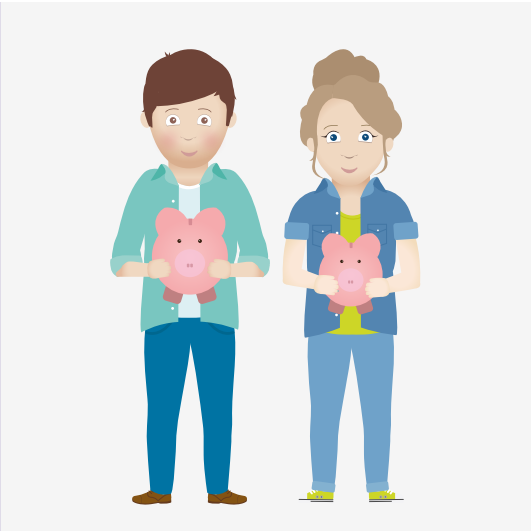
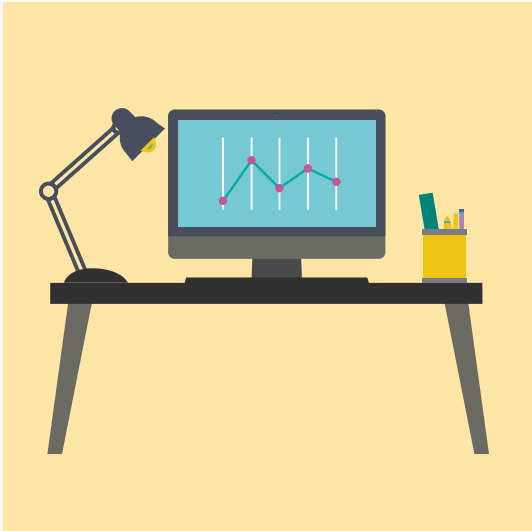
DISPOSABLE INCOME INDEX

Q1 2018

A commissioned report for Scottish Friendly

Scottish Friendly





Executive summary

The Scottish Friendly Disposable Income Index uses new survey data to provide a unique insight into the financial health of the UK population. Using detailed data on household income and expenditure as well as insights on public opinion on topical issues, we analyse how much cash households have left after buying the essentials needed to take part in modern society, and explore the implications for our financial wellbeing and security. Within this edition, we review the differences between men and women when it comes to saving, investing and their attitudes to financial matters.

- The Scottish Friendly Disposable Income Index shows that the median household in the UK has £1,500 left to spend each month after paying for the absolute essentials of housing, energy and water.
- After paying for a broader basket of goods including groceries, transport, childcare and broadband internet –the goods required to play a full role in modern society – the median household has £1,105 left each month to pay for other necessaries like clothing and furniture, saving and luxuries like holidays.[i]
- One in four of those aged 18-24 (24%) and around one in six of those aged 25-34 (15%) spend more than their income on essentials (such as housing, energy and water). A much lower proportion of those aged 55-64 (8%) and those aged over 65 (5%) are in the same position.
- Almost half of individuals (46%) are concerned about how leaving the EU will affect their family financially. One in four (25%) are worried that leaving the EU might affect their job.

£1,105

LEFT TO SPEND IN THE AVERAGE HOUSEHOLD, AFTER ESSENTIALS AND GOODS REQUIRED FOR PLAYING A FULL ROLE IN MODERN SOCIETY.

1/2

ARE CONCERNED ABOUT HOW LEAVING THE EU WILL AFFECT THEM FINANCIALLY.

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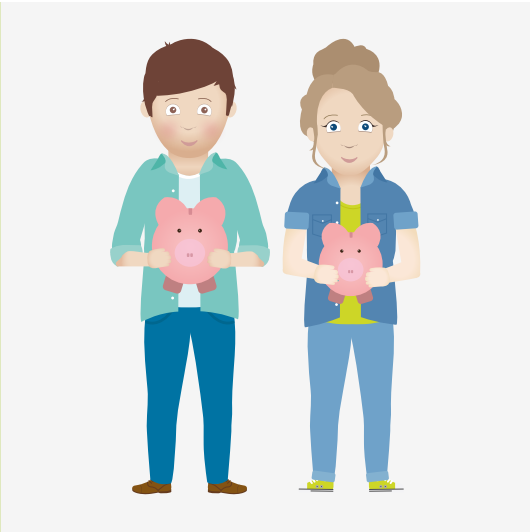
- Whilst 53% of males regularly save or invest, slightly fewer females do the same (47%).
- One area where the differences between the genders are clear to see is regarding confidence. Nearly half of men (46%) say that they are very confident or extremely confident when it comes to money matters, this compares to only three in ten women (31%). A lack of confidence is associated with poorer outcomes and low financial capability.
- Furthermore, over the past 12 months, 30% of men have opened a savings or investment product for the first time, compared to 23% of women.
- The two genders appear to save into different vehicles. Over a third (36%) of men state that their household regularly invests into a pension, compared to less than a quarter (23%) of women. This could be because women only households are less likely to save into pensions than men, or that women are less likely to be aware of their partner's pension savings.

3 in 10

WOMEN SAY THEY FEEL CONFIDENT IN MONEY MATTERS.

36%/23%

MORE MEN (36%) THAN WOMEN (23%) SAY THEIR HOUSEHOLD REGULARLY INVEST INTO A PENSION.



Introduction

In the first Disposable Income Index of 2018 we focus on saving and investing and the differences between the genders. We find that men report their households are more likely to save into pensions and stocks and shares ISAs compared to female respondents.

The financial confidence of women is considerably lower than that of men and whilst women wish to save they feel their income makes this difficult.

The Disposable Income Index

The Scottish Friendly Disposable Income Index uses new survey data to provide a unique insight into the financial health of the UK population. Using detailed data on household incomes and expenditure, we analyse how much cash households have left after buying the essentials needed to take part in modern society, and explore the implications for financial wellbeing and security.

The median household in the UK has £1,500 left to spend each month, after paying for somewhere to live.[ii] On average,[iii] £1,105 is left over once households have paid for other necessities needed to take part in modern life – childcare, transport, groceries, mobile phones, television service, internet and telephone calls. This money needs to pay for everything else the family requires: clothes, furniture, going out, hobbies, holidays and savings.

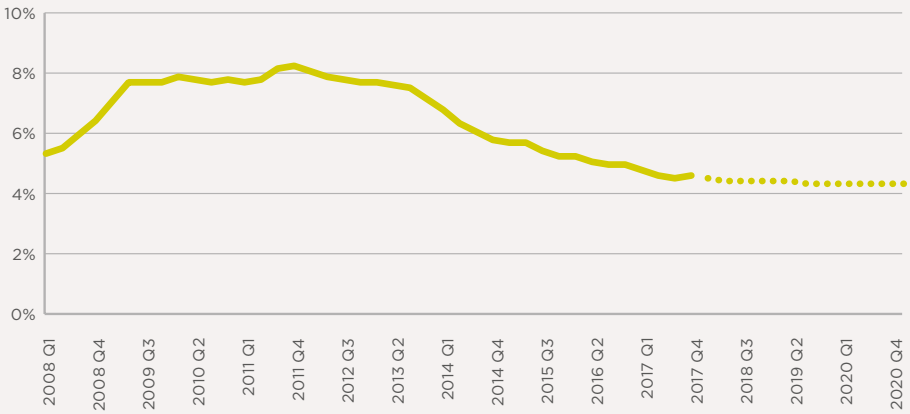
Growth slow but steady

The UK economy outgrew forecasts in the final quarter of 2017, with quarter-on-quarter GDP rising to 0.5%. However, growth for the year amounted to 1.8%, down from 1.9% in 2016. IMF forecasts for 2018 remain unchanged at 1.5%. This is also the growth rate currently predicted for 2019.

The rate of employment grew to 75.2% in the last quarter of 2017, representing a 0.2 percentage points increase from the previous quarter. The quarterly unemployment rate increased by 0.1 percentage points to 4.4%. This figure translates to 1.47 million unemployed people, which is 123,000 fewer than a year ago.

Figure 1: UK unemployment rate Q1 2008-Q1 2021

Source: Office for National Statistics, Bank of England forecast



The Bank of England's Inflation Report

The Bank of England's latest Inflation Report (February 2018) revised down its forecasted unemployment rate yet again. Only 4.2% of labour market participants are expected to be unemployed until mid-2019; the rate is then predicted to fall to 4.1% and to remain at this level until the beginning of 2021.

Prices continue to rise

CPI inflation remained at 3% throughout December 2017 and January 2018. In the period, the prices of motor fuels increased by a lower rate than a year ago, only to be offset by faster rising prices of recreational and cultural goods and services.

The Bank of England kept interest rates at 0.5% as forecasts expect inflation to fall to 2.7% in the next quarter. Longer-term expectations show CPI inflation falling; however, prices are expected to remain above the target rate of 2% until early 2021.[iv]

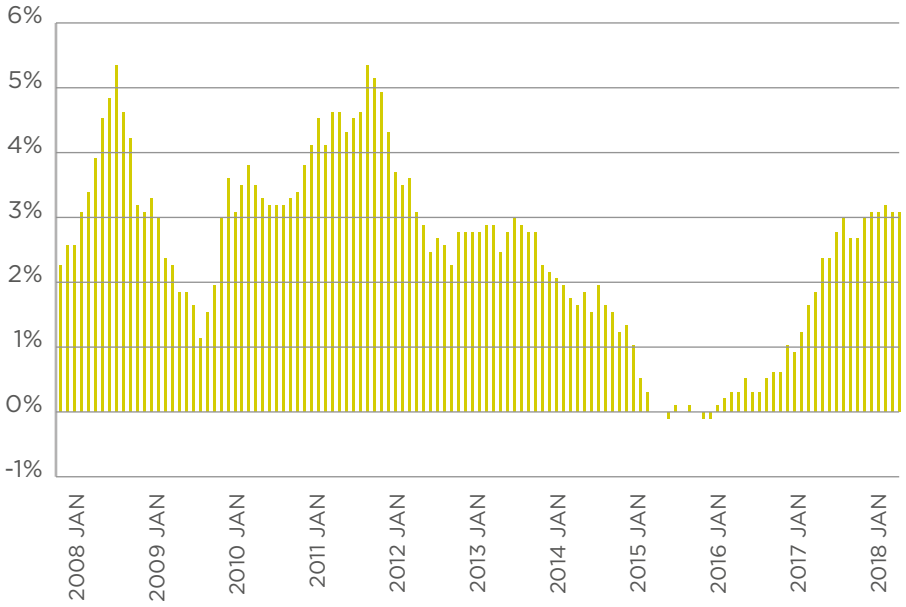
Nominal weekly earnings rose by 2.5% between October and December 2017.[v] Although this represents an increase in comparison to the previous Source: Office for National Statistics quarter, wages continued to lag behind the rate of price inflation. Both regular pay (excluding bonuses) and total pay (including bonuses) for employees in the UK fell by 0.3% in real terms.

2021

PRICES EXPECTED TO REMAIN ABOVE 2% TARGET RATE UNTIL EARLY 2021

Figure 2: CPI inflation, January 2008 – January 2018

Source: Office for National Statistics

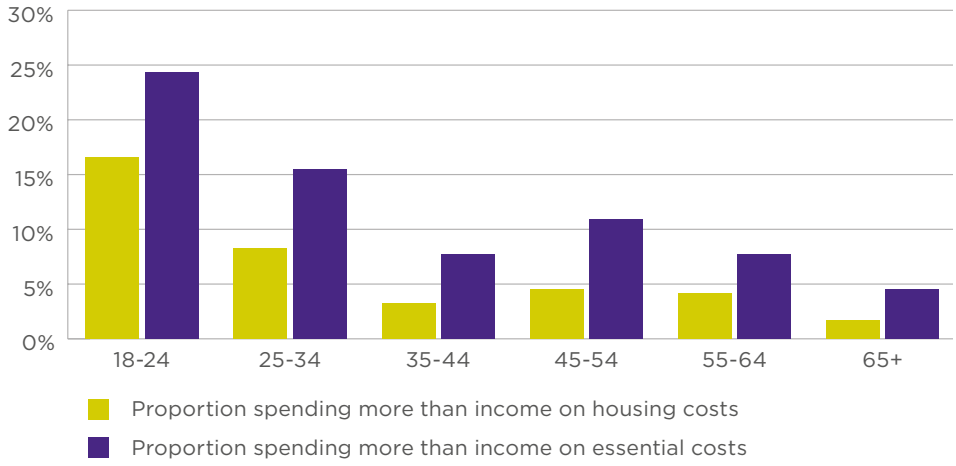


As we have reported in the past the median disposable income is much lower among younger age groups than older age groups. Those aged over 65 have the highest level of disposable income amongst all the age groups at £1,873. This compares to a disposable income of £991 for those aged 18-24.

Younger age groups remain less confident in their ability to cope with an unexpected bill (for example, if the car or washing machine broke): 58% of 18-24 year olds and three in four (74%) of those aged 25-34 reported some concern over being able to cover a big unplanned expenditure. Only one in three (31%) of those aged 65 and over are worried about how they would cope.

Younger respondents also tend to spend more than their income on housing costs and essentials such as childcare, transport, and groceries. One in four (24%) of 18-24 year-olds and one in seven (15%) of those aged 25-34 spend more on housing costs and essentials than they earn. In comparison, only 8% of individuals aged 55-64 and just one in twenty (5%) of individuals over 65 tend to do so. This could be explained by younger age groups facing higher housing costs due to either renting or paying off a mortgage.

Figure 3: Proportion spending more than their income on housing and other essentials, by age.



Income after housing

Income after housing shows the amount of cash households have left after paying for housing and related costs - council tax, water, energy bills, ground rent, service charges, buildings and contents insurance. This is similar to the government measure of income after housing used to measure official poverty lines.

Income after essentials

This measure shows cash left over after households have purchased a basket of essentials considered necessary to participate in day-to-day life in modern society. It includes: childcare, transport (fuel or public transport fares), groceries, broadband internet, mobile phone tariffs and subscription television.

Financial anxieties

Younger generations are also more likely to be worried about their debt. Over a half (54%) of Millennials (those born between 1981 and 1998) and 38% of members of Generation X (born between 1965 and 1980) report some worries regarding money they owe. In comparison, just 22% of Baby Boomers (born between 1946 and 1965) agree with the statement.

18% of households report that they have more money left over after paying for essentials than they did 12 months ago. In comparison 42% believe that they are worse off than 12 months ago. This may be attributable to rises in the cost of living. Meanwhile, two in five believe that there has not been any significant change.

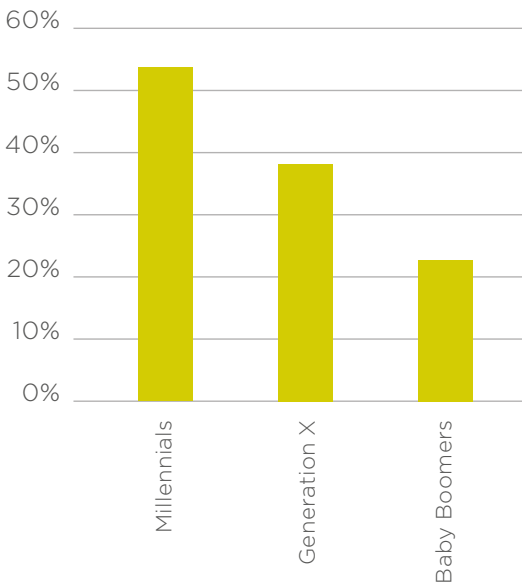
One in four (26%) of households with children say they have more cash left over at the end of the month than they did a year ago. In comparison, only 13% of households without children report the same.

Households' perception about their future financial position varies depending on whether they have children. Three in ten (30%) of childless households report that they expect to be better off financially in a year's time. Households with children are more optimistic: 45% agree that they will be better off in 12 months. These differences are likely to be attributed to the age of the respondent.

45%

AGREE THAT THEY WILL BE BETTER OFF IN 12 MONTHS

Figure 4: Proportion worried about debts

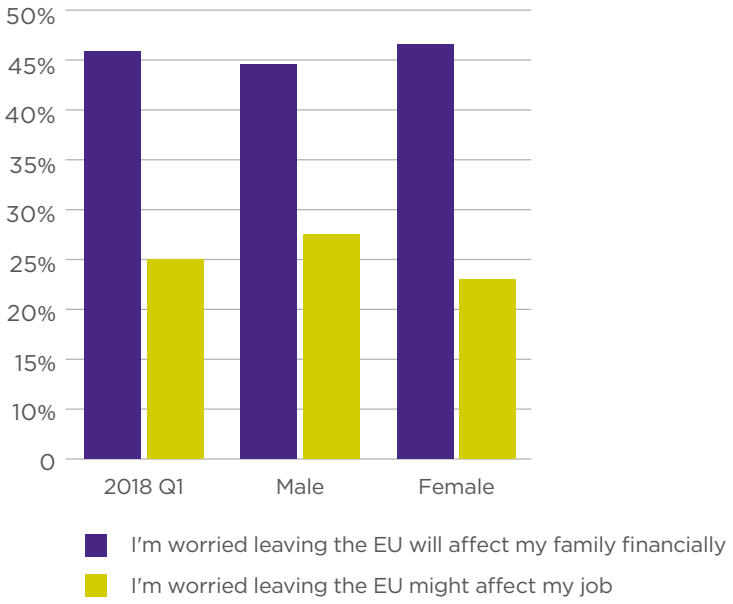


Minimal gender divide over Brexit

In the first quarter of 2018, 46% of households report some worry that leaving the European Union will affect their family financially, whereas one in four (25%) are worried about Brexit affecting their job.

Concerns over Brexit do not vary greatly between the genders. 44% of men and 47% of women are worried that leaving the EU will affect their family finances. On the other hand, 27% of men and 23% of women are concerned about an effect on their job.

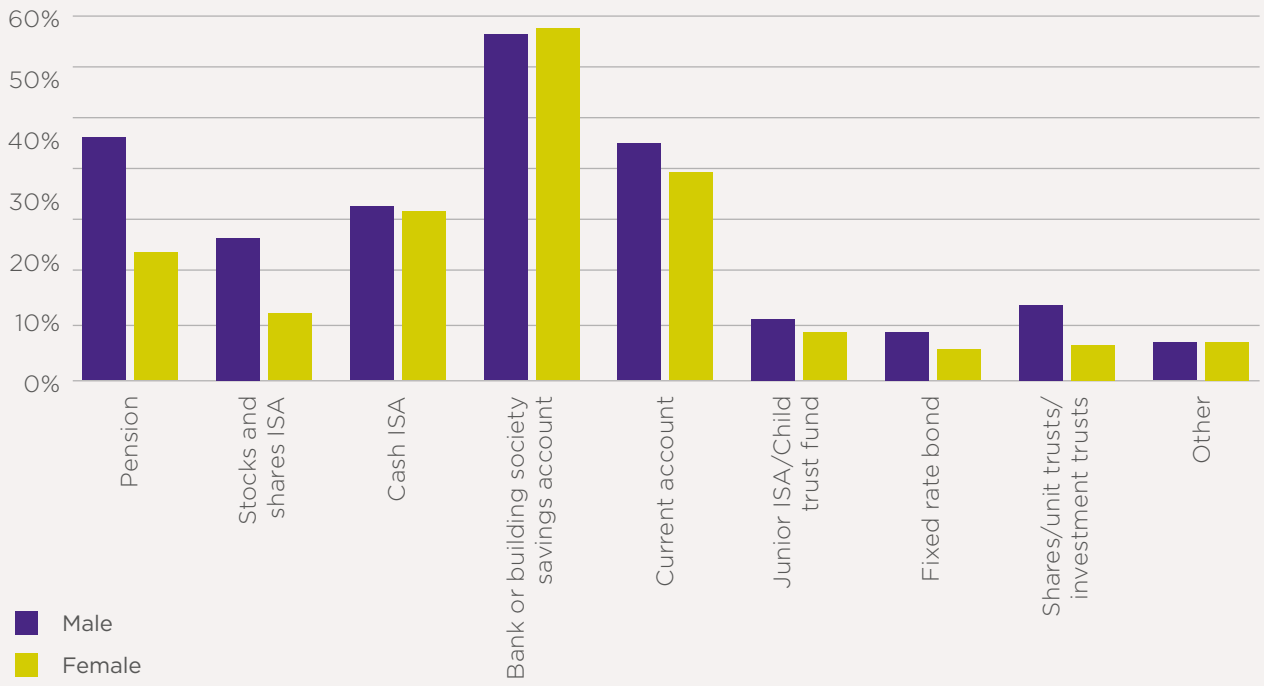
Figure 5: Concerns about leaving the EU



Gender and savings

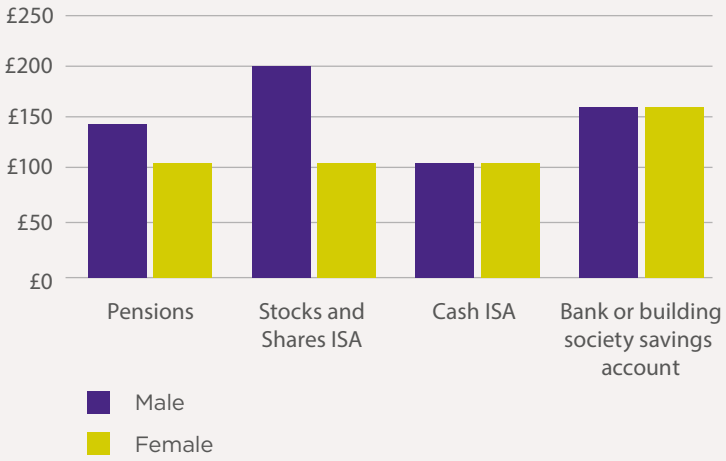
The gender pay gap has gathered attention recently and this section of Disposable Income Index focuses on the differences between the genders when it comes to saving and investing. Whilst 53% of males report that their household regularly saves or invests, slightly fewer females report that their household does the same (47%).

Figure 6: Proportion of those whose households save into the following products each month, *of households who save*



There also appears to be a difference in the types of saving and investment products that men and women report that their household invests in. These savings and investments relate to the household and therefore the differences between the genders could be attributed to different saving behaviours of male or female only households and the respondents lack of awareness regarding the saving and investment behaviour of their partner. Figure 7 relates to the median amount each household saves into a particular savings vehicle, there is potential that a respondent's understanding of their partner's savings is influencing these results.

Figure 7: Median amount saved by household per month (£), *of households who save*

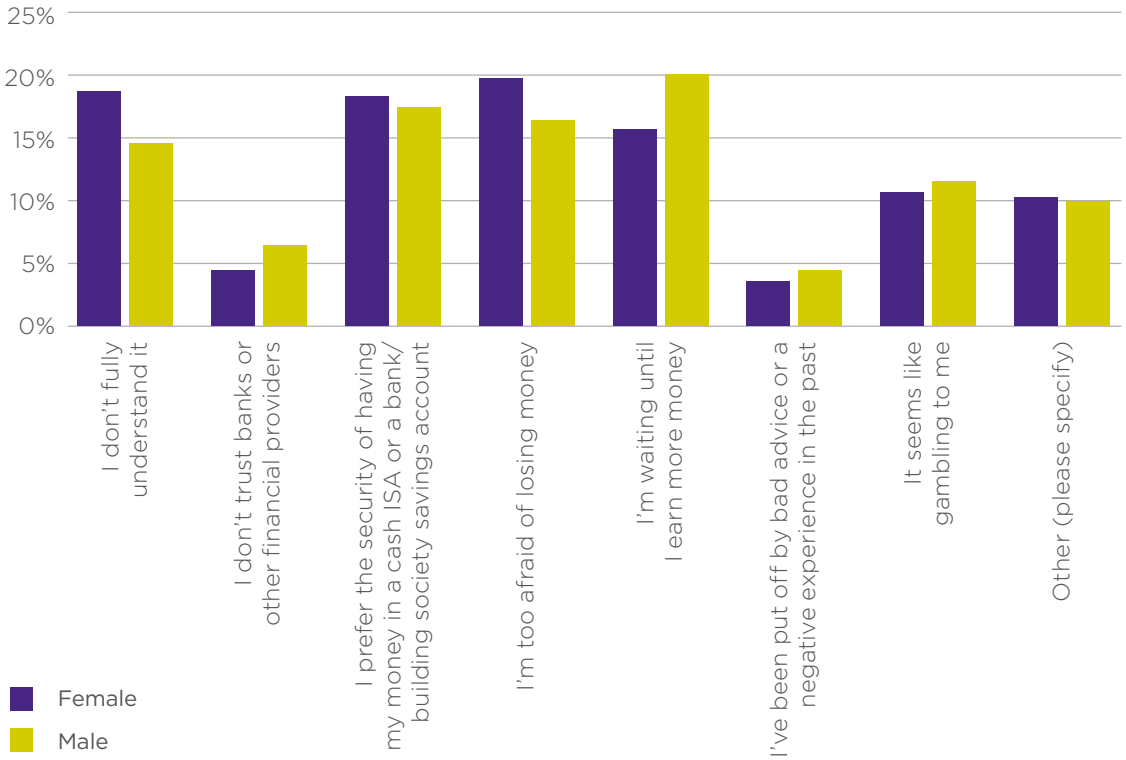


Female respondents stated that their household saves on average £100 into a pension each month, whereas males saved slightly more at £140. This could be attributed to differences in hours of work and earnings between the genders. For instance, whilst three quarters of all workers are eligible for automatic enrolment into a pension, only 63% of female workers were eligible.[vi]

This gender difference also holds for stocks and shares ISAs, males specified that their household saves an average of £200 each month, compared to only £100 for females. However, there is no difference between the genders when focusing on bank or building society saving accounts or cash ISAs.

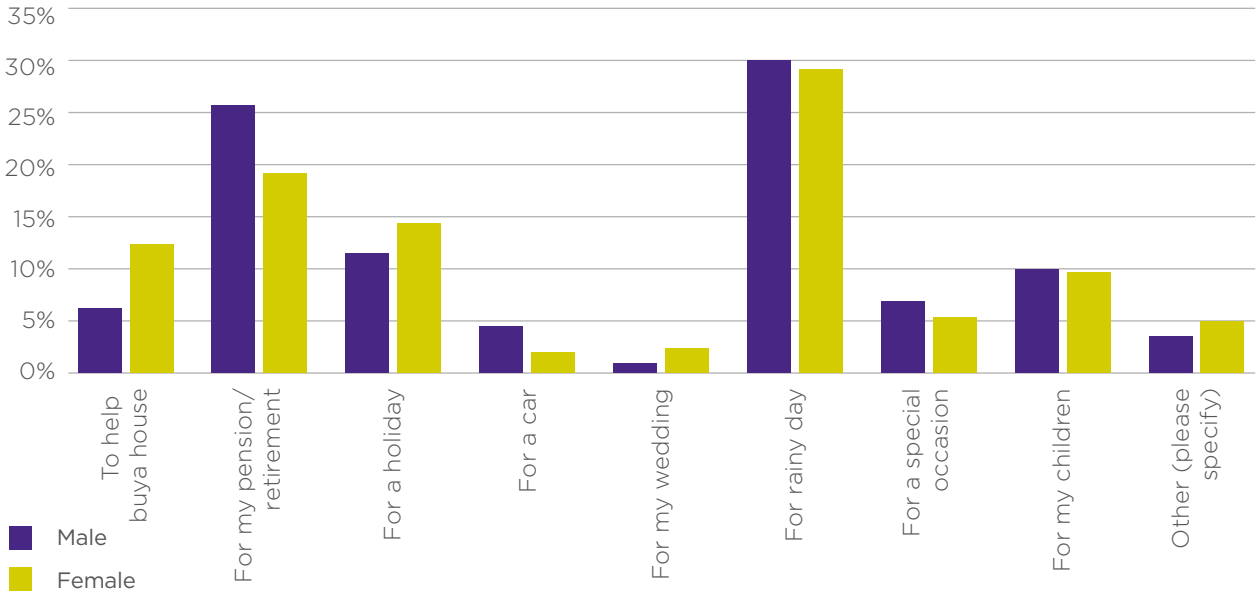
Over the past 12 months, 30% of men have opened a savings or investment product for the first time, compared to 23% of women. We asked those who did not invest in stocks and shares their reason for opting to save in alternative products, the most common reason given by women (20%) was that they were afraid of losing money followed by a lack of full understanding (18%). Men on the other hand were most likely to state that they are waiting until they earn more money (20%), followed by preferring the security of cash ISAs and bank/building society saving products (17%).

Figure 8: Reason for not investing in stocks and shares, *of those who do not invest in/who have not recently opened stocks and shares products*



The reason for saving could be one of the explanations as to why we see such differences in the choice of savings vehicles between the genders. The most common reason for saving and investment is for a rainy day, here there is very little variation between the genders. The same cannot be said for the second most common reason, which is retirement savings. Whilst a quarter of men (26%) state retirement saving as their main reason for saving, only one in five women (19%) state the same. Women are more likely to work part-time, or earn less than men and therefore are less likely to be eligible to save into a pension.[vii] Women are more likely than men to be saving for a holiday or to buy a house.

Figure 9: Proportion stating the main reason for making saving and investment



Both men and women are open about their financial matters and open with their spouses or partners. Women are very open with their spouse/ partner about the saving and investments they have, with 85% reporting that their partner has full knowledge. Men are marginally less open with 81% reporting that their partner has full knowledge.

The same holds true for information regarding salary, 55% of men know exactly how much their partner/ spouse earns compared to 53% of women. Against this, 11% of women do not know what their partner/ spouse earns, whilst this is true for 13% of men. Although women are slightly less likely to know exactly what their partner earns there is very little difference between the genders when looking at those with no knowledge.

Figure 10: Responses to whether individual knows how much their spouse/partner earns?

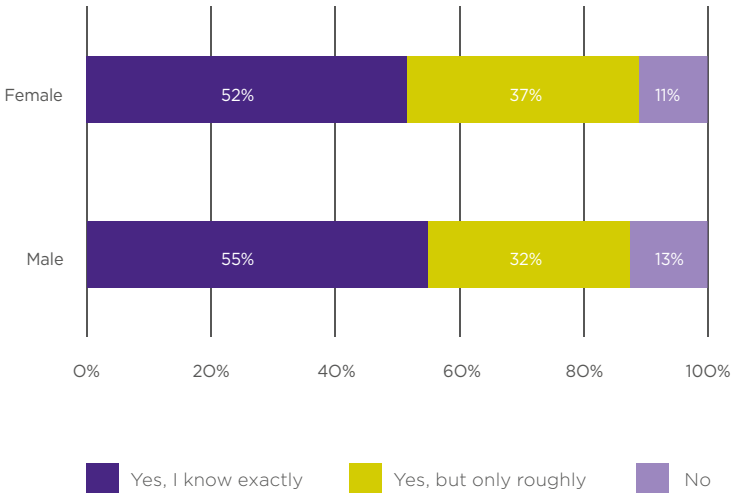
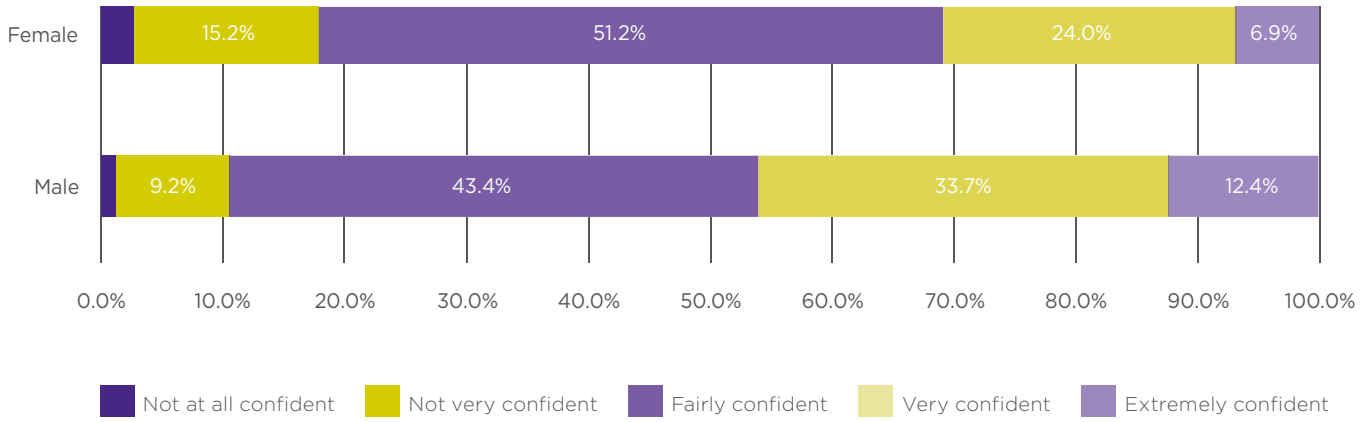
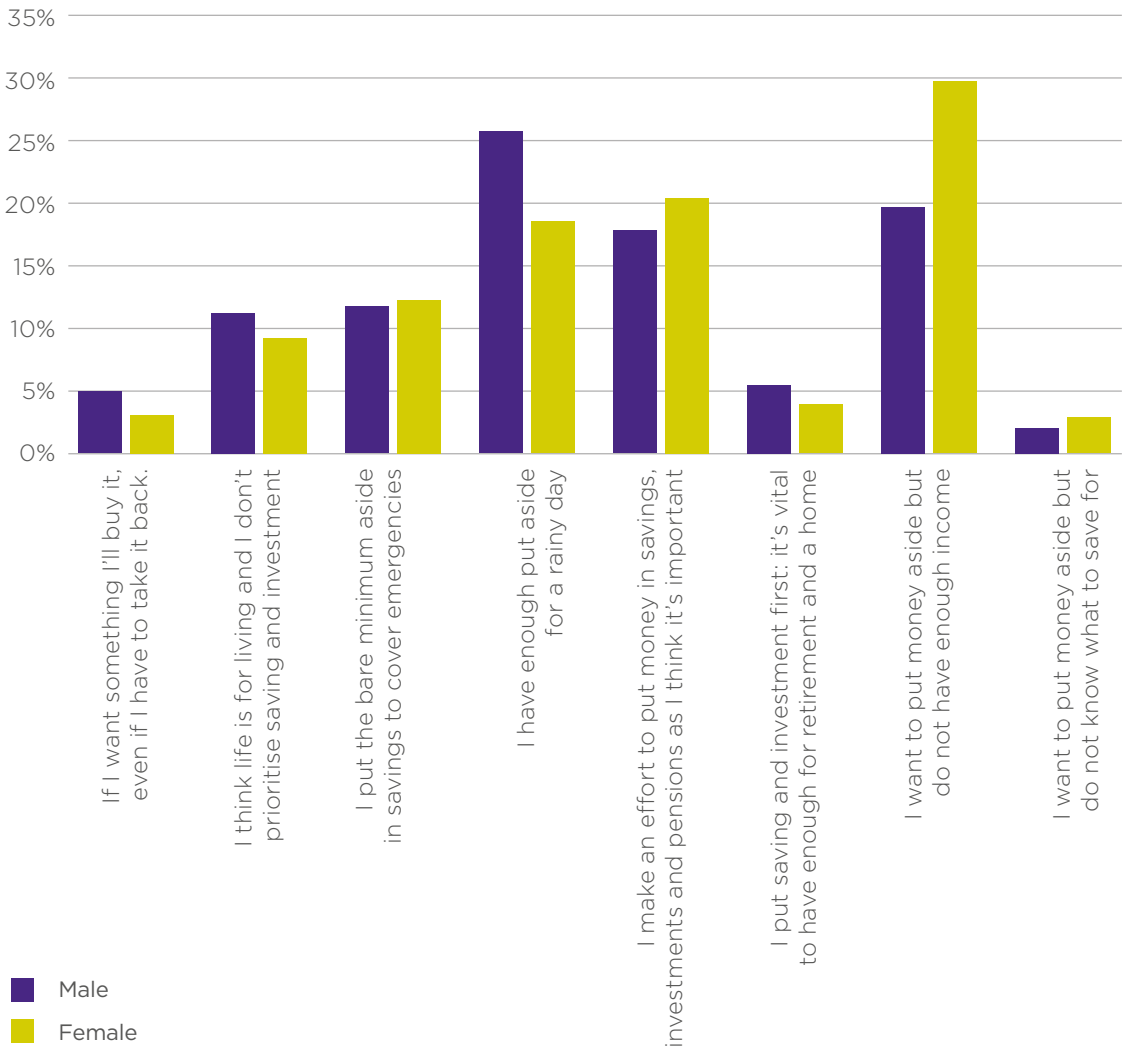


Figure 11: Confidence with money matters



One area where the gender differences are clear to see is regarding financial confidence. Nearly half of men (46%) would say that are very confident or extremely confident when it comes to money matters. This compares to only three in ten women (31%). Research from Canada shows that financial confidence is a better predictor than financial knowledge in shaping behaviour and outcomes related to day-to-day money and debt management.[viii] Financial confidence plays an important role in an individual's financial capability and research has shown that improvements in financial capability can lead to improved behaviour and outcomes.[ix] It is important to recognise that self-reported confidence does not necessarily reflect financial knowledge or ability.

Figure 12: Respondent's attitudes to money as part of their life



Attitudes to money can have a clear impact on saving habits and financial confidence. Almost a third of female respondents (30%) reported that whilst they wanted to put money aside their income does not allow them to do so. By contrast, a quarter of men (26%) were confident that they have enough money put aside for a rainy day.

Conclusions

The median household in the UK has £1,500 left to spend each month, after paying for somewhere to live. On average, £1,105 is left over once households have paid for other necessities needed to take part in modern life.

This edition of the Disposable Income Index focuses on the gender differences when it comes to saving and investing. Our research shows that women are less likely to report that their household invests into pensions and stocks and shares compared to men. The most common reason for saving and investment is for a rainy day, here there is very little variation between the genders. The same cannot be said for the second most common reason, which is retirement savings. Whilst a quarter of men (26%) state retirement saving as their main reason for saving, only one in five women (19%) state the same. Confidence relating to financial matters could be part of the reason we see these differences. One in three women (31%) state they are very or extremely confident when it comes to financial matters, compared to almost half of all men (46%).

Methodology

The Scottish Friendly Disposable Income Index is based on a quarterly online nationally-representative survey of 2,000 UK adults, carried out by 3Gem. Survey data was collected between 31st January and 8th February.

Within the survey, respondents are asked for details of four components of income:

- Post-tax income from work
- Income from benefits or tax credits
- Income from investments
- Income from private or occupational pensions.

In each case, respondents are asked for monthly data as this is basis on which most income will be paid. Where reasonable, they are prompted to think of sources of this information, for example pay slips.

These data are aggregated to provide an accurate picture of income at a household level. Asking questions about specific components of income allows us to build a more complete picture.

Respondents are then asked about essential bills, including:

- Housing costs: rent or mortgage costs
- Council tax
- Water
- Gas, electricity, solid fuel (including a dual fuel option)
- Buildings & contents insurance
- Ground rent and service charges

We ask both how often bills are paid, and how much they are, allowing respondents to provide information in the form that is most familiar to them and removing as far as possible the need for bills to be estimated. The data is then cleaned to provide a monthly estimate of total essential costs for each household.

We also consider a set of costs which are not absolutely essential for human life, but are nonetheless necessary to play a full and active role in modern society, including:

- Groceries
- Broadband or other internet services, telephone calls and television subscriptions
- Mobile phone bills
- Childcare
- Transport (petrol, public transport fares)

These costs are subtracted from reported income at each household, to create an estimate of disposable and discretionary income – here defined as income after housing costs, and after a basket of essentials needed to participate fully in modern society are purchased.

Data is not equivalised for household size, but we do check median household size across sub-groups to ensure any significant differences are flagged to the reader.

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i We report the disposable income findings from our survey on a quarterly basis. We do not draw conclusions here about variation over time due to challenges associated with sample size which mean that in many cases we may not be confident that the change is statistically significant from zero.

ii Housing includes mortgage or rent costs, council tax, ground rent, service charges, building and contents insurance, energy and water bills.

iii "Average" throughout this report refers to the median. We use the median to avoid results distorted by extreme values, particularly given the self-reported nature of our survey data.

iv Bank of England, Inflation Report, November 2017 (2017)

v UK Labour Market: February 2018, ONS

vi https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/560356/workplace-pensions-update-analysis-auto-enrolment-2016.pdf

vii https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/670634/review-of-automatic-enrolment-earnings-trigger-and-qualifying-earnings-band-2018-19-supporting-analysis.pdf

viii http://www.financialliteracy.gov.au/media/559982/thelinkbetweenfinancialconfidenceandfinancialoutcomes-canada-2016.pdf

ix Europe Economics, The Economic Impact of Improved Financial Capability (2016)

	Income after housing costs	Income after essentials	Proportion spending more than income on housing costs	Proportion spending more than income on essential costs
REGION				
Scotland	£1,779	£1,052	3%	7%
Northern Ireland	£1,859	£1,615	0%	4%
Wales	£1,298	£1,038	9%	10%
South West	£1,491	£1,105	6%	13%
West Midlands	£1,416	£1,100	7%	12%
North West	£1,310	£1,027	6%	10%
North East	£1,351	£1,042	4%	7%
Yorkshire	£1,542	£1,187	5%	8%
East Midlands	£1,445	£1,060	2%	9%
East England	£1,355	£1,007	6%	15%
South East	£1,405	£1,016	5%	12%
London	£1,771	£1,291	8%	14%
AGE GROUP				
18-24	£991	£666	17%	24%
25-34	£1,467	£985	8%	15%
35-44	£1,505	£1,050	3%	8%
45-54	£1,374	£959	4%	11%
55-64	£1,465	£1,129	4%	8%
65+	£1,873	£1,538	1%	5%
EMPLOYMENT STATUS				
Employed full-time	£1,640	£1,161	5%	10%
Employed part-time	£1,225	£844	6%	11%
Self-employed	£1,255	£9,75	5%	14%
Unemployed	£1,040	£775	7%	16%
Student	£808	£457	18%	28%
Retired	£1,939	£1,559	1%	4%
UK MEDIAN				
	£1,500	£1,105	5%	11%

Visit Scottish Friendly's Insight Hub where you can interact with our Disposable Income Index Tool by comparing finances from a comprehensive range of demographics.
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