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Starting young: the importance of encouraging a savings habit among young people

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Introduction

In recent years many countries – including the UK - have become increasingly concerned about the levels of financial capability of their citizens in general and young people in particular. This has stemmed from wide ranging developments in the financial marketplace, shrinking private and private support systems, and shifting demographic profiles - specifically an ageing population. Concern was heightened by the financial crisis of 2008, with the recognition that the lack of financial capability was one of the factors contributing to consumers making bad financial decisions. As a result, raising levels of financial capability is now globally acknowledged as an essential component to financial consumer protection and financial and economic stability in a country.

Young people

Understanding how to manage money remains a key life skill needed for all aspects of adult life. Young people today grow up in an increasingly complex world requiring them to make difficult decisions that will often have a significant impact on their future. Credit cards, phone contracts and tuition fees all require young people to start making choices and decisions at an early age. The pace of change is showing no signs of slowing down. If anything the speed of change is getting faster. In the past few years alone we have seen the introduction of a number of new products and services such as contactless payments, all of which have an impact on how young people view and manage their money.

If we are to enable future generations of young people to manage their finances well, those under 16 years must be given high quality financial education in school so they can make informed choices and take responsibility for their own actions. Prevention is better than cure, being cheaper, effective and potentially less damaging.

Development of financial capability among young people is increasingly being seen as essential because:

- Current and future financial choices faced by today's young people are likely to be more challenging than past generations due to range, complexity and speed of change.

- Young people bear more financial risk in adulthood due to increased life expectancy, a decrease in welfare benefits, uncertain economic and job prospects.

- Young people engaging with the financial services sector at an early age. Pre-paid debit cards offered by organisations like Osper and Go-Henry are available to children as young as eight. Research and surveys undertaken by **pfeg** identified[1]:

    - 64% of children get their first bank or building society account before they start secondary school

    - 58% of children bought something on-line before or had something bought for them on-line for the first time before they were 12

    - Nearly three quarters of 15 year olds with a bank account have a debit card.

- They have exposure to debt much earlier than previous generations - more than half of children aged 10 to 17 said they saw advertising for loans 'often' or 'all of the time'. [2]

- Young people are likely to have greater responsibility for planning their own retirement savings and investment.

- Evidence from national and OECD surveys show that younger generations have lower levels of financial capability compared with their parents, leading to potential new vulnerabilities.[3]

- 18-24 year olds represent over 20% of the over-indebted population of the UK and a third of young people find themselves in this situation as they start independent living.[4]

- In the UK, the average debt-to-income ratio for young people in the 17-24 age range stands at 70%.[5]

The adverse impact that poor money management can have on health has been documented for several years now. A study for the Financial Services Authority[6] in 2009 found that financial capability has significant impact on psychological health, over and above those associated with income and material wellbeing more generally.

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[1] BBA/**pfeg**/YouGov survey, September 2013 https://www.pfeg.org/about-us/news/press-release-age-app-children-spending-online-getting-money-lessons-school
[2] TCS and Stepchange Debt Charity, The Debt Trap: Exposing the Problem of Debt on Children. 2014 https://www.stepchange.org/policy-and-research/the-debt-trap.aspx
[3] OECD, Financial Education in Schools 2012 http://www.oecd.org/daf/fin/financial-education/FinEdSchool_web.pdf
[4] MAS, Indebted Lives: The Complexities of Life in Debt. November 2013 https://mascdn.azureedge.net/cms/indebted-lives-the-complexities-of-life-in-debt-november-2013-v3.pdf
[5] Citizens Advice, Unsecured and Insecure? September 2015 https://www.citizensadvice.org.uk/Global/CitizensAdvice/Debt%20and%20Money%20Publications/UnsecuredorinsecureFinal.pdf
[6] FSA Financial capability and wellbeing: evidence from the British Household Panel Survey May 2009 http://www.fsa.gov.uk/pubs/occpapers/op34.pdf

- 43% of 7-16 year olds say they worry about money and 12% of 7-16 year olds have owed someone else money that they could not afford to repay.[7]

- In 2015 around 13 percent of people contacting StepChange were aged under 25 – This is disproportionate to the UK population, where around 11 percent of people are aged 18-25. This represents a steady rise in the proportion and number of clients in the age group over the last three years, from around eight percent in 2010.[8]

- People on low and middle incomes (a proxy for younger earners) don't have the savings to deal with shocks in their income.

Role of schools

At the heart of the National Curriculum in England is the requirement that schools provide a curriculum that is broadly based, balanced and meets the needs of all pupils. Under section 78 of the Education Act 2002 and the Academies Act 2010 such a curriculum must promote *"the spiritual, moral, cultural, mental and physical development of pupils at the school and of society, and prepare pupils at the school for the opportunities, responsibilities and experiences of later life*". This desire to help prepare young people for life and work is also reflected in the curriculum delivered in schools in Scotland, Wales and Northern Ireland.

Working within the context of the importance of financial capability of young people, including financial education within the formal school curriculum is recognised as one of the most efficient and fair ways to reach young people on a large scale. Learning can start in nursery and pre-school education and then progress through primary school and into secondary and so ensure young people have the knowledge, skills, understanding, values and attitudes which will enable them to make savvy and effective financial decisions in their daily life and when they become adults.

The key role played by schools is well documented:

- The OECD Recommendation on Principles and Good Practices for Financial Education and Awareness acknowledged that *".... financial education should start at school. People should be educated about financial matters as early as possible in their lives".*[9]

- The All Party Parliament Parliamentary Group (APPG) on Financial Education for Young People report published[10] in December 2011 called for financial education to be a compulsory part of every school's curriculum at both primary and secondary level. This call

[7] **pfeg** and NCB/Panelbase 2012
[8] Stepchange Debt Charity, Statistics Mid Year Book 2016 https://www.stepchange.org/Portals/0/documents/media/reports/statisticsyearbooks/Statistics-Mid-Yearbook-2016.pdf
[9] OECD, Financial Education in Schools: Policy Guidance, Challenges and Case Studies.2005 http://www.oecd.org/daf/fin/financial-education/35108560.pdf
[10] All Party Parliamentary Group on Financial Education for Young People, Financial Education and the Curriculum December 2011 www.pfeg.org/sites/default/files/Doc_downloads/APPG/Financial%20Education%20%26%20the%20curriculum%20-%20Final%20report%20-%20APPG%20on%20fin%20ed%20for%20YP%20-%20Dec%2011.pdf

was repeated by the APPG's follow-up 2016 report[11] which stressed the importance of financial education being compulsory in primary as well as secondary schools.

- In a survey commissioned to inform the 2016 APPG report, 94% of teachers agreed or strongly agreed that financial education gives students an essential life skill, and 95% of teachers feel it is important or very important.

- Parents also consider financial education to be an important part of the curriculum. Recent research from Experian has revealed that 61% of parents believe their children could receive more support about how to manage money well in the classroom. [12]

- Young people themselves recognise its importance. In a report published in 2013, 90% of young people thought it was important to learn about money.[13] Children are naturally curious about issues related to money and are able to grasp even relatively complex concepts (e.g. credit) if explained in terms and language they are familiar with.[14]

Financial education in primary schools

Financial education features in mathematics and non-statutory programmes of study for Citizenship and Personal, Social, Health and Economic education (PSHE education) at key stages 1 and 2. As well as developing mathematical skills, pupils also need to consider their attitudes towards money so they can understand what drives the choices they make and how they will feel about the consequences.

A planned programme of financial education will use all the opportunities a school curriculum provides for developing financial capability – mathematics, PSHE education and Citizenship all have a role to play in helping young people make the most of the opportunities and challenges that money brings in life. In line with the way primary teachers plan, there are many links to other curriculum areas too. As well as 'money' being an interesting topic in its own right, it can also feature as an aspect of other topics such as 'Ourselves', 'Homes and Houses', 'Toys', 'the Victorians' and 'World War II'.

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[11] All Party Parliamentary Group on Financial Education for Young People, Financial Education in Schools: Two Years On, Job Done? May 2016
https://www.pfeg.org/sites/default/files/APPG%20on%20Financial%20Education%20for%20Young%20People%20-Final%20Report%20-%20May%202016.pdf

[12] Experian research for launch of Jangle App 2016 https://www.experianplc.com/media/news/2016/bbc-dragon-calls-for-children-to-learn-to-earn-their-pocket-money

[13] RBS Group MoneySense Research Panel Final Report 2013
http://www.rbs.com/content/dam/rbs/Documents/Sustainability/moneysense-panel-report-2013

[14] Home-Start/Lloyds Banking Group Money Talk: Adults and Children Talking about Money 2014
http://www.lloydsbankinggroup.com/Media/Press-Releases/2014/lloyds-banking-group/money-talk-report-reveals-finances-are-far-from-a-family-affair-as-adults-overlook-childrens-interest-in-money-matters/

Financial education in secondary schools

The importance of financial education has been recognised in the new secondary National Curriculum for England. From September 2014, financial education will be taught as an aspect of citizenship and mathematics. Together with personal, social, health and economic education (PSHE) this provides more opportunities than ever for well-balanced and rounded financial education.

As well as developing mathematical skills, students also need to consider their attitudes towards money so they can understand what drives the choices they make and how they will feel about the consequences.

More needs to be done

Through citizenship and mathematics, 11 to 16 year olds can now be taught many of the skills they need – including financial mathematics, budgeting and other crucial topics like credit and debt. In primary schools there are now great opportunities to use money as a context for learning about units of measurement and problem solving.

However, there is no time for complacency. The revised 2014 national curriculum in England provides the mandate for schools to teach about money but it will not in itself be the driver. There is a need to provide schools and teachers with the guidance, advice, support and resources they need to make financial education a reality in the classroom.

Whilst teachers are supportive of financial education, there does, however, appear to be a worrying mismatch between this appetite for financial education and the reality of delivery in the classroom. Despite financial education having a statutory base in the English National Curriculum since 2014, only 35% of teachers questioned in the research for the 2016 APPG Report identified financial education as being a high or medium priority in their school.

Until we reach a point where financial education is taught in every school, we won't be giving young people the best possible chance of managing their money well throughout their lives. We still need financial education in all primary schools, as well as in the growing number of Academies and Free Schools not bound to follow the National Curriculum.

There is no 'quick fix' when it comes to implementing a planned programme of financial education to young people. Challenges include the lack of quality teaching and learning materials, an over-loaded curriculum, and insufficient expertise and know how among teachers. Clearly schools play a key role but parents, teachers, employers, financial institutions and the Government need to work together to make sure young people get the right level of financial education at every stage of their lives – at home, through primary and secondary school and into the workplace.

Start young

The OECD recommends that financial education should start as early as possible[15]. Young people encounter money and finance at an increasingly early age. A survey in 2013 suggested that 64% of children get their first bank account or building society account and 63% get their first mobile phone before they start secondary school [16]. The importance of starting young is more than just because children are engaging with money management earlier. Research published by the Money Advice Service suggested that many habits around money are formulated by the age of seven. [17]

Whole school approach

Financial education can be delivered through a number of subject areas including citizenship, mathematics and PSHE. Indeed, some aspects of financial education may be taught more appropriately in specific subjects e.g. calculating interest rates in mathematics or personal budgeting in PSHE. However, it is essential that there is a coherent and planned programme of financial education. This means that the teacher responsible for co-ordinating financial education in the school needs to map out clearly where elements of financial capability are being taught.

In order to meet this need **pfeg** have created financial education planning frameworks[18] to help teachers and educators working with children and young people in the 3-11 and 11-18 age ranges. The frameworks aim to support the planning, teaching and progression of financial education by setting out the key areas of financial knowledge, skills and attitudes, across four key themes:

- how to manage money;
- becoming a critical consumer;
- managing risks and emotions associated with money; and
- understanding the important role money plays in our lives.

It is designed to help teachers and schools deliver financial education flexibly across a range of subjects and learning opportunities that are within a school's curriculum.

A life skill not just a subject

In their 2013 report 'Money Worries: Tackling the UK's Personal Finance Problem[19], the Centre for the Public Understanding of Finance at the Open University highlighted that money brings out strong

[15] Financial Education in Schools: Policy guidance, challenges and case studies
[16] BBA/**pfeg**/YouGov survey, 2013 https://www.pfeg.org/about-us/news/press-release-age-app-children-spending-online-getting-money-lessons-school
[17] Source: Money Advice Service Habit Formation and Learning in Young Children 2013
[18] https://www.pfeg.org/planning-teaching/financial-education-planning-frameworks
[19] The True Potential Centre for the Public Understanding of Finance Open University, Money Worries: Tackling the UK's personal finance problem. 2013 http://www.open.ac.uk/business-school-research/pufin/sites/www.open.ac.uk.business-school-research.pufin/files/files/PUFin%20Mission%20Statement%20Final.pdf

emotions in all of us. It is important therefore to recognise that emotions can get in the way of decision making. The report called for financial education to be taught as a life skill and that it is “more than the practicalities of personal finance and money management”. This is supported by two other reports:

- The Demos ‘Forgotten Half’ report noted that ‘soft skills’ such as communication, teamwork and application are as important as academic ability in predicting earnings at age 30 (Demos, 2011).
- The ‘First Steps’ report from the Confederation of British Industry (CBI) called for a more “rounded and grounded” education system, concluding that “personal behaviours and attributes – sometimes termed ‘character’ – play a critical role in determining personal effectiveness” (CBI, 2013).

Supporting learning with a real experience

The UK National Strategy for Financial Capability being led by Money Advice Service[20] identifies the importance of exposure and access to financial products as an important contributor to helping young people become financially capable. Whilst having greater financial knowledge and skills may motivate young people to engage in more formal financial services it may be that having a bank – or savings – account is one way for students to learn about money.

In 2012 the OECD undertook the first international assessment of financial knowledge and skills of 15 year olds. The assessment through the PISA process was administered to approximately 29,000 students in 18 countries. Findings from the assessment published in 2014 OECD suggest that holding a bank account is helpful in promoting financial capability.[21]

Some studies have suggested that having a bank or savings account to make deposits could foster the savings habit. Examining cross-country historical evidence of public policies to promote savings suggest that countries that fostered savings habits among children in the past tend to display higher savings in recent decades[22]. In England, this approach is being developed through the LifeSavers programme which takes a holistic approach to financial education, particularly encouraging children to start developing a savings habit early in life.

It combines classroom learning with practical experience of dealing with money through regular small savings deposits in the school savings club. The concept for LifeSavers has been shaped by the Children's Society report 'Supporting Young Savers: The Case for Savings Clubs in Schools[23] and builds on many small scale initiatives and savings clubs successfully run across the UK with credit

[20] http://www.fincap.org.uk/uk_strategy
[21] Source: OECD PISA 2012 Results: Students and Money. Financial Literacy Skills for the 21st Century (Volume VI 2014 http://www.oecd.org/pisa/keyfindings/pisa-2012-results-volume-vi.htm
[22] Studies cited in OECD PISA 2012 Results: Students and Money. Financial Literacy Skills for the 21st Century (Volume VI), 2014
[23] http://www.childrenssociety.org.uk/what-we-do/resources-and-publications/publications-library/supporting-young-savers-the-case-for-savings-clubs-in-schools

unions. It offers older pupils the responsibility of setting up and running the savings club, alongside adult volunteers, giving them experience of the world of work.

Involving the wider community

Using schools, teachers and the curriculum is a very important part of the process to help young people become financially capable but there are other key influencers. The role of parents and wider community is also very important. “Approaches, practices and skills which are modelled, discussed and demonstrated by parents and other significant adults , are most likely influential ‘levers’ supporting the development of habits and practices”[24]

In their most recently published Young People’s Money Index, The London Institute of Banking and Finance identified that the vast majority of young people rely on their parents for financial understanding and think their parents are good at handling money[25]. This reflects research published in 2013 as part of the 5 year RBS Money Sense Research Panel which identified that 71% who participated in the Panel thought their parents are best placed to help them learn about managing money.[26]

This contrasts with the findings from a report commissioned by The Home-Start Charity that found that whilst 75% of children think they should be involved in family discussions about what to spend money on, 31% of parents think it inappropriate to include their children in general discussions about money.[27] The report suggests that whilst many parents say they believe it is important to talk to their children about money and involve them in some of the smaller spending decisions, in reality money is often considered to be too sensitive to discuss.

With parents having such a big influence on children and their spending habits, opportunities need to be created that will encourage and support them to talk to their children about money. Parents need guidance, opportunities and prompts in identifying what they can helpfully do. In early August 2014 the Money Advice Service ran a feature on its website called ‘Teaching your kids the financial facts of life’. To coincide with the summer holidays the feature suggested that parents of primary aged children could usefully:

- When shopping, ask your child to compare the prices of similar products, such as tinned tomatoes. Point out that similar items can cost more or less, and that by comparing prices they can make money go further.
- Encourage them to use their pocket money to pay for comics, toys and sweets. This way they will earn about the limits of cash.
- Get them in the habit of checking their change.

[24] Money Advice Service Habit Formation and Learning in Young Children 2013 https://mascdn.azureedge.net/cms/the-money-advice-service-habit-formation-and-learning-in-young-children-may2013.pdf
[25] The London Institute of Banking and Finance Young Persons’ Money Index 2015 http://www.libf.ac.uk/docs/default-source/financial-capability/young-persons-money-index/young-person-money-index---2015.pdf
[26] RBS MoneySense Research Panel Final Report 2013
[27] Home-Start/Lloyds Banking Group Money Talk: Adults and Children Talking about Money 2014

For secondary aged students the article suggested they should also know:

- They need to keep some cash aside for emergencies – such as if they lose their bus pass and need to pay for a ride home.
- They will spend money on sweets and other treats and they should work out a budget to cover their average weekly intake.
- Older secondary-school pupils should also be encouraged to budget for big nights out with friends, such as a trip to the cinema, and to cover the cost of pay-as-you-go mobile phones.

Children and young people are faced with living in an increasingly complex world in making financial decisions. They are also regularly bombarded by advertising which can create an irresponsible attitude to managing their money and debt. For this reason it has never been more important to ensure all children and young people receive effective financial education that helps them plan for the future and promotes savings.

Thinking about and planning for their future

Financial education for young people must be broad in order that they develop the knowledge, skills, understanding and attitudes needed for life in modern Britain. This should include thinking about the future and their aspirations. Whilst chronologically retirement is a long way off, planning for it is an important aspect of thinking about their future.

In England, the national curriculum for citizenship published by the Department for Education aims to ensure that all pupils are equipped with the skills to think critically and debate political questions, to enable them to manage their money on a day-to-day basis, and plan for future financial needs. It says that 11-14 year olds will be taught about the functions and uses of money, the importance and practice of budgeting, and managing risk. Older pupils in the 14-16 age range will be taught about income and expenditure, credit and debt, insurance, savings and pensions, financial products and services, and how public money is raised and spent.

This focus on looking to the future is an element of financial education in the other countries of the UK. For example in Scotland financial responsibility is one of four themes of education for financial capability and aims to help young people "having a caring and responsible disposition with regard to the use of resources. Children and young people who budget wisely and plan for the future will be responsible citizens who look after themselves and their environment"[28] In Wales 14-16 year olds should understand "the importance of planning for their financial futures and how to access financial advice"[29].

[28] Education Scotland Developing Skills for Learning Life and Work: Financial Education. http://www.educationscotland.gov.uk/resources/f/financialeducation/introduction.asp?strReferringChannel=learningteachingandassessment&strReferringPageID=tcm:4-628462-64

[29] Welsh Government Department of Education and Skills. and Social Education Framework for 7- 19 Year Olds in Wales http://learning.gov.wales/docs/learningwales/publications/130425-personal-and-social-education-framework-en.pdf

These provide a clear steer for teachers to include savings and pensions in their teaching and learning plans. Whilst this is very helpful, we need to do more as knowing about pensions does not mean young people have positive attitudes to them or indeed are likely to contribute to them when they are in employment. It is important that there is a progressive programme of financial education that develops knowledge, skills and attitudes and builds towards exploring the role of pensions.

Through the Financial Education Planning Framework cited earlier, we can plan a progression of learning outcomes related to savings.

	Knowledge	Skills	Attitudes
5-7 age range	I know I can save my money to use later instead of spending it now	I can describe why I might want to save money	I am beginning to understand why saving money can be important and how that makes me feel
7-9 age range	I know I will have to prioritise between wants and needs	I can make spending and saving choices based on my own need	I understand it will not be possible to have every-thing I want straight away
9-11 age range	I know that interest may be added to money I save or borrow	I can explain some of the risks involved in borrowing and saving money	I understand it is important to consider risks and potential consequences of borrowing or saving money.
11-14 age range	I know that saving and investing money can increase its value and that there are associated risks with these rewards	I can describe the relationship between risk and reward in different financial contexts e.g. saving and investing	I understand that poor decisions about money may have long term consequences and can lead to stress
14-16 age range	I know there are different ways to save for the long-term and for my retirement, and the key facts about contributing to and benefiting from pensions, including through National Insurance contributions	I can use my skills as a critical consumer to compare different options for long-term saving, including pensions	I understand the potential consequences for later in my life if I do not make long-term financial plans when I am young.
16-19 age range	I know which products I need now and in the immediate future e.g. bank account, student loan, pension scheme	I can choose and work out the cost benefits of the products.	I understand I am responsible for working out which financial products are best for my situation and that I should always read the small print before signing.

The way forward

The recommendations for action outlined in the 2016 Financial Education in Schools: Two Years on – Job Done? report fall into four broad areas.

1. Strengthening school provision at both primary and secondary level.
2. Improving teacher confidence and skillset through training and support.
3. Better co-ordination across the sector so schools and teachers can better access report.
4. Measuring long term impact.

Progress in all four areas will help create the right environment to embed financial education into the curriculum. In some areas things are moving forward. For example:

- The Evaluation Toolkit and Evidence Hub developed by the Money Advice Service[30] are helping to identify what works and how to measure impact.
- The Centres of Excellence delivered by Young Enterprise[31] helps schools to focus on learning outcomes, staff development, taking a whole schools approach and sharing good practice within their community.
- The Post Graduate Certificate in Teaching Financial Capability[32] offered by the London Institute of Banking and Finance is an accredited course at Masters level. It enables individual teachers and their schools to enhance their professional practice in delivering financial education in the classroom.

In other areas, especially making financial education statutory in primary schools, progress is much slower.

At the heart of the challenge is winning the hearts and minds of teachers and school leadership teams. If financial education is to be embedded into the curriculum so that all children and young people receive a planned programme of financial education, teachers and schools must be able to clearly see how incorporating financial education into curriculum delivery plans:

- helps meet what an individual teacher or school has to do e.g statutory requirements
- contributes to offering what an individual teacher or school wants to do e.g prepare young people for the opportunities and challenges of adult life
- has a direct benefit to an individual teacher or school e.g professional development or opportunities to engage with the local community.

The views expressed in this briefing are the views of the author(s) and do not necessarily represent the views of CHASM as an organisation or other CHASM members.

[30] http://www.fincap.org.uk/understanding_what_works
[31] https://www.pfeg.org/projects-funding/projects/centres-excellence
[32] http://www.libf.ac.uk/study/financial-capability/teacher-development/postgraduate-certificate-in-teaching-financial-capability