DWP Department for Work and Pensions

Household financial decision making: Qualitative research with couples

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This research was commissioned in order to explore and better understand the way that couples make financial decisions, both in general, and specifically regarding pensions and their retirement. It was also designed to gain a clearer understanding of couples' attitudes to retirement planning and household finances more broadly, with a particular focus on the incidence of 'life events': significant 'milestones' in adult life, such as becoming a homeowner, marriage and parenthood. The research sought to understand the degree to which retirement planning within couples is done independently or collaboratively, and the extent to which couples discuss or rely upon the other's provision. It also covered, where applicable to the couple, attitudes to and potential behaviour around, automatic enrolment.

Key findings

- There was little evidence of joint planning and interaction through most financial decision-making processes: whilst couples often described their decisions as collaborative, their accounts of the decision-making process tended to indicate that it was only really at the final stage, when a conclusion was reached, that both partners were involved to a great extent.
- Couples saw pensions as long-term, intangible and as individual rather than joint or household assets. Consequently, where pensions were discussed, it could be difficult for momentum to build in the same way as it did for other financial decision processes such as saving for holidays.
- The research found few examples of active decision-making around pensions and retirement planning: even older couples discussed retirement only occasionally, and few people had been active in making provision for retirement. Non-state pensions, where held, were usually workplace pensions that the individual had accepted when offered by the employer, rather than the individual or couple having selected them proactively.
- There was no evidence of partners within couples actively planning to compensate for a shortfall in the other's pension: this research suggests that where this appears to happen, it is circumstantial rather than by design.
- There were indications that for those in scope, people would remain in employer schemes after being enrolled automatically: this included even those couples who voiced most scepticism about pension products and distrust of government, as these were the most 'inert' group when it came to financial decision-making.

The decision-making process

Couples did not typically enjoy managing their household finances, but recognised the importance of planning outgoings around incomings, and of living within their means. Where couples had actively made financial decisions, this was often in response to 'life' triggers such as marriage or becoming parents, or 'financial' triggers involving a change to the household's income. Discussions about possible courses of action began after this trigger took effect, usually increasing in momentum over time, and culminating in the final decision.

The easiest decisions for couples to make were those that took little time to action, and had short-term consequences: even the least financially confident individuals could participate actively in these transactions. Examples were making purchases for their children, or buying holidays. In contrast, only a few people had managed to engage actively with long-term decisions that had long-term consequences, such as saving into a pension scheme.

Roles in financial decision making

Within most couples the research identified an 'alpha' and a 'beta' partner. Although not necessarily financially confident or knowledgeable, the alpha partner took more control over financial issues and decisions than their counterpart. Their behaviour was often borne out of necessity; specifically, the beta partner's unwillingness to take on financial responsibility, rather than their own eagerness to take financial control. Women typically took on the role of the alpha partner in the couples interviewed.

Patterns of decision-making

The research identified three groups, whose members shared characteristics in the way that they went about financial decision making and in their wider attitudes to finances: 'Unbalanced Responsibility', 'Cautious and Content', and 'Organised Aspirational':

- Couples in the Unbalanced Responsibility group tended to comprise an alpha partner – often a woman – with a high level of financial control relative to the other person in the relationship. The alpha partner frequently mentioned the need to rein in the beta partner in order to protect the household finances. Many couples in this group were relatively young, in their 20s or 30s.
- Couples in the Cautious and Content group were typically older than those in the other two, owning their homes outright or being close to doing so. Couples in this group were generally careful with money, and stressed the importance of not exceeding their financial limits: their ambitions were typically tempered by what they thought they could afford. Couples in this group reported being relatively comfortable managing their household finances.
- Couples in the Organised Aspirational group were a mix of ages and incomes, and generally more confident with money than other groups. Although there were alpha and beta partners, the two individuals differed from each other less than in other groups: the alpha partner tended to take the lead as the 'researcher', but the beta partner was not reliant on their partner through a lack of financial awareness or capability. Rather, the beta partner tended to be more relaxed about the household finances, or openly admitted to having less interest in finances than their partner.

The difficulty of engaging with pension products

Non-state pensions, where held, were usually workplace pensions that the individual had accepted when offered by the employer, rather than the individual or couple having selected them proactively. Membership of a workplace scheme was typically the result of individual, rather than household-level decision making.

Couples saw retirement planning as a process involving long-term decisions and long-term consequences: no immediate or tangible benefit was recognised as a result of beginning to contribute to a pension. While financial decisions were typically instigated by 'triggers', few triggers appeared to create engagement with, or prompt decisions about, retirement provision or pensions.

These triggers appeared too weak, or too long-term in nature, to instigate discussions of, or decisions about, retirement planning. Few people felt truly confident about their finances, and pensions-related decision making was typically unfamiliar: pensions felt like an unknown to many.

The role of inertia

Couples were distracted from long-term financial planning by three different types of inertia the research identified.

- The most prevalent type, 'day-to-day inertia', stemmed from the ongoing and constant need to manage the couple's home and family. Households tended to focus on immediate needs and tactical financial issues, rather than strategic ones, or long-term planning.
- 'Material inertia' took effect when couples were restricted in their planning by low levels of disposable income, limiting their scope for decision making. Some couples also mentioned demands on their time from other factors, again reducing their ability to make long-term financial plans.
- 'Emotional inertia' resulted from couples' underlying fear or sense of intimidation when faced with financial products and decision making.

The combination of the 'unknown' nature of pensions, the fact that they did not provide instant benefits, and the backdrop of multiple layers of inertia, often resulted in passive – and often individual – retirement-related decision making.

Implications of the research findings for automatic enrolment

The research highlighted couples' passivity around pensions and retirement decisions, and suggested it was unlikely that they would increase their engagement as a result of being automatically enrolled in a workplace scheme. There were indications that people would simply remain in employer schemes after being enrolled automatically, and this included even those couples who voiced scepticism about pension products. There was little evidence to suggest that automatic enrolment might encourage people to increase their contribution levels.

Research method

The research comprised face-to-face interviews with 24 couples in their homes. The interviews lasted approximately 90 minutes and were divided into three separate 30-minute sections: an interview with each partner individually followed by a 'paired' interview with both partners together as a unit. Interviews were conducted over a three-week period between mid-February and mid-March 2012.

The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 908523 79 2. Research Report 805. August 2012).

You can download the full report free from: http://research.dwp.gov.uk/asd/asd5/rrs-index.asp

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