

NEWS RELEASE

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IMPORTANCE OF MONEY GUIDANCE HIGHLIGHTED IN SECOND READING

Monday's [second reading of the Financial Services Bill](#) saw Derek Twigg MP refer to the importance of a Money Guidance Service for low earners¹. An issue the Resolution Foundation has been championing since 2006.

He said:

"A few months ago, I met representatives from the Resolution Foundation, whose aim is to improve the well-being of low earners by delivering change for that income group, who are currently disadvantaged. The foundation identified that low earners fall into an "advice gap" whereby commercial advisers focus their attention on the better-off, and the third sector and the Government focus on the most vulnerable. Its research found that a low earner in receipt of money guidance could be £60,000 better off by the age of 60 by making sound financial decisions throughout their life.

A poll conducted by the foundation in March 2009 found that nearly 3 million low earners worry all the time about their personal finances-double the number in a similar survey in 2007. The CFEB will increase the profile of money advice, the wider financial capability agenda and general financial education that so many people badly want to see. It will also be able to raise funding from a variety of streams, with no extra administrative burden on financial services."

[The Financial Services Bill](#) contains legislation for a new Consumer Financial Education Authority to run Money Guidance and for new funding powers. It is crucial that the goal of providing generic financial advice to vulnerable consumers is realised as now, more than ever, low earners are in need of help before they miss their first payment.

The Foundation welcomes the Bill and the legislation to fund Money Guidance through the proposed new body. In the Foundation's early research it recommended that an independent body was the best option to govern Money Guidance.

Sue Regan, Chief Executive of the Resolution Foundation, said:

"The economic context has accelerated the need for free and impartial advice to help people avoid financial crisis. The national roll-out of the Money Guidance Service will help millions of low earners stay in control of their money and maintain their financial health so it is crucial that this can happen as soon as possible."

The Foundation recommended that a generic financial advice service was needed to meet the needs of the UK's 14.3 million low earners who fall into an advice gap.² This work led to HM Treasury's *Thoresen Review* which

recommended in March 2008 that a Money Guidance service be set up. The Treasury then announced the pathfinders of 'MoneyMadeClear' which were launched in March 2009.³ The impact assessment published alongside the Bill shows that

The pathfinders are jointly run by the Government and the Financial Services Authority (FSA) backed by £12 million. They offer help with money issues online, over the phone and face-to-face across the North West and North East of England. The pathfinder builds on the FSA's Moneymadeclear website and helpline, which people can access wherever they are in the UK.

A poll conducted for the Resolution Foundation last month found that nearly 3 million low earners now worry 'all the time' about their personal finances. This is double the number in 2007 (the same poll was carried out for the Foundation in 2007).⁴ In 2007, only 1 in 10 low earners worried 'all the time', compared to nearly 1 in 5 today.⁵ The poll also found that, today, nearly 90 per cent of low earners worry at least 'sometimes' about their personal finances.

The two polls also found amongst the general public that:

- in 2007, 45% of respondents said that they would go to a bank and building society for financial advice compared to only 29% today
- in 2007, 32% of respondents said that they would use an Independent Financial Adviser as a source of advice compared to only 20% today
- today, 45% of people still rely on friends and family for their financial advice (a similar figure to two years ago) rather than trained financial advisers

The Foundation's poll suggests confidence in the banking sector and in financial advisers has fallen since 2007. This makes it even more imperative that low earners have a source of impartial, free, information and advice to help them manage their money and avoid getting into financial trouble.

The Foundation's previous research has shown that greater access to financial advice could leave young low earners £60,000 better off by the time they reach 60, deliver welfare savings of £100 million within 10 years and provide long term benefits to the financial services industry.

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All the Foundation's research, reports, briefings, seminar notes are also available on our website.

Notes to editor:

1. At its broadest, we define the low earner group as including all those with below-median income (from all sources) who are not dependent on state support. For the purposes of analysis there are a number of different ways of capturing this group and this note uses a variety of methods, depending on the data available in the underlying sources.

- At its simplest, we consider the group to be made up of households in income deciles 3, 4 and 5: that is, with gross annual income between £11,650 and £27,150.
 - At its most detailed, we measure the group as including all those households whose equivalised incomes (adjusted for size and composition) fall within income deciles 3-5, unless they obtain more than 20 per cent of their income from income-related benefits, in which case they are considered members of the benefit-dependent group.
 - Around 7.2 million households fall into this category in the UK, equivalent to around 14.3 million adults.
 - We define two other income groups in relation to low earners: households with above-median incomes (income deciles 6-10) are considered *high earners*, while those with below £11,650 income (deciles 1 and 2) are considered *benefit-dependent*.
 - This definition inevitably excludes some low earners (those in income deciles 1 & 2 who are not benefit-dependent and those living in high earner households who are individual low earners) and includes some benefit-dependent individuals. However, it provides a reasonable picture of the position faced by the majority of low earners.
2. See *Closing the advice gap: providing financial advice to people on low incomes*; *A national dividend: The economic impact of financial advice*; and *The advice gain: The impact of generic financial advice on the financial services industry* all of which can be downloaded from the Foundation's website.
 3. The Money Made Clear Service is available online <http://www.moneymadeclear.fsa.gov.uk/> or by calling **0300 500 5000**, Mon-Fri 8am-8pm, Sat 10am-6pm, Sun 11am-5pm. The face-to-face service will only be piloted in the North-East and North-West.
 4. 19% of Low Earners polled said that they worried 'all the time' about their personal finances. The YouGov Poll was carried out from the 20-23 March 2009 with a sample size of 2,049. To ascertain the low earner statistics we use the income brackets of gross annual income in a household between £13,000 - £23,999. This does exclude some low earners but does include the core of our group. Higher earners are those in the top two income brackets earning between £32,000 and over a year.
 5. 86% of Low Earners polled said that they worried, 'all the time', 'often' or 'sometimes' about their personal finances.