Financial Capability and Well-being in Ireland in 2018

CCPC

Financial Well-being

Financial well-being is defined in the study as '*the extent to which someone is able to meet all their current commitments and needs comfortably and has the financial resilience to do so*'.

Financial Capability

Financial capability is defined in the study as '*the behaviours and approaches to financial decision making that influence someone's financial well-being*'.

Table of Contents

I am pleased to present this report, 'Financial Capability and Well-being in Ireland in 2018', which summarises the findings of large-scale research conducted earlier this year on behalf of the Competition and Consumer Protection Commission (CCPC).

Our mission is to use our knowledge and statutory powers to promote competition and enhance consumer welfare. We have a specific role under the Competition and Consumer Protection Act 2014 to promote the interests of consumers by providing information in relation to the costs, benefits and risks of financial services as well as promoting the development of financial education and capability.

This research focuses on both financial capability, which is the behaviours and approaches to financial decision making that influence someone's financial well-being, and well-being itself, which is the extent to which someone is able to meet all their current commitments and needs comfortably and has the financial resilience to do so.

The previous large-scale study of this kind was commissioned by the Financial Regulator, which measured levels of financial capability in 2008.

Unquestionably, many people's financial circumstances changed considerably at that time. From 2008, the recession had a significant impact on financial well-being in Ireland and for many people, this impact continues to be felt. We commissioned this research to gain an up-to-date assessment of the levels of financial capability and financial well-being in Ireland and to draw out the implications for public policy and the CCPC's financial education programmes.

Developing a deeper understanding of the current level of financial capability and well-being among people in Ireland is crucial, not just for the CCPC in the performance of our role, but also for the large number of organisations and individuals, involved in education, Government, service provision and social policy. In this area, understanding the factors behind the current levels of financial capability and well-being, is particularly valuable, as this understanding enables the CCPC, and others, to develop responses to the needs of particular groups.

The CCPC's role does not differentiate between different types of consumers and our programmes are targeted at everyone. However, the research has confirmed, not unexpectedly, that income and employment status are crucially linked to better financial well-being and for some consumers, information to promote better financial capability is unlikely to provide either help or comfort.

In these instances, more appropriate responses lie in public and social policy supports. Given that the research quantifies the level of well-being across the population, it is hoped that this research will assist not only the CCPC, but many other organisations, particularly those who are tasked with providing supports to address challenges that sections of society face in relation to their financial capability.

The research shows that a large proportion of people could benefit from interventions specifically aimed at growing their levels of financial capability over time. While the average score for the general financial well-being of Irish people is 64 out of 100, the results clearly show that there is an expected variation in financial well-being across different groups. Therefore, certain groups may benefit most from certain interventions. The results of the study point to particular areas of strategic activity for the CCPC – focusing on children and young people, the importance of active saving and encouraging financial resilience for retirement.

The methodology used in this research mirrors an evolution in research which is being pursued in other countries. This approach is quickly becoming a global benchmark for studies of financial well-being. It also, very valuably, creates a benchmark for Ireland against other countries that have followed this same methodology.

I would like to express my thanks to all those who contributed to the development of this important research in Ireland, particularly Professor Elaine Kempson and Christian Poppe of Consumption Research Norway (SIFO), to Amárach Research for conducting the survey in Ireland and to the CCPC team. I would also like to personally express my gratitude to the survey participants across Ireland who gave their time to this research and so generously shared details of their financial habits and attitudes.

Finally, particularly in the context of the many people who continue to recover from the financial challenges arising from the recession, it is my hope that the insights from this research will help individuals and groups from all sectors, Government, the financial services industry, and the community sector, to develop effective ways to build financial well-being for all. I would like to take this opportunity to reaffirm the CCPC's commitment to playing our part, by helping consumers make informed decisions through the information we provide and continuing to promote the development of financial education and capability in Ireland.

Our work in this area will be underpinned by a number of strategic priorities for delivery between 2019 and 2021.

Isolde Goggin
Chairperson

Introduction

This report presents the key insights and findings from 'Assessing the Levels of Financial Capability and Financial Well-being in Ireland', a study commissioned by the Competition and Consumer Protection Commission (CCPC) on the financial well-being of people in Ireland[1]. The CCPC commissioned the study from academics based at Consumption Research Norway (SIFO), a research centre at Oslo Metropolitan University, who have been pioneering understanding of financial well-being on a global basis. Face-to-face survey fieldwork was undertaken and managed by Amárach Research[2].

The CCPC has a statutory function to promote the development of financial education and capability. We fulfil this function by providing information to consumers about financial products and through the provision of financial education programmes in the workplace, through our Money Skills for Life programme and through schools programmes, including a short course that has been designed for the Junior Cycle curriculum.

The aim of the study was to assess the levels of financial capability and financial well-being in Ireland and to consider the implications of the findings for financial education and public policy.

The definitions of financial well-being and financial capability employed in the study are:

Financial well-being is 'the extent to which someone is able to meet all their current commitments and needs comfortably and has the financial resilience to do so'.

Financial capability is 'the behaviours and approaches to financial decision making that influence someone's financial well-being'.

Background to the study

Irish consumers face multiple decisions and conflicting pressures in managing their money. The decisions consumers make are influenced by their financial capability, and the impact of those decisions is seen in their financial well-being.

Yet our understanding of how certain financial capabilities determine financial well-being, how these capabilities vary across the Irish population, and what influences them, requires development. A better real world understanding of these factors enables the design of interventions that promote financially capable behaviours and, ultimately, bring about greater financial well-being in Ireland.

The aim of the study was to assess the levels of financial capability and financial well-being in Ireland, both to inform the CCPC's work on financial education and capability, and to update our knowledge from an earlier study, commissioned by the Financial Regulator, which measured levels of financial capability in 2008, just before the effects of the financial crisis began to be felt in Ireland[3].

[1]The study was conducted by Elaine Kempson and Christian Poppe of Consumption Research Norway. It was based on a model which they have designed and that has been adopted in a number of locations worldwide for studies of financial well-being. The full report is available on www.ccpc.ie. [2]The sample size was 1,500. Valid sample of 1,401 after exclusions. This was a larger sample than in many surveys designed to provide a nationally representative sample size. [3]The study, Financial Capability in Ireland: An Overview, was published in early 2009.

The 2008 survey was based closely on a study designed to measure financial capability in the UK (Atkinson et al. 2006). 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.

In the decade since that report was published, the study of financial capability has continued to develop and the approach used in such studies has been refined, 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 further developed with a study carried out in Norway, which built on this methodology 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).

This current study approach reflects international developments in the study of financial capability, with a broader focus on both capabilities and well-being outcomes, using an approach and questionnaire that was developed in Norway, adapted to the Irish context. The same model has also been adapted and employed in Australia, Canada and New Zealand. In total, the questionnaire contained over 60 questions covering financial well-being outcomes, retirement and the range of behaviours, or capabilities, which inform financial well-being. 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[4] 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, whereas in the 2018 questionnaire these are included as measures of financial well-being.

Methodology

Financial well-being reflects the ability of consumers to have financial comfort now and into the future, and is strongly influenced by consumers' financial behaviour and their socio-economic circumstances, including income, income and expenditure changes, working status, educational level, and family circumstances.

The study identified three key factors of financial well-being which inform an overall measure of financial well-being: *meeting current commitments, being financially comfortable,* and *financial resilience for the future.* Those key measures are in turn informed by a range of other capabilities. A further factor, *resilience for retirement,* was measured separately.

The study allocated a score between 0 and 100 for each factor of well-being or capability. These scores give us a guide to how the Irish population is doing now.

[4]Making ends meet; Keeping track of money; Planning ahead; Choosing products and Being and staying informed.

To facilitate the study, a face-to-face survey of 1,500 individuals aged 18 to 80 across Ireland was carried out by Amárach Research in January and February 2018. After exclusions a valid sample of 1,401 was tested in the model developed by SIFO. This was a larger sample than used in many surveys designed to provide a nationally representative sample size. The questionnaire contained 60 questions to understand consumers' socio-economic circumstances, how they manage their money, how they plan for the future, their understanding of financial products, and how their disposition and attitudes affect their financial behaviour. The responses they gave were analysed using the model developed by SIFO to provide scores for a wide range of factors influencing financial well-being.

The approach employed (by Kempson and Poppe) focuses on both financial capabilities (e.g. behaviours) and outcomes (that is, financial well-being). From this, a conceptual model was built bringing together financial well-being, a range of capable behaviours, knowledge and experience of financial matters, a range of psychological factors, as well as socio-economic factors. For the results of the Irish research, the survey data was first analysed using the statistical approach Principal Components Analysis (PCA). This approach was used to identify an underlying set of aggregate components from the answers given to the survey questions. This also allowed a score to be calculated for each component on a scale of 0 to 100. These components were used as possible explanatory variables in a series of regression models, alongside socio-economic factors, such as age and income, to establish which had a significant effect, first on financial well-being and then on each of the behaviours that determined it.

Figure 1 Conceptual model 2018

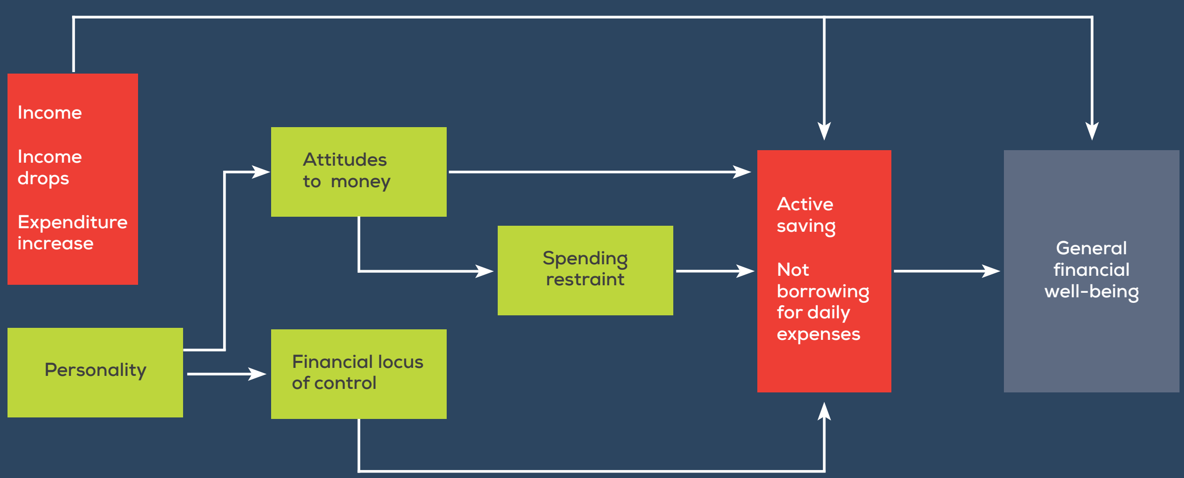


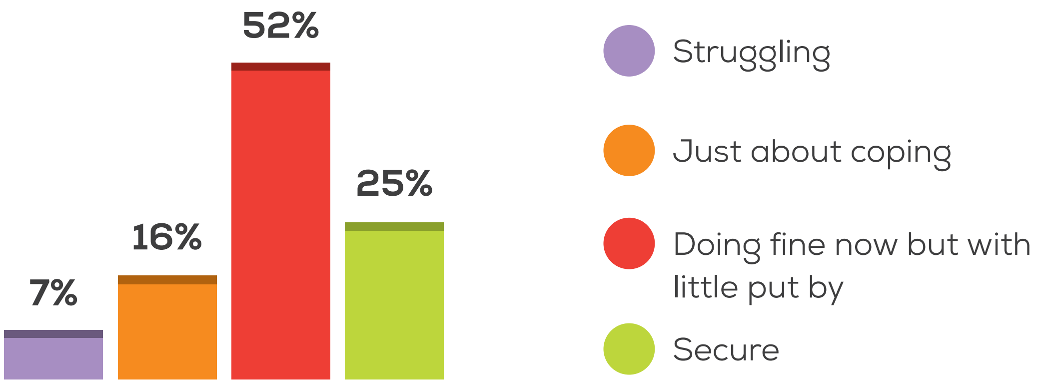
Figure 1 above provides an illustration of the factors that have the biggest effects[5] on financial well-being in Ireland and the key behaviours and other factors that drive it.

[5]This diagram is restricted 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. It thereby captures the most important factors - though not all factors - that have an influence on financial well-being.

Summary of key findings

The average score for the general financial well-being of Irish people is 64 out of 100. The score suggests that the average consumer in Ireland is doing fairly well but has limited capacity to deal with unexpected events. The overall score is the average of the financial well-being scores across four segments of the population which each received an average financial well-being score. Those scores are calculated from three sub-measures of financial well-being: meeting current commitments, being financially comfortable, and financial resilience for the future. The overall score reflects the range of financial well-being outcomes across consumers in Ireland as, while there were people doing a lot better than this, there were others with scores well below the average.

While the overall score is useful in terms of seeing where consumers in Ireland are overall and for international comparisons, the real value in the study is found by breaking down the overall results into distinct sub-categories. Targeted actions can then be developed from this. The research team and the CCPC steering group identified four categories of relative financial well-being among Irish consumers:



Struggling

7% of respondents 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. This category had an average score of 20.

Just about coping

16% of respondents were within this category. They had an average financial well-being score of just 41. People within this category appear to be at risk of falling into financial difficulties currently, as well as having little financial resilience for the future or for retirement.

Doing fine now, but with little put by

A majority, 52%, of respondents performed well in terms of meeting current commitments and had a positive level of financial comfort, but they performed less well in respect of their financial resilience for the future, including for retirement. This category had an average score of 66.

Secure

25% of people can be regarded as 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.

The study finds that the overall financial well-being of consumers is influenced by a combination of the amount of money they actually have and how they use and manage that money - in other words, their financial capability.

Unsurprisingly, the study found that income had a strong influence on financial well-being as did the extent to which consumers had recently encountered drops in their income or increases in their expenditure.

The study found that two core behaviours affect financial well-being across all groups directly: *active saving,* and *not borrowing for daily expenses.*

Other behaviours that had an important, if indirect, influence on financial well-being include restrained spending, feeling in control of your financial situation and general attitudes to saving, spending and borrowing.

Taking control of household and personal finances is important for improved financial well-being.

Feeling responsible for their financial actions and outcomes affects the financial well-being of consumers both directly and in a number of indirect ways. The results of the study point to the need to promote financially capable behaviours, not least through financial education.

Though there is scope for improvement, compared to other countries, Irish consumers perform relatively well on the core behaviours driving financial well-being.

A particular issue identified in the study is a lack of spending restraint, where scores are significantly lower than in a number of other countries.

The findings suggest that promoting improvement in all of the core behaviours will mean addressing attitudes to saving, spending and borrowing. The study also found a strong link between formal financial education and financial well-being.

By way of contrast, specific knowledge of financial products and experience of money management are less important factors in determining overall well-being.

Finally, the study found that Irish consumers have low scores generally when it comes to resilience for retirement[6].

The study assessed resilience for retirement among both consumers who had yet to retire and those who had already retired. Even among the 'Secure' category, which achieved the highest overall financial well-being score, respondents scored an average of 66 in regard to their resilience for retirement. Among the other three categories the scores were lower and declined largely in keeping with declines in overall financial well-being.

[6]This under-provision has been recognised as a public policy concern for some time. The Irish Government's 'Roadmap for Pensions Reform 2018-2023' included a commitment to introduce an Automatic Enrolment pension scheme. In turn the Department of Employment Affairs and Social Protection launched a consultation on the design of an Automatic Enrolment scheme in August 2018. That scheme is expected to be launched in 2022.

We can compare financial well-being in Ireland with a number of other countries.

Similar studies have been carried out in Norway, Australia, Canada and New Zealand which employed the same definitions and similar methodology. There are some positives to take away from making comparisons[7].

In terms of overall well-being Ireland's score of 64 is lower than Norway's score of 77 and just below the score of 65 in Canada, but higher than Australia and New Zealand who both scored 59 in a study released in early 2018[8].

[7] Similar definitions of financial capability and financial well-being were employed in Norway, Australia and New Zealand [8] https://bluenotes.anz.com/financialwellbeing

Findings at a Glance

Financial well-being scores for Ireland

64
Overall financial well-being score for Ireland

80
Meeting current commitments

61
Being financially comfortable

52
Financial resilience for the future

46
Financial resilience for retirement

Scores for well-being categories

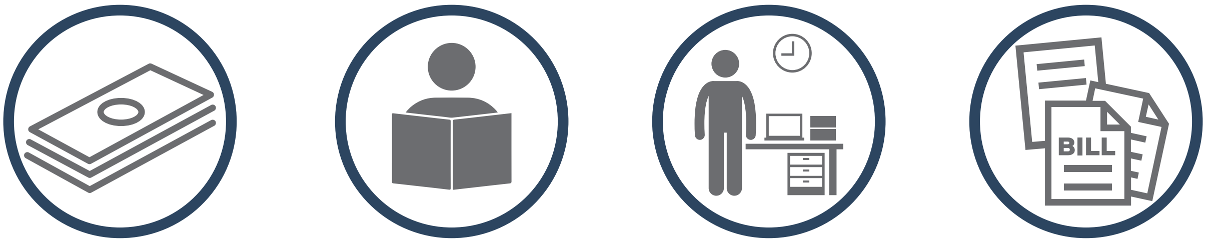
87
Secure

66
Doing fine now, but with little put by

41
Just about coping

20
Struggling

Personal circumstances that affect well-being



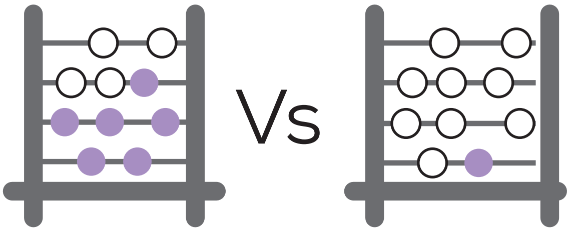
Income

Education

Employment

Expenditure shocks

Financial education-important for well-being



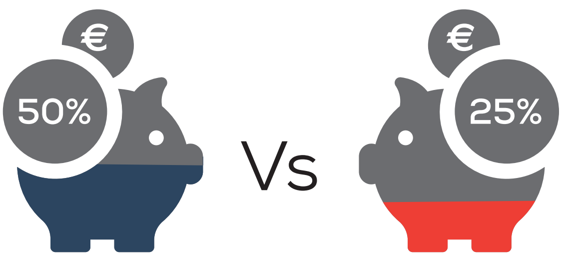
60% of 'Secure' category received financial education at school but only 10% of 'Struggling' category did

Key behaviours for well-being

Active saving

Not borrowing for daily expenses

Retirement planning



50% of 'Secure' category auto-enrolled in workplace pension v only 25% of the 'Doing fine now' category

Key Findings

1. **Compared with their counterparts in other countries, people in Ireland are doing reasonably well in terms of general financial well-being but have low levels of financial resilience for the future, including retirement**

The average score for the general financial well-being measure in Ireland was 64[9]. This is lower than in Norway (77) but higher than in either Australia or New Zealand (both 59). We explore international comparisons further in the next section.

Four measures of financial well-being were identified, three of which make up the general measure of well-being.

The measures were: *meeting current commitments, being financially comfortable* and *financial resilience for the future. Financial resilience for retirement* was the fourth, and separate, longer term measure.

As might be expected, the mean score was highest (80) for meeting current commitments.

This measure captures whether consumers have the ability to pay bills and other commitments on time and have sufficient money for food and other expenses.

Less than 15% of the people interviewed said that they were experiencing payment difficulties.

In contrast, the score for being financially comfortable was considerably lower, at 61.

This showed that a large 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 in life.

The score for the longer-term measure of financial resilience for the future was lower still at 52.

[9] On a scale from zero to 100.

This indicates that a large proportion of Irish consumers have quite poor provision against financial shocks. Over half of the people interviewed scored 50 or less on this measure.

The average score for financial resilience for retirement - for those who were yet to retire - was 46[10].

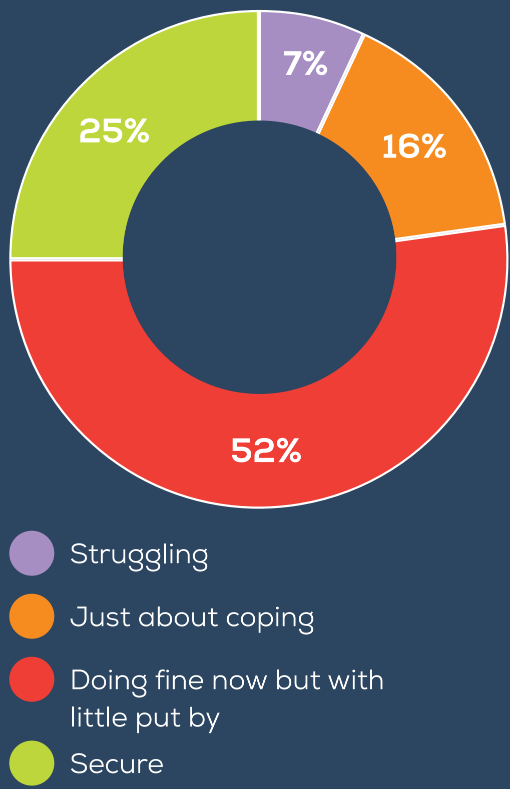
This was lower than the measures of general financial well-being, including general resilience for the future[11].

2. Financial well-being varies considerably across various groups of people

Reflective of Irish society generally, there was a large degree of variation around the average scores, with some people doing very well and regularly meeting all their current commitments with a comfortable margin, as well as being relatively insulated against future income or expenditure shocks[12]. At the opposite end of the spectrum, others, however, are clearly in financial difficulty. To explore how financial capabilities are distributed across the population, the study assigned people to one of four categories based on their scores for general financial well-being. **Those categories are: *'Secure'*; *'Doing fine now, but with little put by'*, *'Just about coping'*, and *'Struggling'*.**

As shown in Figure 2, a quarter of the Irish population could be considered financially 'Secure' (scoring an average of more than 80). The largest category – 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%) could be considered to be 'Just about coping' (they scored between 30.01 and 50) with 7% of the population obviously 'Struggling' financially (with scores of 30 or less)[13].

Figure 2 Overall financial well-being



[10] This did not form part of the general financial well-being measure and comparable figures are not available for other countries. [11] Resilience for retirement was assessed through three measures: 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. [12] The survey did not ask respondents to detail what was the cause of any drop in income or increase in expenditure. [13] The categories are comparable with those identified in Australia and New Zealand in a similar study conducted earlier in 2018.

Over the following pages we outline the four categories, with more detail about the key factors that explain their differing levels of financial well-being.

Secure: 25% of respondents are considered to be financially secure, with an average score of 87 for overall financial well-being.

Both their current financial situation and their provision for the future are strong. Although generally doing well, their provision for retirement left room for improvement.

They have very high scores for **meeting financial commitments** (98) and **financial resilience for the future** (85), while their average score for **being financially comfortable** was also very positive (82). 50% have more than 12 months income in savings while a further quarter have between 6 and 12 months income saved.

Financial resilience for retirement among working age members of the 'Secure' category is good, but less positive than other well-being factors. Their overall score is 63 – much lower than their general resilience for the future. While 48% report that they would have adequate income in retirement, even without the State pension, 12% would rely on it entirely and a further 21% report it would account for two thirds of their income. Among those who have adequate supplementary provision, half have been automatically enrolled in a workplace pension.

Who are they? The oldest of the four categories, with an average age of 53, they are the most affluent with an average gross income per person of €52,899 per year. They are the least likely to have experienced an income shock or expenditure increase in the past 12 months. They have the highest levels of education, with 53% holding a university degree. Almost none are unemployed or unable to work due to sickness or disability.

What about the key behaviours? Members of the 'Secure' category have the highest levels of financial capability. They have a high score for a key positive behaviour with an average of 83 for active saving. Almost none of them borrow to pay bills or meet daily living expenses – they have an overall score of 94 for this measure. They are quite confident about their ability to manage money (73) and take quite a high degree of personal responsibility for their financial decisions and outcomes (74).

Did they learn about money when they were young? Three quarters of them said that their parents had discussed money with them as a child and six in ten recalled being taught about managing money or saving when they were at school or college.

Doing fine now, but with little put by: By far the largest of the four categories - 52% of respondents fell within this category – they have an overall financial well-being score of 66.

In regard to **meeting financial commitments** they are doing well, with an average score of 83. However, 45% of them report occasionally struggling to pay their bills or meet other commitments on time. Compared to the secure category, they have less leeway in their budgets, with an average score of 63 in terms of **being financially comfortable**.

This category perform less well in terms of **financial resilience for the future**. Their average score is 51, pointing to a lack of provision against financial shocks in future. For example, 54% have more than three months' income in savings, considerably lower than the secure category.

Lower still was this category's score for **financial resilience for retirement**. In measuring the resilience of those yet to retire, the study scored this category an average of 47, pointing to major under-provision for retirement among a large segment of Irish consumers. Only one quarter of this group report that they would have sufficient income in retirement without the State pension. A further quarter have been automatically enrolled in a workplace pension. 51% of respondents are expected to rely on the State pension for two thirds or more of their income in retirement.

Who are they? This category was most reflective of the overall population. They have an average age of 46 with average gross income per person of €40,100 per year. Few in this category have experienced income shocks or significant expenditure increases in the past year. They are also generally unlikely to be unemployed or unable to work due to sickness or disability. 43% hold a university degree.

What about the key behaviours? People in this category scored well on financial capability, though less well than those in the 'Secure' category. They scored 70 for active saving and, with a score of 86, almost none of them borrow for daily expenses. They are fairly confident in their ability to manage money (62) and take a reasonable degree of personal responsibility for their financial decision making (67).

Did they learn about money when they were young? Two thirds of this category reported discussing money with their parents as a child, while 52% said they were taught about managing money or saving when they were at school or college.

Just about coping: Consumers in this category account for 16% of the population. They have an average score of 41 for overall financial well-being and show signs of some strain on their finances.

Although they have an average score of 60 for **meeting financial commitments**, they have little room for manoeuvre in their finances and scored 41 on average for **being financially comfortable**. Close to a third of this category said that it is a constant struggle to pay bills on time and 57% said that they struggle occasionally. 46% said that their finances do not allow them to do the things that they wanted to in their leisure time.

In addition, this group has very little money put aside to cover them against income or expenditure shocks – with an average score of 22 on the **financial resilience for the future** measure.

Seven in ten of them (68%) have less than a month's income in savings and a further two in ten (20%) have between one and three months' income put by.

They had a low score for **financial resilience in retirement** (30). 72% said that they would not have an adequate income in retirement without the State pension, which would make up all of their retirement income for a third of people (32%) in this category. 12% were automatically enrolled in a workplace pension.

Who are they? This category has below-average gross annual incomes – €30,969. One in five of them has experienced a substantial drop in income in the past 12 months, which is double the average for all groups in the study. A quarter have seen their expenditure rise substantially in the same time period. With an average age of 43, they are the youngest of the four categories.

One in ten of them are unemployed – twice the average for all groups in the study. This category contained the highest proportion of part-time workers (19%) of all the categories. Like those in the "Doing fine now, but with little put by" category, they were fairly well-educated with 24% holding a university degree and 20% holding a further education qualification. Over 50% rent their homes – well above the national average.

What about the key behaviours? People who are 'Just about coping' had much lower levels of financial capability than the previous two categories. They have a particularly low score for active saving (41) although most avoid borrowing to pay bills or meet daily living expenses (77). They are not particularly confident about their abilities to manage money (54) and take a moderate degree of personal responsibility for their financial decisions and outcomes (60).

Did they learn about money when they were young? Half of this category (52%) said that their parents had discussed money with them when they were young, and 44% recalled being taught about managing money or saving when they were at school or college.

Struggling: About 7% of consumers are struggling financially. They have an average score for overall financial well-being of 20 and consistently low scores across all the more detailed measures.

They have a score of 39 for **meeting financial commitments** indicating that they are in financial difficulty. Three quarters said it was a constant struggle to pay bills and meet their financial commitments on time, while a further quarter state that they struggle from time to time. With an average score of 6 for **financial resilience for the future** they have essentially no protection against income or expenditure shocks. 94% of this category have less than one month's income in savings, and most of the rest have less than three months.

They have almost no leeway in their budget as demonstrated by their average score of 18 for **being financially comfortable**. In fact, 89% of respondents said that their financial situation did not allow them to do the things they wanted in their leisure time.

When it came to **financial resilience for retirement**, they have an average score of 17, with hardly any of the respondents of working age saying that they would have an adequate income in retirement without the State pension. In fact, 55% said that all of their income in retirement would come from the State pension while a further 27% estimated that it would contribute at least two thirds of their total retirement income. Just 8% of this category have been automatically enrolled in a workplace pension.

Who are they? These consumers have gross average annual incomes of €23,878 – less than half that of the 'Secure' category. Further comparison to the 'Secure' category shows that they are 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.

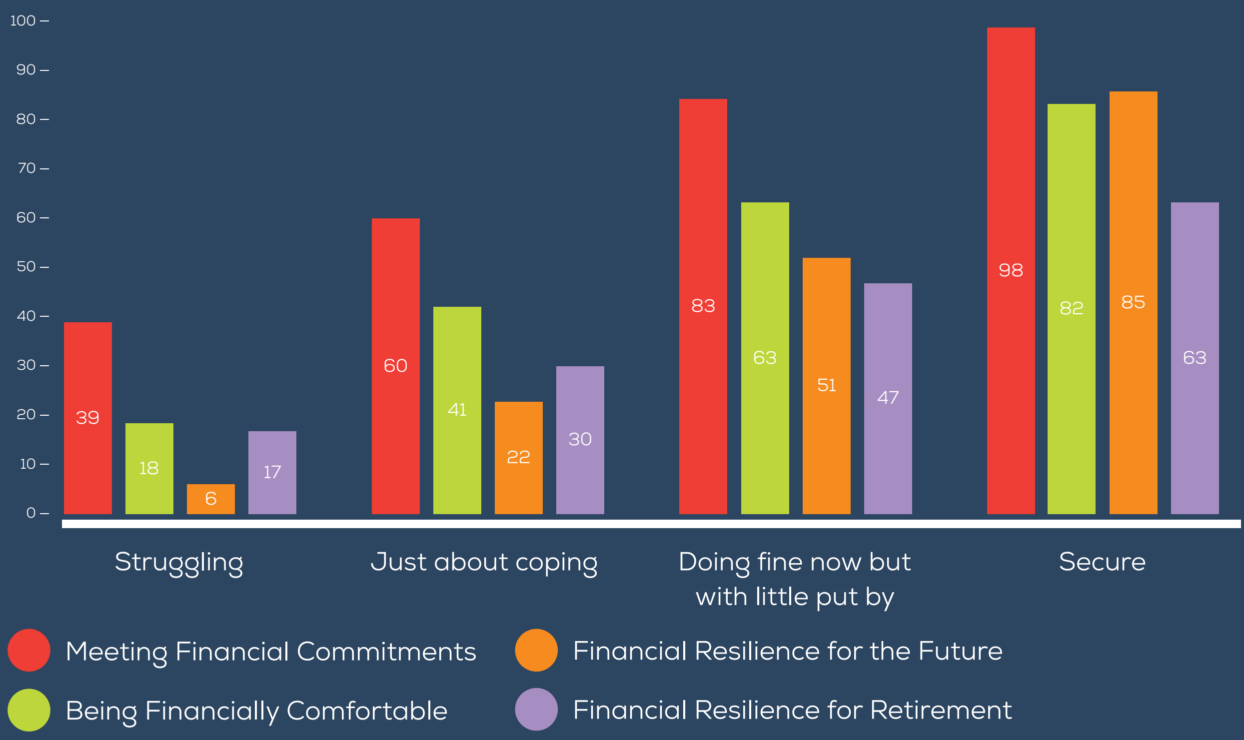
They have an average age of 44, one third are unemployed and a further 8% are unable to work due to illness or disability. They have the lowest levels of education, with 50% having been educated to Junior Certificate or below. Half of this category rent their home.

What about the key behaviours? Members of this category have the lowest levels of financial capability across the board. They have an average score of 30 for active saving and while scoring 74 for not borrowing for daily expenses, this was the lowest overall score for that indicator.

People in the 'Struggling' category have low levels of confidence in their ability to manage money (47) and tend to feel a low degree of personal responsibility for their financial decisions (51).

Did they learn about money when they were young? 38% recalled discussing money with their parents as children, while little more than one in ten reported being taught about managing money or saving when they were at school or college.

Figure 3 Financial well-being scores at a glance



3. Socio-economic factors have a crucial influence on financial well-being

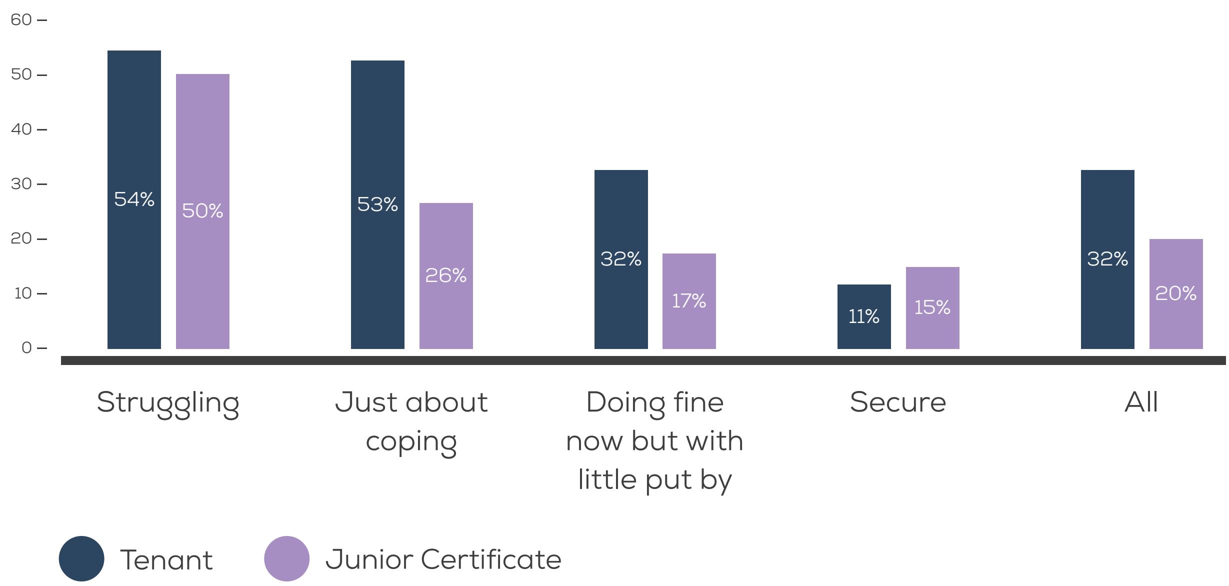
The study assessed the effect of a wide range of socio-demographic and economic characteristics which included age, gender, family circumstances, income, changes to income and expenditure, economic activity status, educational level, housing tenure and geographical area. The model employed in the study identified the independent effect of each factor after holding all the others constant. This allowed for the identification of those characteristics that directly influence financial well-being. The study identified correlations in the analysis. The initial regression models used included a very large number of variables and as such it was possible to rule out some alternative explanations for the correlations found - and equally identify evidence that supports the explanations that were put forward.

The study bears out what would be intuitively assumed; namely that higher incomes, more stable working lives, having responsibility for household finances, as well as your own, and higher educational attainment are all associated with higher financial well-being.

However, only people in the 'Secure' category have positive scores for resilience for the future, implying an ability to deal better with income shocks or expenditure increases. Unsurprisingly lower scores across all measures of financial well-being are also strongly associated with economic factors, including income level and experience of either a substantial income fall or a substantial increase in household expenses. People with the lowest scores included those who are unemployed or unable to work through sickness or disability. Another group with low scores are part-time workers.

Overall, socio-demographic factors are not nearly as important as economic factors. However, as shown in Figure 4, the study found a strong association with education, with those educated to Junior Certificate level or below at particular risk of having low financial well-being. In addition, renters also stood out as having much lower scores than home owners, particularly those that owned their home outright.

Figure 4 Percentage of consumers in each segment who are tenants or educated to Junior Certificate.



4. Behaviours have an important impact on financial well-being

The study found that financial well-being is influenced by a combination of the money people have, how they use and manage that money and their inclination to save and to avoid borrowing for daily expenses. Key behaviours such as active saving, not borrowing for daily expenses and restrained consumer borrowing all have a direct effect on financial well-being – with the first two having an effect across all three factors of well-being: *meeting current commitments, being financially comfortable* and *financial resilience for the future*.

Restrained consumer borrowing has an important effect on the ability of people to meet their current commitments but is less important for having financial comfort or in terms of financial resilience. As shown on the next page, the key behaviours are in turn influenced by other behaviours.

5. Being an active saver makes a big difference

The study found that people in Ireland are moderately good savers, with a score of 68, particularly when compared with other countries. The Norwegian score for active saving was 75, while in Australia the score was 63 and in New Zealand lower still at 60 (see section on International Comparisons). As recorded in Central Bank of Ireland statistics, Irish households have been gradually building up their savings over the past three and a half years[14]. However, one fifth of the population either cannot or does not save. As would be expected, income levels and employment status have an important influence on the ability of consumers to save. Other factors influencing active saving included whether consumers had been educated beyond Junior Certificate and whether they managed household finances or just their own. Higher educational qualifications and having responsibility for household finances had a positive effect on active saving.

The biggest behavioural influence on active saving, in turn, is the ability of consumers to exercise spending restraint, while making informed decisions also has a substantial effect.

Feeling in control of your finances also has a large influence on active saving[15]. This measures whether consumers feel personally responsible for their financial situation or not, and as such whether it is to a greater or lesser extent outside of their control. Unsurprisingly, income level and work status are directly related to the extent to which consumers feel they have such control. The study found that believing that you are responsible for your finances leads to more active saving behaviour. In addition, attitudes to saving, spending and borrowing, as measured in the study, have a strong influence on the likelihood of consumers to save.

[14] (https://www.centralbank.ie/docs/default-source/statistics/data-and-analysis/credit-and-banking-statistics/private-household-credit-and-deposits/trends-in-personal-credit-and-deposits-june-2018.pdf?sfvrsn=9). [15] This is measured in the study as 'locus of control'.

Thinking about finances with a long term view is likely to incline someone to be an active saver. Finally, being taught about money both at school and by parents or guardians had a positive effect on saving capability. This is an important finding for the work of the CCPC.

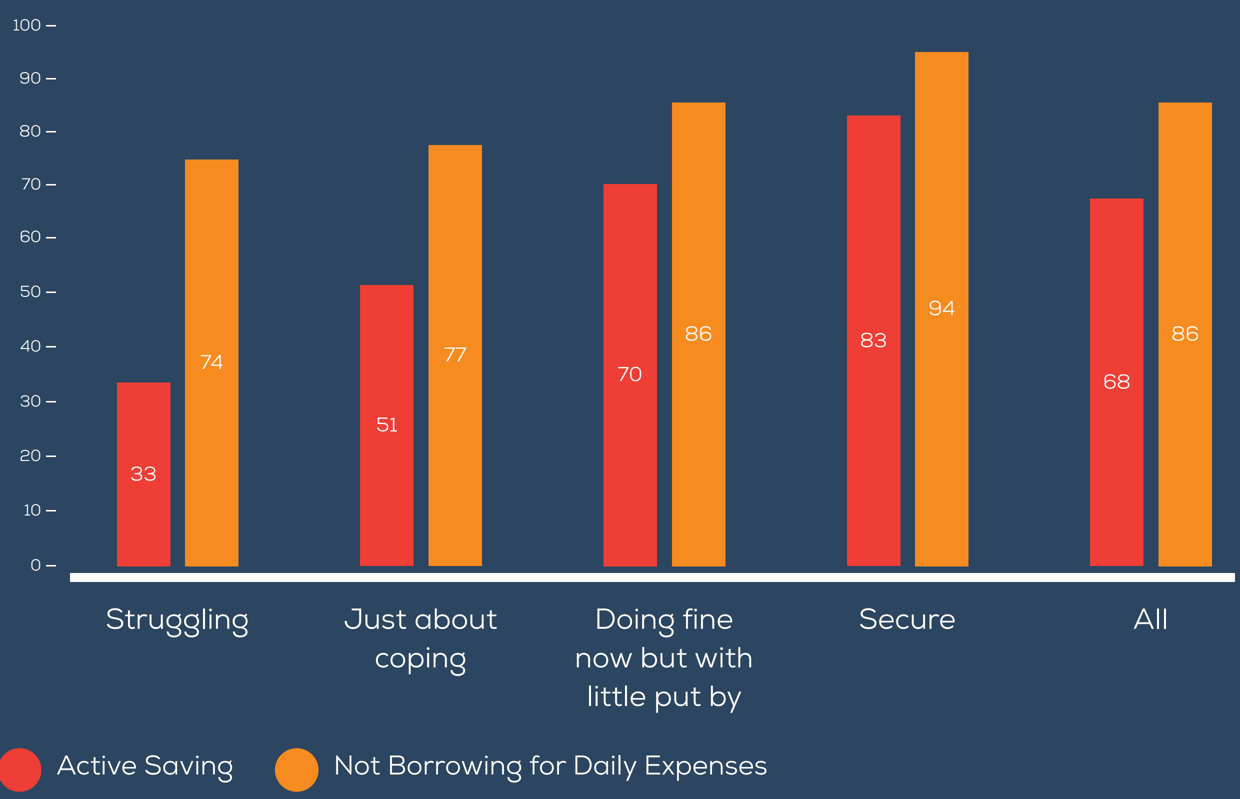
6. Most people do not borrow for daily expenses

The overall score for not borrowing for daily expenses (86) was very positive, and this was a trend across all four categories of consumers. It means that most people rarely use credit to pay for food or other daily essentials, and nor do they borrow to pay off debts or rely on their overdraft facility. People who managed both the household finances and their own money are less likely to borrow for daily expenses. A small minority of consumers, however, have low scores for this factor indicating that they are in a particularly tight financial situation. However, income levels are less important in explaining this than drops in income or sudden expenditure increases.

The study found overlapping influences on whether consumers borrowed for daily expenses or not. As might have been expected, exercising spending restraint, consumer attitudes to spending, saving and borrowing, and feeling in control of their finances are the key drivers for this behaviour. On the other hand, financial education seemed to have little or no effect in this area, unlike in relation to active saving.

The spread of these key behaviours across categories of consumers is shown in Figure 5.

Figure 5 Average scores for the key behaviours across each segment.



7. Knowledge and experience helps, but it is not as important as behaviour

One area in which knowledge and experience has an influence is on restrained consumer borrowing. Better knowledge of money management and experience of managing money and using financial products makes people less likely to borrow for consumption – but the effects are quite small. Again, this is separate to the important effect that financial education more broadly has on financial well-being.

8. Some people have consistently high levels of financial well-being

As we have seen, income has a strong effect on financial well-being, as do a range of other socio-economic factors. The study shows, however, that it is the interaction of factors such as income and housing tenure with behaviours that have a positive effect that lead to greater financial well-being. The 'Secure' category, which has the highest average financial well-being, also has the highest average income, the highest levels of education of the four categories and was typically older than the average. They meet current commitments with ease and have a high level of financial comfort.

Their resilience for the future is also substantial. They typically have positive scores for retirement resilience but less so than their score for general resilience for the future. They tended to be confident about managing their money and felt a high sense of control of their personal finances. They also were the most likely to report receiving financial education at school.

9. Overall provision for retirement is poor

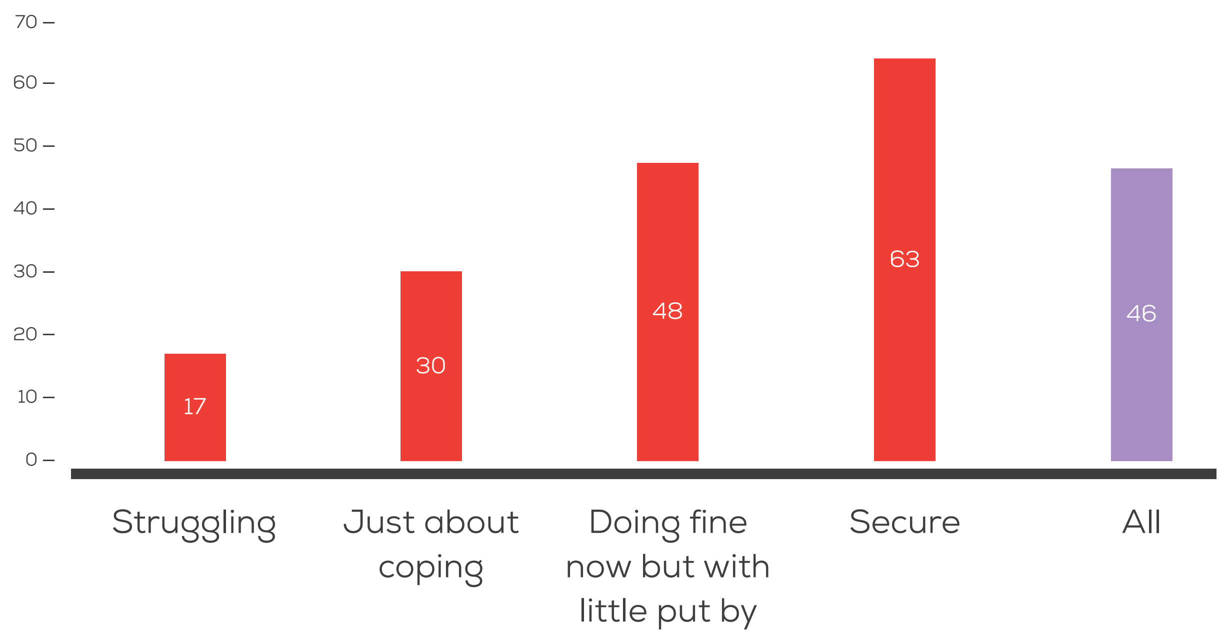
The study measured provision for retirement separately to the other indicators of well-being. It found that provision both for people who are below retirement age and for those who have already retired is poor overall (see Figure 6). With an overall average score of 46 this was lower than the scores for general resilience for the future. This means that while Irish consumers generally have provision for a rainy day, their longer term prospects in retirement are not so good.

A number of reasons for this stand out. A substantial number of respondents to the survey have low supplementary provision for retirement beyond the State pension (47% of people yet to retire have made no provision beyond the State pension). Even among those who are already retired and who have a supplementary pension, the financial outcomes for many have been underwhelming.

A wide range of factors influence whether people have resilience for retirement, ranging from income and work status to educational attainment and housing tenure. There were also regional disparities, with residents of Dublin having a higher level of resilience for retirement than the national average. The prevalence of employers with workplace pension schemes (particularly the public sector) in the Dublin area may account for much of this.

Being an active saver also has a positive effect on pension provision. The study found a strong link between better pension outcomes and having been automatically enrolled in a workplace pension scheme. In particular auto-enrolment had a large positive effect. Simply having the option of enrolling in a workplace pension scheme was not enough, the study found it is better if consumers have to consciously 'opt out' rather than placing the expectation on them to 'opt in' to workplace pensions.

Figure 6 Average scores for resilience for retirement among the non-retired population.



International Comparisons

How does financial well-being in Ireland compare with other countries?

Similar studies have been carried out in **Norway, Australia, Canada** and **New Zealand** and there are some positives to take away from making comparisons.

In terms of overall **financial well-being** Ireland's score of 64 is lower than Norway's score of 77 and Canada's score of 65 but higher than Australia and New Zealand who both scored 59 in a study released in early 2018[16]. In terms of the sub-measures of well-being, Ireland performed better than Australia or New Zealand but underperformed compared to Canada and Norway.

Irish consumers performed well for **meeting financial commitments,** scoring an average of 80. Norwegian consumers scored an average of 91, Canadians scored 81, in Australia the score was 70, while New Zealanders scored 72. For **being financially comfortable** the scores ranged from 70 (Norway) to 61 (Ireland), and down to 55 (Australia) and 54 (New Zealand). Finally, **financial resilience for the future** was an area where Irish scores (52) were equivalent to Australians (53) and New Zealanders (52). Norwegian consumers by contrast scored an average of 73 while Canadians scored 60.

Even though the Irish scores are lower than the Norwegian scores, compared with Australians and New Zealanders, Irish consumers do not do too badly on these core capabilities.

The one exception relates to a lack of spending restraint, where the average score (67) is lower than in Norway (71), indicating a lower level of **spending restraint** in Ireland but also lower than in Australia and New Zealand too (both 74).

Irish consumers had positive scores for **active saving** (68) and **not borrowing for daily expenses** (86), with only Norwegian consumers scoring better.

The Norwegian score for active saving was 75, in Canada the score was 68, while in Australia the score was 63 and in New Zealand lower still at 60. However regarding spending restraint and having financial confidence, Irish consumers scored lower than their counterparts in the other countries. In respect to feeling personally responsible for your financial situation Irish consumers scored better than Australians and New Zealanders but lower than Norwegians[17].

There was no equivalent data relating to resilience for retirement in any of those countries and as such no comparisons are possible.

[16] https://bluenotes.anz.com/financialwellbeing. [17] Spending restraint: Ireland (67), Norway (71), Australia (74), New Zealand (74). Financial confidence: Ireland (62), Norway (71), Australia (65), New Zealand (66). Locus of control: Ireland (67), Norway (71), Australia (61), New Zealand (61).

Conclusions and Recommendations

This is the first study that gives an insight into both financial capability and well-being in Ireland. It provides both the CCPC and other stakeholders with valuable insights and further provides suggestions for how the financial well-being of consumers in Ireland could be improved through a range of actions.

The CCPC's statutory functions empower us to promote and protect the interests and welfare of consumers[18], as well as entrusting us with a specific role in providing information in relation to financial services, and promoting the development of financial education and capability[19]. The authors of the study identified a number of key areas that they believe require future attention, whether by the CCPC, or other organisations. In that regard the CCPC has developed a number of strategic priorities for delivery between 2019 and 2021. We deal here with areas within the CCPC's remit.

However, we suggest that other stakeholders could usefully consider the findings of the study to inform their own activities in promoting financial well-being, including in consideration of reform of the pensions framework and support for the most financially vulnerable. The findings should also prove useful to those involved in the provision of financial education initiatives. The CCPC will proactively engage with stakeholders in the financial education sphere to share and discuss the findings and their implications. The study has established that a number of factors impact on financial well-being. Naturally some of these relate to income levels and, for some consumers, information to promote better financial capability is unlikely to provide either comfort or help. In these instances more appropriate responses lie in public and social policy supports. Having said that, if one considers the longer term, the report suggests that a lower proportion of consumers may find themselves in financial difficulty if interventions are made, particularly at an early age. While financial education is by no means a panacea which can solve broad income disparities in society, it has a valuable part to play in a wider series of overall State supports.

Financial education initiatives

Since its establishment in 2014, the CCPC has focussed on delivering three core programmes of financial education: Money Skills for Life, Money Matters and Money Counts. In commissioning a study on financial capability and well-being, the CCPC was motivated by a wish to understand more fully the role that financial education can play, and crucially, what we should focus on to support the financial well-being of people in Ireland. Our objective is that these programmes and the financial information that we provide have a tangible benefit. To that end it is essential that we understand what will be most effective and select the most important areas to focus our efforts on.

[18] Competition and Consumer Protection Act 2014, Section 10(1)(b) [19] Competition and Consumer Protection Act 2014, Section 10(3)(j)

Building on the findings of the study, the CCPC will review and revise the materials and supports that we provide for financial education. In addition, the CCPC has identified specific strategic themes for its financial education work to ensure that efforts are focussed on particular objectives that take account of the study's findings and seek to influence children at an early age.

Policy initiatives

In fulfilling our statutory role to promote and protect the interests and welfare of consumers, the CCPC works to influence public debate and policy development, promoting competition and highlighting the interests of consumers[20]. The study contains valuable findings to support this work. Specific themes emerge in the study that point to an opportunity for the CCPC to seek to influence policy development.

Resilience for retirement

The study makes the strong observation that automatic enrolment in a workplace pension scheme is a decisive factor in increasing consumers' levels of resilience for their retirement. Simply having the option of enrolling in a workplace scheme is not sufficient on its own. The CCPC is aware that a core objective of the Government's Roadmap for Pensions Reform 2018 – 2023 is to introduce a system of automatic enrolment to increase the levels of supplementary retirement savings coverage.

This study provides further evidence that the overall policy objective of automatic enrolment is correctly targeted and can be expected to have a positive effect on the resilience for retirement of Irish consumers. The CCPC will contribute positively through our advocacy work to the pension reform agenda, as well as fulfilling its statutory mandate as it relates to information and education regarding pensions.

Active saving

The study has found however that for many consumers in Ireland, their financial well-being could and would be improved through two key behaviours: *active saving* and *not borrowing for daily expenses*. The crucial question arising is 'what can be done to influence those behaviours?' and in many cases, the ability of consumers to save and/or not borrow for daily expenses is limited by their income. Such matters point to public and social policy supports. However, initiatives that support the development of active saving will be supported by the CCPC. In addition, there are also obvious learnings for our financial education programmes.

Financial confidence is important, and financial education can help

There was also a clear link between higher financial well-being and engagement with financial services – and therefore financial inclusion - even when other factors were taken into account.

[20] CCPC Strategy Statement 2018-2020, Strategic Goal 3

Promoting greater engagement with financial services would clearly have a beneficial effect on all measures of financial well-being. However, specific aspects of knowledge and experience were not as important[21]. For consumers, having confidence in their ability to deal with different aspects of money management and decision-making, and accepting personal responsibility for their finances, were also significant. Also important, was the positive effect of having received financial education at school. All these findings point to the benefits of the provision of financial education in the school system and the CCPC will work to advocate for this.

[21] By way of illustration, among other things the study tested for were whether consumers' understanding of risk, knowledge of money management or experience of money management had effects on their well-being.

What about the longer term?

The study suggests that Ireland should follow the example of a number of other countries by introducing a Government-led national strategy to promote higher levels of financial capability and well-being.

In this respect the study is in line with the global trend toward national strategies for financial education, capability and well-being where much of the thinking has been led by the Organisation for Economic Co-operation and Development (OECD) International Network on Financial Education[22]. The OECD further suggests that identifying the key issues relating to financial education is of paramount importance to inform the implementation of a national strategy and to ensure that it is evidence-based and tailored to a country's needs and circumstances[23].

The OECD also suggests that strategies targeted at financial education should also be coordinated with financial consumer protection and financial inclusion measures where relevant.

The OECD proposes that, following the diagnosis of what is required to be covered in a national strategy, it is necessary to establish the appropriate institutional and governing arrangements before setting objectives and considering the level of resources required. All of this points to the necessity of a wide range of stakeholders coming together to establish where Ireland should go next in promoting financial well-being.

The CCPC recommends that Government should consider how it can take the lead in delivering on a cross-stakeholder national strategy for financial education.

[22] For example, in 2012 the G20 endorsed the OECD/International Network on Financial Education (INFE) High-Level Principles on National Strategies for Financial Education. [23] http://www.oecd.org/daf/fin/financial-education/National-Strategies-Financial-Education-Policy-Handbook.pdf.

Technical Appendix

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. Quotas were set on age, gender, region and social class to ensure the sample attained was aligned to the Irish population based on the Central Statistics Office Census 2016 figures. The number of observations used in the analyses is, however, somewhat lower at 1,401. This is partly due to missing information on income, and partly because respondents with more than 15 'don't know' and 'prefer not to answer responses' were removed. In addition, some cases were omitted from the sample, involving young people living with their parents who 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.

The questionnaire included over 60 questions, including a suite of 11 questions designed to capture financial well-being, as well as a sequence of six questions relating to provision for retirement. It included 27 questions relating to key behaviours identified by the qualitative research as well as questions capturing knowledge and experience, attitudes to spending, saving and borrowing, financial confidence and an array of personality traits. A range of demographic and socio-economic questions were included as well as ones to capture financial education at school and from parents and financial support from family and friends.

Finally, it is important to note that in both the Irish and Norwegian 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.

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

The analysis began by combining these questions 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.

This analysis was informed by a conceptual model, covering, in turn: financial well-being, behaviours (financial capability), knowledge and experience (financial literacy) and psychological factors. The score for each of these components was rescaled from zero to 100.

Identifying the determinants of financial well-being and capability.

To understand the factors that determine the scores for financial well-being and capable financial behaviours in the Irish population, OLS regression analyses were run for each 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.

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 implications for public policy and the CCPC's programmes of financial education. Naturally with such a broad study the findings cover issues that fall outside of the remit of the CCPC but will no doubt be of interest to a wider audience of stakeholders.

The report had the following specific objectives:

- To measure the overall levels of financial well-being of the Irish population as well as to 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 – these behaviours are generally considered to represent 'financial capability' . They are also likely to include other factors such as income as well as socio-economic factors.
- To identify the most important factors that have an 'indirect' effect by influencing the key behaviours determining 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.
- To explore how levels of financial well-being and financial capability vary across different categories 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.