FINANCIAL BEHAVIOUR AND DECISION MAKING

Key findings from the 2018 Sharesave Participant Survey

Durham University

UNIVERSITY OF LEEDS

YBS SHARE PLANS

C2,600
SURVEY RESPONSES

1/3 WOMEN, 2/3 MEN

EMPLOYEES OF 177 DIFFERENT COMPANIES PARTICIPATED

SETTING THE SCENE

YBS Share Plans recently completed a major research study looking into Sharesave participation in conjunction with Professor Andrew Pendleton (Durham University Business School) and Professor Andrew Robinson (Leeds University Business School).

The research was designed to find out more about the financial behaviour and decision making of Sharesave participants, as well as exploring influences on contributions and any links to broader patterns of savings, debt and financial wellbeing.

This summary of findings is based on the responses of approximately 2,700 employees from 177 different companies (across all sectors) who completed the survey in full.

Key questions addressed by the research include:

- How much are participants contributing to Sharesave and what are the influences upon this?
- The significance of Sharesave contributions in relation to broader patterns of savings and debt?
- How well participants manage their personal finances and to what extent they exhibit financial wellbeing?
- Financial capability, the incidence of financial education and its characteristics?
- What Sharesave participants do at the maturity of their plan? Do they become long-term shareholders in their company?

This document is only a summary of the key findings of our research and further details are available on request to YBS Share Plans at: **business_development@ybs.co.uk**

HEADLINE FINDINGS

- Sharesave plays a key role in promoting savings
- For some it's the only way of accumulating savings and wealth (a 'savings lifeline')
- A sizeable minority report the alternative to Sharesave is expenditure (rather than alternative saving)
- 

Those saving only into Sharesave are typically from lower income groups and exhibit poorer financial wellbeing
- A sizeable minority of participants report poor understanding of some aspects of Sharesave
- Those who had received financial education reported significantly better wellbeing
- Almost half of Sharesave participants own shares in their employing company
- A significant proportion of these hold a large proportion of their wealth in company shares

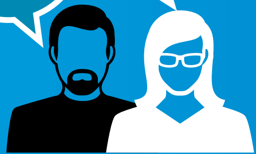
CONTRIBUTIONS, SAVINGS HABITS AND INFLUENCES

1

TOTAL AVERAGE MONTHLY CONTRIBUTION ACROSS ALL GRANTS
(£150 median)

£225
(£200) median

£178
(£134) median



MEN SAVE MORE THAN WOMEN

39% >£250
13% @ £500
20% <£50 AND 6% <£20
(lower contribution amounts were more marked among women.)

SHARESAVE APPEALS TO LOW AND HIGH EARNERS

2

28% make no other regular medium-term savings (they may be contributing to a pension)

>40% of those in lowest income groups save only into Sharesave

9% make no other regular savings of any sort (including pensions)

40% who save only in Sharesave said they would otherwise spend all their contributions if Sharesave didn't exist

3

3/5

Sharesave contributions on average account for approx. 3/5 of respondents total regular saving flows (excluding those to company provided pensions)

below £15k

Income affects this ratio: more of the saving flow goes into Sharesave where incomes are lower

Sharesave is an important component of regular saving flows (even where participants are saving in other ways)

OVER 1/3

Over 1/3 (38%) of respondents have a total stock of savings (excluding pension and Sharesave) of less than 3 months current salary

4

IMPLICATION:
once employees have been exposed to Sharesave, they will tend to increase their contributions at subsequent invitations, irrespective of other changes (e.g. income)

1) INCOME
is the most significant influence on participant's Sharesave contributions - the more they earn the more they contribute

2) AGE AND GENDER
are insignificant once income is controlled for. Where income and pay between genders and ages is comparable then contributions to Sharesave are also comparable

3) FAMILIARITY
increases contributions - the length of experience and number of times joined affects contribution levels

4) TENURE
has significant impact, with those being with the company longer likely to contribute more

FINANCIAL CHALLENGES AND WELLBEING

A significant minority reported they were facing financial challenges:

20%	say making ends meet is hard or very hard
22%	say finances control their lives
31%	have credit card debts
32%	have debts equating to three months salary or more (19% have debts of 6 months salary or more)
29%	have bigger debts than savings
8.5%	have student loan debt

We found that poor financial wellbeing was more pronounced among those respondents saving only into Sharesave, making up the majority of those reported in the numbers adjacent and below:-

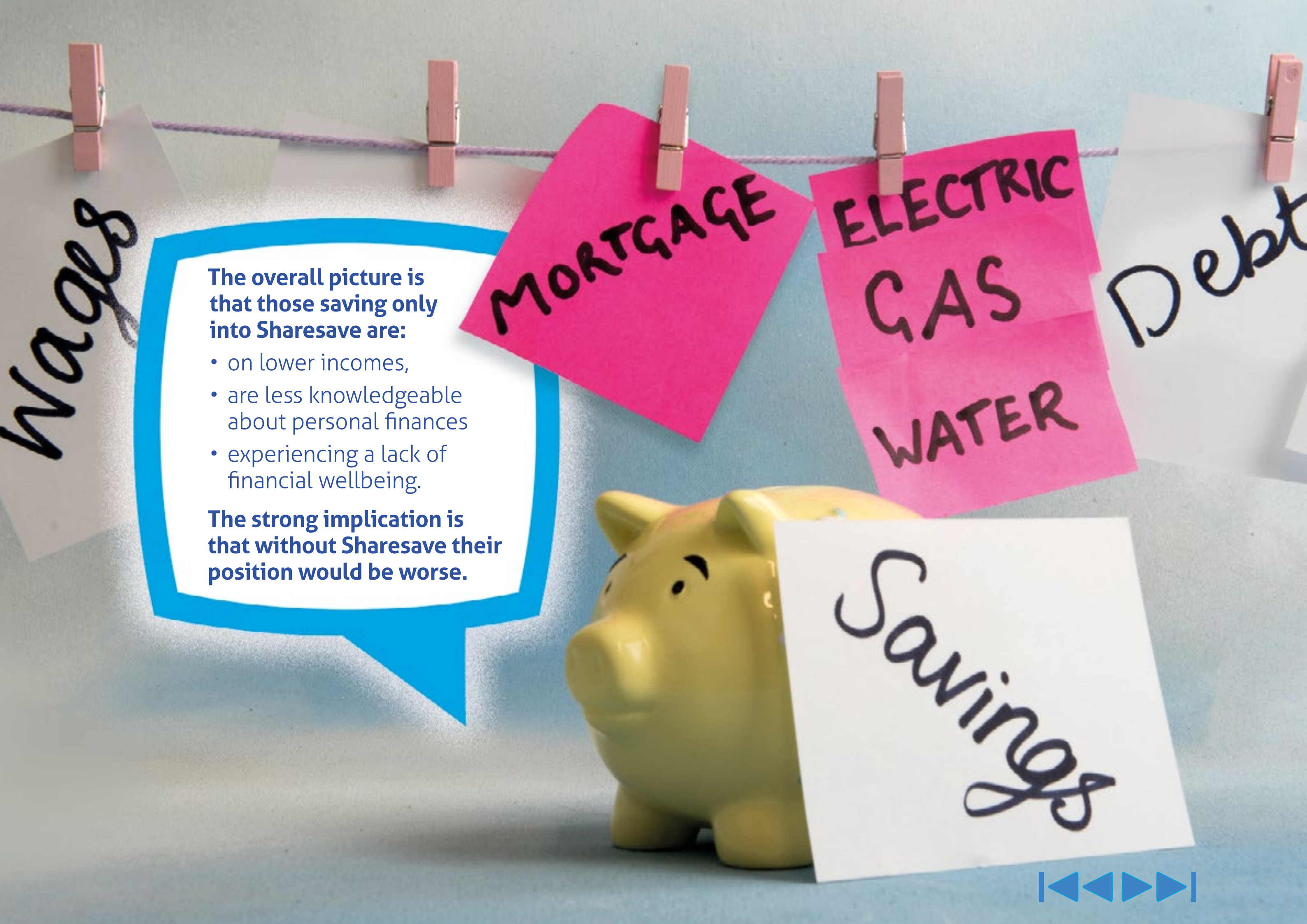
23%	say their financial situation makes them anxious
16%	say money worries affect them a lot of the time
8%	feel performance at work is affected by money worries
10%	don't sleep on account of money worries

- Females reported they were more likely to worry about finances but less likely to let it affect their performance at work
- Those owning shares in their employing company recorded significantly higher levels of financial wellbeing

The overall picture is that those saving only into Sharesave are:

- on lower incomes,
- are less knowledgeable about personal finances
- experiencing a lack of financial wellbeing.

The strong implication is that without Sharesave their position would be worse.



FINANCIAL CHALLENGES AND WELLBEING

Financial wellbeing scale of Sharesave participants:

- By incorporating the Financial Conduct Authority's standard measures of financial wellbeing within the survey questions we were able to produce a financial wellbeing score of between 0-100 for each of the respondents (applying methodology used by the U.S. Consumer Financial Protection Bureau).
- The bar chart (A) to the right shows the distribution of the different scores. Whilst this methodology stops short of providing detailed commentary as to what each of these scores represents, it's still a good barometer and representation of participants wellbeing relative to one another.
- From our sample the lowest value was 19 and the highest 82, with a large part of the sample concentrated between 45 and 65.
- To give the numbers some context we linked each respondent's financial wellbeing score to their response to whether or not they "make ends meet" from their household budget (one of the questions in the survey). The results are displayed in the adjacent table (B). Those who said they found it "very hard to make ends meet" averaged a wellbeing score of 46,

A.

B.

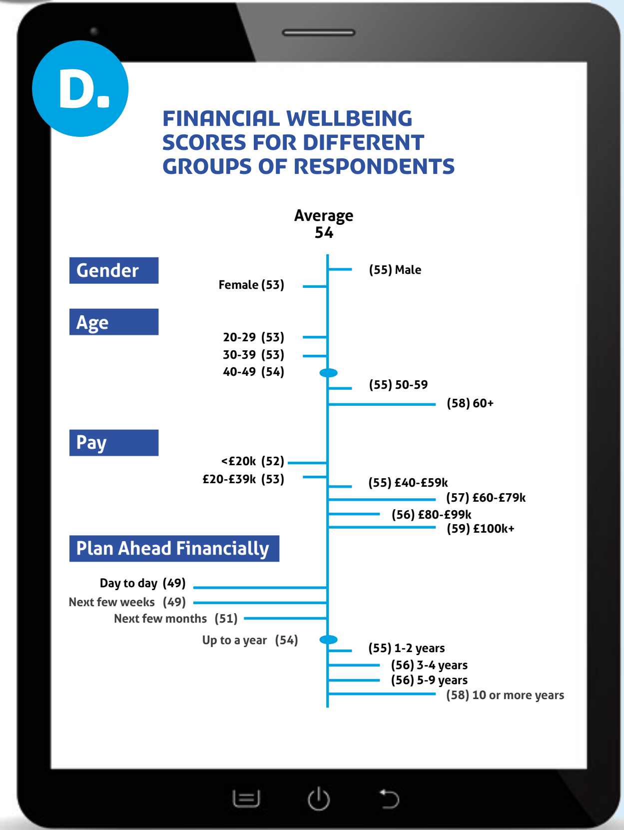
Very hard	Hard	Neither hard nor easy	Easy	Very Easy
46	48	53	58	62

C.

Mean	10th percentile	25th percentile	50th percentile (Median)	75th percentile	90th percentile
54	46	50	53	60	65

whereas those who found it "very easy" averaged 62. The implication here is that those with a financial wellbeing score of less than 50 will face strong financial challenges.

- **The second table (C)** shows the mean values of the financial wellbeing scale at different points of the distribution. From this we can see that the overall mean was 54 (not too much higher than the score where we can reasonably assume respondents will face significant financial challenges). At the 25th percentile the mean was 50 and only rises to 53 at the 50th percentile. **The clear message here is that a significant proportion of respondents are struggling financially and many others are just about getting by.**



The scale to the left (D) compares the mean financial wellbeing score for different groups within the response sample:-

- Women reported a slightly lower average score (53) than men (55)
- Financial wellbeing increases with age (but only those aged over 50 report higher than average wellbeing scores)
- As expected financial wellbeing increases as pay levels increase
- Those who plan further ahead report higher wellbeing scores.

We shouldn't over interpret these results and they should be taken as indicative rather than definitive at this moment in time; there may be a range of factors that explain these associations. Further investigation and analysis is required.

FINANCIAL EDUCATION AND UNDERSTANDING

Some lack confidence in dealing with financial issues:

15% disagreed with the statement that they were knowledgeable about financial matters

11% confirmed they weren't confident dealing with any money related issues

Some lack basic financial knowledge, responding with the wrong answer or 'don't know' to 3 financial literacy questions:

Q1, 14% (discounting)

Q2, 44% (inflation)

Q3, 42% (risk)

A sizeable minority of respondents reported poor understanding of some key aspects of Sharesave.

Aspect of Sharesave	Poor or very poor understanding %	Good or very good understanding %
What to do at maturity	15	68
How to sell shares	22	57
How Sharesave is taxed	31	45
Calculating the gain	25	53
Where to get help or guidance	21	54

We found that gender, income, tenure, length of experience with Sharesave and financial education are significantly related to the level of understanding of these aspects (especially where there were a large number of negative responses).

Financial education is still received by a minority:

20% have received some education about personal finances with just over half of these receiving some share schemes financial education

38% have received some financial education at their current employer. The majority of the remainder have self-learnt outside of work or a formal financial education environment

21% have received up to an hour of financial education and 27% more than 5 days

43% reported it as a one-off (often timed to correspond with a particular event such as a Sharesave maturity), whilst the remainder took place over a period of time

65% of those receiving financial education confirmed improved knowledge about how to better manage their personal finances

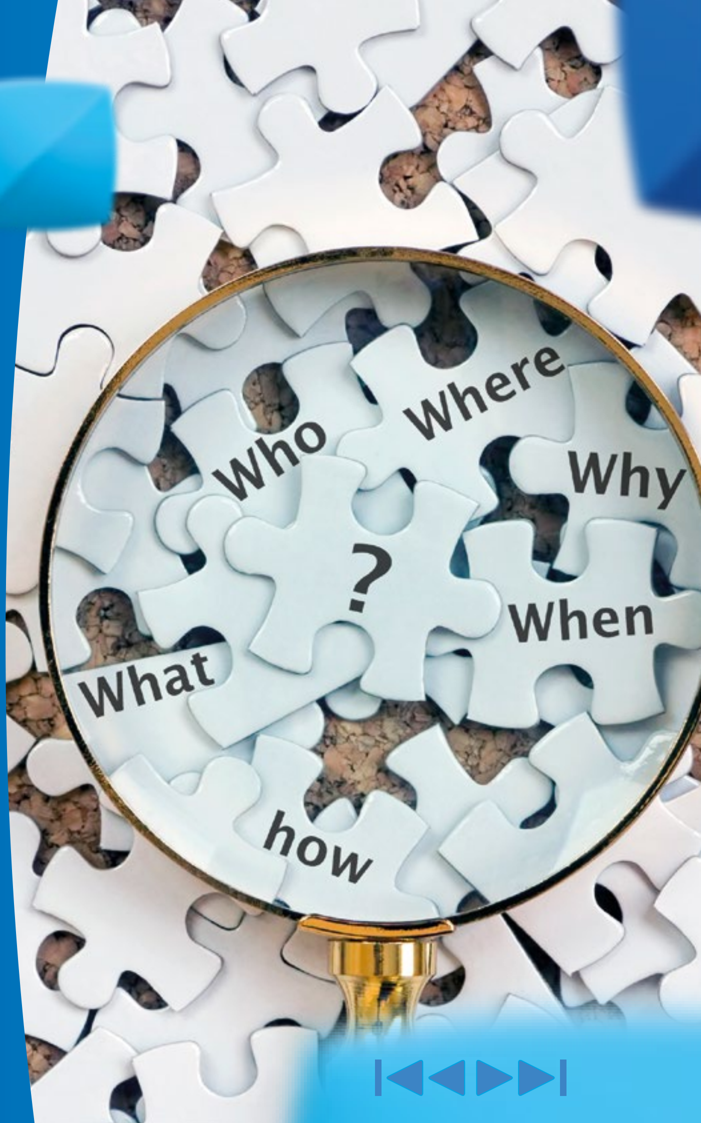
Those who had received financial education reported significantly better financial behaviours and wellbeing; placing a much higher emphasis on saving, planning ahead and keeping track of income and expenditure.

They were much less likely to say their money situation makes them anxious.

DECISION MAKING AT MATURITY

Many of those about to provide an instruction for their first maturity may make a mistake:

46%	of respondents were maturity novices
2/3	of these maturity novices couldn't provide the right answers for 4 simple share price versus option price scenarios
20%	answered all four questions incorrectly
20%	said they wouldn't exercise if the share price was the same at the start and the end of the saving contract (even where there was a 20% discount on the option price)
15%	said they would exercise when the share price was comfortably less than the option price



Of the remaining 54% who have had a maturity:

71% exercised their option at their last maturity

63% of those exercising sold some or all their shares immediately upon exercise (83% sold all)

37% retained all shares from the exercise

52% of those taking cash at their last maturity nevertheless hold company shares

Of those retaining shares:

10% put them in an ISA but only 0.3% in a pension

RETENTION AND DIVERSIFICATION

Where respondents indicated that they retained shares at maturity and beyond, this was down to:

82%	expected share price to go up	23%	inertia
59%	wanted to be a long term shareholder	12%	said the share price went down after exercise
34%	are saving for a special event	10%	lack of knowledge about how to sell shares

But diversification is an issue:

31% was the average proportion of non-pension wealth (excluding house) held as company shares

Just over 50% of shareholders had more than 15% of their non-housing and pension wealth in company shares (13% had more than 90%)

EMPLOYEE SHARE OWNERSHIP

46%

OF RESPONDENTS OWN SHARES IN THEIR EMPLOYER

21%

BECAME SHAREHOLDERS IN THE LAST YEAR

54%

OF RESPONDENTS ARE LONG TERM SHAREHOLDERS (5+ YEARS)

8 YRS

ON AVERAGE, RESPONDENTS HAVE HELD COMPANY SHARES FOR 8 YEARS (MEDIAN = 5 YEARS)

£18K

AVERAGE VALUE OF COMPANY SHARES HELD IS £18,000 (MEDIAN = £5,000))

THOSE OWNING SHARES IN THE COMPANY REPORTED SIGNIFICANTLY HIGHER LEVELS OF FINANCIAL WELLBEING

SUMMARY

- A large and clearly identifiable population appear to have a sole dependency on Sharesave for creating and accumulating savings and wealth. The ease of having Sharesave deductions taken straight from salary, before this money is washed up in everyday spending, is undoubtedly providing a 'savings lifeline' for some.
- These 'Sharesave only' savers were largely from lower income groups, experiencing financial hardship and exhibiting poor financial wellbeing. With less experience, knowledge and confidence in financial matters, at face value, this appears to be a very vulnerable group and there is very strong evidence to suggest that without Sharesave their position would be much worse.
- We uncovered concerns about participants understanding of Sharesave (and the level of financial literacy in general) and the impact this could have on decision making at maturity and other key 'moments of truth'.

This lack of understanding is also contributing to significant numbers of respondents holding an 'unhealthy' proportion of their wealth in the shares of their employing company. It would seem more education about diversification is required.

- As an industry we need to consider what else we can do to ensure this vulnerable group have access to the products and support services they require. What can we do to incentivise and broaden their investment options and help protect them from making poor choices?
- **This could be achieved in part:**

  - by providing access to other products and services that help employees out of debt and encourage regular savings.
  - working to improve financial literacy and decision making through more widespread access to good quality financial education and wellbeing programs in the workplace.

Get in touch to learn more about how YBS Share Plans help deliver these product and services.

YBSSHAREPLANS.CO.UK @YBSSHAREPLANS

Data were obtained from a survey of Sharesave participants whose accounts are administered by YBS Share Plans. The survey was designed and distributed in conjunction with Professor Andrew Pendleton (Durham University Business School) and Professor Andrew Robinson (Leeds University Business School).

Participants were invited to complete the survey between October 2017 and January 2018 by following a web link to an online survey that was publicised in their annual Sharesave statements. Around 2,900 participants entered the survey with approximately 2,700 completing it in full.

All percentages quoted are rounded to the nearest whole number.