Working Well

How employers can improve the wellbeing and productivity of their workforce

Katie Evans

SMF Social Market Foundation

neyber

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CONTENTS

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We also present new analysis of Understanding Society, the UK's largest household survey, and its predecessor the British Household Panel Survey. We are grateful to the UK Data Service and the Institute of Social and Economic Research at the University of Essex for the provision of this data under licence.

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ABOUT NEYBER

Neyber is a provider of financial employee benefits. We enable employees to reduce borrowing costs with access to affordable loans integrated with payroll - all at no cost to the employer.

Neyber's mission is to pioneer the creation of workplace communities that will enable employees to borrow and save together at fairer rates and to cut credit costs.

As Neyber's technology integrates with payroll, employers can offer an easy-to-implement workplace financial solution that acts as a key driver for employee engagement, productivity and to reduce stress-related absenteeism.

Over half a million people already have access to the Neyber community. Through our affordable rates, we have delivered an effective 5% pay rise to our existing borrowers saving them 20% on monthly debt repayments and successfully reducing their outstanding debts.

FOREWORD BY MONICA KALIA, CO-FOUNDER, NEYBER

We welcome the opportunity to partner with the Social Market Foundation in researching the reasons behind the UK's persistent productivity problems.

The findings should provide a wakeup call for UK employers because it demonstrates how productivity is impacted by factors such as stress and anxiety, where both can be driven by financial worries. The fact that these issues are apparent across all sectors of the economy means that we have consistently failed to recognise some of the key drivers of poor productivity in the UK economy.

For far too long politicians, policy makers and economists have chided Britain's workforce for its failure to improve productivity without taking account of the wellbeing factors that can affect employees. This clearly has to change if we are to emerge from the recession with a workforce that is fit to deliver economic growth at home and meet the competitive challenge in global markets.

At Neyber (www.neyber.co.uk) we believe that giving employees the tools for financial mindfulness can break this needless spiral of anxiety and stress. This is crucial as far as productivity is concerned, where the impact of financial stress on the workplace can be dramatic.

Absent employees are not productive at all and the effects on morale and workload for other staff members can reduce their productivity too. Employees who have made it into work with little sleep, or with a physical illness of which stress is an underlying factor, can at best show low levels of productivity and at worst – particularly if they have a manual job – have a potentially detrimental impact on the health, safety and wellbeing of themselves, their colleagues and customers.

There are many causes of stress and productivity is affected by a whole range of issues that influence people. But unfortunately the major taboo that surrounds talking about indebtedness means stress caused by money worries can silently grow in individuals.

The irony here is that personal finances are fundamental to employer-employee relationships. For most of us, our employer is our main or only source of income. And this is one area in which every employer, regardless of size, sector or business could potentially reduce stress and improve productivity. This needn't mean increasing wages, but rather using simple solutions to encourage financial mindfulness in employees by helping them to learn healthy financial behaviours and build financial resilience.

EXECUTIVE SUMMARY

Productivity – working harder?

The UK has a significant productivity problem. We're at least 25% less productive than the major economies we compete with. There's been plenty of discussion of the big factors behind this – our relatively weak capital investment, skills shortages and poor infrastructure. But to fix each of these requires substantial investment and long-term political engagement. Other, less prominent factors, like **engagement among our workforce, could provide a useful boost to productivity while we're waiting for action on the big issues.** Experimental trials prove that making people happy can increase productivity by 12%, and that lower happiness is systemically associated with lower productivity.[1]

We work harder and achieve more when we feel like we have control over what we do, and find it rewarding. We do better in jobs that we like. But **many industries have seen job satisfaction decline over the past decade.** The public sector, administration & support services, real estate, accommodation & food services & retail have seen particularly sharp falls. **Never mind struggling to make the big decisions necessary to keep the UK economy competitive, we're not even making the most of the skills and talents we do have thanks to a lack of engagement.**

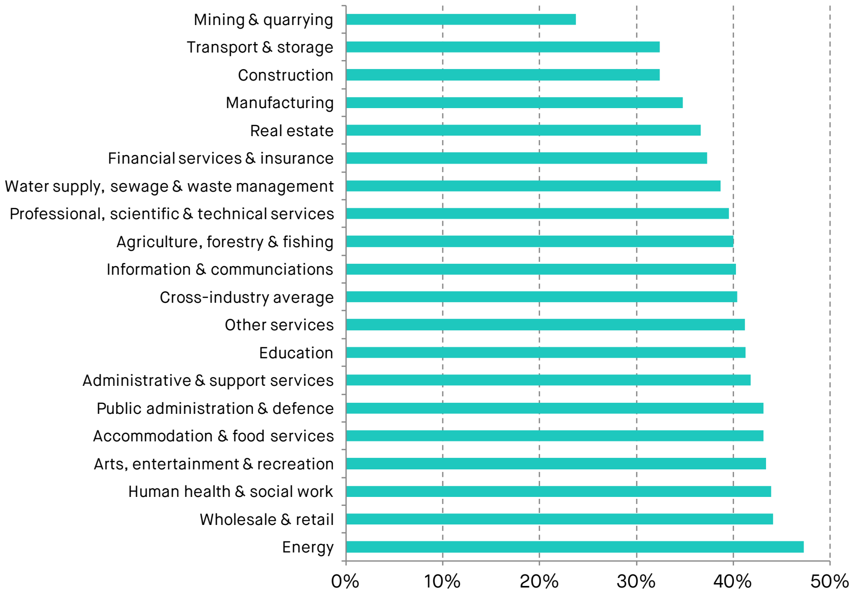
In this report we consider **ways in which we can reduce stress and boost workplace engagement to help improve UK productivity.** We present new analysis of Understanding Society, a longitudinal survey of 40,000 households across the UK. We examine how stress affects workers, reducing productivity, and how low financial resilience is a substantial contributing factor.

Workplace stress

Nearly half of all workers (40%) experience at least one form of stress which could reduce productivity, for example a lack of concentration or loss of sleep (see Figure A).

- More than one in three workers (34%) achieve less than they would like due to poor mental health.
- A third of workers (33%) have carried out their jobs less carefully than usual due to mental health issues.
- One in six (16%) struggles to concentrate at times due to stress or other worries.

Figure A: Proportion of workers in each industry reporting at least one sign of stress which could impede their performance at work



Source: SMF analysis of Understanding Society Wave 5, 2013/14. Includes all those with a job who report at least one of the following: Mental health meant less accomplished than *usual over the past four weeks; undertaking work or other tasks less carefully than usually at least some of the time in the last four weeks; concentrating less than usual and; losing sleep over worries more than usual*[2].

Financial Fragility

Our new analysis shows that low financial capability and resilience is a significant cause of stress across the UK workforce. This is one area where every employer, regardless of size, has an existing relationship with their staff, and could potentially reduce stress and improve productivity.

- **One in 12 workers are finding things financially difficult.** And nearly a quarter of workers say they're just about managing – suggesting they could quickly find themselves in serious financial difficulties if they become unwell, are bereaved or made redundant.
- This low financial resilience is a problem across industries – and it's getting worse. **The proportion of workers reporting that they face financial difficulties nearly doubled over the decade to 2013/14.**

These money worries have a clear impact on how people feel and behave as they go about their day-to-day lives and jobs.

- **Four in ten workers say money worries have made them feel stressed over the last year.**
- **A quarter (25%) say they have lost sleep over money worries.**
- One in eight workers (13%) report that money worries have affected their ability to concentrate at work.
- One in twenty workers (6%) has missed work in the last year due to money worries.

When we look at the financial situation of UK households, we quickly uncover the financial vulnerabilities behind these money worries. **Even**

workers in relatively well-paid industries often have low levels of savings and lack financial resilience.

- More than half of workers would be significantly worried about a large unexpected expense.
- **Nearly 50% of workers (48%) are not putting any money aside for anything more than regular bills.**
- **Nearly a third of all workers (29%) have no savings or investments at all.**

The UK's workforce lacks financial resilience. It's clearly affecting our ability to concentrate at work and blunting our productivity.

What can we do?

Some firms have tried to reduce workplace stress and improve productivity in novel ways, like allowing pets in the office, giving employees unlimited holiday or providing nap pods. For many businesses, however, these simply wouldn't be practical. Here, we look for alternative interventions that could help businesses across the economy and the public sector to boost productivity.

Employers always have an impact on the financial wellbeing of their workforce as the primary source of income for most people. And as poor financial resilience affects all income groups, the answer isn't just higher levels of pay. Instead, **employers need to help their staff to learn healthy financial behaviours and build financial resilience.**

We're already using workplace pensions to build financial resilience later in life**. One option is to extend auto-enrolment policies to include short-term savings or income protection insurance as well as pension savings.** But auto-enrolment programmes are difficult to design and take a long time to organise. The government may want to consider other ways it can encourage employers to provide income protection insurance or short-term savings,

But offering financial products is an increasingly complex business, and many firms wouldn't know where to start. **New financial mutuals, providing affordable savings and credit products using bonds of trust between those in particular professions, could be one way of building a culture of financial resilience through the workplace.**

Tax incentives are already offered on some workplace savings and investment programmes, but only the largest employers are usually able to make these schemes available to their workforce. Extending these privileges to new workplace savings schemes would increase the number of workers who can benefit and maximise the number of households able to build financial resilience by saving through their payroll. Firms could also consider simple changes, like printing a recommended monthly savings goals on payslips or offering budgeting applications alongside online payroll to help improve the financial capability of their teams.

CHAPTER 1 – THE PRODUCTIVITY PROBLEM

Productivity has been a near constant source of concern in the UK over the past few years. With economic growth and employment looking relatively healthy, our lacklustre productivity performance is something of a puzzle. At least some of the problem seems to stem from a lack of capital investment, which we might expect to correct itself as interest rate rises draw closer raising the opportunity cost of waiting to invest, and uncertainty over demand diminishes.

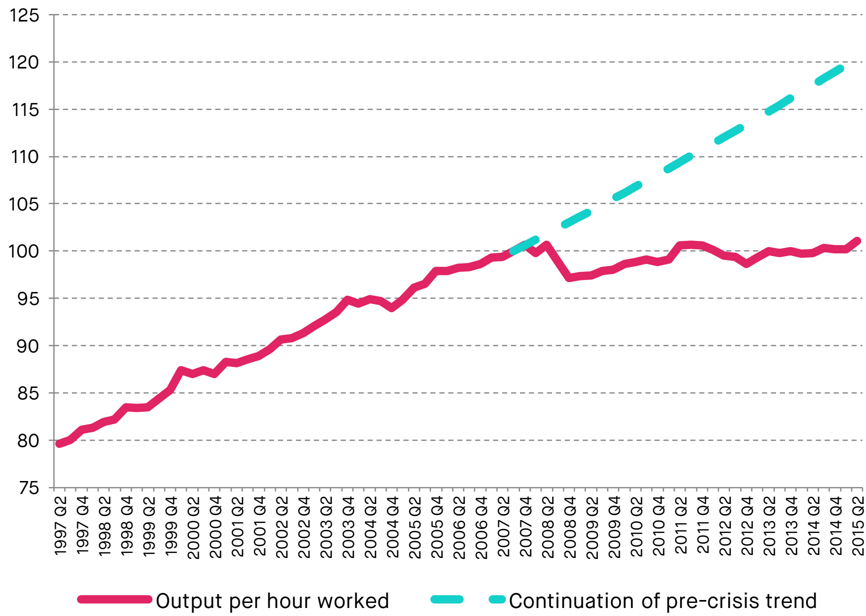
But there are also questions about how technology and the changing nature of work is affecting our engagement with our jobs. The dividing line between work and our personal lines is blurred by mobile data, remote emails, networking on social media. Meanwhile employers increasingly recognise that our stress levels and job satisfaction impact on our performance at work. Some companies try to manage this by providing benefits like nap pods, snacks and office pets.

But in many industries these simply aren't feasible. In this report we focus on one element of employee wellbeing which all employers can influence – financial wellbeing. In this introductory chapter we set out the UK's productivity problem, and the role of labour productivity within this. We go on to examine, in the second chapter how the UK's poor financial wellbeing is damaging productivity, before discussing in the third chapter why employers are well-placed to respond, and how government can support them to do so.

Sub-par productivity

UK productivity reached a record level in Q2 2015. But, as Figure 1 shows, this isn't a particularly noteworthy achievement. Productivity growth has been lacklustre at best since 2007, and output per hour worked is still 15% below where it would be expected if the pre-crisis trend had continued.

Figure 1: UK productivity (output per hour worked) over time, and comparison to pre-crisis trend



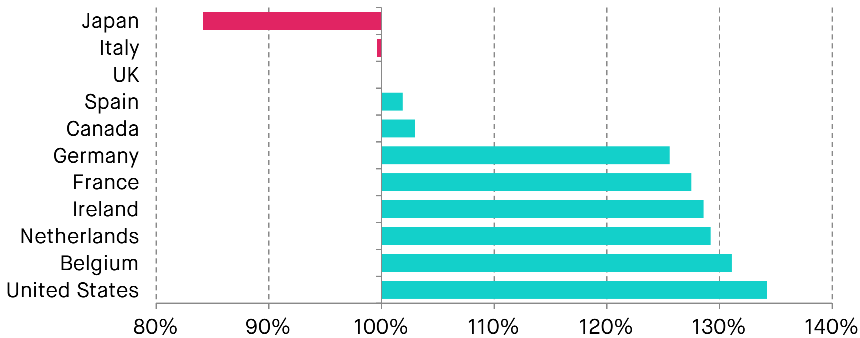
Source: ONS, SMF analysis. Productivity is measured as output per hour worked, indexed here so that 2007=100.

It's inevitable that productivity would be knocked by such a significant economic crisis. Low growth, uncertainty and the liquidity crunch of the 2008/09 crash held back investment in new tools and resources which boost productivity. 'Labour hoarding' also weakened productivity – firms hung on to workers even as demand for their output fell. This meant that unemployment didn't rise as dramatically as in previous recessions, but also meant that there were similar numbers of people in work with less output being produced – and productivity fell as a result.

In the depths of recession, it could be argued that favouring the maintenance of employment over productivity isn't a bad thing, reducing the incidence of particularly harmful long-term unemployment, limiting loss of skills and making it easier for firms to scale production back up when growth returns. But it can stop resources moving to where they could be better used in the economy; in particular, there are concerns that stagnant wages have made hiring labour so cheap that it has reduced the impetus for firms to invest in capital. Some analysts also fear that low interest rates, rather than kick-starting investment, have had a similarly negative effect, making it easier for unproductive 'zombie' firms to survive.

The slow recovery of UK productivity is a cause for concern, as is the UK's relatively low productivity when compared to the economies we trade and compete with. Figure 2 illustrates how the UK's productivity compares to that of other G7 countries plus Ireland, the Netherlands, Spain and Belgium – our largest non-G7 trading partners.

Figure 2: Productivity (output per hour worked) compared to the UK, 2014



Source: OECD (2015), GDP per hour worked (indicator). doi: 10.1787/1439e590-en (Accessed on 04 December 2015), SMF analysis. Country list from ONS international comparisons of productivity 2013.

Most of the countries with which the UK competes directly are significantly more productive, as illustrated in Figure 2. Only Japan and Italy are less productive than the UK, while the US manages to produce more than a third more in every hour worked. On average G7 countries are 16% more productive than the UK. This isn't a new problem – Germany and the US have historically been around 30% more productive than the UK. But in the UK, with the dangers of debt and consumption-driven economic growth exposed by the financial crisis, there is a new understanding that productivity improvements are the best way to sustainable economic growth and improvements in living standards.

A measurement problem or something deeper?

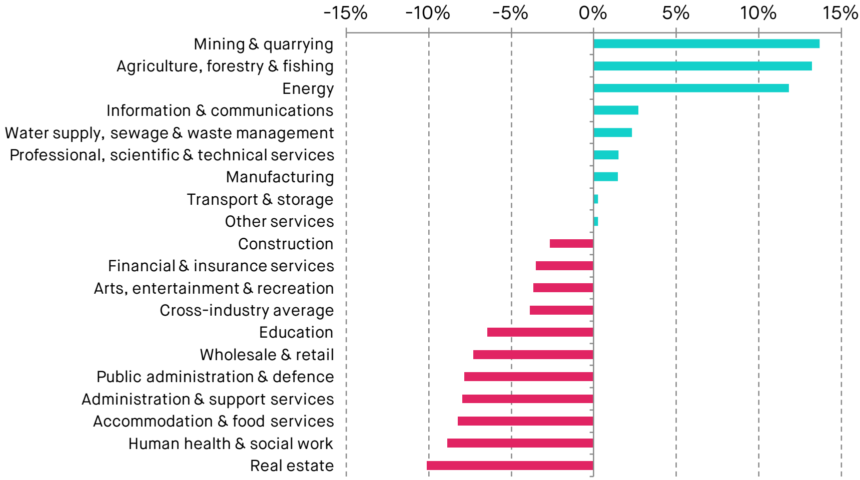
The recent uptick in UK productivity may create hope that the situation is finally improving. But it's hard to work out what is really going on when the nature of working life is changing so fast. Some economists believe that productivity is probably not as weak as it currently appears, and that our statistical methods can't yet properly measure the value of technological improvements like smartphones and big data. There may be some truth to this – current measures of GDP, which were designed around World War Two, in an era very focused on manufacturing[3], were not designed for services-led economies and don't do a particularly good job of measuring technological innovations.[4]

But there are also some more worrying signs that the productivity slump might have deeper roots. Job satisfaction is one indicator of engagement with work, which can determine productivity. Engaged and satisfied workers who approach tasks with energy and focus put in additional effort and are more productive.[5] Work-related wellbeing and job satisfaction tend to be higher when workers have autonomy over how they complete their work, variety, clarity over what they're expected to do and how they will be appraised, and positive interpersonal contact, with other staff or with customers. Statistical analysis of UK workplace data has shown evidence that higher levels of work-related wellbeing among employees leads to greater business success, by helping workers to think creatively and solve problems, encouraging collaboration and by improving physical health and reducing sickness-related absence.[6]

It's therefore worrying that, across the UK, job satisfaction fell marginally over the decade between 2003/04 and 2013/14, from 82% to 78%.[7] Some industries suffered much more substantial declines, as illustrated in Figure 3 below, which could have significant impacts on worker engagement and productivity. There's clear evidence here that job satisfaction in the public sector has fallen over the last decade. Those in human health & social work, public administration & defence and education are all less content that they used to be, presumably as spending cuts have left them trying to achieve more with less.

We can also see that some of the industries which have seen a substantial decline in job satisfaction – for example, accommodation & food services, administrative & support services and wholesale & retail - are those most likely to have been hollowed-out as a result of technological development. For example, where a secretary may once have resolved queries in person this may now be automated, and the scope of the role reduced accordingly. Equally, where a checkout assistant may once have had the opportunity to engage with and talk to customers, they're now more likely to be fixing failures of self-checkouts. This lack of engagement and limited task discretion can undermine productivity.[8]

Figure 3: Decline in job satisfaction by industry 2003/04 to 2013/14 (%)



Source: SMF analysis of Understanding Society Wave 5 (2013/14) and British Household Panel Survey wave 13 (2003/04).[9]

There are also concerns that technology isn't having a purely positive impact on our productivity. Better software, instant access to data and constant communications should help us to gather information more quickly, troubleshoot problems instantly and keep things running smoothly. This technology should be helping us to accomplish more. But, as anyone with a smartphone probably knows, the relationship between technology and productivity isn't always straightforward. The Internet provides a myriad of distractions and can reduce our ability to focus on the task at hand.[10]

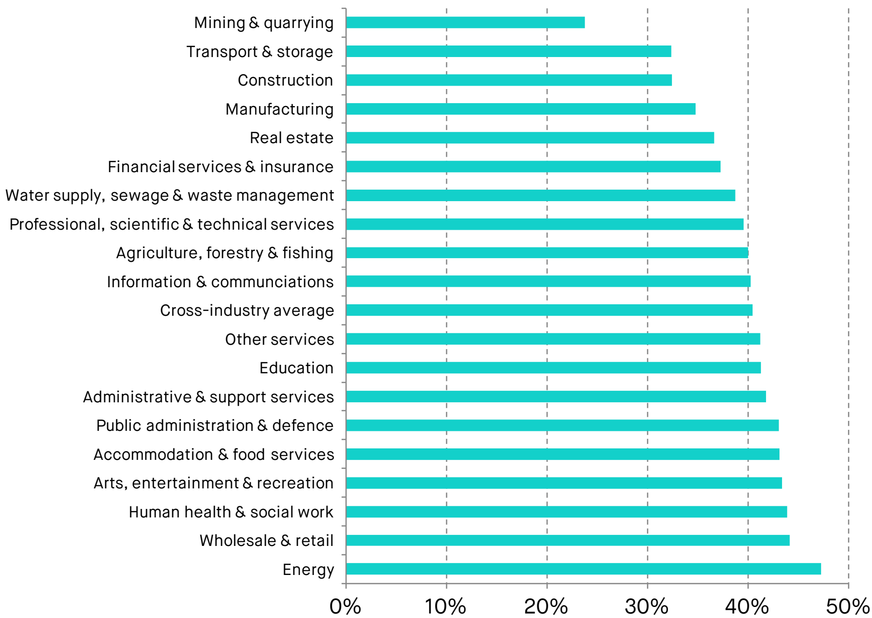
Technology is also blurring the line between our professional and private lives. Work is no longer just a place we go to each weekday morning, but a never-ending to-do list on the smartphones that sleep on our bedside tables. Emails greet us when we wake; social media isn't only a way to keep in touch with friends, but a way to develop professional contacts. While these initially sound like productivity-boosting innovations, experts in psychology fear that this constant communication is taking its toll on our health and reducing our productivity: Sir Cary Cooper, a former government advisor, has argued specifically that the UK's reliance on after-hours emails is damaging our competitiveness.[11]

This disintegration of work-life boundaries goes both ways. As well as being more likely to deal with work queries at home, we increasingly bring our problems into work. Stress is the number one work-related health problem in the UK, and led to the loss of 9.9 million working days in 2014/15.[12] With the additional costs of presenteeism – those days we spend in work when our minds are elsewhere – this is a substantial economic black hole. Stress at work is estimated to cost employers around £26 billion every year.[13]

Experimental trails carried out by the Centre for Competitive Advantage in the Global Economy team at Warwick University, published in partnership with the SMF, show a direct link between happiness and productivity. Individuals who are made happy by watching a comedy clip or being given snacks and drinks are 12% more productive than people who don't receive these perks. The experiments also found that negative life events, like bereavement and family illness have a lasting effect on productivity, reducing output for around two years.[14]

And survey data shows that workers are aware of the negative impact that their emotional state has on their workrate. Analysis of data from Understanding Society, a longitudinal survey of 40,000 UK households[15], show that more than one in three (34%) workers say they accomplished less than they would like in the four weeks prior to the survey due to mental health problems.[16] While most of these people say they only struggled 'a little' of the time, this still represents a substantial burden across the economy as a whole. A third (33%) of workers also report that they have carried out work or other activities less carefully than usual during the last four weeks due to mental health issues, and 16% report that they have found it difficult to concentrate at times.[17] Other data shows that one in five workers has missed work because of stress.[18] Nearly half of those in work (40%) suffer from at least one sign of stress which could affect their ability to work – for example, loss of sleep or lack of concentration, as illustrated in Figure 4. In some industries, including public administration and defence, accommodation and food services, health and social work, wholesale and retail and energy, this is even closer to half of all workers.

Figure 4: Proportion of workers in each industry reporting at least one sign of stress which could impede their performance at work



Source: SMF analysis of Understanding Society Wave 5, 2013/14. Includes all those with a job who report at least one of the following: Mental health meant less accomplished than usual over the past four weeks; undertaking work or other tasks less carefully than usually *at least some of the time in the last four weeks; concentrating less than usual and; losing sleep over worries more of the than usual.*[19]

Better ways of working

Recognising the productivity costs of stress and low job satisfaction, some technology firms have introduced novel ways of engaging their employees. LinkedIn, Virgin and Netflix offer unlimited leave, believing that their employees will be more productive if they are in control of where and when they work. Google let staff bring their pets to the office. The Huffington Post and Uber offer nap pods. Lunchtime exercise classes, on-site gyms and free snacks are increasingly prevalent across large employers. All of these interventions have the aim of improving the health – physical and mental – of workers, ensuring they are energised, motivated and ready to work.

But these remedies are only really feasible for the largest employers – and even then, only those in certain sectors. In some industries it simply isn't practical to have workers taking a break for a mid-afternoon nap. Nurses have to work to fixed appointments; teachers need to be in classrooms during the school day. For smaller employers, too, these benefits may be beyond reach, out of budget or unsustainable with a relatively small number of employees.

Inability to offer these on-trend benefits doesn't, however, mean that firms and government are out of options to improve productivity. There are many other ways to reduce stress and improve performance in the workplace. In the next section of this report, we look in more detail at the aspects of employee wellbeing that are accessible to all employers.

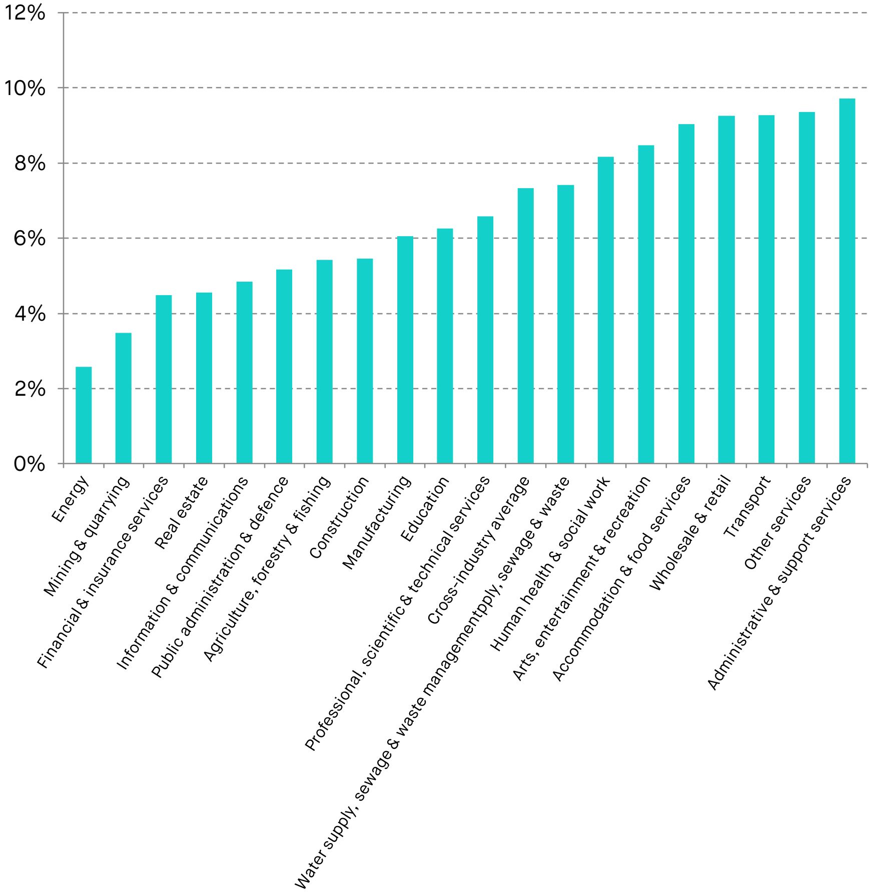
CHAPTER 2 – WORKING WELL? FINANCIAL WELLBEING IN THE WORKPLACE

There are many causes of stress – family troubles, ill health, relationship problems, money worries. Many of these are beyond the reach of the average employer. While we'd probably appreciate a more comfortable office and access to a gym, most of us wouldn't be happy at the idea of our boss interfering with our personal lives. Yet there's one aspect of personal wellbeing which relates directly to work – finances.

A source of serious stress

A quarter (24%) of all British workers say they are "just about managing" with their finances, while 7% admit that they are finding it difficult. And while most people expect their financial situation to get better or stay the same over the next 12 months, one in ten people (13%) think things will get worse.[20] As you might expect, those in relatively well-paid industries, like energy, mining & quarrying (now largely oil and gas production in the UK), financial services and real estate, are relatively unlikely to be experiencing financial difficulties. In lower paid industries, however, this is a much more common problem; nearly one in ten people in administrative & support services, for example, are facing financial problems.

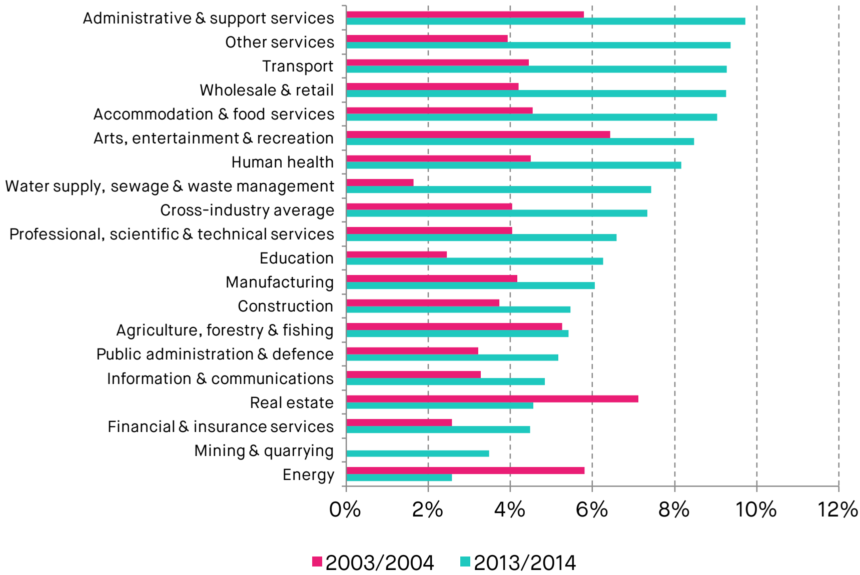
Figure 5: Proportion of those in work finding things difficult financially 2013-14



Source: SMF analysis of Understanding Society Wave 5, 2013-14[21]

In most industries, this is a growing problem. While we appear to be through the worst of the crisis and wages and beginning to rise again, the proportion of workers reporting financial difficulties remains high in almost every industry. In most sectors incidence of financial difficulties in 2013/14 was significantly higher than a decade earlier, as shown in Figure 6.

Figure 6: The proportion of workers finding things difficult financially increased significantly over the decade to 2013/14



Source: Proportion of workers in each industry finding things difficult financially. SMF analysis of Understanding Society Wave 5 (2013/14) and BHPS Wave 13 (2003/04)[22]

One in five people (19%) think they are now under less financial pressure than they were two years ago. But twice as many people (40%) feel that they are now under more financial pressure.[23] A third of people (32%) are fairly or very concerned about the level of debt they have at the moment.[24] These worries have a clear impact on how people feel and behave as they go about their day-to-day life and work, as illustrated in Figure 7. Only 36% of workers say they have not experienced any negative consequences of money worries over the past 12 months. Four in ten workers (38%) say money worries have made them feel stressed, while a quarter (25%) have lost sleep over money worries and a similar proportion (23%) say money worries have made them feel depressed. Our finances clearly have an enormous effect on our wellbeing.[25]

It's important to note that these fears aren't necessarily related to income. Subjective financial wellbeing – how comfortable and secure you feel financially – has a much greater impact than actual income on wellbeing.[26] Even those with substantial household incomes can feel financially vulnerable if they have high outgoings, significant debts or lack a savings buffer to offer protection in times of crisis.

Figure 7: How money worries affect workers

Source: Neyber/Opinium Credit and Debt survey conducted 30 November – 7 December

2015. Base for this question: all respondents (5,053). The question asked was "In which, if any, of the following ways have money worries affected you in the past year?" and the sample was limited to those in work.

Financial worries at work

These financial worries, just like other forms of stress, can spill over into the workplace and reduce productivity. Evidence from experimental research finds that, when primed to worry about their own financial situation, people's ability to undertake other, unrelated tasks, was significantly reduced in a way equivalent to severe sleep deprivation.[27] One in eight workers (13%) say money worries have affected their ability to concentrate at work.[28]

Our analysis of Understanding Society data finds a moderately strong, positive correlation between satisfaction with work, self-perceived financial situation and indicators of stress like poor concentration and lost sleep. There is also evidence of a strong, negative correlation between job satisfaction and finding things difficult financially – those who are not comfortable financially are significantly more likely to be dissatisfied at work; and in turn, this may affect their application to the task at hand.[29]

These insights into the way our financial worries can affect wellbeing, and how common these concerns are, illuminate the way that financial difficulties can damage productivity. Stress and lost sleep can lead to increased absenteeism, either through poor mental health or simply by making workers more vulnerable to coughs and colds. Research by Barclays suggests that half of all stress-related work absences are caused at least in part by financial distress; by this reckoning, financial vulnerability among the UK workforce is costing us five million working days a year.[30] One in twenty workers has missed work in the last year due to money worries.[31] Financial problems also drive presenteeism – workers might be relatively unlikely to miss work due to financial stress but that doesn't mean they will stop worrying when they turn up. One in eight workers agree that money worries have left them struggling to focus at work in the past 12 months.[32] This distraction is estimated to cost the UK economy £15 billion each year. Barclay's analysis suggests that absenteeism and presenteeism as a result of financial distress is adding an extra 4% to payroll costs for UK firms – that's £40,000 in every £1,000,000.[33]

Britain's financial fragility

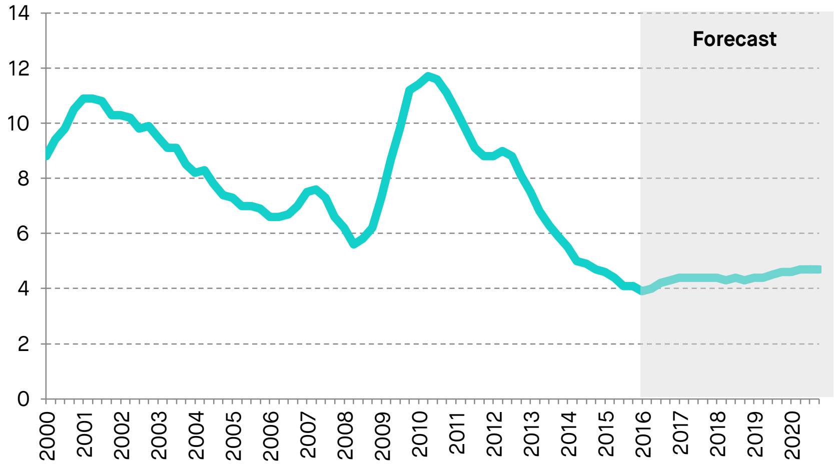
A substantial proportion of Britain's workforce is worrying about making ends meet. But the problems are deeper than this. The UK has a wider financial resilience problem.

Over the decade prior to the financial crisis households had run down savings and built up debts. The crash led them to quickly re-evaluate this situation, and many households set about repairing their balance sheets; running down debts and increasing savings. This broad picture, however, hides some more worrying trends for particular groups. Detailed analysis of data on the financial wealth and debts of households shows that those with the highest income groups have become more financially secure since the downturn. Among this group, median financial wealth increased by 64% between 2005 and 2012/13, while the proportion of individuals in this group with non-mortgage debt (a loan, store cards or similar) fell from 43% to 31%. Those in the bottom 20% of all earners, by contrast, have become less financially secure over the past few years. Between 2005 and 2012-13, their median financial wealth was more than halved (fell by 57%). The proportion of the lowest earners with non-mortgage debt grew, and the value of this debt rose much faster than incomes. Younger households have also felt the squeeze: on average, those aged 26-35 have less than a week's worth of income in savings.[34]

Younger people and those on low incomes are particularly vulnerable, but as a whole Britain's population are woefully short of savings. Nearly four in ten people (39%) have less than one weeks' worth of income in savings.[35] Little wonder we are losing sleep over money.

The UK's headline household savings ratio demonstrates this fragility in Figure 8. The amount of our income we save on aggregate (the savings ratio) fell rapidly during the downturn and has yet to recover. More worrying still, although real wages are expected to grow over the next few years while inflation stays low, the OBR does not expect a significant improvement in levels of saving. Financially vulnerable households are not likely to improve their situation any time soon without more targeted support.

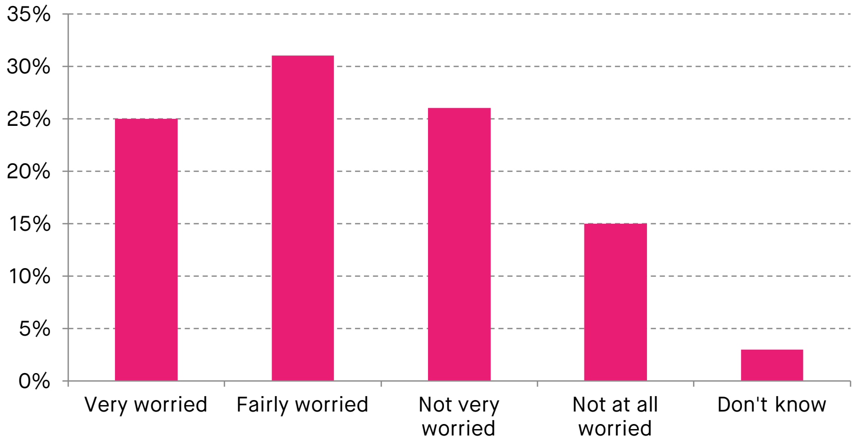
Figure 8: UK household savings ratio, percentage of disposable income



Source: Office for Budget Responsibility, Economic and Fiscal Outlook November 2015 (2015). Includes pension saving. The saving ratio compares the level of saving to disposable (post-tax) household income.

This lack of financial resilience across the population is reflected in individuals' perceptions of their situation too. Although having few savings is very common in the UK, people still worry about it. More than half (56%) of workers would be substantially worried about a large unexpected expense, as illustrated in Figure 9. Younger groups would be most worried – 68% of those aged 18-24 would fret about this, as would 65% of 25-34 year olds. While nearly half of over 50s (46%) would still be worried, an unexpected expense would be less of an issue for this group[36] – unsurprising, given their greater financial wealth.[37] Poor financial wellbeing is an issue which particularly affects those of working age.

Figure 9: How worried would you be about an emergency, unexpected expenditure of over £1,000

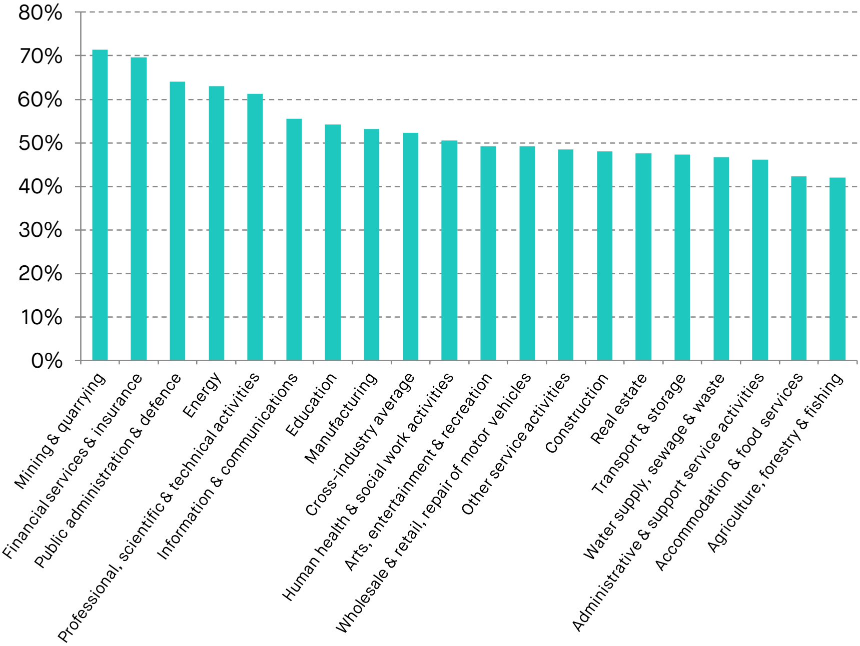


Source: Neyber/Opinium, Credit and Debt survey conducted 30 November – 7 December 2015. Base size for this question 5,053. The sample was limited to those in work.

Meanwhile, public policy increasingly expects families to support themselves. Increases in tuition fees, reductions in state welfare and rising house prices have all left young adults struggling and increasingly seeking financial support not just from their parents but from grandparents and other extended family members too.[38] More than half of us (55%) have received a financial transfer from a parent at some point.[39] More than a quarter (26%) of 20-24 year olds and one in five (21%) 25-29 year olds continue to receive regular financial help from their parents despite being in work and living independently.[40] And with wages largely static over the last five years[41], many families have faced squeezes on other spending or had to cut saving to help.

Facing the facts: savings and debt across the workforce

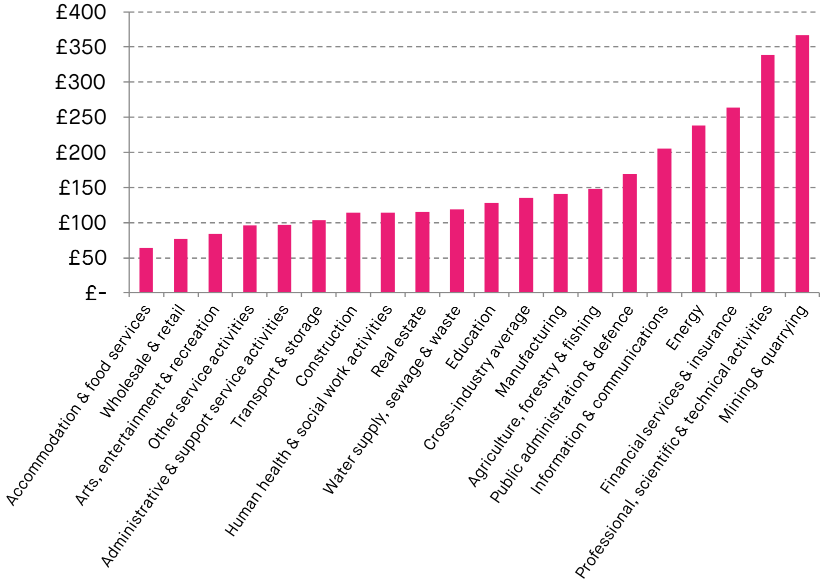
Figure 10: Proportion of worker who report that they save some of their income



Source: SMF analysis of Understanding Society Wave 4, 2012/13[42]. See appendix for further details on waves of Understanding Society used in this analysis. Non-pension savings.

An initial indication of the financial health of Britain's workforce can be found in Figure 10. On average, just over half of all workers save some of their income each month.[43] This implies that nearly half of the working population are not putting anything aside against the risks of ill health, unemployment or unexpected expenses – a perfect recipe for financial trouble. Moreover, this figure demonstrates an apparently straightforward division between higher paying industries, like mining & quarrying), financial services and the professions, and lower-paid occupations like administration, accommodation & food services and agriculture.

Figure 11: Average amount saved each month by those who save something

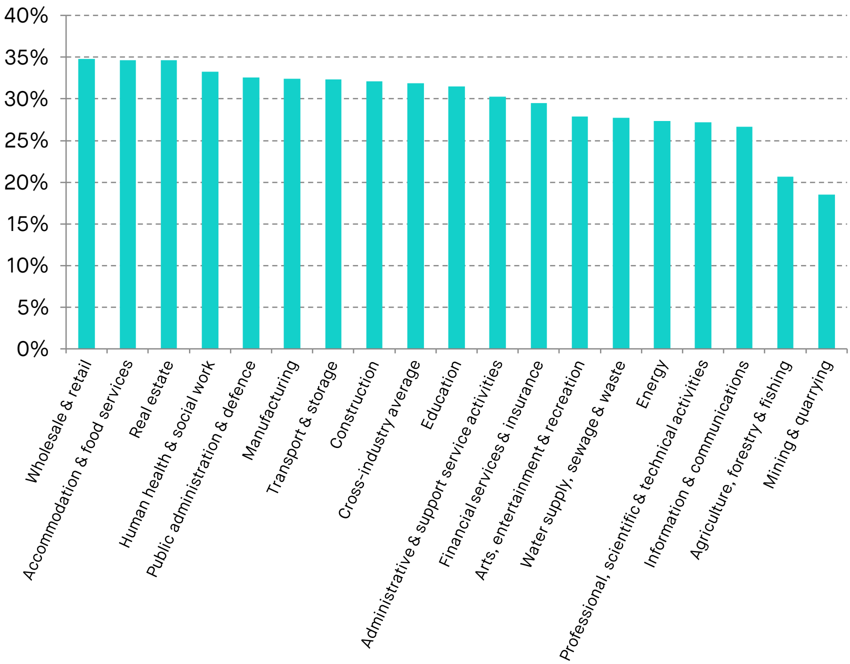


Source: SMF Analysis of Understanding Society Wave 4, 2012/13[44]

Even those who are currently saving can still be financially vulnerable. Most of those who do put money aside save a relatively small amount, as illustrated in Figure 11. Most workers save less than £130 a week.[45] With median after-tax income around £18,700 in the UK in 2012/13[46], this represented less than a tenth of disposable income. A common rule of thumb is that households should have three months of income saved against emergencies[47] - at this rate, it's clear it will take most households a long time to get there. Furthermore, a significant minority of these savers (see Figure 12) are only putting money aside to meet short-term goals like holidays or a new car, rather than as a long-term financial cushion.

The story isn't all negative however. While the UK has a serious savings problem, there are some good signs. Most of those who do save suggest they do so on a regular basis. On average, three-quarters (76%) of those in work who save do so regularly.[48]

Figure 12: Proportion savers who are mostly saving for the short-term

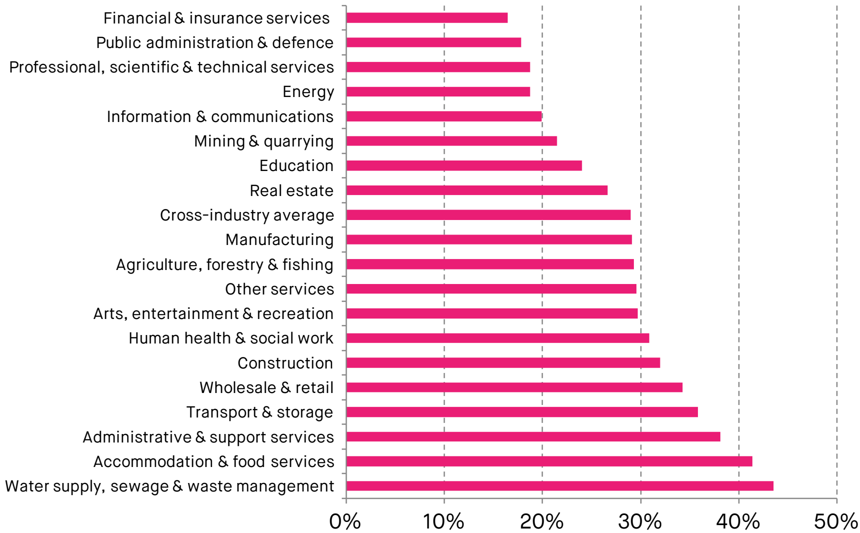


Source: SMF analysis of Understanding Society Wave 4, 2012/13[49]

This lack of regular saving might not be a problem if households already have significant cash put aside. After all, once a certain level of financial security is reached people can be made better off by increasing their spending rather than saving more.

But many households in the UK have no savings whatsoever, as illustrated in Figure 13. Even in the financial services industry, one in six workers (16%) does not have any savings. And in wholesale & retail, transport & storage, administration, accommodation & food services and water supply & waste management, more than a third of workers have no formal savings, leaving them very vulnerable to financial shocks like loss of income or unexpected expense.

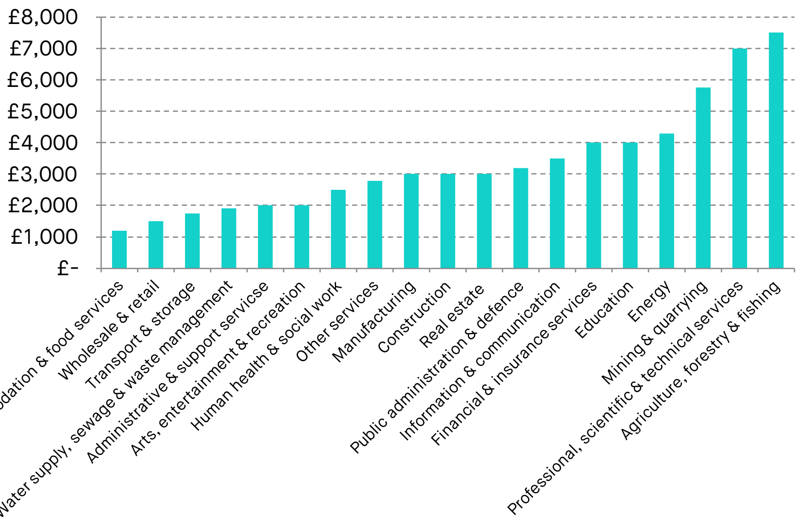
Figure 13: Proportion of workers without any savings or investments



Source: SMF analysis of Understanding Society Wave 4, 2012/13[50]

As well as being least likely to have savings, those in the water supply, sewage & waste management industry or in accommodation & food services are likely to have relatively low savings. Among this group, even those workers who do manage to save haven't been able to put much aside relative to other industries. While in professional services and agriculture median savings are £7,000 or more, those working in accommodation and food services, in retail, transport or water supply services are less than £2,000, as shown in Figure 14.

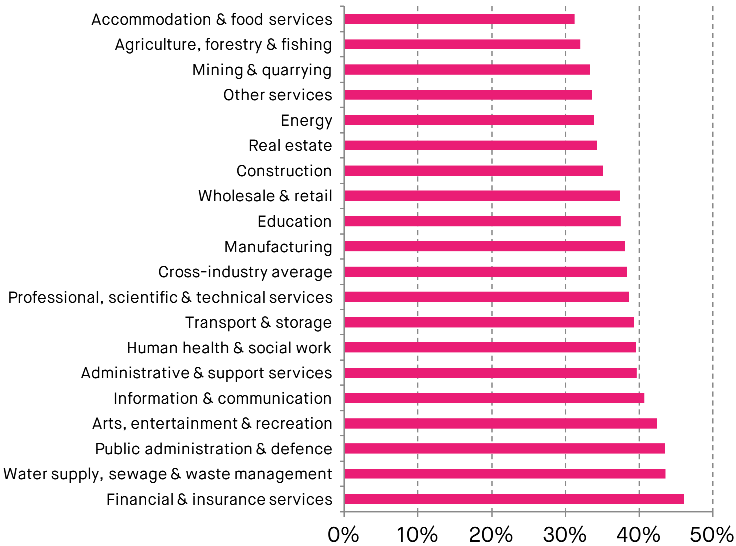
Figure 14: Median savings across industries



Source: SMF analysis of Understanding Society Wave 4, 2012/13. [51] *Median is of all those with savings, excluding those who do not report any savings (savings of zero).*

The other side of financial resilience and significant cause of financial stress is debt. Four in ten workers (38%) have some form of non-mortgage debt[52], as illustrated in Figure 15. This industry-level analysis shows up some particular areas of vulnerability. For example, although those working in accommodation & food services typically have low levels of savings, they are less likely to have non-mortgage debts. By contrast, those in financial services, who typically have a relatively high level of savings, are also likely to have some non-mortgage debt. Water supply, sewage & waste management appears as an area of special concern, with workers unlikely to have substantial savings and also more likely than most to have some debts. Looking at Figure 16, we can also see that the median debt among these workers in the water & waste industry is a substantial £5,000 – more than double the median savings of those working in this industry, and potentially leaving these people in a vulnerable financial situation.

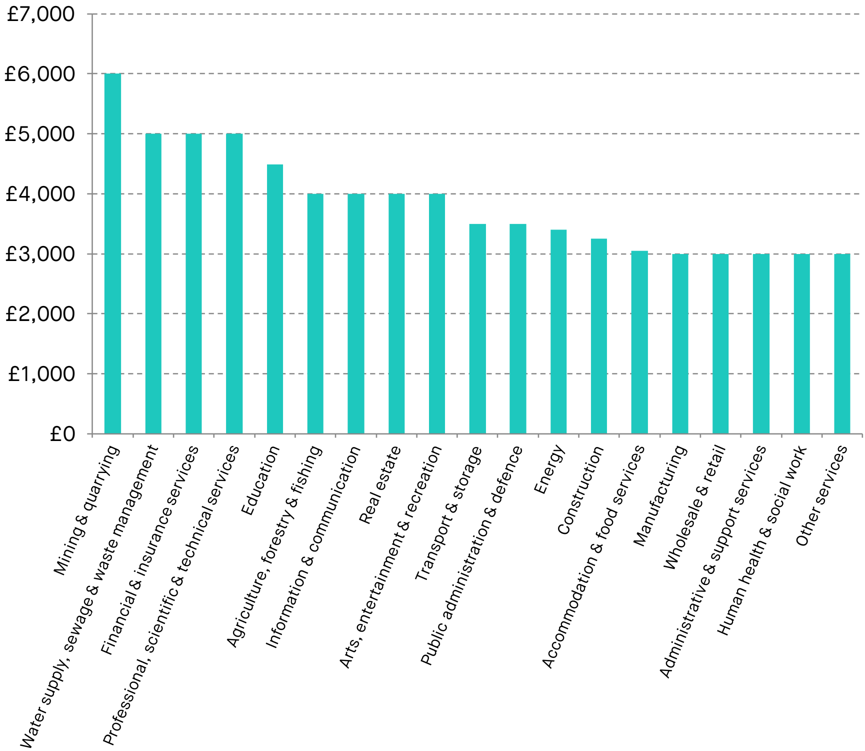
Figure 15: Proportion of workers with non-mortgage debts



Source: SMF analysis of Understanding Society Wave 4, 2012/2013[53]

We can also see in Figure 16 how those in relatively well-paid occupations like financial and professional services are more vulnerable through their debts. Although these groups have substantial savings relative to other industries, they also have higher than average levels of debt. By contrast, for those workers in industries where savings levels are generally lower, such as accommodation & food services, wholesale & retail and administrative & support services, debt is less common and also generally smaller. For these groups, building savings may be a higher priority than reducing debt.

Figure 16: Median non-mortgage debt by industry



Source: SMF analysis of Understanding Society Wave 4, 2012/13.[54] Data is for all those who report having non-mortgage debt – those with zero debts are excluded.

Counting the cost

This analysis of the financial situation of Britain's workforce and the impact this has on their productivity suggests that there is a serious case for action to improve financial resilience and boost financial wellbeing. With these problems affecting all industries, public and private sector, it's clear a broad approach is needed. Financial wellbeing is one area where employers have an important existing relationship with their workforce and are able to intervene to improve matters and boost productivity. In the next chapter we consider what that intervention might look like and the supporting role that public policy could play.

CHAPTER 3 – HOW CAN EMPLOYERS IMPROVE FINANCIAL WELLBEING?

An individual's financial wellbeing is inextricably tied to their workplace as a source of income – in most cases, the only source of income. Employers will necessarily impact on the financial wellbeing of employees, whether they intend to or not. And employers are among those best placed to help instil healthy financial behaviours and encourage resilience before problems arise. They have an existing relationship with their workforce, unlike specialist providers of financial advice, they are proximate, usually trusted, and already have some responsibilities for the financial wellbeing of their employees through workplace pension provision.

But employers may read this paper with trepidation, worried that the only answer to poor financial wellbeing in the workplace is to increase wages. But we are already seeing strong wage growth – according to the most recent ONS figures, real (inflation adjusted) pay for employees rose by 2.9% year-on-year in Q3 2015. With the National Living Wage set for introduction in April 2016 and inflation expected to remain low for some time, we can expect further progress on this front over the next year without any additional effort. And our analysis shows that even those in the highest paid occupations can have high levels of debt and be financially vulnerable in this respect. For many households the problem isn't so much a lack of income as a lack of spending control and resilience. If employers want to tackle the productivity problems caused by financial distress, spending is likely to be better directed at improving the financial capability of workers through training programmes, providing independent financial advice or giving workers access to the savings and debt products which could help them make better use of their resources.

Yet this needs to be approached sensitively, in a way that respects the privacy and personal lives of workers. Once things reach crisis point and financial worries are causing stress, employees are less likely to approach employers out of embarrassment. Instead, employers need to support workers to help them build financial confidence, capability and resilience on a routine basis.

How can policy improve financial wellbeing in the workplace?

Public policy is already attempting to improve some elements of financial wellbeing through workplace provision. In response to low private pension saving in the UK, employers of all sizes must now offer a workplace pension to all employees. Furthermore, these pensions must be offered on an opt-out basis – that is, the employer will automatically help the worker to save for their retirement by putting away a small proportion of their salary, unless they specifically decide not to participate.

Auto-enrolment helps us overcome the inertia we have to battle when facing complex decisions about the future. When considering something like pension saving for retirement, the way we discount experiences far in the future means we undervalue savings and prefer to spend today. We might recognise saving is something we should do, but will often put off action until another day.[55] Knowing that we're making poor choices, perversely, makes it less likely we'll take action – we don't like to see our failings confirmed.[56] Auto-enrolment is specifically designed to overcome these barriers to long-term saving. But the evidence presented in this paper and elsewhere suggests that we are failing to save enough for the near future, as well as for our retirements; and this is leaving us financially vulnerable, damaging our wellbeing and reducing productivity. We may, therefore, want to consider whether auto-enrolment can be extended to a range of other products which can improve financial wellbeing. By removing the need for the individual to make a tricky decision about how much to save and when, we could help to improve financial decision-making.

This approach isn't perfect. We know that people tend to make better financial decisions and stick to financial goals better when they are actively involved in developing and monitoring their achievement of those goals.[57] Auto-enrolment, in its attempt to bypass active decision-making and the delays this can entail, also eradicates meaningful reflection on and engagement with personal financial health. Equally, it's impossible to create an auto-enrolment policy which would work for everyone. Some people will already have higher levels of savings than others; or will have other sources of income to draw on in times of trouble. That means a policy of auto-enrolment into a short-term savings product through the workplace would inevitably leave some workers saving more or less than they ideally should, or in the wrong sort of product. Given the scale of the UK's savings deficit and the full implications of financial vulnerability however, we may decide that this is a price worth paying; after all, non-optimal saving is probably better than no saving.

Employers lead the way

More appealing still may be the idea of auto-enrolment into income protection policies. By providing insurance cover for those times and individual is unable to work due to ill health or family problems, these policies can help to smooth income in the same way as savings. The principle is largely unchanged from that used to justify the introduction of National Insurance; that workers should be protected against volatility in income caused by ill health or seasonal shifts in the availability of work. With the welfare state set to continue shrinking over the course of this parliament, it may be time to consider again how we can help families to best protect themselves.

There is scope here for major employers to make the first move. We have seen in the introduction of pensions auto-enrolment just how difficult it is to introduce these programmes and get the design right. There are still many questions around the design of our workplace pensions policy: is the contribution rate right? How quickly can contribution rates be raised? Should auto-enrolment have been introduced more quickly or more slowly? How can we ensure even the smallest employers are meeting their obligations? How can we make this policy practical for the smallest employers? With the policy still being rolled out, it would be understandable if there was limited political appetite for further interventions on this scale. With private health insurance already included in many benefits packages, it need not be a dramatic shift for companies to also include income protection insurance.

Modern mutuality

Financial mutuals, such as friendly societies and building societies, have a long history of helping people manage their finances. Unlike the shareholder-owned banks which dominate financial services today[58], mutuals are owned by their customers or 'members'. These organisations were the first large-scale providers of financial services to ordinary people in the UK, helping communities, whether a particular profession or people in a certain geographical area, to save and borrow from each other. These financial institutions continue to enjoy higher levels of consumer trust than PLC banks[59], and the trend towards peer-to-peer finance and crowd-funding demonstrates the considerable appetite for non-bank provision of financial services. Credit unions are also enjoying growing prominence, as regulators crack down on payday lenders and policymakers try to highlight alternative models of provision.[60] In today's online society it is easy to build diverse communities across geographies – and professions offer a clear opportunity. While we're less likely to know our neighbours now, with more people in work than ever before[61] our jobs offer shared identities which can create the trust that sustains mutual models.

But financial services has changed completely over the past 30 years, never mind in the 241 years since the first building society was formed.

With more complex tools like securitisation driving higher leverage rates and regulation strengthening, it is increasingly difficult for consumer members to understand what goes on behind the scenes. Professional management and oversight of alternative lending models is crucial. Just like peer-to-peer lenders, there's a role for new professional financial intermediaries to facilitate the development of financial communities for the provision of affordable savings and credit products.

Given the difficulties most people face in both putting aside adequate savings and choosing financial products, and the negative productivity implications of those failures, employers, trade unions and professional bodies may also wish to play a greater role in guiding these choices. One way to do this could be through new specialist financial services providers built along mutual lines around professional bodies, trade unions or large employers. Providers tied to our workplaces could also help overcome some of our inertia without the need for costly and complex auto-enrolment policies, by making it easier for employers to offer payroll savings and credit. This idea enjoys substantial popularity among the workforce: more than half of workers (53%) would value it if their employer provided access to affordable loans and savings products.[62]

Given the potential benefits of workplace savings and credit provision, the government may wish to consider how it could support those employers offering these benefits. Save-as-you-earn and share incentive plan schemes already allow large employers to offer tax-advantaged savings and investments to their workforce. But each of these schemes is currently only available to listed or employee-owned companies. The majority of Britain's employees, who work for smaller firms, are unable to benefit. The government should consider ways of making tax-advantaged workplace savings open to those in smaller firms too. One simple way of achieve this would be to allow businesses to offer their employees tax-advantaged savings when paid through their payroll, even if the company itself is not operating the scheme or offering shares to employees. This would significantly increase the number of workers who are able to benefit from such schemes, brings similar benefits to auto-enrolment in helping employees overcome inertia by saving at the point of payment, and is in line with recent government policies which have made most savings tax-free.[63]

Smart money management

Setting up payroll savings and credit schemes is always going to involve some investment on the part of the employer, and while we think these would be significant steps forward in improving the financial resilience of the UK workforce, reducing financial distress and boosting productivity, it's also important to recognise that simple, less expensive steps could also have a positive impact. We know that financial capability is a problem across the UK. Four in ten (39%) people say they have difficulty budgeting and more than a third (36%) can't calculate the return on a savings product.[64] While providing access to independent financial advisors may be beyond the budget of many employers, technology provides new ways of helping employees to manage their money. Nearly half of all workers (46%) have indicated that they would appreciate it if their employer provided access to financial awareness programmes to learn more about managing their finances.[65]

Simple changes such as adding a recommended savings figure to pay slips could build awareness of rules of thumb on savings and help develop a savings norm. Providing budgeting tools alongside online payroll services could help employees to make better decisions with their money. Employers could also consider directing their workforce to online financial aggregator platforms, which help consumers to see all their financial assets and obligations in one place and to track their spending. These tools could be automatically provided on work IT devices, making them easy for employees to access, increasing awareness of their availability and building trust in these new data sharing platforms.

These tools are also essential to the success of more complex initiatives around providing financial services through payroll. Our psychological preference for spending today rather than waiting for tomorrow means that we can undervalue non-immediate financial benefits like pensions savings.[66] By building the financial capability of their workforce, employers can ensure that any access to financial products they provide through the workplace is properly appreciated by their staff.

Financial wellbeing: firmly on the workplace agenda

Though the new analysis presented in this paper we have demonstrated that financial fragility is a common problem across the UK, affecting those in all professions. The stress of financial vulnerability is creating additional strains on our productivity at a time when we can ill afford them.

Employers already play a sizeable role in determining the financial wellbeing of their workforce simply by being the main source of income for most people. But there's a strong case for them to do more to help employees make better use of their money. These interventions need not be dramatic or expensive. While in the long run the government may want to consider the feasibility of extending auto-enrolment to cover short-term savings products or income protection insurance, in the short run there is a more pressing task in ensuring workers have easy access to suitable credit and savings products. The current enthusiasm for peer-to-peer and crowdfunding creates an opportunity for businesses and professional associations to make use of these models and provide financial products for their employees or members. Provision of simple tools alongside traditional payslips could also help consumers to take control of their money. Together, these innovations could help the UK workforce to move to more sustainable forms of credit, grow their savings and avoid the stress of money worries.

ANNEX 1

The original data analysis presented in this report is based on Understanding Society, a large-scale longitudinal study of UK households. Over 40,000 households are interviewed every year to gather information on health, work, education, income, family and social life in the UK. We also draw on Understanding Society's predecessor, the British Household Panel Survey. Both of these datasets are weighted to be representative of the UK population.

This research draws on two waves of Understanding Society data – Wave 4, collected in 2012/13, and Wave 5 collected in 2013/14. Where possible we have used the more recent Wave 5 data (all questions on financial wellbeing, stress etc). However the data on wealth, assets and debt is a discrete module which is only available in certain waves. Thus for the information presented on savings and debt, we have used Wave 4, the most recent set of data to contain this information.

In Understanding Society pensions savings is discussed separately, so all figures for savings from this source are for non-pension saving – both long and short-term. Respondents are specifically prompted to consider savings in: savings or deposit accounts with a bank, post office or building society, National Savings Accounts, cash ISAs, stocks and shares ISAs, PEPs, Premium Bonds and other savings accounts.

The results presented here are in each case for all those in work. We do not consider those who are unemployed, working for the family at home, studying full-time or retired. This gives us a sample in Waves 4 and 5 of Understanding Society of approximately 27,000.

Industry categories are based on SIC07 codes. We present information for all the UK's main industries. Information for two categories, Activities of Households as Employers and Activities of Extra-Terrestrial Organisations,are not included as sample sizes are too small for results to be reliable. In each diagram we also present the average across all industries, which represents the average worker.

For some individuals specific pieces of data may be missing – they have refused to answer a specific question for example. In this study, we do not attempt to impute these missing values but rely on the data available, given the sizeable data set.

Building on work by Broughton, Kandar and Martin (2015), In this paper, we look at individual-level data on debt and assets. Our construction of individual-level holdings is built from:

1) Holdings that the respondent says are held individually
2) A share of the holdings that are held jointly. The share of joint holdings is estimated by dividing the relevant figure by household size.

   Difficulties arise in constructing individual-level measures of debt and wealth within households when data for one person in a couple is missing, or when household members give conflicting answers on the savings and debts they hold jointly. To overcome these, and in line with our previous analysis of this data presented in *Wealth in the Downturn* (SMF,2015), we apply the following rules:

- If both partners agree that they have no shared debt/wealth, or agree on the amount of shared debt/wealth, we use this amount without further modification.
- If both partners say they have shared debt/wealth but the amounts conflict, we take the mid-point between the two amounts.
- If one partner says they have an amount of shared debt/wealth, but the other partner says they do not

share any, we take the mid-point between the reported amount and zero.

- If one partner gives information on shared debt/wealth (whether they have it or not, and the amount), and the other partner does not respond to the questions, we take the data from the partner who responded.

Full citation of these datasets has been provided in end-notes where possible and is also copied below.

Understanding Society
University of Essex. Institute for Social and Economic Research, NatCen Social Research. (2015). Understanding Society: Waves 1-5, 2009-2014. [data collection]. 7th Edition. UK Data Service. SN: 6614, http://dx.doi.org/10.5255/UKDA-SN-6614-7

British Household Panel Survey
University of Essex. Institute for Social and Economic Research, British Household Panel Survey: Waves 1-18, 1991-2009 [computer file]. 7th Edition. Colchester, Essex: UK Data Archive [distributor], July 2010. SN: 5151 , http://dx.doi.org/10.5255/UKDA-SN-5151-1

Additional data is presented from a Neyber opinion survey, carried out with Opinium between 30 November and 7 December 2015. The total sample size for this survey was 5,053. Data was collected through an online survey, have been weighted and are representative of all GB adults in work aged 18+. The unemployed, full time students, those working in the home and retirees were excluded from the sample.

We also use data collected by YouGov for Neyber in January 2015. The total sample size for this survey was 8,879 adults, but results reported here are limited to those in work. Data was collected through an online survey, and were weighted to be representative of all GB adults aged 18+.

Where statistics from these public surveys are quoted in this report, we also provide sample size and a description of the base.

ENDNOTES

[1] Daniel Sgroi, Happiness and productivity: Understanding the happy-productive worker, Global Perspectives Series: Paper 4 (London: Social Market Foundation/Competitive Advantage in the Global Economy, 2015).
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[13]Sainsbury Centre for Mental Health, Mental Health at work: developing the business case, Policy paper 8, (London: Sainsbury Centre for Mental Health, 2007). It's very difficult to put a single figure on the costs of stress, and estimates vary substantially. Here we have chosen to use the £26 billion figure put forward by the Sainsbury's Centre for Mental Health in 2007, which although dated is still the most widely cited figure – for example, it is the main source of figures cited in a recent EU review of the costs of work-related stress and psychosocial risks (https://osha.europa.eu/en/tools-and-publications/publications/literature_reviews/calculating-the-cost-of-work-related-stress-and-psychosocial-risks). We do not consider it appropriate to uprate for inflation as this would not take into account underlying changes in stress levels, which by most accounts have increased since 2008 and the financial crisis. Studies generally agree, however, that the costs of poor mental health to employers are high, and that a substantial proportion of the cost burden is due to presenteeism, not just absenteeism.
[14] Daniel Sgroi, Happiness and productivity: Understanding the happy-productive worker, Global Perspectives Series: Paper 4 (London: Social Market Foundation/Competitive Advantage in the Global Economy, 2015).
[15] For further information about the methods used in the analysis underlying this paper, please see Annex 1.
[16] This figure was derived from the following question:

During the past 4 weeks, how much of the time have you had any of the following problems with your work or other regular daily activities as a result of any emotional problems (such as feeling depressed or anxious)?

Accomplished less than you would like

Options
1 All of the time
2 Most of the time
3 Some of the time
4 A little of the time

5 None of the time

The reported figure includes all those who answered “all of the time”, “most of the time”, “some of the time” or “a little of the time”.

The four week period before the administration of the survey is used as a reference period for each individual interviewee to provide a constant basis for comparison of individual productivity and mental health. The interviews are conducted over an 18 month period so the actual date of this period will vary across individuals, but a four week reference frame is used as most people will have a relatively good memory of this period. SMF analysis of University of Essex. Institute for Social and Economic Research,NatCen Social Research. (2015). Understanding Society: Waves 1-5, 2009-2014. [data collection]. 7th Edition. UK Data Service. SN: 6614, http://dx.doi.org/10.5255/UKDA-SN-6614-7.

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[18] Neyber/YouGov, Financial Stress survey conducted 21-27 January 2015, weighted base size for this question 5,325

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[22] SMF analysis of University of Essex. Institute for Social and Economic Research,NatCen Social Research. (2015). Understanding Society: Waves 1-5, 2009-2014. [data collection]. 7th Edition. UK Data Service. SN: 6614, http://dx.doi.org/10.5255/UKDA-SN-6614-7 and University of Essex. Institute

for Social and Economic Research, British Household Panel Survey: Waves 1-18, 1991-2009 [computer file]. 7th Edition. Colchester, Essex: UK Data Archive [distributor], July 2010. SN: 5151 , http://dx.doi.org/10.5255/UKDA-SN-5151-1.
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[29] SMF analysis of Understanding Society Wave 5, 2013/14 data. This is a simple correlation, which does not control for any other factors including income levels and does not indicate causation, just a potential relationship in a particular direction.
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