The Money Charity Response – The Financial Resilience APPG's call for evidence (March 2022)

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

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

[1] **See box on back page.**

Answers to consultation questions

Question 1: How has the Covid-19 pandemic affected people's financial wellbeing & financial resilience?

An unprecedented number of people found that their financial wellbeing and financial resilience were negatively affected during the pandemic, with many being placed on the furlough scheme and only receiving 80% of their normal income, and others losing their jobs entirely. As a result:

- **Over 15 million people in the UK have experienced at least one life event in the last two years that was either 'very difficult' or 'not possible' to pay for using existing income and savings[2].**
- **1.3 million more people are now claiming universal credit than at the start of the pandemic. The total number is now 2.3 million, meaning that the number of claimants has more than doubled since the beginning of the pandemic[3].**
- **There are 400,000 more people now classed as 'economically inactive', which means they are unemployed, not looking for work or are not available for work, than the start of the pandemic[4].**

On the other hand, over the course of the pandemic some people were able to build up a great deal of financial resilience, as they found themselves not having to pay for travel costs, holidays and childcare amongst other expenses. The household savings ratio (household savings as a proportion of household disposable income) increased from 8.9% in Q1 2020 to 25.9% in Q2 2020, a record high since the series began in 1987. This decreased to 14.3% in July to September 2020 as the economy opened up, and then increased again in October-December 2020 and January-March 2021 during local and national lockdowns[5]. It has been estimated that six million people have saved money during lockdown periods – for some of them this was thousands of pounds. These people have been described as "accidental savers"[6].

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[2] **Turn2Us, 'Life events and financial security', November 2021.**
[3] **TUC, https://www.tuc.org.uk/news/number-workers-universal-credit-13-million-eve-pandemic, February 2022.**
[4] **Office for National Statistics, Employment in the UK: February 2022.**
[5] **Commons Library Research Briefing, 'Coronavirus: impact on household debt and savings', July 2021, p6.**
[6] **LCP, 'Britain's army of 'accidental savers'- who are they and what are they doing with their windfall?', February 2021.**

Question 2: Has Covid-19 made people more aware of income shocks?

2a) Has the pandemic made people more aware of the financial risks they face?

The feeling of financial security that many people enjoyed (and often took for granted) before the pandemic has disappeared. Those who in the past had never worried about losing their job, business or home suddenly had a real and imminent reason to do so. And while these fears did not materialise for everyone, stories of mass redundancies, businesses going under, and mortgage defaults became much more common. This in turn increased awareness about common financial risks.

2b) Are people aware of the financial safety nets available to them if they were to fall out of the workplace?

A lot of people are probably not aware of financial safety nets that are available to them (such as benefits and grants). Whilst many people do know that organisations such as Turn2Us and Citizens Advice can provide free information about eligibility for benefits, others are less able to access these kinds of resources. Digital exclusion (where people have unequal access and capacity to use digital tools such as mobile phones, computers or internet access) means that this kind of advice, which is often available online and over the phone, is less accessible for some people.

For people on middle incomes or with savings, there exist no significant financial safety nets. Most benefits are only available to people on lower incomes or savings. From 6 April 2020, people who have had to work from home have been able to claim £6 a week in tax relief for job expenses. However, this does not represent a reassuring safety net for people with middle incomes who may be experiencing financial hardships such as job loss.

Question 3: Has the pandemic changed people's savings habits?

3a) Are people saving for the future, for both the short and long term?

As discussed in Question 1, the pandemic was divisive in that some people saw their financial resilience greatly reduced, and others saw improvement. Some people managed to save money during the pandemic due to reduced travel, holiday, childcare costs (known as accidental savers). It's worth looking at whether this trend was temporary and strictly linked to the movement restrictions in place during the pandemic, or if these people have been able to turn their savings into a

sustainable habit. In Q3 2021, households saved an average of 8.3% of their post-tax income, including benefits, down from 12.4% (revised) in Q3 2020 and 22.8% (revised) in Q2 2020[7]. From these numbers, unfortunately it appears that the trend has not been sustained.

3b) Are people thinking about their retirement, and at what age?

We know that there is a massive gap between what people should be putting towards their retirement, and what people are contributing. Auto-enrolment, whilst a huge success in many ways, gives many people a false sense of financial security, and the wrong impression that they don't need to worry about contributing more to their pensions. The rate at which many people are saving for their pension, when contributing only minimum amounts as set by auto-enrolment schemes, is nowhere near enough to provide them with a comfortable retirement.

Part of this problem comes from lack of adequate information about pension products that are available. Only 45% of people aged 18–64 said they knew enough about pensions to make decisions for retirement. Of 40m working-age people, 22m say they don't know enough to plan their retirement. Of those who say they don't know enough: 66% of 18-24 year olds, 64% of working age women and 48% of those approaching retirement age (55-64)[8]. It doesn't help that the little information about pension products that is available is often not easy to understand for the average person. And when it comes to consolidating their pensions, many people do not have enough information to consolidate in the way that benefits them most.

We also know that important life events such as buying a house and having children are starting to happen later than they had done in the past. This is in turn pushing back the time when people would potentially have some spare income to boost and prioritise their pension. For many people in their 40s and 50s, their financial priorities are still raising children and paying mortgages.

Question 4: Have different groups within society had different financial experiences throughout the pandemic?

4a) Have there been differences by age, gender, ethnicity, housing tenure and region?

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[7] **The Money Statistics February 2022, p16.**

[8] **MaPS, UK Strategy for Financial Wellbeing 2020-2030.**

It is apparent that the economic impact of the pandemic exacerbated many pre-existing inequalities. A common theme seems to be the effect on people and groups who were more likely to be employed in low paid, insecure jobs. Low-income group and part-time workers were most likely to have been furloughed, experiencing a 20% pay cut to their already low wages[9]:

- **Women's jobs were 1.8 times more vulnerable during the pandemic than men's were. Women made up 39% of global employment but accounted for 54% of job losses. One reason for this greater effect on women is that the virus is significantly increasing the burden of unpaid care, which is disproportionately carried by women[10].**
- **Many low-paying occupations employing high numbers of young people are in sectors that have been the most affected by pandemic restrictions. For example, hospitality and non-food retail. In 2019, 22 percent of people aged between 22 and 25 working in their first full-time job after leaving education were employed in these sectors. 16–24-year-olds saw the steepest decline in employment from Q1 2020 to Q3 2020 than any other age group[11].**
- **Black people and minority groups have been disproportionately affected by the pandemic. Citizens Advice found that 31% of people from a Black ethnic group and 28% of people from any minority ethnic group fell behind on bills between February and November 2020, compared to 11% of those from a White ethnic group[12].**
- **The University of Glasgow found that refugees and migrants were more likely to be employed in lower paid and less secure jobs, so were particularly vulnerable to the economic impact of the pandemic. They reported similar findings for groups such as the Roma people. The insecure nature of many Roma people's employment meant that many families are ineligible for financial support (e.g. Universal Credit and the furlough scheme). With more informal third sector support, such as community hubs and meals, closed**

[9] **Michael Marmot, Jessica Allen, Peter Goldblatt, Eleanor Herd, Joana Morrison (2020). Build Back Fairer: The COVID-19 Marmot Review. The Pandemic, Socioeconomic and Health Inequalities in England. London: Institute of Health Equity, p100.**
[10] **McKinsey Global Institute, 'COVID-19 and gender equality: Countering the regressive effects'.**
[11] **Michael Marmot, Jessica Allen, Peter Goldblatt, Eleanor Herd, Joana Morrison (2020). Build Back Fairer: The COVID-19 Marmot Review. The Pandemic, Socioeconomic and Health Inequalities in England. London: Institute of Health Equity, p101.**

[12] **Commons Library Research Briefing, 'Coronavirus: impact on household debt and savings', July 2021, p18.**

due to lockdown, many Roma families were struggling to meet their basic needs[13].

Question 5: Have workers in different sectors had different financial experiences throughout the pandemic?

5a) Have people in different sectors had different financial experiences during the pandemic? For example, those working in retail and hospitality?

People working in retail, hospitality, arts and entertainment and other sectors where people are not able to work from home have been negatively affected. People having to isolate are only entitled to £96.35 per week Statutory Sick Pay, compared to average earnings of £503. This means the average worker would lose 80% of their income if they had to stop work due to illness[14]. Furthermore, many of the country's lowest paid and most vulnerable workers have no entitlement to sick pay at all – an employee must have average weekly earnings of at least £120 a week to qualify. Of the UK's 32.5 million-strong workforce, 5.6 million people (17.2%) do not currently qualify for SSP[15]. The low level of sick pay available in the UK means that many people have been forced to choose between on one hand looking after their health, public health, 'doing the right thing' and on the other their finances. During the pandemic, there were reports of some people still opting to go to work despite testing positive, as they would have been unable to pay household bills with SSP. This is especially true of those people who were unable to work from home, such as those working in hospitality and retail jobs. The pandemic has highlighted a divide between these workers and those who were able to work from home, the latter of whom would have faced little to no financial hardship when faced with the prospect of having to self-isolate for various reasons. This included not only those people who were self-isolating due to a positive COVID test, but also those who were forced to self-isolate because of their child's positive test.

5b) How have the self-employed been financially impacted by the pandemic? Are there differences between them depending on sector and gender?

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[13] **University of Glasgow, Children's Neighbourhoods Scotland - Refugee and migrant families' experiences of the COVID-19 pandemic: insights from frontline practitioners in Glasgow.**

[14] **TUC, 'Sick pay that works', February 2021.**

[15] **CIPD, https://www.cipd.co.uk/about/media/press/141221statutory-sick-pay-low#gref**

The self-employed are included in this group of 5.6 million people who do not qualify for SSP. They are also included in a wider group of people who were not entitled to any kind of special funding schemes over the course of the pandemic. People who make less than half of their income from self-employment were ineligible for the Self-Employment Income Support Scheme (SEISS). HMRC estimates about 1.4 million self-employed people in the UK did not qualify for SEISS during the pandemic because of the 50% rule. To make matters worse, we know that even prior to the pandemic, self-employed people tended to be more financially vulnerable, with their personal, family and company finances often intertwined.

Other people who were excluded from receiving any kind of financial support during the pandemic included those moving between jobs, particularly in creative industries where it is the norm to work a series of short-term contracts with gaps in between. HMRC estimates about 200,000 people found themselves in this position. Similarly, The Association of Independent Professionals and the Self-Employed estimates 710,000 limited-company directors in the UK received little financial support during the pandemic, as company directors are often paid with dividends, making them ineligible for support[16].

5c) How have the unemployed coped financially in the pandemic?

Services such as food banks, which unemployed people amongst others may have used, were temporarily shut down during the pandemic. This would have had a serious impact on the already stretched finances of unemployed people. There was also a period during the pandemic when job opportunities were diminished, meaning that anyone who was unemployed and looking for work would have been unlikely to find a job during this period. School closures meant that unemployed people with children were also less likely to be able to attend any interviews they did manage to get.

Question 6: What policy changes would improve people's financial resilience, in light of the pandemic?

As we have highlighted throughout the rest of our response, there are a number of support systems that need to be strengthened in order to support financial resilience. Sick pay needs urgent reform, and there should be better financial

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[16] **BBC, 'Covid: Who are the workers 'excluded' from support?', https://www.bbc.co.uk/news/55733537**

safety nets available to those working in low-paid and insecure jobs. And whilst we think it is crucially important that gaps in support systems should be tightened, so that less of the people these systems are meant to protect fall into financial difficulty, just as important we believe is that Financial Wellbeing and Financial Resilience are embedded into policy changes. People with unequal access and capacity to use basic financial products such as bank accounts, or digital tools such as mobile phones and computers, are unlikely to have a good level of financial wellbeing or resilience. More support and funding are therefore needed for the limited number of charities that are working to tackle the problems of financial and digital inclusion, such as The Money Charity. More work also needs to be done to ensure that young people are entering adulthood as financially capable. Currently, no one organisation is responsible for Financial Wellbeing/Education in the UK, with responsibility for various elements split between the DoE, DWP, MAPS, local authorities, schools & teachers, charities and financial services firms. To rectify this, we need clear responsibility and accountability plus a sustainable earmarked funding stream (potentially from Dormant Assets).

Some of the work that we carry out as a charity, delivering financial education to adults, has in the past been questioned by those who believe financial education to be a symptomatic solution that can only do so much to help people who are struggling financially. In this view, what is really needed is structural change to permanently lift people out of poverty. Whilst we do not deny that economic inequalities need to be addressed at the root of the problem, we want to stress that financial education can in fact be immediately beneficial to people who are struggling financially. In our workshops, we help people to develop real and practical life skills and advice for 'in the here and now', which can help them to make ends meet and ultimately build financial resilience. In light of the current cost of living crisis, we believe it is more important than ever that people who are struggling financially are able to access this kind of support.

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

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

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

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

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