of residence were also important.

Taking income first, higher-income groups typically had higher scores for *financial locus of control*. This is what one might expect, as greater revenue streams open more opportunities and more choice, which in turn can give households and individuals the feeling of having control over their financial situation. The tendency for not only income, as such, but also substantial increases in income to raise the levels of locus of control may follow from the same kind of mechanism. The negative influence of substantial income drops was weaker but is also consistent with this explanation. To the extent that such events occur unexpectedly, they are likely to affect the belief that you are in charge of what happens financially (Table 7.1).

Furthermore, while labour market marginalisation was undeniably linked to income, it never-the-less had an independent effect on financial locus of control. In particular, the coefficient for people unable to work through ill-health or disability was one of the strongest influences in the model and led to a greatly reduced level of financial locus of control. The effect for the unemployed was about half as large (Table 7.1).

The third most important influence in the model was place of residence. As we have observed many times in previous chapters, Dublin and Leinster differ from other parts of Ireland. Compared to Dublin residents, people living in Munster and especially Connacht/Ulster had a stronger tendency to share the belief that they had responsibility for what happens to them financially. There were no differences between Dublin and the rest of Leinster, however. Again, it is important to bear in mind that these differences were *after* income and other socio demographic and economic factors in the model were taken into account — so they are a true area effect.

Fourthly, education matters. Controlling for income and many other variables, people with university degrees typically had the highest scores on locus of control. Compared to them, those who had been educated to Junior Certificate level in particular, but also those with Leaving Certificates, fared much less well.

In addition, there was an effect of housing tenure. Tenants had lower scores than outright owners (or mortgagors). One possible explanation is that tenants, as a group, have fewer financial opportunities and feel at the mercy of forces that are beyond their control.

Figure 7-2 Proportion of four social groups at three levels of financial locus of control. Percent. Weighted. Ireland 2018. N=1401.

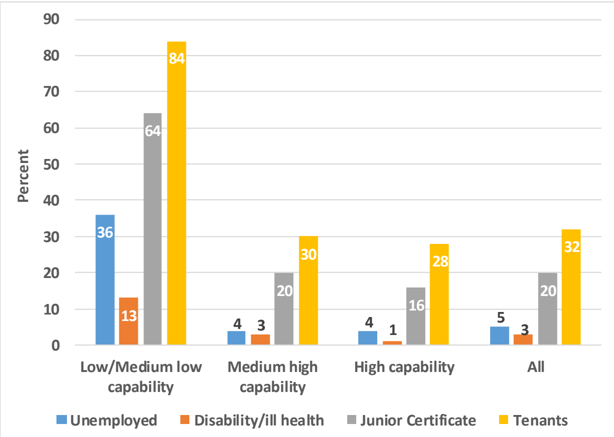


Figure 7-2 draws together some of the key results from this analysis and investigates them further using bivariate analysis. It shows that unemployed people, people who were unable to work through ill-health or disability, those educated to junior certificate and tenants were all greatly over-represented at the lowest level of capability for *locus of control*. Indeed, the composition of the low/medium low capability group is remarkable. Compared with the two higher capability groups, the proportion of unemployed was nine times higher; and three times higher for people who were unable to work through ill-health or disability, who were educated to Junior Certificate level or who were tenants.

Finally, it should be noted that people who managed both personal and household money scored higher for *locus of control* than those who managed only their personal finances (see Table 7.1). Obviously, there is a component of experience and responsibility for the household finances built into the belief that one should take responsibility for what happens in life financially. There was also a weak, but still statistically significant, effect of age, with people aged between 30 and 59 having lower scores, on average, than those aged 60 or more.

7.3 Promoting financial locus of control

Turning attention to what promotes *financial locus of control*, we again built an extended model where the socio-economic factors are included, but not explicitly reported in Table 7.2 below (see Appendix 7 for the full parsimonious model). The first thing to notice is that income has lost its effect; neither income, as such, nor any of the indicators of changes in income and expenditure were statistically significant. Instead, *financial locus of control* seems to be driven by personality traits, knowledge and experience and attitudes to spending, saving and borrowing.

Table 7.2 Factors that promote financial locus of control.[1] The results are controlled for a number of social and economic environment factors. OLS. Ireland 2018. N=1401 [2]

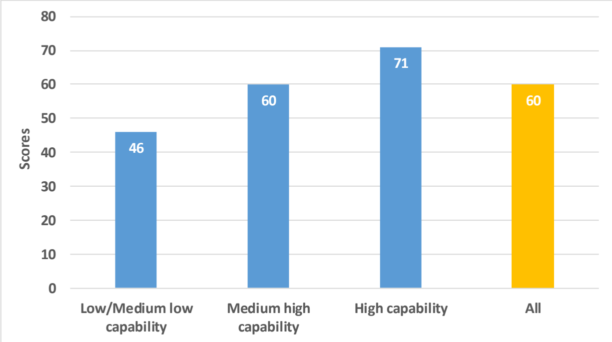
	Coeff	Sig
Answering about household and personal money	5.82	***
Knowledge and experience		
Knowledge of money management (kn1s)	0.12	***
Experience of financial-product marketplace (kn4s)	0.08	***
Personality traits		
Time orientation (tos)	0.05	**
Social status (socs)	-0.07	***
Self-control (selfs)	0.28	***
Action orientation (aos)	0.06	**
Control and attitudes		
Attitudes to spending, saving and borrowing (att1s)	0.06	**
Financial circumstances		
Income	0.00003	
Income drop	-1.72	
Income increase	2.43	
Expenditure increase	-0.09	
Constant	28.19	
Adjusted R^2	.38	

[1] All variables under the headings knowledge and experience, personality traits and control and attitudes are components derived from factor analysis that are standardised to vary between 0 and 100. Income is measured in Euros. All other variables are dummies coded Yes=1 and No=0.

[2] Table 7.2 is an extract of a full parsimonious model reported in Appendix 7. Explorative models leading to the parsimonious model are also reported in Appendix 7.

Several of the personality traits were important drivers of *financial locus of control*. Indeed, the single most influential variable in the model was *self-control*, with higher scores leading to a substantial rise in locus of control (Table 7.2). The bivariate analysis in Figure 7-3 shows the mean scores at three levels of locus of control. Respondents in the low/medium low capability category were distinguished by scores that were significantly below the population mean. In contrast, the high capability group fared much better than the average.

Figure 7-3 Mean scores of self-control at different levels of financial locus of control. Weighted. Ireland 2018. N=1401.



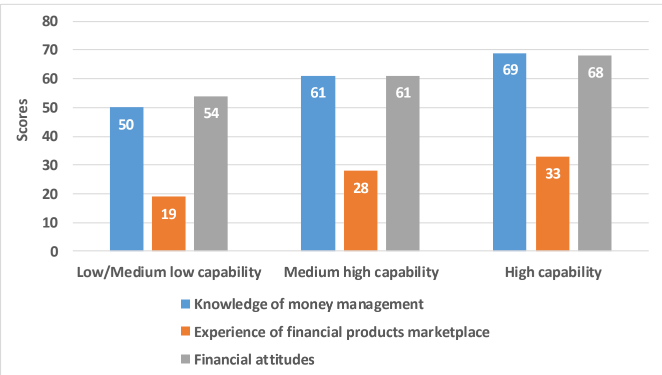
Action orientation also had a positive influence, but only about one fifth of that of *self-control* (Table 7.2). Not being concerned about one's *social status*, however, had the opposite effect, tending to decrease the levels of locus of control. This is a difficult effect to interpret and not the first time that this personality trait has been shown to behave in an unexpected way.

As for knowledge and experience, only *knowledge of money management* and *experience of the financial product marketplace* stood out as being statistically significant, each having a moderate effect (Table 7.2). It makes sense intuitively that knowing how to manage money and engagement with the financial services marketplace should influence the belief that one is able to control what happens financially.

Conservative *attitudes to spending, saving and borrowing* also had a significant positive effect on *financial locus of control*, as might be expected. More capable financial attitudes should tend to bring about a belief of being in charge of what happens financially, and in fact strengthen it.

Figure 7-4, based on bivariate analysis, illustrates how the mean scores for knowledge of money management, experience of the financial product marketplace and attitudes to money varied across the capability levels for *financial locus of control*. For all three of these, the highest scores were found among the respondents categorised as having high capability, and the lowest in the low/ medium low capability group. The scores associated with *experience of the financial products marketplace* were particularly low at all levels of *financial locus of control*.

Figure 7-4 Means scores of three components at different levels of financial locus of control. Weighted. Ireland 2018. N=1401.



Finally, in this extended model the difference persisted between people who managed both personal and household money on the one hand, and those who only answered for their personal money on the other. It should also be noted that the effect of living in Connacht/Ulster also persisted even when the much wider range of possible explanatory variables were included in the model, although the size of its effect was reduced slightly (see Appendix 8).

7.4 Summary

Financial locus of control is one of the most important determinants of financial well-being, influencing it both directly and in a myriad of indirect ways.

The overall level of financial locus of control in Ireland is moderate, and a relatively large proportion of the population (around 18 per cent) fare rather badly. Given the important role that it has for both financial well-being as well as for capable financial behaviours, it would be a prime candidate for appropriate financial capability interventions. It is influenced by an array of personality traits, with *self-control* being the preeminent one. Such traits are difficult to modify, so focussing interventions on people's knowledge of money management, engagement with financial services (financial inclusion) and their a*ttitudes to spending, saving and borrowing* could be a fruitful strategy to raise the level of financial locus of control.

Interventions in this area should specifically target people with low education, and people who are unemployed or who are unable to work through ill-health or disability.

8 Overview and Implications for Policy and Practice

This final chapter begins with a very brief overview of the key findings of the research and develops a segmentation of the population based on their levels of financial well-being. This includes detailed pen pictures of the four groups identified from the segmentation, including their circumstances and characteristics and their financial capability. It also includes comparisons with other countries where similar surveys have been run. It then draws out some implications of the research for policy and practice, identifying areas where interventions would be most likely to have a beneficial effect on the Irish population.

8.1 Overview of key findings

Irish people, like their counterparts in many countries, are expected to take responsibility for their own financial well-being, both currently and in the future. Yet they were doing only moderately well in terms of general financial well-being and had low levels of financial resilience for retirement. The average score for general financial well-being was just 64 (out of 100), which is considerably lower than in Norway (77) but rather better than in either Australia or New Zealand (each 59) (ANZ 2018a, 2018b).

As might be expected, the average score was highest (80) for meeting current commitments**,** which captures the ability to pay bills and other commitments on time and having enough money for food and other expenses. In contrast, the score for being financially comfortable was considerably lower, at 61, showing that a larger number of people did not have a lot of money left over after paying for essentials to allow them to do the things they want or enjoy).

The longer-term measure of financial resilience for the future was lower still (52), indicating that the Irish population has very poor provision against financial shocks, while the average score for financial resilience for retirement among the Irish population who were yet to retire was only 46.

A quarter (25 per cent) of the Irish population were considered to be financially 'secure' with an average score of 87 on the general measure of financial well-being. Both their current financial situation and their provision for the future was strong, although their provision for retirement left room for improvement. A further half (52 per cent) of the population might be considered to be 'doing fine now, but with little put by' with an average financial well-being score of 66. Although they were doing well currently, they had low levels of resilience for the future, including retirement. Interventions with this group would focus on general saving and provision for retirement.

People who were 'just about coping' accounted for 16 per cent of the Irish population. They had an average financial well-being score of just 41. Although they were just about keeping up with current commitments, they had little room for manoeuvre and had hardly anything put by for a rainy day or their retirement. These people would be the target for interventions designed to avert financial difficulties as well as building resilience for future needs. Finally, about 7 per cent of the Irish population were clearly 'struggling' financially and could, potentially, require the assistance of services such as the Money Advice and Budgeting Service (MABS). They had an average financial well-being score of only 20 and very low scores across all of the more detailed measures.

Financial well-being of individuals has been shown to be influenced by a combination of the money they actually have, but also, how they use and manage that money. So, policies are needed both on income security and inequality and also on promoting financially capable behaviours through financial education, in its broadest sense, and other interventions.

Figure 8.1 Main drivers of general financial wellbeing. Ireland 2018.

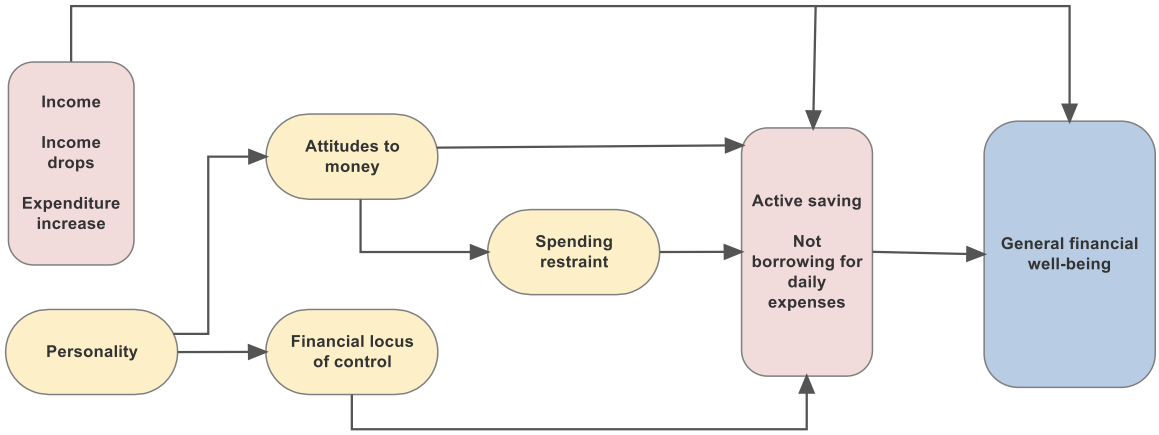


Figure 8-1 illustrates the factors that have the biggest effects[8] on financial well-being and the key behaviours and other factors that drive it, since these will be the starting point in interventions designed to raise levels of financial capability and financial well-being. As this shows, the core capabilities that drive financial well-being directly are *active saving*, and *not borrowing for daily expenses*.

Spending restraint has an indirect effect through its influence on saving and borrowing. So, too does taking responsibility for one's financial actions and outcomes (*financial locus of control*) – which also has a small direct effect on financial well-being directly as well as affecting it in a myriad of indirect ways.

Even though the Irish scores are lower than the Norwegian ones, compared with Australians and New Zealanders, the Irish population does not do too badly on these core capabilities. The one exception is (lack of) *spending restraint*, where the average score (67) is not only lower than in Norway, indicating a lower level of spending restraint in Ireland (71) but also even lower than in Australia and New Zealand too (both 74) (ANZ 2018a, 2018b).

Promoting improvement in these core capabilities means addressing *attitudes to saving, spending and borrowing* as well as an array of personality traits. Knowledge and experience is much less important. At the same time, it is important to acknowledge that both income and economic disruptions in the form of substantial income drops or expenditure increases, have a substantial direct effect on financial well-being as well as a large effect on active saving. Borrowing for daily expenses is, however, only impacted by income drops and expenditure increases.

The following pages bring all this analysis together to paint pen pictures of the four segmented groups: financially secure, doing fine now, but little put by, just about coping and struggling.

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[8] This diagram restricts itself to the factors which were scaled from zero to 100 that had a coefficient of 0.20 or greater, along with the economic factors that had large effects.

Secure

Representing a quarter (25 per cent) of the Irish population, the people who were considered to be financially 'secure' had an average score of 87 on the general measure of financial well-being. Both their current financial situation and their provision for the future were strong. Although generally doing well, their provision for retirement left room for improvement.

- These people were showing almost no signs of being unable to meet their financial commitments (average score 98). Almost all of them (98 per cent) said that they faced no difficulty paying bills and other commitments on time and the rest said that it seldom happened.
- They were also doing well in terms of both being financially comfortable (average score 82) and their financial resilience for the future (average score 85). Over half (50 per cent) of them had the equivalent of more than 12 months income in savings and a further quarter (26 per cent) had between six and 12 month's income saved.
- The level of financial resilience for retirement among those who were not yet retired, however, was somewhat lower (63). Half (48 per cent) of them said that their income in retirement would be adequate for their needs even without the state pension. Indeed, half of them had been automatically enrolled into a workplace pension. Even so more than one in ten (12 per cent) would rely on the state pension for all of their retirement income and a further two in ten (21per cent) said it would account for at least two thirds of their income.

Who they are

- They were the oldest of the four groups – with a mean age of 53 – and were considerably older, on average, than the other three groups.
- All the groups at particular risk of low financial well-being identified earlier were greatly under-represented among people who were financially secure.
- They were the most affluent, with gross incomes averaging 52,899 € a year. And they were the group least likely to have experienced either a substantial income drop or a substantial expenditure increase in the past 12 months. Almost none of them was either unemployed or unable to work through sickness or disability.
- They also had the highest levels of education. The great majority were educated to beyond Junior Certificate level. Indeed, over half of them (53 per cent) had a university degree.

Financial capability

- People who were 'secure' had the highest levels of financial capability. They were almost all active savers, with an average score of 83 out of 100 and almost none of them borrowed to pay bills or meet daily living expenses (score 94).
- They were quite confident about their abilities to manage money (73) and took quite a high degree of personal responsibility for their financial decisions and outcomes (74).
- Three quarters of them said that their parents had discussed money with them as a child and six in ten said that they had received financial education at school.

Doing fine now, but little put by

The largest of the four groups had an average score of 66 on the general measure of financial well-being but might be considered 'potentially at risk' because of their low financial resilience for the future, including retirement. They represented 52 per cent of the Irish population.

- Although these people were not doing too badly on the meeting financial commitments measure, with an average score of 83, more than four in ten (45 per cent) said that they occasionally struggled to pay bills and other commitments on time. Some of them had fairly limited slack in their budgets, so that they had an average score of 63 on the being comfortable financially measure.
- It is, however, their relative lack of provision against future financial shocks that put them potentially at risk financially (their average score for financial resilience was 51). Almost half of them (46 per cent) had less than three months' income saved.
- The financial resilience for retirement among those who were yet to retire was lower still (47) (Figure 2). Only a quarter of them (25 per cent) said that they would have sufficient income in retirement even without the state pension, with a similar proportion (27 per cent) saying that they had been automatically enrolled in a workplace pension. Consequently half (51 per cent) of the non-retired population was potentially at risk and would rely on the state pension for two thirds or more of their income in retirement.

Who they are

- In general, this group of people reflected the population as a whole, which is not altogether surprising when they accounted for half of the total.
- With an average age of 46, they were slightly younger than those who were secure.
- They had moderately high (gross) incomes that averaged 40,100€ a year. Relatively few of them had experienced either a substantial drop in income or a substantial rise in expenditure in the past 12 months. Nor did they include many unemployed people or people unable to work through ill-health or disability.
- And they were fairly well educated. Fewer than two in ten were educated to Junior Certificate or below, while more than four in ten (43 per cent) had a university degree.

Financial capability

- People in this category had fairly high levels of financial capability, although lower than people who were secure. They were quite active savers, with an average score of 70 and almost none of them borrowed to pay bills or meet daily living expenses (score 94).
- They were fairly confident about their abilities to manage money (62) and took a moderately high degree of personal responsibility for their financial decisions and outcomes (67).
- Two thirds of them (68 per cent) said that their parents had discussed money with them as a child, while half (52 per cent) said that they had received financial education at school.

Just about coping

People who were 'just about coping' accounted for 16 per cent of the Irish population. They had an average score of just 41 for general financial well-being. These people would certainly be the target for interventions designed to avert financial difficulties as well as building resilience for future needs.

- Although they had an average score of 60 for meeting commitments, they had little room for manoeuvre in their finances and scored just 41 on average for being comfortable financially. Three in ten (32 per cent) of the people 'just about coping' said that it was a constant struggle to pay bills on time and almost six in ten (57 per cent) said that they struggled occasionally. And half (46 per cent) said that their finances did not allow them to do the things that they want and enjoy life.
- Moreover, they had very little money put aside to cover them against income or expenditure shocks – with an average score of 22 on the financial resilience measure. Seven in ten of them (68 per cent) had less than a month's income in savings and a further two in ten (20 per cent) had between one and three months' income put by.
- Likewise, they would be a key group for promoting the up-take of pensions; their score for financial resilience in retirement was just 30. More than seven in ten (72 per cent) said that they would not have an adequate income in retirement without the state pension, which would make up all of their income for a third of people (32 per cent) in this group.

Who they are

- Those 'just about coping' had below-average gross annual incomes – 30,969€ (Figure 3). One in five of them had experienced a substantial drop in income in the past 12 months, which is double the national average. And a quarter had seen their expenditure rise substantially in the same time period.
- Their average age was 43, making them the youngest of the four groups
- One in ten of them were unemployed – again twice the national average.
- Like those doing fine now but with little put by, they were moderately well-educated and only a quarter were educated to Junior Certificate level or below. Over half of them rented their homes – well above the national average.

Financial capability

- People who were just about coping had much lower levels of financial capability, than the previous two groups. They had a particularly low score for active saving (41 out of 100) although most avoided borrowing to pay bills or meet daily living expenses (score 77).
- They were not particularly confident about their abilities to manage money (54) and took a moderate degree of personal responsibility for their financial decisions and outcomes (60).
- Just half of this group (52 per cent) said that their parents had discussed money with them when they were young, and four in ten (44 per cent) had received financial education at school.

Struggling

About 7 per cent of the Irish population were clearly 'struggling' financially and could, potentially, require the assistance of services such as the Money Advice and Budgeting Service (MABS). They had an average score for general financial well-being of only 20 and very low scores across all the more detailed measures.

- Their score of just 39 for meeting financial commitments indicated that they were in financial difficulty. Indeed, three quarters of them (75 per cent) said it was a constant struggle to pay bills and other commitments on time and most of the rest admitted to struggling from time to time.
- They had almost no slack in their budget at all as evidenced by their average score of 18 on the being financially comfortable measure. In fact, nine in ten (89 per cent) said that their finances did not allow them to do the things they wanted and enjoy life.
- And, with an average score of just six on the financial resilience measure, they had no protection at all against future financial shocks. Almost all (94 per cent) of them had less than a month's income in savings – and most of the rest had less than three months'.
- Their financial resilience for retirement was equally poor, with an average score of only 17. Hardly any of the not-yet-retired said that they would have an adequate retirement income without the state pension. In fact, almost six in ten (55 per cent) said that all their income would come from the state pension and a further quarter (27 per cent) said it would form at least two thirds of it. Only a very small number (8 per cent) had been auto-enrolled in a pension.

Who they are

- Without doubt this was the most economically disadvantaged of the four groups. Their annual incomes were less than half those of the people who were financially secure – 23,878€ compared with 52,899€. They were eight times more likely to have experienced a substantial income drop in the past year and four times as likely to have had a substantial expenditure rise.
- Their average age was 44, and they were the second youngest of the four groups.
- A third of them were unemployed and a further 8 per cent were unable to work though illness or disability, each compared with under 1 per cent among those who were secure.
- They also had the lowest levels of education, with half (50 per cent) having been educated to Junior Certificate level or below. Half of them were tenants.

Financial capability

- At the same time, they also had the lowest levels of financial capability. Their score for active saving was just 30. And although they scored higher for not borrowing for daily living expenses (74), this was the lowest of the four groups.
- They had fairly low levels of confidence in their abilities to manage money (47) and tended to feel responsibility for their financial decisions and outcomes lay with fate or others (51).
- Financial education in childhood was rare. Just four in ten (38 per cent) said that their parents had discussed money with them as a child and only a little more than one in ten (14 per cent) had received financial education at school.

8.2 Implications for policy and practice

The evidence in this report points to the need for two important long-term strategies: education for children and young people and auto-enrolment in pensions. In the shorter term, there is a need to promote higher levels of saving, particularly among people of working age, but also among retirees. At the same time, there is a demonstrable need for support for people in financial difficulty, which should include addressing not only income inadequacy but also promoting capable financial behaviours. All this points to the desirability of taking a broad strategic approach to the promotion of financial capability and well-being, as many other countries have done.

8.2.1 Children and young people

Taking children and young people first, there is evidence that both formal education in schools and colleges and informal education in the home promote active saving and financial well-being. This calls for the design of curricula for schools and colleges to teach children and young people of all ages about the importance of saving, living within your means and spending restraint. To underpin this, formal education should seek to shape attitudes to spending, saving and borrowing as well as dealing with the important issues of curbing impulsivity, exercising self-control and not just living for today. Finally, it should promote the importance of accepting responsibility for one's own actions and outcomes with respect to money and not putting it at the door of others or fate. Experience in Brazil has shown that it is important to work with educational psychologists to develop learning materials that are engaging and relevant to young people if such education is to have a demonstrable and lasting effect (Bruhn et al. 2013). At the same time, teachers need to feel equipped to use the materials with young people. Since they are likely to reflect the population as a whole, some will be financially capable and feel comfortable teaching young people about money matters, while many will not (Young Enterprise 2016).

Just as important is the role of parents to reinforce formal education in the home, encouraging very young children to save and shaping the personality traits that are such important drivers of financial capability and well-being. Research has shown that parents can either undermine or augment what is learnt at school (Bruhn et al. 2013). Moreover, it is never too young to start as research also shows that by the age of seven basic approaches to money have already been established (Whitebread and Bingham 2013).

8.2.2 Promoting pension saving

Action is clearly needed to promote greater up-take of pensions and higher levels of pension contributions (and other saving). The Irish government has recently published a *Road map for pensions reform*, which includes a proposal for auto-enrolment. The analysis in this report has clearly shown the important role that auto-enrolment can play in promoting greater up-take of pensions. This accords with practical experience in countries such as the UK, the United States and New Zealand. Over the five years that auto-enrolment was being phased in in the UK, the proportion of the eligible employees participating in a workplace pension rose from 55 per cent to 78 per cent (Thurley 2018).

But it is equally important to ensure that the contributions that employees and employers make will be sufficient to provide an adequate income in retirement. There is an inherent tension between keeping contributions low enough to discourage people from opting out, but sufficiently high to build an adequate pension pot. Here much can be learnt from the UK, where initially contributions were kept very low (1 per cent of earnings paid by the employee and matched by the employer), with the result that only 9 per cent of people exercised their right to opt out, compared with the 25 per cent that was anticipated. In April 2018 contribution levels were increased to 2 per cent for employees and 3 per cent for employers and, in April 2019, they will rise again to 3 per cent and 5 per cent respectively. This contribution level corresponds to a pension that provides a 45 per cent income replacement rate for a median income earner. It remains to be seen what effect this phased increase in contribution rates will have on opt out rates, although it should be noted that, before the phased increase began, the majority of people were contributing more than the minimum and so, too, did their employers (Thurley 2018).

Finally, it is encouraging to note that the *Road map for pensions reform* proposes that an adequate State pension is an important pillar for financial resilience retirement in Ireland. This report shows how important this will be for people who are unable to work though ill-health or disability for much or all of their lives.

8.2.3 Encouraging saving

Active saving, as we have seen, has a significant effect on financial well-being. A strategy to promote higher levels of saving might involve a number of strands of activity, including focusing on understanding better the behaviours that promote active saving and exploring the availability of products to facilitate saving, especially among those who have lower levels of inclination to save.

Exploring the behavioural aspects of encouraging savings has been a key focus of the strategic approach adopted in the United Kingdom under the current Financial Capability Strategy. The development of that strategy was led by the Money Advice Service working with the numerous stakeholders in the UK with an interest in improving financial capability.

To deliver on objectives of the Financial Capability Strategy, the Money Advice Service has identified some approaches to promoting saving that seem to be promising. These approaches could be informative for stakeholders in Ireland to consider[9].

The Money Advice Service also note that further evaluation and research is required to understand better how well these tenets work, for different people and in different circumstances. Indeed, they have a large-scale 'What Works Fund' that is supporting an array of interventions to promote levels of financial capability in all areas, not just saving. The evaluations of these projects are due to report in

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[9] The Money Advice Service intitiatives include:
Start small: to encourage non-savers to start saving, it is important to challenge any beliefs that may be holding them back, such as the idea that saving is too hard, or that they would need to sacrifice a lot in order to make it worthwhile.
Show progress against a goal: having a clear and realistic goal, and a plan for achieving it, gives individuals something to focus on, and evidence shows that savings habits can then form through cycles of success as these goals are achieved.
Make it social: evidence from other sectors shows that commitment devices can be effective in helping people stick to goals, by sharing these with friends and family (typically via social media.) Similarly, saving with friends and family can help with motivation.
Form a habit: research suggests that once savings habits are established they tend to be maintained, and among 'rainy-day savers' the savings habits developed during childhood continue into adulthood and become self-reinforcing.
Make saving a challenge, not a chore: framing saving as a challenge makes it more attractive and counters the conviction that it is too hard or tiresome to contemplate.
Provide information and make it personal: information needs to be pitched at the right level so it is not seen as patronising. People want to see tips that are easy and relevant: the sort of thing that 'people like me' would do.
Easy and accessible products: While the evidence suggests that product design has a limited effect on behaviour, confusing terminology and poor design may be a barrier to non-savers.
(https://www.fincap.org.uk/thematic-review-encouraging-people-to-save).

2018 and 2019 and will be added to the Money Advice Service Evidence Hub as they become available (https://www.fincap.org.uk/evidence_hub).

One important intervention has adopted an experimental approach to exploring a range of behavioural approaches to: encouraging people to build up a savings buffer and helping people to take control of their spending and how they use and repay credit. This has particular resonance with the findings of this research (Behavioural Insights Team 2018). The CCPC has funded a range of behavioural science laboratory experiments as part of the PRIC€ Lab programme since 2016, that are particularly relevant in this context.

8.2.4 Assisting people who are in or at risk of financial difficulty

Although only seven per cent of the Irish population was found to be struggling financially, a further 16 per cent were just about coping, with not much room for manoeuvre in their finances and little by the way of resilience for the future. While income levels were clearly very important, these were also the people who were most inclined to borrow for daily living expenses and least inclined to save. At the same time, they exercised the lowest levels of spending restraint and were the least likely to accept responsibility for their financial actions and outcomes. This points to the need for financial capability interventions to be developed as part of money advice to people in financial difficulty, alongside assistance with income maximisation and negotiating with creditors. But it also indicates the need for MABS to have the resources to develop an active programme of preventative work. Again the work of the Behavioural Insights Team is relevant here (Behavioural Insights Team 2018).

8.3 Developing a National Strategy

Faced with similar needs, other countries have developed national strategies to promote levels of financial capability and well-being. Typically, these cover a finite period. Ireland may well wish to follow this example, drawing on the experiences of Australia and New Zealand as well as the UK. All three countries have long-term experience in this area, working with a wide range of stakeholders from across the private, government and not-for-profit sectors. These stakeholders play an important role both in developing and delivering the strategy.

In Australia responsibility for the development and oversight of the strategy lies with the regulator, ASIC. The first strategy was developed in 2011 and ASIC has been consulting on its third one, which will shift the focus from financial literacy to financial capability and well-being. In doing so it will place the emphasis on three core behaviours:

- Managing money day-to-day
- Planning for the future, and
- Making informed decisions.

The revised strategy will be published in the autumn of 2018.

The New Zealand Commission for Financial Capability published its most recent strategy to raise levels of financial capability in 2015 and implementation is now well underway. The vision outlined is to equip everyone to 'get ahead financially'. Within this, it has five aims:

- A cultural shift where it's easy to talk about money
- Effective financial learning throughout life

- Everyone has a current financial plan and is prepared for the unexpected
- People make smart use of debt
- Everyone is saving and investing

The UK Money Advice Service published its strategy in 2015, too, updating the one originally set in 2005 by the Financial Services Authority. Its aim is to improve people's ability to:

- Manage money well day to day
- Prepare for and manage life events, and
- Deal with financial difficulties

The Financial Consumer Agency of Canada strategy also published its national strategy in 2015, with the vision of strengthening the financial well-being of Canadians and their families by empowering them to:

- Manage money and debt wisely
- Plan and save for the future
- Prevent and protect against financial fraud and financial abuse

All four strategies, therefore, have much in common with one another. They encompass: work with children and young people, including in schools and colleges; initiatives to promote saving and deal with problem borrowing both generally and also with people in financial difficulty, and promoting better provision for retirement. Increasingly the strategies are also addressing financial well-being among people who are in retirement. All of these are areas that are important in Ireland too.

National strategies

Australia:
www.financialliteracy.gov.au/

New Zealand:
https://www.cffc.org.nz/financial-capability/national-strategy-2/

UK:
https://www.fincap.org.uk/uk_strategy

Canada:
https://www.canada.ca/content/dam/canada/financial-consumer-agency/migration/eng/financialliter-

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