

NEWS RELEASE

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FINANCIAL SERVICES BILL PASSES FINAL STAGE IN COMMONS *Good news for Money Guidance and low earners*

Monday's report stage and third reading of the Financial Services Bill in the House of Commons was strongly welcomed by the Resolution Foundation. We welcome the cross-party support given to the importance of education and support to consumers when it comes to financial decisions.

[The Financial Services Bill](#) will establish the Consumer Financial Education Body which will be responsible for the national Money Guidance Service. In the Foundation's early research it recommended that an independent body was the best option to govern Money Guidance. Money Guidance will be a vital service for the millions of low earners¹ who currently fall into an advice gap - where commercial advisers focus their attention on those better off and the third sector and government focus on the most vulnerable. This is an issue the Resolution Foundation has been championing since 2005.

The Foundation also welcomes the legislation to fund Money Guidance through the proposed new body and the Pre-Budget Report's allocation of £20m to roll the service out this spring. 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.

Sophia Parker, Acting Director 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. This is a crucial service – and the recession means it must be rolled out nationally 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 Foundation's previous research has shown that greater access to financial advice could leave low earners £60,000 better off by the time they reach 60 years old, deliver welfare savings of £100 million within 10 years and provide long term benefits to the financial services industry.

Further background:

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 MoneyMadedclear website and helpline, which people can access wherever they are in the UK.

A poll conducted for the Resolution Foundation in 2009 found that nearly 3 million low earners worried '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 had 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.

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For further information please contact Sophia Parker on 020 3372 2959 / 07939 229 125 or sophia.parker@resolutionfoundation.org or Mark Hanson on 07973 697947

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.