Saving, Spending, Surviving: a holistic view of people's financial resilience during the pandemic

Annual Report

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Contents

Foreword

Tonia Antoniazzi MP
Chair

This is the first report of the APPG for Financial Resilience. When we formed as a group in July 2021, the importance of individuals' financial resilience was obvious. As we conclude our inquiry, it is the issue at the front of any policymaker's mind.

This report is a long-overdue account of how fragile personal finances can quickly turn into a disintegration in living standards, mental wellbeing, and future prospects. We have sometimes been shocked to hear the evidence presented to us of the choices vulnerable people have faced when trying to make ends meet during the pandemic. On behalf of all members of the APPG, let me thank the organisations who responded to our call for evidence and who gave oral evidence to our virtual meetings. Their capacity in driving home the reality of the struggles people faced was invaluable in creating this report.

When we planned the inquiry last summer, we did not anticipate that a cost-of-living crisis so deep would emerge as we concluded our sessions. However, the pandemic can serve as a test-case for what can be done to help those across society cope with extreme financial pressures, both in terms of income and expenditure. For that reason, the recommendations we make here are even more pertinent to policymaking as those pressures continue to build.

The APPG will continue working to understand how financial insecurity can develop, and why some groups are so much more vulnerable. It is crucial that the Government considers the winding down of the pandemic as the start of a real change in our approach to personal finances. We cannot sit back until British people see tangible improvements in their financial resilience.

Foreword

Shaun Bailey MP
Chair

In the past there has been a focus on how to lift people out of difficult financial situations, but little has been done to understand why people end up there. What this report does is uncovers just how close large groups of the population are to experiencing a crisis in their personal finances. It is particularly important in revealing that those who we may commonly define as 'comfortable' or 'middle-class' can be one negative life event away from struggling to meet essential costs.

However, the findings in this report also support an emerging consensus around the pandemic; that a great polarisation existed in the saving and spending capabilities of those across the income spectrum. Wealthier households cut back on non-essential luxuries, such as travel and leisure, enabling them to save at much higher rates. However, those on lower incomes, who are more likely to spend greater portions of their wages on essentials, saw increases in expenditures. Our report explores the root causes of these differences and makes recommendations to target the hardest hit groups.

I would like to thank those groups and individuals who contributed so excellently to our inquiry, and I am eager to continue to work with them in driving our understanding of resilience. We look forward to helping the Government ensure the crisis in individual financial security is tackled at a time people are increasingly aware of their precarity.

Introduction

The Financial Resilience APPG was set up during the Covid-19 pandemic, which has contributed to an increasing number of households under greater financial pressure than ever before. The 'just about managing' and squeezed middle are struggling to get by, and their financial resilience - their ability to cope with sudden falls in their household income and make provision for their financial future - has been severely impacted. There has been significant Parliamentary attention on the lowest end of the income scale who may already be facing severe financial difficulties. However, relatively little attention has been paid to the wellbeing of the broad range of people who can appear financially stable, but in reality are increasingly precarious. The pandemic provided a rare instance where the inadequacies in the financial resilience of large groups of the population was uncovered.

This All-Party Parliamentary Group aims to provide MPs, Peers, and wider stakeholders with a forum for discussion and to make recommendations about improving resilience. By doing so, we hope to influence policy change and to improve the financial resilience of households across the UK, preventing the severe difficulty they can otherwise fall into.

This report marks the conclusion of our first inquiry, which looked into the impact of the Covid-19 pandemic on financial resilience. Our broad themes were: financial shocks, future resilience, societal differences, and employment differences. However, discussions led us to many other important topics. Our findings are stark; vast swathes of British people, many of whom are in consistent work and actively plan their finances, are one or two shocks away from failing to make ends meet. That being said, there are many who do not understand or engage with their finances, leaving them with few tools to guard against the impacts of a crisis such as the pandemic. There are also those who cannot work, lost their job, lost income on furlough, stayed at home to home-school their children, as well as those who experienced life-changing events such as bereavement or poor health as a result of the pandemic.

As the cost-of-living crisis deepens, the findings in this report can serve to inform policymakers. With the benefit of hindsight there is much to learn from the pandemic, and this report makes a number of recommendations to mitigate against the financial damage it caused individuals.

This report is based on written submissions to our call for evidence, and the expertise shared with us in our five online meetings. During this inquiry we received online and written evidence from:

- Association of Independent Professionals and the Self-Employed
- Association of Mortgage Intermediaries
- Aviva
- Clearpay
- Fair4All Finance
- Fidelity
- Gingerbread
- Hargreaves Lansdown
- Institute for Public Policy Research
- Just Group
- Lloyd's Banking Group
- Money and Mental Health Policy Institute
- Money and Pensions Service
- NEST Insight
- Oxford Economics
- Pensions and Lifetime Savings Association
- Resolution Foundation
- Shelter
- The Centre for Financial Capability
- The Money Charity
- The RSA
- University of Bristol Personal Finance Research Centre
- Wagestream
- Women's Budget Group

Recommendations

1. **The Government should work with the financial services industry to enable the development of flexible savings products** for those who may need access to a rainy-day fund but still want to save for later life.
2. Alongside this, the Government should coordinate an approach to improving pension saving in under pensioned groups. This should involve **an equivalent of automatically enrolling the self-employed into saving through the tax system**.
3. To enable more people to develop good, stable incomes, **the Government should work to improve the availability of quality flexible working jobs**.
4. **The Government should introduce policies to improve the resilience of single parents. This should involve a review of the 15 and 30-hour marks of childcare support**, as changes here would have the biggest impact in allowing single parents to be part of the workforce.
5. Given the low levels of financial education and engagement in the UK, **the Government should work closely with existing avenues of guidance as a step to improving public awareness of finances. Take-up of Government services such as MoneyHelper and Pension Wise should be improved, and expert non-profits should be worked with as consultants or providers of financial guidance.**
6. **The Government should work with employers to improve the ways they communicate financial information to their employees.**
7. **We encourage the Government to support an independent review into the rate and design of Statutory Sick Pay** to ensure that people are not choosing between their financial resilience and protecting others.
8. While too broad an issue to suggest just one policy, this group finds that **the Government should review the social security safety net to ensure the system helps people out of poverty rather than trapping them in it**. The spending power of individuals is the core of their financial resilience.

Chapter 1: Financial Shocks

A foundational reason for improving financial resilience is to guard oneself against unexpected shocks to income or expenditure. For many, fixing a broken boiler or spending a couple of weeks off work can be handled comfortably. Indeed, during the pandemic, average households had an improvement in their financial resilience through deleveraging and greater savings rates. However, this was not seen in low-income households (Worthington, 2022). An unprecedented number of people found their financial wellbeing and financial resilience negatively affected during the pandemic, with many on furlough and only receiving 80% of their regular income (The Money Charity, 2022). Others lost their jobs entirely.

"We know that people understand the importance of saving for a rainy day and do put money aside for future expenses and emergency costs; but it can be hard to build an effective short-term saving pot. For instance, we asked people 15 months after seeking debt advice whether they had enough savings to replace a fridge or washing machine. Only 9% said that they had been able to save enough to do this." Peter Tutton, Head of Policy, StepChange (Wagestream, 2022)

It is crucial to remember that everything is interlinked. If something goes wrong for someone it may be manageable, but when multiple negative events happen it can become extremely difficult to make ends meet. As rent and council tax arrears, friend and family borrowing responsibilities, and rising inflation all build up, eventually people can run out of road. As such the below income shocks should be assessed holistically.

Income shocks

Witnesses to our inquiry identified that externalities are most often the driving force behind poor financial resilience. Low financial resilience can be triggered, uncovered, or exacerbated by negative life events. From March to October 2020 these rose by 45%, the majority of which were income shocks like job loss or furlough (Wagestream, 2022). The impact of this was exacerbated by the fact that income insurance for working people is pretty modest in the UK (Willetts, 2021). Indeed, the biggest negative changes in financial situation during the pandemic were caused by job loss and redundancy (abrdn Financial Fairness Trust, 2021).

While the health crisis created new financial problems for people, it also shone a light on existing inadequacies. Low savings and high unsecured consumer debt meant many households came into the pandemic with poor financial resilience to deal with an income shock. While the societal differences in resilience will be examined closer in Chapter 3, those specifically worst affected by income shocks were: people already on low incomes, new claimants of Universal Credit, families with children, insecure workers, ethnic minorities generally, and disabled people (University of Bristol Personal Finance Research Centre, 2021). Specifically, women in ethnic minority groups were less likely to be active in the labour market and tend to earn less than White British women. Women from these groups are also more likely to be dependent on a single income making them less resilient in the event of an unemployment or income shock (Lloyds Banking Group, 2022).

We found young people's finances were badly hit by the pandemic. Nearly a quarter of 18-24-year-olds have less than £100 in savings (The Centre for Financial Capability, 2022). This shows that if a young worker was to be made unexpectedly unemployed, they may lack a financial safety net.

Families with children felt financial shocks particularly acutely. According to research from Aviva (2017) before the pandemic 76% of parents had no plan for dealing with lost income due to ill health, while 68% had no plan for dealing with the death of either themselves or their partner. In a period where individuals were much more likely to lose income due to ill health it is unfortunately no surprise that those with no contingencies in place were hit harder. The same research estimated that nearly half of all families would last less than a month on their current spending if the main income earner was unable to work. 36% of families could not survive a month unsupported even by spending the absolute minimum and 18% of families already spent as little as they could; findings like this make clear how important government efforts such as furlough were in protecting families.

On the other hand, UK levels of Statutory Sick Pay are poor by international standards, sitting at the second lowest in Europe (Parkes, 2021). Statutory Sick Pay has become a salient issue during the pandemic as having such a low offer means forcing people to choose between following public health guidance and damaging their finances, or continuing to work while sick. Recent polling shows that roles that have more contact with the public, such as those in the hospitality sector, are less likely to have adequate sick pay (ibid.). Just as pressing is that many people estimate Statutory Sick Pay will be a lot higher than in reality, while generally thinking that they are entitled to sick pay for longer than they actually are (Undy, 2021), which means they are less able to financially plan for sick leave. These expectation gaps may serve to explain why one in five people who suffer a loss of income due to ill health do not think they will ever recover, or have no idea how long this will take (Aviva, 2017).

Expenditure

Just under half of UK employees cited fear of unexpected expenses as the factor most having contributed to their worry in the last year, with a perceived lack of money or savings also common (Wagestream, 2022). In their written evidence, The Money Charity told us that over 15 million people in the UK 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. Our inquiry received evidence from bodies like Clearpay, who identified that 'buy now, pay later' services enable consumers to spread the cost of their purchases without interest. Over 40% of UK adults have used or expect to use buy now, pay later schemes. However, nearly a quarter were charged late fees, suggesting there is not enough disclosure or background information offered by some schemes (The Centre for Financial Capability, 2022). There are also widespread concerns that they would encourage unsustainable borrowing (FCA, 2022).

Outside of turning to borrowing, people often cut back on essentials such as food or bills to make up shortfalls in their overall outgoings. This has built on an existing issue present before the pandemic, but findings *during* the pandemic are particularly stark; over a third of Local Housing Allowance claimants cut back on food, a third had to sell their possessions, and 28% cut back on heating (Kleynhans, 2021).

Meanwhile, levels of debt during the pandemic have increased dramatically (Stephenson, 2022), but there is polarisation across society. 40% of households actually accumulated additional savings since the pandemic began (Scottish Widows, 2022). This was driven by a period of enforced expenditure restraint due to social distancing measures as households collectively built up their savings. However, of those 40% that were able to save, 73% expect to have to dip into these savings in the next 12 months, with 17% expecting to have to use the full amount (Scottish Widows, 2022). While the negative impacts of the pandemic on financial resilience will have lasting consequences, the savings accumulated in the same period will be exhausted much sooner.

Sidecar savings

Throughout our inquiry we heard of the promise of developing a 'sidecar savings' project. This would automatically make deductions from pay similar to automatic enrolment with pensions, and alongside pension saving would place the funds into emergency savings jars. We found this kind of opt-out saving appealing for getting people to save for a rainy day with as few steps as possible. In effect, it would act as a behavioural tool in helping people save, reducing the vast complexity and noise that they could otherwise face. When people are automatically saving this tends to continue for the vast majority, and people have been shown to appreciate such measures (Alexander, 2022). NEST is trialling this kind of sidecar saving system and in oral evidence noted to us how popular a default level of saving was for consumers. Even small sums of money can make a dramatic difference to people's lives, particularly if they are on low incomes and would not usually save. Low default saving levels could also limit the number of people needing to opt-out due to immediate financial pressures.

Such a system would have to carefully consider how to communicate automatic deductions with employees, so they are not left wondering where their money is going. It would also need to work to make automatic savings as easy as possible for employers to implement (Lawrence, 2022). On both points much can be learnt from the remarkable success of automatic pensions enrolment over the last ten years.

Chapter 2: Saving for Later Life

Among those groups who gave evidence to our inquiry on pension planning and long-term savings, there is a consensus that many people are not saving enough to have a comfortable retirement. Accumulating savings or building a pension pot through our income is more difficult, especially without external sources, such as inheritance, that are not available to everyone (Willetts, 2022). Moreover, as life events such as buying a house and having children are pushed back in modern society, so is the time at which people would potentially have spare income to prioritise and boost their pension (The Money Charity, 2022). This section assesses how British people are planning for later life, how much they are saving, and how this reflects their immediate financial pressures.

Future resilience

43% of those who fared the worst during the pandemic had no money in savings in October 2021 (abrdn Financial Fairness Trust, 2021). While this will have made them much less financially resilient in the short term, it will manifest itself in an extremely poor financial situation upon reaching retirement. More broadly, we are not saving enough as a nation for retirement; there will be generations who come to retirement with a shortfall in their expectations.

We agree that Automatic Enrolment has been impressive in bringing millions more into pension saving. Witnesses were keen to express the good example Automatic Enrolment has set as a public policy intervention that has truly helped people develop their financial resilience. Given people have been encountering shocks of late we might have expected them to change their pension contributions, but this has not happened. To the credit of auto-enrolment, there was only a marginal increase in opt-out rates during the pandemic, and even this has reduced to where it was before the crisis (Dabrowski, 2021). This demonstrates the fundamental strength of policies that correctly harness inertia.

It is also true that we need to extend and deepen the policy. Increasing the default auto-enrolment figure of 8% (split between employer and employee contributions) to ensure people have enough saved to cater for longer life expectancy is necessary. As Oxford Economics (2022) research demonstrates, less than 40% of working age households are on track to achieve an adequate retirement income. We even heard that auto-enrolment gives many people a false sense of financial security. Because they are saving at a rate mandated by the government there is an implication that this is enough, meaning people do not worry about contributing more into their pension despite 8% often not being sufficient (The Money Charity, 2022).

Another way to improve the pension savings individuals will have upon reaching retirement is to reduce the age threshold of Automatic Enrolment. It has been established that the sooner a person starts saving for a pension, the less he or she may need to save each time due to the effect of compound interest and growth. Small savings made earlier in life offer much larger returns at the point of retirement (The Centre for Financial Capability, 2022). Reducing the age threshold from 22 to 18 would help young people reap those benefits.

Immediate needs

Taking money out of someone's pay and into a pension is a difficult message during the current cost-of-living crisis, but given the foresight needed to address pensions issues it is one we should not lose sight of. There is a real danger that individuals and families could look to make savings in their household budget by decreasing pension contributions (Scottish Widows, 2022). This decision will make sense in many cases; for example, many parents are prepared to stop paying into their savings or their pension each month, because they have no room for manoeuvre on things like utility bills and council tax (Aviva, 2017). However, this is very likely to leave them poorer in old age. Indeed, our inquiry heard that the financial shock that many people have felt in the pandemic will be nothing compared to the shock they will feel upon retirement (Blakstad, 2022).

As such, looking at financial resilience from a long-term savings perspective cannot be done without looking at general pressures on people's budgets. Researchers and policymakers cannot think about meeting long-term financial needs without understanding trade-offs in terms of short-term pressures, and the difficulty in balancing these priorities. We should therefore refer back to the idea of sidecar savings and 'partly liquid' vehicles that you can access in certain circumstances as ways to encourage saving without compromising an individual's ability to meet immediate costs.

The pandemic did not just impact how people save into their pensions; it also changed the way they accessed them. Older people tended to draw their pensions earlier to offset financial losses, which will leave them with less to cover costs in the future (University of Bristol Personal Finance Research Centre, 2021). This can be partially explained by the fact that people aged over 50 struggled to get back into work or to re-train, or simply retired early given the health risks associated with employment (ibid.). Many others began an unplanned early retirement because of being made redundant during the pandemic and being unable to find another job (Just Group, 2022). This left them with little or no income outside of accessing their pensions.

Societal differences in pension saving

Private pension schemes are the main reason for the gender gap in pensions, placing women at a disadvantage due to their being more likely to have career breaks, work part-time and receive lower pay. The Government's private pension policy is damagingly gender blind, assuming that if the same rules apply to everyone, the system is equally fair for women and men. The Women's Budget Group provided us with stark findings demonstrating this; among 65-74-year-olds median private pension wealth is £182,000 for men and £25,000 for women. Among the population as a whole women's median pension wealth is £6,000, around a quarter of that held by men. This is largely explained by the gender pay gap, which averages 18.4%, leaving women with less to put into their pots (Fidelity, 2022). The disparity arises from overall earnings as well as levels of pay: the problem is not just hourly pay, but the number of hours they are able to work is reduced because of caring responsibilities, among other pressures. Auto-enrolled private pensions, while including all employers, exclude low-paid workers and make no allowance for periods of caring, perpetuating the gender gap in pensions.

The shift to Defined Contribution pensions and away from Defined Benefit has also been damaging for women. Defined Contribution pensions have no built-in survivor benefits, and joint life annuities are not the norm, meaning widows can be left without an expected share of their deceased husband's pension (Women's Budget Group, 2022).

We also heard significant concerns around the ability of the self-employed to save for later life. The self-employed are not eligible for automatic enrolment as it rests on having an employer. However, IPSE discussed with us the possibility of introducing a hypothecated tax through which self-employed people would save into a pension. Further, given the potentially volatile income this group experiences, flexible savings alternatives could be very appealing as a means of saving without completely locking money away. 48% of people during the pandemic said their fear of unforeseen expenses was preventing them from saving; flexible products will help overcome this (Lawrence, 2022).

Engagement

High levels of disengagement and poor understanding makes retirement planning difficult for consumers at the best of times. The pandemic and its associated income shocks have made this worse, pointing to the importance of ensuring people receive support before making decisions around their pensions. There is a huge lack of adequate support about key pension decisions; of 40 million working age people, 22 million say they don't know enough to plan their retirement (The Money Charity, 2022). This is unlikely to change given our current financial education systems. Although financial education is included in Key Stages 3 and 4 (secondary school level), choosing and using pensions are topics that are rarely covered (The Centre for Financial Capability, 2022). This is a key oversight, as many young people do not know or understand how pensions work, how much to contribute, or when to start paying into a pension pot (ibid.).

There is a difficulty in educating working adults who are very busy, trying to manage their finances daily, and already have a high cognitive load. The employer could act as a useful channel through which pensions information is transmitted. Employers can offer financial education at key moments during working life when people are open to conversations about money or pensions - for example for a new or retiring employee or at times of parental leave (Wagestream, 2022).

Many savers do not think properly about their options when accessing a pension, and this is the most unfamiliar and complex financial decision an individual is likely to make. In terms of accessing a pension, free, impartial support is already available through the Pension Wise service created by government as part of the 'pension freedom' reforms. It has proven highly popular and effective, receiving excellent feedback and leaving users much better informed about their choices approaching retirement (Just Group, 2022). While we welcome the spirit of the stronger nudge, we were disappointed to see the Government reject the Work and Pensions Committee's recommendation to trial automatic Pension Wise appointment booking for savers. Pension Wise usage has actually fallen during the pandemic, so a policy intervention is required to ensure the hundreds of thousands of savers accessing their pension benefits each year are doing so in an informed way.

Chapter 3: Societal Differences

As with all aspects of the pandemic, the impact on individuals' financial resilience depended on a variety of factors. In October 2021, 38% of UK households enjoyed high levels of financial wellbeing, but 27% were either struggling to manage or in serious financial difficulties (abrdn Financial Fairness Trust, 2021). On aggregate, savings increased during the pandemic, but one-third of people saw their income fall in the 2021 financial year (Watkins, 2021). Understanding this disparity is crucial to developing policy solutions targeted at those worst affected. Throughout this section it is important to remember that there is the potential for intersectionality between all traits.

Families

According to the most recent Aviva research from before the pandemic, 24% of families had nothing saved. Further, across income distributions households with children registered lower falls in spending, and therefore lower increased saving relative to others, during the pandemic. This was presumably linked to the requirement for home schooling which necessitates additional expenditure on items such as food. Those families without adequate resilience are also more likely to turn to family members for support, adding to the pressure on their collective finances.

The outlook has been especially bleak for single parent households, a group that was already experiencing inequality before the pandemic. In October 2021, 65% of single parent households were estimated to have poor or quite poor financial prospects (abrdn Financial Fairness Trust, 2021). In oral evidence, Gingerbread noted that single parents were overrepresented in industries hardest hit by the pandemic, such as hospitality or retail, leaving their earnings reduced by furlough or job loss. This can explain why half of single parent households saw their financial situations deteriorate during the pandemic (abrdn Financial Fairness Trust, 2021). Childcare is a root cause of the challenges single parents face, and this was only intensified by the introduction of home schooling. With mounting pressures during the pandemic, we heard that single parents in problem debt had increased by 36% up to the end of 2021 (Smith, 2022). Meanwhile, the number of single parents in receipt of universal credit has increased 60% since March 2020, with three quarters of the group receiving the benefit (ibid.).

Income

The relatively small change in aggregate household income following the economic shock of the pandemic obscured large variations in experience. The pandemic was divisive in that some people saw their financial resilience greatly reduced, and others saw improvement. Those who were already likely to be financially vulnerable, such as low earners, have been disproportionately hit (Lloyds Banking Group, 2022). For the purposes of this inquiry, we use the government definition of low earners, meaning those earning 60% or less of the median income (Department for Work and Pensions, 2016).

The story among those groups worst affected has an overarching story in the labour market, of reduced incomes and resilience, increase expenditure, and socio-economic inequalities and exclusions. There is a clear pattern whereby the less you earn, the more likely you are to experience job loss, lost income, higher expenses, and are less likely to benefit from lower expenditure due to home working (Lloyds Banking Group, 2022). For these reasons reductions in income during the pandemic were disproportionately tilted towards higher income households, who usually allocate much more spending to items like travel, transport, and leisure services (Hargreaves Lansdown and Oxford Economics, 2022). Relatedly, those who already had *stable* incomes and good levels of financial resilience pre-pandemic were able to increase their wellbeing due to reduced outgoings. 31% of those earning between £10,000 and

£20,000 have experienced deterioration in their finances, compared to 19% earning over £50,000 (Lloyds Banking Group, 2022).

People on lower incomes were more likely to fall out of the labour market and build up new debt. They were more likely to see their incomes fall, to run down what little savings they had and to fall behind with their bills (Joseph Rowntree Foundation, 2022). 3.8 million low-income households were in arrears, and 4.4 million have taken on new or increased borrowing during the pandemic (ibid.). Research from the Joseph Rowntree Foundation (2022) found that while 11% of low-income households were behind on at least one household bill or credit commitment before the pandemic, this has risen to 33%, and that of those in arrears, 7 in 10 were in more than one type of arrears. The same research finds that 69% of households who took on new or increased lending during the pandemic are also in arrears. One reason for this is that low earners are much more likely to spend disproportionate amounts on things like energy and food. Because of the increased financial instability stemming from the pandemic, mainstream lenders have tightened their credit criteria; As Fair4All Finance told us, this was a traditional avenue for lower-income households to make ends meet and is now less accessible to the group.

As discussed in Chapter 4, lower-paid workers are disproportionately more likely to be in insecure contract types, and more likely to see their hours and pay vary. A symptom of this is that many of the country's lowest paid have no sick pay entitlement - an employee must have weekly earnings averaging over £120 to qualify. The Money Charity finds that 5.6 million workers do not reach this, representing 17.2% of the workforce.

Age

During the pandemic, *the majority* of young people either became unemployed, changed

> "There are myriad factors that have contributed to young people from all backgrounds and geographies, bar a very fortunate few, facing some form of economic insecurity from not being able to save and plan, to facing homelessness and inescapable and circling debt. This picture has been worsening for a decade and there has been no serious change or attempt at change". Owen, 23 years old (The RSA and The Health Foundation, 2022)

jobs, or saw their hours decrease or increase (Institute for Employment Studies, 2021). Many low-paying occupations employing high numbers of young people are in sectors worst affected by pandemic restrictions, such as retail and hospitality. As such, young people were more likely to be furloughed, but less likely to have their pay topped up by employers (University of Bristol Personal Finance Research Centre, 2021). Workers in these industries also tend to receive a varying income month to month, which the RSA identifies as contributing to one in five young people in work sometimes having trouble meeting their basic living costs.

They were more likely than older age groups to see a reduction in their pay, to take on consumer debt, and to be struggling financially more generally. 80% of young people from 22-24 have some kind of debt, a figure which is just lower for 18–22-year-olds (Landreth Strong, 2022). Further, households with an inhabitant under 35 are more likely to be facing arrears with at least one bill (Joseph Rowntree Foundation, 2022). LexisNexis research finds that 37% of short-term loan applications are made by 26–35-year-olds, and younger generations have a worrying dependence on subprime lending with a trend of defaulting on loans.

Research from The RSA and The Health

Foundation (2022) tells us that almost half of young people are now in a precarious financial situation. This worsens as they enter the workforce, move out, and rely less on family, with more than half of you
ng people in work experiencing financial precarity. 65% of renters are under 45, 60% of private renters have no savings, and people are on average paying 40% of their income on rents (rising to 58% in London) (Kleynhans, 2021). Lord Willetts of the Resolution Foundation told us that the unusually high cost of housing in the private rented sector has led to a generation of less affluent people spending a significant proportion of their income on rent.

It is therefore not without reason that one quarter of 18–34-year-olds now feel anxious about money, budgeting and debt, compared to one fifth in 2020 (The Centre for Financial Capability). Economic insecurity is risking young people's confidence in their future, and the future of their generation. In one evidence session we heard from Owen Stratford, a 23-year-old advisor to the RSA's project on young people's financial security. He identified the striking lack of belief among young people in a future that will get better. Young people increasingly do not think they will be able to have a family or retire comfortably. We also heard from The Centre for Financial Capability that for many children and young people, higher rates of depression during the pandemic have stemmed out of worries for the future, often around family income and financial stability. 6 in 10 young people now state the pandemic has made them feel more anxious about money (ibid.).

Some older people also found themselves struggling financially during the pandemic. For those in their 50s the pandemic came at a critical point in their retirement preparations, and 37% of 50–59-year-olds reported that their financial situation had deteriorated as a result. This age group was most likely to report losing a job or income - 23% compared to the average of 16% (Lloyds Banking Group, 2022). One explanation for this is that a fifth of those in their 50s are self-employed, significantly more than other age groups (ibid.). Those aged over 50 years-old saw the largest increase of inactive people among all age groups since the start of the pandemic, which the ONS identifies as following a historic trend since records began in 1971. The number of those aged 50-70 moving from economic activity to inactivity in the latest ONS figures (Q2-Q3 2021) was 87,000 higher than in the same period in 2019. As discussed in Chapter 2, this has ripple effects through their retirement savings.

Gender

The Money Charity told us that women's jobs were 1.8 times more vulnerable during the pandemic than men's were, one reason for which is that the virus significantly increased the burden of unpaid care, which is disproportionately carried by women. This built on well documented structural challenges; before the pandemic women were more likely to be working part-time, on insecure contracts, and in low paying jobs (University of Bristol Personal Finance Research Centre, 2021). They were also more likely to be key workers or in sectors that were shut down in the pandemic (ibid.). Further, in recent research Lloyds Banking Group found that mothers took on an extra 3.5 hours childcare per school day during lockdowns and were 1.5 times more likely to quit their job to care than men were. It should also be noted that 90% of single parents are women (Smith, 2022). One symptom of these inequalities is that women were more likely to cut back on essential spending than men during the pandemic (University of Bristol Personal Finance Research Centre, 2021).

Mary-Ann Stephenson of the Women's Budget Group identified a key issue during our inquiry that is too often overlooked. Violence against women and girls can have an overlap with financial abuse. One quarter of women experience domestic abuse in their lifetime, and this is often associated with coerced debt or action to stop women taking a job, or turning up to work. Mary-Ann was clear that, when assessing financial resilience, the household cannot be looked at as a black box for reasons such as these.

Race

Pre-pandemic the picture regarding race was one of complex intersectional disadvantage and unequal exposure to risk, the details of which are unfortunately beyond the scope of this inquiry. However, we will give some brief findings from the evidence we heard. Ethnic minorities were more likely to lose income and earnings, and to report financial difficulties (University of Bristol Personal Finance Research Centre, 2021). 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 (The Money Charity, 2022). People in Black and Minority Ethnic households were around twice as likely to be in arrears than White households (Earwaker, 2022).

While this inquiry did not hear about intersectionality in detail, ethnic minority women were hit particularly hard during the pandemic. In their written evidence, Lloyds Banking Group found that 73% of ethnic minority women have experienced financial difficulties, and 60% are concerned about running out of money in their retirement.

Disability

While our inquiry only touched briefly on the financial resilience of disabled people and this is another area that certainly warrants further research, we will share some brief findings here. People with disabilities already faced a substantial premium because of unavoidable extra costs. On top of this, expenditure was likely to have increased, particularly for food, utilities, and care. 59% of households with a disabled person saw their financial situations deteriorate during the pandemic (abrdn Financial Fairness Trust, 2021). More disabled people were pushed into poverty, and there was evidence of deepening poverty among those who experienced it (University of Bristol Personal Finance Research Centre, 2021). Over four in ten disabled people were in arrears with housing payments; a similar proportion had needed to take on debt (ibid.).

The RSA (2022) shared with us their research into the financial security of those with long-term conditions. People with multiple long-term conditions experienced lower economic security in general, and fared worse during the pandemic. With increased conditionality for work-related benefits and payment levels trailing inflation across a number of disability related benefits, it was extremely hard for this group to maintain economic security. For those unable to work due to their health conditions, two thirds reported low levels of subjective economic security. One explanation is that people having to isolate were only entitled to £96.25 per week Statutory Sick Pay, compared to average earnings of £503 (The Money Charity, 2022).

Chapter 4: Employment Differences

The worst affected groups in the pandemic included several without full-time employment contracts. These could be people on contracts with no regular hours or income, people working in the hardest hit sectors, and people who are self-employed. This section aims to explore how these groups coped, how they accessed the state support on offer, and what lasting impact the pandemic has had on their financial resilience.

"I was told when I started the job that I had a right to flexibility, [but] actually when I started work the culture and the apparent lack of power and resources given to my managers meant that it didn't even feel like a possibility to ask." Member of co-design team (Joseph Rowntree Foundation, 2021)

Self-employed

According to the Savings Barometer developed by Hargreaves Lansdown and Oxford Economics (2022), self-employed households are more than 20% less likely to have access to savings that would cover at least three months of essential expenditure than employee households. On top of this, 53% of all self-employed people have experienced a deterioration in their financial situation during the pandemic compared to just 26% of permanent employees (Lloyds Banking Group, 2022). In our session on employment differences, IPSE told us that 74% of freelancers reported a drop in income during Q1 and Q2 2020, with the decrease averaging 70%. This is especially troublesome when one considers that self-employed people often have their personal, family, and company finances intertwined, making them even more vulnerable. Indeed, 23% of self-employed people reported losing a quarter of their household income, 33% cut back on non-essential spending, and 23% cut back on essentials like water and heating (Lloyds Banking Group, 2022).

The self-employed are a particularly hard to reach group for government, as there is no employer through which to channel policy interventions. Regarding the assistance that was offered to the self-employed, the main scheme was the Self-Employed Income Support Scheme (SEISS). This was a generous scheme, but with strict parameters. HMRC estimates that around 1.4 million were not eligible for the (SEISS) because more than half your income must come from self-employment to qualify (The Money Charity, 2022). Others fell between the qualification criteria of the SEISS and the Coronavirus Job Retention Scheme (CRJS), for example those in the arts and theatre who combined employed work with freelance work (University of Bristol Personal Finance Research Centre, 2021). Meanwhile, IPSE estimates that 710,000 limited-company directors received little support as they are often paid with dividends, which also made them ineligible. Those with less than two years trading received a reduced level of support under the SEISS as well. Self-employed women also received less; They were less likely to apply for state support than men and got less support when they did, due to lower pre-pandemic earnings (University of Bristol Personal Finance Research Centre, 2021).

Oxford Economics informed us that just 22.3% of self-employed people have adequate pensions compared to double that for employee households. 32% of the self-employed do not save for retirement at all, but of those that do 18% accessed their savings to support themselves during the pandemic (Lloyds Banking Group, 2022). This may account for the fact that 30% of self-employed people do not think their financial situation will recover to pre-pandemic levels, while over half of the group are concerned about running out of money in retirement (ibid.).

We heard that there has been a change in outlook and attitude on behalf of the self-employed. Pre-pandemic, there was a sense of fierce independence, but the pandemic has changed that. For example, those in employment are significantly more likely to be entitled to more generous sick and redundancy pay that would help guard against income shocks. 58% of self-employed people now feel they should be entitled to Statutory Sick Pay, up 35% since the pandemic started (Chamberlain, 2022). There was also a 314% increase in self-employed Universal Credit claimants during the pandemic (ibid.).

The financial challenges the self-employed have faced are reflected in their number. Between 2008 and 2018, there was a 30% increase in the number of self-employed people, but since the pandemic 700,000 of those have been lost (5.2 million in early 2020, 4.2 million now) (ibid.).

Part-time workers

As discussed earlier, part-time workers were most likely to be furloughed. These workers are also likely to be on lower incomes, and less able to endure a sustained period of isolation given the poor sick pay provision. Further, many people face insecurity in their job, and don't know how much they will be working week to week (Joseph Rowntree Foundation, 2021). In some cases, this may involve having their shifts cancelled at the last minute leaving them out of pocket for transport or childcare, the latter of which became more challenging during lockdowns (ibid.). We heard that workers, particularly young workers new to employment, were worried about requesting different shifts or better schedules as if they did speak up, their shifts would be cut (Institute for Employment Studies, 2021).

On the other hand, flexibility can be very desirable for some workers looking to balance employment with health and caring needs. However, low-paid workers often have no option but to take low-quality, low-paid, shift work jobs to get some flexibility due to a lack of alternative flexible jobs locally (ibid.). The lack of good-quality flexible roles can trap people on low pay because they are afraid of losing the kind of flexibility they currently have. This fear is justified; too often requests for flexibility are turned down because of workplace culture or even stigma around flexible working (ibid.).

It is worth reiterating that those on informal or zero-hours contracts are much less likely to develop adequate pension savings. This is because the Automatic Enrolment scheme is of little use to such workers, particularly in the case of gig economy workers whose status as employees with associated rights is not clear (Women's Budget Group, 2022). This is in addition to the varied weekly incomes they receive, which makes planning to save difficult.

Conclusion and Recommendations

In this our first inquiry, the APPG Financial Resilience aimed to bring together a broad range of stakeholders to provide a holistic view of the state of individuals' financial resilience during the pandemic. In exploring financial shocks, long-term saving, societal differences, and employment differences, we hope to offer policymakers such a view. It is clear from this report that the pandemic did not affect everyone in the same way; some were able to improve their financial resilience, but many became dangerously precarious. Those whose finances suffered the most tended to be those who entered the pandemic most vulnerable. For these reasons policy interventions must be better at reaching those most in need. Without good financial resilience it is easy for people to fall behind on bills, cut back on essential spending, avoid saving for retirement, and struggle to maintain themselves and their loved ones. As we enter a deepening cost-of-living crisis, the following recommendations can inform policymakers with the hindsight afforded to us by the pandemic:

1. The Government should work with the financial services industry to enable the development of flexible savings products for those who may need access to a rainy-day fund but still want to save for later life. One important aspect of this will be building on NEST's Sidecar Savings project.
2. Alongside this, the Government should coordinate an approach to improving pension saving in under pensioned groups. This should involve **an equivalent of automatically enrolling the self-employed into saving through the tax system**.
3. To enable more people to develop good, stable incomes, the Government should work to improve the availability of quality flexible working jobs. We support the recommendations of the APPG Women and Work (2022), which **ask the Government to produce a toolkit for employers to support flexible working, and to consult on making transparency over flexible working options a requirement of job advertisements.**
4. The Government should introduce policies to improve the resilience of single parents. This should involve a review of the 15 and 30-hour marks of childcare support, as changes here would have the biggest impact in allowing single parents to be part of the workforce.
5. Given the low levels of financial education and engagement in the UK, **the Government should work closely with existing avenues of guidance as a step to improving public awareness of their finances. Take-up of Government services such as MoneyHelper and Pension Wise should be improved, and expert non-profits should be worked with as consultants or providers of financial guidance.** This could involve trialling automatically booking Pension Wise appointments.
6. The Government should work with employers to improve the ways they communicate financial information to their employees. This Group supports the concept of financial health checks as developed by New Financial (2022) as one way to do this.
7. We encourage the Government to support an independent review into the rate and design of Statutory Sick Pay to ensure that people are not choosing between their financial resilience or protecting others.
8. While too broad an issue to suggest just one policy, this group finds that **the Government should review the social security safety net to ensure the system helps people out of poverty rather than trapping them in it**. The spending power of individuals is the foundation of their financial resilience.

About the APPG

The Financial Resilience APPG offers policymakers a forum to investigate the financial security of British people, and to debate the role they have in improving financial resilience across society.

Members of Parliament can speak with key stakeholders to explore the reasons for poor financial resilience and how this is reflected in individuals' quality of life. Crucially, the Group aims to facilitate the development of solutions between private, public and third sectors.

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