



Why don't consumers engage with Millstones?

A significant minority are affected every year

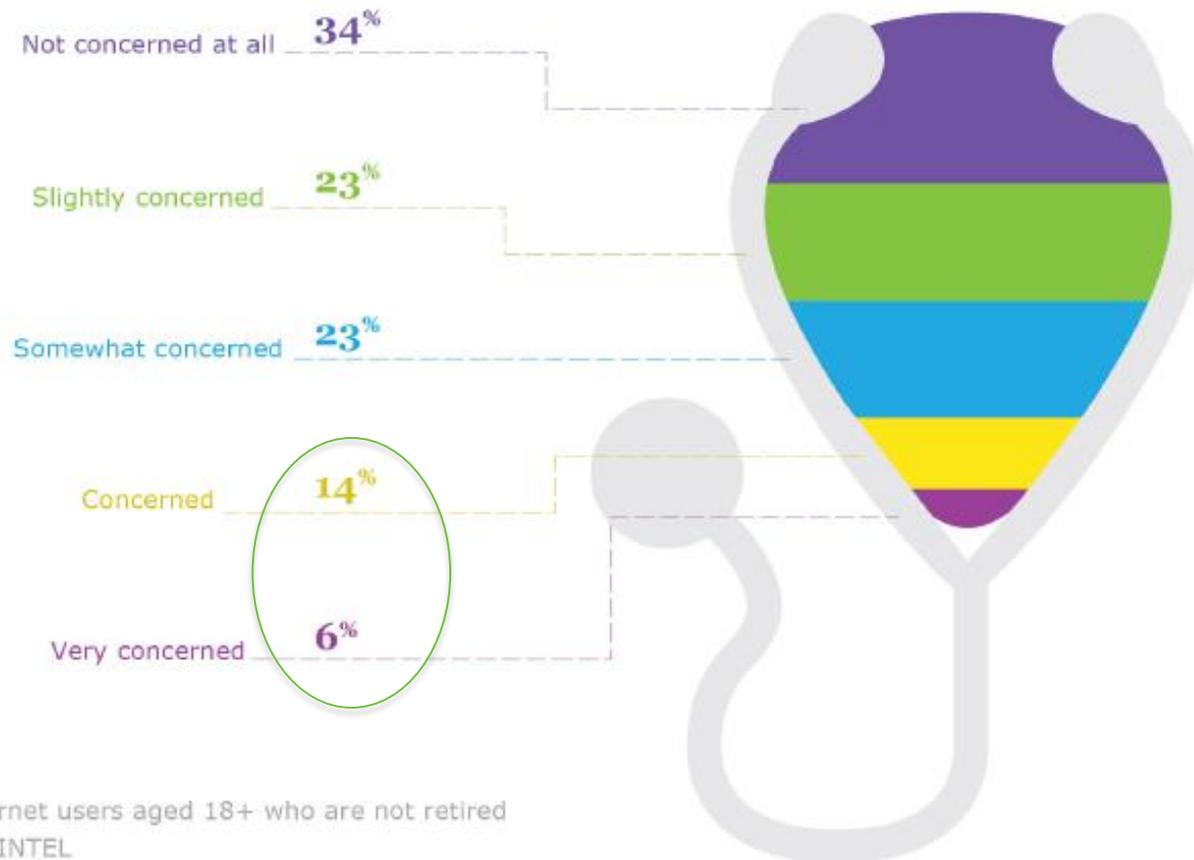


- Over **3.3 million** working-age consumers in last year (8.6%) *
- Highest among 45-54 year old's (9.9%)
- Due to ...
 - Serious accident/illness : 1.31 million
 - Redundancy : 1.24 million
 - Divorce/separation : 855k
 - Death of a partner : 175k



It's not really a concern

CONCERNS AROUND INABILITY TO WORK DUE TO HEALTH REASONS, MARCH 2013



Base: 1,581 internet users aged 18+ who are not retired
SOURCE: GMI/MINTEL

Redundancy

- Often a very emotional time – especially if unforeseen; may be more so than expected
- Typical response : ‘wait and see’
 - Few examples of (significant) cost cutting
- Time taken depends on ...
 - Redundancy pay
 - Savings vs credit commitments
 - Perceived ease of getting another job – people generally believe it won’t take long



“It will be alright”



the Money
Advice Service

“You never think you’ll be unemployed for such a long time. To begin with you think “oh well, I could do with a bit of time off and I’ll find something else soon”. But then you don’t and it doesn’t feel like a holiday any more”

“I spent 4 weeks of the summer on holiday, so I didn’t deal with anything until I got back. I should have been doing it the month before I lost my job”

“I hadn’t taken a holiday in two years – I felt like I deserved one. Then I needed a new suit, new shoes for job interviews. I didn’t have much choice about that”

Source : Money Lives and BDiffereent Redundancy research

In practice ...

“Perhaps it was denial or because I knew I had redundancy coming I kept thinking I would be alright for a few months because I was adamant I was going to get a job. I should have cut back earlier”

“My attitude to money has changed since it’s happened. I’ve been quite frivolous in the past but now, even though I’m earning a wage again now, I’m really analysing what I spend”

“It was the first time in a long time that we sat down and looked at our budget. It taught me a lesson to know where the pennies go because before we were spend happy”

“If I’d just saved my lump sum and sat with it and lived off it, I probably wouldn’t be in such a bad position now. Because I’ve used it to pay off some of my debts and kept some, it has only just about kept me afloat”

Divorce and separation

- Response differs hugely between people
- Often a major shock to the system
- Focus on children and home, not finances
- Finances may be complicated and there can be 'shocks' and unexpected debts



Seeking advice

- People often don't ask advice until it is (almost) too late
 - Optimism bias
 - Denial of facts / admission of failure
 - Shame / stigma : not for 'people like me'
 - Too public
- Some don't know where to go



The effect of planning

- Ability or willingness to plan makes a big difference to how people cope with negative life events
- But people aren't very good at planning
 - Planning horizon typically not long-term (Standard Life : 'Eight Year Blind Spot' press release March 2015)
 - Plans tend to be for 'good' things
 - Few have some form of plan for things going wrong



Sources : Money Lives and Financial Capability 2005 and 2014

Planning – qualitative research

- Planning is for cars, conservatories or a comfortable retirement (although they can ‘dip into’ these funds)
- When asked, people recognise they aren’t prepared for financial shocks
 - Not thought about it
 - Thought about it - but can’t afford
 - Thought about it – but won’t happen to me
 - Thought about it – but ‘life is for living’



“It’s just too far ahead. Anything can happen and with the children around I just think you can’t plan ahead. I know in the future I will be alright... I know at least £250K is coming my way from one nan”

(Making ends meet, high income)

“I tend to think, for years now, of the ‘now’ and don’t tend to think of the bigger picture of the future.”

(Making ends meet, medium income)

“As long as we get from the 26th to the 1st when the bills are paid, that’s as far as we look at the moment.”

(Making ends meet, medium income)

“...just want our heads above water. Don’t have plans. Don’t look ahead. Want a bit of money behind us.”

(Resilient, high income)

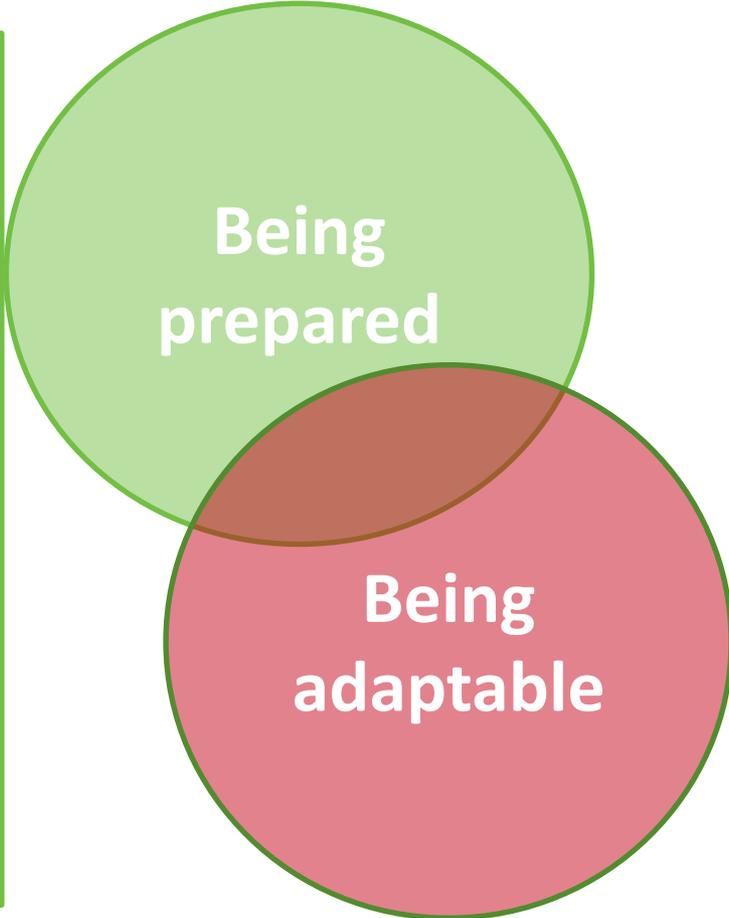
What determines how well people cope?

Being prepared

- Level of savings
- Holding insurance
- Awareness of their employment contract

Behaviours:

- Build up some savings / larger savings
- Take out insurance
- Learn about financial products and become more financially savvy



Being
prepared

Being
adaptable

Being adaptable

- How quickly they assess the length of time on reduced income
- How quickly they start to cut expenses
- How dramatically they cut expenses

Behaviours:

- Change spending habits and cut costs
- Seek advice quickly

Can consumers adapt?

Solutions found by those who **had** experienced a drop in income ...
(MAS Financial Capability survey)

- Cut back on expenditure (65%)
- Draw down savings (32%)*
- Sell belongings (25%)
- Claim benefits (21%) **
- Get another/second job (14%)

What they **thought** they would do)

- Savings (40%)
- Benefits 30%

(Intel data)



Can consumers cut back?

According to GRiD ...

- ESA (Employment & Support Allowance) : £108 pw (max)
- Average household expenditure : £489 pw (ONS)



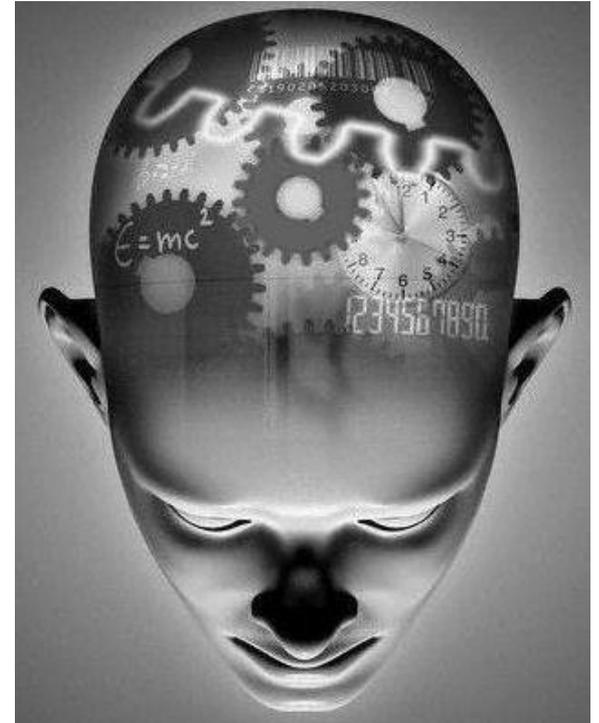
The impact of Millstones

- Affects over 3.3 million working-age adults pa (8.6%)
- But people don't (want to) believe it will happen to them
- Huge variations in time to respond
 - Depends on emotional response
 - Amount of notice
- Initial focus often elsewhere
 - Protecting family
 - Finding work
- Optimism bias – “something will turn up”
 - Wait until savings have gone



A lot of behavioural biases

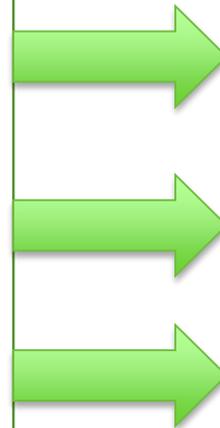
- Optimism bias
- Hyperbolic discounting
- Choice overload
- Confirmation bias
- Framing



What doesn't work (for many)

Messages about ...

- low level of holding
- “this could happen to you”
- You “should” cut spending



Because ...

- reinforce ‘social norm’
- fall on deaf ears
- societal pressure too great