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Financial Capability: New Evidence for Ireland

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Non-Technical Summary

Recent increases in financial innovation, particularly in the Anglo-Saxon banking culture, have seen a considerable growth in the amount of financial products available to the general public. Simultaneously, many workers are increasingly assuming responsibility for planning for their future pensions. This allied to increased life expectancy necessitates a greater degree of financial capability amongst the general public. This study has empirically examined this issue for the first time in an Irish context. As such, this report follows a nascent literature internationally. The related issue of financial literacy has been studied for several years in the US while a major study of financial capability was completed in the UK in 2006. This report follows that UK study closely. This is the first major evidence on financial capability in Ireland, conducted with a purpose-designed, in-depth, representative survey of just over 1,500 people – commissioned by the Financial Regulator.

In line with the UK survey, four domains or areas of financial capability were covered. These were managing money, planning ahead, choosing products and staying informed. The first domain, managing money, had two main elements, namely making ends meet and keeping track. Overall, respondents seemed to be doing quite well at making ends meet. The picture with regard to keeping track is less positive with many respondents performing poorly. However, those who performed poorly on keeping track generally did well on making ends meet suggesting that keeping a close track on finances is not a prerequisite for making ends meet.

The findings in the planning ahead domain give cause for concern. A quarter of respondents or their partner, where relevant, had experienced a large and unexpected drop in income in the previous three years while 16 per cent had experienced a major unanticipated expense in the same timeframe. These statistics indicate that unexpected negative financial events afflict a sizeable proportion of the population. Despite this, 59 per cent had no provision for dealing with a drop in income of three months or more duration while 40 per cent would have to borrow to deal with an

unanticipated expense equivalent to one month's income. Two-thirds of respondents anticipated a major expense in the future but 60 per cent of this group had not made any provision to meet their anticipated expense. The extent of pension coverage was also poor. Only 32 per cent of respondents who had not yet retired had an occupational or personal pension that they were paying into at the time of the survey. Of those who had already retired, 53 per cent had no personal pension.

The results from the choosing products section show that people frequently did not seek independent advice and often displayed 'inertia', i.e., frequently renewing existing policies and products without shopping around or considering alternatives which may provide better value for money, better product features or be more suited to the individual's needs. Furthermore, many people relied on or prioritised the (non-professional) advice of family and friends when making important decisions regarding financial products. While only a small fraction made their decision about their recent financial product purchase on the basis of no advice whatsoever (14 per cent), the vast majority of the advice followed referred to generic information or product information given to them by the outlet providing the product. There are signs that a minority of people bought products unwisely. All analyses conducted for this section reveal that the most significant factor in explaining the performance in this domain was a person's level of engagement with buying financial services. People have clearly learnt from experience and make more competent decisions as their financial portfolio is extended.

The staying informed domain shows that respondents were generally well-disposed to keeping up to date with financial matters with just over 62 per cent of respondents answering that it was quite or very important. The mainstream media were clear leaders as sources of financial information with the most popular source for all respondents identified as newspapers (excluding financial pages) followed by TV or radio programmes (excluding specialist personal finance programmes).

In terms of the overall performance in all the domains, just over half the population had no weak areas of financial capability while around one fifth had two weak areas. Another, 16 per cent had four weak areas while just over one-tenth performed weakly in all the domains. That half the sample had no weak areas is reassuring from a policy point of view but the substantial proportion who performed weakly in all areas gives cause for concern. Considering the characteristics of those who performed well and those who performed poorly, the better performers were more likely to be in couples, at work, well-off financially, well-educated and owner occupiers. The poor performers were more likely to be single, badly-off financially, renters, and poorly educated, often unemployed and with low usage of current accounts. This profiling of these groups with low levels of financial capability will allow for the development of strategies of education and awareness targeted at these groups at a later stage.

Financial Capability: New Evidence for Ireland

Chapter 1: Overview

1.1: Introduction

Financial capability refers to the study of a persons knowledge of financial products, their understanding of their own financial position and their ability to choose products appropriate to that position along with their ability to plan ahead financially and to seek and act on appropriate advice when necessary. The related issue of financial literacy is a narrower concept, more focused on knowledge and skills and less on behaviour. Consumer knowledge of financial products and adequate financial planning is clearly of increasing concern to policymakers and regulatory bodies. Several countries have sought to investigate the degree of financial literacy among the general population. Financial capability has recently been the subject of a major study in the UK (Atkinson *et al*, 2006) while financial literacy has been studied in the US and elsewhere for several years now.

This paper describes the first substantial evidence on financial capability in Ireland using a survey dataset designed for the specific purpose of measuring financial capability in Ireland. A dedicated survey was necessary, as the depth and sensitivity of the questions require a systematic questioning strategy unsuitable for appending to an existing income or resources inquiry. Just over 1,500 households were surveyed in late 2007 and early 2008. Each household was asked close to 350 questions (depending on the diversity of their financial interests). Four major topics or domains were covered in the survey.

The paper is organised as follows: the remainder of this chapter provides an overview of the importance of financial capability and international evidence on the topic. The Irish survey is described and the four domains are introduced, namely managing money, planning ahead, choosing products and staying informed. Each of these domains are then described in detail in chapters two to five, covering a descriptive analysis of the most important questions along with factor and regression analysis. Chapter six describes the results of cluster analyses while chapter seven offers concluding remarks.

What is financial capability and why is it important?

The terms financial capability and financial literacy have often been used interchangeably but a distinction is becoming evident in recent years. Financial capability is more commonly used in the UK and financial literacy in the US. The UK Treasury has defined financial capability as the following: "Financial capability is a broad concept, encompassing people's knowledge and skills to understand their own financial circumstances, along with the motivation to take action. Financially capable consumers plan ahead, find and use information, know when to seek advice and can understand and act on this advice, leading to greater participation in the financial services market" (HM Treasury, 2007). Financial literacy can be thought of as an objective measure of knowledge of specific economic, financial and money related topics, often supplemented by subjective measures of self-reported knowledge or confidence**.** It is argued that financial literacy is a narrower concept that lacks the important behavioural element of financial capability (Dixon, 2006).

Financial capability and financial literacy are becoming increasingly important in a world of changing financial markets and products, increased life expectancy and changing pension arrangements (see e.g. OECD 2005, Orton, 2007). Given the proliferation of new financial products, unavailable in previous generations, the general public are required to navigate their way through an array of complex financial instruments in order to undertake once relatively straightforward but now increasingly complex transactions such as saving for retirement or buying a house. The scope for the general public to make costly mistakes in assessing and choosing fairly standard financial services has increased considerably. In particular, workers have to increasingly take responsibility for their income in retirement with moves towards defined contribution rather than defined benefit pension schemes[1]. Increasingly the risks associated with financial planning and products are being transferred from the State, financial institutions and firms to the individual consumer.

[1] Defined benefit schemes traditionally guarantee a set proportion of one's final income as the expected pension in retirement, with the effect that the funding requirement to ensure that level of pension income traditionally fell on the administrator/trustee of the scheme (usually the employer). On the other hand, a defined contribution pension places the risk of having a less than expected pension falling on the funding commitment of the pension holder.

Increasing life expectancy means that workers spend longer in retirement than previous generations. Evidence from the US, shows that there is a link between levels of financial literacy and individual economic well-being in retirement. The importance of financial literacy and capability is clear and becomes ever more critical in this environment. Lusardi (2008) suggests that “as it was impossible to live and operate in the past without being literate, i.e., knowing how to read and write, so it is very hard to live and operate efficiently today without being financially literate” (pg. 16). Given the uncertainty originating from the international financial turmoil of 2007 and 2008, the financial capability of consumers will be severely tested.

1.2: International Evidence on Financial Capability and Financial Literacy

A 2005 OECD survey found that recent studies of financial literacy tend to show low levels of financial literacy among respondents. Financial understanding is found to be correlated with education and income levels although it is noted that highly educated consumers with high incomes can also display a lack of understanding of financial literacy issues. Some recent studies will now be discussed in more detail.

Studies by Lusardi and Mitchell (2006, 2007) assess financial literacy in the US by asking survey respondents simple calculations and basic financial questions, to obtain what can be described as an ‘objective’ measure of financial literacy. The 2006 paper reports on the addition of a module on planning and financial literacy to the 2004 Health and Retirement Survey (HRS) of those aged 50+. This included questions on how workers made saving decisions, how they collected information for making these decisions and whether they were suitably financially literate to make these decisions. Thus, financial literacy is assessed through responses to direct questioning. The results showed that only half the respondents could answer two basic questions on the concepts of inflation and compound interest while only one third could answer those two questions and an additional one on the notion of risk diversification correctly. Differences in the results were evident along certain characteristics with financial literacy particularly low among those with low educational attainment, women, Blacks and Hispanics. Whether respondents had tried to evaluate how much they needed to save for retirement, whether they had planned for this saving and whether they had carried through their plan was also assessed. Less than one-third of respondents (31%) had tried to make a financial plan and only two-thirds of those who had tried had been successful. Financial knowledge and planning were found to be related with those who displayed financial knowledge more likely to plan and to succeed. Further, those who did plan were more likely to rely on formal planning methods, e.g., financial experts and less likely to rely on informal advice from family, friends and colleagues. Keeping track of spending and budgeting habits appeared to be conducive to retirement saving.

A further paper by the same authors (Lusardi and Mitchell, 2007) compares two cohorts of the HRS, those aged 51-56 in 1992 and those in the same age-group in 2004 (the early Baby Boomers). This latter group were initially asked two simple questions, a percentage calculation and a division problem. Those who answered either correctly were asked a question on compound interest. Respondents were also asked if they could name the then US President and Vice-President. Over 80 per cent could answer the percentage calculation correctly while around only half could give the correct answer to the division problem. Less than 20 per cent could answer the compound interest question correctly with over 40% of those who answered incorrectly calculating the simple interest. For all four questions, financial literacy rose steeply with education. Again, Blacks and Hispanics were less likely to answer correctly than Whites.

Further analysis in this paper shows that those respondents who were close to retirement and reported that they had an effective retirement income plan had much higher wealth levels than non-planners when they were close to retirement. Planning is found to be strongly correlated with financial literacy. The relationship between planning and wealth holds after controlling for socio-demographic factors. A 2008 paper by the same authors focuses solely on women, using the same 2004 HRS module. They find that older American women have very low levels of financial literacy and that the majority have undertaken no retirement planning. Financial literacy and planning are again found to be closely related.

The same authors add more detailed and extensive questions on financial literacy in a study using the Rand American Life Panel, an internet survey with younger respondents (18+) than the HRS. This allows for the evaluation of financial literacy during workers main earning years when they have to take key financial decisions.

However, the survey is not nationally representative, with respondents being relatively high earners and highly educated. Knowledge of basic financial concepts is found to be far from widespread. Advanced knowledge using the results of more extensive questions is also not particularly widespread. Differences by socio-economic characteristics are again found. Factor analysis is used to combine the basic and more extensive financial literacy questions into a financial literacy index. This is found to be a strong predictor of retirement planning, especially when corrected for potential endogeneity bias. Financial literacy is also found to be higher where respondents were exposed to economics in school and to company-based financial education programmes. The authors argue that it is important to ask specific questions about financial knowledge as income, education and age are correlated with but do not adequately capture the extent of the financial literacy measures outlined.

A 2002 study by Hilgert and Hogarth uses data from the 2001 University of Michigan's Survey of Consumers aged 18+ focusing on the connection between knowledge and behaviour in regard to cash-flow management, credit management, saving and investment. Thus, this study combines elements of financial capability and financial literacy. A household's participation in each of the four types of financial management activity is measured by the construction of an index classified as low, medium or high, depending on the number of specified financial management practices they engaged in under each of the four categories such as paying credit card balances in full each month, saving for long-term goals and spreading money over different types of investments. The measure of knowledge used was a True / False quiz with 28 questions. Overall, households correctly answered two-thirds of the questions, proving most knowledgeable regarding mortgages with about 80 per cent correct responses. At the same time, the results of this study showed that respondents were least knowledgeable about mutual funds and the stock market. Excluding cash flow management practices, which did not have a corresponding section in the quiz, the relationships between specific financial knowledge scores and the corresponding financial practices indices were statistically significant. However, it is not clear where causation lies: whether knowledge comes from having experience of the financial products or experience with financial products follows a basic knowledge of the principles of these types of investments.

Other recent studies of financial literacy in the US include Agnew and Szykman (2005) which focuses on retirement plan design. Respondents were given a ten-question financial literacy test so that their financial aptitude could be controlled for. Other studies have focused on different sub-groups of the population, e.g, financial literacy amongst high school students was examined by Mandell (2004). Both of these studies also find low levels of financial literacy.

Turning to UK studies of financial literacy, in an assessment of the UK mortgage market, Miles (2004) finds poor understanding of mortgages and interest rates with borrowers attaching a high weight to the initial level of monthly repayments and not enough weight to the likely overall cost of borrowing over the life of the mortgage.

The Financial Services Authority (FSA) recently undertook a major study of financial capability in the UK (Atkinson *et al*, 2006) which is the blueprint for the present Irish study. The UK launched a national strategy for financial capability in 2003. The 2006 study was based on a survey of 5,300 people across the UK. Four domains of financial capability were covered in the questionnaire as follows: managing money, planning ahead, choosing products and staying informed. Applied financial literacy questions were also included covering mental arithmetic, understanding information presented in graphical form and knowledge of particular mortgage and savings products. Factor analysis was used to derive a financial capability score for each of the four domains with each domain treated separately. The results show that people may be financially capable in one or more areas but not so in other areas. According to the authors, this justifies the approach used in identifying several domains of capability rather than trying to summarise capability in one measure.

In this UK study, most people were making ends meet but quite a few were struggling to do so and some were doing quite badly. A broad spread of scores was evident for keeping track of finances with most people emerging as being reasonably capable. With regard to planning ahead, it was almost equally common for respondents to achieve low, medium or high scores. Results for the choosing products domain showed a substantial proportion of the population achieving relatively low scores with few scoring extremely high. For staying informed, the vast majority of people scored in the middle of the distribution.

Performance on the applied literacy questions was generally strong with around one-fifth of respondents answering almost all questions correctly and two-thirds scoring 75 per cent or more. As this contrasts with the factor score results, the authors note that these type of applied studies 'measure something that is rather different' from the four main domains of the survey (pg. 5). Cluster analysis was also used to characterise those who scored well or poorly across the domains.

1.3: Previous Irish work

There has been little previous work on financial literacy or financial capability in Ireland[2]. A 2005 study by the National Adult Literacy Agency (NALA) focused mainly on adult learners with literacy and numeracy difficulties (Conroy and O'Leary, 2005). However, one financial literacy question on the meaning of the term 'annual percentage rate or 'APR' was included in a national opinion poll of around 1,000 adults. The results show that less than half of respondents could identify the correct answer, with a large proportion of middle class adults answering incorrectly. Although just one question was asked, this seems to suggest that problems in understanding financial terms are not just confined to those with literacy or numeracy difficulties.

1.4: The Irish Financial Capability Study

As mentioned above, the Irish Financial Capability study was commissioned by the Financial Regulator and it closely follows the 2006 FSA study for the UK. Questions which were specific to the UK were removed from the questionnaire while others were inserted to reflect particular Irish circumstances, e.g. details of the recent Special Savings Incentive Account (SSIA) scheme, savings with the Irish Post Office system (An Post) etc. Just over 1,500 interviews were conducted between October 2007 and

[2] Financial exclusion, which is a separate concept, was the subject of a study by the Combat Poverty Agency in 2006. Financial exclusion and over-indebtedness present challenges for modelling the transmission of monetary policy, which is of particular interest to Central Banks. Such research also refers to incidences where highly indebted households find themselves with financial products which are not suited to their needs (UK Government, 2005). The prevalence of subprime mortgages and problem debt prior to the recent credit crisis is relevant to this argument when the risk of default is higher than average among certain household profiles.

January 2008 with a representative sample aged between 18 and 75. As with the UK study, this is a study of financial capability, as opposed to financial literacy.

The same four domains of financial capability are examined as in the UK study. These are managing money, planning ahead, choosing products and staying informed. The managing money domain assesses the extent to which people were able to make ends meet and keep track of their finances. It was considered necessary to include both elements as the better-off may generally be able to make ends meet regardless of their money management skills. Consideration of the two elements gives a more rounded picture of money management skills. The planning ahead domain considers whether people have prepared for substantial future financial commitments, in particular, the implications of retirement. Provision for unexpected events with financial implications is also assessed. The choosing products area covers choice and purchase of financial products, covering knowledge of both of these and behaviour and confidence in selecting products. This section focused on products purchased in the five years preceding the survey. The staying informed section considers whether and how often respondents monitor financial topics and their behaviour in dealing with complaints to financial services firms and shops or suppliers, where relevant. The applied financial literacy questions included in the UK study were not included in the Irish study.

Factor analysis was used to derive a score for each domain independently while cluster analysis was used to profile those with various patterns of scoring across the domains. Factor analysis is a method for investigating whether a number of variables of interest are linearly related to a smaller number of latent unobserved variables also called factors.[3] The main applications of factor analytic techniques are: (1) to *reduce* the number of variables under consideration and (2) to *detect structure* in the relationships between variables. Therefore, factor analysis can be applied either as a data reduction or structure detection method. Factor analysis is frequently used with qualitative and quantitive data to identify the hidden dimensions which may or may not be apparent from direct analysis. In particular, the method is employed to discover

[3] Factor analysis was invented by the psychologist Spearman in 1904, who hypothesised that the enormous variety of tests of mental ability could all be explained by one underlying "factor" of general intelligence. The term factor analysis was first used by Thurstone in 1931.

if the observed variables can be explained largely or entirely in terms of this restricted number of factors.

Factor analysis has the advantage of reducing the number of variables, by combining observed attributes into a single factor based on the correlation matrix.[4] It assumes that data on different attributes can be reduced down to a few important dimensions and, as such, is an interdependence technique. It removes the possibility of redundancy and duplication from a set of correlated variables. Observed variables known to be significant indicators of the underlying unobserved process are modeled as linear combinations of the factors, plus "error" terms. It can be used with weighted data as survey data is commonly weighted to represent the situation of the total population.

The principal-component factor method is used as the primary goal within each of the domains was to reduce the number of variables under consideration. In principal component analysis, the objective is to account for the maximum portion of the variance present in the original set of variables with a minimum number of composite variables called principal components or factors. The reduction is possible because the attributes are assumed to be completely predicted by underlying latent processes indicated by the derived factor. The statistical algorithm deconstructs the rating (called a raw score) into its various components, and reconstructs the partial scores into underlying factor scores. The initial factor pattern matrix is *unrotated*.[5]

Unfortunately, the unrotated matrix is usually hard to interpret. Different methods of rotation have been developed to make interpretation easier. [6] The goal of each of these rotation strategies is to obtain a clear pattern of loadings, that is, factors that are somehow clearly marked by high loadings for some variables and low loadings for

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[4] The majority (>90%) of factor analyses use the correlation matrix rather than the covariance matrix of observed variables.

[5] The degree of correlation between the initial raw score and the final factor score is called a *factor loading*. Each observed variable's *communality* is its estimated squared correlation (variance) with its own common portion – that is, the proportion of variance in that variable that is explained by the common factors.

[6] There are two main classes of rotation, *orthogonal* and *oblique*. Orthogonal rotations require that the factors remain uncorrelated; oblique rotations allow the factors to become correlated. The orthogonal class of rotation is the most common and is the default option in most statistical computer packages allowing factor analysis. Typical rotational strategies are *varimax*, *quartimax*, and *equamax*.

others. In all cases, interpretation is easiest if we achieve what is called *simple structure*. In a simple structure, each variable tends to be highly associated with one and only one factor. If that is the case, we can name the factor for the observed variables highly associated with them. This was achieved for all factor analysis conducted for this research across the four domains.

As an analytical approach, factor analysis has been criticised. The interpretion of the results of a factor analysis can be more subjective than when explanatory variables are observed directly. Often, more than one interpretation can be made of the same data factored the same way, mainly because factor analysis cannot identify direct causality. All rotations represent different underlying processes, but all rotations are equally valid outcomes of standard factor analysis optimisation.

Factor analysis can be only as good as the data allows – if important information on attributes is not available the value of the procedure is reduced accordingly. Another criticism is that the naming of the factors can be difficult – multiple attributes can be highly correlated with no apparent reason. On the other hand, if the observed variables are completely unrelated, factor analysis is unable to produce a meaningful pattern (though the eigenvalues will highlight this: suggesting that each variable should be given a factor in its own right).

The Kaiser-Meyer-Olkin measure of sampling adequacy is a standard indicator of the efficiency of the selected factors in terms of whether the partial correlations among variables are small. As a rule of thumb, the KMO measure should be greater than 0.5 for a satisfactory factor analysis to proceed. The results of this test are presented in the following chapters as each factor analysis output is discussed. The factor scores were rescaled to lie between zero and one hundred for ease of interpretation. The scores should be interpreted in a relative sense – there are no absolute thresholds above or under which scores indicate a ‘pass’ or a ‘fail’.

As stated above, cluster analysis was undertaken on the factor scores. Cluster analysis is a statistical technique aimed at obtaining a better understanding of the characteristics underlying the range of financial capability scores. This enables the identification of those who scored well or poorly on the various domains. Profiling the groups with low levels of financial capability will allow for the development of strategies of education and awareness targeted at these groups at a later stage.

1.5: Fieldwork Strategy

To meet the research objectives outlined above, IPSOS Mori[7] was commissioned by the Financial Regulator and a representative sample of the Irish population aged between 18 and 75 was drawn from which 1,529 interviews were completed.

The fieldwork was completed using Computer Assisted Personal Interviewing (CAPI) facilities. This was the most efficient means of data collection for an in-depth survey of this nature. Some of the benefits of using CAPI over a paper questionnaire include:

- Interviewer error was avoided as the interviewer was guided to the correct question saving time and duplication
- Complex routing of questions was possible when responses dictated future relevant questions
- The computer program reduced interviewer effort and alerted inconsistency in answers according to an in-built check system
- Data was easily extracted from the program, readily validated and was available sooner for analysis

As with any large survey, comprehensive piloting of the questionnaire instrument and methodology was necessary. This included wording checks to ensure comprehension with live pilot interviews with real respondents. A total of 22 pilot interviews took place and respondents gave feedback detailing their experience with the surveying process. Interviewers also contributed to debriefing sessions on their detailed experience of the pilot exercise.

Lessons from the pilot included a potential for refusal to participate due to the length and subject matter of the survey. In particular, some questions were found to be repetitive and/or too detailed. The questionnaire was subsequently shortened. Some questions were replaced with others adding information at a higher, less detailed level.

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[7] For more details see www.IPSOS-Mori.com

This was achieved by combining a number of questions. Some questions had to be simplified, often by including an example.

For the final survey, potential respondents were provided with a letter on Financial Regulator headed paper outlining the purpose of the survey and what the data would be used for. This was necessary to confirm confidentiality and to highlight the authenticity of the survey. Respondents were also provided with a €10 honorarium for taking part in the research.

The survey was conducted using a random location sampling approach. Using this approach the primary sampling unit was a specified geographical unit (Electoral Division (ED)) or combination of EDs with at least 200 households. Quota sampling was used to select the household for survey from a pre-specified electoral division.[8] EDs were ranked using three classification variables: first, the County in which the ED/combination was located, second, the per cent of male unemployment and third, the per cent in specific socio-economic groups F or G. Information on these three variables is available from the Small Area datafile of the Census of Population. A total of 125 sampling points were extracted for the list of primary sampling units. A further 25 substitute ED locations were selected for replacements and could be substituted, if required, without the need for a redraw of the entire sample. None of these substitutes were used in the study. A quota approach for selecting individuals within the 125 identified EDs used the variables age, gender and working status. In deriving the quota, age and working age profiles were taken from the 2006 Census. In operation, interviewers conducted 12 interviews within each ED having been supplied with a list of addresses within the ED from the An Post Geodirectory. This ensured that all interviews were conducted within the appropriate geographical area. A minimum of 10 per cent of all completed questionnaires were validated, i.e., they were subject to callbacks by telephone or a personal visit by a member of the Fieldwork Management Team.

1.6 Data preparation and weighting procedure

[8] In quota sampling the selection of the sample is made by the interviewer, who has been given quotas to fill from specified sub-groups of the population. For example, an interviewer may be told to sample 50 females between the age of 45 and 60.

In order to ensure that the resultant data were representative of the Irish population, sample categories were compared with those from the 2006 Census of Population. On the basis of the census population totals, simple frequency weights were subsequently designed. Weights for the data were applied later at the analysis stage to address issues of representativeness. Two variables were used in order to identify weights – gender and working status. Region was also used to classify the data. It was deemed that no follow-up interviewing was required to compensate for under-represented categories and minimal weighting was required as a result.

1.7: Imputation[9]

Fifty-five variables required imputation.[10] Considering across respondents, 57 per cent required some imputation while 12 per cent of completed questionnaires required more than three values to be imputed. Multivariate linear regression was used for the majority of imputations. Median values were imputed if there were less than 50 records from which to build the imputation model. A median-imputation was also used if an item possessed many more records requiring imputation than containing original values.

The rest of the report is laid out as follows: in the next section the managing money domain is presented. This is followed by chapters considering the planning ahead and choosing products domains and the final domain, staying informed. A chapter on the Cluster analyses carried out follows while a final chapter offers some concluding comments.

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[9] The imputation was carried out by the UK based Research Partnership, who acted as consultants to the Financial Regulator on the design of the questionnaire and survey.

[10] Imputation is a scientific strategy to estimate potential responses for questions that were left totally or partially unanswered – in most cases using an econometric model. In this way, missing data are filled in so that a complete complement of responses can be used in the analysis. Proceeding without imputed data could potentially generate biased, inefficient and inconsistent results.

Chapter 2. Managing Money

In this chapter, the analysis of the first of the four domains, managing money, is presented. There are several important areas in this domain, namely making ends meet, keeping track of money and dealing with commitments which arise on an irregular basis. It seems reasonable to assume that a financially capable person would be keeping track of their finances, managing money competently on a day to day basis and making plans to meet expenses which arise less frequently than on a day-to-day basis, such as annual or quarterly bills (insurance premiums etc).

A person's level of income may interact importantly with their ability to manage their money. For someone on a low income, no matter how diligent they are at keeping track of their finances, they may find it difficult to make ends meet. This will be considered below. Firstly, results on making ends meet will be considered. This will be followed by results on keeping track. Results of factor analysis will then be described. This will be followed by a detailed analysis of the resulting factor score. All data in the tables in this chapter and in the rest of the document are weighted, unless otherwise stated[11].

2.1:Making Ends Meet

2.1.1 Keeping up with bills

This section included questions, among others, on going overdrawn, running out of money and plans to deal with this, monies owed and saved and the use of credit cards. The questions were designed to be appropriate to people at differing levels of income so that those with low levels of income would have a chance to illustrate that they were making ends meet at their particular income level, i.e., the questions were not skewed in favour of those with high levels of income.

[11] The regressions in this and subsequent chapters are unweighted.

Table 2.1, *keeping up with bills, per cent*

keeping up with all bills and commitments without any difficulties	60
keeping up with all bills and commitments but struggling from time to time	28
keeping up with all bills and commitments with a constant struggle	7
Falling behind with some bills or credit commitments	2
having real financial problems and have fallen behind with many bills or credit commitments	Less than 0.5
Don't know	Less than 0.50
Don't have any bills or credit commitments	2
Refused	Less than 0.5
Total	100
Weighted Base	1529

Base: All respondents. May not sum to 100 due to rounding.

Overall, around 37% of respondents had some degree of difficulty in keeping up with all bills and credit commitments. Looking more closely at this group, 28% struggled from time to time while 7% found it a constant struggle. Around 2% were falling behind or having real financial problems. These figures varied by family type.

Table 2.2, *keeping up with bills by family type, percent*

			family type			
	single adult	Couple, no dependent children	lone parent with dependent children	couple with dependent children	other	Total
keeping up with all bills and	63	74	42	57	54	60

commitments without any difficulties						
keeping up with all bills and commitments but struggling from time to time	25	23	39	35	24	28
keeping up with all bills and commitments with a constant struggle	8	2	14	8	9	7
Falling behind with some bills or credit commitments	1	0	3	0	4	2
having real financial problems and have fallen behind with many bills or credit commitments	0	0	1	0	1	Less than 0.5
don't know	1	0	0	0	1	Less than 0.5
don't have any bills or credit commitments	1	0	0	0	7	2
Refused	0	0	0	0	1	Less than 0.5
Total	100	100	100	100	100	100
Weighted Base	233	457	194	239	406	1529

Base: All respondents. May not sum to 100 due to rounding.

Unsurprisingly, couples with no dependent children were the most likely to have no difficulties in keeping up. Those most likely to have difficulties were lone parents with dependent children. This was the group most likely to be having real financial problems and to be struggling occasionally or constantly.

2.1.2 Running out of money

The link between making ends meet and income is clear from Table 2.3 below with around three quarters of those in the highest quintile of income (equivalised) having answered that they never run out of money before the end of the month[12] compared to 44% of those in the lowest quintile where 6% always ran out of money before the end of the month. Overall, 3% of respondents always ran out of money before the end of their planning period. This variable is important in the factor analysis, described below.

Table 2.3[13] *Running out of money by income, per cent*

	Low		Quintiles of equivalised income		high	
In the past 12 months, how often have run out of money before the end of the week/month	1	2	3	4	5	Total
Always	6	2	3	3	0	3
most of the time	11	8	7	3	2	6
Sometimes	23	20	15	16	10	17
hardly ever	16	11	16	14	14	15
Never	44	58	58	63	73	59
Total	100	100	100	100	100	100
Weighted Base	312	300	306	310	301	1529

[12] Or week where that was their period of reference / planning.
[13] Based on the national equivalence scale.

Base: All respondents. Table may not sum to 100 due to rounding.

2.1.3 Borrowing to make ends meet and getting into financial difficulty

Around 13% of respondents had experienced financial difficulties in the previous five years. 36% of this group were in the 20-29 years age group with the figures also high for those in the 30-39 and 40-49 age groups. Only 4% of respondents answered that they were overdrawn on their current account at the time of the survey[14]. 40% of this group were in the 30-39 age group. 8% of respondents used credit cards which are not paid off in full each month for day to day spending. Again, a large proportion (31%) of those in this group were aged 30-39 years of age.

Table 2.4, *Use of credit cards, overdrafts and financial difficulties by age group, per cent*

				Age group				
	18-19	20-29	30-39	40-49	50-59	60-69	70+	Total
In financial difficulties in last 5 years	3	36	27	21	9	3	0	13
Overdrawn on current account at present	3	20	40	20	12	5	0	4
Uses credit card not paid off in full each month for day to day spending	1	28	31	19	15	5	3	8
Weighted Base	69	335	323	298	199	171	134	1529

2.1.4 Levels of Borrowing and Saving

The survey questionnaire included questions on levels of borrowing and saving which enables the calculation of interesting statistics. Table 2.5 shows borrowing (excluding mortgages) as a percentage of monthly income by age-group. It should be borne in mind that a very large proportion (60%) had no borrowings at all. Around 5%

[14] This figure includes those who didn't have a current account.

reported zero monthly income. These figures are comparable to those in the UK survey described earlier in Chapter 1.

Table 2.5, *Outstanding borrowing (excluding mortgages) as a proportion of monthly income by age group*

				Age group				
	18-19	20-29	30-39	40-49	50-59	60-69	70+	Total
No borrowing	80	53	49	51	61	76	90	60
Zero income	23	5	1	1	4	7	9	5
Borrowing <50% of monthly income	13	17	16	18	13	9	5	14
Borrowing 50-300% of monthly income	3	14	20	19	13	10	3	14
Borrowing is 300%+ of monthly income	0	15	14	12	12	4	2	11
Weighted Base	69	335	323	298	199	171	134	1529

Base: all respondents. Note: columns do not sum to 100 due to overlap between first two categories

While 60% had no borrowings, 10% owed three times their monthly income or one quarter of their annual income in debt. This was least likely among the youngest and two older age-groups.

Table 2.6, *Level of savings as a proportion of monthly income by age group*

				Age group				
	18-19	20-29	30-39	40-49	50-59	60-69	70+	Total
No savings	48	32	26	25	25	29	26	28
Zero income	23	5	0	1	4	7	9	5
savings <50% of monthly income	12	20	18	13	10	6	10	14
saving 50-1000% of monthly income	27	41	49	49	47	34	34	43
saving is 1000%+ of monthly income	1	4	7	12	15	27	24	12
Weighted Base	69	335	323	298	199	171	134	1529

Note: columns do not sum to 100 due to overlap between first two categories

While 28% of respondents had no savings, a large 43% had savings between 50 and 1000% of their monthly income and this characteristic was spread across all age-groups. The two younger age groups were most likely to have no savings.

Overall, respondents seemed to be doing quite well at making ends meet but some groups were experiencing difficulties, namely lone parents with dependent children and those at the lower end of the income distribution. One-third of lone parents with dependent children were in the lowest income quintile compared with 10% of couples with dependent children.

2.2: Keeping track

The effort expended on this aspect of managing money was probed with a series of questions on the degree to which people checked credit card statements, account balances and kept a record of spending.

81.5% of respondents used a current account for managing money on a daily basis. Of these 74% had used one or more of the facilities on their current account such as telephone banking, internet banking etc[15]. This use of such facilities loaded highly in the subsequent factor analysis.

All participants were asked to select from one of three statements to describe how they normally kept track of their money after withdrawing or spending money. See Table 2.7 below.

Table 2.7, *keeping track of money, percent*

always know exactly how much have left in account or in cash after have withdrawn or spent money	33
know roughly how much is left in account or in cash after have withdrawn or spent money	60
don't know how much is in my account or keep a track of spending at all	5
Don’t know / refused	2
Total	100
Weighted base	1529

Base: All respondents.

Only 5% stated that they did not keep track of spending at all, while one-third knew exactly how much was left in their account, or in cash, after having withdrawn or spent money. 60% knew roughly how much money was left.

[15] Corresponds to 60% of all respondents.

Table 2.8, *Action taken by credit card holders on receiving credit card statement, per cent*

check off receipts/spending against statement	45
check the entries and balance	38
checks the final balance	14
dosen't look at the statement at all	2
check what minimum payment is	1
Don't know / refused	1
Total	100
Weighted base	567

May not sum to 100 due to rounding

Some 45% of respondents with credit cards check receipts and spending against their credit card statement while 38% check the entries and balances indicating that people are quite vigilant about keeping track of credit card purchases, see Table 2.8 above.

Table 2.9 *Frequency of checking balance before withdrawing cash, per cent*

Frequency of checking balance before withdrawing cash	Male	Female	Total
Always	23	28	26
most of the time	19	19	19
Sometimes	19	20	20
hardly ever	15	9	12
Never	15	12	13
does not access	9	12	11
Total	100	100	100
Weighted base	761	768	1529

Base: All respondents. May not sum to 100 due to rounding.

Only a quarter of respondents always checked their balance before withdrawing cash while almost the same proportion hardly ever or never checked their balances (Table 2.9). This variable was important in the factor analysis.

Of those who were asked how accurately they knew the balance on the account they used for day to day spending, some 17% knew within a euro or two while around 37% knew within €75 to €150. 6% had an approximate knowledge but did not know within €750 while 6% had no idea at all (see Table 2.10 below).

Table 2.10, *Knowledge of money in account used for day to day spending, per cent*[16]

Approximately but not within €750	6
know within €750	9
know within €150	20
know within €75	17
know within €20	23
know within a euro or two	17
No idea at all	6
Other range	1
Don't know / refused	1
Total	100
Weighted Base	1325

When asked which method was mainly used for getting cash such as an ATM or withdrawing cash from a bank branch, 10% answered that they were paid in cash / received a pension or welfare benefit in cash or that they did not get cash personally / were given cash by someone else. Three-quarters used an ATM or laser / debit card at a cash machine, ATM or bank branch. One third of those 10% who did not access cash themselves were aged 60+.

Those who were paid / received welfare benefits, pension in cash are excluded from the table below which illustrates whether respondents kept records after withdrawing cash.

[16] This question could not be asked to the 10% who do not use a bank account for day to day spending. As stated above, 81.5% of respondents used a current account for managing money on a daily basis. The remainder are made up of those who use a deposit account, credit union account or An Post account.

Table 2.11, *Record of withdrawals, per cent*

Keeps receipts from cash machine / cashback	35
Records amount in cheque book	6
Records amount somewhere else	9
Doesn't record amount anywhere	52
Don't know / refused	0
Weighted Base	1353

Does not sum to 100% as more than one response could be selected.

52% did not keep any records with 35% keeping their receipts. Of those who used a current account for day to day money management, 47% kept any record of withdrawals compared to just 22% of those who did not use a current account.

Of those who paid personally for food and day to day spending (only 6 respondents answered they did not) the following pattern of record keeping was evident.

Table 2.12, *Records of expenditure on food and day to day activities, per cent*

Keeps receipts	23
Records amount in cheque book	3
Records amount somewhere else	6
Doesn't record amount anywhere	68
Don't know / refused	0
Weighted Base	1522

A very large 68% did not keep any records of expenditure on food and day to day activities with less than a quarter retaining receipts. Overall, quite a sizeable proportion of respondents seemed to take a quite casual attitude to keeping track of their finances.

2.2.1 Planning Expenditure

In order to ascertain the degree of planning ahead for 'lumpy' expenditure, which a financially capable person might be asked to do, respondents were asked if they had bills or expenses to pay on a two-month, six month or annual basis (excluding those paid by direct debit or standing order) such as a telephone bill, car tax, etc. The 87% of respondents who selected at least one of the eleven options presented were asked whether they (and where relevant, their partner) planned ahead to cover these expenses. Of this proportion, 70.5% planned ahead while 10% did not. A further 12% did not because there was always enough money available in the current account to cover this expense while 6% planned ahead sometimes. Of those who always or sometimes planned ahead, the most popular method of doing so was to let money build up in the current account or set aside cash (used by 58% and 32% of those who planned ahead respectively).

2.2.2 Money Management

Where the respondent lived in a household with more than one adult, it is important to ascertain their individual degree of involvement in money management. If they mainly relied on another financially capable adult, they may appear more capable than they actually are while if they relied on a financially incapable person, this should also be reflected in their factor score.

Responsibility for two aspects of managing money were used to create a combined variable. These two aspects were 'who is mainly responsible for managing money in your household?' and 'who is mainly responsible for planning ahead?'[17]. This new combined variable could range from zero to two. An individual who was responsible for both areas or by virtue of living in a single adult household could score a maximum of two. 70% of respondents scored a maximum of two, with 17% scoring zero and the remaining 13% scoring one. Women tended to perform better in this aspect than men. 67% of men scored the maximum compared with 74% of women. A higher proportion of men than women, 19.5% compared to 14.5% scored zero. This variable did not prove to be important in the factor analysis but was included in the regression analysis later on in this chapter.

[17] This belongs to the planning ahead domain. Five variables were combined in the UK study previously referred to but only these two were asked in the Irish study.

2.3: Attitude statements

A series of three statements were presented to capture attitudes towards whether people felt they were impulsive, were more of a saver than a spender and their degree of organisation of money management.

Table 2.13, *Attitude statements*

	"I am impulsive and tend to buy things even when I can't really afford them"	"I am more of a saver than a spender"	"I am very organised when it comes to managing my money day to day"
	Percent		
agree strongly	7	20	38
tend to agree	19	40	42
tend to disagree	30	30	16
disagree strongly	44	9	4
Don't know	0	1	0
Total	100	100	100
Weighted base	1529	1529	1529

Base: all respondents.

Almost three quarters of respondents disagreed that they were impulsive and bought things even when they couldn't afford them with just 7% agreeing strongly. 60% agreed that they were a saver rather than a spender while for the third attitude statement, again a very high proportion at 80% agreed that they were very organised when it came to managing their money day to day. Just 9% disagreed strongly that they were more a saver than a spender with about half that proportion disagreeing strongly that they were very organised in relation to day to day money management.

The fact that 80% of respondents felt that they were very organised in managing their money day to day contrasts with the earlier findings on keeping track where it is clear that a large proportion have substantial scope for improvement in this regard.

From Table 2.14 below, it can be seen that survey participants responded to the three attitude statements in a consistent manner.

Table 2.14, *Relationship between attitude statements, correlation coefficients*

	Impulse buyer	Saver V. Spender	Very Organised
"I am impulsive and tend to buy things even when I can't really afford them"	1.000		
"I am more of a saver than a spender"	-0.427	1.000	
"I am very organised when it comes to managing my money day to day"	-0.385	0.483	1.000

The three statements were then combined into a single variable using factor analysis. The combined variable loaded highly in the subsequent factor analysis.

Table 2.15. *Factor Analysis of Managing Money Attitude Statements*

Variable	Factor Loadings
"I am more of a saver than a spender"	0.816
"I am very organised when it comes to managing my money day to day"	0.792
"I am impulsive and tend to buy things even when I can't really afford them"	-0.756

2.4: Factor Analysis

The final set of 15 variables for this 'managing money' domain was reached after testing many possibilities. The variables included were

- How many times have run out of money in the past 12 months before the end of the week or month
- How well keeping up with bills and commitments
- Whether in financial difficulties in last five years

- Whether current account is usually overdrawn
- Whether current account is presently overdrawn
- Ratio of unsecured borrowings to savings
- Whether uses credit for day to day spending
- How accurately knows how much money has in account used for day to day spending
- Frequency of checking balance before withdrawing cash
- What does with credit card statements
- Whether keeps records of withdrawals
- Whether makes any plans for lumpy expenditure
- What type of plans are made
- Ever used current ac/card, facilities e.g., direct debit, phone/internet banking
- Score for attitude statements

To maintain the possibility of undertaking comparisons with the UK study and because it seemed the most logical approach based on the range of questions in this domain, two factors were retained in this analysis. The results are presented in Table 2.16 below which shows how the questions are allocated across each factor, the first of which has been labelled 'keeping track' and the second 'making ends meet'. Seven questions loaded on to (or were important for) the first factor, keeping track, and nine on to the second, making ends meet, with one question important for both factors.

The first factor, keeping track, was associated with the frequency of checking balances before withdrawing cash and knowledge of account balances, whether current account is usually overdrawn, what is done with credit card statements, whether have ever used current account / card facilities such as direct debit, internet banking and whether keeps records of withdrawals. The question which asked whether a respondent uses credit for day to day spending loaded on to this factor. A *priori*, this might have been expected to be more important to the making ends meet factor.

The second factor, making ends meet, was associated with whether the current account was presently overdrawn, frequency of running out of money in the past twelve months, whether and what plans are made for lumpy expenditure, how well keeping up with bills and commitments, whether keeps a record of withdrawals, whether in financial difficulties in last five years, the ratio of unsecured borrowings to savings and the score for the attitude statements.

It should be borne in mind that, in some senses, the variables in the keeping track domain are not relevant for the group that does not use a current account for day to day money management. Whether the current account is usually overdrawn is not relevant for this group, neither is whether or not current account facilities such as telephone banking have been used. The frequency of checking balances before withdrawing cash is not asked to those who get paid / receive welfare or pension in cash and 80% of this ‘cash’ group do not have a current account. 92% of those who did not have a current account did not have a credit card so the question on credit card statements was not relevant to all but a small minority of this subgroup. This will affect the factor score for the subgroup who do not have a current account.

Table 2.16, Factor Analysis of Managing Money Questions, Item Loadings

Kmo = 0.689		
Components	Keeping track	Making Ends Meet
Questions		
Current account usually overdrawn	0.832	
Has used current account facilities	-0.739	
Frequency of checking balance before withdrawing cash	0.607	
Knowledge of money in account used for day to day spending	-0.596	
What is done with credit card statements	0.535	
Uses credit for day to day spending	0.388	
Keeps records of withdrawals	-0.328	-0.302

Run out of money		-0.677
Score for attitude statements		0.623
Keeping up with bills and financial commitments		0.613
Whether in financial difficulties in last five years		-0.491
How plans ahead for lumpy expenditure		0.439
Ratio of unsecured borrowings to savings		0.436
Whether plans ahead for lumpy expenditure		0.433
Current account presently overdrawn		0.360

Varimax rotation[18]

2.5: Detailed Analysis of the factor score

As detailed in the previous section, two separate factors were retained in the managing money domain. Hence, two separate scores, one for each factor can be developed. After rescaling the raw score to lie in the range zero to one hundred, the score for keeping track averaged 46 while that for making ends meet averaged 75. From the graphs below, it can be seen that a large proportion of respondents had low scores for keeping track while respondents tended to do better at making ends meet, although there were still many people struggling with this element of financial capability. This tallies with the findings in the earlier descriptive section of the chapter.

Figure 2.1: Distribution of factor score - keeping track

[18] The principal components method of factor analysis was used. A variety of rotation methods were implemented with the results not sensitive to the method used.

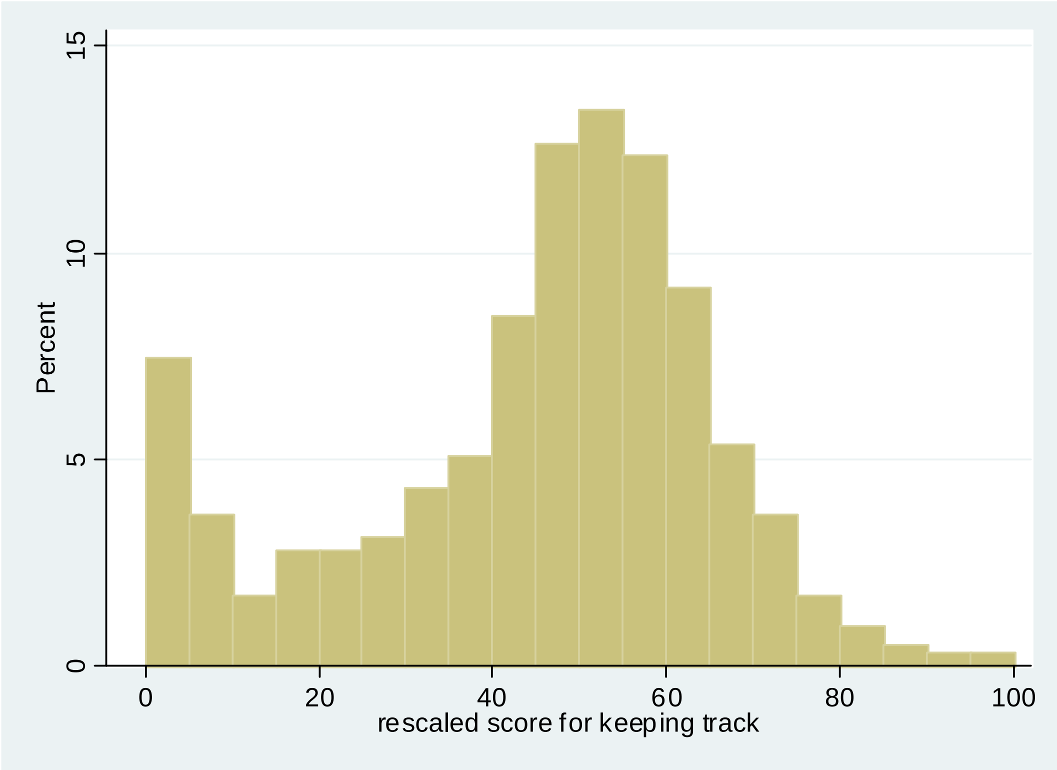
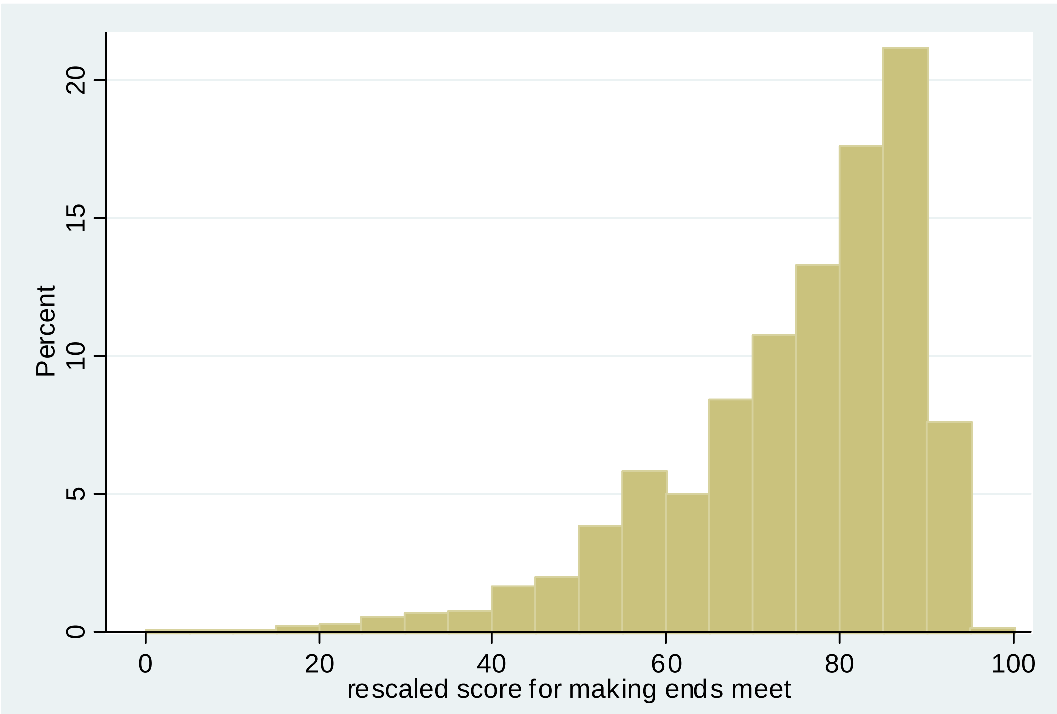


Figure 2.2: Distribution of factor score – making ends meet



In this section, linear regressions are used to ascertain how a range of variables affected an individual's factor score[19]. Following this, the average overall factor score will be compared for a range of groups of respondents.

Table 2.17, Significant variables from regression analysis of managing money

Explanatory Variables	Keeping Track	Making Ends Meet
Constant	49.69***	73.01***
Age, Ref. Group: 40-49		
Age 20-29		-4.51***
Age 60-69		4.8***
Age 70+	-5.78**	6.41***
Income, Ref. Group: Quintile 5, highest		
Quintile 1	-5.05***	
Quintile 2	-5.52***	-3.03**
Tenure, Ref. Group: Owner occupied with a mortgage / being bought from local authority		
Rented from local authority or voluntary body	-7.26***	-3.83***
Rented from private landlord	-5.59***	
Occupied free of rent	-8.53***	
Owner occupied through local authority – no repayments being made	-6.9***	
Region, Ref. Group: Dublin		
Connacht / Ulster		2.37**
Munster		2.44***
Rest of Leinster		2.83***
Highest level of Education, Ref. Group: Upper Secondary		
Primary	-13.7***	
Lower secondary	-7.9***	
Family type, Ref. Group:		

[19]*** indicates significance at the 1% level, **at the 5% level and *at the 10% level.

Couple, no dependent children		
Single adult		-2.78**
Lone parent with dependent children		-2.49*
Couple with dependent children		-2.6**
Other		-2.07*
Employment Status, Ref. Group: Working part-time/full-time		
Unemployed	-5.29***	-3.76**
Looking after home / family	-7.42***	-2.47**
Unable to work due to illness	-5.19**	
Main Income Earner, Ref. Group: Respondent		
Partner		2.87**
Uses current ac. for day to day money management		2.13**
Number of active product purchases	3.1***	
Score for involvement with money management	1.8***	2.00***
Savings ratio	0.0006***	0.0004***
Borrowing ratio	0.0064***	-0.005***
R-squared	0.34	0.20

Considering firstly scores for keeping track, the regression results show that being in the oldest age-group resulted in a lower score than the reference group. Being in the lowest two income quintiles meant lower scoring relative to the highest quintile.

The reference group for housing tenure was those who were owner occupiers with a mortgage or buying from a local authority. Renting from a private landlord or a local authority / voluntary body meant lower scoring relative to this group. The same was true for those who were owner occupying having bought through a local authority affordable scheme or, in particular, those occupying their home free of rent.

The reference group for education was those having attained the upper secondary level. Having primary education or lower secondary as the highest level of educational attainment meant scoring lower on keeping track than those in the reference group. In terms of employment status, looking after home / family, being unemployed or unable to work due to illness meant lower scoring relative to those working part-time or full-time.

The score for keeping track was increasing in the level of involvement with money management and the number of active product purchases. The score was also increasing in the ratio of borrowing to income and savings to income.

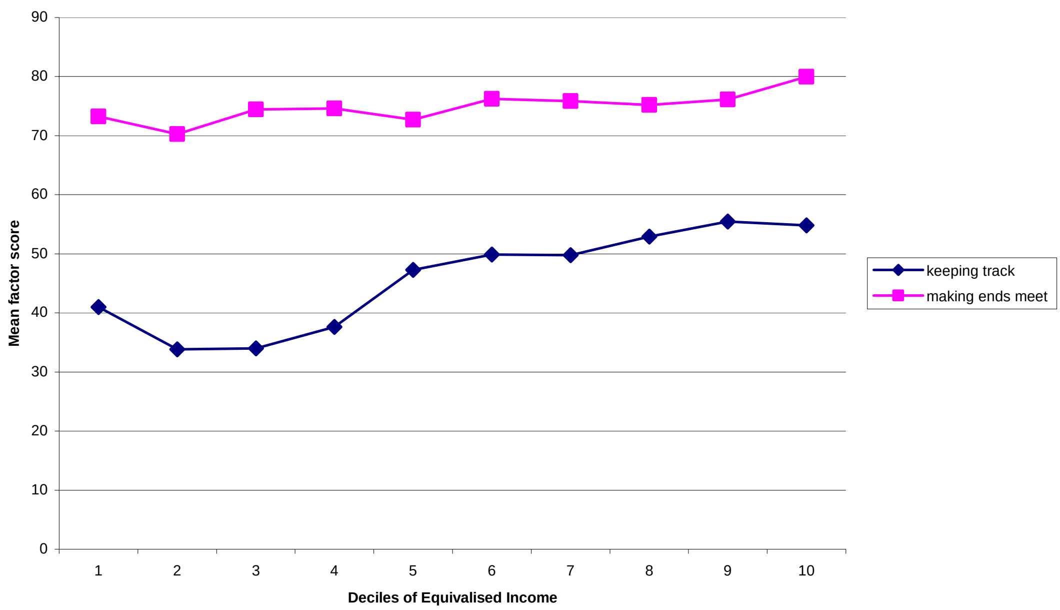
With regards to making ends meet, those aged 60+ scored more highly compared to the reference group, unlike those in the 20-29 age group who scored lower. Being at the lower end of the income distribution (specifically, the second quintile) brought lower scores as did renting from a local authority compared to owner occupiers with a mortgage. Region of residence was important in making ends meet with those resident in Dublin experiencing a disadvantage relative to the rest of the country. Considering family type, single adults, lone parents with dependent children, couples with dependent children and the other grouping experienced lower scoring compared to the reference group of a couple with no dependent children. Being unemployed or looking after home / family meant lower scoring relative to those at work full or part time. Scores for making ends meet were increasing in the level of involvement with money management and decreasing in the ratio of borrowing to income. Using a current account for day to day money management which was strongly positively correlated with the score for keeping track had a much smaller positive impact on making ends meet. This score for making ends meet was also increasing in the ratio of savings to income. Respondents who lived with a spouse or partner were asked who was the main income earner in their household. Those who answered ‘partner’ scored relatively higher here than the reference group of those who answered that they themselves were the main income earner.

Below, we describe the relative pattern of scoring among various groups along such dimensions as age, income etc. It should be borne in mind that in doing this we are not controlling for other variables, unlike in the regression analysis, so what may look like a strong relationship between a score and for example, income, may in fact indicate a relationship between the score and a variable closely correlated with income.

Income

The chart below shows that those in the lowest half of the income distribution had the lowest mean scores on making ends meet, while those in the top decile had the highest mean score (being in Quintile 2 was significant in the regression). Overall, there was not a great deal of variation in mean score by income level. There was much more variation in the scores for keeping track by income decile. Interestingly, those in the lowest decile scored better on this aspect than those in the next three highest deciles but the highest mean score was for those in deciles nine and ten. Only the lowest two quintiles were significant in the regression, once other factors were accounted for.

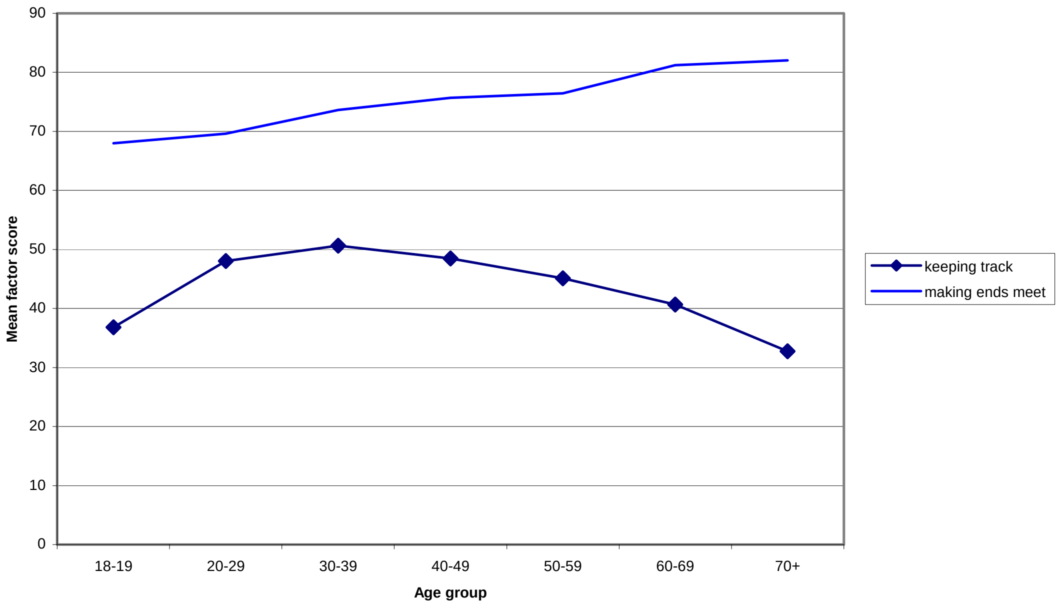
Figure 2.3: Managing Money by Income Level



Age

By age group, the highest mean score for making ends meet was recorded for those in the oldest age group and the lowest score for those in the youngest age group. The regression results showed that being in the 20-29 age group brought a scoring disadvantage relative to those in the 40–49 age group while being aged 60+ brought a scoring advantage. Conversely, those in the oldest age group had the lowest score for keeping track but were obviously adept at making ends meet despite this. Overall, the scores for keeping track are increasing with age until the 30-39 years age group from which point they decline.

Figure 2.4: Managing money by agegroup



Employment

Table 2.18, Managing Money by Employment Status, Mean Factor Score

	Keeping track	Making Ends Meet	Weighted Base
Working part time or full time	52	75	873
Looking for first regular job[20]	46	76	9
Unemployed	34	67	103
Student	42	69	82
Looking after home / family	37	74	221
Retired from employment	38	82	191
Unable to work - permanently sick	34	74	50
Total	46	75	1529

[20] Includes those who did not provide their employment status and is composed of only 9 observations (weighted).

Considering employment status, the highest scores for keeping track were recorded by those working, either part-time or full-time, at 52. Quite similar scores in the mid to high thirties were recorded for those who were unemployed, engaged in family / home duties, retired or unable to work due to illness. The score for students and those looking for their first regular job were higher, although the latter is obviously a very small category.

Those retired from employment scored highest on making ends meet. This is consistent with what the chart above showed for age groups where the oldest age groups scored highest on making ends meet at 82. Similar scores in the mid seventies were recorded for those at work, engaged in home / family duties or unable to work due to illness. The lowest mean scores were recorded for the unemployed and students, indicating these groups were most challenged in making ends meet.

Region

The mean scores for keeping track varied little by region with Connacht / Ulster, Munster and Leinster (excluding Dublin) averaging 46 while Dublin averaged 44. This classification was insignificant in the regression analysis of this aspect[21].

On making ends meet, Connacht / Ulster, Munster and Leinster (excluding Dublin) averaged 76 while Dublin residents averaged a lower score at 72. This can be seen from the regression where Dublin is the reference group and all other categories are significant and positively signed relative to Dublin.

Housing Tenure

Table 2.19, Managing Money by Housing Tenure, Mean Factor Score

	Keeping Track	Making Ends Meet	Weighted Base
Owner occupied with a mortgage / being bought from local authority	53	77	445
Rented from local authority or voluntary	36	69	257

[21] The weighted base figures for each region were Connacht / Ulster: 315, Dublin: 436, Munster: 426 and Rest of Leinster: 352.

body			
Rented from private landlord	48	73	233
Occupied free of rent	39	69	153
Owner occupied with repayments to local authority affordable scheme	46	75	49
Owner occupied, no mortgage, was bought through local authority affordable scheme	31	84	43
Owner occupied, no mortgage	46	80	344
Don't know / Refused	49	69	5
Total	46	75	1529

By tenure status, the highest average scores for keeping track at 53 were recorded for those who were buying their house with a mortgage or from a local authority. The lowest mean scores were recorded for those who had bought their house through a local authority affordable scheme (and were no longer making repayments) and those who were renting from a local authority or voluntary body.

Conversely, those who found it easiest to make ends meet by tenure status were those owner occupiers who had bought through a local authority affordable scheme and were no longer making repayments and other owner occupiers no longer making repayments. The lowest mean scores for making ends meet were for those occupying free of rent or renting from a local authority or voluntary body.

Family Type

Table 2.20, Managing Money by Family Type, Mean Factor Score

	Keeping Track	Making Ends Meet	Weighted Base
Single adult	41	76	233
Couple, no dependent children	46	80	457
Lone parent with dependent children	48	70	194
Couple with dependent children	49	74	239
Other	44	71	406
Total	46	75	1529

Considering family type, single adults had the lowest average scores on keeping track while couples with dependent children had the highest. However, this feature was insignificant in the regression analysis for keeping track.

Lone parents with dependent children (and the ‘other’ category) found it most difficult to make ends meet. Those with the least difficulties in making ends meet were couples with no dependent children.

Engagement with Financial Services

Those who did not use a current account for day to day money management had an average score for keeping track of just 14 compared with 53 for those who used such an account. There was little difference between the two groups when it came to making ends meet. The answers to the variables included in the factor analysis of the keeping track domain are strongly linked to whether or not an individual has a current account. The number of active product purchases contributed positively to scores for keeping track. The score for involvement with money management contributed positively to both scores, more strongly so for making ends meet.

Another important distinction in regard to keeping track is the main method used for getting cash, such as an ATM or withdrawing cash from a bank branch. The 10% who answered that they were paid in cash or received a pension or welfare benefit in cash or that they were given cash by someone else had an average score for keeping track of just 11 compared to an average score of 50 for the remainder of the sample. The average scores for making ends meet had much less variation along this dimension (70 for the smaller group and 75 for the larger group.)

Education

Table 2.21, Managing Money by Highest Level of Education, Mean Factor Score

Highest level of education	Keeping Track	Making Ends Meet	Weighted Base
Primary	29	77	217
Lower secondary	38	73	304

Upper secondary	48	74	372
Technical or Vocational qualification	50	74	210
Non-degree qualification	55	74	119
Primary Degree or Professional Qualification	55	76	207
Postgraduate (incl. Masters & phd)	57	78	101
Total	46	75	1529

The average scores for making ends meet by education level do not vary a great deal. Much more variation is evident in the scores for keeping track. The regression analysis shows that having primary or lower secondary as the highest level of educational attainment relative to upper secondary brought a disadvantage in keeping track, more so for the primary education category. From the above table, it is clear that the average scores for keeping track are increasing by educational level with the highest score for those with a postgraduate qualification and the lowest for those with just primary education. However, the scores do not vary much for the different types of third level qualifications. Those having just primary education as their highest level of educational attainment are concentrated in the older age groups. 45% of those aged 60+ had just primary education.

2.6: Summary

Overall, respondents seemed to be doing quite well at making ends meet. Those groups experiencing relative difficulties were the younger age groups, students and the unemployed and lone parents with dependent children. Interestingly, income and education were not strong determinants of the ability to make ends meet.

The picture with regard to keeping track is less positive with many low scores recorded, particularly for those in the lower income deciles, older age groups, those not at work, local authority renters, single adults and those with lower levels of educational attainment.

However, those who scored poorly on keeping track generally scored well on making ends meet suggesting that keeping a close track on finances is not a prerequisite for making ends meet.

Chapter 3. Planning Ahead

It seems reasonable to expect that a financially capable person would plan ahead for future expenses and obligations and make provisions for unforeseen financial events. This chapter assesses the extent to which people are in a position to cope with unexpected drops in income and major expenses and how they have coped with such events in the past, where they have been experienced. Whether or not provision is in place for anticipated expenses is also assessed. The issue of retirement planning is also covered. Distinctions in the responses to these topics are drawn by age group, income and other characteristics. To take account of the fact that planning ahead may be difficult for certain groups, e.g., those on low incomes, those out of work etc., attitudes to the subject are also considered.

3.1: Substantial Drop in Income

The survey probed the degree to which people had provision for unexpected financial events and expenses in the future. Initially, people were asked whether such an event had occurred in the past. A question was included on whether the respondent or, where relevant, a partner had experienced a large and unexpected drop in income in the previous three years. 25% answered that such a drop had occurred. Those most likely to have experienced such a drop were the unemployed (47%)[22], those unable to work due to permanent illness (39%), lone parents with dependent children (42%), those renting their home from a local authority (36%) and those buying their home under a local authority affordable scheme (48%). 91% of those who had experienced a drop in income had found a way of making ends meet but 30% indicated that they had fallen behind with bills.

Considering the data by employment status, those looking for their first regular job were most likely to report that they had fallen behind with bills after a drop in income at 100% followed by the unemployed at 39%. However, those looking for a first regular job accounted for just 0.21% of those who had experienced a drop in income while the unemployed accounted for 12.5%. Considering family type, lone parents with dependent children were most likely to fall behind at 36%.

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[22] As the question relates to the previous three years, the drop in income for the unemployed may relate to moving from employment to unemployment.

The most common ways to make ends meet by those affected were claiming social welfare benefits (26%), using money from a savings or investment account (19%) and using money available in a current account (17%). 8% answered that they had cut back or re-budgeted.

All participants were asked how they would make ends meet if they suffered a substantial drop in household income for three or more months. They were deemed to have made provision for such an event only if they answered that they would use money in a savings or investment account (including money available in a current account) or would be covered by insurance (this was only offered as a solution by those who were working or had a partner who was working) or their income from their job would continue. The research found that 41% had made provision for such an event while 59% had not. This variable was important in the factor analysis described below.

The likelihood that respondents had made provision for a drop in income varied by income level. Only 27% of those in the lowest income decile (equivalised) had made provision compared with 58% of those in the top decile. 47% of those at work had provision compared with just 15% of the unemployed. The level of provision was also high amongst those retired from employment at 49.5%. Considering family type, just 35% of lone parents with dependent children had provision compared to 51% of couples with no dependent children. Other groups with low levels of provision were those renting from a local authority at just 20.5% and those buying their home through a local authority affordable scheme (25%).

Unless respondents indicated that they believed a substantial drop in household income could never occur, or would not be a problem, they were asked how long they would be able to make ends meet if they undertook the measures they had outlined, see table 3.1 below.

Table 3.1, Length of time could make ends meet, percent

Less than one week	1

More than one week but less than one month	8
More than one month but less than three months	19
More than three months but less than six months	22
More than six months but less than twelve months	13
Twelve months or more	25
Don't know	12
Total	100
Weighted Base	1464

A quarter answered that they could make ends meet for twelve months or more while 28% felt they could make ends meet for less than three months with 9% able to make ends meet for less than one month. Of those who answered twelve months or more, only 50% had made any provision as we have defined it with many of the rest answering that they would claim social welfare benefits or sick pay from their employer or get an extra job or work over-time. For the purposes of factor analysis, this variable was recoded to include those who hadn't been asked the question, i.e., those not working who gave one of the specified choices that they believed such a drop could never happen / was not a problem. This group was included after those who answered that they could make ends meet for twelve months or more. Those who answered that they did not know how long they could make ends meet were coded below those who answered less than one week, i.e., treated as if they had given a shorter timeframe than one week.

3.2: Coping With an Unexpected Major Expense

Having dealt with unexpected drops in income, participants were asked if they had experienced a major unexpected expense (equivalent to one month's income) in the previous three years. 16% had experienced such an expense. The most popular ways of dealing with such an expense were using money from a savings or investment account (29%) borrowing from family or friends (21.5%) and taking out a loan or extending existing loans (24%).

Those who had relied on going into overdraft, borrowing from family/friends, taking out a loan or extending existing loans, extending their mortgage, using a credit card, selling or trading down the family home or selling other property items were deemed to have been unable to meet such an expense in the past. Half of those who had faced a major unexpected expense fell into this category.

Respondents who answered that they had not had a major unexpected expense in the past were asked how would they deal with such an event in the future. Again, the most popular responses were using money from a savings or investment account (33%) borrowing from family or friends (18%) and taking out a loan or extending existing loans (19%) along with using money available in a current account (24%). In all, 40% would have to borrow to meet such an expense while around 8.5% would cut back or raise money while a sizeable 6.5% did not know how they would meet such an expense. As only respondents who had not faced a major unexpected expense in the past were asked how they would cope with such an expense in the future, it was not possible to construct a variable for the factor analysis which covered how all respondents would cope with a major unexpected expense in the future. Instead, a variable was constructed which was a composite of how respondents had coped with an expense in the past or how they would cope in the future. Overall, 61% were deemed to have coped satisfactorily or would cope satisfactorily with a major unexpected expense[23].

3.3: Anticipated Major Expense

Respondents were then probed on whether they expected to face any of eight specified expenses in the future or could indicate a different expense not on the list. Overall 67% anticipated at least one of the specified or an alternative expense. The most common anticipated expenses were for buying or changing cars, selected by 21%, travelling (17.5%) and home improvements / repairs (17%).

Respondents were probed as to whether they had made provision for these anticipated expenses. 29% had made provision for the full cost while 11% had made provision for part of the cost while the remaining 60% had not made any provision[24]. For the

[23] Coping satisfactorily covered using money available in a current account, savings or investment account, renting out rooms / taking in students, getting an extra job / working overtime, managed or would manage / not a problem.

[24] Provision included building up balances in a current account or savings account, starting / building up a credit union account to get a loan, starting an investment account or buying property.

purposes of factor analysis, this variable was constructed over the entire sample. Those who had no anticipated expense were grouped with those who had made full provision. Thus, 53% of all respondents were in this category. 7% had made provision for part of the anticipated cost while 40% anticipated an expense but had made no provision. This variable was retained in the factor analysis despite the results showing it to be not as important as might be expected as it seems an integral part of financial capability in relation to planning ahead.

3.4: Retirement Planning

Concerning planning for retirement, over half of the respondents had no idea of the current value of the minimum State pension that an individual could receive. When told what the approximate pension amount was, 66 per cent said that this would not give them (and their partner) the standard of living they would hope for in retirement.

However, only 32% of respondents who had not yet retired had an occupational or personal pension that they were paying into at the time of the survey. 12% had a pension that they had paid into in the past. Among the reasons given for having no pension provision were not having thought about it or got around to it, an answer supplied by one-third of those with no provision, and not being able to afford it (almost 25%). One fifth of participants answered that they hadn’t been working or had a job for long enough. 63% of those who felt that the minimum state pension would not give them the standard of living they would hope for in retirement were not paying into a personal or occupational pension at the time of the survey. Of this group, 36% were aged forty or older (see table 3.2 below). This indicates poor forward planning by this group.

Table 3.2, Age group of those who were not paying into a personal / occupational pension and were dissatisfied with level of state minimum pension, per cent.

Age group	
18-19	7
20-29	33
30-39	23
40-49	19
50-59	13
60-69	5
Total	100

Weighted Base	615

Of the 68% of those not yet retired who did not have an occupational or personal pension, just 2% owned or part-owned at least one second property. Of this small group, just 5% gave pension planning as one of the reasons for buying a second property[25].

Of those who had already retired, 40% had an occupational pension while 3.5% had a PRSA (Personal Retirement Savings Account)[26]. 6% had another type of personal pension. A substantial proportion at 53% had no personal pension. The most commonly given reasons for not having any pension were affordability (32%), not having thought about it or got around to it (27%) and reliance on the state old age pension (21%). Just 1% of respondents were still working although they had reached retirement age.

All those who had retired, including those who continued to work whether to increase their income or because they enjoyed it, were asked was their household income sufficient to give them the standard of living they had hoped to have in their retirement. 80.5% answered positively. However 89% of those who had made their own pension provision were happy with their level of household income compared to 73% of those who hadn't.

For the factor analysis, the questions on retirement planning were distilled to one variable, i.e., whether an individual had made or was making their own pension provision or not. This covered those who had retired and those below retirement age. Just 38% had, while the remaining 62% had not. This figure varied by age-group (see table 3.3 below). Those aged 40-49 were most likely to have made their own provision at 51%, still a very low figure. Only 46% of those aged in the 50-59 years bracket had made their own provision.

[25] The question on second properties was only asked to those who previously answered that they held a mortgage and thus excludes those who own a second home but have cleared all their mortgages.
[26] Less than one percent had both.

Table 3.3 Whether or not has made own pension provision by age group, per cent

Age group	18-19	20-29	30-39	40-49	50-59	60-69	70+	Total
Has made own provision	5	24	46	51	46	37	37	38
Has not made own provision	95	76	54	49	54	63	63	62
Total	100	100	100	100	100	100	100	100
Weighted base	69	335	323	298	199	171	134	1529

Base: all respondents

3.5: Attitude statements

Two attitude statements were presented to ascertain attitudes towards ‘living for today’ and the trade off between current and future lifestyles.

Table 3.4, Attitude statements, percent

	“I tend to live for today and let tomorrow take care of itself”	“It's worth cutting back on my lifestyle now in order to save for my future”
Agree strongly	15	14
Tend to agree	28	40
Tend to disagree	35	31

Disagree strongly	22	14
Don't know	Less than 0.5	1
Total	100	100
Weighted Base	1529	1529

Base: all respondents

43% agreed that they lived for today and tended to let tomorrow take care of itself (see table 3.4 above). Just 22% disagreed strongly with this statement. 43% also disagreed that it was worth cutting back on their current lifestyle in order to save for their future (a similar proportion to those who agreed that they lived for today). 54% tended to agree or agreed strongly with this statement. Of those who agreed that they live for today, 60% disagreed that it was worth cutting back on their current lifestyle in order to save for their future[27].

The correlation between these two statements was measured at –0.3099. The two statements were combined into one through factor analysis and included in the final factor analysis in this way. Their separate inclusion was also tested.

3.6: Factor Analysis

After testing many possibilities, the following seven variables were included in the factor analysis.

- Whether or not the respondent has provision to cope with an unexpected drop in income;
- The length of time the respondent could make ends meet if he/she had an unexpected drop in income;
- Whether or not the respondent has made provision for an anticipated major expense;

[27] Those who answered 'don't know' to the attitude statements were recoded as neither agreeing nor disagreeing for the factor analysis, i.e, between tend to agree and tend to disagree.

- Whether or not the respondent is making or has made their own pension provision;
- The attitude statements referred to above;
- How the respondent has met a past unexpected expense / would meet a future unexpected expense; and
- Whether or not the respondent has protection insurance (illness, income, payments, home contents).

Considering the last variable mentioned above, i.e. protection insurance, and in line with the approach in the UK study, a variable was derived to capture whether an individual held at least one of the types of protection insurance listed. In the UK study, this was considered to be a way of capturing those individuals who recognised the need to make contingency plans in the event of being unable to earn their normal income or the need to make provisions to meet unanticipated expenses. 53% of Irish respondents had at least one type of protection insurance while the remaining 47% had none. Table 3.5 below shows the results of the factor analysis.

Table 3.5, Factor Analysis of Planning Ahead Questions, Item Loadings

Kmo=0.6934	
Questions	
Whether has protection insurance (illness, income, payments, home contents)	0.629
How met past unexpected expense / would meet future unexpected expense	0.627
Have provision to cope with unexpected drop in income	0.623
Making or have made own pension provision	-0.591
Length of time could make ends meet if had unexpected drop in income	0.525
Attitude statements	-0.473

Have provision for anticipated major expense	Small loading

3.7: Detailed Analysis of the factor score

After rescaling, the mean score in this planning ahead domain was 53. The chart below shows that the score for this domain is quite widely distributed among respondents. In this section, linear regression is again used to examine how a range of variables affected an individual's score. The regression results are shown in table 3.6 below[28].

Figure 3.1, Score for Planning Ahead

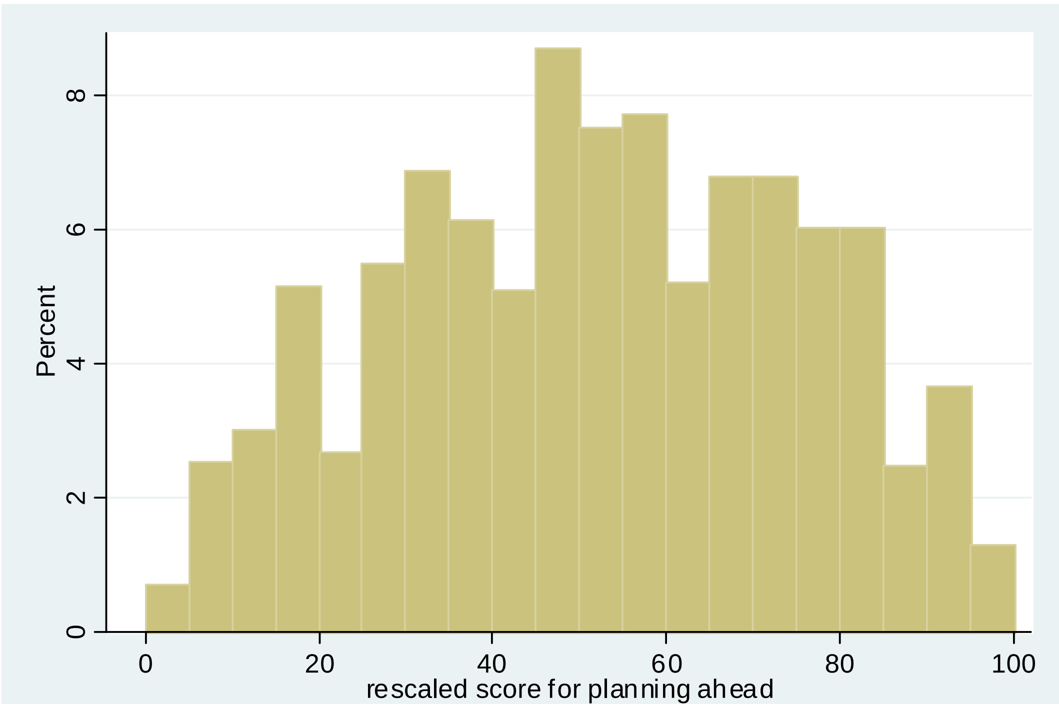


Table 3.6, Significant Variables from Regression Analysis of Planning Ahead

Explanatory Variables	
Constant	51.8***
Age, Ref. Group: 40-49	

[28]*** indicates significance at the 1% level, **at the 5% level and *at the 10% level.

Age 18-19	-15.68***
Age 20-29	-9.9***
Age 30-39	-4.05***
Age 60-69	3.91*
Age 70+	4.85*
Income, Ref. Group: Quintile 5, highest	
Quintile 1	-9.33***
Quintile 2	-10.19***
Quintile 3	-6.48***
Quintile 4	-2.66*
Tenure, Ref. Group: Owner occupied with a mortgage / being bought from local authority	
Rented from local authority or voluntary body	-14.12***
Rented from private landlord	-10.75***
Occupied free of rent	-9.99***
Other	-20.25***
Owner occupied with repayments being made to local authority affordable scheme	-5.36**
Region, Ref. Group: Dublin	
Connacht / Ulster	5.2***
Munster	6.25***
Rest of Leinster	6.1***
Highest level of Education, Ref. Group: Upper Secondary	
Primary	-4.30***
Lower secondary	-5.13***
Degree / Professional Qualification	3.8**
Postgraduate (incl. Masters & PhD)	5.57***
Family type, Ref. Group: Couple, no dependent children	
Single adult	-4.93***
Other	-3.56**
Work status, Ref. Group: At work full/part time	
Retired from Employment	4.71**

Other Variables	
Employer provides benefits at work	5.61***
Female	-1.97**
Uses current ac. for day to day money management	8.68***
Number of product types bought in past 5 years	0.83***
Score for involvement with money management	2.11***
Savings ratio	0.011***
Borrowings ratio	-0.004***
R-squared	0.51

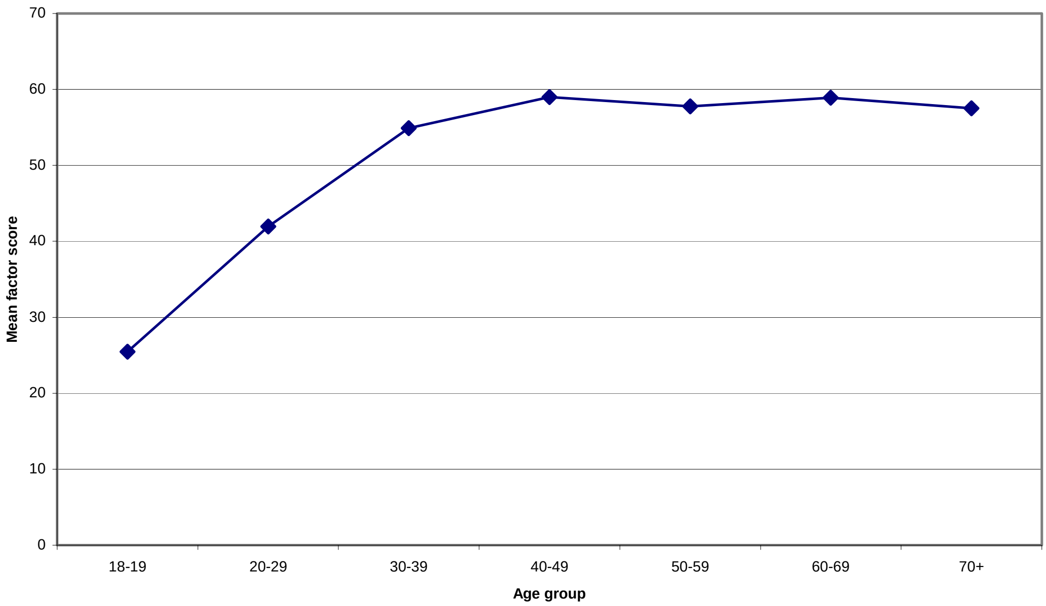
Those younger than the reference group of ages 40-49 scored lower than this group at planning ahead with the relative disadvantage highest for those in the 18-19 years age group, but also quite high for those in the 20-29 age group. Those aged 60 or more scored higher than the reference group, other things being equal, with the advantage greater for those aged 70+. All income quintiles below the highest one scored lower than that group in planning ahead. Considering housing tenure, there was an advantage for those buying their home with a mortgage or from a local authority relative to those renting, occupying free of rent, the ‘other’ tenure category and those buying their house through the local authority affordable scheme.

Living outside Dublin meant higher scoring relative to those living in Dublin. The reference group for the educational categories is the upper secondary level of education. Having primary or lower secondary level education as the highest level of educational attainment brought a lower mean score, while having a primary degree or professional qualification or a postgraduate degree brought higher scores. Being a single adult rather than in a couple with no dependent children brought a lower mean score as did being in the ‘other’ family type grouping. Compared to being at work either full or part time, being retired from employment brought a higher mean score. Looking at the remaining significant variables, the score for planning ahead was lower for women relative to men, other things equal and decreased in the ratio of borrowing to income. There was a positive effect if the employer provided certain benefits at work such as medical or income insurance and if the respondent used a current account for day-to-day money management. The score was also increasing in the number of product types bought in the last five years, the score for involvement with money management and the level of savings as a proportion of monthly income.

Age

The graph below shows that the factor score varied widely by age-group. Those in the youngest age group recorded the lowest mean score at 25.5. The score increased quite sharply by age to a mean of 59 for the 40-49 years old group after which point it remained fairly stable. This finding of low average scoring among younger people is a cause for concern as planning ahead is particularly important for these age groups.

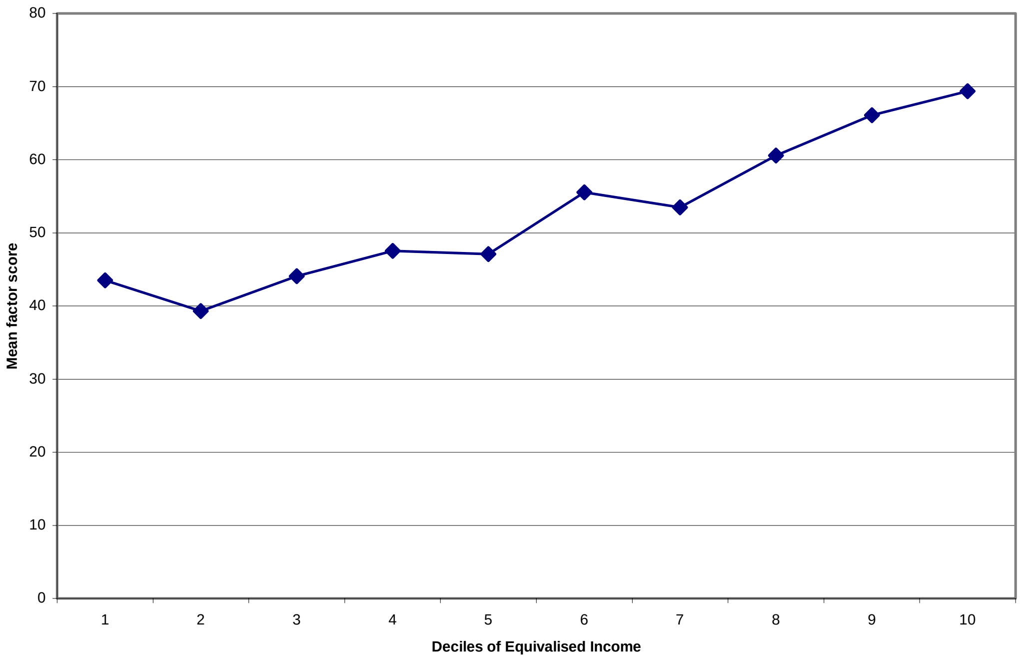
Figure 3.2: Planning Ahead by agegroup



Income

The factor score was more or less increasing by (equivalised) income decile as can be seen in the chart below with the better off recording higher scores. However those in the lowest decile recorded a slightly higher mean score at 43.5 than those in the second decile at 39. The mean score for the top decile was just under 70 indicating a wide degree of variation by income, as with age, for the planning ahead domain.

Figure 3.3: Planning Ahead by Income Level



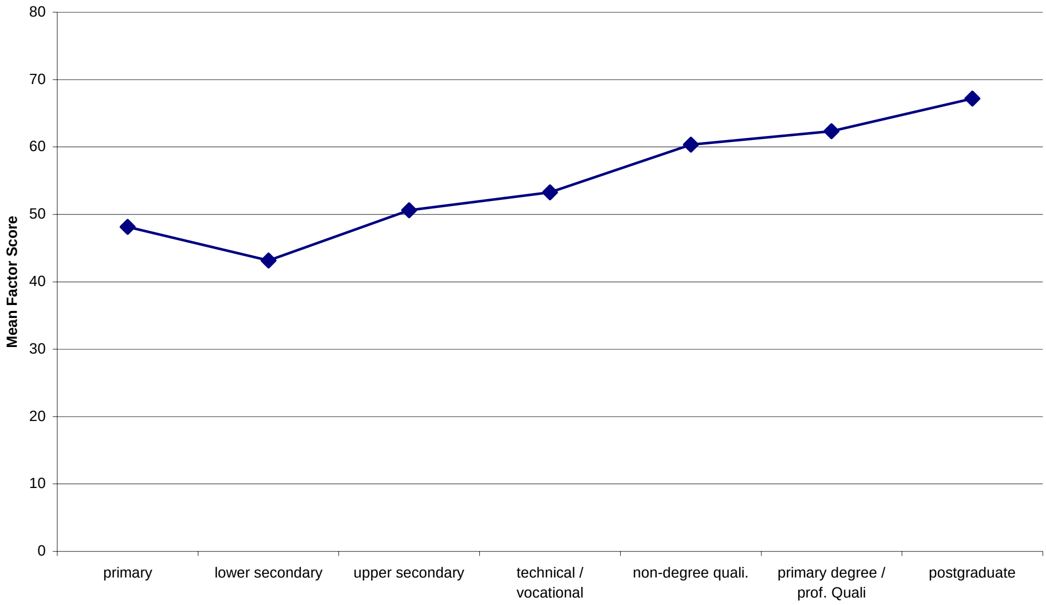
Housing Tenure

Table 3.7, Planning Ahead by Housing Tenure, Mean Factor Score

	Mean Factor Score	Weighted Base
Owner occupied with a mortgage / being bought from local authority	65	445
Rented from local authority or voluntary body	36	257
Rented from private landlord	44	233
Occupied free of rent	34	153
Owner occupied with repayments to local authority affordable scheme	52	49
Owner occupied, no longer making repayments, was bought through local authority affordable scheme	60	43
Owner occupied, no longer making repayments	62	344
Don’t know / Refused	26	5
Total	53	1529

By housing tenure, again a wide variation in mean scores was evident with the highest scores in the sixties recorded for those who were making mortgage repayments (including to a local authority) and those who owned their home and were no longer making mortgage repayments. By contrast the mean score for those occupying free of rent was just 34 and just 36 for those renting from a local authority or voluntary body.

Figure 3.4: Planning Ahead by Educational Level



The factor score was more or less increasing by educational level and there was again quite a wide variation in the scores, ranging from a mean of 48 for those with primary education as their highest level compared with 67 for those with a post-graduate qualification[29].

Region[30]

Some variation by region was evident with the mean score outside Dublin ranging from just 54 to 56 while in Dublin the mean score was just 45. The scoring advantage to living outside Dublin is clear from the regression results where Dublin was the reference group. It is not immediately clear why this should be the case.

Employment Status

[29] Weighted cell sizes for each educational level are given in the previous chapter.
[30] Weighted cell sizes for each region are given in the previous chapter

Table 3.8, Planning Ahead by Employment Status, Mean Factor Score

	Mean Factor Score	Weighted Base
Working part time or full time	57	873
Looking for first regular job[31]	46	9
Unemployed	34	103
Student	31	82
Looking after home / family	47.5	221
Retired from employment	60	191
Unable to work - permanently sick	41	50
Total	53	1529

As with the other dimensions already considered, a wide variation is evident in the mean factor score by employment status with the score for those retired at 60 points, almost double that of students at just 31. In the regression analysis, where all other characteristics are held constant, retired was the only category significantly different from the reference group of those at work. Those at work also recorded a high score of 57 but the unemployed also had a mean score in the low thirties.

Family Type

Scores varied less by family type than by many of the other dimensions, see table 3.9 below

Table 3.9, Planning Ahead by Family Type, Mean Factor Score

	Mean Factor Score	Weighted Base
Single adult	52	233
Couple, no dependent children	61	457
Lone parent with dependent children	50	194
Couple with dependent children	57	239
Other	42	406

[31] Includes those who did not provide their employment status and is composed of only 9 observations (weighted).

Total	**53**	1529

The highest score was recorded by couples with no dependent children at 61 compared with the lowest score of 42 for the 'other' category.

Engagement with Financial Services

Whether or not an individual used a current account for day-to-day money management was a significant variable in the regression analysis. The mean score for those who did was 56 compared with a much lower 38 for those who did not. The number of product types bought in the past five years was also significant in the regression and the score was increasing in the number of such purchases as it was in the score for involvement with money management.

Other Variables

From the regression analysis, women scored lower than men, all other things being equal, while the score was increasing in the savings to income ratio and decreasing in the borrowings to income ratio.

3.8: Summary

The findings in this planning ahead domain give cause for concern. A quarter of respondents or their partner, where relevant, had experienced a large and unexpected drop in income in the previous three years while 16% had experienced a major unanticipated expense in the same timeframe. These statistics indicate that unexpected negative financial events afflict a sizeable proportion of the population. Despite this, 59% had no provision for dealing with a drop in income of three months or more duration while 40% would have to borrow to deal with an unanticipated expense equivalent to one month's income. Two-thirds of respondents anticipated a major expense in the future but 60% of this group had not made any provision to meet their anticipated expense.

The extent of pension coverage was also poor. Only 32% of respondents who had not yet retired had an occupational or personal pension that they were paying into at the time of the survey. Of those who had already retired, 53% had no personal pension.

Those groups doing particularly badly at planning ahead include the youngest age group considered, i.e., 18-19 year olds, those in lower income groups, local authority renters and those occupying their home free of rent, those with less than upper secondary education, students and the unemployed.

Chapter 4: Choosing Products

A financially capable person should be able to choose financial products that are suitable to their needs. This chapter measures respondents' ability to research, review and assess different financial products available in the marketplace. We also assess consumers' willingness to compare the costs, risks and benefits of similar financial products and we measure the ability of consumers to keep informed of terms and conditions relating to financial products. In addition, we examine consumers' knowledge of available information and advice resources in relation to financial products.

A key assumption underpinning this chapter is that a more financially capable individual would seek out the best advice, and/or actively do their own research. Best advice is considered to be advice from a professional source authorised to provide such information. In this chapter we focus specifically on a subset of respondents who have purchased financial products such as mortgages, investments, life and protection insurance, savings, loans and credit cards in the last five years.

The detailed nature of the questionnaire in relation to the ownership of financial products allows for the creation of a financial capability score along the choosing products domain. Initially every respondent was asked whether they had received professional advice about planning their finances, and the questionnaire then focused on a subset of respondents who had purchased a financial product in the last five years. Some general attitudinal questions were also useful to chart respondents' level of awareness of risk when choosing financial products (variability of investment return, for example). Related to this is the important consideration of charting the degree of engagement with independent sources of advice open for consultation prior to committing to a financial purchase.

In the questionnaire, several financial products were listed: current account, credit card, mortgage, savings account, An Post savings account, credit union (loan and deposit accounts), personal investment plan, unit trust or investment trust, guaranteed equity/bond tracker, other investment bond, gilts, stocks, shares and personal pensions. Respondents were asked to concentrate on two categories of financial product purchased by them in the past five years. Respondents were then given the opportunity to indicate the extent to which they had sought information on alternative options to the product they eventually purchased and whether or not they had sought professional advice prior to the purchase.

4.1. Product holding and purchase

The results of the number of products currently held and purchased in the last five years by respondents in their own name or jointly with someone else are documented in Table 4.1.

Table 4.1 Number of product types held at present and of those purchased in the last 5 years.

Column frequencies	%* of people who currently own products	%* of people who purchased products in the last 5 years
0	8	53
1	24	31
2	22	12
3	17	4
4	13	<1
5	8	<1
6	5	<1
7	2	--
8+	1	--
Total	100	100
Weighted base	1,529	924
Mean number of products	2.6	0.7

* Rounded percentages

Cross tabulating the number of people who currently own products with whether the products were purchased in the last five years reveals that significant transactions in financial products are quite infrequent. According to Table 4.1 above, 53 per cent of respondents did not purchase a new product/service or switch service provider at all in the past five years. Less than five per cent of all respondents took on three or more significant transactions in recent years. However, those with a more diverse portfolio of financial products are most likely to have more frequent recent purchases. There is also significant evidence of disposal or consolidation of products – i.e. less product types being held now than were purchased during the past 5 years.

Respondents were asked whether they had taken out any of the products listed in Table 4.2 below in the past 5 years, and whether or not they still owned them. Close to half (47 per cent) replied that they had taken out new products in the past five years. These do not include any products taken out for business purposes

Everyone who had purchased a financial product was asked whether they had played an 'active' role in the decision-making concerning their recent purchase. This was defined as the respondent personally playing a decisive role in taking out the product, i.e. had they researched options and sought alternatives to the product purchased or perhaps consulted external advice sources to ensure that they were fully aware of the terms of the purchase and features of the final product chosen. It was necessary to define the extent of the involvement of the respondent in the recent purchase in order to determine whether these were best placed to indicate the purchase process undertaken. This would then give indicators of financial capability for use in the factor analysis of this domain. The result in Table 4.2 confirms that only 2 per cent of those who made purchases of investment products in the past 5 years conceded that they were not active in the decision-making concerning that product.

Table 4.2 Investment and savings financial products held and recently purchased

Row percentages	Currently held	Purchased in Last 5 years	Active role in purchase
Current account	81.5	20	44
Credit Card	37	10	18
Mortgage	25	10	21
Savings account (Bank/Building Society)	34	7	14
An Post	9	2	5

Credit Union	45	9	17
PIP (Personal Investment Plan managed by a life insurance company – regular saving)	2	1	2
Unit trust of investment trust	1	0	<1
Guaranteed equity bond/tracker bond	2	1	2
Other investment bond or policy managed by a life assurance company (capital not secure)	3	1	2
Gilts	0	0	0
Stocks or shares	6	2	4
Personal pension, PRSA, AVCs	12	4	8
Don't Know	2	2	--
None of these	6	51	--
Weighted Base – no of respondents	1,529	945	924

* Figures are *row* percentages.

In relation to product ownership we found that the majority of respondents hold a current account (81.5 per cent) either in their own name or jointly with another person. One in four current account holders report that their present account was opened in the past five years. This can be interpreted as a definite indication of the practice of account switching becoming more prevalent amongst current account holders. A credit card is held by 37 per cent of the population. Almost half of all respondents had a credit union account (45 per cent), a quarter of all respondents had a savings account in a bank or building society, and 9 per cent held an An Post savings product. Where only one type of savings account is held, this is more likely to be a credit union account rather than a bank or building society account (Table 4.2).

Analysis of the weighted survey responses in Table 4.3 show that many respondents hold insurance products for a long period of time even though general insurance renewals tend to take place annually. Life assurance are usually open-ended or for longer terms and only 1 in 4 life insurance holders changed their policy in the last five years. For non-life assurance, automatic renewals tend to happen frequently. With the exception of motor insurance where one in three motor insurance policyholders have either taken their first policy out or changed insurers in the past five years, the level of shopping around for general insurance products is low.

Table 4.3 details the percentage of the total number of respondents who currently hold any insurance and unsecured credit items or have purchased some in the last five years. Table 4.3 also shows the share of all respondents who were actively involved in these purchases undertaken in the past five years.

Table 4.3 Insurance and unsecured credit

Row percentages	Held Currently	*Of which:* Purchased in Last 5 years	*Of which:* Active role in purchase
Insurance			
Life and mortgage protection insurance	39	11	21
Critical/Serious illness insurance	13	4	7
Income protection/permanent health insurance	8	3	6
Payment protection insurance (for mortgage payment)	11	4	7
House contents insurance	47	12	24
Buildings insurance	43	10	19
Motor insurance	63	21	42
Travel insurance	16	5	11
Private medical/dental insurance	32	6	12
Unsecured Credit			
Personal loan	8	5	10
Credit union loan	14	10	21
Moneylender/house collection	1	1	2
Hire Purchase	3	2	4
Store card not settled every month	1	<1	<1
Mail order catalogue (amount owing)	1	1	2

Don't Know	4	4	--
None of these	16	50	4
Refused	1	1	--
Weighted Base – no of respondents	1,529	685	660
Share of total respondents	100	45	43

* Figures are *row* percentages

The survey revealed that only 24 per cent of all respondents stated that they did not currently hold any insurance products. Of those holding at least one insurance product, this is most likely to be motor insurance (63 per cent), house contents insurance (47 per cent) or buildings insurance (43 per cent). On average, the population are likely to have four insurance products at any one time, however 7 per cent appear very risk averse and are likely to have 6 or more of the above insurance products.

Looking at the unsecured credit products in Table 4.3, 77 per cent of respondents stated that they do not currently have any of the loan products listed above. Where personal loans are held, it is most likely that this will be in the form of a credit union loan (14 per cent). Personal loans are most likely to be unsecured in nature. Moreover, credit union loan holders (compared with bank loan holders) are most likely to have taken out their initial loan or renewed their loan agreement in the past five years. Where personal loans are held for 5 years or longer, these are almost exclusively held with banks. These loans may perhaps be fixed term loans that may involve penalties for early redemption and this may contribute to their longevity.

We now go on to explore the recent and active purchase of specific products in the following sections.

4.2. Mortgages

The survey indicated that just over a quarter of respondents (26 per cent) replied that they were owner-occupiers of their home and that there was currently no mortgage outstanding on the property. Three out of ten respondents were owner-occupiers with a mortgage outstanding.

Repayment or annuity mortgages were the most common mortgage product, held by 85 per cent of those with a mortgage. These are the least risky mortgage products in the sense that there is no chance that there would be a capital sum left outstanding at the end of the term of the mortgage. A very small number of respondents (2 per cent of mortgages) stated that they possess interest-only mortgages. However, all of these respondents reported subsequently that they had an alternative investment or plan for the capital repayment be it from the sale or a property, investments already made or expected inheritance.

Endowment mortgages were also very uncommon among respondents and accounted for just 4 per cent of all mortgages. When respondents were asked how they might have to supplement their endowment policy in order to clear their mortgage, every respondent had a back-up option in mind including, sale of a property, existing savings or investments or expected inheritance. Only one respondent stated that they would not be able to pay off the capital and would switch to a repayment mortgage at the end of their current endowment term.[32]

A mortgage is one of the single most significant long-term financial commitments that households undertake. Therefore, it is important that we assess how easy it is for respondents to keep up with their mortgage repayments. Our findings are reported in Table 4.4 and show that over three-quarters of respondents with mortgages stated that they could keep up with their repayments without any difficulties. One fifth said that they could keep up with repayments but that it was a struggle to do so from time to time. Three per cent with mortgages said they could keep up with repayments but that it was a constant struggle, and less than one per cent of respondents stated that they sometimes fall behind with repayments. There was no indication that any respondents were consistently in arrears with their payments.

[32] 85% of mortgages are annuity, 4% endowment and 2% interest only. The remaining other 9% could or would not say what type of mortgage they held.

Table 4.4 Ease of mortgage repayment burden

Column percentage	**Per cent**
Keep up with repayments without any difficulties	75
Keep up with repayments but struggle to do so from time to time	20
Keep up with repayments but it is a constant struggle	3
Sometimes fall behind with repayments	1
Always fall behind with payments	0
Mortgage paid in full by DSFA or local authority	0
Don't Know	1
All	100
Weighted base – no. of respondents with mortgages	385

The vast majority of respondents with a mortgage were unaware of the interest rate applied to their mortgage, and one third of respondents could not even guess the current rate of interest on their mortgage.

The following discussion relates to respondents who made an active purchase of a mortgage in the last five years. Our survey found that the primary reason for respondents taking out a mortgage related to buying a property (87 per cent). Only 13 per cent of mortgage holders had re-mortgaged their current properties. Of those re-mortgaging, the largest group re-mortgaged to pay for home improvements while the next most popular reason was to fund or part-fund the purchase of another property. Surprisingly, re-mortgaging to get better terms (e.g., an interest rate deal) was only very infrequently selected, which indicates a degree of inertia on the part of people in respect of financing their home mortgage. Another factor relating specifically to mortgages is the prevalence of fixed interest rate options popular among first-time buyers in particular, which would incur penalty charges if cancelled during the fixed tie-in period.

Respondents were asked which, if any of the following sources of information were used before deciding which mortgage to take out. The results are displayed in Table 4.5 below.

Table 4.5 Source of information used when taking out recent mortgage

Column percentage	Source of information prior to taking out mortgage	Most important where more than one source
Unsolicited information by post	2	2
Information at bank branch	37	14
Internet information	13	7
Best-buy tables in press	5	4
Best-buy information on internet	3	0
Specialist magazines/publications	1	0
Information from sales staff providing products/quotes	20	18
Recommendation from another professional advisor	40	24
Advice of friends/family (not working in financial services)	20	16
Advice of friends/family (working in financial services)	10	11
Independent guide/booklet	1	0
Newspaper articles	6	2
Newspaper adverts	4	0
TV adverts	2	0
TV or radio programmes	4	2
Employer	1	0
Foreign Property Show	0	0
Other advertising	0	0
Other source	1	0
None of these:		
Stayed with existing provider	5	0
Took only product available to me	1	0
Didn't use any information	1	0
Don't Know	2	0
	--*	100

*Multiple sources possible so percentages do not add to 100%.

Recent mortgage holders were asked if they had consulted any of the listed information sources regarding their mortgage, and respondents were allowed to pick as many sources as was relevant. The source of information used most often was that of a professional who was not involved in the direct sale of the mortgage product, (40 per cent). This was most likely to have been an independent mortgage broker. The second most cited source was that of information picked up in a branch of the financial institution they dealt with (37 per cent). Advice from family and friends (working in financial services) was the third most cited source for information relevant to their decision-making regarding their recent mortgage. Of those that stated that they had been influenced by more than one information source, they were asked again to state which source of information was the most important.

Despite the significant costs and future interest repayments associated with taking out a mortgage, one-third of those who purchased a new mortgage recently did not collect information about different mortgages from more than one company in order to compare them, nor did they did check best buy recommendations frequently published on the internet and in newspapers listings. Those who were guided by an independent advisor or broker were least likely to have made an effort to collect other information, probably considering it not necessary when the independent broker or advisor was engaged to do so. Where a professional advisor collected information about different mortgages, one third said they chose the one recommended by the professional advisor and another third said their choice was influenced by the recommendation of the advisor, presumably where the same professional recommended more than one option. Also those who went with their existing provider very rarely did additional research on alternative company offerings or engaged an advisor.

The features of the chosen mortgage that influenced the final choice were then probed. Table 4.6 shows the distribution of responses according to the features of the product chosen.

Table 4.6 Mortgage features driving final product choice

Row percentages	Per cent
Type of mortgage (repayment, endowment, interest-only)	16
Interest rate	37
Type of interest rate	7
Amount of deposit required	3
Used company/provider before	9
Reputable/well established firm	12
Recommended by professional adviser	12
Recommended by family member/friend/colleague	5
No penalties for early redemption	1
Did not consider alternative mortgage	3
Best deal/cheapest/most beneficial	23
Length of repayment period	1
Level of repayments/affordable repayments	4
No choice/only one offer	1
Other	5
Don’t Know	1

* Could choose more than one option – does not sum to 100 per cent

The two most important features determining the purchase of a mortgage product were the level of the interest rate applied to the mortgage and the perceived best deal. There is consistency in these answers as these categories are significantly related to each other. The other feature that affects the affordability of the repayments is driven by the term of the mortgage (length of the repayment period), which was selected by only a very small group. Recommendation from a professional advisor and the lender being a reputable or well-established firm were also important, but significantly less so than the affordability factor surrounding the interest rate offered (Table 4.6 above).

As an important feature of financial capability, respondents who recently took a mortgage were asked how much attention they gave the terms and conditions of their mortgage. Over half said that they read the terms and conditions carefully, over a third gave them some attention and the remaining (17 per cent) did not give them any consideration at all. In the case of those respondents who did not give personal attention to the “small print”, most trusted a friend or relative to check the agreement on their behalf.

4.3. Life and Protection Insurance

Income protection insurance provides monetary cover if the policyholder is unable to work. It is reasonable to assume a positive correlation between financial capability and ownership of an income protection policy where there is a risk of loss of earned income. At the same time, age, health, family status and affordability all impact on the purchase of income protection. To this end, one in six respondents (15 per cent) had some kind of income-protection insurance. Of these, 76 per cent had sickness or disability cover and 60 per cent had accident cover but only 39 per cent of those with income protection insurance were covered against redundancy. The coverage rates tend to be significantly lower for the respondent’s partner where 40 percent with personal income-protection coverage do not have their partner covered within the standing income-protection policy. Some partners however, may have their own income protection insurance.

Table 4.6 shows the distribution of information sources consulted prior to the recent purchase of life protection.

Table 4.6 Source of information for active purchase of life protection

Row percentages	Per cent
Unsolicited information sent in post	2
Information picked up at branch	28
Information found on internet	7
Best-buy tables in financial press	3
Best-buy information on internet	2
Specialist magazines/publications	1
Information from sales staff selling products	15

Recommendation from another professional adviser/broker	35
Advice of friends/family not working in financial services	12
Advice of friends/family working in financial services	8
An independent guide/booklet	1
Television or radio programmes/adverts	4
Other advertising	1
Employer	4
Other source	1
None of these – stayed with existing provider	2
None of these – took only product available to me	1
None of these – didn't use any information	3
Don't Know	1

* Note: Could choose more than one option – does not sum to 100 per cent

Table 4.7 shows that the most popular source of information and advice for respondents prior to purchasing life insurance products was from a broker/advisor (35 per cent). Respondents also relied heavily on information picked up at the branch prior to their purchase of life insurance products. However, respondents were not singularly convinced by advertising material unless accompanied by an opportunity to meet with a salesperson or more particularly an independent financial advisor or broker. When multiple information sources were consulted, advice and recommendations from friends and family featured most often.

One fifth of those with income-protection insurance did not know if they would receive financial compensation benefits immediately if they had to claim under the scheme. Of those who knew that they would have to wait for a period of time before they could claim under the scheme, the average wait time was estimated by respondents to be two and a half months. Two-thirds of income protection policyholders reported they had checked whether they have adequate insurance cover. On the occasion they last checked their policy, almost 25 per cent increased the cover or benefits. Those who did not increase the benefits (42 per cent) stated they were happy not to do so because the policy is index-linked. A decision to reduce the level of cover was only taken in a very small number of cases with the balance of respondents choosing to keep the status quo.

Life insurance is another popular financial product held by respondents, the majority of respondents purchased life insurance to cover against death as opposed to serious illness. The research showed that one third of all life insurance policies will pay out as a lump sum on death and another third were joint life policies with a lump sum payable on death of either spouse. The remaining policies are payable as a regular income or a lump sum if either partner suffers a serious illness. Policies delivering a lump sum in the event of accident, redundancy or less serious illness or the payment of inheritance taxes arising on death are held by a small minority and are not statistically significant in our analysis of the survey responses.

While 38 per cent of life insurance/mortgage protection policyholders checked that their level of coverage was adequate for their needs on an annual basis, the same proportion again had never checked their policy since its inception. The remaining quarter of respondents check their coverage less frequently than once a year. When coverage is checked, the majority of respondents leave their policy intact with its original terms regardless of whether the policy is index-linked or not.

4.4. Other (non-life) insurance

The questionnaire specifically tracked respondents who had actively engaged with the purchase decision of insurance products and had made a purchase in the last five years. There is a wide range of insurance that is grouped under the heading of general insurance. Almost 20 per cent of all respondents mentioned significant active purchases of one or more of these insurance types, which would include buildings and house contents insurance, motor insurance, private health insurance, travel insurance, car breakdown etc.

Prior to purchasing a general (non-life) insurance product, a slightly more diverse pattern concerning sources of information consulted arose. However, advice of friends and family still remained the top source of information. Professional financial advisor advice was much less important and general advertising and web-sourced information made more of an impact on the decision. People were more likely to do their own searches than have a professional advisor complete their background research for them; nonetheless, best-buy recommendations were not widely followed. There seems to be a relatively high level of inertia, with consumers staying with existing providers more often than not. Shopping around for the most suitable product was very low with only 13 per cent of respondents getting five or more quotes for non-insurance products. Over 40 per cent only got one quote for the product they choose.

The majority of respondents reported that they made their final choice based on the cost of premiums (66 per cent), with 27 per cent reporting that their decision was based on the level of cover.

As discussed above, one important aspect of financial capability is the ability to choose appropriate products. Crosschecking housing circumstances by home contents and buildings insurance indicates where voluntary insurance would be deemed prudent even if it is not required by law (as in the case of motor insurance). As indicated in Table 4.7 below, a considerable proportion of the respondents interviewed did not have home contents or buildings insurance, despite their circumstances indicating that this would have been appropriate. While three-quarters of respondents indicated that they owned their home outright, a substantial proportion had neither buildings nor home contents insurance (25 and 20 per cent respectively). Normally mortgage agreements require that buildings insurance be taken out (especially if the property is not an apartment or part of a group housing scheme) but a significant proportion of those with a mortgage answered that they did not have buildings insurance (28 per cent). Less than one in five homeowners with a mortgage had either buildings or home contents insurance to protect their investment.

Table 4.7 Suitability of product holding; household insurance and tenure

(Full sample) Row percentages	Holds Buildings insurance	Holds home contents insurance
Own home outright	75	80
Own home with mortgage	72	74

Tenant purchase scheme (Local Authority)	31	54
Rented from a Local Authority	4	9
Rented from a Voluntary Body	0	8
Rented unfurnished Private landlord	5	10
Rented furnished private landlord	3	9
Occupied rent free	3	5
Don’t Know	0	0
Refused	0	0
Weighted base – no. of respondents	1,529	1,529

* Figures are *row* percentages

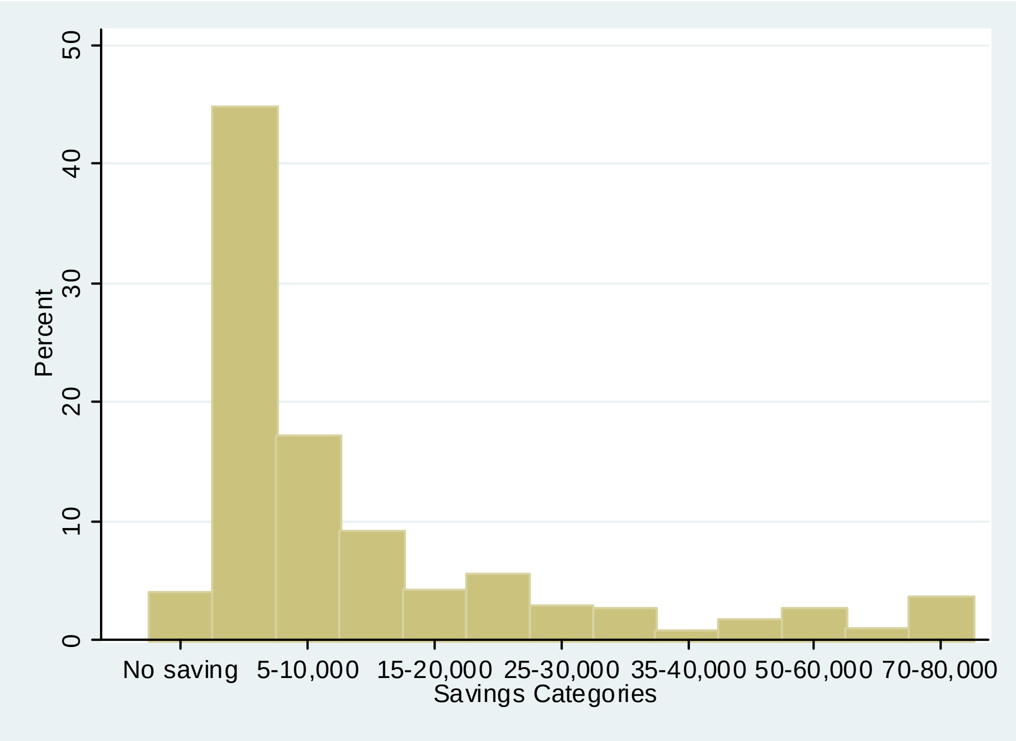
4.5. Saving accounts and other investments

4.5.1. Savings

As with the approach in the previous sections, respondents were asked whether they had recently bought a savings product and were active in that purchase to the extent that they had made external consultations to inform themselves about the different savings products available in the market. This could be simply in terms of collecting information from more than one company or engaging an independent financial advisor.

It was necessary to establish how much savings were held in the respondents’ own or joint names and also the variety of savings products held as well as an estimation of the value of these products. Nearly two-thirds of respondents held some savings products and the majority of these were likely to be held in their sole name only (67 per cent). The remaining were held jointly or in a mixture of sole and joint names i.e. some in partner’s sole name. Over half of respondents had just one savings product and a further 27 per cent said they had two products. The average number is 1.8. At the other end of the spectrum, 1 per cent of respondents with savings had 9 or more separate products. The average amount of total savings disclosed was just over €17,000 but the majority of savers have a savings balance of less than €5,000 at the time of interview, as reflected in Figure 4.1.

Figure 4.1 Per cent of respondents by savings amount categories



A significant share of current savings balances was derived as part of the Government's Special Savings Incentive Scheme (SSIA). About half of all respondents stated that their savings included (some of) their SSIA returns. Among the entire population, the average amount of savings from SSIAs was around €12,350. This ranged from a minimum of €500 to a maximum of €48,000. The vast majority of all savings account holders continue to actively save: 73 per cent of savings product account holders added to their savings in the past 12 months. This is most likely to be on either a weekly or monthly basis and does not include any money transferred from other savings or investment accounts. Regarding the amount of regular saving in the past 12 months, 45 per cent have added €1,000 or less net new saving to their savings balance. At the other end of the distribution, 8.5 per cent saved €10,000 or more in the past 12 months, exclusive of transfers of existing saving amounts. This indicates that the SSIA savings habit may have been sustained especially for this intensive saver category.

Additional questions were asked of respondents who had made a recent but significant purchase of savings products in the past five years and considered it one of their two priority purchases.[33] The sources of information used in deciding which savings account to open were first examined. Advice from friends and family not working in financial services was the most cited source of advice. The second most popular source of advice was information picked up in a branch of a financial institution, with advice from friends and family working in financial services the third most popular information source. Professional advice is rarely sought and best-buy tables are rarely consulted. Savers tend also to be sceptical of advertising in its many forms. Compared with other financial products, less effort was made to gather information from more than one company to undertake comparisons as only 25 per cent of respondents said they had carefully considered alternatives to their eventual decision.

When asked about the features of the particular savings account that made the respondent choose it rather than another account, surprisingly the rate of interest and most beneficial return mattered in just 15 per cent and 9 per cent of savings decisions respectively while recommendations was by far the most important factor (25 per cent). Inertia factors, for example not considering changing, or familiarity with branch or financial institution also featured in 11 per cent of choices. It was also interesting to find that 62 per cent said that they were not sure of the current level of interest payable on the account at the time of the survey. At the same time, 17 per cent were not sure if they were required to leave their savings for a set time without withdrawals to take advantage of the rate offered.

4.5.2. Investments

From the survey, 11 per cent of respondents reported that they held investment products (over and above simpler savings accounts). On average, respondents who had investment products tended to have more than one such investment product (the mean was 1.6 products). The average amount held in investment products is also significantly higher than savings products at around €31,500. Two-thirds of those with formal investment products have not paid any additional money into the

[33] For a savings product to be considered a respondent's priority purchase, they must not have actively purchased more than one of the following types of products in the last five years: investments, mortgages, life assurance and protection, credit cards, loans or general insurance. There were 158 respondents representing 22.5 per cent of all those with savings products and just over 10 per cent of all respondents to the survey.

account(s) in the past 12 months. However, a significant number of these same investment products do not allow additional payments into them once they have been set up (lump sum investment products). If there are payments to these investments, they are most likely to be on a monthly or yearly frequency. The yearly payments average €7,700 while the monthly payments are €4,600 on average.[34]

Financial capability may also be reflected by the attention given to statements of investment accounts. Very few respondents do not look at the statement at all and the majority read it carefully as opposed to reading it briefly. Eight per cent claim not to receive a statement at all. Investors were also asked if they regularly monitor the performance of their investment. Overall, 73 per cent look at the performance up to once a year but 27 per cent claim to more actively monitor their investment by checking its performance once a month or more frequently.

The reasons for holding or purchasing investment products were probed. Table 4.8 below shows the distribution across these reasons for our survey. Precautionary saving is the most cited reason driving investment (58 per cent) with bequest motives for investing recorded in a quarter of incidences i.e. to build a legacy for children, grandchildren or other family.

Table 4.8 Reasons for investing

Row percentages	Per cent
Rainy day – no particular purpose	58
For children, grandchildren, other family	25
To provide a regular income now	8
To provide a regular income in next 3 yrs	3
To provide for retirement in next 3 years	4
To cover cost of major expense in next 3 yrs	16
To provide a regular income in more than 3 years	8
To provide for retirement in more than 3 years	16
To cover cost of major expense in more than 3 yrs	9

[34] The sample numbers underlying these estimates are small and these should be used as indicative only.

Speculation/recreational	10
To pay off a mortgage	6
Given/inherited investment/windfall	5
Tax-free investment	6
To cover costs of a major expense, no time period	15
Work profit-share/share scheme	7
Don’t Know	4
* Multiple options possible – figures do not add to 100 per cent	

Further analysis showed that a quarter of those who indicated they might have a short-term need for money, which would require them to cash in their investment, feared that they will not have sufficient amounts to meet that need. The most prevalent plans to deal with the shortfall are to cut back and or spend less or to rely on other savings that were not originally required.

Following up on those who stated that they had been engaged in the major purchase of an investment product in the past 5 years, it was found that a quarter of this subset of respondents included all of their SSIA money in their investment. Another 15 per cent included some of their SSIA returns while the balance of 60 per cent did not link this investment to the maturing of the SSIA savings scheme. With regard to the sources of information consulted before deciding which investment to take out, the advice of a professional financial advisor or broker featured more often than in the savings choices discussed above (28 per cent). Advice of family or friends was less likely than before, perhaps due to confidentiality reasons. Best-buy tables in newspapers and magazines also proved helpful in 10 per cent of decisions.

In terms of the most influential source of information regarding their recent investment decision, financial advice from a professional was most often cited. This person was most likely to be the manager of, or, advisor from a bank or insurance company. However, in 46 per cent of cases the decision was made entirely by the investor and not solely based on the recommendation given to him/her by the professional.

The following features of the product were considered as important in making the final decision to proceed with the investment – past performance (14 per cent); high potential returns (16 per cent); recommended by a professional adviser (16 per cent); guaranteed returns (10 per cent).

As with mortgages, everyone who had taken out an investment in the past five years was asked about the purchase. It was less common for respondents to collect their own information on investments than on insurance; 39 per cent had done so from more than one provider. As noted above, just under half of holders with recent new investments, claimed to have made the final choice entirely by themselves, with just 21 per cent relying entirely on a professional adviser. Just one in seven (14 per cent) based their final choice on the past performance of related investments they had already purchased, and a similar number (15 per cent) chose an investment with high potential returns.

Table 4.9 Attitude to risk (for those with investments in the past 5 years)

Column percentages	Per cent
No risk	23
Low to moderate risk	41
Moderate risk	22
Moderate to high risk	8
High risk	4
Don’t Know	2
All	100
Weighed base – no of respondents	71

Thinking about the lifetime of their recent investment, respondents were asked to assess the level of risk that some of the capital invested could be lost. Table 4.9 shows the distribution of respondent’s risk attitudes regarding their recent investment. Risk is defined as the potential to lose some of the capital sum invested. However, taking on a higher risk tends to be rewarded with a higher investment return. We have no information on whether investors were aware of this trade-off when undertaking the investment. Table 4.10 above shows that over 86 per cent of respondents had little or no appetite for risk.

4.6 Credit cards and loans

Our survey showed that 37 per cent of respondents held a credit card. Over 55 per cent of respondents who held credit cards had an outstanding balance. However, this does not mean that the current balance is currently subject to interest if the survey occurred before the due date for payment. The average balance due across all credit cards was €872 or €1,552 excluding cards that were completely clear at present.[35]

The majority of credit cards are held in the holder's sole name (70 per cent) with the remaining held in joint names or a mixture of the two holding status where there are multiple cards. Respondents were asked to indicate the total credit limit available to them between all cards. The mean credit limit was just over €6,100 while the median was €4,500 i.e. half of all respondents have a limit in excess of this amount and half have a limit greater than this amount. Asked if in the past 12 months, the credit limit on available credit cards had been increased without the holder specifically requesting it, one in four respondents said that it had. Probing further on the spending reaction the increased spending limit had caused, 5 per cent said they had spent up to the new limit, with almost half of respondents saying that they continued to spend about the same as the old limit. The survey showed that 6 per cent asked their credit card provider to return their limit to the old level.

The next set of questions asked respondents about their payment practices. As shown in Table 4.10 below, 55 per cent always pay off the whole amount outstanding, and a further 15 per cent usually pay off the whole amount due. While only a small selection of respondents have payments made on their behalf, the remaining 29 per cent pay off less than the amount due on a systematic basis.

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[35] The median balances outstanding were €200 and €840 respectively where the median represents the half way divide among cardholders i.e. half of all cardholders have a balance of less than €200 and half have a balance of more than €200. Half of cardholders with a positive balance currently owe less than €840 and half of this group owe more than €840.

Table 4.10 Credit card debt repayment practices

Column Percentages	Per cent
Always pay off whole amount outstanding	55
Usually pay off whole amount outstanding	15
Usually pay off what can they can afford	24
Usually make minimum payment required	5
Don't make any payments	1
Don't Know	<1
All	100
Weighted base – no of respondents	567

Respondents stated that they used their credit card for the following purposes: pay regular bills (20 per cent); to withdraw cash (14 per cent); to pay for food or every day spending (24 per cent). A small minority did not know what their credit card was used for (1 per cent). Other uses were cited for 56 per cent of credit card holders. The next question enquired about the intensity of use for the stated reasons and the mean and median results are shown in Table 4.11. When used to pay for food or every day spending, the card was used very frequently with a mean of 51 single uses in the past 12 months. The median measures shows that half of those who use their credit card in this way, used it more than 24 times to meet their day-to-day spending (Table 4.11 below).

Table 4.11 Most typical use of credit card

No. of uses in past 12 months	Mean	Median
Pay regular bills	44	20
To withdraw cash	34	10
Pay for food or every day spending	51	24
Don't know	--	--
None of these	--	--
Weighted base – no of respondents	567	567

The extent to which respondents paid attention to reconciling their statement items, and considered their spending practice was also probed. The level of attention given to statement reconciliation ranged from a close attention to detail when receipts and spending are checked against the statement in 45 per cent of responses; to checking entries and balances without receipts to see if they look ok (38 per cent); and check final balance only (14 per cent**).** A small number do not look at the statement at all (2 per cent) and smaller number again only check the minimum payment is according to the final balance (1 per cent). The remainder were unsure what the statement reconciliation practice was.

Just slightly less than half of respondents to this section reported that they had only briefly looked at the terms and conditions of the credit card account before signing their credit card agreement. On the other hand, 30 per cent reported that they had read them carefully while 20 per cent said they did not read the terms and conditions at all. This latter group were very unlikely to have engaged a friend of relative to read them on their behalf before signing the agreement.

If a credit card was actively chosen as a new financial product in the past five years and respondents had not mentioned more than one other significant financial product involvement, a set of follow-up questions were asked as it was deemed a priority purchase. Two-thirds of this group told us that they had made the choice of credit card entirely by themselves, but perhaps surprisingly, one fifth felt they had been informed or influenced by someone else. This person was most likely to have been a manager or adviser from a bank or building society.

On investigating further on the features of the credit card which made the respondent choose it rather than another card, 27 per cent said it was due to the interest rate charged and 24 per cent because they had used this company or provider before. Other less significant reasons given were because the card was recommended by a professional advisor (e.g. manager from a bank or insurance company, mortgage or insurance broker) for one in ten cases or that it came with their current account or the card's reputation or brand of the company (both 1 in 14). Surprisingly, a zero balance transfer period (i.e. no interest for a certain period) was only significant in less than 4 per cent of cases Nonetheless all of those who took advantage of this feature stated that they are more likely to clear the balance transferred before the end of the interest-free period.

Exactly half of respondents who had a new credit card as a priority purchase were not aware of the interest rate they were paying. Other estimates of the rate varied from 5 per cent or less in the case of 6 per cent of respondents to 15 per cent or more in the case of 10 per cent of respondents to this section.

4.7 Current account

Current accounts are considered to be a gateway to financial services. As shown in Table 4.2 above, most of the adult population operate a current account. It has also been reported that opening or changing their present account was a significant financial decision for one in three current account holders in the past five years. This finding is encouraging given the targeted policy emphasis on making the process of account switching more accessible and less off-putting.

Of those that had chosen a current account in the last five years as a priority purchase, almost three in five (59 per cent) made the decision by themselves. However, just over a quarter of respondents said their decision was influenced by a friend, relative or someone else (most likely not working in financial services). By far, the most common reason stated for choosing a particular account was a recommendation by a family member, friend of colleague (31 per cent). The next most popular factor was the bank’s convenient location or location of cash machines (19 per cent). Other more minor reasons given were familiarity with this financial institution (11 per cent) and reputation and brand of the bank or building society. Only in 8 per cent of cases were best-deal or most beneficial considerations cited. Six per cent of respondents said they had no choice in the account they could open.

4.8 Creating a factor score

The choosing products domain differs from the previous two domains because of the range of possible purchases and the detail of the responses. Most decisions regarding product choice had multiple acceptable responses such as a choice based on best deal criteria as well as recommendation of personal contact. We therefore had to derive variables from a range of questions to capture the best indicators of financially capable behaviour, which would allow comparison across financial products available as well as providing a meaningful score for our analysis.

A number of steps were taken to calculate the relevant financial capability score. First we only include those who had made a significant (active) purchase in the previous five years. By extension, when the variables are discussed below for our factor analysis formulation, we only report answers for the subset of people who had indicated that they had made significant recent purchases.

In line with the UK approach to the same analysis, the final factor score for the "choosing products" domain is made up of six derived variables, capturing aspects of the following:

- Information and advice
    - Whether any information was collected
    - Main source of information for active purchase
    - Checking whether the adviser was authorised
- Choice
    - How the respondent chose the product
    - Why the respondent chose a particular product
- Terms and Conditions
    - Reading the terms and conditions

4.8.1.Whether any information was collected

The survey asked respondents about the types of products purchased and whether an advisor collected the information. However, for the factor analysis, where the aim is to indicate financial capability regarding engagement with financial products, we assume that the higher a person's demand for information prior to making a product choice, the more financially capable they will prove to be. The important issue, therefore, is to measure the extent of the effort that respondents went to in order to collect information that could be used in making a decision about financial products.

This is particularly the case when looking across products, as some are more likely to be bought with the advice of a financial professional or adviser than others.

We therefore created a single yes/no variable that identifies respondents who had any information collected for the products they had purchased, regardless of whether or not they had been personally responsible for getting the information.

In all, 63 per cent of all respondents to the survey (or 963) had made a purchase of at least one of the financial products listed above in the previous 5 years. However a small number of these noted that they were not 'active' in terms of deciding about the product. Thus, in the following section, only these 924 people are included in the analysis and a factor score can only be calculated for this subgroup. Of these, 48 per cent told us that they had either collected information or that an adviser had done so on their behalf.

4.8.2. Main source of information for active product purchase

A new variable was defined which describes the main source of information used by each respondent when choosing the most complex product that they purchased in the last five years. The results are summarised in Table 4.12. This variable captures the influence of promotional literature and other product specific information and will make an important addition to the factor score for financial capability in the choosing products domain.

Table 4.12 Main source of information for active product purchase

Column percentages	Per cent
Best buy, active search	7
Independent Financial Adviser or broker	13
Other, generic information	44
Product information or other kinds of advice	20
Unsolicited advice thru post	3
No advice	11
Respondent does not know what advice used	2

Total	100
Weighted base – number of respondents	924

4.8.3 Whether respondent checked whether their advice was authorised

From Table 4.12 above, 13 per cent of respondents who made a purchase in the past five years indicated that an independent financial adviser or broker was their main source of information. Other respondents also indicated that they had used an advisor when coming to their decision. The next step in developing a financial capability score when it comes to choosing financial products is to incorporate whether the respondent considered their adviser was competent (i.e. authorised) to aid them in their decision (Table 4.13).

Table 4.13 Checking whether the adviser was authorised

Col percentages	Recent purchases
Checked whether authorised and knows who by	15
Checked whether authorised but does not know who by	4
Unauthorised advice or does not know if authorised	13
Did not use adviser	68
Total	100
Weighted base – number of respondents	924

4.8.4 How Respondent chose the product purchased

This variable was created from responses to questions about the actions taken by respondents to gather their own information regarding recent financial product purchase, use of independent financial advisers and the level at which this advice was taken on board in the final decision. The analysis differentiates between people who actively sought to purchase the product most suited to their needs and those who were happy to rely on information typically provided but not tailored for their specific requirement. The results in Table 4.14 complement the information in the two previous tables as the more informed the decision-making, the greater the score for financial capability allotted.

Table 4.14 How respondent chose product

Column percentages	Per cent
Well-informed personal choice, used an IFA	25
Influenced by IFA but did not access best buy	10
Relied on independent advice	11
Relied on product info and/or non-independent advice	55
Total	100
Weighted base – number of respondents	924

4.8.5. Why the respondent chose the product

Respondents were asked what were their key reasons for choosing one product over another and these were summarised into categories relating to the features of the product, price of the product, whether the product was recommended by someone else (if indifferent to product features or price), features of the supply of the product (if indifferent about product features), price or recommendation, and lastly where no other options were considered. These are summarised in Table 4.15 below. Over two in five (41 per cent) bought a product for its price features and 19 per cent were swayed by a recommendation either from a professional or most likely friends, family, colleagues etc. A similar proportion bought for reasons such as ease of supply, convenience, supplier reputation etc. However, almost 10 per cent felt that they had no other options or did not consider them if they felt there was only one obvious option presented to them.

Table 4.15 Most desirable features of financial product recently purchased

Column percentages	Per cent
Product characteristics	13
Price - not other features	42

Recommended - not product features or price	19
Provider or ease of supply- not product features	17
Didn't consider other options	10
Total	100
Weighted base – number of respondents	924

4.8.6. Reading the terms and conditions

This variable seeks to capture the potential for people to miss important details in the "small print" of the financial products they may have recently purchased. The hypothesis for our analysis is that the less financially capable persons would be more likely to ignore the terms and conditions than more financially capable consumers. Financially capable consumers would be more likely to be aware that the terms and conditions are important. They would, therefore, be more likely to consider these in detail when given the opportunity, or refer to another person to advise them to ensure they were fully informed about their purchase.

As with the four previous variables described above, we have combined the responses across products to add to the factor analysis. The results are shown in Table 4.16 below. They indicate that 39 per cent had read the terms and conditions in detail, without relying on someone else to do so for them. In one in five, the terms and conditions had not been read at all.

Table 4.16 Engagement with terms and conditions

Column percentages	Per cent
Read personally, in detail	39
Read briefly and go someone else to read them	5
Read briefly	33
Someone else read	3
No-one read	20
Total	100

Weighted base – number of respondents	924

The results of the factor analysis are shown in Table 4.18 below. All the variables have high loadings, particularly how the chosen product was bought and who read the terms and conditions.

Table 4.18 Factor analysis of the ‘choosing products’ domain: sorted by item loading

Kaiser-Meyer-Olkin measure of sampling adequacy	Individual Item loadings
Overall KMO	0.6891
Detailed KMOs:	
How chosen product bought	0.7737
Who read terms and conditions	0.7562
Main source of information for active product purchase	0.7493
Knowledge of authorisation of advice	0.6771
Why chose product they did	0.6664
Collecting information	0.6070

4.8.7 Other possible variables for testing

As this domain is about actual purchasing behaviour, we proceed with creating a single factor score using the above variable, which summarises observed purchasing behaviour. We, therefore, omit attitudinal questions from the analysis.

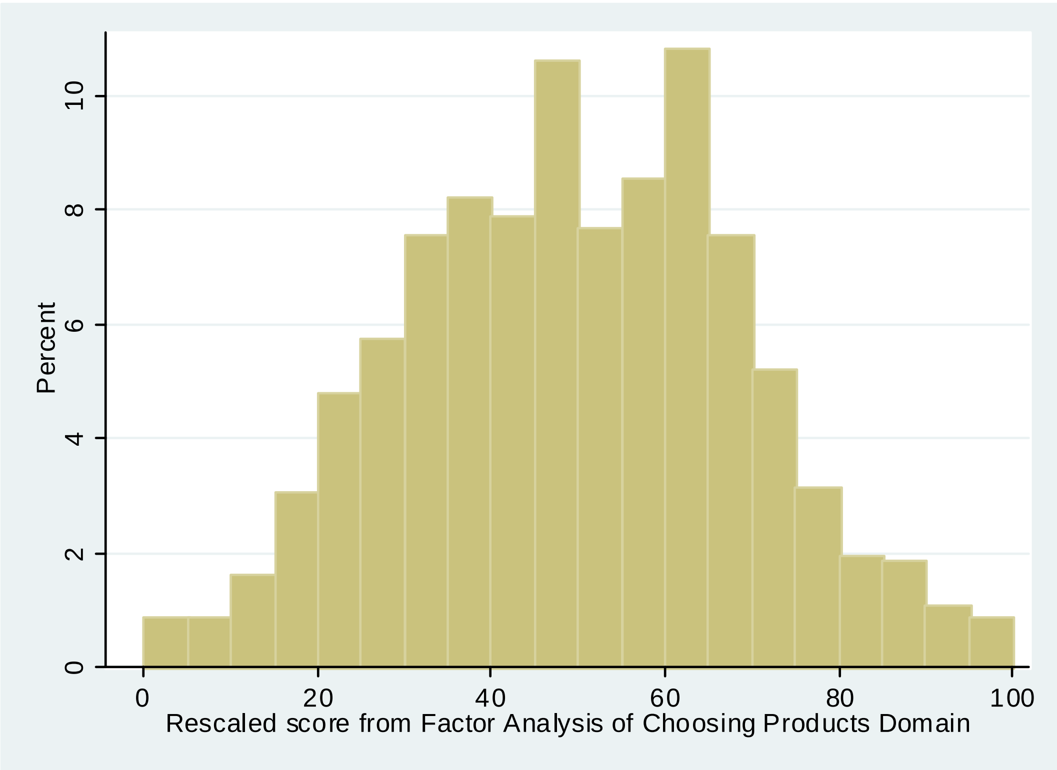
We also considered using details available on the type of adviser used by respondents, as there is information available on whether the adviser was independent or a company salesperson, for example. There are many problems with this because the use of an advisor is very concentrated on particular types of financial products – very considerably so in the case of mortgages and less frequently but quite concentrated among investment product purchases. It is difficult to determine whether it is best to have used an adviser or to have relied on, for example, a bank manager’s advice. Including this variable would have reduced our sample size considerably. Also, consulting an adviser does not automatically imply that the advice provided was appropriate, clear or worthwhile.

A question on whether purchasers discovered that the product they had purchased later proved unsuitable for their needs was tested for inclusion in this factor analysis but it did not prove important. Buying a product that is subsequently found to be unsuitable is not necessarily related to levels of capability in this domain and is more likely to indicate mis-selling rather than be an indicator of financial capability on the part of the purchaser.

4.9. Detailed analysis of the factor score

The average (mean) score for the 'choosing products' domain is 50. It is clear from Figure 4.2 that the levels of capability in this area are concentrated in the middle of the distribution and are generally not high.

Figure 4.2 Distribution of factor score results



The first crosscheck is with familiarity with different types of product. Table 4.19 below indicates the factor score by the number of products held personally by respondents and separately by the number of products purchased in the past five years, suggesting that people learn from experience. As expected, the factor score increases with the number of financial products held, with those holding a smaller number of products having a factor score that is below average. The factor score is also found to increase very significantly if the respondent played an active role in the purchase of the financial products. Highest scores are recorded for those who were very involved in the investment/saving or borrowing of the household in the past five years.

Table 4.19 Factor score by number of financial products held

Mean factor score	Number of Financial Products held	Number of Financial Products actively purchased in past 5 years
No Financial products held	47	47
Up to 2 products held	42	49
2-5 products held	55	62
5+ products held	61	79

Purchasing behaviour is found to be linked to the type of purchase made, particularly when taking out a mortgage or new investment products. It is clear from Table 4.20 that those taking out a current account or simpler savings products tend to have a lower score (generally less than 50) while those engaging with a sophisticated investment product from an insurance company tended to have higher scores (60 and above).

Table 4.20 Breakdown of average domain scores according to financial assets

	Mean factor score	Weighted base
Current account	45	306
Credit card	52	147
Mortgage	64	153
Savings account with bank/ building society	55	110
An Post savings plan	49	36
Credit Union account	47	134
Regular Investment Plan (life insurance co.)	65	12
Guaranteed equity bond/tracker bond	60	2

Other investment bond	63	15
Stocks or shares	57	31
Personal Pension, PRSA or AVCs	62	58

Table 4.21 Breakdown of average domain scores according to holdings of insurance and financial liabilities

	Mean factor score	Weighted base
Life insurance policy	62	160
Critical (or serious) illness insurance	63	60
Income protection insurance	62	44
Payment protection insurance	60	61
House contents insurance	58	183
Buildings insurance	59	148
Motor insurance	54	309
Travel insurance	56	81
Private medical/dental insurance	58	94
Personal loan	48	75
Loan from credit union	46	152
Loan from moneylender	43	14
Hire purchase	55	32
Store card (not fully settled)	45	3
Mail order catalogue	43	13

Table 4.21 shows that those who did not go beyond taking out common insurance policies such as motor, travel and health insurances tended to have lower scores. The lowest score of all was recorded for those who engaged with moneylenders (albeit the sample size was very low). Those with low factor scores also appear more likely to have credit union loans and owe money on store cards and mail order catalogues. On the other hand, higher scores were recorded for those with 'discretionary' insurance such as income protection and critical illness insurance.

4.9.2. Regression analysis

As in previous chapters, we proceed with regression analysis to identify characteristics that might explain variations in factor scores across respondents. The regression model includes variables indicating the characteristics and circumstances of respondents according to their derived factor score. The regression results in Table 4.22 show that differences in factor scores are significantly associated with the number of different products purchased, with a higher number of recent purchases leading to a higher score. The more financial products engaged with in the last five years, the higher an individual's predicted factor score in this choosing product's domain.

Personal characteristics tend also to be significant, especially education. However, the major influence of the factor score is current usage of financial products including having a current account. Other interesting findings include the importance of being in the top income quintile (top 20 per cent of incomes), housing status and region of residence and education. Controlling for the number and type of products purchased, personal characteristics and circumstances have an impact on the score in this domain.

Table 4.22 Significant results of regression for the 'choosing products' domain

Explanatory variables	**Robust Coefficient**	
constant	48.16	***
Score for Level of Involvement with Money Management	0.78	
Housing Tenure ref: Owner occupier with mortgage		
Local Authority renter	-8.41	***
Rented furnished Private landlord	-6.91	***
Rent-free	-8.47	***
Region ref: Dublin		
Munster	3.52	**
No. of Financial Products actively purchased	2.28	***
Current account ref: Has no current account	3.77	**
Qualifications ref: Upper Secondary/Leaving		

Cert		
Primary Education	-6.79	**
Lower Secondary i.e. Junior/Inter Certificate	-6.97	***
Primary Degree and/or Professional Qualification	3.91	**
Post Graduate Degree	4.76	**
Borrowing ratio	0.00	
Income ref. Quintile 5		
Quintile 1 (lowest income)	-4.47	**
Quintile 2	-6.79	***
Quintile 3	-6.27	***
Quintile 4	-5.28	***
Age band ref: age 40-49		
age 18-19	-3.75	*
Work Status ref: Working full- or part-time		
Student)	-4.73	**
Main Earner	2.52	*
Employer provides benefits at work	3.07	**
R^2	*0.2255*	

*** indicates significance at the 1 per cent level

** indicates significance at the 5 per cent level

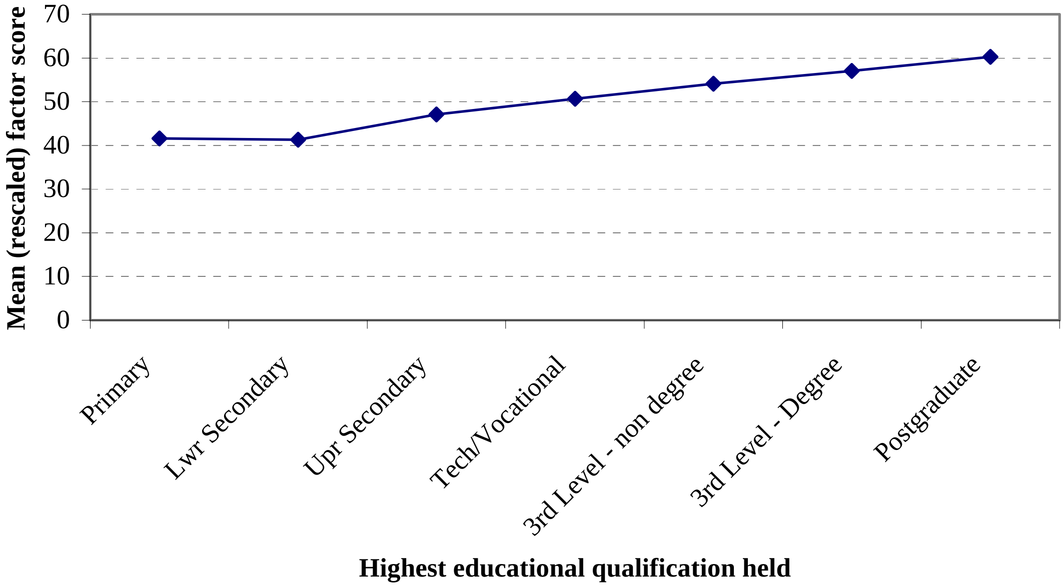
* indicates significance at the 10 per cent level

4.9.3. Education

While the average score in this domain is 50, the graph of average respondents' scores indicates a relationship between highest educational qualification and capability. As shown by Figure 4.3, scores rise consistently with educational qualification and peak with the highest level of educational qualification (postgraduate degree) recorded.

Figure 4.3 Relationship between factor scores and highest educational qualification

Relationship between factor scores and education



The regression results confirm that people with lower levels of education score significantly lower than those with more qualifications, even controlling for other explanatory characteristics. This suggests that higher levels of education have a significant impact on the level of capability even when taking into account, for example, the number of products purchased.

4.9.4. Housing and region

Table 4.23 shows that local authority tenants scored an average of just 41 while owner occupiers scored considerably higher (mean of both owner occupier categories is 55). The highest score appeared for owner-occupiers who currently make repayments on a loan or mortgage. The regression analysis compares respondents with a mortgage with people with other kinds of housing tenure simultaneously controlling for other factors to isolate a 'pure' tenure status effect.

Table 4.23 Factor score by Housing Tenure status

	Mean Factor Score	Weighted Base
Owner occupied with mortgage	58	329
Owner occupied without mortgage	49	156

Local Authority Tenant Purchaser	45	8
Rented from Local Authority	41	132
Rented from a Voluntary Body	45	7
Rented from Private Landlord	46	178
Occupied free of rent (e.g. family home)	43	111
Don't know/refused	38	3
All	50	924

The analysis illustrates that even after taking into account variations in income and educational status for example, social tenants are lacking capability in choosing financial products relative to other respondents. One explanation for this could be that it represents an unmeasured 'cultural' or societal variable associated with where they are living. This may be in an area whether others are equally inexperienced with regard to product purchases, as we know that respondents often rely on friends and family for advice when making purchases of financial products.

The regression results in Table 4.22 also confirm the cross-tabulation results from Table 4.24 in that there was regional variation in the scores. The average score ranges from 47 in both Connacht/Ulster and Dublin to 53 in Munster. The regression results, in particular, reveal that after taking account other characteristics, those in Munster scored on average three and a half points higher than their counterparts in Dublin. The results for the rest of Leinster and Connacht/Ulster were not statistically significantly different from the Dublin region.

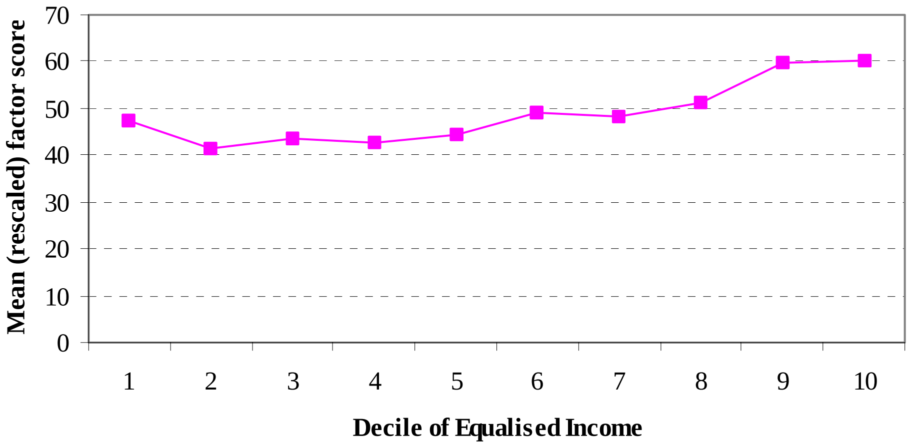
Table 4.24 Factor score by region

	Mean factor score	Weighted base
Connacht/Ulster	48	209
Dublin	47	263
Munster	53	241
Rest of Leinster	52	211
All	50	924

4.9.5. Income

Average factor scores in the 'choosing products' domain tend to increase with income, suggesting that people with higher incomes have higher levels of capability when it comes to choosing products (Figure 4.4 below).

Figure 4.4 Average scores by income decile



Specifically, the regression analysis results for this variable shown in Table 4.22 show that once other factors have been taken into consideration, people in the top income quintile will have scores that are significantly higher than those in the lower and middle-income ranges. The regression predicts that those outside the fifth income deciles will have a financial capability score of at least 4 points lower.

4.9.6. Engagement with financial services

This domain is different from previous chapters as it only includes people who have made a recent financial product purchase and, therefore, excludes many who do not engage with financial services.

Current account usage is the first measure considered under this heading. It is a recognised measure of financial inclusion. Our survey results show that 88 per cent of those who had bought a financial product in the past five years had a current account, compared with 70 per cent of those who had not made a recent purchase (and therefore excluded from this part of the analysis). The average factor score was 51 for those who used their current account and just 41 for those who did not have a current account. In line with this descriptive finding, the analytical findings from the regression analysis indicates that having a current account will significantly and positively increase a respondent's score, after controlling for other factors in the regression model.

As mentioned above, the number of product types people had personally and actively been involved in purchasing in the past five years was one of the most significant variables in the regression. Each additional product type was found to add just over 2 points to the overall score, other things being constant.

4.9.7. Variables with little or no significance

We tested a model that included age and work status but these did not show up as independently significant in the regressions. This is confirmed by the following three graphs which show very little difference in mean factor scores across the variables of age group (Figure 4.5), household type (Figure 4.6) or work status (Figure 4.7). The details of age, household type and work status do not serve to distinguish further a person's financial capability score. It is very likely that the effects of these variables are related to those already in the model.

Figure 4.5 Average factor scores by age group of respondent

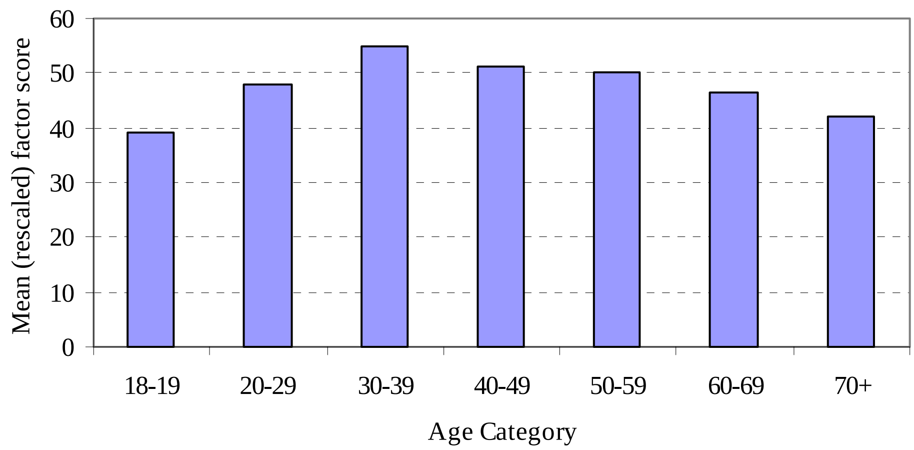


Figure 4.6 Average factor scores by family type

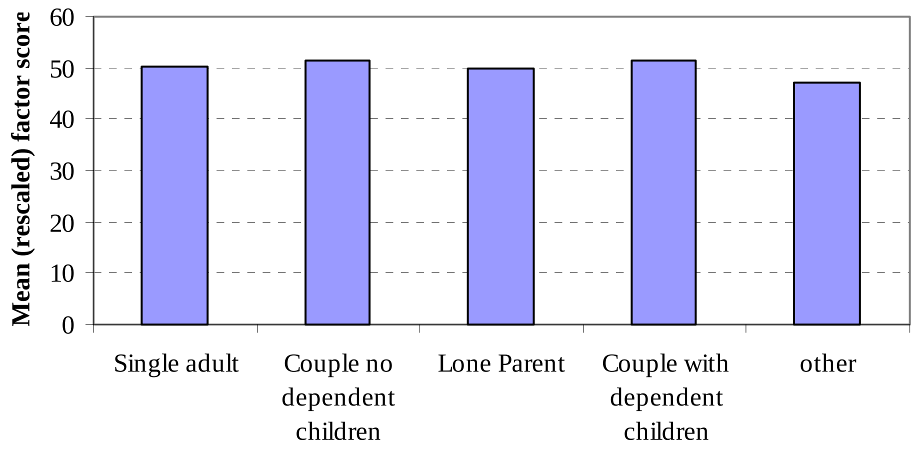
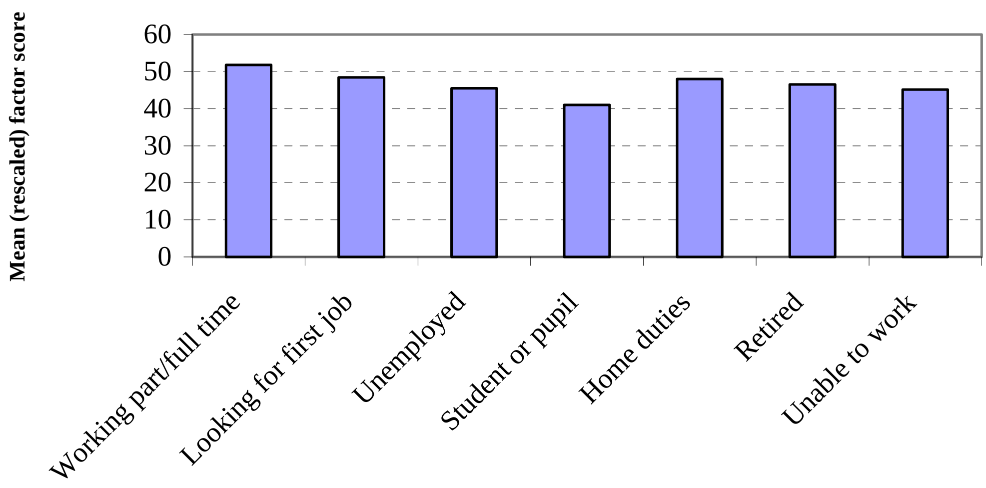


Figure 4.7 Average factor scores by work status



4.10. Summary

The results from this domain show that people frequently did not seek independent advice and often displayed 'inertia' i.e. frequently renewing existing policies and products without shopping around or considering alternatives which may provide better value for money, better product features or be more suited to the individual's needs. Furthermore many people relied on or prioritised the (non-professional) advice of family and friends when making important decisions regarding financial products. Many people also did not read the terms and conditions carefully, either by themselves or they did not refer to another person who would offer advice on the content.

While only a small fraction of the population made their decision about their recent financial product purchase on the basis of no advice whatsoever (14 per cent), the vast majority of the advice followed referred to generic information or product information given to respondents by the outlet providing the product. One in five undertook an active search (comparing products etc.) or consulted best-buy tables (financial press or internet) or engaged an independent financial advisor or broker. Likewise two in five read the terms and conditions carefully themselves.

There are signs that a minority of people bought products unwisely. Some people had products they appear not to need, such as life insurance for single adults with no dependents or income protection for non-earners. Others had taken out mortgages or investments with levels of risk that were probably higher than they had wished. On the other hand, instances of taking out an endowment mortgage are not as prevalent in the survey results as results reported in similar other surveys. Interest-only mortgages are infrequently encountered unlike the UK situation. Where interest-only mortgages are in place, there appeared to be a consistent plan in place to pay off the capital sum remaining at the end of the interest-only period.

All analyses conducted for this chapter reveal that the most significant factor in explaining the financial-capability scores in this domain was a person’s level of engagement with buying financial services. People have clearly learnt from experience and make more competent decisions as their financial portfolio is extended. Those with more purchases and more products scored considerably higher than the rest.

Financial capability in this domain was highest among high-income households and those with the highest levels of educational qualifications. Only students appear as significant exceptions to the general level of financial capability by work status - retired people, the unemployed etc., were not significantly different to those working full or part-time. Our analysis did not find any clear differentiation of financial capability score by age bracket or gender. There may be evidence of an ‘unexplained’ societal effect related to housing tenure. Owner-occupiers scored appreciably higher than others, while those living in local authority rented housing did far worse. There was also a regional variation in people’s ability to choose appropriate products but no evidence of a distinctive Dublin effect.

Chapter 5. Staying Informed

This chapter considers participants' engagement with general financial matters, assessing their views on how important it is to keep up to date, the topics they kept abreast of, the sources they relied on in order to do so and the frequency of monitoring general financial affairs. Disputes with financial companies and shops / suppliers are also dealt with. The chapter is organised as follows. Firstly, keeping up to date is covered followed by disputes with the organisations mentioned above. Factor analysis and regression analysis are undertaken and lastly the results are described in detail.

5.1: Keeping up to date

Survey participants were asked how important it was for them to keep up to date with financial matters in general. The results are shown in table 5.1 below.

Table 5.1, Importance of keeping up to date, percent

very important	23
quite important	39
not very important	23
not at all important	15
don't know	1
Total	100
Weighted Base	1529

Base: all respondents. Table may not sum to 100 due to rounding.

Just over 62% of respondents answered that it was quite or very important with 16% answering not at all important or 'don't know'. This varied by age group with just 36% of 18-19 year olds feeling it was very or quite important compared to 69% of the 40-49 years old age group. This variable was found to be important in the factor analysis of this domain (see below).

Table 5.2, Topics the respondent keeps an eye on, per cent

	Keeping up to date very or quite important	All respondents
Changes in the housing market	51	39
Changes in the stock market	19	12
Changes in interest rates	52	37
Changes in inflation	49	35
Changes in taxation, e.g., income tax, capital gains tax	41	30
Changes in the job market	37	29
Changes in state pension, benefits and tax credits	38	30
Best buys in financial products	9	6
None of these	6	22
Weighted Base	936	1529

Of the topics suggested in the survey, the most commonly monitored by all respondents was changes in the housing market at 39% followed by changes in interest rates at 37%. Just 6% kept an eye on best buys in financial products. 22% of all respondents did not keep an eye on any of the topics provided. Of those who answered that it was very or quite important to keep up to date, changes in the housing market, interest rates and inflation were the most popular items for keeping an eye on at around 50% of this group. 9% kept an eye on best buys in financial products. However, 6% of this group did not keep an eye on any of the suggested topics, despite answering that it was very or quite important to keep up to date.

The number of areas monitored is shown in Table 5.3 below. Almost two-thirds of respondents monitored no more than two areas with around three-quarters monitoring no more than three areas. Only 13% monitored five or more areas. This variable proved to be important in the factor analysis, described later in this chapter.

Table 5.3, Number of areas monitored, per cent

0	22
1	23
2	18
3	14
4	10
5	5
6	4
7	2
8	2
Total	100
Weighted Base	1529

Base: All respondents

5.1.1 Sources of Information

The sources of information respondents used to monitor financial topics are shown below.

Table 5.4, Sources of Information, per cent

	Keeping up to date very or quite important	All respondents who keep an eye on at least one topic in Table 5.2
Financial pages	17	14
Newspapers (not financial pages)	64	63
Specialist personal finance magazines	1	1
Specialist personal finance programmes on TV or radio	21	19
Other TV or radio programmes	57	57
Internet	15	13
Teletext / Aertel	2	2
Stockbroker	0	0

Accountant	1	1
Professional Adviser (e.g., manager from a bank / insurance co. / mortgage broker etc.	0	0
Friends, family, acquaintances	10	9
Through work / colleagues / professionally	3	2
Information from estate agents	1	1
Through banks / building societies	1	1
Mail / Information sent in the post	1	1
Politicians / budget statements	2	2
Other	1	0
Don't know	0	0
Weighted Base	877	1178

The most popular source of information for all respondents who monitored at least one topic was newspapers (excluding financial pages) chosen by 62.5% of all respondents followed by TV or radio programmes (excluding specialist personal finance programmes) chosen by 57%. The next most popular source, specialist finance programmes on TV and radio, was chosen by just 19% so the mainstream media are clear leaders as sources of financial information. For those who responded that keeping up to date was quite or very important, the figures were actually very similar to those of all the respondents[36] with just slightly more selecting newspapers (excluding financial pages) at 64% and 16.5% indicating they used the financial pages as opposed to 14% for all respondents. Only 13% of all respondents and 14.5% of those who felt keeping up to date was quite or very important selected the internet as a source of information.

Considering frequency of monitoring, 43% of all respondents monitored financial topics at least once a week but almost a similar proportion at 41% did not monitor financial topics or did so less than once a month. This variable was also important in the factor analysis.

[36] Regardless of whether they felt keeping up to date was important or not.

Table 5.5, frequency of monitoring, per cent

at least once a week	43
at least once a month, but not once a week	16
less than once a month	17
don't know	2
does not monitor	22
Total	100
Weighted Base	1529

Base: All respondents

5.2: Disputes and Complaints

5.2.1: Disputes with Financial Companies

It could reasonably be assumed that a financially capable person would know when and how to complain about problems encountered. Respondents were therefore asked a series of questions to determine how they acted when unhappy with a financial company or a shop / supplier.

All respondents were first asked how aware they felt of their rights in making a complaint to a financial services firm such as a bank, insurance company or broker. The results are shown in Table 5.6 below.

Table 5.6, Awareness felt of rights in making a complaint to financial services firm by age-group, per cent

I know exactly what to do to make a complaint	16
I have a good idea of what to do	30
I have some idea of what to do	26
I have no idea of what to do	27
don't know	1
Total	100
Weighted Base	1529

Base: All respondents

Only 16% of respondents replied that they knew exactly what to do to make a complaint but a further 30% had a good idea of what to do. 26% had some idea with a similar proportion having no idea. These figures varied by age group with 42% of 18-19 year olds having no idea what to do compared with just around 21 – 22% of 50-59 year olds and 60-69 year olds (see table 5.7 below).

Table 5.7, Awareness felt of rights in making a complaint to financial services firm, per cent

	18-19	20-29	30-39	40-49	50-59	60-69	70+	Total
I know exactly what to do to make a complaint	13	13	16	18	19	20	13	16
I have a good idea of what to do	23	28	30	28	31	36	35	30
I have some idea of what to do	21	28	29	25	28	22	21	26
I have no idea of what to do	42	30	26	27	22	21	28	27
don't know	1	1	0	2	1	2	4	1
Total	100	100	100	100	100	100	100	100
Weighted Base	69	335	323	298	199	171	134	1529

56% of 60 – 69 year olds felt they knew exactly or had a good idea of what to do compared with 36% and 41% of the two youngest age groups respectively.

Just 10% of respondents answered that they had had any reason to make a complaint or any form of dispute where they were not happy with a financial product or service, in the previous five years. The causes for such a dispute or complaint are shown below in table 5.8.

Table 5.8, Causes of reason for dispute or complaint, per cent

Interest rates or other fees and charges	33
Terms and conditions	9

Mis-selling or wrong information given	16
Problem with an insurance claim	6
Delays, poor customer service or bad administration	22
Poor performance on an investment or pension	4
Mistakes on respondents account	24
Fraud or similar offence	2
Other	13
Weighted Base	151

More than one option could be selected.

The most commonly selected reason was a dispute over interest rates or other fees and charges, chosen by 33% of the one in ten who had had a reason to make complaint / dispute followed by a mistake on the respondents account chosen by 24%. Delays, poor customer service or bad administration were chosen by 22% and mis-selling or wrong information given chosen by 16%.

92% of the one in ten who had a reason to make a complaint actually followed up with a complaint to the organisation that sold the product or provided the service. By far the most common institution to whom a complaint was made were banks, indicated by 77% of those who made a complaint, followed by an insurance company (9%), another financial services company (8%) and a broker or other financial advisor (4.5%). It should be borne in mind that only 9% of the whole sample made a complaint to the organisation that sold the product or provided the service so this breakdown is based on a small sub-sample of the survey respondents. Of those who made such a complaint, just over half, at 54%, had it resolved to their satisfaction.

Just 0.8% of the entire sample or 12 respondents made a complaint to anyone else[37]. 11 of these respondents were from the group that had had an unsatisfactory resolution to their problem having complained to the organisation that sold the product or

[37] This corresponds to 16% of those who had an issue which they didn't take up with the company who sold the product / provided the service or who did so but did not feel the matter was satisfactorily resolved.

provided the service. Those respondents who had a grievance but did not make any complaint or who made a complaint which was unresolved were asked who would they have approached if they wanted to take the complaint further. The Financial Regulator and the Financial Services Ombudsman / Pensions Ombudsman were the most commonly selected option at around 18% each. A large proportion, 20%, indicated that they did not know to whom they could pursue the matter further.

5.2.2 Disputes With Shops or Suppliers

All respondents were asked how aware they felt of their rights in making a complaint to shops or suppliers about the quality of goods or services. The results are shown in Table 5.9 below.

Table 5.9, Awareness felt of rights in making a complaint to shops or suppliers, per cent

I know exactly what to do to make a complaint	31
I have a good idea of what to do	43
I have some idea of what to do	17
I have no idea of what to do	9
don't know	0
Total	100
Weighted Base	1529

Base: All respondents

Just under a third of respondents felt they knew exactly what to do with a further 43% having a good idea what to do. The corresponding figures for complaints with financial companies were 16% and 30% so respondents felt much more confident in dealing with shops and suppliers in comparison to dealing with financial companies.

20% of respondents answered that they had had a reason to make a complaint or had any form of dispute with a shop or supplier where they were not happy with their products or services. Of this group, 97% took up the complaint with the shop or supplier. This corresponds to around 20% of the total sample. Of those who took a complaint, 78.5% had the matter resolved to their satisfaction. Of those who had an issue which they didn't take up with the shop / supplier or did so but did not have it resolved satisfactorily, 32% took the complaint up with another body. The most popular of these were the National Consumer Agency or other consumer body (28%), a Citizens Information Centre (26.5%), the Small Claims Court (22%) and a solicitor (18%). Again, those respondents who had a grievance but did not make any complaint or who made a complaint which was unresolved were asked who they would have approached had they wanted to take the issue further. The most commonly selected answers were a solicitor at 27% and a Citizens Information Centre at 16%. A large proportion, 27%, indicated that they did not know to whom they could pursue the matter further.

Comparing with disputes with financial companies, respondents were more likely to have had a reason for a complaint in dealing with shops and suppliers. Thus, the proportion of the total sample who actually took up a complaint with a shop / supplier is higher. A large proportion of complainants with a shop / supplier had the issue resolved to their satisfaction than was the case with financial companies, 78.5% versus 54%. Respondents were also more likely to pursue a complaint with a shop or supplier to another body. A combined variable was created which indicated whether an individual had made any of the complaints discussed above, i.e., either to a financial company, shop / supplier or another body. A quarter of respondents had made at least one such complaint. However, this variable did not prove to be important in the factor analysis.

5.3: Attitudes

Two attitude statements were included in the survey in the choosing products section but as the factor analysis of that domain is based on purchasing behaviour rather than attitudes we included the questions for consideration in the factor analysis of this domain. Table 5.10 below shows the level of agreement with these statements which were as follows

"I've got a clear idea of the sorts of financial products that I need without consulting a financial adviser."

"I would trust financial advisers and accept what they recommend."

Table 5.10, Attitude Statements, per cent

	"I've got a clear idea of the sorts of financial products that I need without consulting a financial adviser."	"I would trust financial advisers and accept what they recommend."
agree strongly	22	7
tend to agree	41	46
tend to disagree	23	28
disagree strongly	12	13
don't know	3	6
Total	100	100
Weighted Base	1529	1529

Base: all respondents. May not sum to 100 due to rounding.

63% agreed strongly or tended to agree that they had a clear idea of the sorts of financial products needed without consulting a financial advisor while 35% disagreed. However, 41% disagreed that they would trust financial advisers and accept what they recommend. Only 7% agreed strongly with this statement while 46% tended to agree.

The correlation between these two statements was measured at a very low 0.0055. Thus it was not appropriate to combine the two statements into one, through factor analysis and include them in the final factor analysis in this way. Their separate inclusion was instead tested but this showed them to be unimportant in the factor analysis. However, the first variable described in this section, i.e., whether respondents felt it was important to keep up to date with financial matters in general, which is in effect an attitude statement, was retained in the analysis.

Two other variables which were considered for inclusion in the factor analysis have not been discussed so far, namely knowledge of whether certain investments are affected by the stock market and whether an individual did not know key features of one of the products they held. Participants were asked which of ten savings and investments would have their cash value directly affected by stock market performance. Eight out of ten would be so affected. The question was scored between zero and one, with 0.125 allocated to the respondent for each correct answer, yielding a maximum score of one. Just 3% of recipients scored the maximum with 38.5% scoring the minimum of zero. The mean score was just 0.24. Just 21.5% of respondents had four or more correct answers. These figures varied by age-group with just 51% of 20 –29 year olds identifying four or more compared with over 80% of those aged 30 – 39 and 40 –49. From age 50 onwards, the figures declined by age to just 21% of those aged 70 and more. This variable proved to be important in the factor analysis.

Respondents were asked about the key features of some of the products they held, e.g., the interest rate on their mortgage, the length of time before protection insurance would pay out, the interest rate on savings etc. In line with the UK study, a variable was created which indicated whether the respondent answered ‘don’t know’ to at least one of the questions regarding the key features of the products held. 26% of respondents did not know the key features of at least one of the products they held. However, this variable did not prove to be important in the factor analysis.

5.4: Factor Analysis

After testing several possibilities the following 4 variables were included in the factor analysis and their factor loadings are shown in table 5.11 below.

Importance of keeping up to date with financial matters in general
Number of financial topics monitored
Frequency of monitoring financial topics
Knowledge of whether specified savings and investments are affected by the stock market

Table 5.11, Factor Analysis of Staying Informed Questions, Item Loadings

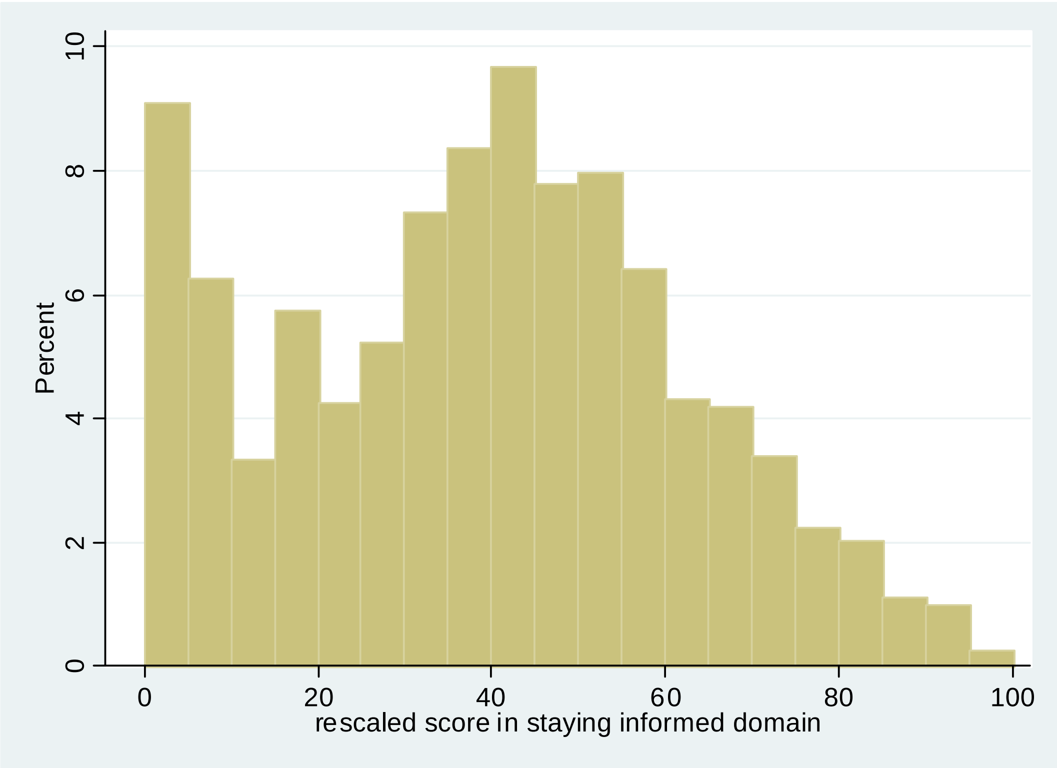
Kmo=0.715	
Number of financial topics monitored	-0.867
Frequency of monitoring financial topics	0.785

Importance of keeping up to date with financial matters	0.746
Knowledge of whether specified savings and investments are affected by the stockmarket	-0.617

5.5: Detailed Analysis of the Factor Score

The mean score in this domain is 39. Chart 5.1 below shows that the majority of respondents are concentrated in the middle of the distribution but that quite a substantial proportion had very low scores.

Figure 5.1, Score for Staying Informed



Linear regression is again used to determine how a range of variables affected an individual's score. The results are shown in Table 5.12 below[38].

Table 5.12, Significant Variables from Regression Analysis of Staying Informed

[38] *** indicates significance at the 1% level, **at the 5% level and *at the 10% level.

Explanatory Variables	
Constant	35.91***
Ethnicity, Ref. Group: White, Irish	
Non-white	-8.65**
Age, Ref. Group: 40-49	
Age 18-19	-8.51***
Age 20-29	-6.66***
Age 50-59	4.40**
Age 60-69	3.98*
Income, Ref. Group: Quintile 5, highest	
Quintile 1	-10.04***
Quintile 2	-7.34***
Quintile 3	-7.13***
Quintile 4	-5.67***
Tenure, Ref. Group: Owner occupied with a mortgage / being bought from a local authority	
Rented from local authority or voluntary body	-4.50***
Other	-14.86*
Highest level of education, Ref. Group: Upper Secondary	
Primary	-9.97***
Lower secondary	-3.61**
Technical / vocational qualification	4.68***
Non-degree qualification	12.87***
Degree / Professional Qualification	9.93***
Postgraduate (incl. Masters & phd)	12.60***
Family type, Ref. Group: Couple, no dependent children	
Single Adult	-6.14***
Couple with dependent children	3.97**
Work Status, Ref. Group: At work full / part time	
Unemployed	5.6**
Looking after home / family	3.19*

Other Variables	
Perks at work	4.50***
Female	-6.28***
Uses current ac. for day to day money management	4.67***
Number of product types bought in past 5 years	1.15***
Score for involvement with money management	3.82***
Savings ratio	0.001***
R-squared	0.32

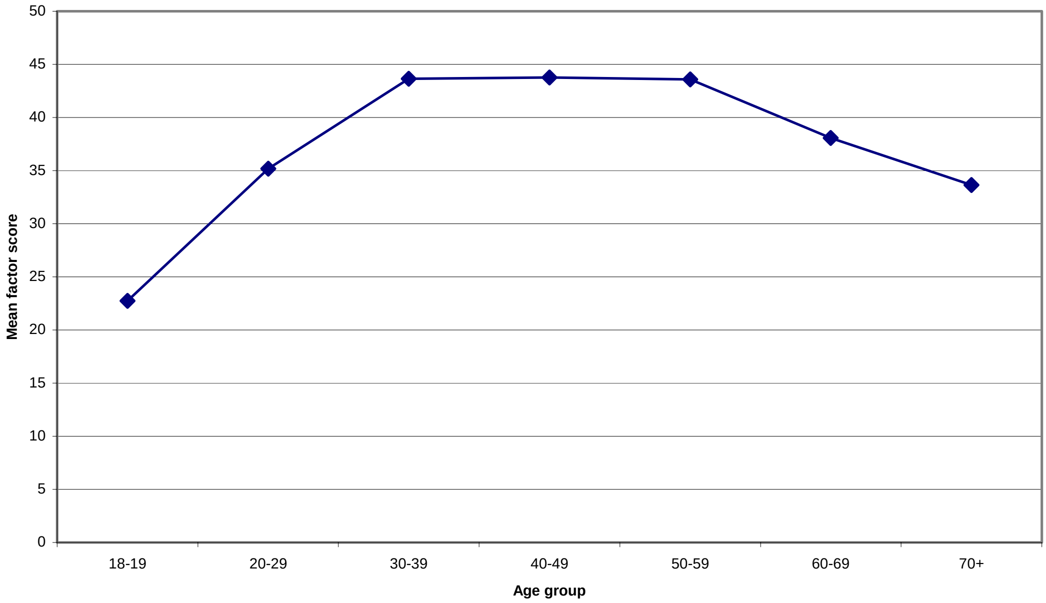
Those aged 18-29 scored lower than those in the reference group aged 40-49 while those in the 50-59 and 60-69 age group scored higher. The regression results show that those in the non-white ethnic group scored lower than the white, Irish grouping, perhaps indicating that language difficulties may play a part when trying to keep up to date and monitor financial topics. Being in the highest income quintile had a positive effect relative to the other four quintiles, with the lowest quintile scoring relatively lowest. Renting from a local authority or voluntary body brought a lower score relative to those owner occupiers buying with a mortgage / from a local authority. Relative to the upper secondary level of education, those with primary as their highest level experienced a disadvantage, as did those with the lower secondary level, albeit a smaller one. Scores were relatively higher compared to the reference group for those with a technical / vocational qualification, a degree / professional qualification and in particular those with a non-degree or post-graduate qualification.

Considering family type, single adults scored relatively lower than couples with no dependent children while couples with dependent children scored higher. Interestingly, the unemployed scored relatively higher than those at work full or part-time, perhaps due to having more time available or having a greater need to access media such as newspapers while engaged in job-search. Those engaged in home / family duties also scored higher than the reference group.

With regard to other variables, if the respondent received perks at work or used a current account for day to day money management, this led to a relatively higher score than those who didn't. The score was also increasing in the number of product types bought in the previous five years, the score for involvement with money management and the ratio of savings to income. However, women scored, on average, lower than men.

Age

Figure 5.2: Staying Informed by agegroup

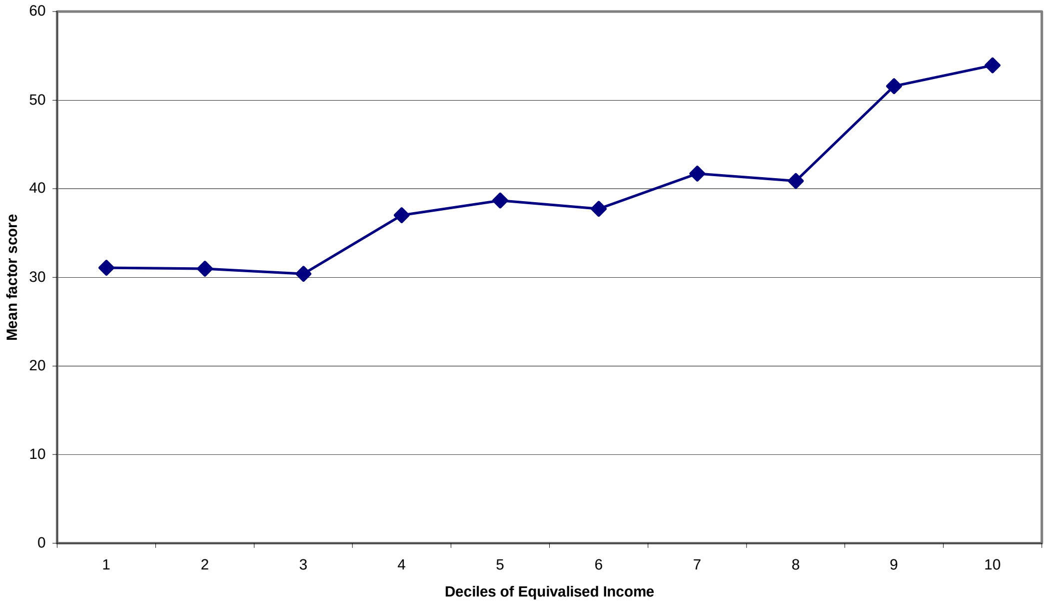


The lowest average score was recorded by those in the 18-19 years old age group (see chart above). The score then increased for the next two groups from which point it levelled off before declining for the two older age groups. Thus, the highest scores were recorded for those in the 30 – 59 years of age range.

Income

The score was more or less increasing by income level, see the chart below.

Figure 5.3: Staying Informed by Income Level



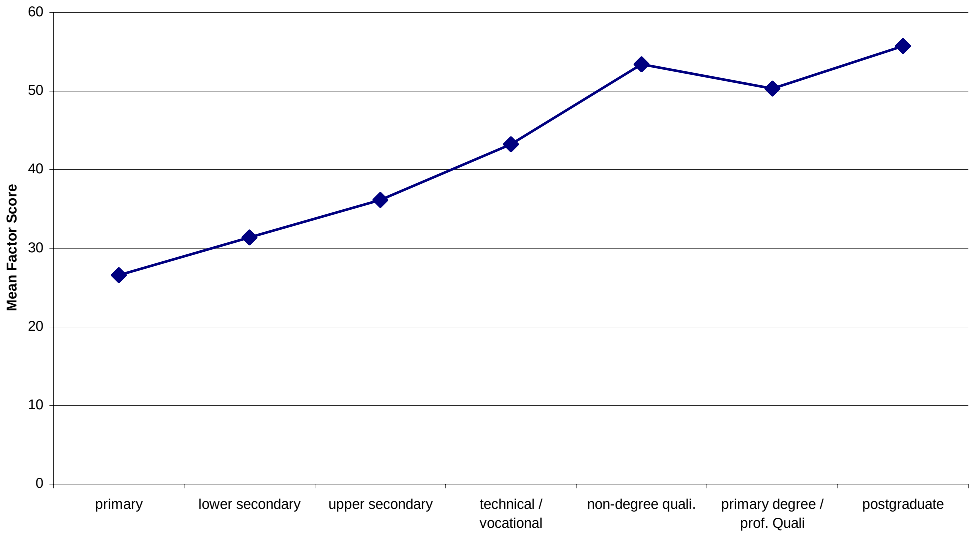
There was little variation in the score between the first three deciles while those in the highest decile recorded the highest average score. It was clear from the regression results that all groups experienced lower scores than those with the highest incomes.

Education

By educational level, the average scores were increasing until the non-degree qualification level from which point they fell slightly before the highest average value was recorded for those with a postgraduate qualification[39]. This pattern is reflected in the regression results.

[39] The weighted cell sizes for the educational categories are shown in the managing money chapter.

Figure 5.4: Staying Infomed by Educational Level



Housing Tenure

Table 5.13, Staying Informed by Housing Tenure, Mean Factor Score

	Mean Factor Score	Weighted Base
Owner occupied with a mortgage / being bought from local authority	47	445
Rented from local authority or voluntary body	30	257
Rented from private landlord	38	233
Occupied free of rent	29	153
Owner occupied with repayments to local authority affordable scheme	41	49
Owner occupied – no mortgage, was bought through local authority affordable scheme	32	43
Owner occupied – no mortgage	43	344
Don't know / refused	**19**	5
Total	39	1529

The mean score by housing tenure varied from 29 for those occupying their home free of rent to 47 for those occupying their house with a mortgage / buying from a local authority. Low average scores were also recorded for those renting from a local authority or voluntary body and those who had bought their house from a local authority affordable scheme[40] and who had cleared their mortgage.

Employment Status

Table 5.14, Staying Informed by Employment Status, Mean Factor Score

	Mean Factor Score	Weighted Base
Working part time or full time	43	873
Looking for first regular job[41]	36	9
Unemployed	32	103
Student	30	82
Looking after home / family	35	221
Retired from employment	37	191
Unable to work - permanently sick	30	50
Total	39	1529

By employment status, low scores in the thirties were recorded for all groups apart from those working part-time or full-time for whom an average score of 43 was recorded. The regression results had shown that, controlling for other factors, the unemployed and those engaged in home / family duties scored higher than this group. However, in comparing the mean scores in Table 5.14 above, other characteristics of respondents such as educational level and income level are not controlled for and will affect the mean score.

Table 5.15, Staying Informed by Family Type, Mean Factor Score

	Mean Factor Score	Weighted Base
Single adult	35.5	233
Couple, no dependent children	42	457
Lone parent with dependent children	39	194

[40] This is a relatively small group as the weighted base figures show.
[41] Includes those who did not provide their employment status and is composed of only 9 observations (weighted).

Couple with dependent children	46	239
Other	34.5	406
Total		1529

By family type, the highest scores were recorded for those in couples, whether with or without dependent children. The lowest average scores were recorded for single adults and those in the 'other' category.

Other Variables

There was little variation in average scores by region. However, considering engagement with financial services, the mean score for those using a current account for day to day money management was 42 compared to 28 for those without. The number of product types bought in the past five years was also significant in the regression and the score was increasing in the number of such purchases as it was in the score for involvement with money management and the savings to income ratio.

5.6: Summary

Respondents were generally well-disposed to keeping up to date with financial matters with just over 62% of respondents answering that it was quite or very important. The most commonly monitored topics by all respondents were changes in the housing market and changes in interest rates. Just 6% kept an eye on best buys in financial products. Almost two-thirds of respondents monitored no more than two areas with around three-quarters monitoring no more than three areas. The mainstream media were clear leaders as sources of financial information with the most popular source for all respondents identified as newspapers (excluding financial pages) followed by TV or radio programmes (excluding specialist personal finance programmes).

Just 10% of respondents answered that they had had any reason to make a complaint or any form of dispute where they were not happy with a financial product or service, in the previous five years. 92% of the one in ten who had a reason to make a complaint actually followed up with a complaint to the organisation that sold the product or provided the service. Of those who made such a complaint, just over half had it resolved to their satisfaction. Respondents felt much more confident in dealing with shops and suppliers in comparison to dealing with financial companies. Respondents were more likely to have had a reason for a complaint in dealing with shops and suppliers and the proportion of the total sample who actually took up a complaint with a shop / supplier is higher. A large proportion of complainants with a shop / supplier had the issue resolved to their satisfaction than was the case with financial companies. Respondents were also more likely to pursue a complaint with a shop or supplier to another body.

In summary, the analyses showed that those most likely to record low scores in this domain were the younger age groups, those in the lowest income deciles, those with lower levels of education, those not at work and single adults.

Chapter 6: Cluster Analysis

This chapter reviews briefly the factor scores in each domain. The relationship between the domains is then considered. The results of cluster analysis carried out on the factor scores is described and the resulting clusters profiled in detail. This enables the identification of those who scored well or poorly on the various domains. Cluster analysis will be described in more detail below.

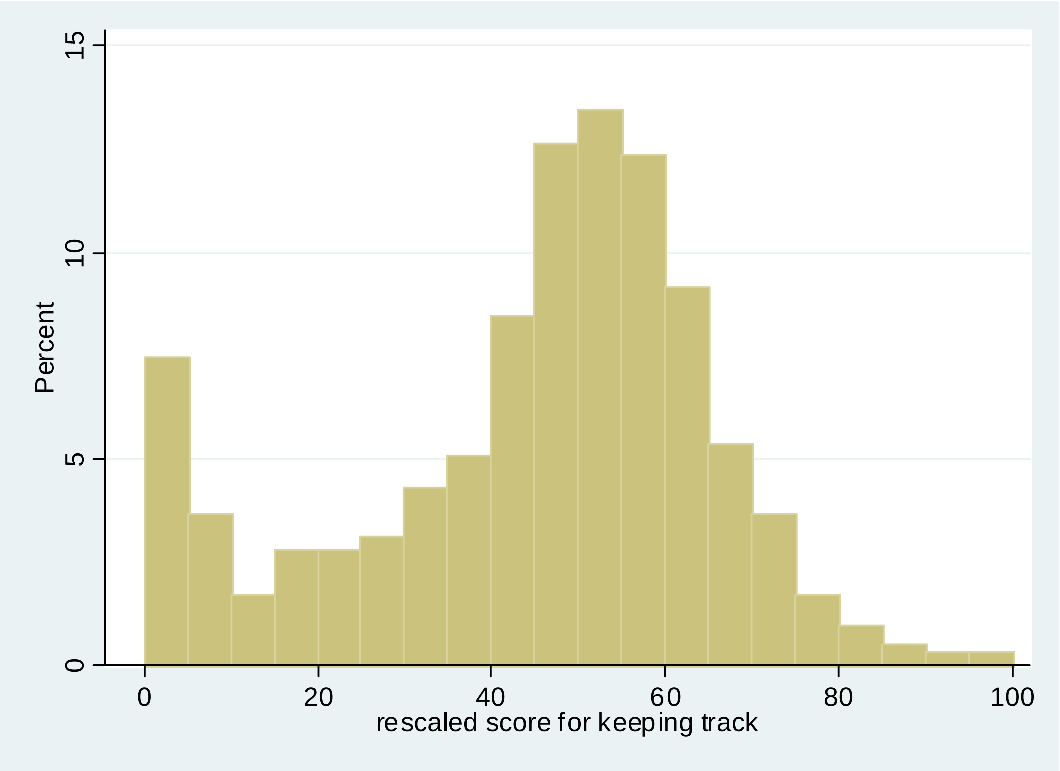
6.1: Overview of Factor Scores in Each Domain of Financial Capability

This section reviews the overall scores within each domain. It should be borne in mind that each domain was treated separately with the questions in each domain appearing only in that area. This means it is possible to compare the scores across different areas.

Managing Money

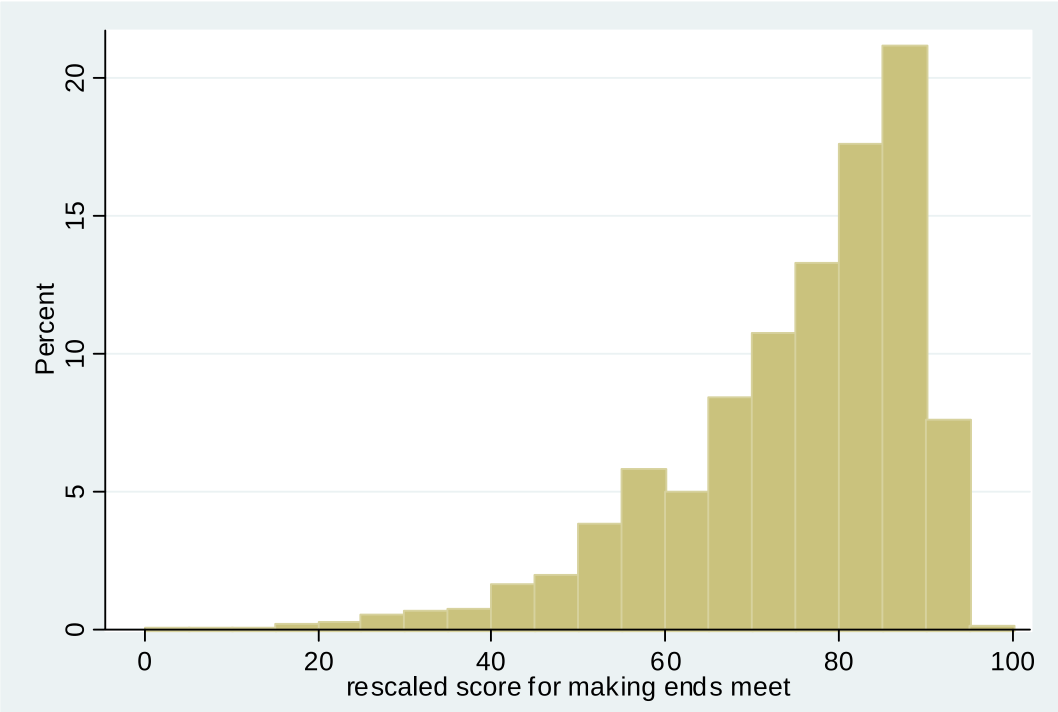
There were two elements in this domain, namely making ends meet and keeping track. Figure 6.1 below shows the score for the keeping track element.

Figure 6.1: Keeping Track



The score for keeping track averaged 46. From the graph above, it can be seen that levels of capability are quite concentrated in the centre of the distribution. However, quite a large proportion of respondents had low scores for keeping track while few scored very highly. The average score for making ends meet was 75 (see figure 6.2 below). Respondents tended to do better at making ends meet, although there were still many people struggling with this element of financial capability.

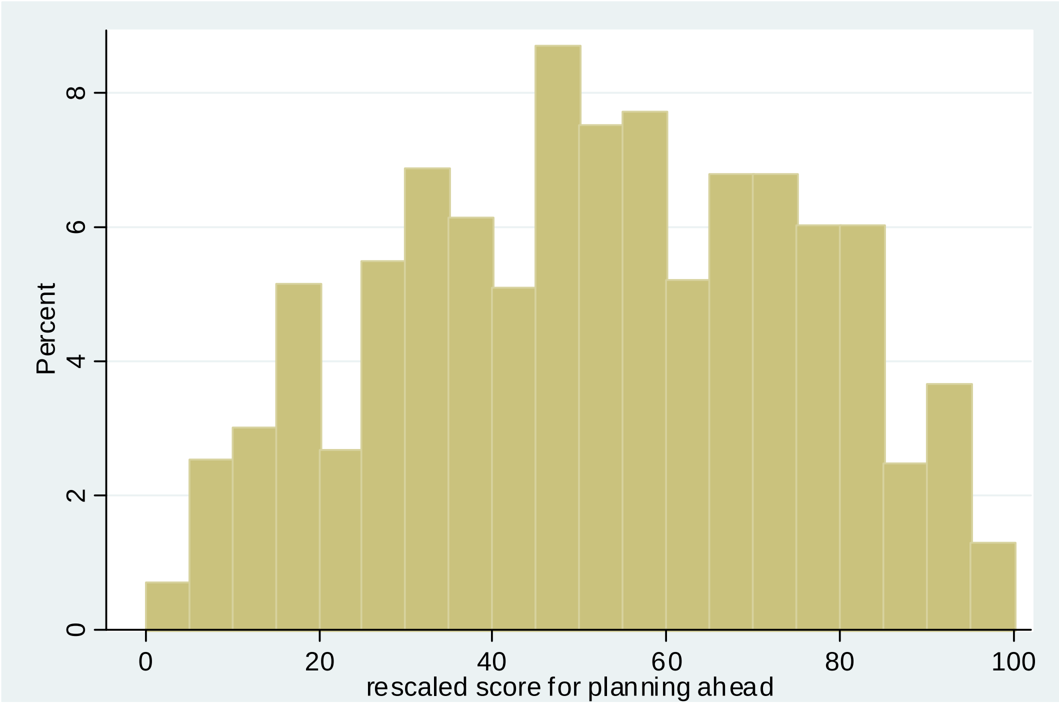
Figure 6.2: Making Ends Meet



Planning Ahead

Figure 6.3 below shows the distribution of scores for the planning ahead domain. The average score was 53 and the scores were quite widely distributed among respondents, with sizeable proportions achieving both very low and very high scores.

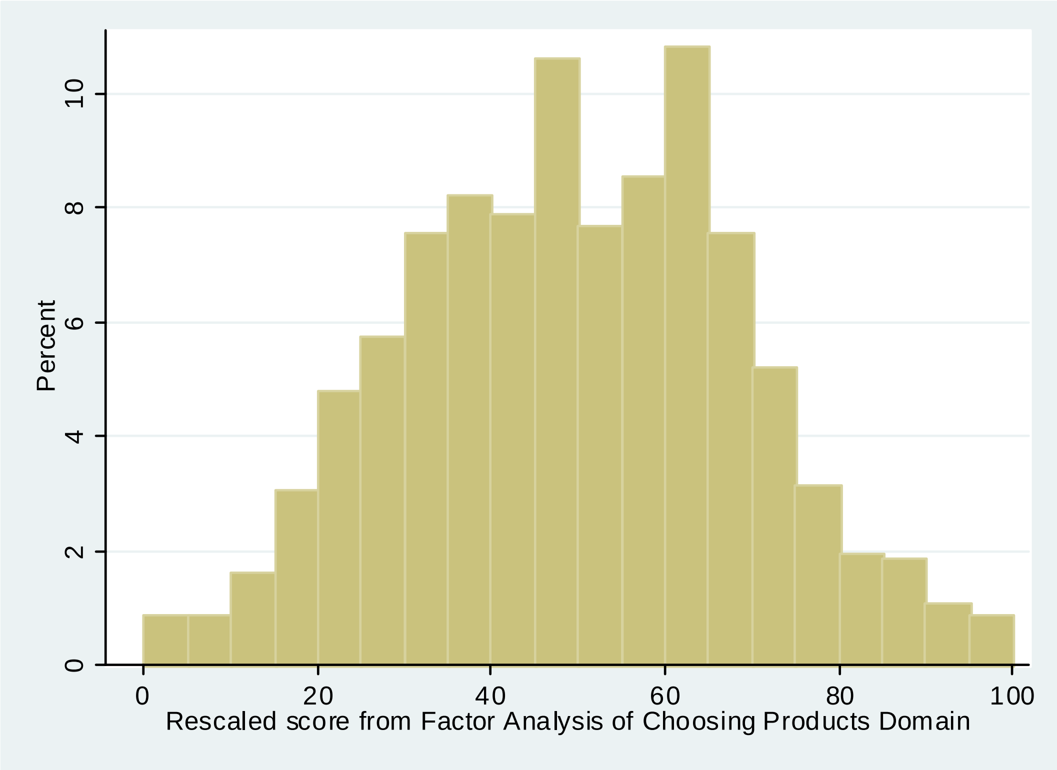
Figure 6.3: Planning Ahead



Choosing Products

The average score for the choosing products domain is 49.7. It is clear from figure 6.4 below that the levels of capability in this area are concentrated in the middle of the distribution and are generally not high.

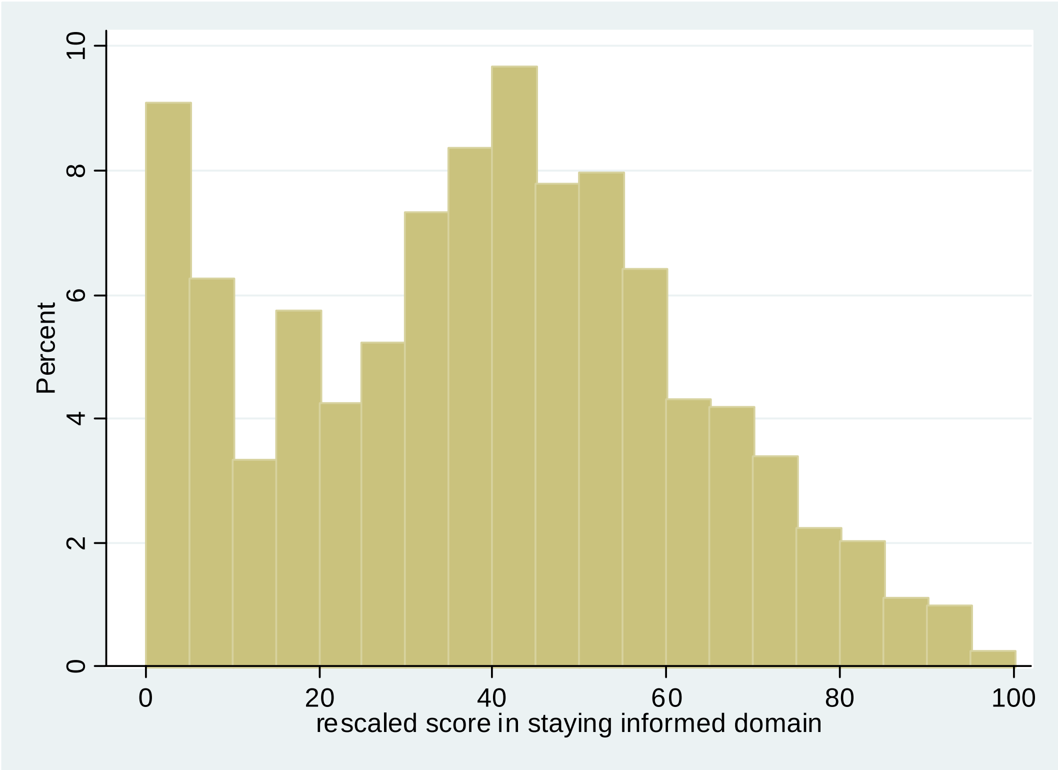
Figure 6.4: Choosing Products



Staying Informed

The distribution of scores for the staying informed domain is shown in figure 6.5 below. The mean score in this domain was 39. The graph shows that the majority of respondents are concentrated in the middle of the distribution but that quite a substantial proportion had very low scores.

Figure 6.5: Staying Informed



6.1.1 Relationship between the factors

In this section we consider the extent to which the five factors derived across the four domains in the preceding chapters are related, bearing in mind that the domains were treated separately. We can also consider this as assessing whether the traits and behaviours which lead to a high factor score in one domain are related to the scores in the other domains.

Table 6.1 below shows the correlation between the five factors. In nearly all cases, there is a positive relationship, i.e., doing well in one domain is associated with doing well in the other domains. This is particularly so for planning ahead with making ends meet, choosing products and staying informed. There appeared to be no correlation between making ends meet and keeping track. Doing well at one was not related to performance on the other.

Table 6.1, Relationship between financial capability scores in each domain, correlation coefficients

	Keeping Track	Making Ends Meet	Planning Ahead	Choosing Products	Staying Informed
Keeping Track	1.00				
Making Ends Meet	0.00, NS	1.00			
Planning Ahead	0.32*	0.46*	1.00		
Choosing Products	0.23*	0.18*	0.40*	1.00	
Staying Informed	0.34*	0.18*	0.44*	0.36*	1.00

* indicates significance at the 5% level. NS: not significant

6.2: Cluster Analysis

This section describes the cluster analysis which was carried out on the factor scores. Cluster analysis is a statistical technique aimed at getting a better understanding of the characteristics underlying the range of financial capability scores. This enables the identification of those who scored well or poorly on the various domains. Profiling the groups with low levels of financial capability will allow for the development of strategies of education and awareness targeted at these groups at a later stage. Cluster analysis is used to identify groups with similar scoring patterns. Every case is initially considered a cluster, then the two cases with the highest similarity are combined into a cluster. The case with the highest similarity to either of the first two is then considered. The process continues until a manageable number of clusters has been arrived at[42]. This number is defined by statistical criteria and the analyst's judgement.

As a score for choosing products could not be derived for the entire sample as it was not relevant to everyone, this domain is not included in the cluster analysis. However, the average choosing products score in each cluster identified will be considered.

[42] This is technically known as *agglomerative hierarchical clustering*. The 'complete linkage' method was used here.

Seven clusters were identified by the analysis[43]. Table 6.2 below shows the number of weak areas in each cluster and gives a general overview of each cluster. Weak areas are defined as scores five points or more below the average score for that domain, in line with the UK report. This classification of weak areas enables us to determine in which domains each cluster was performing badly, if any. This is further illustrated in Table 6.3 below which shows the average score in each domain for each cluster.

[43] Based on the Duda / Hart stopping rule. One very small cluster comprising just 1.5 per cent of the sample was found. Obviously, too much weight should not be placed on the findings in relation to this cluster.

Table 6.2, key cluster groups

Number of weak areas	Cluster	Per cent of sample	General Description
0	A.1	24.5	Very capable well-off couples, in forties, at work, owner-occupiers, well-educated
	A.2	27	Slightly younger and less likely to be in couples than A.1, well-off, at work, well-educated
2	B.1	19.5	Less-well educated than sample as a whole, substantial proportion retired, middle-aged
	B.2[44]	1.5	Young, high proportion of males, high proportion of dependent children, well-educated
4	C.1	8	Low proportion in couples, badly-off, very low current account usage, substantial proportion unemployed, high proportion of local-authority renters, poorly educated,
	C.2	8	Young females, high proportion of lone parents, high proportion of renters and those at work, poorly educated
5	D	11.5	Small proportion in couples, badly off, very low current account usage, high proportion of local authority renters, low employment, high unemployment, very poorly educated
Total		100	

It can be seen from the table above that just over half the population had no weak areas while around one fifth had two weak areas. 16% had four weak areas while just over one-tenth performed weakly in all the domains. That half the sample had no

[44] This is the small cluster previously referred to.

weak areas is reassuring but the substantial proportion with five weak areas gives cause for concern. The table below shows the average score in each domain by cluster.

Table 6.3, Average scores in each domain by cluster

Number of weak areas	Cluster	Per cent of sample	Making Ends Meet	Keeping Track	Planning Ahead	Staying Informed	Choosing Products
0	A.1	24.5	*83*	*55*	*79*	*59*	*61*
	A.2	27	76	*58*	50	*47*	51
2	B.1	19.5	*81*	**37**	*62*	**24**	47
	B.2	1.5	**31**	*76*	**33**	41	47
4	C.1	8	**67**	**27**	**24**	*50*	**45**
	C.2	8	**58**	*53*	**25**	**18**	**37**
5	D	11.5	**69**	**16**	**27**	**13**	**35**
Total							

Figures in *italics* indicate scores that are 5 points above the overall average while figures in **bold** indicate scores that are 5 points below the overall average.

The first cluster, which we have termed A.1, in addition to having no weak areas, had scores five points above average in all domains. Cluster A.2 again had no weak areas and was above average in all domains except planning ahead. Cluster B.1 scored below average at keeping track and staying informed while performing above average at making ends meet and planning ahead. Conversely, the very small cluster B.2 scored below average on these elements and above average at keeping track. Cluster C.1 had four weak areas, i.e., all domains except staying informed where it actually performed above average. Cluster C.2 performed poorly on all domains except keeping track where again it performed above average. Cluster D performed below average on all domains.

Some key characteristics of each cluster group such as gender, age etc are described in Table 6.4 below. The sample averages are also shown. A series of tables then gives cluster averages for a variety of interesting characteristics such as current account usage, work status and educational qualifications. The concluding section of the chapter draws together the information in all the tables to provide an overview of the members of each cluster.

Table 6.4, Average characteristics of cluster groups

No. of weak areas	Cluster	Per cent of sample	Per cent female	Average Age	Per cent couples	Per cent with dependent children	No. of product types held	Per cent in two highest income quintiles	Per cent in two lowest income quintiles
0	A.1	24.5	41	47	59.5	29	4	60	20.5
	A.2	27	55	40	44	30	3	46.5	32.5
2	B.1	19.5	51	50	54	25	2	37	43
	B.2	1.5	43	32	30.5	46	2	39	33
4	C.1	8	51	38	30	30	1.5	18	69
	C.2	8	62	31	28	33	2	27	42
5	D	11.5	51	42	31	22	1	10.5	72.5
Sample Average			**50**	**43**	**45.5**	**28**	**2.6**	**40**	**40**

Table 6.5, Uses a current account for managing money day to day

Number of weak areas	Cluster	Per cent of sample	Uses Current Account, %
0	A.1	24.5	98
	A.2	27	99
2	B.1	19.5	71
	B.2	1.5	100
4	C.1	8	48
	C.2	8	98.5
5	D	11.5	32
Sample Average			**81.5**

Table 6.6, Tenure status by cluster, per cent

Number of weak areas	Cluster	Per cent of sample	Owner occupied with a mortgage / being bought from local authority	Rented from local authority or voluntary body	Rented from private landlord	Occupied free of rent	Owner occupied with repayments to local authority affordable scheme	Owner occupied – no mortgage, was bought through local authority affordable scheme	Owner occupied – no mortgage
0	A.1	24.5	49	2	8	3	3	3	33
	A.2	27	29	15	22	9	3	0	21
2	B.1	19.5	31	15	9	5	4	7	30
	B.2	1.5	29	17	18	15	4	0	17
4	C.1	8	8	37	22	17	2	2	10
	C.2	8	13	27	24	22	3	0	10
5	D	11.5	9	34	15	22	4	4	10
Sample Average			29	17	15	10	3	3	23

Table 6.7, Work Status by Cluster, per cent

Number of weak areas	Cluster	Per cent of sample	Working part-time or full-time	Looking for first regular job	Unemployed	Student or pupil	Looking after home/family	Retired	Unable to work due to permanent illness / disability
0	A.1	24.5	71	1	1	0	9	15	2
	A.2	27	65	0	7	5	13	9	2
2	B.1	19.5	50	0	4	3	17	22	4
	B.2	1.5	60	0	11	14	11	0	4
4	C.1	8	38	0	16	12	20	5	9
	C.2	8	66	1	7	12	12	1	1
5	D	11.5	28	1	17	9	24	14	7
Sample Average			**57**	**0**	**7**	**5**	**14**	**13**	**3**

Table 6.8, Educational Qualifications by Cluster, per cent

Number of weak areas	Cluster	Per cent of sample	Primary	Lower Secondary	Upper Secondary	Technical or Vocational Qualification	Non-degree Qualification	Primary Degree or Professional Qualification	Postgraduate
0	A.1	24.5	7	12	23	13	11	20	13
	A.2	27	7	13	25	18	10	19	8
2	B.1	19.5	25	22	22	12	5	10	4
	B.2	1.5	0	4	36	27	13	13	8
4	C.1	8	17	27	21	17	11	7	0
	C.2	8	8	39	28	15	3	6	2
5	D	11.5	33	33	27	5	0	2	0
Sample Average			**14**	**20**	**24**	**14**	**8**	**14**	**7**

Group A: No weak areas

Cluster A.1 which performed above average in all areas is composed of a majority of couples (much higher than the sample average) and held the largest number of product types at four. The sample average was 2.6. Strikingly, 60% of its members were in the top two income quintiles compared with just 10.5% of the members of cluster D which performed weakly in all areas. The average age of A.1 members was 47 while just 41% were female. 29% had dependent children. Current account usage was almost one hundred per cent. A much larger proportion than the sample average owned their homes outright with no mortgage, or, were owner occupiers with a mortgage. Around 70% worked full-time or part-time, much higher than the sample average of 57%. A substantial proportion were retired or looking after home or family. Considering educational qualifications, one-third of the cluster had a primary degree or professional qualification or postgraduate qualifications compared with a sample average of around one-fifth. At the other end of the educational spectrum, around one-fifth had less than upper secondary education compared with a sample average of one-third.

Cluster A.2 differed from A.1 with a higher proportion of female members (55%), younger average age (40 years), smaller proportion in couples (44%) but a similar proportion at 30% had dependent children. The average number of products held was three rather than four and a very large proportion at 46.5% were in the top two income quintiles. Again, current account usage was close to 100%. The tenure profile resembled very closely the sample average. Again, a higher than average proportion were working full-time or part-time. The percentages of unemployed, students or pupils and those looking after home or family were close to the sample averages while a slightly smaller proportion were retired. In terms of educational qualifications, again a smaller proportion had less than the upper secondary qualification while a greater proportion had a primary degree / professional qualification or above. A slightly greater proportion than average had a technical or vocational qualification and a non-degree qualification.

Group B: Two weak areas

Cluster B.1 which had two weak areas was more or less evenly split between males and females and the average age was 50 years. Again, a high proportion were in couples at 54% while a quarter had dependent children. The average number of product types held was two. 37% of members were in the top two income quintiles with 43% in the bottom two quintiles. Current account usage was lower than the sample average at 71%. Considering tenure, 30% compared to a sample average of 23% owned their homes outright. One-half of this cluster worked full-time or part-time while 22% were retired compared to 13% in the sample as a whole. A quarter of this cluster had primary education as their highest qualification compared with a sample average of 14% while just 14% had a primary degree or above compared with a sample average of 21%.

The B.2 cluster accounts for only 1.5% of the entire sample and was predominantly male, young and with a high proportion of dependent children. A high proportion at 60% were at work full-time or part-time. 14% compared to a sample average of 5% were students or pupils, reflecting the young average age of the cluster. This grouping had the lowest proportion with less than upper secondary education at 4% compared to the sample average of 34%. It also had the highest proportion with upper secondary or a technical / vocational qualification at 63% compared to a sample average of 38%.

Group C: Four weak areas

Cluster C.1 with four weak areas had a low proportion of members who were in couples at 30% compared with a sample average of 45.5%. The average number of products held at 1.5 was much lower than the sample mean of 2.6. Around 70% of members were in the lowest two income quintiles. Current account usage was extremely low at just under half of the cluster. Considering tenure, the numbers renting from a local authority / voluntary body or from a private landlord or occupying free of rent were much higher than the sample average while the numbers owner-occupying with a mortgage or owning their homes outright were much lower. Just 38% of this cluster was at work, almost 20 percentage points lower than the average while 16% were unemployed, some 9 percentage points higher. A greater than average proportion were also students, looking after home or unable to work due to illness while a smaller than average proportion were retired. 44% of this cluster had less than upper secondary education compared to a sample average of 34%. The proportion with a primary degree or professional qualification at 7% was half that of the sample average of 14%. The proportion with post-graduate qualifications was zero.

Cluster C.2, which also had four weak areas, was composed of a majority of females (62%) and the average age, at 31, was some eleven years younger than the sample average. The proportion in couples at 30% was also much lower than average but the proportion with dependent children was not. Indeed, 20% of this cluster were lone parents compared to the sample average of 13%. Current account usage was close to one hundred per cent. Again, the numbers renting from a local authority / voluntary body or from a private landlord or occupying free of rent were much higher than the sample average, while the numbers owner-occupying with a mortgage or owning their homes outright were much lower. Reflecting the average age of the cluster, just 1% were retired. Two-thirds were at work while the proportion of students at 12% was also higher than the average. Just 8% of this cluster had a primary degree or above compared to 21% of the sample as a whole while the proportion having less than upper secondary education was 47% compared with a sample average of 34%.

Group D: Five weak areas

This group, which performed badly in all areas, was close to the sample average in terms of gender and age profile but a much smaller proportion were members of couples. The proportion with dependent children was also lower. Only one product was held on average. Just 10.5% were in the top two income quintiles while almost three quarters were in the bottom two quintiles. Current account usage was the lowest of all the clusters at just 32%. As with Group C, the numbers renting from a local authority / voluntary body or from a private landlord or occupying free of rent were much higher than the sample average while the numbers owner-occupying with a mortgage or owning their homes outright were much lower. Just 28% of this cluster worked full or part-time while 17% were unemployed compared with 7% of the sample as whole. A quarter were engaged in home / family duties while 7% were unable to work due to illness or disability. A massive two-thirds of this group had less than the upper secondary level of education, evenly split between those who had primary education as their highest level and those whose highest level was lower secondary. The remaining one-third of the cluster was mainly accounted for by those with upper secondary as their highest level of education. Just 2% of this cluster had a primary degree or professional qualification.

6.3: Summary

This chapter considers the relationship between the four domains under consideration in this study and finds that, in nearly all cases, doing well in one domain is associated with doing well in the other domains, particularly so for planning ahead with making ends meet, choosing products and staying informed. In the cases of making ends meet and keeping track, doing well at one was not related to performance in the other category.

Cluster analysis is then used to group individuals with similar scoring patterns. Seven clusters were identified by the analysis. In terms of the overall performance, just over half the population had no weak areas while around one fifth had two weak areas. 16% had four weak areas while just over one-tenth performed weakly in all five areas. That half the sample had no weak areas is reassuring but the substantial proportion with five weak areas gives cause for concern. Considering the characteristics of those who performed well and those who performed poorly, the better performers were more likely to be in couples, at work, well-off financially, well-educated and owner occupiers. The poor performers were more likely to be single, badly-off financially, renters, and poorly educated, often unemployed and with low usage of current accounts.

Chapter 7: Concluding Remarks

Recent increases in financial innovation, particularly in the Anglo-Saxon banking culture, have seen a considerable growth in the amount of financial products available to the general public. Simultaneously, many workers are increasingly assuming responsibility for planning for their future pensions. This allied to increased life expectancy necessitates a greater degree of financial capability amongst the general public. This study has empirically examined this issue for the first time in an Irish context. As such, this report follows a nascent literature internationally. The related issue of financial literacy has been studied for several years in the US while a major study of financial capability was completed in the UK in 2006. This report follows that UK study closely. This is the first major evidence on financial capability in Ireland, conducted with a purpose-designed, in-depth, representative survey of just over 1,500 people.

Chapter 2 described the managing money domain. This domain had two main areas, namely making ends meet and keeping track. Overall, respondents seemed to be doing quite well at making ends meet with an average factor score of 75. The picture with regard to keeping track is less positive with many low scores recorded. The factor score for keeping track averaged 46. However, those who scored poorly on keeping track generally scored well on making ends meet suggesting that keeping a close track on finances is not a prerequisite for making ends meet.

The planning ahead domain was covered in Chapter 3. The average score in this domain was 53. The findings here give cause for concern. A quarter of respondents or their partner, where relevant, had experienced a large and unexpected drop in income in the previous three years while 16 per cent had experienced a major unanticipated expense in the same timeframe. These statistics indicate that unexpected negative financial events afflict a sizeable proportion of the population. Despite this, 59 per cent had no provision for dealing with a drop in income of three months or more duration while 40 per cent would have to borrow to deal with an unanticipated expense equivalent to one month’s income. Two-thirds of respondents anticipated a major expense in the future but 60 per cent of this group had not made any provision to meet their anticipated expense. The extent of pension coverage was also poor. Only 32 per cent of respondents who had not yet retired had an occupational or personal pension that they were paying into at the time of the survey. Of those who had already retired, 53 per cent had no personal pension.

Chapter 4 described the choosing products domain where the factor score averaged 50. The results from this domain show that people frequently did not seek independent advice and often displayed 'inertia' i.e. frequently renewing existing policies and products without shopping around or considering alternatives which may provide better value for money, better product features or be more suited to the individual's needs. Furthermore many people relied on or prioritised the (non-professional) advice of family and friends when making important decisions regarding financial products. While only a small fraction made their decision about their recent financial product purchase on the basis of no advice whatsoever (14 per cent), the vast majority of the advice followed referred to generic information or product information given to them by the outlet providing the product. There are signs that a minority of people bought products unwisely. All analyses conducted for this chapter reveal that the most significant factor in explaining the financial-capability scores in this domain was a person's level of engagement with buying financial services. People have clearly learnt from experience and make more competent decisions as their financial portfolio is extended.

The staying informed domain is covered in chapter 5. Respondents were generally well-disposed to keeping up to date with financial matters with just over 62 per cent of respondents answering that it was quite or very important. The mainstream media were clear leaders as sources of financial information with the most popular source for all respondents identified as newspapers (excluding financial pages) followed by TV or radio programmes (excluding specialist personal finance programmes). Just 10 per cent of respondents answered that they had had any reason to make a complaint or any form of dispute where they were not happy with a financial product or service, in the previous five years. Respondents felt much more confident in dealing with shops and suppliers in comparison to dealing with financial companies.

The cluster analysis reported on in chapter 6 identified seven clusters of individuals with similar scoring patterns. In terms of the overall performance in all the domains, just over half the population had no weak areas while around one fifth had two weak areas[45]. Another, 16 per cent had four weak areas while just over one-tenth performed weakly in all the domains. That half the sample had no weak areas is reassuring from a policy point of view but the substantial proportion with a weak performance in all areas gives cause for concern. Considering the characteristics of those who performed well and those who performed poorly, the better performers were more likely to be in couples, at work, well-off financially, well-educated and owner occupiers. The poor performers were more likely to be single, badly-off financially, renters, and poorly educated, often unemployed and with low usage of current accounts. This profiling of these groups with low levels of financial capability will allow for the development of strategies of education and awareness targeted at these groups at a later stage. However, we caution that the issue of causality should be borne in mind here, for example, are those who are well-off financially in that position because they are financially capable or are they financially capable because they are well off? This issue needs to be at the forefront of future research.

This, the first-ever Irish Financial Capability survey, was conducted in the last days of the “Celtic Tiger” era. Housing values had peaked and interest in personal wealth may have been at an all-time high. It is plausible that this may have led many private individuals to diversify their wealth holdings into financial investment and saving products. It certainly led to an unprecedented interest in acquiring additional property, buy-to-let mortgages etc. Respondents may have been particularly attuned to financial aspects of their lifestyles. It is difficult to say how the survey results would change if it were conducted today. In an environment of rising unemployment, many respondents would no doubt find it harder to make ends meet. However, this may generate a greater interest in keeping track of spending, along with an increased willingness to plan ahead and stay informed. Unfortunately, in the absence of hard data, this can only be speculation.

The analysis and results contained in this study have identified areas for future research, much of this based on a need to maintain a longitudinal assessment of how results and financial behaviour shift over time. To answer questions such as how the

[45] A weak area is defined as a score in that area of five points or more below the average score for that area.

results might look were the survey to be conducted in harsher economic times, the survey needs to be repeated after an interval to ascertain how the external context affects the results. Second, financial innovation is progressing all the time and this changes the market for financial products. Increasing competitive pressures in the financial industry may increase the scope of options available to the general public. Third, financial exclusion is commonly cited as a major contributory factor to inequality observed amongst households. Financially-capable households have the ability to acquire further resources and to be aware of and benefit most from, e.g., market offers and tax-incentives. These benefits do not apply to those experiencing financial exclusion.

There are several other potentially interesting uses for applied micro data such as those generated by the survey. The literature review contained in Chapter 1 has highlighted ongoing research in other countries with similar data that could be easily applied to fill gaps in Irish research. Examples include the choices made by individuals with regard to their pension provision and the link to financial well-being at retirement age. The declining availability of defined-benefit schemes, particularly for younger cohorts, has led to increasing risks from defined-contribution and private benefit provision. In particular, most top-up pension products depend on the vagaries of the stock market which are difficult to understand and pre-empt and subsequently provide no guarantee of the desired return at the time of encashment.

Another potential area for research is that on the personal finance concerns that stem from day-to-day money management, value for money, least-cost transactions and the diversification of risk. Acquiring financial knowledge previous to a major financial undertaking takes time and effort. Our findings show that much of this among our survey respondents has been of an ad hoc informal nature, depending substantially on the experience of friends and family.

Along with the topics highlighted above, future research could productively focus on policies to improve financial capability, reviewing the experiences of other countries and adapting best-practice elsewhere to suit the Irish market and the Irish consumer. It is unlikely that a straight forward application of policies from other countries and other cultures would be successful here but useful lessons could certainly be learnt from a study of policies which have been effective elsewhere.

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