The Great Risk Transfer: have we got the balance right?

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Introduction

How many people have the knowledge and time to manage the financial risks they face in life? To what extent does it matter? We partnered with the Institute and Faculty of Actuaries (IFoA) to explore these questions. We aimed to find out more about what people in Scotland understand to be the key risks in relation to their long-term financial wellbeing and what helps and holds them back from addressing them.

Our engagement with people in Scotland was designed to build on recent work carried out by the IFoA which has been exploring the ongoing trend of transferring risks from institutions – such as employers, the state, and financial services providers – to individuals.

The IFoA called this the 'Great Risk Transfer' describing it as posing one of the most significant yet little understood social, financial, and political challenges of our time.[1] The changes described in this work show that far greater responsibility is being placed on individuals for managing their lifelong financial wellbeing than has been the case for most people living in Scotland since the establishment of the modern welfare state.

The 'Great Risk Transfer' research showed that the causes of this trend are complex. They include increasing life expectancy, technological advances, changes in financial regulation and political choices. The IFoA highlighted four important areas of risk transfer: Pensions, Work, Health, and Insurance. Our work was designed to find out more about relevant perceptions of risk in the Scottish population and how people respond to risks which can affect their financial wellbeing.

Our research gauged people's awareness of the Great Risk Transfer and explored their ability to manage and respond to financial risks. It uncovered two interlinked themes which have implications for policymakers and others interested in either mitigating against or rebalancing responsibility for the relevant risks.

- Cultural – what people know, how they feel and what they do to manage risk
- Structural – the wider social and economic system

Our work commenced in December 2021 and concluded as inflation grew to levels not seen since the early 1980s, with rapidly-increasing fuel, energy and food prices dominating the headlines. This comes at a time when wages and social security payments have generally not kept pace with inflation, leading to widespread acknowledgement of a significant rise in the cost of living.

Not surprisingly many of the people we spoke to were focused on immediate financial challenges. These included high housing costs, insecure tenancies and jobs, low incomes and debt, and, for some retired people, the challenge of living on a fixed income. This report is structured around four key areas which emerged strongly in our research:

- Knowledge and awareness of risks to financial wellbeing
- Trust in information providers
- Stress, fear, stigma and embarrassment
- Ability to access and understand guidance and information

1 The interim and final Great Risk Transfer reports from the Institute and Faculty of Actuaries can be found at https://www.actuaries.org.uk/news-and-insights/public-affairs-and-policy/great-risk-transfer

Methodology

We used a mixed methods approach which included one to one on-line interviews, group discussions and a commissioned survey of over 1000 people living in Scotland.

We engaged with 44 people in semi-structured interviews and in group discussions with people who ranged in age from teenagers to those over 80. We did not ask participants to provide income or employment details but we did ensure there was diversity in terms of ethnicity, age and gender and we proactively reached out to include disabled people. Participants included people in and out of paid employment, including retired people and students, self-employed people, people with firsthand experience of living on a very low income and those who self-described as “well-off”.

We also interviewed people whose work included offering guidance to people experiencing financial hardship asking them both about their own perceptions of risk and what they observed in interactions with their clients.

Participants were provided with a brief summary of the IFoA’s work on the Great Risk Transfer before they committed to taking part in our research. In all cases we asked open questions before prompting on specific topics to gauge what people saw as the greatest immediate and longer-term risks to their financial wellbeing.

We then followed up with prompts, based on the subject areas addressed in the IFoA’s work. The examples we offered to prompt reflection and discussion included the following:

- Pensions – the decline of defined benefit pension schemes (often called “final salary”) and the rise of defined contribution schemes. The latter places greater risk of failing to achieve an adequate income in retirement on the employee. Under the Pensions Act 2008, every employer in the UK must put certain staff into a workplace pension scheme and contribute towards it but, unlike defined benefit schemes, employers bear no liability for ensuring the funds invested yield any guaranteed income in retirement. ONS analysis shows that private sector membership of defined benefit occupational pension schemes fell from 34% of workers in 1997 to 9% in 2013 making this a significant issue for millions of workers.[2]

- Work – the prevalence of insecure work, particularly in the ‘gig economy’ and the use of zero-hours contracts. Data from the Trades Union Congress suggest there are 3.6 million insecure workers in the UK, or 1 in 9 of the workforce.[3] However in the The Work Foundation’s ‘UK Insecure Work Index 2022’ they argue that an estimated 6.2 million, or 1 in 5 of the workforce, experienced severe insecurity in 2021.[4]

2 ONS. Pension Trends: Compendium. Chapter 7: Pension scheme membership, 2014 edition. 2014. 6. Employee pension scheme membership. Accessed: 23rd June 2022. Online

3 Trades Union Congress. Jobs and recovery monitor – Insecure work. 2021. p.5. Accessed: 23rd June 2022. Online

4 Florisson, R. The Insecure Work Index: Two decades of insecurity. 2022. Work Foundation, Lancaster University. P. 15. Accessed 25th May 2022. Online

- Health – the rising need for social care. In Scotland this is due to the ageing population and the greater likelihood of disability in older age. Despite the introduction of free personal care for those aged 65 and over in 2002, the cost of social care can be considerable in later life. This report coincides with the publication of the National Care Service (Scotland) Bill however the changes it encompasses do not include the introduction of an NHS style service “free at the point of use”. This continues the risk of some people being required to fund significant care costs.[5]

- Insurance – affordability of insurance has been affected by providers increasingly pricing insurance products based on the risk profiles of individuals as opposed to groups. Some people are unable to access affordable cover because of factors they cannot realistically control – such as where they live or pre-existing medical conditions. In prompting discussion we described Flood Re as an example of an approach that reduced risk for some people whose homes are at risk of flooding.[6]

The research promised full anonymity to all participants and all quotes used in this report are presented using a pseudonym.

5 Scottish Parliament. National Care Service (Scotland) Bill. 2022. Accessed 23rd June 2022. Online

6 Flood Re. Our Vision: Securing a future of affordable flood insurance. 2018. Accessed 13rd June 2022. Online

Knowledge and awareness of risks to financial wellbeing

> **"After the Second World War, there was a realisation that we were all in this together and there was an absolute need to make sure that everybody was provided with the minimum [...] the [idea] the state provides support for all of us together in all kinds of ways has been steadily eroded. Year by year, decade by decade. [...] the 80s was the storm, whereby the state was withdrawing from all kinds of things in the aim of reducing state expenditure compared."**
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> **David, retired**

This short description of a journey from shared risk at a national level to individual responsibility captures the two interlinked themes of cultural and structural factors which emerged very strongly in this research.

Often the distinction between the two is blurred – cultural issues such as feelings and behaviours are shaped by numerous factors including policy choices which have brought about structural changes in the distribution of risk. Meanwhile, the type of economy in which we live and the policy choices made, for example, in how financial advice and guidance are provided and by who, are driven by ideas about what is best for various groups, including business interests.

The awareness of the nature of the Great Risk Transfer demonstrated in the opening quote in this section was the exception. In general, we found it hard to gauge opinions about or insights to the Great Risk Transfer as described by the IFoA without significant prompting. It was most difficult of all when listening to people who reached, or will reach adulthood, after the mid 1990s. Like the classic story of blindfolded men trying to describe an elephant based on feeling only one or two parts of its body, people's ability to see the bigger picture appeared to be limited by experience and opportunity. However, their lived experience, when looked at collectively, provided a rich picture of some of the consequences of this significant shift in responsibility for managing risk.

The over 50s often described themselves as the "lucky" generation. On probing this was usually related to benefiting from relatively lower housing costs before significant house price inflation, being able to join defined benefit pension schemes and, to a lesser degree, the sense of a post-war social contract that was supposed to guarantee a safety net for both health and financial wellbeing.

This last sentiment was expressed very strongly in the survey in which over half of people (52%) said that Government should be "entirely" responsible for ensuring that everyone, including vulnerable people, should have a living income and decent standard of living in retirement. Only 23% placed that responsibility entirely on individuals. Nevertheless, some younger participants appeared to be resigned to the idea of having to survive without such support and to be required to work for many more years than was expected of the postwar Baby Boom generation:

> **"My friends and my generation are just completely hopeless about the future and the way we envision it, it's just, we're gonna work until we're 70. And maybe then we can retire if we have saved up some money ourselves."**
>
> **Florence, entrepreneur**

There are grounds for this feeling of hopelessness, with organisations like the Centre for Social Justice, founded by former work and pensions secretary Iain Duncan Smith, recommending increasing the state pension age to 70 by 2028, before then further increasing it to 75 by 2035.[7] This is despite the fact that Scotland's current average healthy life expectancy has fallen in recent years. There are significant gaps between individuals and regions but the nationwide average healthy life expectancy for men is 60.9 years and for women only a slightly better 61.8 years.[8]

Continuing paid work while in poor health is a necessity for many people, and many also prefer to continue working if they can. However, just as none of us can accurately predict the likely length of our retirement given the inconvenient mystery of death, we can only guess at how many "healthy" working years remain ahead of us. This makes managing risk on an individual basis like playing poker in the dark with our hands being revealed to us only long after we've placed all our bets.

Pensions

Most understood that defined benefit pension schemes placed the risk of investments underperforming in relation to liabilities with employers rather than the workers. They were able to engage with the concept of the Great Risk Transfer through the lens of their knowledge and experience of a variety of types of pension provision and their experience of the trajectory of the post-war welfare state.

Lack of knowledge about key issues, such as the taxation arrangements for pension investments, was evident in some participants. This is not an area we probed in detail but it clearly overlapped with the feelings of distrust some people displayed in financial services or in the current economic system as a whole.

> **"I've stopped buying into a pension – [...] I've stopped doing that because they aren't that reliable a way of saving – [it's] the way the money is invested."**
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> **Ross, community worker**

This participant had been advised by a family member to choose stocks and shares based investment products instead of paying into a pension scheme. They seemed wholly unaware of pension tax relief from the UK Government. This increases the value of pension contributions significantly.

Others expressed concern about the exposure of pension savings to the unpredictability of the stock market. The opening up of drawdown arrangements means that the pension wealth of anyone choosing this option continues to be exposed to stock market fluctuations and requires ongoing active management.

7 Ageing Confidently. Supporting an ageing workforce, Centre for Social Justice, August 2019. Accessed: 28/07/20200. Online.

8 Healthy Life Expectancy 2018- 2020, National Records of Scotland. Accessed: 28/07/2022. Online

> **“I would be very worried about how my pensions are invested in the stock market because I’ve always been very cautious with money. I don’t know why but it’s something that comes from my father. I never gambled – I don’t even play the lottery as it is something that is unfair – it breaks all the ethics of being fair and money is so hard to make. It’s so hard to earn that much. I will always be worried about the whole stock market because the stock market is just bananas. Bananas, it is the bubble that they are generating.”**
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> **George, father of school-aged children**

We expected that some groups of people might be less knowledgeable about certain risks because of a lack of immediate relevance, for example younger people on the topic of pension schemes. This was demonstrated in our survey work. We asked if participants were aware of the amount of financial risk people have to manage in their lives as a result of fewer employers offering final salary (defined benefit) pension schemes to their employees. Almost twice as many people in the 55-64 age group (60%) said they were aware of this than people aged 16-34 (31%).

Our research was carried out before the Association of British Insurers opened up the question of whether access to pension funds should be made possible for those under the age of 55 as a means of assistance in periods of financial hardship.[9] Such a measure would be a significant example of a way in which the individual’s exposure to risk could increase quite dramatically due to a change in government policy.

This matters because we found there was low awareness of changes in the ways people are able to access their pension pots. In our survey only 45% of people identified having to make more choices about how to invest and when to access their pension pots as a change to the amount of risk people have to manage in their lives. This number rose from 45% in the youngest (16-34) age group to 52% of 55 to 64 year olds but dipped to only 30% in 35-44 year olds. There was also a divide on this topic between social groups with 50% of ABC1 agreeing compared with only 37% of C2DE.

In our interview and group work those that did comment on this identified two key risk factors. Firstly the risk of leaving insufficient funds invested to generate a lifelong adequate income and secondly, the fact that drawdown leaves pension savings exposed to the ups and downs of investment funds which, even if designed to have much reduced exposure to the stock market, cannot guarantee growth which is sufficient to support a steady rate of drawdown year on year.

The risk of running out of money in retirement was clearly front of mind for some older respondents both when reflecting on their own circumstances and on the difficulties they felt younger people will face in providing for later life. Some people clearly felt that policy decisions made some time ago had caused them harm. One retired participant, whose pension arrangement pre-dated the introduction of the more flexible option of drawing down on a fund, explained:

> **“Margaret Thatcher told us to take responsibility for a private pension – well opting out of the state pension meant I ended up with £28,000 lump sum after all those years. [...] It pays me out an annuity of 1219 pounds and 88 pence. I will not break even until I’m 77 [...] that works out at about 101 pounds a month. With inflation the way it is, that’s derisory.”**
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> **Caroline, semi-retired**

9 Association of British Insurers. Automatic Enrolment: What will the next decade bring?. 2022. P.31. Accessed 22nd June 2022. Online

This participant was clear that an employment history that included breaks for childcare and periods of self-employment as well as having lost a life-partner had contributed to concerns about poverty in older age. However, only one participant directly raised concerns about what she saw as structural inequalities embedded in current and historic pension systems both public and private.

This lack of awareness of structural inequalities clearly poses a risk, especially for women. The gender pension gap is a growing area of concern in policy discussions and was highlighted in the IFoA work. A 2018 study by the Chartered Insurance Institute found that by the time a woman is aged 65-69, her average pension wealth is just a fifth of a man's the same age. For a woman, her average pension wealth was estimated at £35.7k, compared to an average of £178.5k for a man.[10]

The reasons for the gender pension gap are multitude. They include different working patterns driven particularly by women taking on more caring responsibilities than men, the impact of the gender pay gap over the course of a lifetime, differing participation rates in the labour market across men and women's working lives, the type of scheme paid into, and tendencies for earlier retirement.[11]

There is some mitigation for unpaid carers built into the state pension system. For example, Class 3 National Insurance Credits are made automatically to parents who are unpaid or whose earnings are too low to reach the NI threshold if they are registered for child benefit but only for children under 12. In Scotland foster carers and kinship carers can apply to be awarded Class 3 credits.[12] This system replaced the previous scheme, referred to as Home Responsibilities Protection (HRP), in 2010. However, HRP protected non-earning parents until their children were age 16. This change, combined with the shift from providing Child Benefit as a universal entitlement to setting an earnings threshold, has created a complexity to the system which risks disadvantaging carers.

Overall there was no spontaneous mention of alternatives to defined benefit and defined contribution pensions schemes outwith investment in property, cash savings or stocks and shares ISAs. Collective defined contribution schemes (CDCs),which the IFoA describes as being likely to have better outcomes for people than traditional defined contribution schemes because they share risk across a pool of investors,[13] were mentioned by researchers in some conversations but even prompting on CDCs revealed no recognition or understanding of these products.

10 Solving Women's pension deficit to improve retirement outcomes for all. 2019. Insuring Women's Futures. Chartered Insurance Institute. p.6. Accessed 23rd June 2022. Online

11 Jethwa, C. Understanding the Gender Pensions Gap. 2019. Pensions Policy Institute. p.6. Accessed 25th May 2022. Online

12 National Insurance Credits, UK Government. Accessed 23rd June 2022. Online

13 The Great RIsk Transfer. Campaign Recommendations, Institute and Faculty of Actuaries, April 2021. P.5. Accessed 23rd June 2022. Online

Work

58% of people surveyed were aware that the rise of precarious work or the gig economy was an example of financial risk. However, lack of legal protection in terms of job security for new employees with under two year's service was never raised as a front of mind concern. This is despite the fact that we interviewed several people in jobs they had held for under two years or who were planning to change employers in the near future, several of which described financial stress or difficulties relating to high costs of housing, energy, debt or poor health.

Although we did not explore what contributed to this level of awareness, at the time of our fieldwork, there had been a much higher level of media coverage and public debate around the gig economy than there had been of general employment rights and protections.

Health

> **“What does concern me is if I'd have to move into a home and pay for that [...] I have stepchildren and I want to leave them something [...] I certainly don't want to use everything up in financing my care home if I have to go into one and that is a danger.”**
>
> **Miriam, retired**

The financial risks associated with needing social care were not mentioned unprompted and generated little discussion or comment as a result of prompting. We did not explore the reasons for this but the overall impression gained from older participants was that it was an unavoidable fact of living a long life.

However, access to healthcare emerged as an area of perceived risk without prompting. We did not ask specifically about access to NHS dentistry or other services but several participants shared experiences or raised concerns about a growing need to pay for private treatment to maintain quality of life. The risk that NHS healthcare free at the point of access might not meet all their needs in a timely manner emerged quite strongly from several participants.

Several participants had direct experience of long-term health conditions but none raised concerns about long Covid. Shortly after our field work was completed the Institute for Fiscal Studies described a rise to two million cases of long Covid as a “significant part of the pandemic's legacy” costing the UK up to £1.5 billion in lost earnings. It also found that long Covid was more prevalent in poorer families with higher rates among those claiming benefits pre-pandemic and among women.[14]

Many employees are exposed to considerable financial risk from severe income loss if they experience ill health which prevents them from working. In December 2021 the Chartered Institute for Personnel and Development (CIPD) described the Statutory Sick Pay (SSP) system as “broken” and in need of urgent reform. It pointed out that over 17% of the workforce are excluded from receiving SSP due to either their employment status or low income and that nearly two thirds of employers, including SMEs which might find it harder to afford higher statutory payment rates, thought the rate of £96.35 a week was too low and should be increased.[15]

14 Tom Waters, Thomas Wernham, Long Covid and the Labour Market, IFS Briefing Note BN246, Institute for Fiscal Studies. Accessed: 28/07/2022 Online.

15 What should an effective sick pay system look like? CIPD recommendations for ensuring a financial safety net for workers during illness, December 2021. Accessed: 28/07/2022 Online

Insurance

The IFoA identified a shift in the balance of risk driven by insurance products that are increasingly priced based on the risk profiles of individuals rather than groups. These issues were clearly not front of mind for our participants despite being highly likely to be relevant to many of them. For example, the IFoA uses the example of genetic propensity to certain causes of poor health and the role of legislation and regulation to manage what is the appropriate use of personal data and the appropriate allocation of risk.[16]

Only one of our participants raised insurance as an area of risk for them without prompting and this was specifically about the interaction between a health condition, life insurance and the risk of taking out a mortgage to become a homeowner.

Tenants in social housing had often accessed affordable insurance for their household contents via schemes operated by their landlords. Those in privately owned rental properties, whether or not they considered it to be affordable, usually had no insurance or were unclear about it. In general there was a marked tendency amongst tenants to consider contents insurance to be unaffordable and unnecessary. When asked what the financial impact would be on them having to replace clothes and other essential items if the worst happened, no one was clear about how much that might cost them.

One of the business owners interviewed felt that insurance policies and terms and conditions were too complex and demonstrated low levels of confidence in the outcome should a claim be necessary:

> **“I find that the insurance part of things is not a problem because it’s expensive – no insurances are very cheap. The problem is you will never know how it turns out if you then have to file an accident or claim.”**
>
> **Anya, entrepreneur**

In our survey, 44% of people were aware that some people cannot afford insurance due to risks they cannot control but only 7% had ever heard of Government underwriting insurance schemes to help such people. When prompted to reflect on Flood Re, a business levy based reinsurance scheme which enables more affordable insurance against flood risk, some people were concerned about fairness and the issue of individual responsibility.

> **“The government is making insurance for flood risk more affordable for those on floodplains. But it’s doing it by getting everyone else who’s not in a floodplain to subsidise it. So their insurance is going up. And at the same time, the government has for about 20 years now, steadily increased tax on insurance. So, to my mind, government policy is really at odds with people taking responsibility.”**
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> **Gordon, retired**

16 Institute and Faculty of Actuaries. The Great Risk Transfer. Campaign Recommendations. 2021, p.8. Accessed 20th June 2022. Online

A fundamental premise of insurance – that risk is shared – was rarely mentioned. There was a tendency to criticise individuals for choosing to live in high risk areas. Few people displayed any understanding of how, for example, the remodelling of risks in the light of better understanding of the impacts of climate change might have exposed some homeowners to risks they could not have foreseen.

Where there was negativity expressed about insurers it was usually framed in terms of lack of trust – most often a cynical view that the protection advertised would likely not be matched in reality.

Housing

Housing emerged as the strongest theme in interviews with younger people and with tenants of any age. Insecure tenancies, high or rapidly rising rents, and aspirations of home ownership were front of mind for tenants and younger people. Older people, more likely to be homeowners, often expressed concern for younger people's housing situations but also highlighted how wealth locked up in their properties offered them a kind of 'insurance'. Home ownership was clearly associated with reduced risk and improved financial wellbeing.

Home ownership was generally perceived as protective against financial risk. One reason given for this was inflation in the value of people's homes which offered the potential to derive income from this wealth through, for example, downsizing or financial products such as mortgages and equity release.

In contrast, those we spoke to in both social and privately rented housing often felt their living situations made them less secure financially and at the sharper end of risk. Problems highlighted by participants in relation to the rental sector included cost, limited choice, poor quality homes, restrictions on ability to change or improve their living spaces and the insecurity of tenancies. There was a strong sense that rent paid is money "wasted" because it does not create an investment for the future in the way that mortgage repayments can do. However, social housing was regarded as preferable to private rental due to lower costs and a greater sense of security of tenure.

Interestingly, those interviewees who were not yet homeowners and who were prompted to consider the risks of home ownership – for example, the costs of maintenance or the lack of assistance within the welfare system should they be unable to meet mortgage repayments – were still resolute in their belief that the benefits outweighed the risks of home ownership. This held true even in the case of a participant whose health issues made life insurance unaffordable and who held a relatively secure and affordable tenancy in social housing. In this case the risk of losing a mortgaged home due to income loss was far outweighed by the perceived future benefits, especially in terms of creating an inheritance for their children.

One participant, an advice worker and aspiring homeowner, did highlight some risks and made some important points about systemic issues that increase risk for homeowners in times of hardship:

> **“...people I’ve seen in the past who weren’t able to work [...] if they’ve been renting, they’ll get the cost covered. But there isn’t really any help for people to pay their mortgage [...] if we did get a mortgage I’d want to make sure we had absolutely top notch insurance for that sort of thing because I’ve seen the way it kind of works against you – if the bank repossess the house they just put it in an auction and they don’t care. The banks don’t care if they get the best deal for the homeowner.”**
>
> **Mo, community worker**

Some older, retired participants also indicated that there were downsides to home ownership. For example, mentioning the risk of living alone in a property not well-suited to a very elderly person or that was costly to keep safe and comfortable, and describing the challenges of moving when one has left the clearing of years of accumulated “stuff” to a time when the physical demands of the move outstrip capacity to achieve it without a lot of help.

This inability to “see” any transfer of risks in parts of the system that are little talked about and of which people often had little experience was almost uniform across all groups when we explored risk in relation to insurance.

A minority of participants strongly indicated that they believed structural and systemic changes had increased risk for individuals and for wider society. This was most clearly exhibited in discussions around the management of retirement income. The choices people are now able to make, such as when and how to access their pension pots, the perceived inadequacy of state pension provision and the specific risks to women featured alongside the rising cost of living as key areas of concern.

Trust in information providers

The issue of trust came up repeatedly in our in-depth interviews and was backed up by our survey work. For example 36% of people surveyed said they did not know who they could trust for advice or guidance and 32% did not know what advice or guidance could help them.

In older participants lack of trust was often described as being rooted in experience. For example, the complaint quoted in this report about value for money in relation to annuities and the unknown, at the time, risks of opting out of a part of the State Pension Scheme. Adverse experiences might well help explain why only 11% of survey respondents "entirely trusted" the UK Government when it comes to getting advice or guidance on financial matters. There was no significant difference in levels of trust in the Scottish Government.

There were also clear divisions in who was most or least trusted when it came to financial advice, guidance and wellbeing. Sources of advice which were praised in one to one interviews for their quality, trustworthiness and independence included:

- Martin Lewis
- Citizens Advice Bureau
- Local authority and voluntary sector money and debt advice services

Our findings from the interviews were backed up by what we heard in the survey work. 60% of people said they trusted Citizens Advice Bureaux and other charities which was considerably higher than other suggested sources of guidance and information.

Much lower levels of trust were expressed in relation to other relevant information providers. People were suspicious of businesses that sell financial products and offer guidance. Some explicitly stated that they were likely to be providing biased information in order to sell products or services. Our survey mirrored this to some extent as only 21% said they entirely or mostly trusted "companies which provide financial products such as pensions" as a source of information. However, when asked the same question about their bank or building society this figure rose to 38%. Our findings on trust are backed up by Money Advice Scotland, who found "a high level of suspicion levied at private providers" in their research on money guidance.[17]

This has clear implications for policymakers and funders wishing to engage and help educate more people. The most trusted sources of information are also often the least able to offer consistent services nationwide and over time due to uncertain funding streams. Advice workers we interviewed were concerned by the way their ability to refer people to trusted services was often compromised by what they considered to be unhelpful stop-start programme based funding. One described how this also affected their own life negatively:

> **“In work I've got a colleague who seems quite up on pensions and who I chat to about it but at the moment I don't pay [towards a pension]. My work pay towards it but I don't pay anything because I didn't know how long our funding was going to be.”**
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> **Mo, community worker**

17 Fleming, A. and McFarlane, M. Money Guidance: A user centred approach. 2021. Money Advice Scotland. p.9. Accessed: 21st June 2022. Online

Other than those institutions previously mentioned, the key standout on those most trusted by our participants was family and friends. In our group discussions and interviews most participants identified family and friends as key sources of financial information and advice. In the survey 52% trusted family and friends entirely or mostly, as well as 56% citing family and friends as having helped the most in developing skills and understanding when it comes to managing their financial wellbeing. Given that it is known that some people are unjustifiably overconfident in their relevant knowledge and understanding this is both an opportunity and a threat.[18] An opportunity might be, as one participant suggested, to explore the potential of peer education as one means of encouraging more people to become better informed.

18 Fleming, A. and McFarlane, M. Money Guidance: A user centred approach. 2021. Money Advice Scotland. p.55. Accessed: 21st June 2022. Online

Stress, fear, stigma and embarrassment

> **"Trust is a big issue. [...] There's a feeling that all services are part of the system – that if they say something about their money they might be told their universal credit will be cut. Or they see the money advice service and all the rest as something like social work or the police – if they say they have big problems someone might end up taking their kids away or handcuff you. It looks like all one big frightening system to some people."**
>
> **Euan, community worker**

Trust is clearly a barrier to seeking guidance or advice but there are also other cultural and emotional factors at play. Stress, fear, stigma and embarrassment also emerged as barriers to growing knowledge and understanding of risk. This was not only about willingness to seek guidance and information but also the capacity to absorb relevant information in stressful circumstances such as living on a very low income.

> **"I think that the difficulty is, that it's not just like once a month you have to make a decision. It's like every single day, every time I leave the house, it's like, is this important enough to spend money on it? And whenever you make a bigger purchase, it's like, Oh, my God, that's gonna set me back. And the stress that that induces is quite a lot, because every single day, you have to think about whether something is worth buying."**
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> **Iona, recent graduate**

> **"There's been a few times where I've had really bad anxiety. Sometimes, I feel like it does come across as if I can be rude [to people providing a service], but I don't mean to be like that at all [...]I have got a history of anxiety[...] It's not that I'm being rude or deliberately being rude to anyone. I think so what's the context – you don't know what people go through do you? So why be horrible to people when you don't know if they're struggling?"**
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> **Scott, mature student and father**

The people we interviewed who described feelings of stress are not alone. In May 2022 our Understanding Scotland research showed that 23% of Scots have lost sleep due to anxiety over the cost of living crisis and that 3 in 5 are foregoing heating, and over a fifth have skipped or cut down on meals.[19] These findings were underpinned in the research we carried out for this project in which 48% of people said being unable to afford basic household bills (such as food, rent/ mortgage, electricity, gas) was on their mind or worrying them. This rose to over half in the 35-54 age group (56% of 35-44s and 52% of 55-64s) and was highest in households with children.

Stress is an immediate and long-term risk to physical health and wellbeing with serious implications for public spending.[20] It also impacts on the ability of the Scottish Government to achieve its wellbeing outcomes. 54% of people in our survey stated that financial worries affect their physical and/or mental health and wellbeing. But how people behave when they are stressed also poses challenges in the context of concerns about the Great Risk Transfer.

19 Diffley Partnership and David Hume Institute. Understanding Scotland: Economy May 2022. 2022. P.4 Accessed 26th May 2022. Online

20 Cigna. Chronic Stress: Are we reaching health system burnout? 2019. P. 4. Accessed 22nd June 2022. Online

There is a wide pool of research showing that stress affects financial decision-making but the findings are varied. For example, in exploring the effect of stress on financial decision-making researchers concluded that stress can lead to "fewer exploratory and less future-oriented decisions with clearly negative potential for individual and societal welfare".[21] This is particularly acute for those living in poverty, or for those raised in environments of material deprivation. A scarcity of resources can induce a 'scarcity mindset' whereby an increased focus on more immediate goals takes precedence over more long-term planning. As Mullainathan and Shafir put it, "scarcity in one walk of life means we have less attention, less mind, in the rest of life".[22] The most immediate and obvious impact is revealed in our research. Over half of respondents said they often avoid thinking about longer-term financial wellbeing because of more immediate financial challenges.

Well-informed decisions are exactly what the transfer of risk from institutions to individuals demands of us and yet we find ourselves in a context which creates the type of extremely stressful conditions that work against our ability to gather and retain the knowledge required and/ or to make those decisions. Our lack of expertise is not simply an outcome caused by an actual or perceived lack of available, accessible information or guidance but also likely to be a direct consequence of wider, often structural factors.

The Great Risk Transfer requires people to use their mental energy in ways which may not be achievable because of the stressful conditions in which they live. For example, a 2013 study found that living in poverty was associated with a significant reduction in cognitive function equivalent to the loss of a full night's sleep and recommended that:

> *"[...] policy-makers should beware of imposing cognitive taxes on the poor just as they avoid monetary taxes on the poor. Filling out long forms, preparing for a lengthy interview, deciphering new rules, or responding to complex incentives all consume cognitive resources. Policy-makers rarely recognize these cognitive taxes; yet, our results suggest that they should focus on reducing them."*[23]

The mechanism they posited to explain this impact of poverty was "attentional capture" – the idea that poverty captures attention, triggers intrusive thoughts, and reduces cognitive resources which they went on to say "could itself be described colloquially as "stress": persistent mental engagement induced by some trigger"[24]

The transfer of risks and much of the information and guidance designed to help people manage these risks are surely prime examples of "cognitive" taxation. They place a call on people's mental space and time which can add to rather than lighten the load on people's cognitive resources.

Fear, stigma and embarrassment are also barriers to building knowledge and taking appropriate actions. Participants often described difficult feelings relating to seeking advice or guidance.

21 Delaney, L., Fink, G., Harmon, C. Effects of Stress on Economic Decision-Making: Evidence from Laboratory Experiments. 2014. Institute of Labor Economics. P. 17. Accessed 23rd June 2022. Online

22 Mullainathan, S., Shafir, E. Scarcity: The true cost of not having enough. 2014. Penguin Books: London. p.17

23 Mani, A. et al. Poverty Impedes Cognitive Function. 2013. Science. Vol. 341. Issue. 6149. P. 980. Online. Accessed 21st June 2022. Online

24 Mani, A. et al. Poverty Impedes Cognitive Function. 2013. Science. Vol. 341. Issue. 6149. P. 980. Online. Accessed 21st June 2022. Online

> **“You just don’t know who to ask and then when you do go – some of the people that are there make it feel like they’re thinking you’re scrounging.”**
>
> **Saira, single parent**

Our research clearly indicated that people in financial difficulty struggled with feelings of embarrassment and fear. Some expressed the view that victim-blaming was a deliberate tactic of the current UK Government.

> **“There is more shame around now. But we have to think about where that might be coming from. And quite a lot of it is this political rhetoric from the government[...] to say, they aren’t managing properly, they need to budget properly. In many, many cases, they don’t need to do that. What they need is money to be able to budget. [...] It’s not our problem that we’ve designed a system which is iniquitous. Think about Universal Credit. When you apply for Universal Credit, you’ll get nothing for a month before. How can anybody survive? [...] How on earth do you pay the bills? How do you get food on the table for a month without any money?”**
>
> **David, retired**

54% of people surveyed said they avoided talking about their personal finances with others because it made them feel uncomfortable. This peaked at 64% in the 35 to 44 age group before declining with age. There was a significant gender difference with 61% of women agreeing with this statement and only 47% of men. This discomfort is well known. A 2019 survey from Lloyds Bank found that 50% of UK adults believe that talking about personal money matters is taboo. This ranks money as a bigger taboo than sex, religion and politics.[25]

This is likely to be a barrier to people seeking out information and guidance, especially if they cannot be assured of confidentiality. We heard extremely positive feedback about some face to face services such as local authority money advice teams and Citizens Advice Bureau. We also spoke to advisors who stressed the importance of face to face work because of the ability to tailor guidance to fit and to help people by supporting access to other services. However, some of our participants indicated that the more stressed and embarrassed they felt about their finances and/or their capacity to understand what they could or should be doing the less likely they were to seek help in a form which leads them to feel embarrassed or stigmatised.

Two of the advisors we interviewed worked within GP surgery teams taking referrals from the GP or their support staff when patients’ health needs are clearly exacerbated by social and financial life challenges. They clearly recognised that fear, stigma and embarrassment prevents people from opening up and exploring their financial problems. They saw their job as being one of relationship building to help build trust which takes time and often more than one appointment. But they also recognised the benefits of being co-located with healthcare teams because the principle of confidentiality is what most people expect in a healthcare setting.

25 Lloyds Bank. Religion, Sex and Politics? The M word is Britain’s biggest taboo. 2019. Accessed 21st June 2022. Online

Ability to access and understand guidance and information

In the previous section we considered the social and emotional barriers to accessing guidance and information. Many of our participants described such barriers but most expressed a strong desire for improved access to relevant information and guidance.

Lack of relevant education in school was mentioned by many, mainly younger participants, and there was also mention of a role for employers.

> **“We’re not educated at school. I think workplaces don’t do enough to educate their employees on things. Yeah, I think we’re seriously under-advised. And everyone relies on their family, which is great. And I value the financial advice of my family. But they come from a different time. They come from a different tax bracket. They come from different worlds. So yeah, the advice isn’t that brilliant possibly.”**
>
> **Iona, recent graduate**

Participants at every life stage expressed concerns about the availability, as well as the trustworthiness, of relevant information. They also frequently alluded to a lack of basic building blocks for learning how best to manage financial risk and wellbeing. This was underlined by the fact that 32% of survey respondents said they *“don’t know what advice or guidance would help”*. This lack of knowledge was most pronounced in the youngest participants but applied to 34% of people in the 45 to 54 age group, a life stage when people are actively encouraged to seek out information.

We learned that 28% of over 65s and 32% of those aged 55 to 64 (and therefore within the age group currently able to access their retirement income flexibly) stated they did not know whose advice they could trust when seeking financial advice or guidance. This is particularly disconcerting given the pension reforms that affect all people aged 55 and over who have defined contribution pension investments.

This emphasises a need for improved guidance services delivered by trusted providers. The policy of auto-enrolment, which has increased the number of employed people building pensions within workplace pension schemes from 55% in 2012 to 87% in 2018, makes this need even more evident.[26] In January 2022, the Work and Pensions Committee recommended that a guidance service should be developed, possibly building on Pension Wise, and also advocated for a type of financial wellbeing and performance check-up currently offered by some financial services businesses which has become known as a “mid-life MOT”.[27]

Several of our participants mentioned the challenge of keeping track of and managing a number of defined contribution pensions pots. This type of confusion is exactly what the Money and Pensions Advice Service, an arms length body sponsored by the Department for Work and Pensions, says it

26 Department for Work and Pensions. Automatic Enrolment evaluation report. 2019. P.4 Accessed: 23rd June 2022. Online

27 House of Commons Work and Pensions Committee. Protecting pension savers—five years on from the Pension Freedoms: Accessing pension savings. 2022. P. 51. Accessed 23rd June 2022. Online

is trying to avoid in work designed to develop Pensions Dashboards. The vision is to “ensure people throughout the UK have easy online access to key information about what pensions they have, who manages them and what they are worth in one place”.[28] The Work and Pensions Committee was clear that the proposed Pensions Dashboard tool should be integral to future guidance services. It also criticised lack of co-ordination between key players which has or can further complicate the landscape.[29]

Participants in our research were encouraged to say what might help improve relevant knowledge and skills for themselves and others. Most were keen to see more age and stage appropriate learning in schools, colleges and universities and also improved access to adult learning opportunities for developing financial literacy, including through employers.

There was praise for independent financial advice, although it was not universally well-regarded by those who had tried it. It is concerning that 34% of people surveyed said they could not afford such advice.

Pension Wise was mentioned positively by some participants. Some considered that restricting free, impartial guidance of this nature to those aged 50 or over was unhelpful given the need for most people to start investing early in their working lives to stand any chance of building a sufficient pension investment. The Government’s focus on protective guidance to mitigate the risks inherent in the flexibility of income drawdown from pension pots is understandable. There have been calls to move from the “nudge” approach to an automatic appointment being generated for all because those who are least engaged are usually those in most need of help.[30] However, we also heard a call for earlier guidance on how to build that pension pot, not just how to protect it.

When it comes to the inclusion of relevant information in formal school education there was strong support for the idea but no spontaneous mention of how Scotland’s Curriculum for Excellence has or has not improved matters.

Some of the desired knowledge referred to by participants is reflected in outcomes identified in the Curriculum for Excellence. For example, it is clearly stated within the field of numeracy that learners should be able to understand matters such as credit, debt, earnings and deductions as well as being able to “research, compare and contrast a range of personal finance products and, after making calculations, explain my preferred choices.”[31] Despite this, there were repeated calls in our research for schools to do more. This is backed up by a 2019 survey from the Money and Pensions Service which found that just 45% of children in Scotland ‘remember learning about managing money at school’, although this is higher than the UK average of 38%.[32]

The Scottish Government has announced a new web-based School Leavers Toolkit which includes guidance on money matters provided by a number of partners.[33]

28 Money and Pensions Service. Pensions dashboards progress: steering group appointed to drive forward the delivery of service for savers. 2019. Accessed 21st June 2022. Online

29 Pensions dashboards: Consultation on the draft Pensions Dashboards Regulations 2022. 2022. Accessed 21st June 2022. Online.

30 Institute and Faculty of Actuaries. The Great Risk Transfer. Campaign Recommendations. 2021, p.13 Accessed 20th June 2022. Online

31 Scottish Government. Curriculum for Excellence. 2018. P. 198. Accessed 23rd June 2022. Online

32 Financial Capability Strategy for the UK. Children and young people financial capability: Scotland. 2019. Money and Pensions Service. Accessed 23rd June 2022. Online

33 My World of Work. School Leavers Toolkit. Accessed: 23rd June 2022. Online

Face to face, confidential guidance was clearly highly valued by some people but others preferred the anonymity of on-line sources. One participant clearly indicated the need to help those who find that an honest exploration of financial matters with another person is too challenging:

> **“We’ve got to change the system so it’s easier to access information without having to physically go to somebody. You know, I’d rather read something on the internet than pick up the phone and ask somebody, because I just don’t like doing that.[...] when you physically have to speak to some of these people, it’s difficult. It’s embarrassing.”**
>
> **Saira, single parent**

Our survey showed that only 1% of respondents cited internet connection or difficulty using the internet as a barrier to accessing information. This figure should be treated with caution. In 2020 the Scottish Household Survey showed that only 93% of households had access to the internet. However, there were significant variations related to deprivation. Fewer households in the 20% most deprived areas had access (87%) whereas almost all households (99%) in the 20% least deprived areas had access to the internet.[34]

There was generally good understanding that using search engines to track down sources of information required a degree of caution and fact-checking by seeking out more than one source. Several people wanted a one-stop shop providing trusted, easy to understand information and some felt local and national government should do more to help make that happen.

> **“I think it comes down to the government [to] help people have a better understanding and go about getting life insurance, house insurance. Sorting their pension out – basically making sure they are secure [...] but in order for the government to do that, I think we do need to shout a bit louder.”**
>
> **Gillian, parent of school-aged children**

One participant spoke about the challenges faced when government-funded schemes designed to provide advice or access to resources, in this case help to low income households to replace a broken boiler, were operated wholly or partly via private sector providers. In this example, a plethora of information sources, overlapping and defunct schemes, unclear or widely varying qualifying criteria and inconsistent advice from a range of sources, combined to create an exhausting and frustrating experience. A new boiler was eventually acquired, along with a whole new central heating system, but the journey was long and far from simple:

> **“To meet the criteria you had to live in a house and you had to get underfloor insulation. [...] I’ve tried to inquire about these schemes, but I feel up till now it’s been difficult. [...] these companies that I contacted last year, who said “we don’t have a scheme on just now but we’ll keep your information stored on our database for when there’s a different scheme that you qualify for and we will contact you” but nobody has.”**
>
> **Saira, single parent**

Eventually help was tracked down via an advertisement but confusion over the stated criteria nearly led to the participant not responding. People spoke both about the confusing architecture for information provision around financial issues and also the complex nature of the information itself. This raises the question, framed clearly by the IFoA in its report, of whether the transfer of risk is demanding levels of financial literacy that are unrealistic for non-experts to achieve.

34 Scottish Household Survey 2020 – telephone survey. Accessed: 28th June 2022. Online.

Conclusions

It is clear that people, especially those under 50, have little awareness or understanding of the scale and scope of the risk transfer from institutions to individuals that has taken place. This limits their ability to manage the risks or ask for something better.

Greater exposure to risk has not been matched by sufficiently successful efforts to improve public confidence, skills and knowledge. The impact of stress, particularly the stress of living on low incomes, on people's ability to manage the increased cognitive load delivered by the Great Risk Transfer appears to have been discounted in favour of arguments about increasing choice. It is likely that a vicious circle has been created in which those least able to manage risks to their financial wellbeing become locked into lifelong financial insecurity.

In addition, there is a widespread lack of **financial literacy**. This makes it difficult for people of all ages and social groups to minimise risks to their financial wellbeing. Lack of financial literacy undermines the ability to make timely decisions and choices, within the constraints of regulation and the narrow range of types of products on the market. This is exacerbated by the perceived unaffordability of financial advice by a significant number of people.

Home ownership is seen as a powerful tool to mitigate and to minimise financial risk especially as a means of protecting the financial wellbeing of the next generation. However, people demonstrated low awareness of the financial risks of home ownership.

Access to timely and effective healthcare, including dentistry, emerged as a concern relating to financial risk indicating a growing anxiety about the need to pay for private healthcare. This was mainly expressed by older people reflecting on maintaining quality of life in older age. The cost of social care was surprisingly absent from most people's front of mind concerns.

Levels of awareness of the lack of protection against dismissal under **employment law** in the first two years of "permanent" roles was low. Risks associated with employment were mostly expressed in relation to the type of insecure work understood as characteristic of the "gig economy".

There was little awareness expressed of risks which have a gender or ethnicity bias including the specific issue of the gender pension wealth gap. Those most likely to be on a lower income, the social group C2DE, were least aware of changes in the way people are able to access pension investments but awareness of this was low in general across all groups.

Gaps in knowledge in the general population matters because this research shows that people are heavily reliant on advice from family and friends when seeking information to help them make relevant choices/decisions, despite being aware that more expert guidance might be preferable.

Trust in information providers is an important element in terms of improving knowledge and awareness. Trust in non-profit sector providers, especially Citizens Advice Bureau, was significantly higher than the most trusted financial services providers. Long-term stable funding for the most trusted providers is clearly a strategic priority if the goal is to better equip people to manage financial risk rather than to reduce their exposure to risk by rebalancing the way risk is distributed between institutions and individuals.

Stress, like trust, was a clear barrier to improving knowledge and awareness. It undermines people's willingness and ability to access and to absorb information, and to make the best possible, timely choices. The transfer of risks from institutions to individuals who are then expected to learn how to manage it is a considerable "cognitive load". Non-experts can find this load a major stress factor. There are serious implications for costs to the public purse of increasing levels of stress.

Many people suffer from **shame, embarrassment and fear** in relation to their financial circumstances and feel stigmatised. These feelings are serious barriers to accessing guidance for many people, especially those who are in serious need of help. There cannot be a one size fits all approach as the anonymity of accessing web-based information suits some people, while the more-tailored approach of a confidential face to face advisor suits others. In designing any supportive services or interventions it is important to consider the interaction between these feelings and the issue of trust and to understand that confidentiality is extremely important to people. Providing information from trusted sources in different ways and allowing time for a relationship of trust to develop is likely to be the most effective strategy.

People are calling for help in improving their knowledge and understanding. There was strong support for age and stage appropriate learning, starting in schools, and then made much more accessible throughout life in a range of settings, including by employers. The view expressed that services, such as Pension Wise, should not be age restricted, was indicative of the way in which some people understood the need to begin the work of managing lifetime financial risk early in adult life.

Even those people showing a good understanding of certain risks expressed frustration at the difficulty they have in managing aspects of their financial circumstances. The work of tracking down past pension savings was specifically identified suggesting that the proposals for improvement embedded in the work around Pensions Dashboards cannot come soon enough.

There was a significant lack of knowledge and understanding of how the insurance industry works and an underestimation of the risks of being uninsured or under-insured. Lack of affordability was a significant issue but there was very little knowledge of relevant interventions or trends in the insurance industry.

It is important not to patronise Scotland's people, or to underestimate their capacity to acquire sufficient knowledge and understanding to manage the degree of risk that has been transferred to them. It is equally important to question whether it is realistic given the very real barriers to developing the required level of expertise or free time population-wide.

There are society-wide risks inherent in the current balance of risk. Poor financial decision-making, for any reason, potentially has negative implications for public spending and overall wellbeing in the medium and long-term. Put simply, the research shows, it's time to rebalance risk or we risk storing up serious problems for the future.

Recommendations

- **Don't be shy, talk money** – increase financial literacy and easy access to financial education throughout people's lives. Directly address stigma, fear and embarrassment by deploying public awareness and education approaches, such as peer education, which have had some success in fields such as health education.

- **Expose the myth of choice** – and consult widely on rebalancing the risk. The political thinking behind the Great Risk Transfer was driven by a mindset of providing more choice. In reality, many people do not have more choice, just much more risk and less of a safety net in their lives.

- **Work to reduce financial risks compounding** – financial risks compound from different areas of people's lives. This means local and national governments need to consider the whole picture when making decisions on individual policy areas – it's important to see the whole elephant!

- **Improve access to affordable basic insurance** – industry and government work together, as they did in developing the Flood Re insurance scheme, to support low income people to manage risk with the support of more affordable home contents and life insurance.

- **Tackle the shortage of affordable and secure housing –** most people cannot plan for or achieve lifelong financial wellbeing while faced with uncontrolled rent rises, insecure tenancies and house price growth outstripping wage growth.

- **Integrate rebalancing risk with fair work and responsible business**
  - All governments should work to rebalance risk for individuals in order to minimise the long term consequences for the public purse. This includes the need for an honest conversation about risk as there is a clear disconnect between the public view of the social contract with government and the reality. Fair work and employment rights are a critical part of this.
  - Employers should not wait for governments to intervene. Employers can look to collectively reduce risk for their employees. For example, by moving towards introducing collective defined contribution pension schemes to help generate better outcomes than generally result from traditional defined contribution schemes. Packages of financial literacy support for employees will also help reduce stress and cognitive load, and are likely to also have a positive impact on productivity.

- **Introduce a universally accessible pensions dashboard** – managing dispersed pension savings can be very time consuming and mentally taxing. We support the Association of British Insurers call to introduce a pensions dashboard to help reduce the cognitive load on individuals.

- **Invest in existing trusted advisors** – financial institutions and government should invest in core capacity of trusted brands like Citizens Advice Bureau rather than create new brands or insist on joint branding which can add to confusion and undermine trust.

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