Looking after the pennies

A Royal London study into the impact of regular monitoring on household spending and saving
Executive summary

We all want to make the most of our money. Yet 19 million people in the UK don’t have an approach to budgeting they feel works and many struggle to manage their day-to-day money. Saving and setting aside money for emergencies can be hard and it’s estimated that 21 million people in the UK have less than £500 in savings to cover unexpected bills like mending a boiler or replacing a fridge.

At Royal London we wanted to look at whether budgeting tools could help people manage their money better. To do this we asked a selection of our customers to use a mobile phone budgeting app or a simple pen and paper method to create and keep a budget for three months. We asked them about their budgeting habits and how they manage their finances at the start of the study and then again at the end. In addition we ran forums and interviewed some of the participants.

In this report we present our findings and conclusions.

Key findings

- At the start of the study, 93% recognised the importance of tracking household expenditure and 84% told us they felt in control of their finances.
- While people recognise the importance of budgeting, that doesn’t always mean they do and 31% said they don’t plan their spending closely or at all.
- Although the majority felt in control of their finances, 30% reported struggling to keep up with bills.
- At the end of the trial, 1 in 2 (49%) said that using a budgeting method was helpful in monitoring what they spend.
- More than 1 in 3 (37%) said that since using a budgeting method they have a better understanding of their income and expenditure.
- Around 1 in 4 (26%) said they are now more likely to discuss their household finances with their partner/family/household.
- Financially vulnerable people seem to have benefitted most from the exercise. We explore this in more detail in the main part of the report.
- After taking part in the trial a slightly higher proportion of our sample:
  - more closely planned their spending
  - claimed to have a clear idea of how to create a weekly/monthly budget
  - were more aware of how much they spend and on what
  - could pay an unexpected bill of £300 out of their own money without dipping into savings or cutting back on essentials.
Introduction

Managing your money can often seem like a balancing act. But knowing how much money you’ve got coming in and what you’re spending it on can help.

Most people think they have a good understanding of this and when we asked people at the start of our study if they thought it was important to track their household expenditure, 93% said yes and 84% said they felt in control of their finances. But when we probed further, 30% admitted to having issues keeping up with bills and 31% said they don’t plan their spending very closely or at all.

What we wanted to find out

We wanted to find out if using a budgeting tool (either a mobile phone app or a simple pen and paper budgeting method) could help people manage their everyday money better; would it help them create a budget, keep track of their spending, pay their bills on time without having to borrow, deal with or pay off debts and increase their motivation to save?

The study

We asked participants to keep a record of all their spending over a three month period using the budgeting method we gave them. We also asked them to complete a questionnaire at the beginning and end of the study on their budgeting habits and how they manage their finances.

We knew this would be very time consuming but the only way they would be able to see where every penny they spent went. For a variety of reasons not everyone was able, willing or found it useful to do this.

Of the 797 who answered the first questionnaire and downloaded the budgeting tool, 411 took part in the trial but of those just 278 used the budgeting method we gave them. At the end of the study, 72 said they intend to continue to use that particular budgeting method. A number of people said they planned to continue budgeting but would revert back to their previous way of budgeting. This reduced our sample size and means that we cannot conclusively say if the changes we saw in our figures were the result of people using the budgeting tools or not.

But from talking to individual participants we know that some of them certainly found the process of monitoring their spending helpful. And for those who stuck with it, they saw real benefits with even those on the tightest of budgets often able to make savings. We also saw some changes in behaviour and people becoming more confident about their ability to manage their everyday money and tackle other areas of their finances.

Examples include:

• using cheaper supermarkets
• cycling rather than using public transport
• cancelling old subscriptions
• giving up smoking
• buying a coffee machine rather than takeouts
• cutting down on takeaway meals
• watching how much electricity they used.

Several participants also said they were now saving more and even those on low incomes and the tightest of budgets often reported being able to make savings.

Our research results will contribute to the growing body of evidence that the Money Advice Service is collating about what does and doesn’t work to improve financial capability in the UK.
Can a budgeting tool help you keep track of your spending?

Almost half (49%) of people who used the budgeting method we gave them said it helped them monitor their spending. While 37% said they now have a better understanding of their income and expenditure and 34% said it improved their ability to keep track of their spending – see Chart 1.

**Chart 1: Attitudes towards using the budgeting method - % strongly/tend to agree**

- Budgeting has had a positive impact on how I think about my long-term finances: 81%
- Using the budgeting method was helpful in monitoring what I spend: 49%
- Since using the budgeting method I have a better understanding of my income and expenditure: 37%
- Using the budgeting method has improved my ability to keep track of my spending: 34%
- Using the budgeting method has improved my ability to create a budget: 28%
- I am more motivated to save for unexpected expenses now having used the budgeting method: 26%
- Using the budgeting method has made me more likely to discuss the household finances with my partner/family/household: 26%
- Using the budgeting method helped me stick to a budget: 23%

Several people said they had tried budgeting in the past but would end up estimating how much they had spent; this often meant they didn’t have a clear picture of their spending. By having to write down or enter into a budgeting app every bit of spending they now had a much better idea of where their money went.

“It has really helped me understand what I am spending each month…. I used the budgeting tool to track money I spend on everything such as what money goes on childcare, groceries, clothes, how much I take out in cash (which therefore I don’t really know where it goes). I don’t think I had any particular expectations before using the tool, I found it very useful,” said one participant.

Another said: “It has made me more aware of what I spend and when. I like knowing where my money goes and what my spending habits are. I now can see at the touch of a button, money that I am spending … it is far more useful than I expected.”

People also were often taken aback by how much they under- or over-estimated their spending in certain areas.

“I realised that actually my household bills/expenses weren’t as much as I thought, which led me to investigate my other areas of spending. This really surprised me as I’d far overestimated my bills, and yet I’d underestimated how much I was spending on food/grocery shopping,” one participant said.

And another told us: “I must admit I was not the best budgeter before using the tool. The tool made it easy and clear. It has definitely given me more confidence in budgeting and dealing with personal finance.”

Identifying overspending and hidden expenses

As well as gaining a clearer picture of their expenditure, people were able to identify areas where they were spending more than they wanted to and where they could make savings. Examples included eating out, takeaways, transport costs and socialising.

People also discovered that there were areas of spending that they simply hadn’t taken into account or had forgotten about.

“I always end up going into my overdraft as I forget things I need to spend money on like people’s birthdays,” one participant told us.

Other people mentioned spending small amounts that they never really noticed, such as on treats for children, church collections and small purchases on credit cards and it was only when they added these up that they realised just how much they spent.

One participant told us that the best thing about the study was having: “to record all my spending, right down to the 20p spent on the sweetie table at the swimming club! This really made me stop and realise just how easy it is to fritter away the coins… It made me much more aware of how the little spending adds up.”

**Case study**

Debbie is 62, has grown up children and lives on the Wirral. She gets a pension and disability benefits but often struggles to get through the month without using her savings. Writing down everything she spends has helped her identify expenses she hadn’t allowed for such as going to the hairdresser, having a dog groomer and paying someone to cut her grass.

“That’s £60 a week I didn’t count in monthly expenditure so I was always in my head £60 better off than I actually am,” she said.

She’s also reviewed some of her other spending: As well as looking for ways to cut her gas and electricity bills she’s also decided to give up smoking.

“When you daily write £6.99 down and realise you can’t eat it, drink it, share it, give it away …you realise you might as well just set fire to [your money],” she said.
Can a budgeting tool help you plan your spending and keep to a budget?

Drawing up a budget and sticking to it is one of the best ways of making sure you don’t overspend. But this is tricky if you’ve lost track of your spending and have no real idea of where your money goes.

After using one of the budgeting methods (in some cases only for a short period of time), almost 1 in 4 (23%) of participants said this helped them stick to a budget.

We also saw an increase in the number of people who had a clear idea about how to create a weekly or monthly budget, from 61% at the beginning of the trial to 67% (see Chart 2) by the end of it.

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<th>Pre-trial</th>
<th>Post-trial</th>
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<tr>
<td>I have a clear idea about how to do this</td>
<td>61%</td>
</tr>
<tr>
<td>I have some idea about how to do this</td>
<td>30%</td>
</tr>
<tr>
<td>My knowledge is limited</td>
<td>9%</td>
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<tr>
<td>I have no idea about how to do this</td>
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This rise might be due to a number of people who hadn’t been budgeting before the trial now doing so. Being able to see what you actually spend each month makes it easier to create a realistic budget.

A number of people also started to see patterns in their spending.

“I quickly saw that the day my pension hit my account I would buy the most needless purchases,” one participant told us.

This resulted in her being short of money for the rest of the month. Having kept a record of her spending using the pen and paper budgeting method she now knows when her outgoings are due each month and buys treats at the end of the month rather than at the beginning.

Another participant said he wasn’t really sure when various direct debits came out of his bank account so he often thought he had more money available than he actually did and so regularly went overdrawn. By entering details of his regular bills in his budgeting app he could see exactly when they were due and could then make sure he had money available to pay these.

“I was able to comfortably remain in budget once I had control of my weekly finances and could see these plainly as I could see the expected expenditure such as direct debits and the like,” he said.

Has using a budgeting method changed people’s behaviour?

A number of people said it hadn’t made any difference to them. In some cases this was because they didn’t think they needed to change their behaviour or felt they were already budgeting well. Some people said they were on such tight budgets already that they simply couldn’t cut back any more than they already had done.

But other people told us they now think twice before spending and have changed some of their spending habits.

Being more aware of spending

“The app stopped me in my tracks from spending as much as I normally would do and made me think if I really needed that item of clothing or DVD.”
- Male, age 36

“I would withdraw a tenner here and a tenner there without considering how much that was on the overall budget I had for the month. The app actually makes me face up to how much I have constantly and doing so does actually curb my spending.”
- Male, age 33

“It has made me more aware of what I spend and when. The tool has made me far more cost conscious.”
- Male, age 46
Making savings

**Can budgeting help you keep up with your bills?**

We wanted to see if having a budget could help people keep on top of their bills and credit commitments. When we surveyed participants at the start of the trial just 60% told us that they were keeping up without any difficulties. More worryingly, just 37% of financially vulnerable people were managing.

Would keeping track of spending mean they were less likely to overspend and find it easier to get the money together to pay their bills? We didn’t see any evidence of improvement here. In fact there was a slight drop in the number who said they could keep up without difficulties.

But there was a small increase (71% to 74%) in the number of people who told us they hardly ever or never run out of money and need to use a loan, credit card or overdraft to get by. And we also saw a rise (37% to 41%) in the number of people that would pay an unexpected bill of £300 out of their own money, without dipping into savings or cutting back on essentials. These figures hint at a slight movement in the right direction but we can’t conclude that these small changes were a definite result of budgeting.

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"I travel to work less by bus as I realised I was spending a lot on travel and now cycle more, so the app has helped me to save money."
- Female, age 28

"We budgeted better by eating out less and only spending what we need to on weekly shops."
- Male, age 28

"One thing I did differently was to use the car less for local journeys and this helped to reduce fuel expenditure."
- Male, age 49

"It helped me realise that I was spending in areas I didn’t need to such as on subscriptions that I had forgotten about. I have cancelled these since using the tool."
- Female, age 54

"I now tend not to go out a week before pay day, allowing me to get to that day with a small surplus in my account."
- Male, age 46

"I think this trial has made me more aware of my bills for sure as I have been in and out of my spreadsheet and app for the past three months, it has made me want to pay off any debt I have so I can save more for the future."
- Female, age 31

**Has using a budgeting method changed people’s behaviour?**

"[I’m now] shopping in more than one supermarket including budget ones rather than opting for the biggies. I have realised that I am not saving enough and will continue to use the tool to achieve this."
- Female, age 34

**See the Methodology section for definition of ‘financially vulnerable’.**
Can budgeting help people deal with their debts more effectively?

In many ways we felt that it was a big ask to start to see shifts in the way people deal with and pay off their debts in just three months. But we saw some encouraging signs when we spoke to some of the participants.

Case study 1

Chris, 36, from North Wales entered all his spending into a budgeting app and was shocked to see how much he was spending on non-essentials such as gym membership, classes, work lunches and take-out coffees. Chris decided to make some changes.

“I was surprised with the amount I spent on coffee so I bought a coffee machine for home!” he said. This along with other changes meant that for the first time in a long while he’s not been overdrawn.

Case study 2

Roy, 42, from Newcastle is heavily in debt after doing two masters degrees and only being able to work part-time. The pen and paper budgeting method helped him see how unexpected large bills could push him into the red. So he’s now arranged for all his debt repayments to be on the same day. It’s also given him greater confidence when dealing with his debtors. Now that he has a clear record of his spending he can show them how much he can afford in repayments.

Case study 3

Matt, 33, lives with housemates in London. He earns a decent wage and has few outgoings. He’s racked up debts in the past and taken out payday loans to help him get by. He has a set amount that he tries to live on but dips into other accounts when needed; he rarely sticks to a set budget. Using a budgeting app has helped him track his spending and see just how much he was “wasting” on takeaways and groceries that he would then throw away. He’s since cut back. “In the past two months I have had a surplus [and] … I’ve become more aware of how I came to get those debts,” he said.

Can budgeting help or motivate people to save more?

Having savings to dip into when the fridge breaks down or the roof starts leaking is very important. It means you don’t have to borrow and gives you a degree of financial security in case you’re ill and unable to work or lose your job unexpectedly.

But we know that 21 million in the UK have less than £500 in savings. So we wanted to see if budgeting could help people feel motivated to save for unexpected expenses. Encouragingly, 1 in 4 (26%) of people told us that they were more motivated.

One person used the budgeting app alongside her tried and trusted spreadsheet. She wasn’t keen on the app but the fact that she focussed on her budgeting over the three months had a positive effect.

“I really want to ensure me and my hubby….have plenty of savings in case something happened to either of us… I am more motivated now to spend even less and save more!” she said.

When we spoke to participants we found numerous examples of people who, after the trial, had a small surplus at the end of the month as a result of managing to cut back on spending. Some felt able to save those amounts while some of those on a tight budget still found it a challenge. For some simply having a surplus that they could roll over to the next month was enough. Those that did save tended to do this with a short-term aim in mind. People frequently talked about saving for Christmas or a holiday or adding the money to their rainy day fund.

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Looking after the pennies
Different ways of budgeting suit different people.

Interviews with our participants highlighted clearly that there isn’t one budgeting method that suits everyone. Some people liked the convenience of having an app on their phone that they could use at any time while others preferred the pen and paper approach. Some already had their own familiar method of budgeting and felt that this worked better for them than the tool we gave them.

The pen and paper method

However, overall the pen and paper method performed better than the apps on a number of measures.

- 74% of users said the pen and paper method was good or very good at encouraging them to interact with their finances
- 69% of users said the pen and paper method was good or very good in terms of overall experience
- 75% of users rated it as good or very good for ease of use

The pen and paper method also achieved the highest scores on some key attitude measures: 65% of users said it was helpful in monitoring what they spent; 52% said it gave them a better understanding of their income and expenditure; 42% said it improved their ability to keep track of spending; and 35% said it made them more likely to discuss their household finances with their partner, family or household.

The pen and paper method had the lowest dropout rates of all the budgeting methods with 43% of users using it for either most or all of the three-month trial period. We also found that more of the pen and paper users plan to continue using this method after the trial compared to the app users.

Why did the pen and paper method perform best?

By its very nature the pen and paper method requires the most active approach and this could be the key to its effectiveness. Initially many found the process time-consuming, labour-intensive and inconvenient (in the sense that they had to carry around a pen and paper with them). But of those who persevered, once they got used to it and into a routine, they found it very simple to use.

However, we should sound a note of caution. The pen and paper users were to some extent self-selecting as they had told us they were happy to use the pen and paper option. So we knew they were open to this method whereas others may have shied away from this because of the manual processes involved.

It’s also worth noting that the people who took part in the pen and paper trial tended to be older and may be retired so they may have had more time to engage with the process (see Chart 3).

Chart 3: Age breakdown of participants

Base: Total (411); Apps (306); Pen and Paper (105)
Will people carry on using the budgeting methods?

Most people told us they won’t continue to use the budgeting method they used in the trial. Pen and paper users are the most likely to continue to do so with 1 in 3 (33%) saying they will. The average for the apps was 23%.

There are different reasons for this. For some of our participants who were already budgeting before the trial, they simply preferred their own method (294 out of our 411 participants were budgeting on some level before the trial). Those previously using pen and paper, spreadsheets or other budgeting tools are familiar with them and feel they give them all the functionality they need.

For others, it’s a lack of interest in budgeting that’s preventing them from continuing to budget in the long-term. People talked about the process of tracking spending being too time-consuming and involved (regardless of budgeting method) and this is a strong barrier to continued use. Others see little value in it – as long as they can cover their expenses, why bother to budget?

Functionality and usability issues also played a small part in putting people off using the budgeting methods in the future.

And finally, some felt there wasn’t a need to budget in the long-term but that doing so for a short period was useful in its own right. One participant explained: “I think I would only ever use a budgeting app in the short term to sort out my finances and then when they were sorted I wouldn’t feel the need to use it anymore.”

Another app user said: “I think it is unlikely I would use it on a full-time basis but as this one proved useful in seeing how much we spent on food, it may become used again in the future if we felt our spending was slightly up again.”

Participants told us that the two main things that would encourage them to use a budgeting tool were if it required less effort to use or if they could have an app that linked to their bank accounts and debit and credit cards so they could see all their transactions automatically without having to enter them themselves. However, when we probed further in the interviews the vast majority told us that they wouldn’t be happy using an aggregator-style app which would require them to hand over their banking PINs and passwords to a third-party.
Who benefitted most from the trial?

We segmented participants into two groups—financially vulnerable or financially secure—based on levels of self-reported confidence, financial resilience, status and well-being. There are hints from our survey results that the financially vulnerable group may have got more out of using the budgeting methods than the financially secure group—see Chart 4.

Compared to the secure group, the financially vulnerable group felt that using a budgeting method had a more marked effect on their:

- ability to monitor spending
- understanding of their income and expenditure
- ability to create a budget
- likelihood of discussing household finances with their partner, family or household
- motivation to save for unexpected expenses
- ability to stick to a budget.

Again, we need to treat these numbers with caution due to the low sample sizes. So we can't conclusively say that those in the financially vulnerable group benefitted most but there does appear to be some indication that this could be the case.

We also saw bigger shifts for the financially vulnerable group than the sample as a whole on some of the key measures we looked at, such as awareness of spending and frequency of running out of money and needing to borrow. For more details on this, see below.

Which of these statements best describes your ability in creating a weekly or monthly budget? (% with a clear idea about how to do this)

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<th>Pre-trial</th>
<th>Post-trial</th>
<th>Percentage point change</th>
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<tbody>
<tr>
<td>All users*</td>
<td>61%</td>
<td>67%</td>
<td>6%</td>
</tr>
<tr>
<td>All financially vulnerable users **</td>
<td>46%</td>
<td>57%</td>
<td>11%</td>
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How often these days do you run out of money and need to use a loan, credit card or overdraft to get by? (% hardly ever/never)

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<td>All users*</td>
<td>66%</td>
<td>70%</td>
<td>4%</td>
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<tr>
<td>All financially vulnerable users **</td>
<td>47%</td>
<td>55%</td>
<td>8%</td>
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How aware are you of what you spend and on what? (% very good)

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<th>Post-trial</th>
<th>Percentage point change</th>
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<tr>
<td>All users*</td>
<td>43%</td>
<td>46%</td>
<td>3%</td>
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<tr>
<td>All financially vulnerable users **</td>
<td>25%</td>
<td>35%</td>
<td>10%</td>
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Conclusion

Many people agree that planning their spending is important but our study suggests that they are not always as in control of their finances as they think.

There's evidence from this research that budgeting tools can help people keep track of their money, think more carefully about their spending and consider the need to save.

For some people – particularly the financially vulnerable - this can bring real benefits such as finding ways to save money and avoid borrowing. We saw numerous examples of people making small changes of their own accord that had a positive impact on their finances, from shopping in budget supermarkets, to eating out less and cycling rather than taking the bus. Even people who were on a tight budget found ways to do this and were often surprised at this.

It’s clear that there's not one budgeting method that suits everyone. For some, the convenience of a mobile phone app was right for them but overall the pen and paper approach seemed more effective in encouraging people to examine their finances in greater detail.

It also became clear that you get as much out of budgeting as you put in. Keeping a detailed record of your spending –whether using a mobile phone app or pen and paper method – requires commitment and effort. Many people found it too time-consuming or are happy to manage their household spending at a more macro level — for example, setting aside amounts for particular areas of expenditure rather than accounting for every penny of their spending.

The real challenge, as we’ve seen from this study, is getting people to start budgeting and to then stick with it. For many of our participants, the perceived benefits of budgeting either using a mobile phone app or the pen and paper method weren’t enough to convince them to do so.

But for those who want to know where every penny goes and who are looking to cut their spending, using a budgeting tool clearly can help. And the good news is that even if you don't want or aren't able to continuously budget, there is some value in doing it for just a small amount of time.

Methodology

Royal London conducted a study between July and November 2016 to see if using a budgeting tool could help people manage their everyday money better. YouGov conducted the research on our behalf.

The participants were recruited from a YouGov panel of Royal London customers and were asked to test either a mobile phone budgeting app or generic, simple pen and paper budgeting method for three months. The apps used were the MoneyWise app from Haringey Citizens Advice Bureau, Spending Tracker and Toshl.

We had 411 participants take part in the full trial. They were of different ages, from across the whole of the UK and between them had a range of Royal London products.

We used both quantitative and qualitative research methods, which consisted of an anonymous questionnaire and an online forum to gain detailed opinions and responses.

The quantitative research

We started the study with a questionnaire which featured questions from the Money Advice Service (MAS) Adult Financial Capability Framework. These questions were designed to measure participants’ levels of financial capability in some key areas including:

- ability to create a budget
- ability to plan spending
- awareness of spending
- reliance on loans, credit cards and/or overdrafts to get by
- ability to reduce or pay off debts
- ability to save money
- ability to meet an unexpected bill of £300
- ability to keep up with bills and credit commitments.

Participants were then randomly chosen to either test one of three mobile phone apps, or the pen and paper budgeting method.

After the three-month budgeting tool trial we then asked participants to complete a questionnaire which included the original questions plus specific questions on the budgeting method participants used, as well as their overall user experience.

Of the 411 participants who took part in the trial, 278 used the budgeting method during the three-month period. The remaining 133 reported never actually using the budgeting method they were given, for various reasons.

*http://www.fincap.org.uk/outcome-framework
The quantitative research

The online forum was open to a selection of participants, pulled randomly from the quantitative approach. The first time was after the first questionnaire was completed. We asked participants to comment on a range of budgeting and money management issues and their initial impressions of the budgeting tool we had asked them to test. This was done anonymously. We then opened the forum again after the trial to find out about their experiences with the tools and how they now viewed budgeting and managing other areas of their finances.

In addition to the four budgeting methods we tested in the quantitative phase, we included one additional app in the qualitative phase. This app, Santander’s Spendlytics app, differed to the others in that it pulled some spending information directly from the user’s bank account rather than requiring users to enter this information manually themselves. In total, 49 participants took part in the qualitative research (a minimum of nine per budgeting method).

At the end of the research period we chose 10 participants (at least one per budgeting method) as case studies. They were asked questions about their attitudes and behaviours towards their finances and their experience using the budgeting method. These interviews were filmed and lasted approximately 1.5 hours.

Segmentation

As part of the analysis we segmented participants into two different groups - financially vulnerable or financially secure - based on levels of self-reported confidence, financial resilience, status and well-being. This segmentation was done using a segmentation specifically designed by Royal London. This segmentation allowed us to assess whether the study had a different impact on these groups.

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