An Investigation into the Resolution Foundation's Target Group
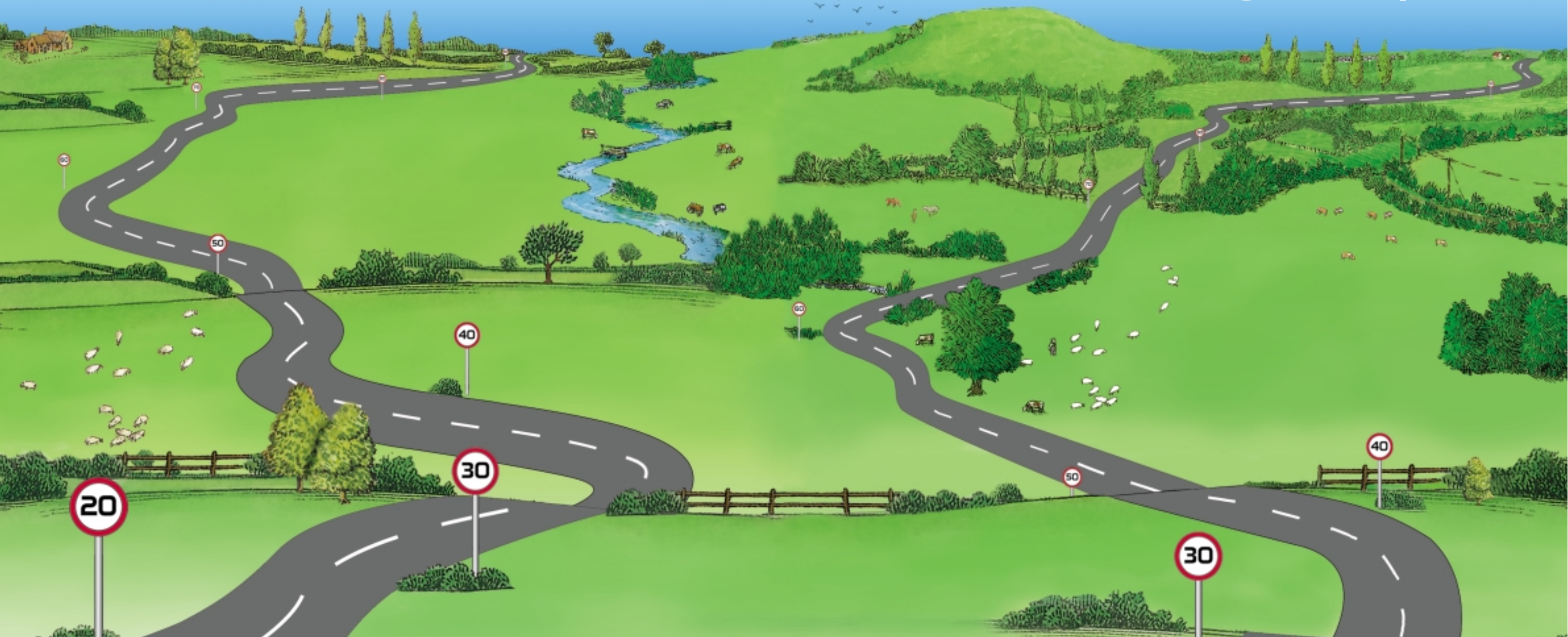
Report prepared for the
Resolution Foundation
by the Alliance for Health
and the Future

Alliance for
Health&theFuture
*At the International
Longevity Centre*

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On behalf of the Alliance for Health & the Future, I am delighted to present this report to the Resolution Foundation, which has been produced in conjunction with the Future Foundation.

Launched in 2005, the Resolution Foundation is a not-for-profit organisation committed to tackling the absence of impartial financial advice for lower-income sections of the population who are of little interest to the financial services industry, but are nevertheless largely independent of state support.

The Resolution Foundation is building consensus around policy solutions for addressing this important problem. It is developing proposals for the rapid implementation of a national financial advice network, funded through public/private partnership, which will provide generic impartial and personal advice on all important financial decisions at the point of need.

I have the great pleasure of working closely with Sir Michael Marmot and his team at UCL and have come to understand the impact of poor financial decision-making over the life-course on health in later life. As people are increasingly living longer and often more complicated lives, appropriate financial advice will enable them to enjoy healthier ones, with consequent benefits to the whole of society.

In order to develop appropriate policy solutions, the Resolution Foundation commissioned the Alliance for Health & the Future to undertake research into its target social group: households and individuals with below-median income who are largely independent of state support.

We hope this report, which summarises our research, will help the Resolution Foundation in its work to address the important problem of financial advice provision for low-income groups in our society.

Baroness Sally Greengross
Co-chair, Alliance for Health and the Future

[1] http://www.resolutionfoundation.org; http://www.healthandfuture.org; http://www.futurefoundation.net

This report details the results of research into the social and economic profile of the 'target group' of the Resolution Foundation. These individuals are largely independent of state support, but are not a profitable group for the financial services industry to provide independent financial advice to. They find themselves in an 'advice-gap': excluded from advice provided by the financial services industry, but unable to access state support available for those on very low incomes who are dependent on state benefits.

In this section, we outline how the target group was defined for research purposes, and the methodology used in our investigations. The report then proceeds with a review of how the 'target group' of the Resolution Foundation is comprised. We identify and discuss the main 'clusters' of individuals in this group. We illustrate these clusters by presenting the real life stories of actual individuals who are representative of the clusters. We then explore these clusters more thoroughly: their saving habits; their expectations of the future; their worries about retirement; their housing status, and the burden of debt repayment.

This report provides an initial analysis of the 'target group' of the Resolution Foundation. In future research, we will be using original qualitative research, and quantitative analysis of a large scale survey of financial capability, to better understand how the target group makes financial decisions, and the financial products and services it uses.

Defining the Target Group

The Resolution Foundation is concerned with the provision of financial advice to individuals and households with lower incomes, who are unprofitable for the financial services industry to advise, but who are nevertheless largely independent of welfare support, and do not therefore receive financial counselling and advice from the state.

How can this group be defined for the purposes of research? The precise income level below which individuals and households become unprofitable for the financial services industry to advise is not universally agreed upon, and varies depending on what kind of financial service is discussed, and what social groups are considered. For the purposes of our research, a recognised benchmark figure was required. 'Median

income' was therefore used as a benchmark level below which most people are excluded from independent advice provided by the financial industry. Median income is a widely understood figure, and guaranteed that we focused on households and individuals with incomes below the average.[2]

Having identified an upper income benchmark for the 'target group', the next task was to identify individuals and households who are *largely independent of state support*.

This question is made more difficult because the receipt of financial support from the state is not limited to those on low-incomes. In fact, even households in the highest income quintiles of the UK population will often receive some form of financial help from the state, such as child benefit.

[2] Using BHPS data, we calculated individual median income for those both in and out of work as £11747. Household median income was calculated as £22,548.

For the purposes of this research therefore, individuals and households were judged to be largely independent of state support if *no more than 20% of their income came from welfare payments*.

To understand this 'target group', it was also necessary to make both *individuals and households* the focus of research. Why?

Some individuals may have a low individual income, but live in households with incomes that are closer to the median household income. For example, individuals who look after children at home while their partner goes out to work fall into this category. These individuals may not be active in the labour market, but they are still largely independent of state support. They may need financial advice, and may in fact be the 'decision-maker' in their household. To ensure such individuals were incorporated into research, an analysis of the target group required analysis at the level of households. Households were therefore included as a unit of research.

Individuals were also included as a unit of research. Why? Individuals were included as a unit of research because an analysis that focused solely on households would exclude many individuals who are of interest to the Resolution Foundation.

Individuals may be largely independent of state support and have incomes below the median income level. However, such individuals may live in households that have a total household income above the household median income. For example, a household of young people who all work full-time might fall in this category. By including *individuals* as a unit of analysis, we were able to investigate those individuals who would otherwise be excluded by focusing solely on *households*.

For this research, adults therefore fall within the 'target group' for either of the following reasons:

- They live within a household with below median income and no more than 20% of the household income is derived from state welfare payments.

- They have individual income below individual median income and no more than 20% of their individual income is derived from state welfare payments.

In this way, the 'target group' of the Resolution Foundation was defined for the purposes of research.

Methodology

In order to make reliable statements about this target group, we undertook quantitative research using data from the British Household Panel Survey (BHPS). This panel survey, which began in 1991, is widely recognised as one of the most reliable data sources available on the UK population: household-based, interviewing every adult member of sampled households, and containing sufficient cases for reliable and meaningful analysis of particular social groups.
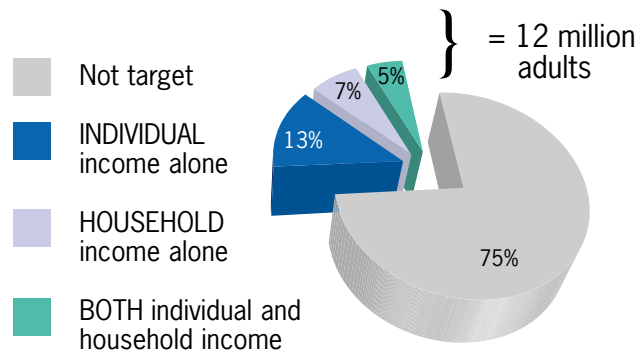
The BHPS is also a 'panel' study: the same individuals are interviewed on a repeat basis. This allows the dataset to follow individuals over a number of years, and enables social researchers to undertake 'longitudinal' social analysis. Using statistical analysis of the individuals included in the BHPS, it was possible to make reliable statements about the 'target group'.
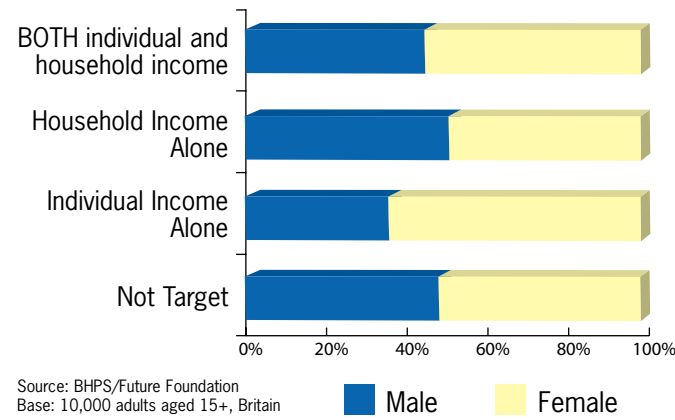
Initial analysis of the British Household Panel Survey showed that the 'target group' comprised 12 million adults; around one quarter of the UK adult population.
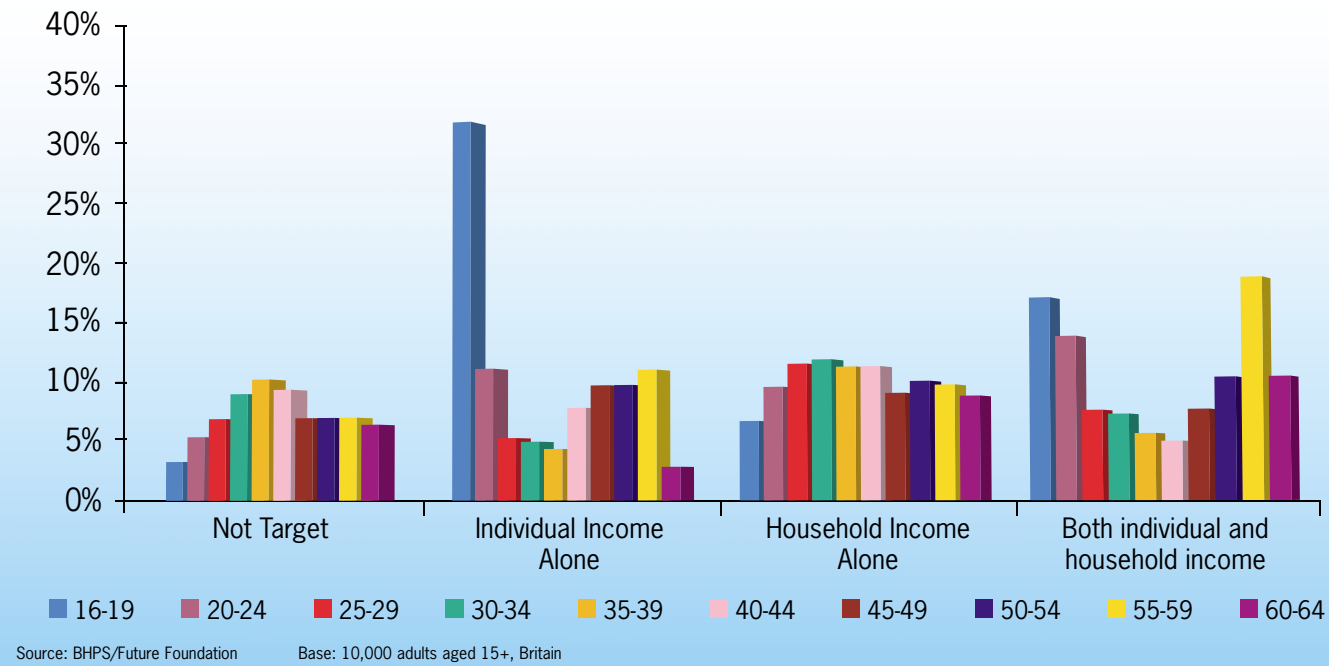
The target group defined

- Not target
- INDIVIDUAL income alone
- HOUSEHOLD income alone
- BOTH individual and household income

} = 12 million adults

5%
7%
13%
75%

Overall, the target group has a fairly even gender balance, although among individuals who fall in the target group because of their individual income, a greater proportion are women:

BOTH individual and household income
Household Income Alone
Individual Income Alone
Not Target

0% 20% 40% 60% 80% 100%

Source: BHPS/Future Foundation
Base: 10,000 adults aged 15+, Britain

■ Male   ■ Female

The age distribution of the target group is evenly spread. However, among those who fall into the target group on the basis of individual income alone, a high proportion are under the age of 19.
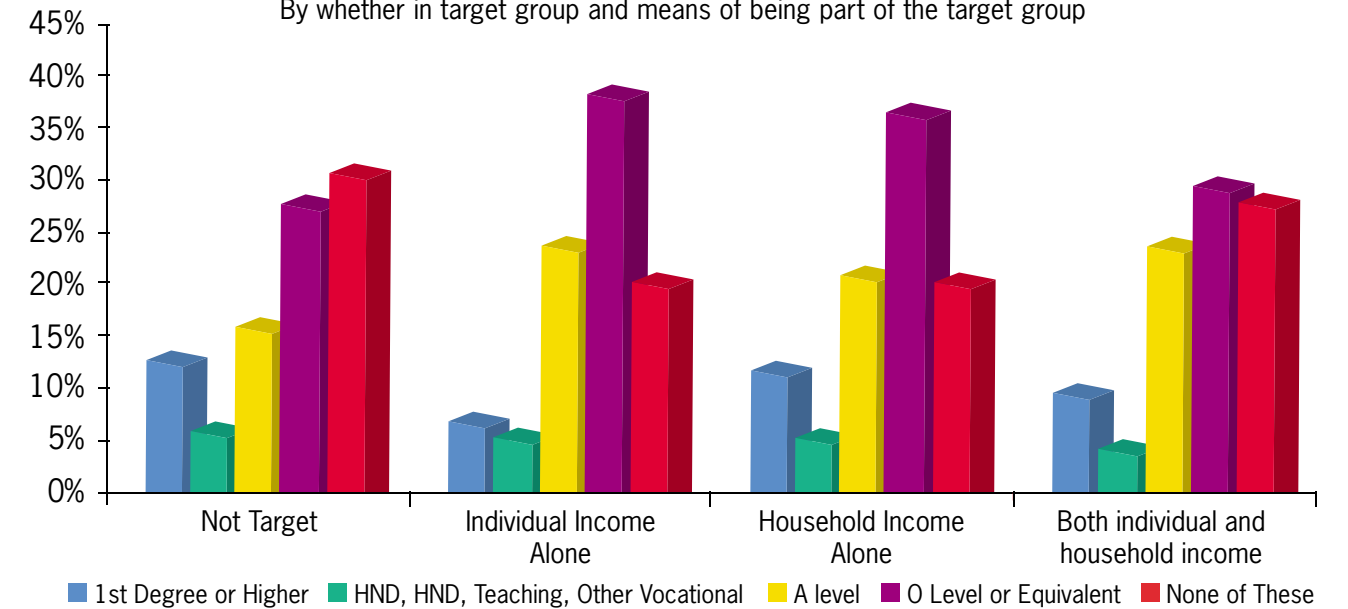
Age distribution of each income-defined category

40%
35%
30%
25%
20%
15%
10%
5%
0%

Not Target   Individual Income Alone   Household Income Alone   Both individual and household income

■ 16-19 ■ 20-24 ■ 25-29 ■ 30-34 ■ 35-39 ■ 40-44 ■ 45-49 ■ 50-54 ■ 55-59 ■ 60-64

Source: BHPS/Future Foundation   Base: 10,000 adults aged 15+, Britain

The target group contains a wide range of academic qualifications. However, the highest educational qualification for individuals in the target group is typically O' level or equivalent:

Highest educational qualifications for each income defined sub-group
By whether in target group and means of being part of the target group

45%
40%
35%
30%
25%
20%
15%
10%
5%
0%

Not Target   Individual Income Alone   Household Income Alone   Both individual and household income

■ 1st Degree or Higher ■ HND, HND, Teaching, Other Vocational ■ A level ■ O Level or Equivalent ■ None of These

Source: BHPS/Future Foundation   Base: 10,000 adults aged 15+, Britain

The next table shows the economic activity of individuals in the target group:

Distribution of economic activity within income categories

	Not Target	Individual Income Alone	Household Income Alone	BOTH Individual and Household Income
Employed/Self-Employed	54%	66%	73%	67%
Unemployed	3%	4%	2%	4%
Retired	28%	4%	9%	10%
Maternity Leave/Family Care	7%	4%	9%	3%
Full-Time Student/Schooling	3%	19%	6%	13%
LT Sick, Disabled	4%	1%	0%	1%
Govt Training Scheme	0%	0%	0%	0%
Other	0%	0%	0%	1%

The vast majority of those who qualify through household income alone are in employment, although some who qualify in this way are retired, or have care responsibilities.

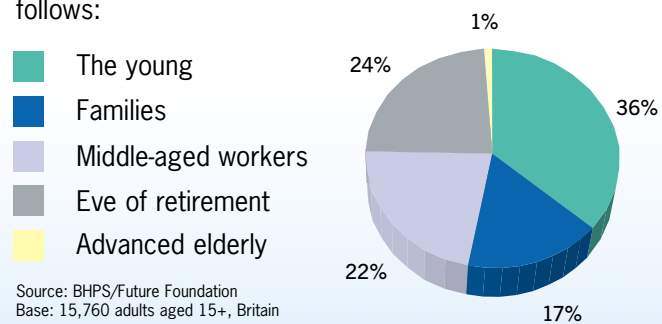The next table shows the distribution of household-type within the target group:

Distribution of economic activity within income categories

	Not Target	Individual Income Alone	Household Income Alone	BOTH Individual and Household Income
Single Non-Elderly	5%	0%	33%	25%
Single Elderly	11%	0%	2%	2%
Couple without Children	31%	21%	22%	35%
Couple with Dependent Children	29%	34%	30%	16%
Couple with Non-dependent Children	13%	33%	5%	6%
Lone Parent with Dependent Children	4%	5%	4%	2%
Lone Parent with Non-dependent Children 2+	4%	5%	3%	7%
Unrelated Adults	1%	1%	1%	5%
Other Types	2%	2%	0%	0%

Lone parents comprise a relatively small proportion of the target group compared to two-parent households.

Clusters within the Target Group

By applying the statistical technique 'cluster analysis'[3] to the whole BHPS dataset we identified 5 lifestage clusters. Amongst the target group the clusters were distributed as follows:

- The young — 36%
- Families — 17%
- Middle-aged workers — 22%
- Eve of retirement — 24%
- Advanced elderly — 1%

Source: BHPS/Future Foundation
Base: 15,760 adults aged 15+, Britain

The smallest cluster in the target group is the *'advanced elderly'*. This group comprise such a small percentage of the target group because of the widespread receipt of state pension benefits, which ensures that many elderly people receive more than 20% of their income from the state. In taking forward further research, we will examine this group using different criteria to measure independence from the state. However, further analysis of the advanced elderly will not be developed here as the sample size is too small.

On the basis of the clusters identified, we were able to refine our picture of the target group, and exclude from analysis those individuals who are not the target of the Resolution Foundation.

Refining the Target Group

A feature of individuals in the cluster that identifies *young* people is that many in this cluster may be students, or young people starting out on their careers. We can hypothesise that many of these young people will fall in the target group temporarily as their income ultimately rises quickly above the median. Such individuals are able to access financial advice both from university advice services, and the financial services industry.

If these young people are moving through the 'target group' on the way to higher incomes, they are of less interest to the Resolution Foundation. How can they be eliminated from the target group?

[3] The clusters were identified using 'k-means' cluster analysis, with the following six input factors: age; gender; marital status; parental status; current economic activity, and target group status.

By analysing data from 1994, we identified those who would qualify for the young people target group for that period. We found that nearly three-quarters of these individuals had moved out of the target group 10 years later.

Assuming that the experience of young people today will follow a similar path, we can therefore make the rough estimate that of those individuals in *the young* people cluster currently, only around 25% will continue to be in the target group in 10 years – approximately 1.2 million individuals.

Estimating the 'Target Group'

Taking account of these refinements (the removal of the advanced elderly, and of 75% of the number of people classified as young people within the target group) provides a significantly reduced final estimate of the target population.

It is now estimated that there around 8.7 million adults who are largely independent of state support, but have incomes below median income. These individuals do not receive personalised financial advice from the state, and do not have incomes high enough to be of interest to independent financial advisers.

In the next section, we illustrate the different clusters within the 'target group' by providing snapshots of individuals in these clusters. These snapshots illustrate the diversity of individuals that can exist within each cluster. Although these snapshots are anonymous, the individuals described are real, and were randomly chosen from individuals in the British Household Panel Survey.
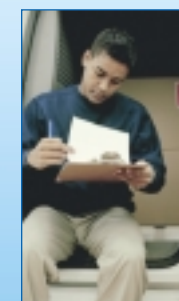
THE CLUSTERS OF THE TARGET GROUP

THE YOUNG
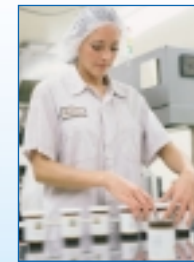
- Woman, aged 18
- Lives with her parents
- Recently took a job in a factory
- …her part-year earnings are just £1,800

- She was a full-time student beforehand so claimed no benefits
- She does save but is not a member of employer's pension programme
- Family's income just above median income
- She thinks she is "doing alright" financially; expects finances to improve in the next year

- 17-year old girl
- Lives with parents and four siblings all aged under 16
- No income herself as she is a full-time student
- Her family's income is just below median household income

- 19-year old man
- Still lives in his parents' home in the south-west
- He has A-Levels and works as a quantity surveyor
- This pays him a little more than £10k a year
- Thinks he is "doing alright" financially…
- …perhaps because annual household income is around £70,000

- Man, aged 36, married for 5 years with a toddler
- Earned £11k/year until 2001 when he lost his salesman job
- Re-employed now but at ¾ the salary
- Regular saver for 15 years, but no private pension
- Wife earns but they struggled when he lost his job

- Woman, aged 30, with 3 children
- At 16 – left school
- At 18 – had first kid with (then) boyfriend
- At 24 – married to a different man; had 2nd child
- At 26 – had 3rd child   • At 28 – divorced
- Now lives with, and is supported by, current partner – he earns £13k
- Never saved; no personal pension

- Man, aged 33, with 3 small children
- Plumber earning £15k a year, up from £10k from 1994
- Self-employed and the sole breadwinner
- Contributes to private personal pension; saves regularly
- Moved in 1997 to council house in the south-east, from the Midlands, after getting married in 1996
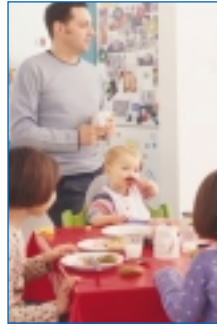
- Woman, aged 35, with 4 children
- Married for 13 years
- A-level-educated hotel manager earning approx. £11k per year
- … similar income to that of her husband, a call-centre worker
- But their incomes have fluctuated
- No housing costs – they own outright an expensive house that they inherited
- They are "living comfortably"
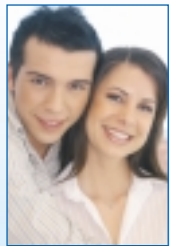
- Woman, aged 43, married with 3 children
- 10 years ago she struggled financially
- She was divorced and reliant on benefits
- Re-married since and earning £10k/year working in a hospital
- Now saves regularly and has personal and employer's pension

- Partner earns £35k+, but she thinks they are "just about getting by" financially
- Owns home with a mortgage

- Woman, aged 47, married with a teenage son
- She was a school teacher with £17k annual income…
- Until this year – she is now self-employed with very little personal income

- Savings linked to employment
- Spouse earns a lot more – household income is well above median
- This allows them to own their home (with a mortgage)

- Woman, aged 46
- Married with 2 kids; only one of whom still lives at home
- Earning £8k working in primary education
- She is a pension contributor but irregular saver
- Husband also works; his income brings them well above the median household income
- They have a mortgage

- 55-year old housewife, who works part-time
- Children have all left home
- Saves regularly, despite earnings hitting a low of £4000 in 1996

- Recently risen above £8k a year
- Total household income is around £28k a year; they are "living comfortably"
- With her husband they are still paying off their mortgage

- Man aged 61
- He has a vocational degree
- And worked as a structural engineer earning £30-33k per year between 1994 and 1999

- Recently gone part-time – earnings have halved; he thinks he is "doing alright" financially and expects this to remain the case
- Wife doesn't work, children have all left home
- Saves sporadically
- Member of employer's pension scheme

- 54-year old woman
- Husband does not work because of a disability
- She has A-Levels; was self-employed in early 90s
- Now a part-time shop assistant earning about £5000 a year
- Does not have a private pension, no company pension available to her either
- She does save intermittently
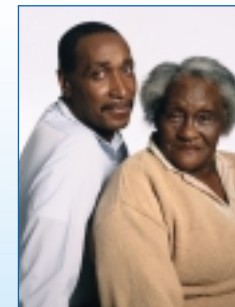
- Woman, aged 77
- Was a kitchen worker in a restaurant when she was younger
- She is a widow with one son
- Bulk of income from pension – about £6k a year
- Sold family home to move to a small rental in north-west

- Does not save but did regularly 16 years ago

- Woman aged 77
- Used to be a dental nurse
- Never married; no children
- Regular saver and living on investment income of £18k a year
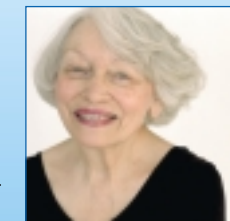
- Downsized from a £350k property in 1998 to one worth £90k in 1999
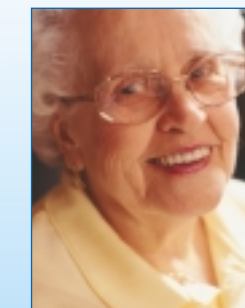
- Woman, aged 84
- Retired primary school teacher
- Widow, living alone in the family home that she owns outright
- Half of £7k/year income comes from pension, 45% from investment income, remainder from benefits

- Income has decreased as investment income has fallen
- She still saves regularly

Having defined the 'target group' of the Resolution Foundation, identified the major 'clusters' within this group and illustrated these clusters, it is worthwhile considering the movement of individuals and households into and out of the 'target group'. Is such mobility common? Do individuals move in and out at different life-stages?

A useful aspect of the British Household Panel Survey is the opportunity it provides to undertake longitudinal analysis. Using longitudinal analysis, we were able to make some basic observations about mobility into and out of the Resolution Foundation's 'target group'.

Around 55% of those in the 'target group' on the basis of individual income alone, were not in the target group 10 years before. For those qualifying on household income alone, this figure is 68%. For those in the target group on the basis of both household and individual income, this figure is 57%.

Overall, an analysis of those in the 'target group' now and their status 10 years ago shows that 62% of the current target group were not in the target group 10 years ago. **This means that around 4.5 million people have been in the target group for both periods.**

Mobility by Cluster

The experience of those in the target group aged under 24 in 1994, suggests that nearly three-quarters were no longer in the target group 10 years later. Assuming that individuals in *the young* people cluster today follow a similar pattern, we can therefore estimate that around 25% will continue to be in the target group in 10 years – approximately 1.2 million individuals. This significant movement of individuals out of the target group could be based on movement upwards following career progression, or downwards into dependence on benefits.

In the *families* cluster, 75% of individuals in this cluster were not in the target group 10 years ago. This suggests that although many young people leave the 'target group', some do move directly from relatively low income status when young, to relatively low income after children are born. Among those in the *families* cluster, these individuals were most likely to be in the target group on the basis of individual income alone. This could be because of new-mothers moving to part-time or lower-paid employment.

Among the *middle-aged worker* cluster, over 80% were not in the target group 10 years ago. People in this group are most likely to be there on the basis of individual income. Many in this cluster may represent 'second-earners' in households with incomes that are above median. Such individuals may be mothers choosing not to return to work or doing so only on a part-time basis or into lower skilled, lower paid jobs. Alternatively, some may have arrived in this cluster, by moving up into the target group as they become independent of benefits. This could be because for some individuals, it is only in the later stage of their career that a higher salary bestows independence from state support.

In the *eve-of-retirement* cluster, around three-quarters of this cluster were not in the target group 10 years ago, and those in this cluster are most likely to be there on the basis of individual income. Such individuals may have previously had higher incomes, but may now be semi-retired, or have caring responsibilities which reduce labour market participation.

Life Stages

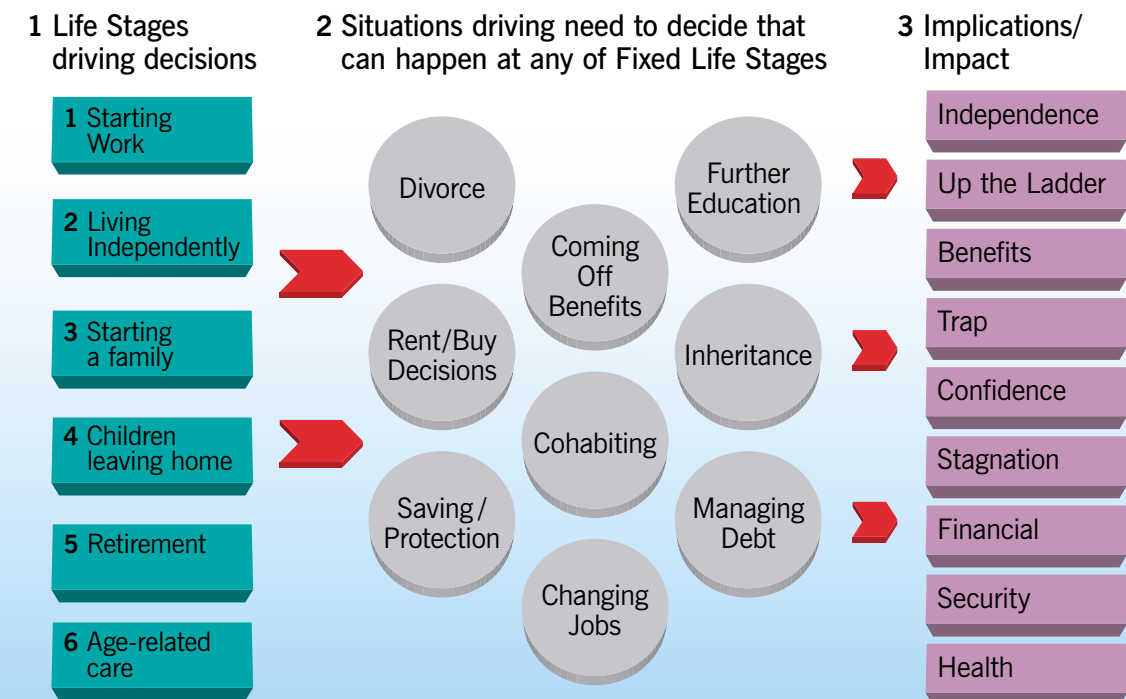This discussion highlights one of the challenges in providing financial advice to individuals and households: the variability across the life course in financial well-being can be large. However, many of the people moving from target to non-target group status may not be undergoing dramatic change in financial well-being, and will therefore still need financial advice that is consistent and coherent with smaller changes in circumstances.

The clusters that we identify in the target group of the Resolution Foundation reflect the life-stage decisions that individuals and households must confront. It is easy to underestimate the number of difficult and complex financial decisions that all individuals face across the life-course. We try to convey some of these decisions in the following chart. These decisions drive the behaviour of the target group that we examine in the next section.

Life Stages

| 1 Life Stages driving decisions	2 Situations driving need to decide that can happen at any of Fixed Life Stages	3 Implications/ Impact
1 Starting Work	Divorce — Further Education	Independence
2 Living Independently	Coming Off Benefits	Up the Ladder
3 Starting a family	Rent/Buy Decisions — Inheritance	Benefits
4 Children leaving home	Cohabiting	Trap
5 Retirement	Saving/ Protection — Managing Debt	Confidence
6 Age-related care	Changing Jobs	Stagnation
		Financial
		Security
		Health

Using BHPS data, we explored the financial status and behaviour of the target group in comparison to the broader population, examined their attitudes to money, and the perceptions they have of their financial situation.

Benefit Support

Households and individuals in the target group receive no more than 20% of their income as benefit payments. The receipt of the main types of benefit support among the target group is therefore low. Of the income that is received from the state, across all clusters in the 'target group', council tax benefit is the most common form of welfare support.

Most common types of benefits

Proportion among all adults, who have selected types of (non-family derived) benefit income*

- incapacity benefit
- income support (IS)
- housing benefit
- council tax benefit
- Job Seekers Allowance
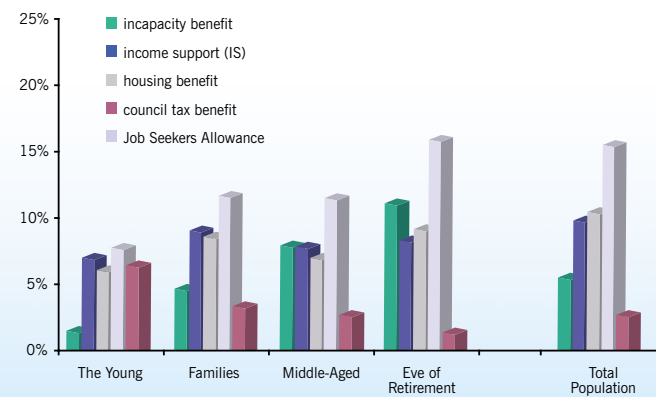
Source: BHPS/Future Foundation   Base: 13,510 adults aged 15+, UK

Saving

This graph shows the proportion among the target group, and among all adults, who save from their current income.

Proportion who save

Proportion among the target population, and among all adults, who save from their current income

All adults   Target population
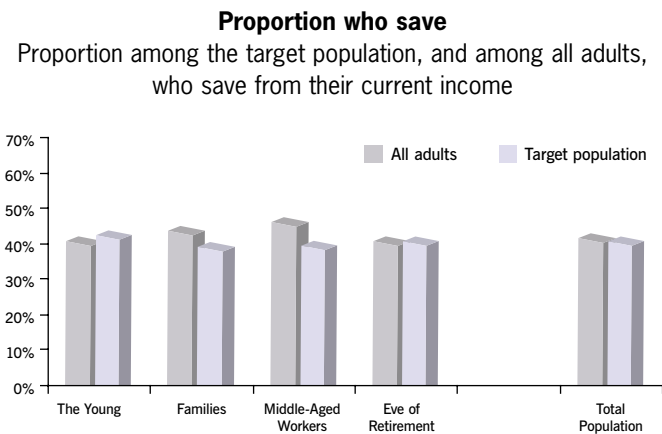
Source: BHPS/Future Foundation
Base: 13,510 adults aged 15+ (and 3,292 adults within the target population), UK

Overall, adults in the target group save less than the average for UK adults at the equivalent life-stage, and this margin is at its largest among middle-aged workers and families. This difference in behaviour is reflected in the average amount saved per month by the target group, compared to the wider population:

Size of savings

Average amount saved among the target population, and among all adults

All adults   Target population
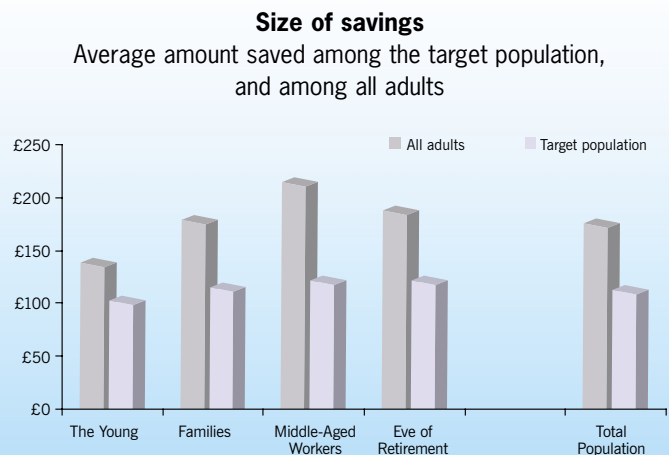
Source: BHPS/Future Foundation
Base: 5,701 adults who save (and 1,362 adults who save within the target population), UK

The following graph shows the main reason for saving among those within the target group.

- Holidays
- Old age
- Special evnts
- Car
- House purchase
- Own education
- Children
- Home improv
- HH bills
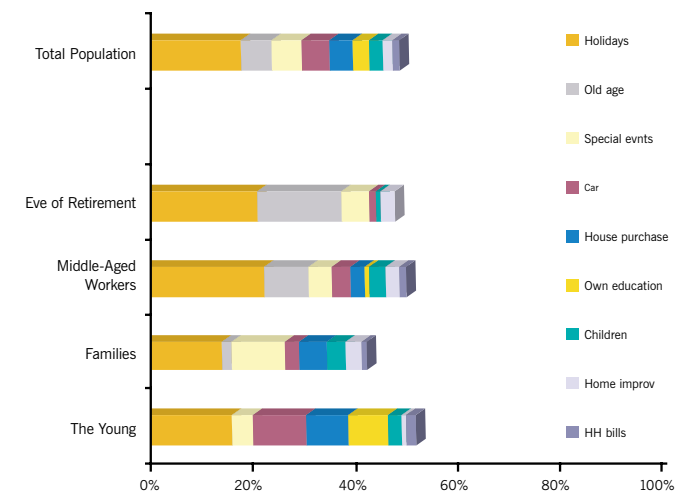
Source: BHPS/Future Foundation
Base: 1,362 adults who save within the target population, UK
*Non-specific reasons and reasons quoted by less than 1% of the population are not included on the chart

It shows how among *the young*, saving for holidays, cars and house purchase is more popular than saving for old age. Even among adults at the *eve of retirement* in the target group, saving for holidays is more popular than saving for old age. Overall, the tendency is for near-term rather than longer-term saving.

Planning for the Future

Despite being largely independent of state support, our research shows that the proportion in the target population who report that they pay into a private pension is consistently lower than individuals and households with incomes above the median. **'High-benefits' refers to individuals and households with more than 20% of their income derived from benefits. 'High income' refers to those above median income.**

**Planning for a pension, by age and target population status**

Proportion in the target population who report that they pay into a private pension

- Non-target: high income
- Target population
- Non-target: high benefits
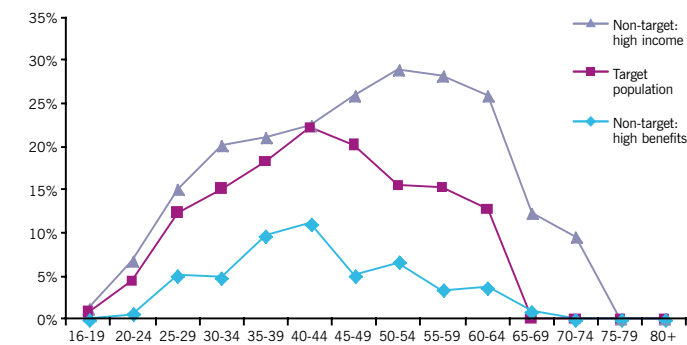
Source: BHPS/Future Foundation
Base: 13,510 adults aged 15+ (of whom 3,292 are within the target population, 5388 are non-target high-benefit, 4802 are non-target high-income), UK

Individuals in the target population do appear to be aware of the challenges posed by a lack of private pension provision. The proportion of the target population reporting that they worry *'a lot'* about not having enough income in retirement, is higher than the general population across later life-stages:

Proportion saying they worry "a lot" about not having enough income in retirement, by cluster and target population status

All aged 40+ or retired   Target population
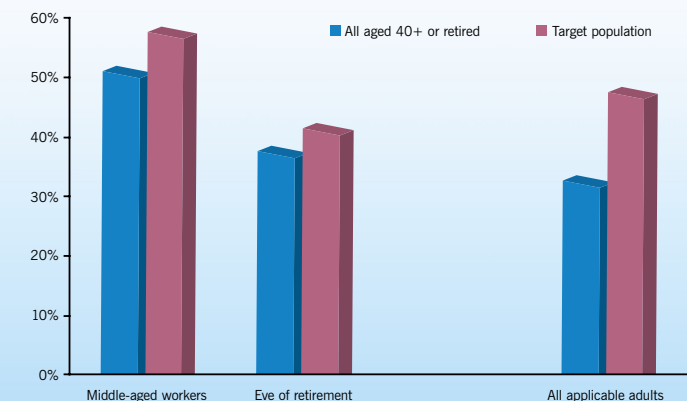
Source: British Household Panel Study/nVision
Base: 6794 UK adults either aged 40+ or retired (and 1288 similar adults within the target population), 2003
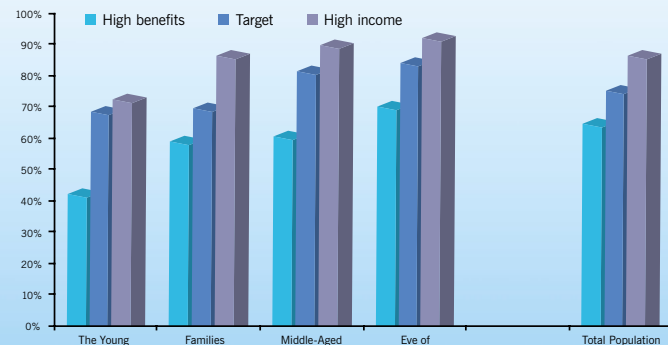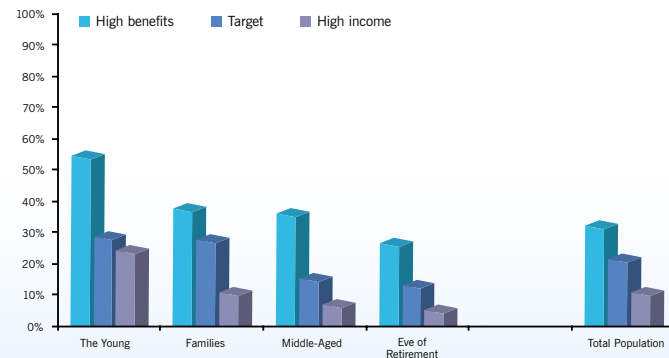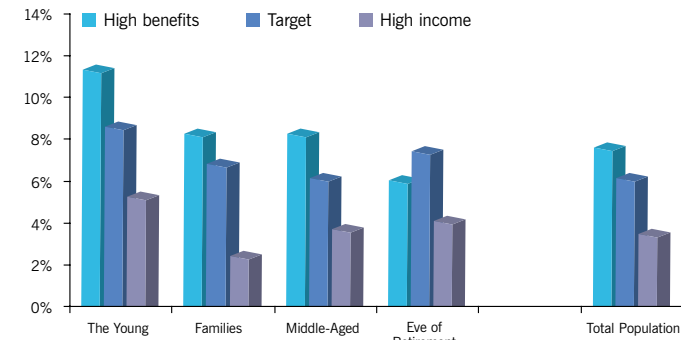
However, even though the target group worries somewhat more than the general population about income in retirement, the proportion of the target group who are members of an available employer's pension scheme is consistently lower than higher-income earners, and among *the young*, is the lowest of all income groups. Interestingly, across later life-stages, membership of employer pension schemes is lower in the target group than among those who are more dependent on state support. This could indicate that affordability is for the target group less of a barrier to participating in a pension scheme than other factors.
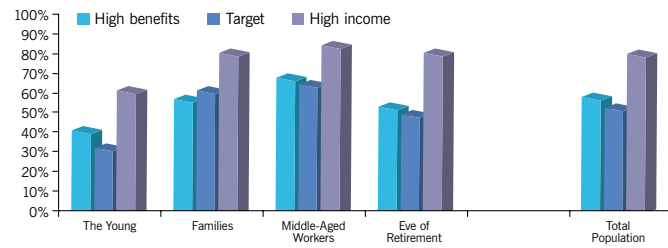
Housing

This chart shows the proportion of the different clusters who own their home by target group status.

The next chart shows the proportion of each cluster who own their home with a mortgage:

This chart shows the proportion of each cluster who are renting their home, by target group status:

As this chart shows, the percentage of the target group experiencing problems with housing payments is consistently more than higher income groups.

The 'target group' experiences these problems without access to the housing and welfare support structure provided for those with low incomes that are largely dependent on state support. Indeed, except for the advanced elderly, the proportion of the target group who made cutbacks to cover housing payments, is consistently higher across all life-stages, compared to the total population, as this chart shows:
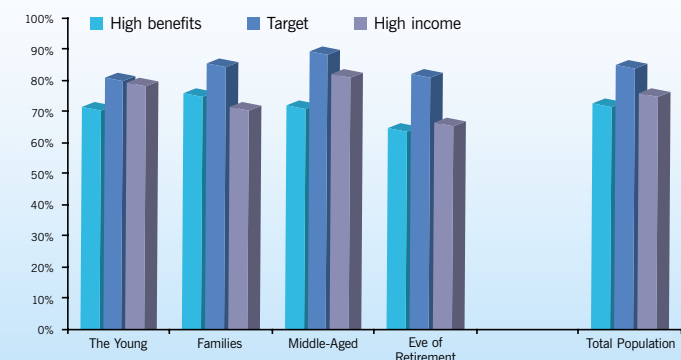
Mortgage debt is not the only form of debt that can pose difficulties for financial planning. This graph shows the proportion making repayments on hire purchases or loans, by target group status:
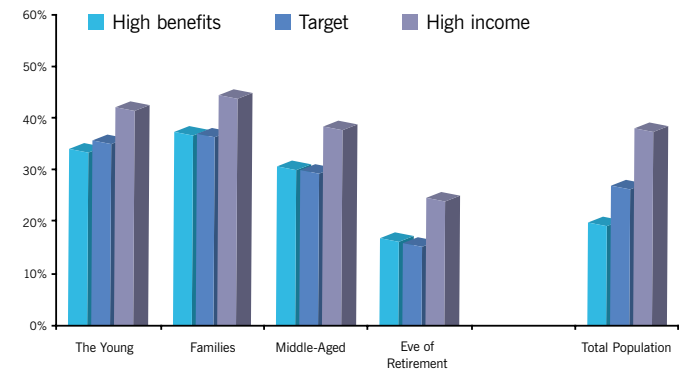
The easier access to money for higher income individuals is shown by the greater proportion of these groups that use hire purchase or loans to 'smooth' their purchasing activity.

This chart shows the proportion of those who make repayments on hire purchases or loans, who say the payments are a **burden** on the household, by target group status:
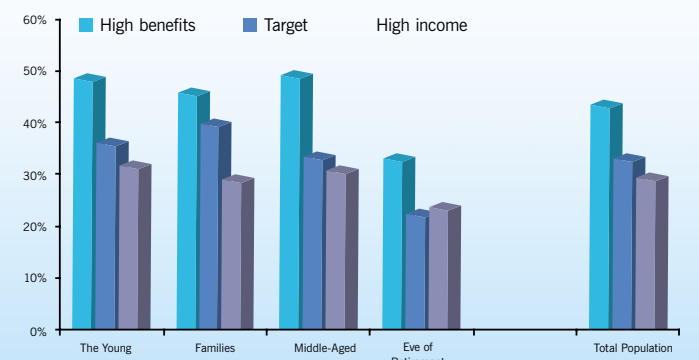
Even though more of the higher income groups have loans and hire-purchase agreements, fewer of the high-income group find them a burden compared to the target group.

The Resolution Foundation is concerned with the provision of financial advice to individuals and households with lower incomes, who are unprofitable for the financial services industry to advise, but who are nevertheless largely independent of welfare support, and do not therefore receive financial counselling and advice from the state.

We estimate this target group to number around 8.7 million people.

The target group can be characterised by an awareness of financial challenges, but a failure to act. The target group worries more than the average about income in retirement, and yet is less likely to take up employer provided pension schemes, and saves less.

The target group clearly aspires to, and succeeds in, home-ownership using a mortgage. Yet the proportion of the target group experiencing problems with housing payments is closer to those dependent on welfare support, than those with higher incomes.

As might be expected, the experiences and attitudes of the target group often lie somewhere between above-median income individuals, and those more dependent on state support. Understanding not only people's current position but also their aspirations and future prospects is important. Often, the experiences of the people within the group are perhaps less different from higher income groups than might be imagined. This may be because individuals are shifting in and out of the target group throughout their life-time.

This highlights the difficulty and importance of getting the right advice to people living on the 'cusp' between target and non-target group status. Such advice needs to be consistent, continuous and not simply dependent on the profitability of individuals and households to the financial services industry.

The Alliance for Health & the Future is housed within the International Longevity Centre, and conducts research and education on behaviours and systems that affect well-being and productivity throughout life. The Alliance hosts events for scholars and thought leaders and carries out initiatives to improve individual, community, health-professional and government knowledge about productive and healthy living.

For further information visit
www.healthandfuture.org