The Financial Capability of 15-17 year olds

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About this report

This report provides insight into the financial lives of young people aged 15-17 years old living in the UK. It is based on two pieces of Money Advice Service research.

One is our major ethnographic survey, Money Lives, from which observational insights were drawn about how young people think about money, how they behave with it, and how they interact with their friends and family in relation to money. 72 families and 10 fifteen year olds were included in this study.

The second is a new quantitative survey, specifically targeted at young people aged 15-17. We asked almost 1,200 individuals about their money and their attitudes and behaviours towards it. While separate to our adult-focused financial capability report published in August 2013, some of the questions were replicated to allow comparisons to be drawn. Other questions were adapted to make sense to young people, for example to reflect the limited range of financial products they can access.

More technical detail on the background and methodology used for the young people's financial capability tracker survey can be found at the end of this report.

As part of our commitment to tracking financial capability in the UK we intend to repeat this survey annually.

Contents

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Money Advice Service
Chief Executive

Foreword

Managing money well is a skill for life. We know that money habits are formed very young, and once formed are difficult to shift. These are compelling reasons for doing further work to understand the financial behaviour of young people and prioritising action to help them manage their money well.

This report focuses specifically on 15-17 year olds, when young people begin to think about the transition from reliance on parents or carers to living more independently, taking on increasing responsibility for regular bills and big financial commitments.

This new research gives us valuable insight into how well prepared, or otherwise, today's older teenagers are for their adult financial life. This is a generation coming of age through a prolonged period of austerity and changing financial demands, such as the recent welfare reforms and the rise in tuition fees. What emerges is a complex picture with areas both for optimism and concern.

Young people are less inclined to keep track of their spending than adults, but are significantly more inclined to save regularly than adults as a whole, and are more open to talking about money – which is a healthy habit to cultivate.

Our key finding is that a young person's money management habits are heavily influenced by their family's financial behaviour. Young people see parents, far ahead of anyone else, as the source of the most helpful advice on finances. They are also significantly less likely to save for themselves if their family struggles to save for emergencies.

There is insight here to inform the future efforts of all of us committed to help those approaching adulthood to become better at managing their money. Having set a benchmark with this research, we will repeat the survey on an annual basis, to help evaluate the overall impact of financial education activity and to inform our direction of travel in the future.

Summary

This report helps us to understand attitudes about money matters and financial behaviours among young people aged 15-17. It will inform our approach on helping them make the most of their money. The findings set a baseline for measuring young people's financial capability and relationship with money and will become a useful tool for developing and measuring the effectiveness of interventions for young people.

This research reveals a picture of a generation that has been shaped by the economic times it has grown up in – a generation that understands the challenges it faces, plans for the future, but needs help on some of the steps to get there.

- **Young people show some positive attitudes to money management**, with 74% not going out if they can't afford to. However, only 60% of young people keep track of their spending compared with 86% of adults. Around half find it difficult to live within their means.
- **Regular saving is more prevalent among young people**, with 63% saving regularly compared with 53% of adults.
- **Young people are planning for the future,** showing good awareness of retirement saving with four out of five young people recognising that it is best to start saving for a pension in their 20s rather than their 50s.
- **Some financial behaviours appear to be established by the age of 15**, with 15 year olds being as likely as adults to save for a rainy day and to set and stick to a budget for Christmas presents.
- But **17 year olds and young adults aged 18 to 24 are less comfortable with their finances than younger teenagers**, probably reflecting the challenges of greater financial independence.
- We now have further evidence on just **how important parents are in shaping their children's behaviour,** with 77% of young people finding their parents' financial advice most helpful.
- Finally, and perhaps most importantly, our research shows that **young people are likely to imitate – whether positive or negative – the financial behaviours of their parents**.

The findings in this report are the first in what will be an on-going survey of 15-17 year olds, to track how attitudes and behaviours are changing. The good news is that in many respects, young people are already fairly financially savvy. But it is clear that there is a huge amount for us, collectively, to continue to do, both with parents and young people themselves, to help them prepare for the financial challenges of adulthood.

Key findings

60% keep track of their income and expenditure compared with 86% of adults

Young people **60%**

Adults **86%**

63% save regularly every month compared with 53% of adults

Young people **63%**

Adults **53%**

51%

find it easy to live within their means compared with 53% of adults

Parents are important

77%

say parents give them the most helpful advice

76% receive pocket money from their parents

Thinking about the future

21% of 17 year olds are saving to pay for other education or training after they finish school

82% believe it is best to start saving for a pension in their 20s

49% are already thinking about how to save money for when they are much older

About young people aged 15-17

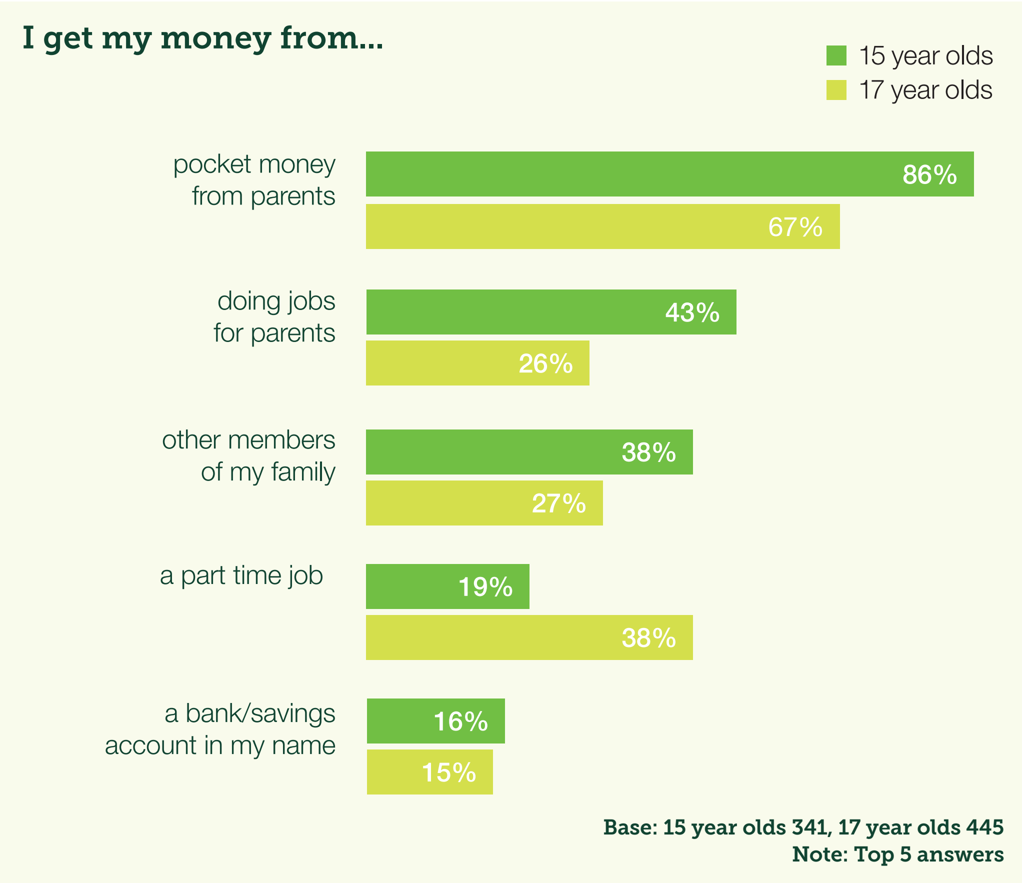
Before setting out the detail of the findings from our research, it is important to set some wider context on the status and financial position of 15-17 year olds.

Unsurprisingly, almost all live at home with their parents - 94% of 17 year olds. By the age of 20, 65% of males and 45% of females still live at home[1]. Young adults are leaving home later[2] than in the past, with a 20% increase in the number of adults aged 20-34 living with their parents between 1997 and 2011.

The majority of the 15-17 age group are still in full time education or training[3]. By the age of 19, just under half are in full time education, with a quarter in full time employment and 15% are not in education, employment or training[4].

Young people are as likely as adults to have a savings account (60%[5]), but less likely to have a current account (54% compared with 94%).

Almost all young people have some form of income (98%) but they receive it from different sources at different ages. At 15, 86% receive pocket money (averaging £37 a month[6]), 43% receive money from doing jobs for their parents, and 19% receive money from part time work. At 17, only 67% receive pocket money (averaging £41.50 per month[7]), 26% receive money from doing jobs for their parents, and 38% receive money from part time work.



[1] Students living in halls of residence during term-time and living with their parents outside term-time are counted as not living with their parents

[2] Source: ONS, Young adults living with parents in the UK in 2011, May 2012

[3] Source: BIS, Further Education & Skills, June 2013

[4] Source: BIS, Labour Force Survey, Q2 2013

[5] Source: Money Advice Service, The Financial Capability of the UK, August 2013

[6] Source: Halifax Pocket Money Survey, August 2013

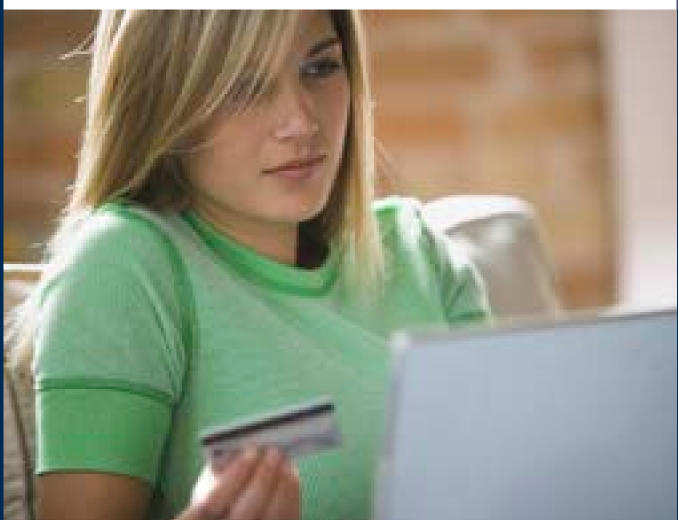
[7] Source: Aviva Pocket Money Survey, August 2013 – Pocket Money of 16-18 year olds

01

Day to day money management

49%

of 15-17 year olds find it difficut to live within their means



Good money management often only happens after mistakes have been made and learnt from

60%

of young people keep track of their income and expenditure compared with 86% adults

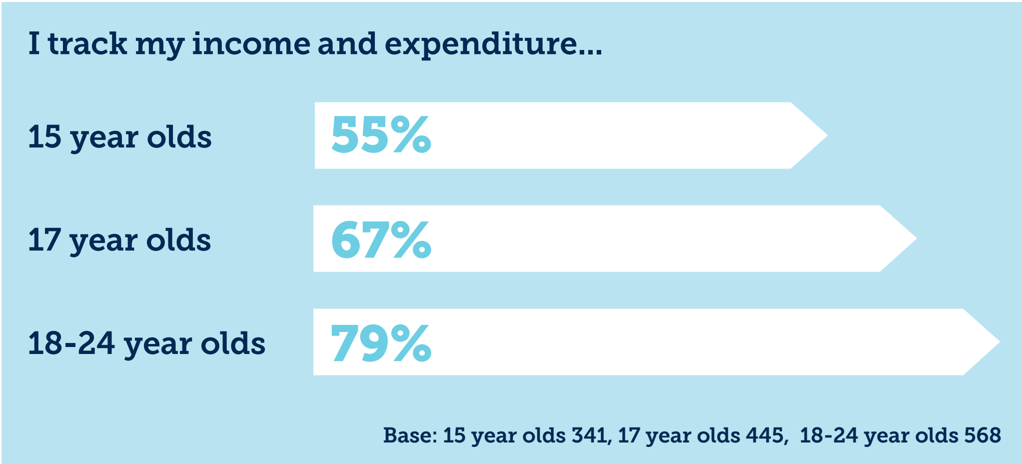
49%

of young people find it difficult to live within their means compared with 47% of adults

Day to day money management

Young people face a very different budgeting environment from adults, but the benefits of effective day-to-day money management – getting the most from their money and feeling in control – are just as relevant to them as they are to adults. It is also important that young people develop this skill at a time when the consequences of inadequate day-to-day money management are less severe than after they transition to adulthood.

We know from our Money Lives research that good money management often only happens after mistakes have been made and learnt from. We also know this is particularly the case when the impact of not doing so is greater for adults than young people. So it is not very surprising that young people track their spending significantly less than adults with only 60% of 15-17 year olds doing so compared with 86% of adults. Encouragingly, older teenagers and young adults, tend to track spending more than younger teenagers[8].



Young people appear to track their spending in different ways from adults. We know that fewer young people have a current account than adults and of those with current accounts, only 38% use online banking to check how much is in their account compared with 60% of adults who have a current account. This is despite most accounts suitable for young people having this functionality and despite 95% of households with children having access to the internet compared with 80% of childless households[9]. We know from Money Lives that adults who use online banking check their balances more frequently and therefore have a better sense of incomings and outgoings. Instead, this age group are most likely to keep an eye on their accounts by checking their balance at the cashpoint (45%) or by examining a paper copy of their bank statement (39%)[10].

8 Source: Money Advice Service, The Financial Capability of the UK, August 2013
9 Source: ONS, Internet Access - Households and Individuals, 2012
10 Respondents could give more than one answer to this question and it has been based on all those who have an account, 1041 respondents

Our research shows that about half of 15-17 year olds find it difficult to live within their means - a key budgeting skill to have but one that adults similarly struggle (53% of adults find this easy to do).

A contributory factor could be how the main source of young people's money - pocket money - is received and administered. Only 53%[11] of 15 year olds receive it in a set, predictable pattern, which will make budgeting a far more difficult skill to learn and to implement. There can also be a lack of clarity and consistency from parents about what they will pay for and what they expect their children to pay for.

Another contributory factor is likely to be the social norms around spending. We know that young people are generally keen to be seen as generous, often expressing the belief that good money management is incompatible with having fun and living in the moment. Spending is a means to social participation, with peer pressure and the desire to keep up with friends having a strong impact on money management. Despite this, 64% said they wanted to be like a friend who budgeted well, demonstrating that budgeting is perceived as a desirable trait by much of this age group.

Furthermore, it is encouraging that a majority of young people are showing some very positive attitudes to money management, with 74% not going out if they can't afford it and 78% setting and sticking to a budget for Christmas presents.

[11] Source: Yougov, Changing Economics of Children's Pocket Money, 2013

02

Planning for the future

Planning for the future has become more relevant to young people facing potentially tough competition for jobs and increased university tuition fees

40%

of young people are saving for unknown things that might happen in the future

63%

of young people save regularly compared with 53% of adults

83%

can save up to buy something they want

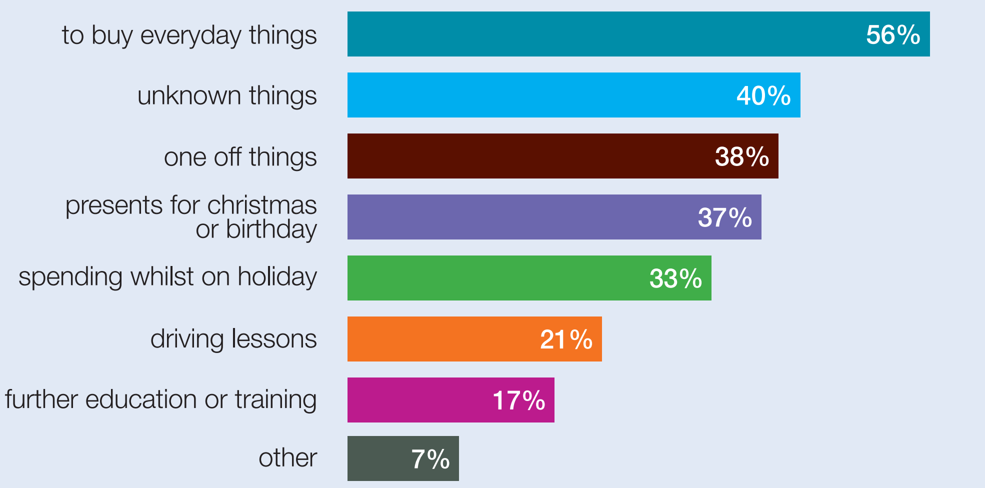
Planning for the future

This is the first generation in almost 20 years to grow up in a recession, with the economic situation and financial issues such as the escalation of university tuition fees being front page news throughout their teenage years. Social expectations of spending are high among young people, yet without formal access to credit the main way they can afford expensive items is through saving regularly or borrowing from friends and family.

It is therefore encouraging our findings demonstrate that young people both understand the importance of saving regularly, and that they actually do it. Almost two thirds of 15-17 year olds have developed a regular savings habit, which is significantly more than adults (53%), however looking to the future, only 55% of 18-24 year olds say they do this. We also know that 67% of 15 year olds have their own savings accounts compared with only 54% of 17 year olds. Over the next few years it will be interesting to examine whether we have identified a generational shift towards saving that will be carried through into adulthood, or whether young people just generally are more likely to save than adults, with the habit lost as life expenses increases, family support reduces and the world of credit opens up.

Young people are saving for a variety of reasons. Of those who save, 38% are saving for one-off purchases, 21% are saving for driving lessons and 17% are saving up for further education or training. 83% say they can save up to buy something they want. These findings all demonstrate a capacity to set and work towards a specific financial goal.

What they are saving for?



Base: 727

Young people find unexpected expenses more difficult to manage, with 51% saying they would have savings to cover a mobile phone bill of £50. However, there will be different expectations from parents across the UK over what expenses their children are responsible for. What is interesting is that of those who do save, 40% are saving for unknown things that might happen in the future, with young women far more likely to do this than young men (47% compared to 32%).

With the recent introduction of automatic enrolment into workplace pensions it is encouraging to see that young people are thinking about the later stages of life. Four out of five (82%) young people already recognise it is best to start a pension in their 20s rather than in their 50s and 64% agree that pensions are the best way to save for retirement compared with 52% of adults. In addition, 49% of young people are already thinking about how to save money for when they are much older, with young woman again more likely than young men to be thinking about this (54% compared with 45%).

03

Habits and behaviours

Habits are formed by the age of

7

Some financial behaviours are already in place by the age of

15

15 year olds are about as likely as adults to be able to live easily within their means

15 year olds are about as likely as adults to save for a rainy day and set and stick to a budget for Christmas

Some behaviours are formed before the age of 15

In May 2013 we published 'Habit Formation and Learning in Young Children'[12], a literature review of over 100 studies of habit formation in the young. From this we learned that habits are generally formed by the age of seven[13]. This research indicates that the years up to 15 may also be a key period in the forming of financial behaviours.

Chart 1 shows some similarities between 15-17 year olds' and adults' behaviour. 15 year olds are about as likely as adults to say it's easy to live within their means, save for a rainy day and set and stick to a budget for Christmas. This similarity is repeated across many indicators, suggesting that behaviours may be in place by the age of 15. However, as discussed in the previous two sections, a smaller proportion of adults save regularly, but a higher proportion track spending.

Chart 1: 15 year olds compared with adults

15 year olds and adults have similar behaviour

	15 year olds	Adults
I find it easy to live within my means	53%	53%
I always / tend to make sure I have money saved for a rainy day	63%	63%
I set a budget and stick to it for Christmas presents	76%	78%

but in some aspects there are differences...

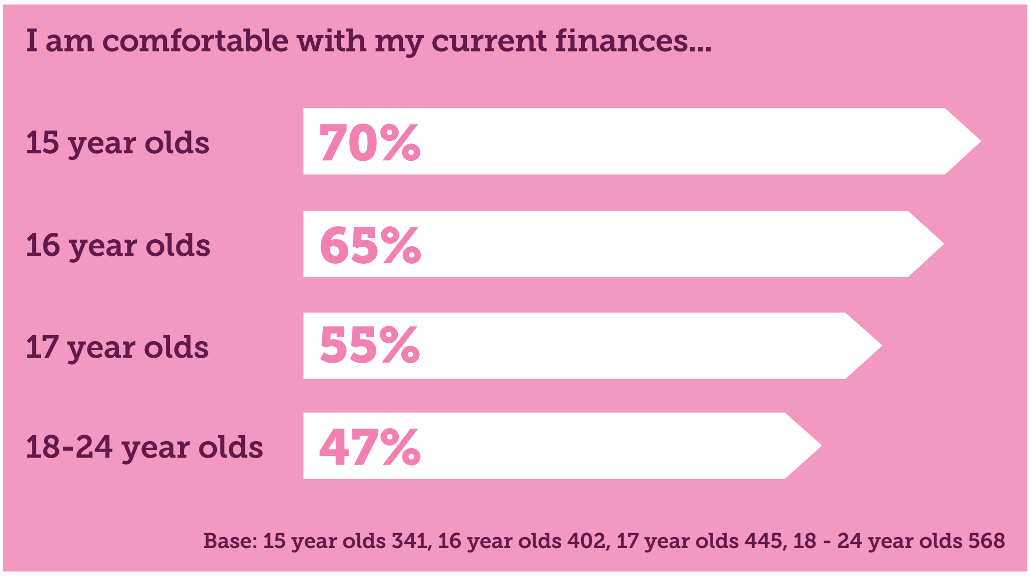
	15 year olds	Adults
Adults more likely to track income and expenditure	55%	86%
15 year olds more likely to save every month	63%	53%

Base: Adults 5,079, 15 year olds 314

[12] Source: Money Advice Service / Dr David Whitbread and Dr Sue Bingham, University of Cambridge, Habit formation and learning in young children, May 2013

[13] Habits are sub-conscious, automated routines of behaviour but are only one input to financial behaviours, others include the family environment the young person is growing up in.

Young people are generally less confident managing their money than adults – with 73% of 15-17 year olds saying they are confident, compared with 80% of adults. Furthermore, we see a noticeable difference in feeling comfortable with current finances across the age range. Only 47% of young adults aged 18-24[14] feel comfortable with their current finances, compared with 70% of 15-year-olds. This probably reflects the more difficult financial decisions that are faced in early adulthood, for example getting a job, paying for further or higher education, leaving home and generally becoming more financially independent. This indicator is important because we know there is a strong link between the perception of one's financial situation and overall wellbeing[15].



[14] Source: Money Advice Service, The Financial Capability of the UK, August 2013

[15] Source: Financial capability and wellbeing: Evidence from the BHPS, Mark Taylor, Stephen Jenkins, Amanda Sacker, May 2009

04

Sources of advice

Young people are generally happy to talk openly about money and seek advice from a range of sources

77%

of young people say their parents give the most helpful financial advice

15%

don't ask for money advice

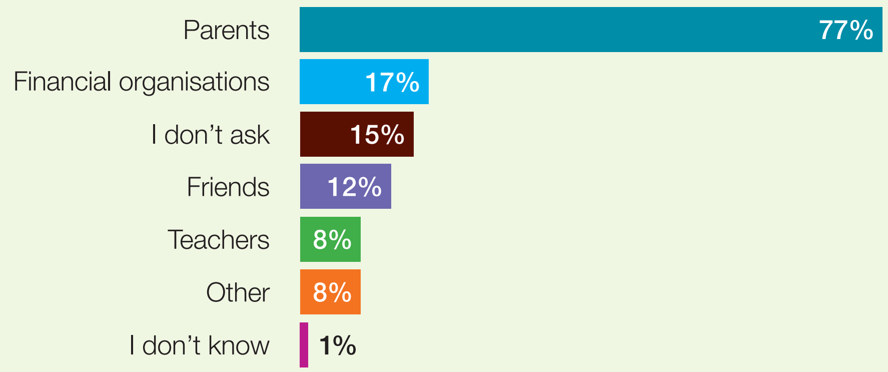
Who young people turn to for help matters

Most young people do seek financial advice from someone, with only 15% not seeking any help on financial matters. This age group receives financial advice from a range of sources – parents at home, financial organisations (through corporate responsibility programmes in schools / community groups and product literature), from friends and teachers. This research identifies a clear hierarchy of whom young people turn to, with 77% of young people finding their parents the most helpful source of financial advice.

81%

talk about money openly with friends and family compared with 67% of adults

Where do you find the most helpful advice about money?



Base: 1,188
Note: When answering this question people could select more than one response.

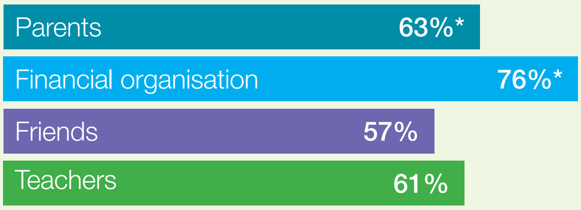
Young people are happy to talk openly about their money (81%), which is encouraging as we know from Money Lives that adults who behave in this way tend to be more resilient when facing money problems. However we know that only 67% of adults talk openly about money and so it will be important to investigate whether this more reserved attitude is simply an inevitable part of growing up, or if we can halt this attitudinal shift as people transition from youth to adulthood. It would also be helpful to investigate whether parental caution to speak about their finances impacts on their ability to give their children guidance on money matters - important when considering it is parents whom young people most want to turn to.

Looking at three key indicators of financial capability (tracking spending, saving regularly and living within their means) we can see some difference in what young people do, dependent on whom they find gives the most helpful advice.

Generally those who find financial organisations one of the most helpful sources are the most confident on money matters, best at day-to-day money management and best at saving regularly. Those who say parents are one of their most helpful money advisors are not that far behind. There is a mixed relationship with teachers and those who who find friends to be the most helpful source of advice. This does not mean that friends always give the worst advice and financial organisations the best; instead it could mean that those who turn to friends tend to already be less financially capable, and those who turn to financial organisations tend to already be more.

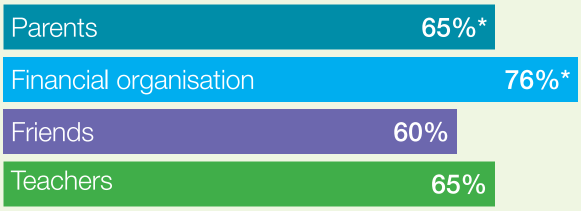
I keep track of my income and expenditure (all 15-17 year olds: 60%)

I get the most helpful advice from...



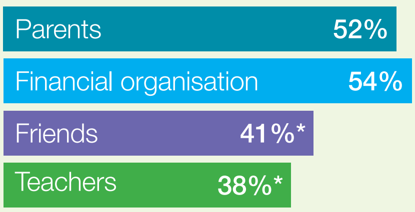
I save regularly (all 15-17 year olds: 63%)

I get the most helpful advice from...



Living within my means is easy (all 15-17 year olds: 51%)

I get the most helpful advice from...



Base: 1,188

*indicates a significant difference from the 'all 15-17 year old percentage'

05

The family situation

On a range of measures young people are far more likely to be financially capable if they grow up in a family able to pay the bills and with money set aside for emergency expenses

70%

of young people from families who struggle saving for emergencies find it difficult to live within their means

68%

of young people from families who **can** save for emergencies, save money every month

47%

of young people from families who **can't** save for emergencies, save money every month

The family situation matters

Young people were asked a number of questions to identify whether they were growing up in a household experiencing financial difficulty. On a range of measures we found young people are far more likely to be financially capable if they grow up in a family that is usually able to pay the bills and with money set aside for emergency expenses. Those whose families can't usually afford to pay bills or don't save for emergencies do less well. Our findings add more weight to the body of evidence which identifies parents and the family environment as the most powerful influence on a young person's financial behaviour.

It is important to note that this is not entirely an issue of income – those who grow up in a family where they do without certain things because they can't afford them do not appear to be less financially capable as a result. Additionally we know through Money Lives that young people generally receive a similar amount of pocket money across parental income brackets. So whilst most will have a potential opportunity to save, in practice the environment in which they grow up may influence their attitudes and behaviours more than family income.

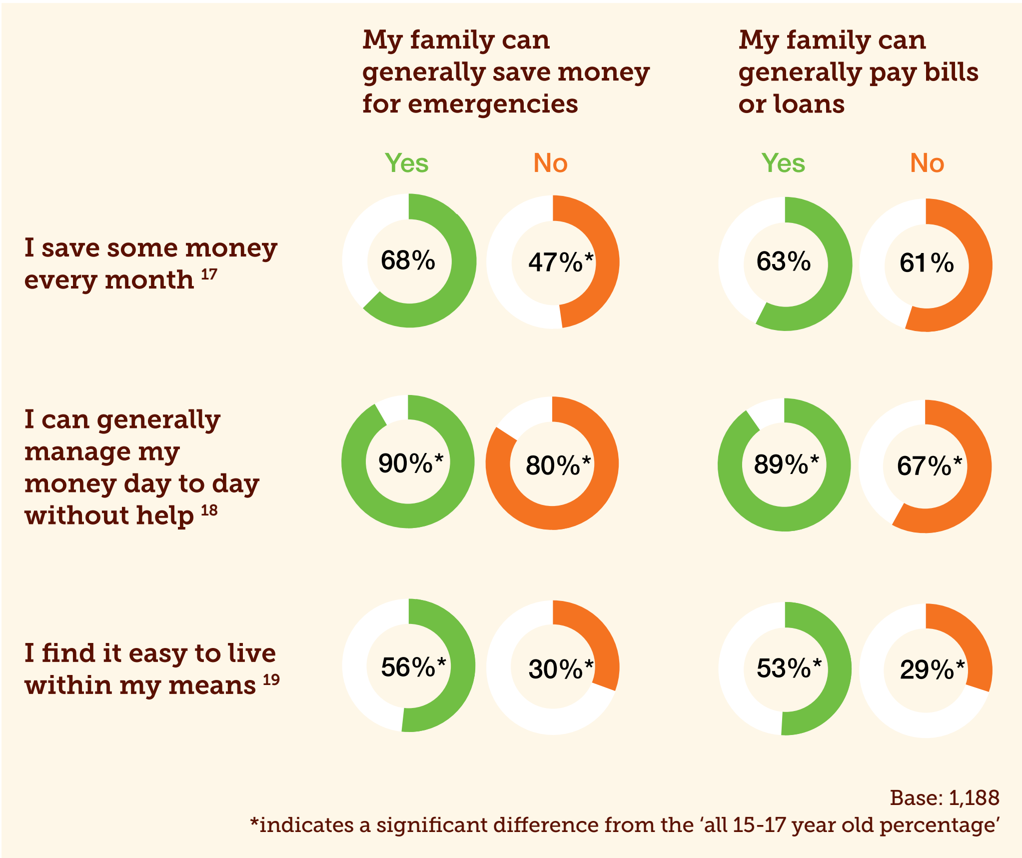
[16] Source: Money Advice Service, The Financial Capability of the UK, August 2013

Chart 2 shows that the more difficult the family finds it to save money for emergency expenses, the less confident the young person is at managing their money without help and the worse they are at demonstrating good financial behaviours.

For example, 68% of young people from families who can save for emergencies tend to save every month, but only 47% of those young people from families who tend to save for emergencies, save every month. This is particularly worrying as we know that 54% of parents would have to think about how to pay an unexpected bill of £300[16].

The relationship between the ability of the family to pay bills and the attitudes and behaviours of young people is more mixed. We see a sizeable difference in young people's confidence in managing money day to day without help (90% of those from families who can pay the bills feel confident, while only 67% of those from families who can't pay the bills feel confident). However, young people's saving habits are broadly the same whether or not their family can pay the bills.

Chart 2: Relationship between family situation and indicators of financial capability



[17] all 15-17 year olds: 63%
[18] all 15-17 year olds: 87%
[19] all 15-17 year olds: 51%

06

Where next?

Where next?

Through this and associated research, we have increased our understanding of how 15-17 year olds think about money, how they behave with money and the factors and people that are likely to influence this. These findings suggest areas to investigate further and potential opportunities to develop and target resources.

This research provides further support to our understanding that behaviours are formed at a young age. We know from 'Habit Formation and Learning in Young Children' that money habits are generally formed by the age of seven through parental influence. This research suggests that the key period for forming conscious financial behaviours is by the age of fifteen, with parents once again an important part of the picture.

In order to develop the right habits, we need to reach young people in early years. We are trialling various approaches including developing resources for parents which integrate financial education into their playtime with their children. But we also need to work with partners to consider what more can be done to influence broader behavioural development in young people before the age of 15.

We know that young people tend to find their parents' advice on financial matters most helpful. We also know that many parents lack confidence in that role, don't believe their children listen to them and do not always recognise how influential their own behaviours can be. We can begin to address this through some potentially straightforward interventions. For example, if we could explain why parents should stick to a set amount of pocket money given at regular intervals with a clear understanding over where responsibility lies for purchases, our work suggests that young people's budgeting skills could significantly improve.

In order to reach parents most effectively, we also need to develop a better understanding of how they interact with their children on money matters. For example, by doing more work to understand the advice parents feel comfortable in giving and the areas they aren't confident about, we can better target interventions that will support parents in supporting their children.

Knowing that those who grow up in an environment without a financial buffer in place are likely to have poor financial behaviours is an area that we would like to investigate further. For example, we would like to explore with debt intervention providers how to ensure that programmes are delivered with the whole of family in mind rather than just the individual.

We also need to consider how best to support those who are growing up in more vulnerable surroundings and may not have access to parental support. And whilst it makes sense to focus resources on habit formation for the under 7s and wider behaviours up to 15, it does not mean we should give up on those who haven't been reached by that age.

With that in mind, we have recently launched a series of guides for school leavers and are developing video content for young people about to make their first financial decisions. We now need to reflect on what we have learnt from this research and consider how best to support this age group to help them prepare for the financial challenges of adulthood.

For example, if as we suspect the habit of saving regularly gets lost as young people move into the world of work, we might explore how to encourage the retention of positive savings habits during the transition to adulthood. Similarly, we could do further work to understand whether it is important that feeling comfortable with finances declines so considerably over time and investigate how to encourage young people reaching adulthood to continue talking openly about finances.

This research underlines the necessity of taking a collective approach to our work with young people, including those doing excellent work in schools, community groups, and with vulnerable young people. We hope that this piece of research will be a great way to start the conversation on what next for young people, and help shape the UK Financial Capability Strategy, which we and our partners will be developing over the next few months.

Technical note

This brief technical note explains the methodology of the financial capability tracking study conducted by Ipsos MORI on behalf of the Money Advice Service.

The questionnaire used in the survey was developed by looking at evidence from Money Lives and other studies of young people and financial services, and with input from stakeholders. The survey was tested cognitively with a small group of young people and in a larger scale pilot; after both of these stages improvements were made to the questionnaire. The Money Advice Service decided to replicate the mixture of online and face-to-face methods used in the adult survey to conduct interviews with young people. Therefore a sample of 1,015 young people was drawn from the Ipsos MORI online panel and 173 interviews were completed using a face-to-face omnibus approach. The fieldwork for the young people's financial capability tracker survey took place in April 2013.