

Improving financial capability aids wellbeing

Alice Howard introduces the work of the Consumer Financial Education Body (CFEB)

This article highlights the work the CFEB is doing to improve financial capability in the UK, why being in control of money benefits people's overall wellbeing and how BACP members can get involved in the CFEB's workplace programme.

In theory, managing money should be a fairly straightforward process – what do you need to save, borrow or protect yourself against? But the reality is far more complex. We all find it difficult to make time to review our finances, and the increasing sophistication of financial markets means it is not always easy for us to know how to act in our best interests.

The Financial Services Authority's (FSA) baseline survey of financial capability in 2006¹ showed that many people are not very good at keeping track of their money or budgeting, let alone working out what would be the best financial choices for their particular situation. And our own recent survey of mortgage holders (July 2010) demonstrated that a high proportion of people do not understand some basic facts about their mortgage. Worryingly, they also did not understand the impact of even a small rate increase on their monthly outgoings. Couple this with the opacity of some financial products on offer, and it's no surprise there has been a focus by the Government, consumers and financial institutions to redress the balance.

The crisis of 2008 showed how 'rational markets' can race ahead of themselves and leave ordinary consumers far behind. It is therefore little wonder that many people feel that being able to manage their money is too difficult and 'not for them'. Although financial management is important at any time, in the current economic downturn, supporting a wide swathe of the population is even more vital, as an increasing number of people find themselves in difficult financial situations. It is important to note that the concept of 'financial capability' is not correlated with income¹; people across society require support to develop appropriate financial management skills that enable them to better manage their money, regardless of how much they have.

Few of us need reminding that we are facing difficult economic times; we also have an ageing population where, for example, a quarter of all boys born today will live to be over 100. Many of us may be worrying already about how to help our parents as they grow older and our children in starting out, or perhaps wondering whether there will be anything left to fund our own retirements. The notion of a 'cradle to grave' safety net, whether through family or state, has shifted to a world of greater personal responsibility. People now need help more than ever to navigate their way through the world of personal finance, to make the right choices, and keep on track.

The market is also developing and changing. Greater personalisation of social and healthcare, at a time when more and more people need to make their own provision for their future, is likely to lead to more people needing and wanting advice about their financial affairs. However, not all of them will have the means to afford advice and many will not know how or whether to access it in the first place.

There is also considerable evidence that shows there is a link between money management and stress, anxiety and overall wellbeing. We also know that the financial capability work – which the FSA started and CFEB now continues – has affected many people's lives in a positive and constructive way. But how exactly does the effect manifest itself in people's daily lives?

Managing money and wellbeing

Intuitively, being in control of money should benefit people's overall wellbeing: money worries are often at the heart of relationship breakdown, poor health outcomes, crime, and not being able to participate fully in society.

Since the launch of our *Parent's Guide to Money* in 2007, we have been working with new parents and midwives to provide them with useful support and advice about money at this life-changing stage. We know that this guide has helped parents to feel happier and more in control.

Alice Howard is adult strategy team manager at the Consumer Financial Education Body.

Keen to explore this in more detail, we commissioned research² to examine the link between financial capability and psychological wellbeing in late 2008. The aim of the research was to investigate the direction of the relationship between these two factors. Using data from the British Household Panel Survey (BHPS)³, we felt that understanding the nature of the relationship was of considerable importance, particularly because of the economic climate.

The following important points emerged from the research:

- being financially capable does help improve overall psychological wellbeing
- being financially capable helps people be more resilient at times of extreme stress, such as divorce and separation or unemployment
- whilst people need to be more financially capable at such difficult times, the reverse often happens as emotional stress impairs their ability to think clearly and make sound judgments.

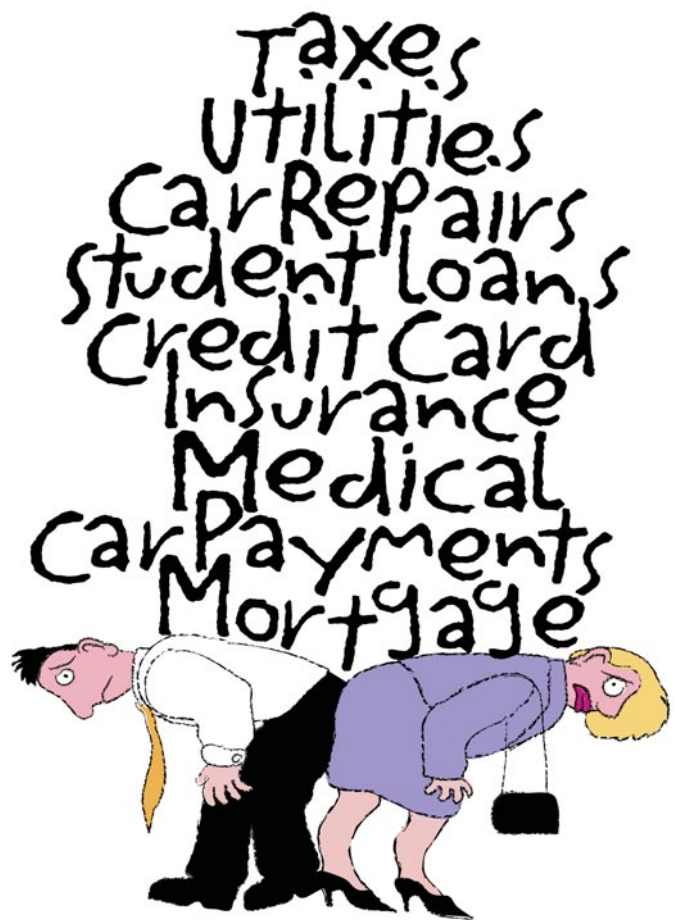
This research makes a valuable contribution towards the development of effective policy and practice aimed at improving the UK's financial management in this difficult time and beyond.

Evidence from the research

Financial capability and wellbeing: evidence from the BHPS² focuses on the relationship between people's ability to manage and take control of their finances (their 'financial capability') and their psychological wellbeing. The research explores how ability and levels of financial capability might relate to and affect psychological wellbeing.

The research showed that not only is there a link between financial capability and psychological wellbeing but that increasing someone's capability also increases their wellbeing. To summarise: moving an individual with relatively low levels of financial capability to an average level of capability, improves their psychological wellbeing by about six per cent (compared to an eight per cent deterioration in wellbeing associated with being divorced, and a 10 per cent deterioration from being unemployed).

The research also showed that higher financial incapability is associated with higher risk of mental stress, lower reported life satisfaction, and health problems associated with anxiety or depression. It was also demonstrated that people's financial capability is a strong predictor of their psychological wellbeing. In addition, financial incapability compounds the already psychologically harmful effects of unemployment or divorce, while being in good health or retirement reduces the psychologically damaging impacts of financial incapability.



LINDA BRAUCH/GETTY

Summary of the research

The results led us to conclude that financial capability has a statistically significant impact on psychological wellbeing. This suggests that improving people's financial management skills would substantially help prevent stress-related illnesses. It also demonstrated the importance of improving money skills as a way of building resilience to manage periods of financial stress and difficulty. This is particularly important in a climate of economic austerity when people are worried about 'making ends meet', and there is a general increase in stress and anxiety due to money worries and fear of job losses.

The findings support our approach of reaching people at times when they are most receptive to support. We are committed to developing and promoting programmes which create confident, capable consumers, and to delivering them in ways that people will best understand, in places most useful to them. We continue to build effective relationships with stakeholders and trusted intermediaries in order to provide support to their employees, and by extension their families.

We have come a long way since the baseline survey of 2006 but we still have further to go. An integral part of understanding our success to date is ensuring that we measure and evaluate all our financial capability work, to make sure that it meets the needs of those it aims to support. We are under no illusion that what we are tasked with is easy.

The research has helped us to build the case that personal financial capability cannot be seen in isolation. It is intimately connected with health and wellbeing outcomes and therefore needs to

be embedded into a wide range of policy areas including health and education, and integrated into people's lives through other channels such as the workplace. To help achieve this we are already working closely with a number of government departments including the Department of Health, local authorities, the financial services industry and the third sector.

Wellbeing in the workplace

The Financial Capability and Wellbeing research identified that poor financial capability is compounded at times of stress, including being out of work. In these uncertain times, many employees are unable to switch off from personal financial worries when they come to work. This can lead to decreased productivity, absenteeism, or even stress-related illness. A survey⁴ in 2009 by the insurer AXA found that 70 per cent of people admit to spending time thinking about their finances instead of working, and five per cent of people have taken time off work during the past year because of money worries. It's therefore more important than ever that people are in control of their finances. But sometimes it's difficult for people to know where to start.

CFEB offers a free, impartial programme of financial education delivered to employees in their workplace. The programme is designed to be delivered easily and effectively in the workplace.

One area comprises an hour-long presentation, given by a specially trained CFEB presenter. The presentation covers everything from budgeting, borrowing, saving and investing, and protecting your family and possessions to saving for retirement. It can be tailored to offer bespoke information on the host company's own employee benefits. To support the presentation, we have produced a free A5 guide, *Making the most of your money*. This guide builds on the information given in the presentation and provides useful links and contacts.

CFEB already works with 750 employers across the UK and we have reached over three million employees to date. The positive feedback speaks for itself. Independent evaluation⁵ carried out on our behalf shows that, of those who attended a seminar:

- 97 per cent said that it was a valuable part of their employer's benefits
- 97 per cent found the seminar useful
- 86 per cent believed that the seminar played a role in their decision to take action in relation to their finances
- 81 per cent felt that the seminar had increased their knowledge in relation to money issues
- 79 per cent said the seminar had given them more skills, further enabling them to deal with money matters

- 69 per cent felt that the seminar had increased their confidence when it came to financial matters.

As a follow-up to the 'Making the most of your money' presentation, or as a stand-alone service, employees can access our free, money guidance service, which includes an individual face-to-face meeting with a specially trained money guide.

Redundancy

If an employer is in the unfortunate position of making redundancies, CFEB offers *The Redundancy Handbook* covering subjects such as the financial impact of losing a job, how to make the most of redundancy payments, debt management and borrowing, financial planning, budgeting and your rights when facing redundancy. This can also be delivered in tandem with the group presentation.

Retirement

For employees who are nearing retirement, CFEB offers *Your Guide to Retirement*. This is a free comprehensive handbook, which aims to demystify the financial side of moving from work into retirement, explaining the steps and choices they can make to improve their financial security. ■

References

- 1 FSA. Financial capability in the UK: establishing a baseline. www.fsa.gov.uk/pubs/consumer-research/crpr47a.pdf
- 2 FSA. Financial capability and wellbeing. Occasional paper 34. May 2009. www.fsa.gov.uk/pubs/occpapers/op34.pdf
- 3 The BHPS is a longitudinal dataset that uses evidence from 11,000 households to develop a robust index of financial capability, and a widely accepted measure of subjective wellbeing, called the General Health Questionnaire 12.
- 4 Survey on behalf of Axa by YouGov, October 2009.
- 5 Based on a sample size of 13,000.



The Consumer Financial Education Body (CFEB) is an independent body, created in April 2010 by the Financial Services Act 2010. It is responsible for helping consumers understand financial matters and manage their finances better. It does this by providing impartial information, education and advice through a national financial advice service. Its national financial advice service provides free, impartial advice and is available at www.moneymadeclear.org.uk, by phone on 0300 500 5000 and face-to-face across the UK from spring 2011.

For further details, please contact workplace.team@moneyadeclear.org.uk or telephone 020 7943 0586.