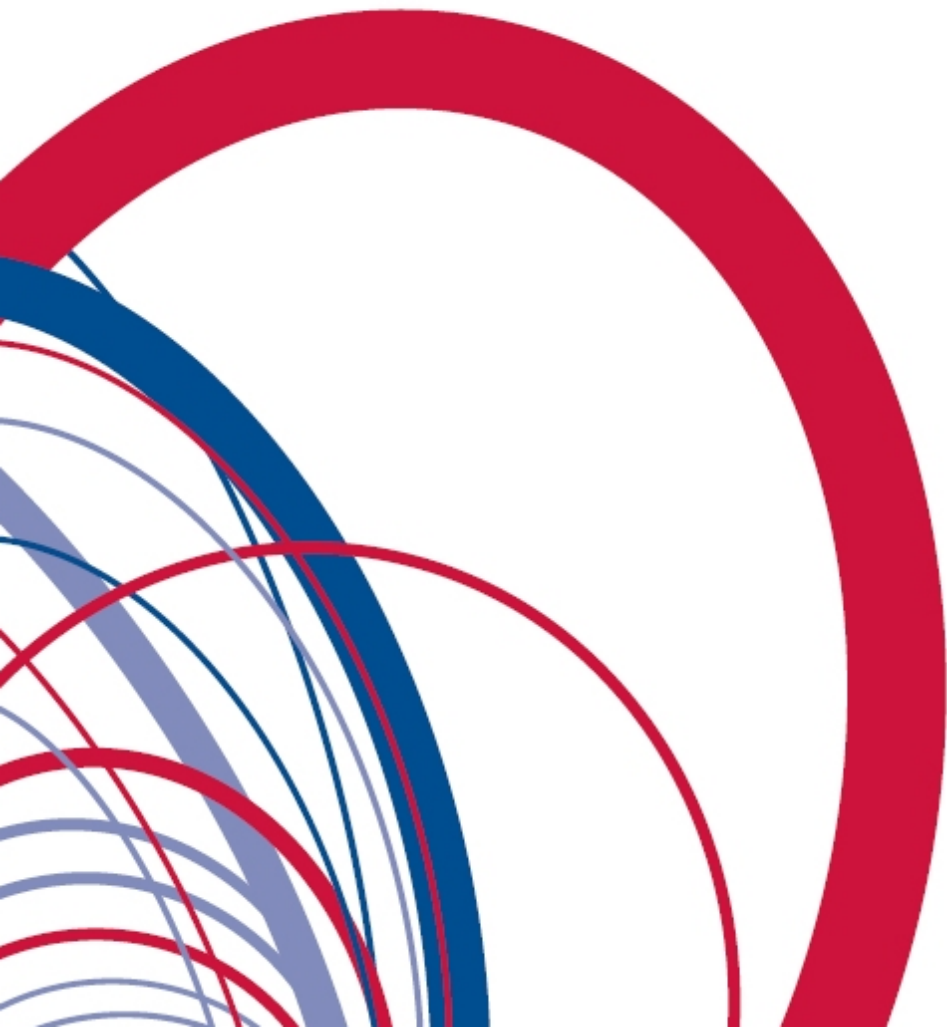


Families, Finance and the
Future

A research report for

NS&I

August 2009



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Introduction

The past year has seen unprecedented economic events. The effects are visible, and visibly changing, day by day.

Before these changes, and alongside them, personal and household finances have evolved radically over recent decades. Choice has multiplied: of services and service providers and with these a vast array of different financial options. With choice comes complexity and, ideally for the consumer, both greater knowledge and a sufficiently sophisticated understanding of what their financial options really mean.

In the same period, families have radically changed too. Nearly half of all British marriages now end in divorce, with the result that the word “family”, once uncomplicated, has come to signify a much-diversified portfolio of relationships. To extend that metaphor, it might also be argued that within those diverse portfolios is an equally various range of emotional investments.

Changes to the British family have not only been intra-national and structural: the arrival of what might be termed different family-styles, as a function of immigration, may also have had an effect. Irrespective of background, the family has transformed from a standard, normative unit into a diverse and complex organism.

Just as it is important for the consumer to understand their options as well as they can, it is important for a financial services provider to have an intimate understanding of their customers and the world in which they operate.

In the spring of 2009, the Future Foundation was approached by NS&I (National Savings and Investments) with a brief on just those terms - to help them understand the evolving relationship between families and their finances. The brief was to explore how the contemporary British family interacts with finance, to study its motivations and behaviour and the web of financial inter-relationships which parallels our other relationships with family members.

This report is the Future Foundation's response to that brief, aimed at supplying NS&I with new perspectives on these matters and tracking the trends across decades rather than months, by drawing patterns from the past and making projections for the future.

The guiding themes of this work were wide-ranging, and the varying kinds of behaviour and attitudes uncovered in the analyses are interesting. For ease of use, this report is organised thematically with three sections following this introduction and finally, some concluding comments.

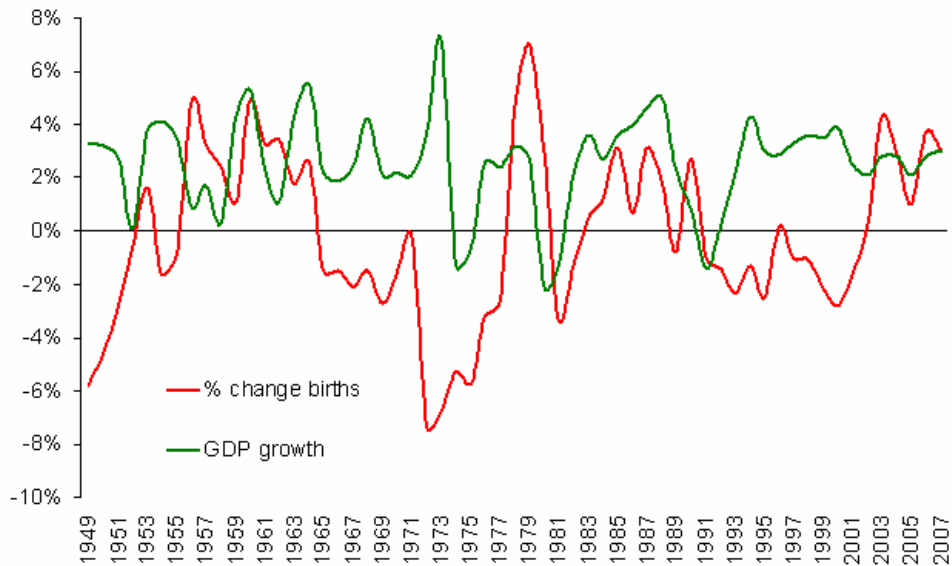
Several sources were used. Amongst these are the British Household Panel Survey (BHPS), the Office for National Statistics (ONS), Eurobarometer/Eurostat and the Future Foundation's Changing Lives research into British attitudes and behaviour, which is carried out twice yearly. Anchoring our sources, and this report, is a survey designed by the Future Foundation and carried out specifically for this project in April 2009, questioning a nationally representative panel about their financial behaviour and beliefs as these relate to respondents themselves, their households and their families.

1. Starting families - how family size is influenced by finance

Perhaps as a form of light relief, the popular press has in recent times made much of the relationship between recessions and birth rates. Given that any such relationship would link family and finance at the most macro of levels, we decided to critically examine the notion that the British have more children during recessions by looking at data over a thirty-year period.

1.1 Macroeconomics and the national birth rate

Figure 1: Relationship of birth rate and GDP growth in the UK

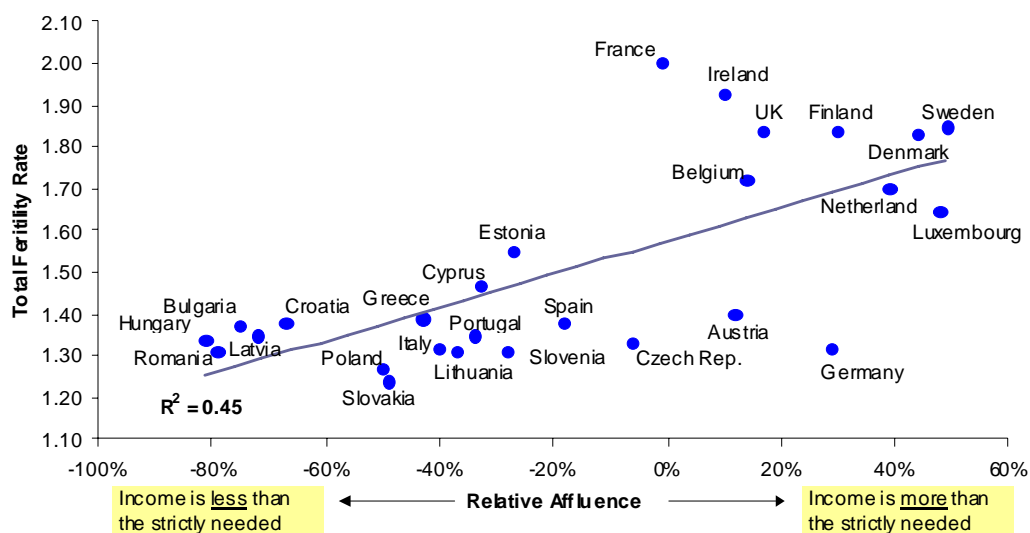


Source: National Statistics/Future Foundation

A recession is defined, and now widely understood, as two consecutive quarters of negative GDP growth. The graph above depicts GDP and the British birth rate from 1949 to 2007 and shows, in fact, that over the past sixty years, there has been a reasonably positive correlation between GDP growth and the national birth rate. What this means is that, contrary to received wisdom, when the UK economy is growing, more babies are being born, and when it is in recession, fewer babies are being born.

1.2 Household perceived affluence

Figure 2: Perceived affluence and actual fertility: UK and Europe



Source: Eurobarometer/ Eurostat/ Future Foundation
 Base: a pprox 1,000 respondents per country aged 15+, 2007

Britons are not alone in this trend. Figure 2 shows that in European countries where more people have an income that is either in line with or above their financial expectations, families bear more children. Conversely, in those countries where actual income is more likely to be considered beneath the earner's expectations, families give birth to fewer children.

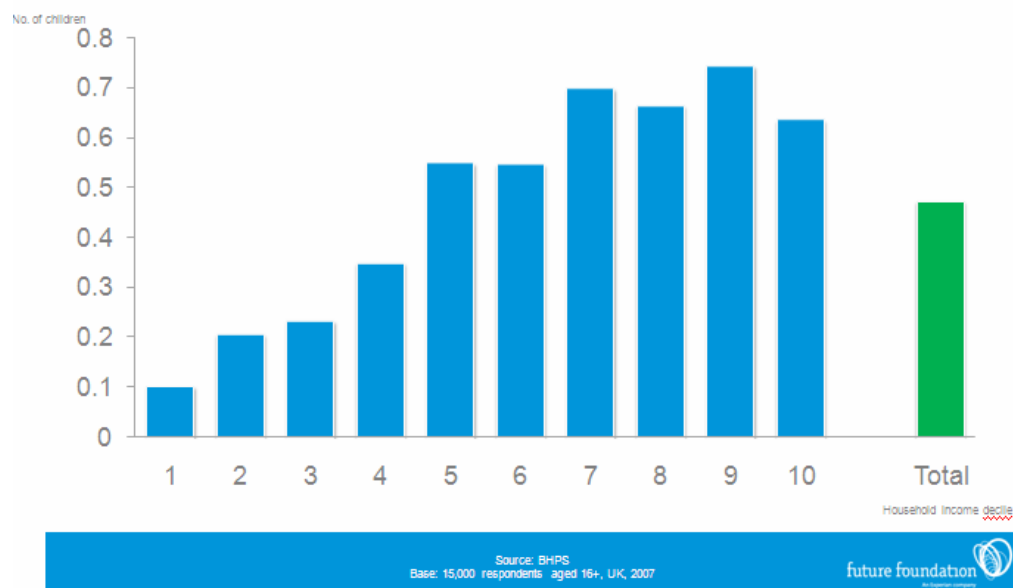
We can see that perceived affluence thus has a definite effect on the birth rate. Further analysis of the British Household Panel Survey (BHPS) – see figure 3 overleaf – confirms this fact, revealing that the number of children in a household generally increases in line with the rising deciles (tenths) of household income (note that this graph shows the average number of children by income in all households, not just those households that have children).

This increase stops short of the top decile, which perhaps is to be expected; the highest earners would seem less likely to have larger families owing, at least in part, it could be assumed, to the demands of their careers. It could also be that they devote more energy to their career, limiting the number of children they have to just above that of households in the fifth decile. Another, slimmer yet genuine possibility may be that these top 10% of households by income have a sharper awareness of just how much children cost to raise, and recognise what they consider their limit. In reality, some combination of these factors is probably at work.

A good representation of that practical awareness comes in the form of a joke that will be familiar to readers of the Financial Times. The columnist Mrs. Moneypenny (a pseudonym), who writes about her business life and family life, regularly and comically refers to her children, CC1 and CC2, "CC" standing for Cost Centre. Bringing up children is indeed costly and people respond to that cost in different ways.

1.3 Household's actual comparative affluence and fertility

Figure 3: Increasing household wealth means increasing number of children



Future Foundation analysis of the BHPS shows that in 2007, 35% of women who had given birth since 2005 said their household was now financially worse off. This compares with those who had not given birth in the same period, of whom less than 20% said their household was now worse off than in 2005. We have also found that households with children are significantly less satisfied with their income than households without. No wonder then that, barring the top tenth, the wealthier we are, the more children we tend to have. After all, the greater your relative affluence, the less impactful the cost of having a child. For the rest of us, given all of the ancillary costs of having a child, our question was, how do parents consider the affordability of children?

In the survey specially designed for NS&I by the Future Foundation for this project, we found diverging views on finance and families, from a sort of fiscal conservatism amongst the young to a more free-spirited attitude amongst older people. Setting the tone for age-group differences that will be seen later in this report, the moral stance of 16-24 year olds was pronounced, with over 80% agreeing that "People should ensure they are financially secure before deciding to have a family." This compared with 60% or less of those over the age of 55.

Actual personal practice of such general and high ideals naturally lagged slightly behind, but not to the point where they were seriously compromised. About half of parents in the 16-24 age range had seriously considered their financial situation before having children, compared with about one third of those over the age of 55.

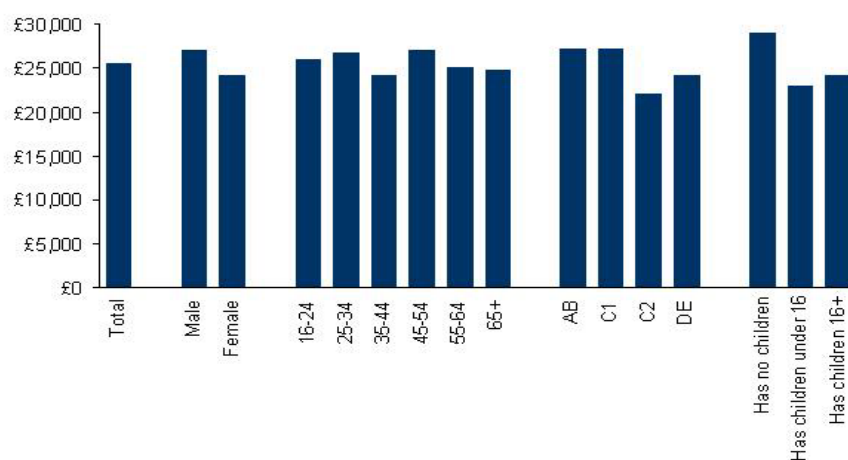
The primary motivations behind both the principle, or the moral attitude, and the kind of thinking that people had done before having children, appear to be common:

- the standard of living you can give your children (78%)
- meeting the cost of raising them (73%)
- the size of the house you can afford to raise your family in (51%)
- the education you can make sure they receive (39%)

These were the primary influences on the number of children people had. The importance of costs in this matter is clearly not one of mere means, but of one's financial capacity to ensure the well-being of one's children.

That financial capacity is naturally largely determined by what one earns, and there is a simple number that people feel they must earn before they would have children (see figure 4). This threshold is slightly above £25,000 per year and therefore in line with the national average of annual earnings (£25,100 in 2008, according to the ONS). Those who reckon it to be slightly higher include men, ABC1s and those without children, whose estimate is highest of all groups, closer to £30,000.

Figure 4: Average amount people believe should be earned before having children



Source: Families, Finance and the Future/Future Foundation
Base: 1,049 respondents aged 16+, UK, 2009

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Conclusion

Far from promoting an increase in the birth rate, it would seem that a recession is likely to discourage people, especially the young, from having children. Recession, therefore, is likely to be equally discouraging to them, should they consider having more children. Where the size of families is concerned, Britain's generations-long adherence to GDP and consciousness of the financial ramifications seems likely to continue.

2. The changing nature of families

We have seen in Chapter 1 how macroeconomic factors influence the size of the British family. It also became clear that many of the ties that form an individual family unit are also financial. This chapter moves on from macroeconomics, to look at the most micro- of economic levels. It looks within the family, at the movement of cash and of financial knowledge and nous – other important forms of financial wealth.

We have seen that the formation of a family depends to a considerable degree on a sense of financial security. Even the usual preconditions for starting a family – cohabitation or marriage – depend on it. The clear implication is that the family, even from its beginning, encompasses and is affected by finance. Within the family different people have different relationships with finance. In this section of the report, we consider the financial family. What do we share? Is it cash, for example, or knowledge? How and with whom do we share it? And with whom do we *not* share?

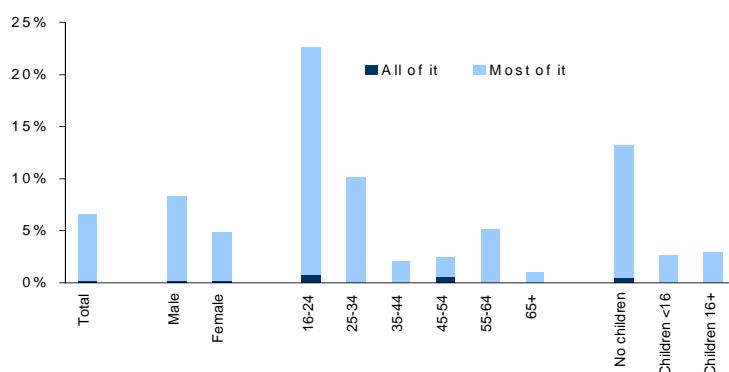
2.1 The flow of money in the family

The flow of money can be largely from child to parent as was the situation in the UK, for example, during the Industrial Revolution when children went to work. It is still the case in other countries today, especially where repatriation of funds from emigrants is common.

In a post-industrial society such as ours, the transfer of wealth is widely considered to have been turned on its head as parents increasingly pass money to their children. As a consequence, it is assumed that modern young people enjoy an extended youth financed by clandestine parental support.

With a view to understanding the nature of financial dependency in the family, we decided to use our survey to uncover details of the flows of money, essential financial nous and technological know-how around the family. The findings make for interesting reading.

Figure 5: Percentage of people who save all or most of their monthly income



Source: Families, Finance and the Future/Future Foundation
Base: 1,049 respondents aged 16+, UK, 2009

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To begin, we explored the basic financial habits of individuals. Figure 5 shows savings patterns, and appears to bear out several intuitive facts about saving. 16-24s save a high percentage of their income. 25-34 year-olds put away proportionally less, and then there is a precipitous drop as the financial demands and habits of maturity take effect. For the post-retirement group, savings clearly become a key source of income.

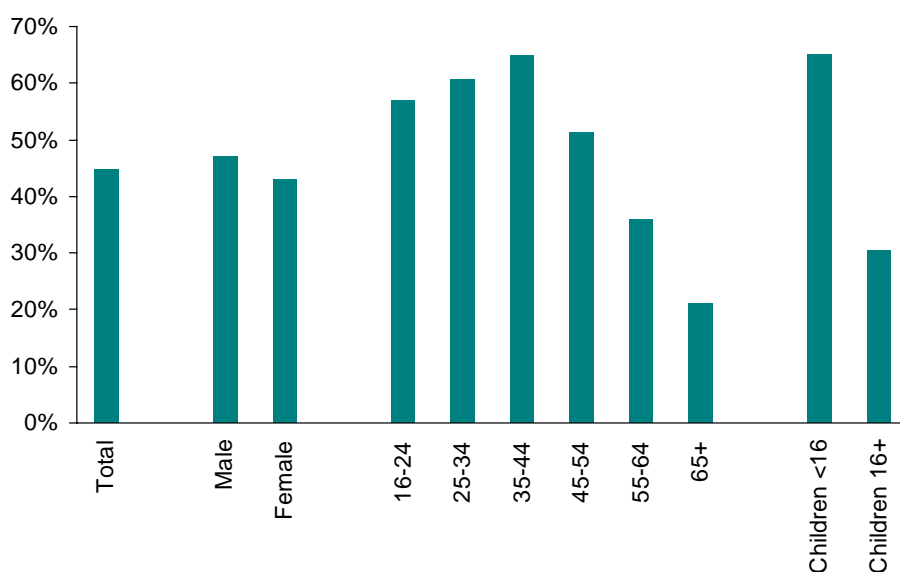
Where a large number of 16-34 year olds save most of their income, 35-44 year olds spend nearly 60% of their monthly income on household expenditure - much higher than their juniors, and almost definitely accounting for their lower rate of saving. At this age the money flow really changes as less goes into savings reservoirs, and the money begins to stream elsewhere.

This sets up the basic picture – so we now turn to answering the question, “With whom do we share cash?”

Parents quite obviously share money with their children, and we took a closer look at how. In the survey conducted for this research, parents were asked what expenses in their children’s lives were most important to them. Of highest importance, along with helping finance a marriage (45%), but above the purchase of a car (33%), or getting a foot on the housing ladder (32%), is university (45%). Figure 6 shows in detail the percentage of parents that expect to financially help their children go to university.

This is worth considering in detail, due to the lengthiness and comparatively high expense of financing a university education. Financing tertiary education is clearly costly and important to parents – and the reintroduction of university top-up fees has increased the amount of support students need. With our introductory picture of savings habits, we have two clear findings: that those above 35 save less; and that children’s higher education is a crucial expense for parents.

Figure 6: Percentage of parents that expect to help their children financially when they go to university



Source: Families, Finance and the Future/Future Foundation
Base: 663 respondents aged 16+, UK, 2009

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These results might indicate a simple scenario – the assumed parent-child transfer of cash.

However, alongside those reservoirs of savings and streams of parental financial support, student debt is an important factor. 80% of students have student loans, and students in England and Wales graduate owing an average of more than £12,000. In other words, part of the financial burden of their education is shouldered by students themselves – and the flow of family finance is characterised by student debt.

It is incontestable that generally, a large proportion of our children get a lot of financial support from parents that the sums involved are large and the actual parental priorities in providing that support are focussed on important goals. However, as the case of students shows, it is equally incontestable that they also take on a proportion of the financial responsibility.

The case of higher education provides us with an interesting case-study, where an initial picture of parental finances belies a more complicated analysis, and shows that children can be contributors to their family's finances.

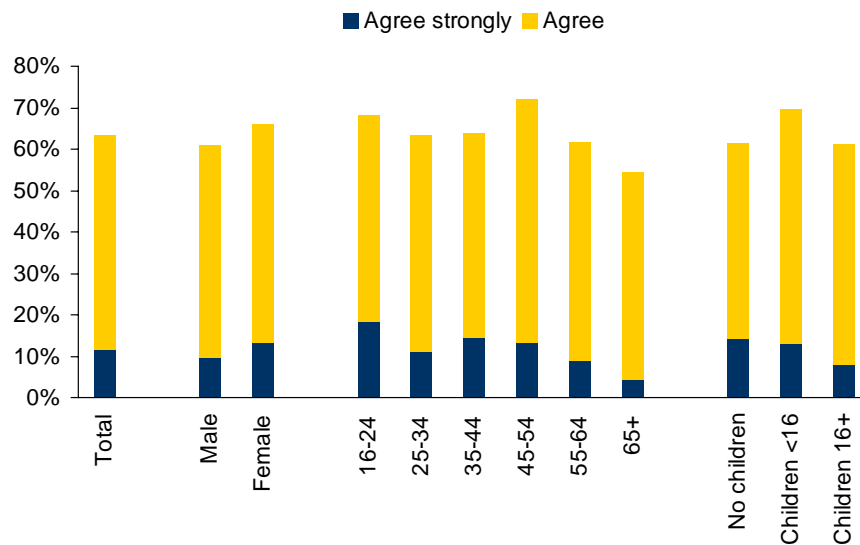
With this in mind, we decided to consider and challenge the sense that today's children are, in financial terms, uncomplicated dependents. Our survey found a consensus amongst members of all groups: different age ranges, men, women, those with young children, older children (16 or older), those with no children. Over 70% of respondents agreed that "Children today are financially dependent on their parents for longer than previous generations were." Even larger majorities, averaging just over 80% and never dipping below 70% for any sub-group, took the moral stand that "Young people should be made to take more responsibility for their personal finances."

The completeness of these matching views, and the fact that young people themselves subscribe to them, would seem to be a tribute to the power of the oft-relayed portrayal of contemporary young people as more criminal, less civic-spirited, and more unruly than their predecessors. The French thinker Michel Foucault might have suggested that our younger respondents, especially 16-24 year olds, had internalised this view of themselves.

However, this judgement stands on shaky ground. Other elements of the research for NS&I at the very least complicate the veracity of our respondents' views of young people as a family's money pit – such as those respondents' own other views.

Continuing the theme started in Chapter 1 by our cost-conscious parents and prospective parents, a less vocal and somewhat less numerous majority contradicts the money pit viewpoint. As figure 7 illustrates, they agree that children today need more financial support than their antecedents because life today is more expensive.

Figure 7: Percentage of people who agree that modern life means that children today need more financial support than previous generations



Source: Families, Finance and the Future/Future Foundation
Base: 1,049 respondents aged 16+, UK, 2009

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This shows that, at the very least, there is a tension: between the idea of the child as a cost centre with a questionable sense of responsibility; and the idea that this is an expensive world for children to grow up in. This perspective is developed further by our respondents. Nearly 70% agreed that “Younger people today face *considerably more* [report’s italics] financial challenges than previous generations,” modulated by the opinion expressed by approximately 50% of respondents that “Children today are less financially aware than previous generations”.

Respondents are ambivalent and ambiguous about the cost of living and financial awareness, and indicated that financial knowledge and savoir-faire are felt to be as important as cash. 80% and upwards of over-45s surveyed for this report felt that “today’s generation” (implying young people) have much to learn from previous generations about money management and budgeting. Crucially, over 70% of 16-24s were in agreement. The world is expensive and learning how to judge its expenses in many ways is as serious a priority as meeting them.

The picture that begins to emerge is complex – but it is fair to say the idea of children as a simple drain on resources begins to look outdated.

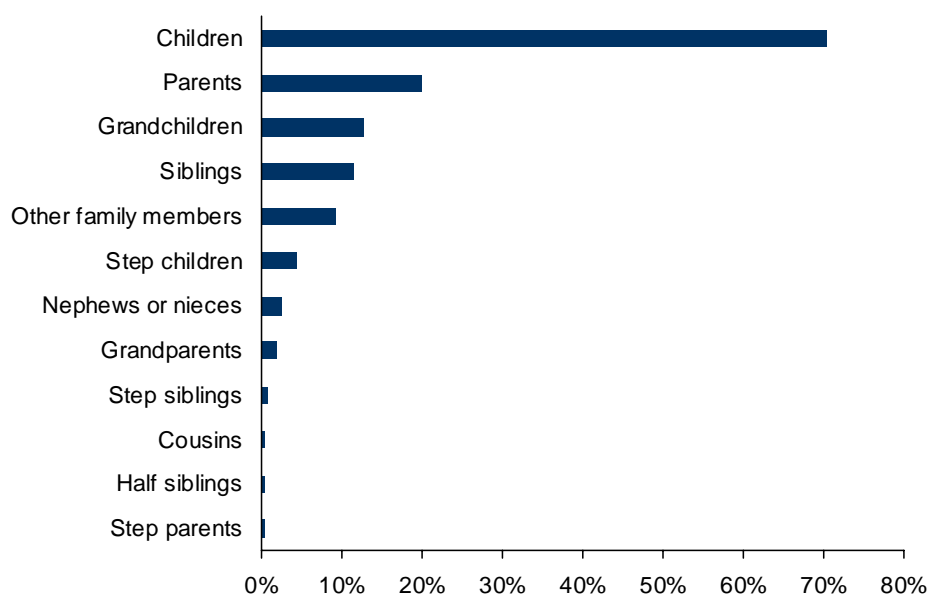
2.2 Our other financial bonds

Having looked at the way parents and children interact financially, this section will explore other financial relationships in the family.

Another given of family financial life, and something worth exploring, is grandparents giving their grandchildren money. Again, to answer our formative question - whom do grandparents share cash with? - 86% of grandparents in our survey said they sent their grandchildren money for their birthday or at Christmas. Such gifts represent more of a gratuity, a pure gift, rather than a longer-term endowment. Still, over a third of grandparents mirrored the serious, long-term priorities of parents and claimed to regularly put away money for their grandchildren; one in eight had set up a trust fund for theirs; one in twenty had bought their shares.

This is perhaps relatively intuitive, but other networks of financial responsibility provide interesting findings. In total, of those surveyed between half and two-thirds said they felt financially responsible for other family members. We asked that group which family members they felt financially responsible for – the results are shown in figure 8.

Figure 8: Financial solidarity in the family: percentage who say they feel financially responsible for the following family members



Source: Families, Finance and the Future/Future Foundation
Base: 564 respondents aged 16+, UK, 2009

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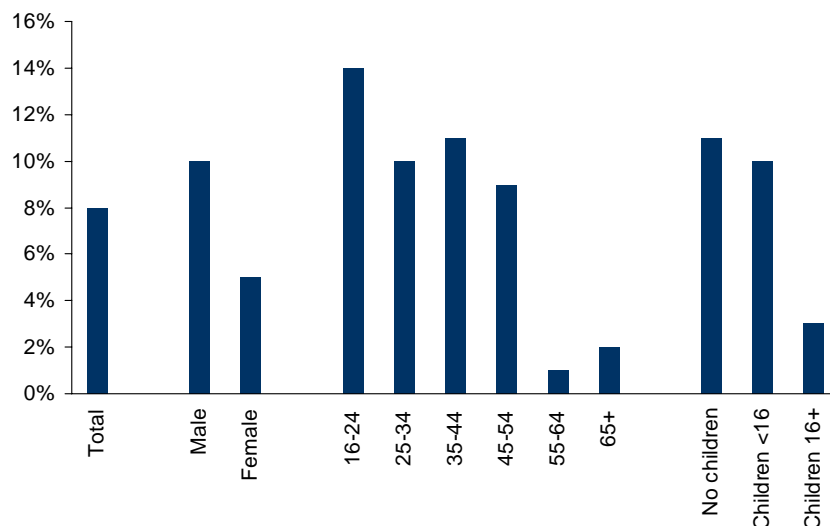
The top three, on average, are children, parents, grandchildren, in that order. Children are unsurprisingly the primary priority and the first object of duty in the family unit. The fourth most important family members, on average, are siblings. For those who have no children, siblings rise into second place.

Critically, however, only about one fifth of those who felt responsible for other family members said they felt responsible for siblings. To answer another of our formative questions, we clearly feel little compulsion to help siblings, relative to parents or children, which raises a question. Of our first-order family relationships – parent-child, child-parent, sibling-sibling – may the latter be termed, when it comes to finance, the poor relation? It would seem so. We may surmise that siblings may consider each other to have equivalent responsibilities and opportunities to support themselves. More likely, it may be that one's siblings are never those family members most in need of support. Sibling bonds, it would seem, are the least financial of all those first order family relationships.

From this overall picture of financial responsibilities, we decided to examine how the youngest group of adults (16-24 year olds) were supporting other family members. Fresh from a childhood of parental and grandparental support – support that is necessary, if perhaps sometimes reluctant – we wanted to look more closely at the notion established in Section 2.1, that children cannot be seen as simple dependants. Given the flow of resources and care in our children's direction, we decided to find out if there was a counter-flow in the other direction and, if there was, to see how it was constituted. Our investigation resulted in a surprising discovery.

Figure 9 shows that, of all age groups, 16-24 year olds, far from being a simple drain into which money flows, actually give financial support to their parents in larger numbers than other age groups. To answer once more the question, with whom do we share cash, the answer for children is parents. But to dig a little deeper, part of this must be accounted for by the fact that as the youngest population group, they are more likely to have parents who are still alive, as well as to be in what is sometimes termed the “pre-family life stage” and thus have the money to devote to that support.

Figure 9: Percentage of people who claim they support parents financially



Source: Families, Finance and the Future/Future Foundation
 Base: 1,049 respondents aged 16+, UK, 2009

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Admittedly, this group is small, representing approximately one in seven people in the age-range. Yet the statistics in figure 9 do yield an impressively counterintuitive picture, with money flowing up the generations as well as down. It is also impressive given that this group includes students, a rising proportion of those Not in Education, Employment or Training (NEETs), those with the lowest incomes, and first-time entrants into the property market. Further investigation was required.

16-24 year olds, as we saw in Chapter 1 (p.7), have a distinctive moral stance and practical attitude. They are remarkable in all sorts of ways. What materialised from our investigation is a clear indication that for this age-group, 16-24 year olds, the family is highly financial. As we will continue to see, they are freest with information and advice, the most likely to seek it, the most likely to seek help, and they feel they ought to give financial support. Moreover, their financial self-interest is matched by a conviction that their family should be financially secure. To them, parents are assuredly not a piggy-bank. Together with those financially critical transactions of nous and know-how (e.g. technological), as well as money, this means that these presumed dependants are far better considered as *inter-dependants*. When it comes to this age-group, whose social conscience is so often called into question, this loyalty and idealism is a novel finding.

2.3 The Financial Family

Our analysis uncovers what we will call the 'Financial Family', in which financial self-interest or concern is matched by concern for one's fellow family members and by a relative openness to sharing information and cash.

We also allowed friends to have a small role in the Financial Family, as the role and importance of close friends are now widely regarded by many social anthropologists as something much closer, for many people, to that of family.

Analysing the survey-data, we have measured the Financial Family using an index of 7 attitudinal statements, with which we asked respondents to agree strongly, agree, neither agree nor disagree, disagree or disagree strongly. Their responses, analysed, elucidate the distribution of strong fiscal-familial bonds. The statements are:

- Families should support each other in today's difficult economic conditions
- I feel comfortable discussing financial matters with friends and family
- I would turn to friends and family first if I needed financial advice
- I would ask friends or family for help in times of financial difficulties
- I expect my family to help me financially
- In my family we share financial tips and advice
- My parents are my main source of financial advice

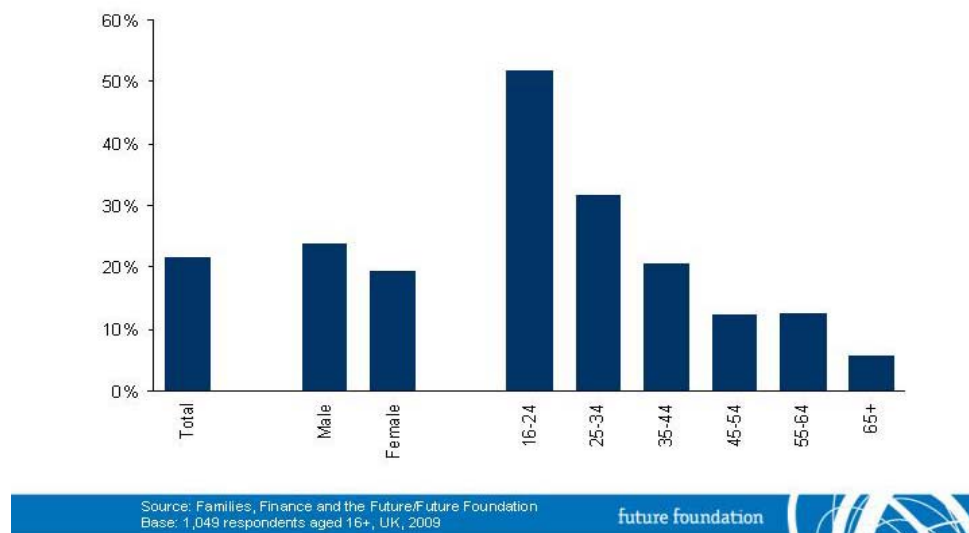
Those who agreed strongly with a statement scored 2 points. Those who neither agreed nor disagreed scored 0, and at the negative end, those who disagreed strongly scored -2 points. Straightforward agreement or disagreement scored 1 point positive or negative respectively. Respondents' answers were measured on a scale that goes from -14 (disagreeing strongly

with all of these, including that one's own financial security is important) to +14 (those who agreed strongly with every statement).

Those who scored more than plus 4 we identified as members of the Financial Family group. Accordingly, this admittedly rigorous qualification process results in a group representing about one fifth of the population (see figure 10 below).

Slightly more than half of 16-24 year olds belong to the Financial Family group. In fact, amongst these groups, the younger you are, the more likely you are to be an active family-member where finance is concerned. Part of this is undoubtedly accounted for by the pressures of child-rearing: less than a quarter of those with children under 16 fit into the group, showing that the growth of their "own" family has an effect on their financial solidarity with the family into which they themselves were born. This effect is corroborated by other, similar variations on the Financial Family pattern in our survey: over 70% of 35-44 year olds feel "financially responsible for members of [their] family[ies]" – a greater proportion than in any other group and possible evidence of the so-called "sandwich generation" who care for both their parents and their children.

Figure 10: Membership of the Financial Family – who makes it? Amount scoring 4 or more on the Financial Families Index



Nevertheless, within this survey the most interesting aspect of the Financial Family is the relatively consistent character of its decline as age increases. This confirms the picture developed in Chapter 1 (p.7) and above (pp.14-15) – that the 16-24s are a crucial and interesting age group, leading financial sharing in the family. In practice, the ties of a Financial Family, which are defined by the thoroughness with which they are adhered to, are to some degree supplanted by a different set of ties, those of the Financial Marriage. Consider one crucial component of any close interpersonal relationship: openness and communication. In terms of finance, the difference between young Financial Family-types and their more senior counterparts is most marked in this arena.

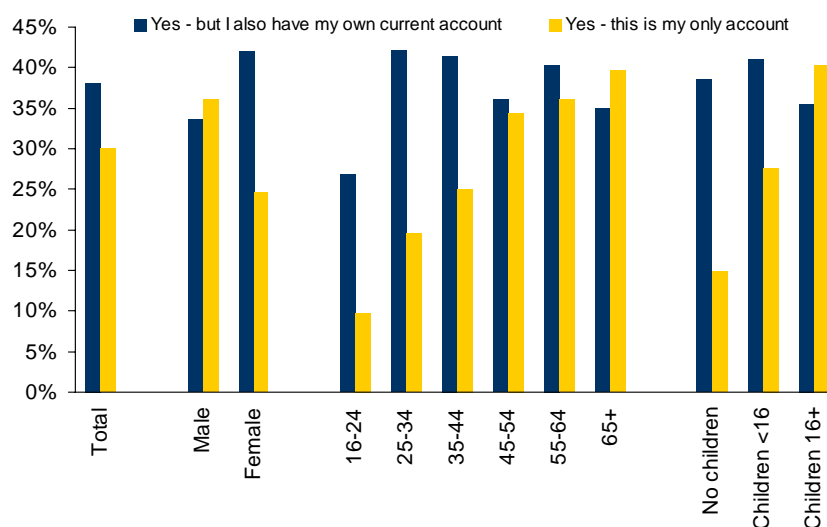
Studying this difference closely may lead us to an understanding of whether these tendencies are simply generational, an effect of life stage that is likely to be mirrored in the future, or this-generational, specific to these people for particular reasons. The truth of course is liable to sit somewhere between the two, but that truth may have serious implications for the future.

2.4 The Financial Marriage

As such, we decided to consider a variation on the Financial Family – the Financial Marriage.

Consider one of the most basic, formalised financial relationships, the joint account. As figure 11 shows, the older you are, the more like you are to have a joint current account as your only account, with over a third of 55-64 year olds agreeing this and nearly two out of five of those over the age of 65. Approximately the same proportion of 16-34 year olds makes up a counterpoint to this, saying that whilst they do have a joint account with their partner, they, by contrast also have their own current account.

Figure 11: The most basic interpersonal financial relationship: percentage who have a joint current account with a partner



Source: Families, Finance and the Future/Future Foundation
Base: 691 respondents aged 16+, UK, 2009

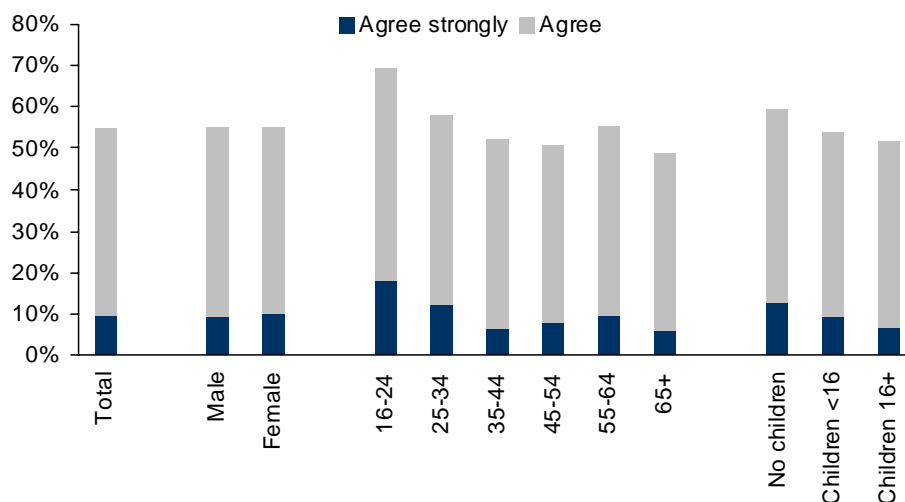
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Research on financial services carried out by the Future Foundation for NS&I in 2007 contained some arresting points with respect to women's financial independence, describing the control of household domestic expenditure that women exerted during the 1950s and 1960s, and the overweening control that men tended to exert over the larger parts of the households administration. As one interviewee put it, "My husband gave me housekeeping and if I wanted something he paid it – my husband paid all the bills so he held the purse strings – but I always knew [what was going on]."

In reality, the preceding chart enumerates how socio-cultural change has had an effect on financial habits, and points to the myriad and complex motivations that are involved. The days of “the housekeeping” are not that long departed and in effect, a fairly recent sort of banking suffrage admitted married women to the world of personal finance as fully fledged current account customers. Given the rising financial independence of women within the span of a handful of decades, it is not surprising that the joint account-as-sole-account is more common amongst older bank customers.

In terms of financial relationships within the family, does this financial joining have other aspects?

Figure 12: Openness in the financial family: percentage who say they feel comfortable discussing financial matters with their friends and family



Source: Families, Finance and the Future/Future Foundation
Base: 1,049 respondents aged 16+, UK, 2009

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To also answer another of the questions we asked at the start of this chapter, “What else do we share that is financial?” – let us consider the movement of information, the content of our financial communications with other family members. Aside from 55-64 year olds, figure 12 enumerates how comfortable people feel discussing finance with friends and family as they get older. Interestingly, the decline is reversed when the question refers to a partner instead of friends and family, with approximately two thirds of over 65s agreeing “I openly discuss financial matters with my partner,” outstripping 16-24 year olds by some 10%.

Some of this difference is accounted for by demographics, some by the inevitable looseness of younger relationships when compared with those of older people. Importantly for this work, some must also be part of the joint-account dynamic alluded to above. Regardless, the variations described by this research indicate that, for the older generation, while the Financial Family is less of a reality, a financial partnership is more likely to stand in its place.

Conclusion

At this point in time, when family finance is unprecedentedly complex, we have seen that cash is flowing in several directions, some much as expected, some less so. More to the point, we have also seen that, beyond cash, financially crucial knowledge and advice are distributed throughout the family along their own lines. These lines are drawn not only by age but also by the technological, social and cultural changes that have taken place in people's lifetimes, which shade and define our picture of their and their families' finances. The ultimate portrait is subtle but also legible and revealing, of new parties at work.

We have found financial inter-dependants in the place of simple dependants. We have explored the notion of the Financial Family – finding that finance is a crucial glue, holding the family together. We have found an unusually responsible 16-24 age-group, heavily involved in the Financial Family. We have found all family members exchanging both finances and financial knowledge to benefit each other.

In effect, our findings suggest that finances are a significantly stronger bond than widely assumed – a financial glue that holds families together.

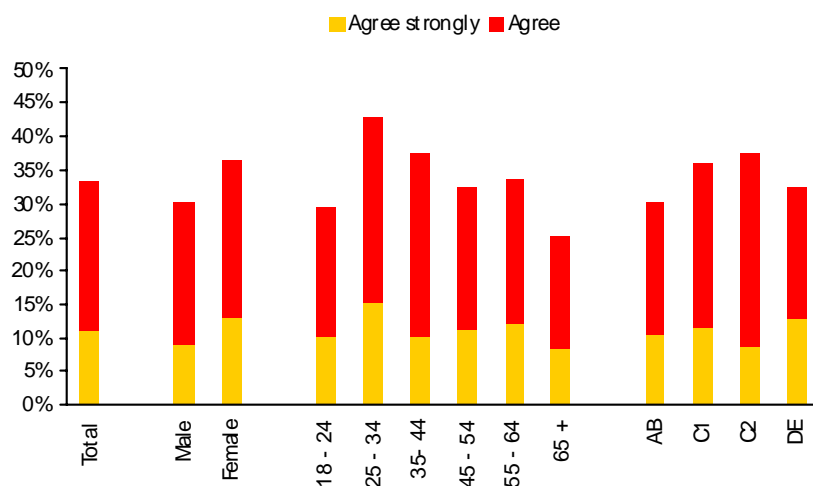
3. The Future of Family Finance

Having now looked at the size and structure of the family and its financial characteristics, as well as observed the Financial Family and explored some of its transactions, it is now time to take a look at the future of family finance. How will family finance evolve, and how will the Financial Family change in the future?

3.1: Turmoil and reaction

Recent economic events have made a very clear impression on the people we surveyed. A significant majority said that since the economic downturn they were comparing prices more; monitoring household finances more closely; cutting back on household spending; or only buying the family essentials. A minority agreed they were avoiding the use of credit and sticking to a household budget. An overwhelming majority of 90% agreed that "As a society, we have become too reliant on credit over the past few years." Large (80%+) majorities also agreed that the recession would yield important financial lessons for society and that "I will continue to be more careful with my money even after the current economic downturn is over." These findings point towards families that are not only affected, but electing to change in response, as is borne out by figure 13, showing research from 2008, below. This response would likely result in a sense of thrift at a generational level, especially for the two youngest age groups. Given the role of the 16-24 age group in driving the Financial Family, this could have long-lasting implications.

Figure 13: The current economic situation has caused me to start budgeting

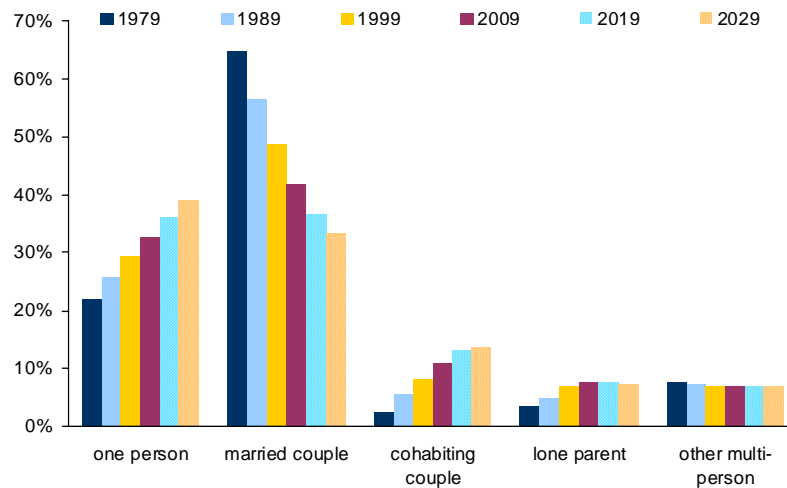


Source: Future Foundation 2008

Base: 1,000 respondents aged 18+, UK, 2008

3.2: The rise of the one person household

Figure 14: The changing face of the English household 1979-2029: household composition as a proportion of all households



Source: Department for Communities and Local Government/nVision
Base: England

future foundation

6222: Graphics from nVision for Matt Taylor

So, the current economic situation will have some impact. That early budgeting signal aside, what other large scale movements are likely to have an impact on the family and finance?

The above chart shows analysis of data from the Department for Communities and Local Government and the decline of marriage, expressed by the falling number of “married couple” households* from 1979 with the trends projected to 2029. One parent households peak in 2009. “Cohabiting couple” households gain in proportion gradually, and yet they top out in the forecast for 2029 at 14% of all households, less than half that for married couples. The biggest gain will be made by one person households, which will achieve parity with married couple households in 2019 and comfortably overtake them by 2029, at which point there will be more one person households in England than any other kind. To confirm this, analysis was also carried out of data from the British Household Panel Survey, which corroborated the findings for the UK. Far from being concentrated in London and the South East, our analysis shows also that this increase will be reflected across the country.

This set of trends, from thirty years in the past and looking twenty years into the future, gives an extremely strong indication of a central aspect of family finance. More households will be inhabited by single people living on their own. However, these people will still belong to families and will still communicate with them.

(*In this graph, a “one person” household is just that. A “married couple” household may include children, as may a “cohabiting couple” household and as, clearly, does a “lone parent” household. An “other multi-person” household covers any household without children that is inhabited by more than one person.)

With that in mind, what will the effect of the rise of the one-person household be on the family's financial relationships? Previous sections of this report have discussed the tendency of older people to be less financially communicative with family and friends than younger people, as well as their greater tendency to be open and to discuss finance with their partner. What we see in the projection for 2029 is a majority of single person households, in which there will be no partner to discuss finance with. This prompts questions over what the financial effect on the ageing generation will be, if they become partner-less. The Financial Marriage, as discussed in Chapter 2, perhaps faces an uncertain future.

Perhaps a more important question is, to what degree is the behaviour of the present older generation, discussed above, likely to be imitated by younger generations - and what does this mean for the Financial Family?

Chapter 2 suggested that financial characteristics and behaviours are not generational, but this-generational. When they are 64, contemporary 44 year olds are not likely to behave in every way like current 64 year olds; those who are currently in their early 20s or teens will behave differently to their parents or grandparents. In other words, the youngest age groups are not likely to imitate the older age group.

This means that the impact of the changing shape of British families, and the increasing proportion of single-parent households, will be mitigated by the behaviour of the 16-24 generation. As Section 2 discussed, they are the drivers of the Financial Family, with the greatest belief that families should support each other, and this is likely to be sustained into the future. So the Financial Family will continue to thrive.

The Financial Family will, of course, also evolve. Being single and living alone will mean that the financial bonds in one's immediate family become stronger. Without a second family of one's own partner and possibly children, siblings will become a greater financial priority. The ranking of different relationships will thus change – but will, taken together, be of increased importance.

3.3 Technology and the Financial Family

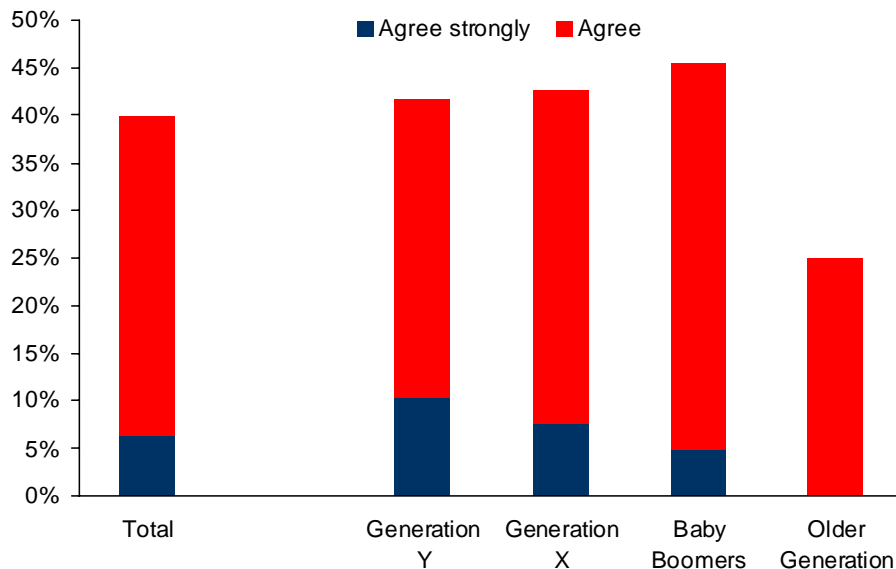
It could be considered commonplace that information and communications technology will cause far-reaching social changes – and family finances are no different.

Again, the position of the 16-24 year olds is crucial. This age-group can broadly be described as 'digital native' – a generation who grew up with the Internet and is so comfortable online that the idea of being comfortable online would not even occur to them. As they grow up and start their own families, the importance of technology can only increase.

The young are not, however, the only generation affected by technology. Broken down by generation, figure 15 shows that although they are the second most senior cohort, the Baby Boomers - those born in the 1950s and 60s - in our survey were the group most likely to have introduced other members of their family to modern banking technologies; more likely than

Generation X (born after the baby boom in the late 1960s and 70s) and Generation Y (born after generation X in the 1980s and 90s). Boomers have adjusted, and as they get older, are likely to continue adopting and becoming newly familiar with new technology. When they are 65 and older, they are unlikely to mirror the current older generation in this and other behaviours.

Figure 15 – Percentage of people who say they have introduced other members of their family to modern banking technologies



Source: Families, Finance and the Future/Future Foundation
 Base: 1,049 respondents aged 16+, UK, 2009

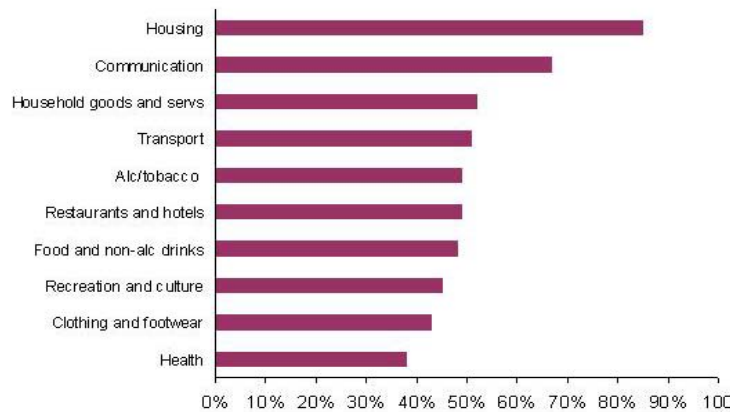
future foundation

Boomers are also likely to represent a large part of the remaining married and cohabiting couples. This means that it is the younger generations who account for a large part of single person households. We have established that the younger generation is the most important for the Financial Family; given their affinity with technology, this confirms that the ties of the Financial Family could outlast traditional family shapes, and can survive the rise of the one-person household. For the younger generation, living alone will decreasingly mean being alone.

Indeed, in some respects the rise of the one-person household actually *requires* a stronger Financial Family. Ensuring financial security in a more atomised Britain will demand behaviour that requires those financial channels to remain open. We will see fewer economies of scale in the one person household. As figure 16, below, shows, single-person households have disproportionate costs compared to couple households - it might be expected that a household with half as many people (one, rather than two) spends half as much on the costs of living, but this is not the case. One-person households spend just under 90% as much on housing as couples, for example: living alone is not good value. Providers of financial services will also continue to proliferate. This means we will need more and better information about finance. New technologies open individuals to torrents of information, so they will rely on sources they trust – such as individuals in their financial network. Financial knowledge and nous will be

brought in, as there will be no one at home to share it with. We will rely on the Financial Family, supported by communication technology, to manage our finances.

Figure 16: Expenditure of single person households as a % of couple households



Source: Family Spending, National Statistics/nVision
Base: UK, 2007

nVision



Conclusion

In the years towards 2029, what these transformations mean for the particular case of financial services is a probable increase in the size and range of a sort of Financial Family. Finance, of course, is permanent, and communication will continue to occur. It is also demographically and culturally clear that the Financial Marriage will become less of a bulwark against membership of the Financial Family, with less of that communication occurring between live-in partners. More communication with other relatives will necessitate an increase in Financial Family exchanges of knowledge and information, the kinds that Generation Y currently set store by, and this will be made possible using massively diversified but, in several important senses, recognisable forms of technology.

To put it directly: the one-person household will become increasingly common, and traditional family shapes less common. The 16-24 generation are the crucial drivers of the Financial Family, and trends are this-generational, not generational. This group has a sound grasp of technology, permitting improved communications; while technology itself means an increasing amount of information that individuals must process to make financial decisions.

The Financial Family, in other words, will not just become a greater feature of life in the UK; it will become a crucial and necessary institution.

4. Concluding comments

This report has gathered the most salient results of what has been an enthralling exploration of the evolving relationships between the family and finance. “Dynamic” is an overused word but we have seen just how genuinely dynamic and mutable these relationships truly are.

In Chapter 1, we have seen that the birth rate tracks our macroeconomic fortunes extremely closely, and that household wealth is directly linked to number of children. Finances are a crucial factor in the decision to have children, and there is a salary threshold – about £25,000 per year – at which people feel they can start a family.

From this basic foundation – that families are intrinsically financial institutions – Chapter 2 looked more closely at family relationships. We saw that, unsurprisingly, parents shared money with children – but, led by the example of financing higher education where children shoulder some of the burden by going into debt, we also challenged the idea children are uncomplicated dependants.

We looked at which family members people felt responsible for and for which age groups this sense of responsibility was most strong. Alongside some interesting findings – such as siblings being the poor financial relation – we saw that young people were more likely to feel responsible for and support their parents financially than any other age group.

These conclusions pointed towards what we termed the ‘Financial Family’. Measuring a series of attitudinal statements, around willingness to share financial information and the role of friends and family in financial matters, we constructed a ‘Financial Families index.’ Membership of the Financial Family was found to be directly correlated with age – with the younger respondents more likely to be a member of the Financial Family. The older generation, on the other hand, are more likely to remain in a ‘Financial Marriage.’

Chapter 2 thus found that finances are a significantly stronger bond than widely assumed.

Chapter 3 took these conclusions and extrapolated them into the future, exploring how they might evolve.

It was seen that in coming years the hybridisation of the family will continue, with divorce rates projected to continue climbing. On current evidence, however, family finance will not be hugely affected by this. The most radical effects on the nature of family will come in the form of atomisation and increasing solitude, at least in terms of living situation and household composition.

From being one prominent aspect of social and economic life in 2009, demographics demand and culture bears out that by 2029 the Financial Family will become the primary new model of financial behaviour for families. This conclusion is bolstered by the fact that the 16-24 age group – tomorrow’s parents and step-parents – have been identified as the drivers of the Financial Family.

Technology will have an effect too. The networks of connection that have reduced the distance between places, from information technology to supply chains, will survive and advance. It seems likely that the amount of information that reaches the consumer will increase, requiring better ways of processing information and receiving advice – such as relying on family and friends. At the same time, technological communication will aid the continuation of financial relationships, even when there is no traditional geographic or biological bond.

Our report shows that families and finances are inextricably bound, in ways that challenge conventional wisdom. The coming years will see us enter a very different world of family finance, one where ties of money and financial knowledge will become increasingly important.

From setting out to explore how the families and finance are related, we have found stronger ties than expected: we can see that finances shape the family, and will increasingly do so in the future.