Young adults and financial literacy

The Young Foundation

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Contents

TThe Young Foundation is the UK's home for community research and social innovation. As a not-for-profit, The Young Foundation brings communities, organisations and policymakers together to shape a fairer future, driving positive change and supporting collective action to improve people's lives.

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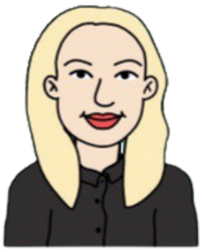
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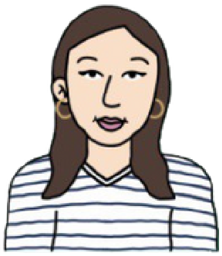
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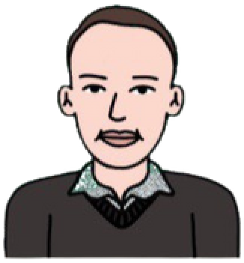
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This project was carried out by four peer researchers at The Young Foundation, hired through the government's Kickstart Scheme.

The peer researchers leading this project would like to thank the participants who gave up their time to be interviewed and for sharing their views and experiences of money and finance.

The peer researchers would also like to thank The Young Foundation team, especially Chelsea McDonagh for the constant support throughout, and Victoria Boelman for her help in the crucial stages of planning.

Introduction

Research suggests that young people are at a disadvantage when it comes to financial literacy and handling personal finances. Between the ages of 18 and 25, young adults typically encounter many financial milestones which can include moving away from home, taking on new responsibilities, entering the job market, and managing a budget for the first time.

As young people within this age group, the peer researchers who undertook this research that has formed this report all had different perceptions and aspirations regarding money and personal finance, which brought about some interesting discussions and reflections. Prompted by this, they set out to conduct a research project on young adults' perceptions of money and their confidence in managing their personal finances.

The peer researchers asked 11 young adults what money meant to them by discussing their financial goals and aspirations for the future. Wanting to understand what shaped these views, they gathered reflections on the role of community, location, class and basic financial literacy.

This report is aimed at a variety of audiences, including charities with an interest in young adults and money, educational authorities and politicians.

Summary

Housing was one of the main points of discussion in the interviews. A significant worry for many participants was being able to afford property in the future, especially in high-demand areas such as London.

The young people felt that learning about money and finance from an early age is vital. Many participants mentioned not receiving adequate financial education while in school. This has led to, according to some participants, a generation-wide lack of basic financial literacy. The young people said they learn about managing their money by seeking out resources independently. These may not be readily available, and the quality may vary.

Many participants reported not being aware of government schemes that could have helped them in the past, noting that by the time they learned about them it was too late to access support.

Young people who have moved to the UK from other countries face additional barriers and struggle in navigating the financial system. Specific things, such as credit rating, came up as difficult concepts to grasp.

Terminology

There are many terms that can be used to describe how individuals view and use money. In everyday conversation, these terms are often used interchangeably. This page provides definitions of concepts explored in this report, explained in plain English.

Finance can be defined simply as the management of money. This report focuses on **personal finance**, which covers (non-exhaustively) budgeting, saving, investing, insurance, taxes and personal financial goals.

The Financial Capability Strategy for the UK (2021) defines **financial capability** as the skills and confidence needed to manage money well in day-to-day life. A financially capable person can plan and save for the future, use credit sensibly and make informed decisions.

While financial capability is a broad descriptor that takes into account an individual's attitudes and behaviours, f**inancial literacy** refers purely to knowledge and understanding. In other words, a person can be financially literate, but make poor decisions in regards to money.

Financial wellbeing refers to how one feels about their finances, and their level of security and control. This ties in closely with **financial resilience**, which is described as he capacity to withstand financial shocks and changes.

Financial inclusion describes access to 'useful and affordable financial products and services' (World Bank, 2018).

Literature review

As part of this project, the peer researchers undertook a literature review to better understand what is known about young adults and financial literacy.

Between the ages of 18 and 25, young adults are often transitioning into a more independent life, with increased financial responsibility, while also having to navigate the housing market and employment scene for the first time (Ansell, 2016).

The Adult Financial Capability in the UK report revealed that young adults are not typically a key focus in British policy (Harrison et al, 2016). This means that there is not a great focus on ensuring that young adults are equipped to enter into this stage of their life and the financial responsibilities that come with it.

Sources including Citizens Advice (2015) suggest that young people aged 17 to 24 years old are at greater risk of becoming in debt, yet less likely to seek debt advice than other age group.

The literature suggests that young adults' financial literacy depends on their attitudes and goals, financial confidence, and engagement with financial advice, which are topics that are further examined in this study.

Expectations versus reality

- The Office of National Statistics (2018) found that half of 16 to 17-year-olds expected to earn £35,000 a year by the time they hit 30 if they had a degree, and £25,000 a year if they did not. This is far above the current average wage of £23,700 for a 30-year-old. Job satisfaction and job security were also deemed more important than high income.

- In 2018 the Office for National Statistics (ONS) found that young people beginning their careers were the demographic most likely to earn the least with a 30-year-old earning on average 1.9 times more than a 20-year-old. According to these statistics, with the exception of people aged 85 or more, adults aged 18 to 24-year-olds were the age bracket have the lowest disposable income.

Gaps in the literature

- There are little to no peer research studies into young people's financial literacy where both the researchers and participants are of the age group that is being studied.

- Additionally, whilst existing studies talk about money, they do not explore what it means to people on a personal level.

Methodology

Recruitment
The peer researchers interviewed young people in their personal networks, and subsequently identified more participants through snowball sampling. In addition, they recruited participants through social media posts and flyers which were displayed online and in universities.

Sample
To capture the diversity of our sample, participants were asked to fill in a survey collecting demographic information before the interviews. This way, no income figures were discussed in the interview.

Data analysis
Peer researchers analysed the interview transcripts using qualitative thematic coding from which main themes and subthemes were identified.

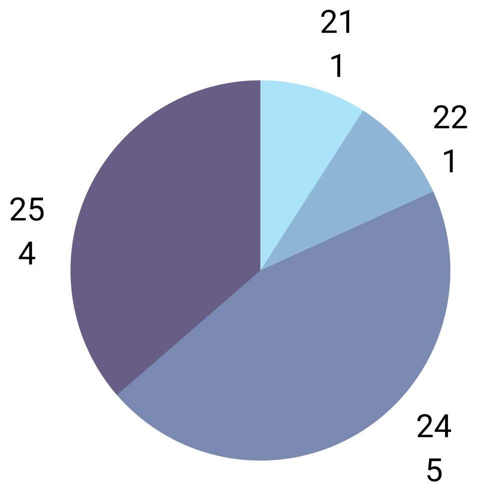
Data collection
Peer researchers spoke to participants using semi-structured, recorded interviews covering the following topics:

- Definitions and connotations of money
- How confident they were using basic financial terminology
- How confident they felt in managing their own finances, in terms of budgeting, taxes and bills
- Their financial goals and ambitions
- The factors influencing their perceptions of money - community, upbringing and education
- What can be done to prepare young people to be confident in talking about and managing their money

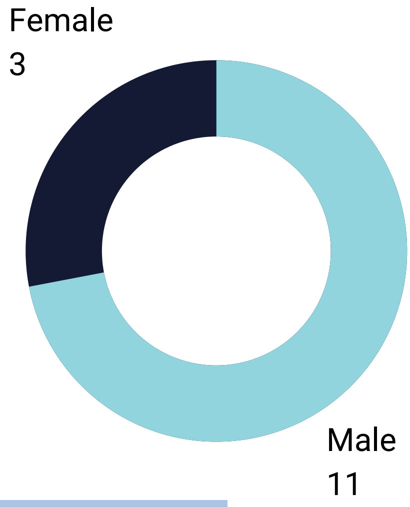
Who took part

The following two pages display the results of the demographic survey, which participants filled in prior to the interviews. At the time of the interviews, all participants were either in full- or part-time employment, or looking for work. One participant was in part-time education.

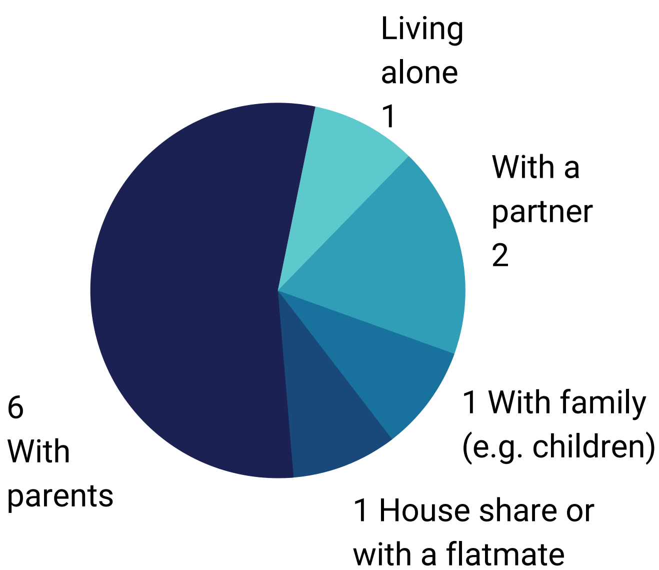
Age



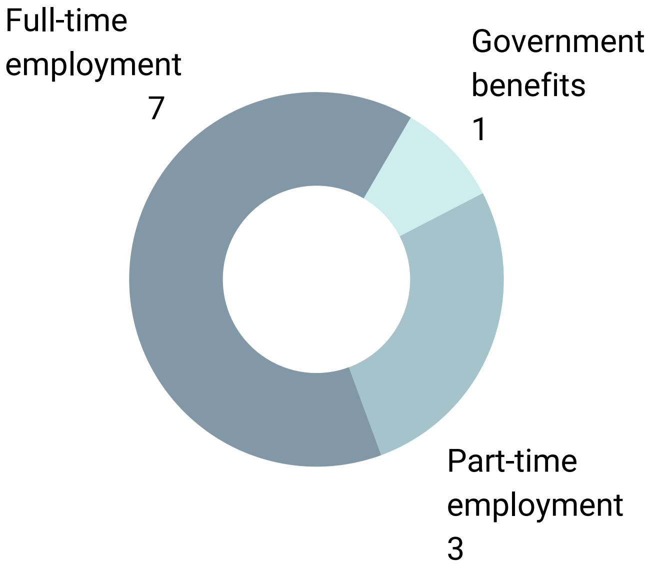
Gender



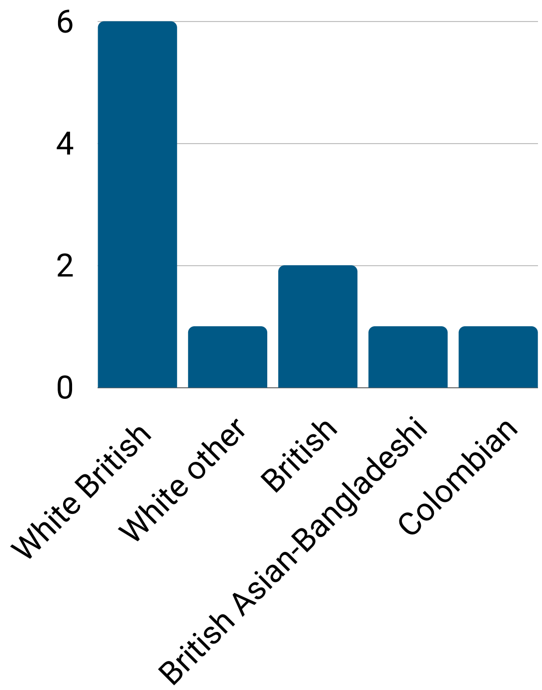
Housing situation



Main source of income



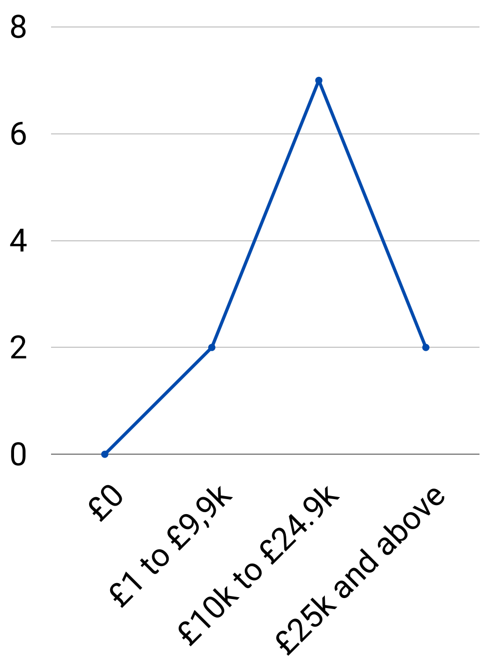
Ethnicity



Note: Ethnicity as self-described by participants may differ from ONS categories

Location

Annual income before tax



Perceptions of money

Perhaps the most important question we asked the young people was what money meant to them on a personal level.

We also asked participants what feelings they associated with money. As shown in the diagram on the following page, the responses varied from positive associations, such as happiness and freedom, to worries and anxiety about the future. Most participants gave answers at both ends of the spectrum, indicating that it depended on their current financial situation.

To get the participants thinking about their perceptions and views of money, we played a simple word association game as an ice-breaker exercise before the interviews.

Young people's definitions of money

Participants approached this very open-ended question from a few different angles.

Some people came up with technical definitions and discussed the role of money in society as a means of exchange, how it defines capitalism, and comparing it to a barter system.

Others assumed a more practical viewpoint and mentioned different forms of money, such as cash, wages and passive income.

Digital platforms such as Apple Pay, Klarna and mobile banking apps were mentioned frequently, indicating that young people use such platforms on a daily basis.

A few participants immediately had negative associations with money - going as far as calling it the "root of all evil". Others associated it with stress and sadness, a recurring theme:

Factors affecting views on money

We wanted to find out what factors played a part in shaping these perceptions. In line with what we found in the literature, most participants said that their views on finance were influenced primarily by their parents.

"My parents - my dad especially - [are] always saying never to have a credit card, and never spend more than you have..." - Interview participant

One participant stated that their faith was a significant element in their financial views and behaviour. Due to their faith, they believe that interest should not exist and instead choosing to donate all the interest they acquire to charity.

More broadly, participants discussed how their socio-economic background influenced their views. One participant reflected on their experiences growing up in a country where they had fewer opportunities to achieve financial stability.

"I will not say that it is the same - because it is not - but here you do get the opportunity to at least try and get the stuff you want. In Colombia there is not [the same] opportunities to do that" - Interview participant

Financial literacy

In order to explore young people's financial literacy, we asked participants about their understanding of terms such as 'mortgage' and 'credit rating'.

We also wanted the research participants to reflect on this knowledge by asking them what aspects of finance they feel most confident in and what additional support they would wish to receive.

Most participants were able to give a definition for each of the terms, but did not feel confident in how, for example, calculations for tax or national insurance contributions were done in practice.

Education

Many participants highlighted the lack of taught knowledge on finance and managing money. Those who wanted to learn about handling their finances conducted their own research. In other words, it is completely up to young people to educate themselves when it comes to finances.

As there is no standardised curriculum, young people's knowledge and confidence in managing their finances is extremely varied.

The young people discussed the need for lessons in basic personal finance skills from an early age.

"People need to be taught the fundamentals from a young age on finance and the need to be aware of what to do with their money, and how they can make it work for them" - Interview participant

Movements

Participants mentioned different financial movements they have come across. One such financial philosophy and lifestyle is FIRE, based on frugality and self-sustainability, which has been popularised through online communities.

"The FIRE movement stands for Financial Independence and Retire Early. It’s something I have looked at quite a bit. It's a movement where young people are looking to retire as young as possible by keeping expenses as low as possible, and earning as much income as possible" - Interview participant

Awareness of government schemes

Many participants mentioned not knowing about existing government schemes, having only discovered these while doing their own research.

"People need to take advantage of government schemes and be more informed and aware of them. 'Help to buy' I found on my own regards, otherwise I wouldn’t have known about it" - Interview participant

Navigating the system

Without the right support and resources, taking charge of your personal finances can be daunting and challenging to approach.

The interviewees said young people from minority backgrounds face additional barriers in accessing support and navigating finances in the UK.

"Growing up in a third-world country is not simple and easy... Here you do get the opportunity to at least try and get the stuff you want. In Colombia there are no opportunities to do that... So I wouldn’t trust myself to manage my own money... The government... should inform more about what they do to help" - Interview participant

Insights

An aim of the research was to understand how young people view and use money. These are categorised under the following subthemes: views on minimum wage, housing, spending habits, and financial goals and ambitions.

Views on minimum wage

The majority of participants supported an increase in the minimum wage, proposing between £10 and £11 an hour. One participant shared the view that the minimum wage should be more region-specific depending on the cost of living, rather than having one rate for London and another for the rest of the UK.

A few participants stated they believed the minimum wage should not differ by age when the same work is being done.

"[Young people] should be paid £9.50, the same as everyone else" - Interview participant

However, a few participants were against increasing the minimum wage out of principle, or because of worries about inflation.

"Putting any sort of floor or ceiling cap on any sort of commodity of labour and wages simply makes the market forces in action more inefficient" - Interview participant

Housing

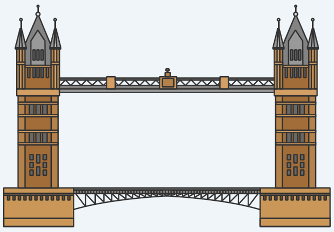
A recurring worry for participants was that they were struggling to find affordable housing. Many mentioned their long-term financial goal was to get a house or mortgage. This indicates that getting on the property ladder is considered a challenge.

A few participants specified that their goal was to first have a good credit rating or an investment portfolio to get a mortgage, rather than buying a house outright.

"I would like to get a mortgage, as I would like to own my own property. I don't want to rent my whole life and give someone else money" - Interview participant

Those living outside of London did acknowledge how property prices are much higher there than in other places in the UK.

"Maybe being in London could upset you - if you realise you're never really going to afford a house" - Interview participant



Statistically, the average price for a house in London is over £500,000 compared to an average of £250,000 for the rest of the UK (Osbourne, 2021). This demonstrates the reality of the challenge facing young people in London wanting to get on the property ladder and own a home.

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Spending habits

Although spending can be a sensitive subject, our interviewees were quick to respond when asked to name their three main categories of monthly expenditure. We understand that people may be hesitant to disclose certain outgoings, such as gambling, any type of addiction, or paying off credit card debt, due to stigma and a perceived 'lack of self-control'.

Some participants mentioned using a spreadsheet to keep track of their spending, while others were confident in maintaining a stable balance without the help of external tools.

Unless living with family, housing and rent were unanimously identified as the biggest outgoing cost. Some participants grouped rent and bills as 'cost of living', while others ranked them separately.

Nearly all quoted 'food and drink' as their second most significant expense.

As expected, spending varied depending on the individuals goals. If moving away from home or buying a house was a high priority for an individual, they tended to have measures in place such as standing orders into a savings account.

A few participants reflected on how their spending habits have changed mirroring their disposable income. Again, advice from parents and their attitudes towards spending were said to be a strong influence.

Financial goals and ambitions

Within the next two to three years, participants currently not in work said one of their main goals was to gain employment.

A few participants mentioned the desire to begin driving and the pressure of funding this.

Many participants also stated they would like to increase their savings in the next few years.

"If I can find full-time employment pretty soon maybe [I] hope to save about £7500 - £10,000 next year" - Interview participant

As their long-term goals, many participants stated they wanted to save enough money to retire early and support their family.

Participants said they planned to achieve these goals by working hard, saving and investing consciously. However, many seemed to lack the confidence and resources to have solid plans in place.

"I have invested in Vanguard... so I have got [funds] on the sideline as well as investing in my bank account and doing other things" - Interview participant

Recommendations

Based on the literature review and data collected through interviews, the peer researchers are making the following recommendations to policy makers:

A more comprehensive financial education is needed through schools, colleges and universities to ensure young people are able to navigate finances as they get older.

Making government schemes and other financial opportunities for young people need to be made more widely known, . especially for young people who do not have financially literate parents.

There needs to be more opportunities for young people to access affordable housing - and, particularly, support in making the first steps towards owning property.

There needs to be education and support for those who have moved to the UK to help them learn how the financial system works. We also need to create a better understanding of financial terms such as 'mortgage', 'tax' and 'credit rating'.

More financial education could be especially beneficial for young people from deprived backgrounds, as could greater access to support and funding to help people make positive financial decisions.

Reflections

Although we gathered plenty of meaningful data, using a random sample of the age group would have provided a more representative view of our chosen demographic.

We recognise that all but one of our participants were residing in south-east England and that a more dispersed sample may have demonstrated different trends. However, having participants in London and areas relatively close to it steered the discussion to the unique financial microclimate in the capital.

The study could have been improved by piloting, which would most likely have resulted in a more concise interview script. Instead of our mostly open-ended questions, introducing attitude scales, for example, may have encouraged less talkative participants to share more.

An alternative research design for this project could have been to treat our participants as individual case studies, rather than trying to decipher common themes. This approach would have allowed participants' circumstances and experiences to be taken into account on a deeper level.

The advantages of interviews for small-scale studies, such as ours, include high response rates for individual questions, flexibility, and the opportunity to establish rapport and clarify questions.

Semi-structured interviews are particularly well-suited for peer-led studies because they allow participants to respond in the way they choose and elaborate on their answers.

Further research

- Whilst this research has attempted to fill some of the research gaps about young people and finance, it has also brought to attention the areas in which more research is needed so that policy recommendations can support all young pople:

- More research is needed on people who have moved to the UK navigate the UK's financial system, who find themselves at a disadvantage.

- Further research on how faith and religious beliefs can affect financial views, behaviour and outcomes is needed to better understand and support young people from a range of backgrounds.

- Research could also be done on people's knowledge of financial literacy across different generations.

- In addition, further research is needed into how institutions form a child's understanding of financial literacy and why they are not doing more to equip children with basic financial skills.

Conclusion

This project captured insights into young people's financial literacy and capability. By allowing the participants to talk freely about how they use money and understand their own personal finances, the following conclusions can be drawn.

Goals and ambitions

Overall, young people have sensible financial goals, such as buying a car, obtaining a mortgage, saving enough money to retire and/or support their families.

Education

The consensus is that young people do not have access to adequate financial education. This creates the transition from financially dependent to independent much harder than it needs to be.

Financial literacy

The aim of this report was to capture some of the confusion and difficulties that young people face with money. The peer researchers hope that this research has validated the participants' experiences, and that the recommendations are considered by policy makers when thinking about improving young people's financial literacy and confidence to talk about money.

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