The Aviva Family Finances Report

August – 2012

AVIVA

The typical UK family

The concept of the 'traditional' family is now outmoded and current thinking shows that family means different things to different people. As such 84% of the UK now lives as part of a modern family group and plays a significant role in the economy and society as a whole. The Aviva Family Finances Report looks at different types of family (see page three for groups tracked) and their individual approaches to finances including wealth, debt and expenditure.

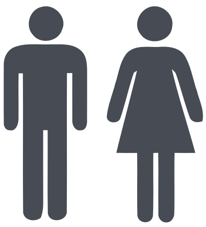
In addition to tracking this data over time, this report shines a spotlight on intergenerational living. How common is it? What are the benefits? What are the downsides? Does it make financial sense? All of these questions and the resulting answers paint a picture of a nation which values its independence, but puts family wellbeing at the heart of its decisions.

Overview

- **Income** – Monthly net income falls as parents cut back on hours during summer (pg 4).
- **Expenditure** – Monthly expenditure increases as people juggle their budgets to maintain spending patterns (pg 5).
- **Family wealth** – Savings pots fall but are above August 2011 levels (pg 7).
- **Housing wealth** – Mortgage borrowing increases (pg 9).
- **Family borrowing** – Families work hard to increase monthly repayments (pg 11).
- **Look to the future** – Inflation fears have fallen but redundancy worries increase (pg 12).
- **Spotlight** – 73% of people have lived with another generation of their family after age 18 (pg 13).
- **Spotlight** – People who live with another generation of their family are better off by £225 per month with young families gaining the most (pg 15).
- **Across the UK** – The UK's most dedicated savers live in the South West with 68% saving something each month (pg 16).

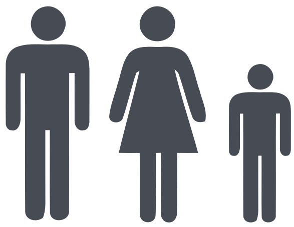
The modern UK family

Thirty years ago, the typical UK family was referred to as the 'nuclear family' and consisted of two parents and one or more children. However, as society has changed over time this is no longer the case. In this report, Aviva seeks to recognise the most common types of modern family based on customer profiles and Government data.



1. Living in a committed relationship* with no plans to have children

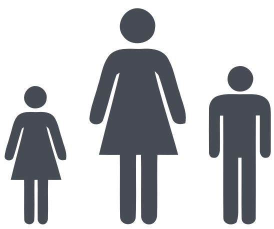
2. Living in a committed relationship with plans to have children



3. Living in a committed relationship with one child

4. Living in a committed relationship with two or more children

5. Divorced/separated/widowed with one or more children



6. Single parent raising one or more children alone

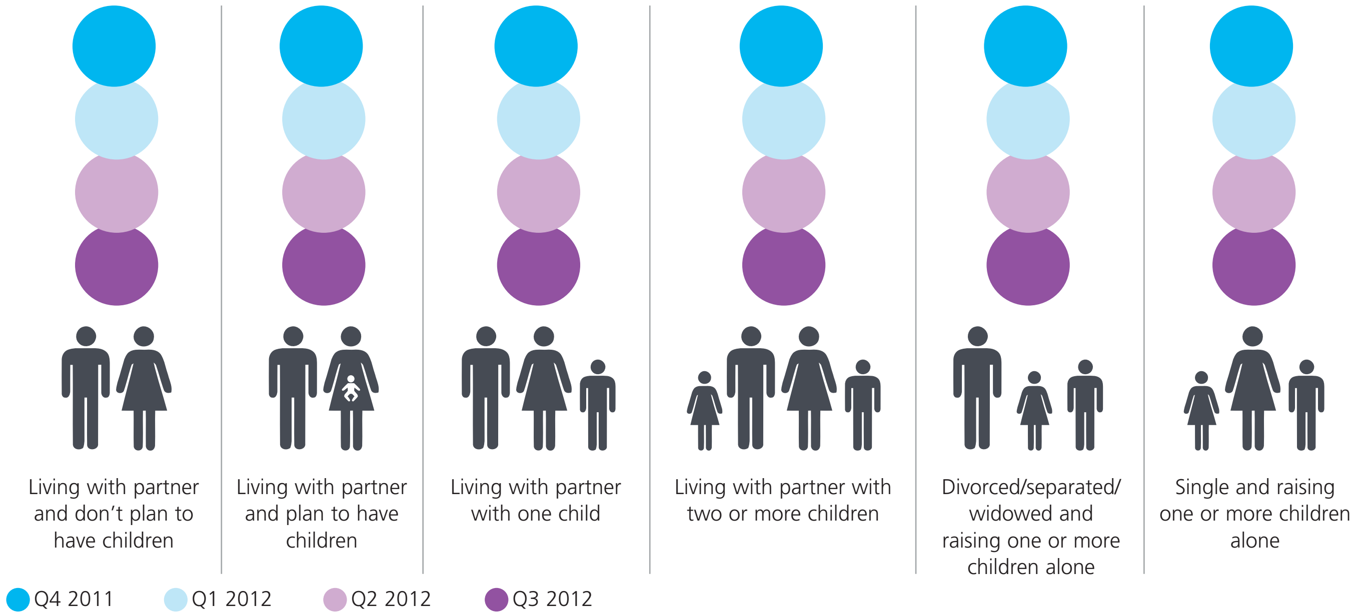
* For the purposes of this report, a committed relationship is defined as either one where two people – including same gender couples – are married or living together.

Income

Summer holidays hit income

The UK family saw its typical income fall from £2,150 (May 2012) to £2,003 (Aug 2012). This may be a seasonal drop as it brings income back in line with the same time last year (£2,018 – Aug 2011) and may be partly due to some part-time / shift workers reducing their hours to care for children during school holidays.

Incomes of committed / married couples with one child (-10% to £1,955) and with two or more children (-9% to £2,115) fell over this period (May to August 2012).



The number of families who struggle to survive on less than £1,250 per month continues to fall steadily, dropping from 30% (Nov 2011) to 28% (Jan 2012) to 25% (May 2012) and now 22% (Aug 2012). This trend is excellent news and suggests that following the Government's drive to rationalise benefits, the most underprivileged families may be getting the help they need.

However, while those on low incomes have seen a steady increase over the last few months, the more 'well-off' families have seen a decline. This report series shows a significant drop in the number of families who have an income of more than £2,500 per month, falling from 36% (Aug 2011) to 31% (Aug 2012). This seems to suggest that while employment figures have improved, salaries at the mid to upper end of the scale have not.

Income sources

The main source of income for the 'typical' UK family remains a primary breadwinners' full-time salary (72%). More than a third of families derive some income from a spouse's full-time job (34%), although this has fallen from 36% since May 2012.

One in five families (18%) derive some income from part-time work which is an increase of two percentage points against the same time last year (16% – Aug 2011) but down on May 2012 (19%).

Other sources of income

Benefits are a source of income for 20% of UK families. This is a one percentage point decrease on the same time last year (21% – Aug 2011) and suggests that the Government cut-backs are starting to have an impact on the income of the typical family.

Income derived from savings and investments helps to improve the finances of 6% of UK families. However, following an extended period of low interest rates, this has fallen year on year (down from 7% – Aug 2011) and is likely to do so again if conditions fail to normalise. However, as 50% (Aug 2012) of families own a home with a mortgage, only a small minority of investors and savers are likely to welcome such a change in interest rates.

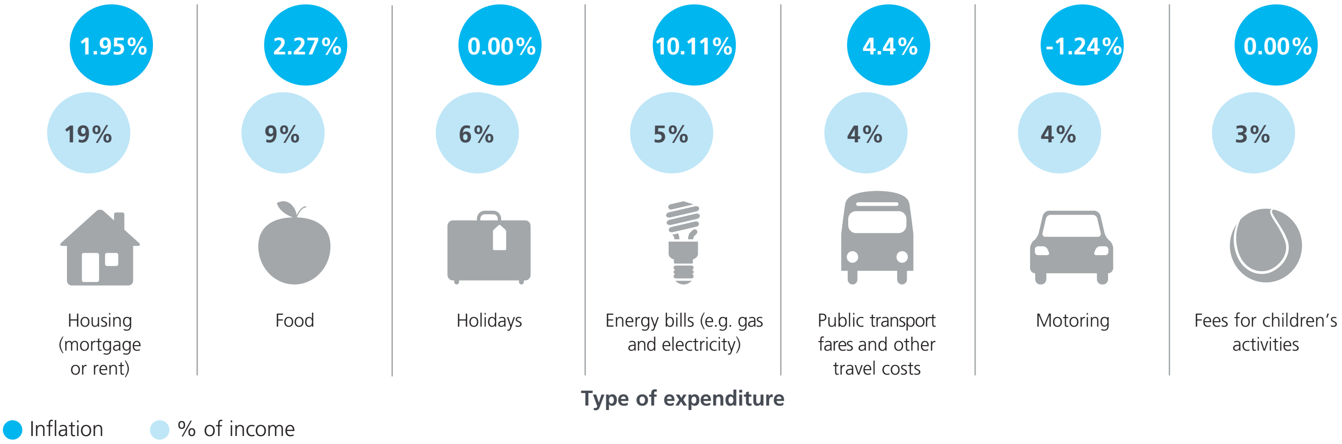
Expenditure

The typical monthly expenditure of a UK family is now £1,765 (Aug 2012) which is a 5% increase on the figure of £1,680 recorded in May 2012.

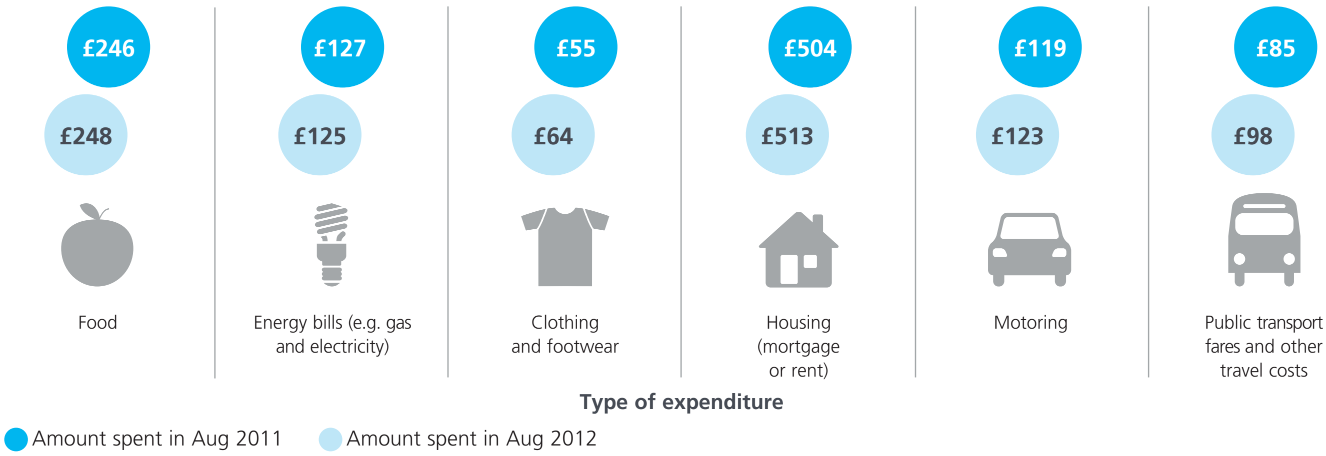
While annual inflation has fallen from 3.5% (March 2012) to 2.8% (June 2012), some of the main expenses for families have seen significant inflation and the figures show people have worked hard to maintain their expenditure patterns.

Energy bills have seen annual inflation of 10.11% (June 2012) and clothing – despite the VAT exemption on children's clothes – saw inflation of 5.90% (June 2012). Other notable annual increases include a 4.04% (June 2012) increase in the cost of public transport and 3.68% (June 2012) on recreation and entertainment.

Highest expenditure points and their inflation



Most common expenses



Inflation on food (+2.27% – June 2012) also doesn't match the increase in actual family spending which suggests that families are looking at value rather than premium brands and shopping around where possible. This statement is borne out by recent figures which showed that value retailer Aldi increased its sales by 25.4% year on year (Q2 2011 vs. Q2 2012).

> "While inflation highlights how costs have changed, each family manages their money in a different way. Some choose to cut back on food costs so they are able to increase their spending on motoring and others use less energy so they can spend more on other essentials. However, irrespective of how we look at it, things have become more expensive and families are more stretched."
>
> Louise Colley, head of protection sales and marketing, Aviva

Holiday spending

While families are increasingly being forced to budget, the cost of certain 'luxury' items such as summer holidays still needs to be considered. More than half (54%) of families put money towards a holiday (£158 per month) and 66% spend money on a satellite TV subscription (£65 per month).

It is interesting to note that the amount spent on children's activities also increased from £64 per month (Aug 2011) to £85 per month (Aug 2012). This suggests that while 46% of families have not spent money on holiday expenses this quarter – and therefore may not be going away at all during summer – they are making an increased effort to treat their children over this period.

Those in a committed relationship with no plans to have children are most likely to put money towards a holiday (56%) compared to single parents (42%).

Family wealth

The typical family's savings fell to £1,131 (Aug 2012) from £1,228 (May 2012) but remain higher than the same period last year (£982 – Aug 2011). In addition, the number of families with no savings rose to 28% (Aug 2012) from 24% (May 2012), but again this was lower than in August 2011 (31%).

This is positive news as it indicates that while people may take money out of savings to meet summer costs, year on year the overall trend suggests an improvement in savings. Those in a committed relationship with plans to have children have the largest savings pots (£2,383) and those who are divorced / single with children have the smallest (£31).

Monthly savings picture

However, the typical amount saved on a monthly basis is £29 which is below the amount saved at the same time last year (£34 – Aug 2011) and significantly below the amount saved in the previous quarter (£45 – May 2012).

This clearly shows that the rising cost of living has had an impact on how much people are able to save – but has not curtailed families' savings habits completely. Indeed, despite the impact of inflation, the number of people saving nothing each month has only risen slightly from 36% (Aug 2011) to 37% (Aug 2012).

The percentage of families saving each month

Widowed/divorced/separated parents are the least likely to save on a monthly basis (44%) and those in a committed relationship with plans to have children are the most likely to save (74%).

Having tracked the latter family group since this report was first formulated, these families tend to be younger and have significant financial goals such as paying for a wedding or purchasing their first home. This means they tend to save more than some other family groups.

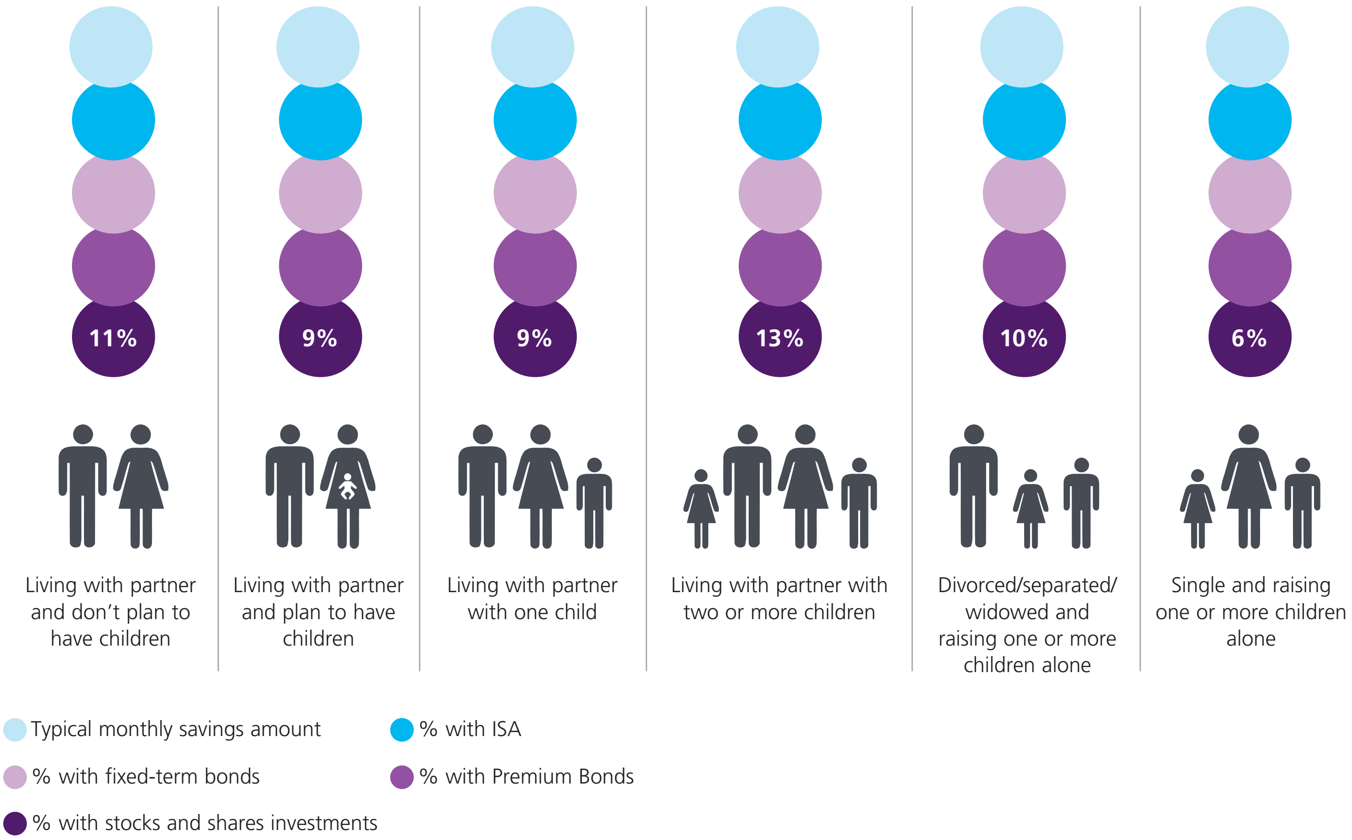
This group is also among the most likely to have a basic bank / building society savings account (83%) which is slightly above the UK family average (81%). However, having a savings account does not necessarily mean that it will be used, as 81% of single parents have this type of product but half put nothing into it each month (50%).

Savings products

Following the basic bank or building society savings account, ISAs (36% – Aug 2012) and Premium Bonds (17% – Aug 2012) are the most popular savings vehicles. As well as their age, the amount that people are able to save each month appears to govern the type of products people have in their 'savings portfolio'.

Indeed, those in a committed relationship with plans to have children save the most (£63 – Aug 2012) and are most likely to have an ISA. However, at this stage in their lives, they are likely to need more access than that provided by a fixed-term bond and perhaps are not confident enough to take the risks associated with stock market investments

Savings product split:



People in a committed relationship with children are more likely to have stocks and shares investments (13%) and those in a committed relationship with no plans for children are more likely to have Premium Bonds (21%). Notably both of these family types tend to be older.

Housing wealth

Just under two thirds of families (61%) own their own homes – either outright or with a mortgage. In addition, 22% live in private rental accommodation and 13% live in social housing. These figures are in line with the same time last year.

Those in a committed relationship with two or more children are most likely to own their own homes (71% – Aug 2012) compared to just 27% (Aug 2012) of single parents.

The value of the typical family home is £210,620 which is down from £212,324 (May 2012) but up from the same time last year (£207,361 – Aug 2011). Due to their larger size family homes tend to be more valuable than the average UK house which is typically worth £161,777 (June 2012).

Of all the tracked groups, the families who are likely to have the largest homes – committed relationship with two or more children – have the most valuable homes (£228,073 – Aug 2012).

Average value of house per family type

The typical mortgage on a family home is (£104,157), which is up on the same time last year (£94,156 – Aug 2011) and marginally up on last quarter (£99,237 – May 2012). This may suggest some families have moved or extended their mortgages. Market figures which show that gross mortgage lending increased from £33,33bn (Q2 2011) to £34,33bn (Q2 2012) lend support to this theory.

Equity falls

Similarly the fact that the mean equity of all homeowners fell to £127,424 (Aug 2012) from £136,445 (May 2012) indicates that some families have remortgaged and used the equity in their homes for other purposes.

Those people in committed relationships without plans to have children boast the most equity (£146,511) while those couples planning to have children have the least (£82,158).

> "It appears that Britons' homes remain our castles and these statistics clearly show the important role that property plays in the typical family's wealth. With the over-55s having more than £2.05 trillion in housing equity, more and more people are likely to find they need to consider this as part of their retirement planning."
> Louise Colley, head of protection sales and marketing, Aviva

Second homes

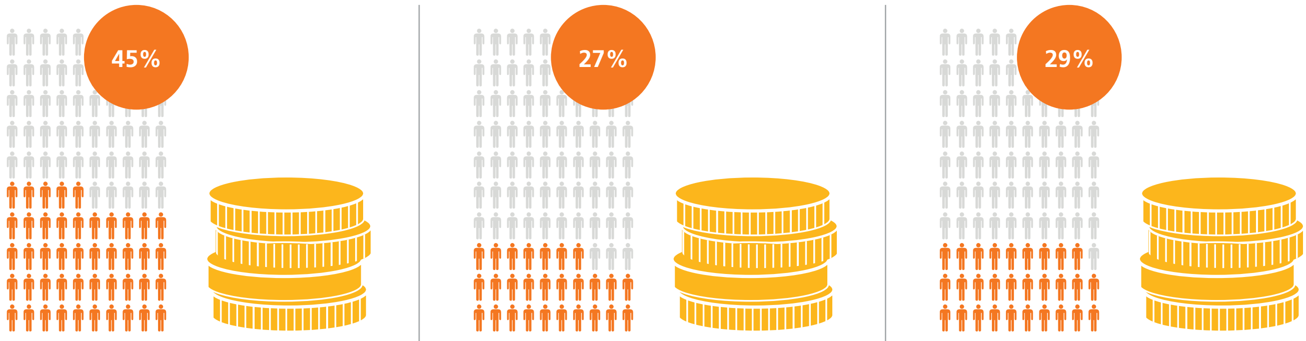
Almost one in five (18%) families own some form of second property be it a buy-to-let investment, holiday home or time-share. The typical amount outstanding on this kind of property is £117,672 which explains why just 3% of families derive any income from rental property as it's likely they are using the income to repay their mortgage.

Again those people in committed relationships without plans to have children are most likely to own a second property (21%). This may be due to the fact that they are older with fewer financial dependants.

Family borrowing

The typical UK family owes £10,563 in unsecured lending which is up from £9,314 in May 2012. The three most common types of family borrowing are through credit cards, personal loans and overdrafts.

Most common borrowing methods



Credit Card | Personal Loans | Overdraft

Percentage of families · Typical amount owed by those who use this type of credit

Widowed/divorced/separated parents (49%) are most likely to have credit card debts, but less likely to have personal loans (24%) or an overdraft (27%). At the other end of the scale, households of a committed couple with one child have the highest unsecured debt (£15,848 – Aug 2012) followed by those of a committed couple with two or more children (£11,739 – Aug 2012).

However, widowed/divorced/separated parents also have the lowest amount of unsecured debt (£5,505 – Aug). This may suggest that credit cards are used for short-term borrowing only in emergencies or dire need, as these parents have less flexibility to repay their debts.

Less formal lending

As part of this report, Aviva has expanded the number of borrowing categories that are tracked and we can now see that 4% of families use pawnbrokers and 6% make use of pay-day loans. Single parents (8%) are most likely to use pay-day loans or a pawn broker. How this will change in the future as this market becomes more mainstream remains to be seen.

Monthly repayments

The typical UK family spends £141 per month on debt repayment which is up from £114 in May 2012. However, as debts have continued to increase, this suggests that while people are making repayments, they are also borrowing more.

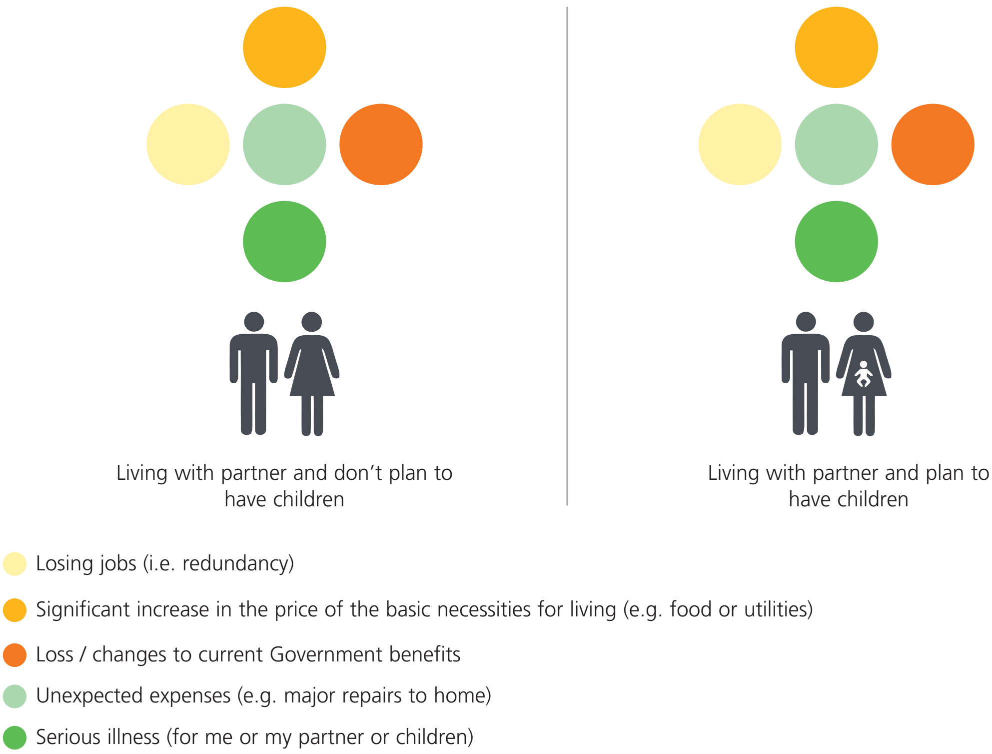
This mounting borrowing has not been ignored by UK families and 12% are worried about keeping up with their repayments over the next six months. This is an increase from 9% (May 2012) and is likely to have been the catalyst behind a sharp increase (+£30 – May 2012 to Aug 2012) in the amount of money spent on debt repayments.

A look to the future

The top short-term financial fears for the UK's families relate to the rising cost of living, loss of jobs, and unexpected expenses.

Over the past year as inflation has fallen, fears around an increase in the cost of basic necessities have too (64% – Aug 2011 vs. 58% – Aug 2012). However, economic uncertainty and talk of a triple-drip recession have worried some people. Indeed, families are now more worried about the loss of jobs (45% – Aug 2011 vs. 47% – Aug 2012) and unexpected expenses (40% – Aug 2011 vs. 43% – Aug 2012).

Top 5 fears



Recent announcements over the Government's Funding for Lending Scheme and discussions around a further decrease to the base rate has calmed some families' fears, and just 13% are worried about higher mortgage rates (14% – Aug 2011). Couples in a committed relationship with one child (16%) are most worried about an increase in mortgage rates.

Spotlight – Intergenerational living

In bygone times people would have continued to live with their extended families into adulthood. Then in the 18th century, the industrial revolution arrived and social mobility increased, creating a society where most people lived with their nuclear family or – more recently – increasingly on their own.

However, with the recent economic turmoil, rising house prices and a rapidly ageing population, more and more people are living with their wider families for longer. Nearly three quarters (73%) of UK family members have lived with another generation of their families beyond 18 years of age.

Preparing to fly the nest

The most common type of intergenerational living is for an adult child (over 18) to live with their parents while they look for a job (37%), before they attend university (30%), while studying (18%) or immediately after university (16%).

This is generally seen as a continuation of the parenting role as it helps the child get a more financially secure start to independent living. However, the recent economic turmoil certainly appears to have had an impact on this trend as just 17% of family members aged 36–40 lived with their parents while studying compared to 25% of those aged 25-30.

Other common types of intergenerational living include:

a couple living with one set of parents	**10%**
a person living with their parents after a relationship break-down	**7%**
a couple living with their children and parents	**4%**
a single parent living with their parents and their children	**3%**

Boomerang generation – in it for the long haul

Excluding the student years, people typically first experience intergenerational living as an adult when they are 23 years old and spend an average of three years in this living arrangement. However, 24% said they spent more than five years living with other members of their family and 8% (Aug 2012) stayed for over 10 years.

Almost a third of people who live with family as adults (28% – Aug 2012) leave but then return to live with their families in their late twenties (typically 28 years old). This tends to be for a shorter period and 61% stay for less than a year.

Finally, 13% (Aug 2012) move out but find themselves living with family members for a third time. This also tends to be for a shorter period with 69% (Aug 2012) experiencing this living arrangement for less than a year.

Two generations can live as cheaply as one?

The main driver behind intergenerational living is money. More than half (57%) say they made this choice as they could not afford a home of their own, while 33% said it allowed them to save for a home of their own. A further 12% say it helped them deal with a difficult financial situation such as problem debts.

However, 10% said they did it in order to care for an elderly relative, and 7% said they made their choice to provide companionship to an older family member. In addition, 10% (Aug 2012) said it was more convenient as they were close to work and 13% found that they just liked living as part of an intergenerational household.

> "Almost 20% of intergenerational living is due to families welcoming the older generation into their homes. With a rapidly ageing population, this is likely to become more common in the future and families may need to take this into consideration when purchasing and renovating their properties."
>
> Louise Colley, head of protection sales and marketing, Aviva

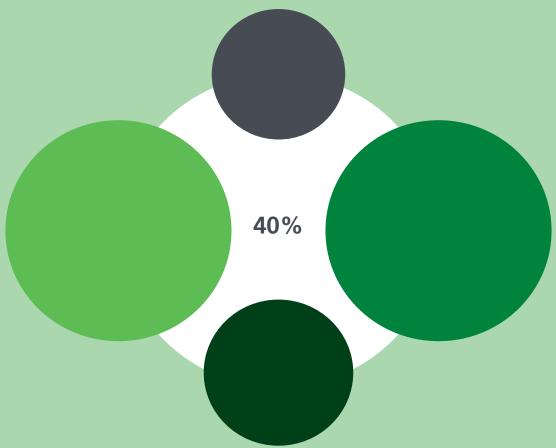
Familiarity breeds frustration

Two-thirds of people said they had experienced some downsides to living with family members. Four in 10 (40%) said the arrangement made it more difficult to be as independent as they liked, while 27% experienced arguments over personal space. The same number (27%) said their home did not feel like their own.

Those living as a committed couple with plans to have children were most likely to experience issues living with family members (70%) but the widowed/divorced/separated were least likely to find this (60%), potentially as they may appreciate the emotional support of their family.

It is also interesting to note that 24% (Aug 2012) of women in a family said intergenerational living made them feel 'like a child' but only 10% (Aug 2012) of men found this.

Top 5 frustrations



- Finding it difficult to be as independent as I'd like to be
- My home didn't feel like my own
- Arguments over personal space such as bathroom usage or what to watch on TV
- I was made to feel like a child even though I was an independent adult
- Finding it hard to spend time alone with partner

Mutual support

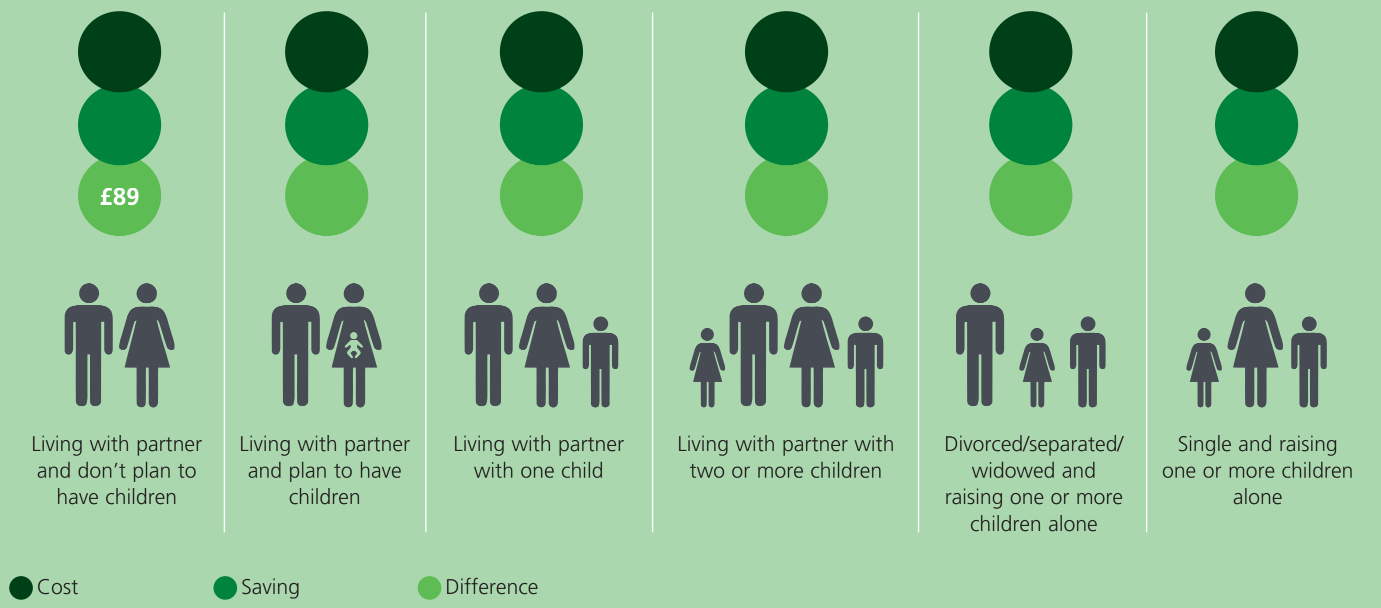
While the vast majority experienced some disadvantages when living with family, 85% of people also found some positives. Almost half (42%) said that there was always someone around for company and 30% felt that they were looked after.

This appears to be particularly appealing to younger families. More than four in 10 (41%) of those couples planning children saw being looked after as an advantage compared to 26% (Aug 2012) of parents in a committed relationship with two or more children.

Almost a third of those who had lived with relatives (31%) said intergenerational living had brought them closer as a family. In addition 27% liked the emotional support and 24% enjoyed sharing household chores.

The financial implications of sharing

Families were asked how much it cost the hosts to have an extra family member living with them (£107 per month) and how much it saved the lodging family (£225 per month). This suggests that overall, the typical family who lives in an intergenerational household is £119 per month better off.



Those in a committed relationship with plans for children find intergenerational living most financially advantageous, typically saving £311 per month. This is probably because they are the family group most likely to be living rent-free, with 46% saying they don't pay any rent or lodging.

However, while families said that they were better off, 12% said intergenerational living had caused arguments about money. A further 8% found themselves giving hand-outs to family members and 7% felt they paid for more than their fair share.

Looking to the future

While intergenerational living has its advantages, 51% of UK families say they would not consider sharing with family in the future. Independence appears to be a sticking point, with 22% saying they are simply too used to their own space. A further 10% feel they don't have the room.

This does not denote a lack of caring, however, as 8% would look to support their family in other ways and 22% would move closer to assist but would draw the line at actually living with other family members.

Just 17% say they would be happy to live with their family members for as long as it was required and 16% said they would only live with their family if it was on a temporary basis. One in eight (12%) would be happy to live with their family only if they needed support, for example during an illness.

"It's clear that as a nation we love our independence and space, but many families are waking up to the benefits of sharing with other family members. However, if a family becomes host to other relatives, financial protection is even more important than ever. If one generation is responsible for putting a roof over the heads of others, it's imperative that measures are in place so if they did lose an income, the whole family doesn't suffer."

Louise Colley, head of protection sales and marketing, Aviva

The view across the UK

The families with the highest average incomes in the UK tend to live in the capital. The average monthly income of the typical family in London is £2,344 followed by those in the South East (£2,319) and the West Midlands (£2,023). The families with the lowest incomes in the UK are in Yorkshire (£1,784) and the North East (£1,799).

Assets

London families are also most likely to have put away the most in savings, with an average of £5,092 saved, followed by families in the South West (£1,832), and the South East (£1,434).

Those in Wales (£436) have the smallest savings pots. This is perhaps unsurprising given that 46% typically save nothing per month – although they don't actually have the lowest incomes (£1,931). The UK's most dedicated savers live in the South West with 68% saving on a monthly basis.

Borrowing

Fifty two per cent of families in the South West have credit card debt – substantially higher than those in Scotland (36%) and Wales (38%). The East Midlands (£4,166), Wales (£5,093) and Scotland (£4,712) have the lowest amounts of debt in the UK which suggests that they are more able to live within their budgets than some other regions.

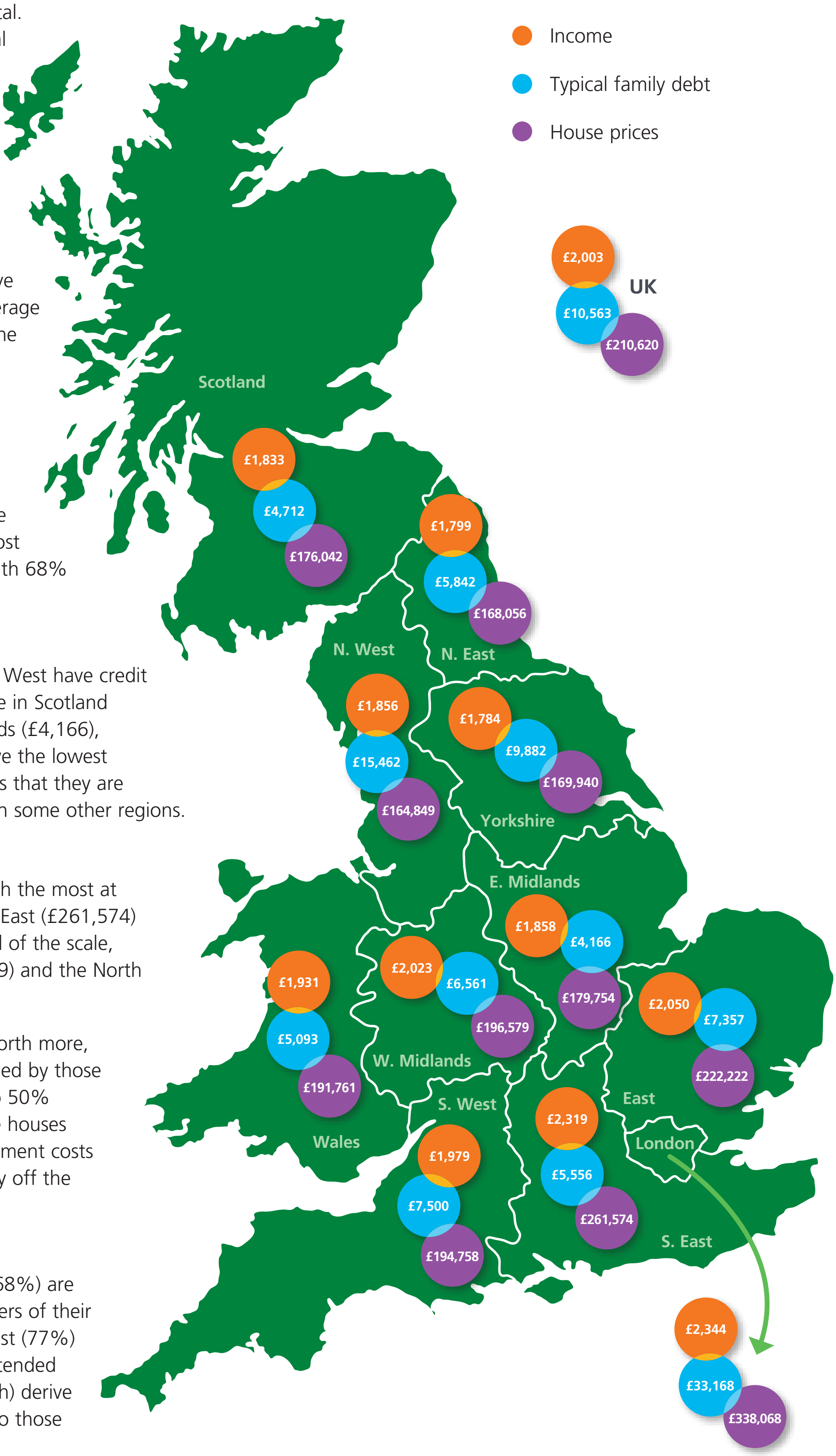
Housing

The typical family home in London is worth the most at £338,068 followed by those in the South East (£261,574) and the East (£222,222). At the other end of the scale, family homes in the North West (£164,849) and the North East (£168,056) are considerably cheaper.

However, while London homes may be worth more, the typical amount of housing equity owned by those with a mortgage is just 44% compared to 50% in the North East. This suggests that while houses in the capital might be worth more, repayment costs are higher and families are less able to pay off the mortgage quickly.

Intergenerational living

People in Yorkshire (68%) and Scotland (68%) are least likely to have lived with other members of their own family – compared to those in the East (77%) and London (76%). For those who do, extended families in the South East (£174 per month) derive the greatest financial benefits compared to those in the North East (£77 per month).



So what does this tell us?

"This edition of the Aviva Family Finances Report reveals that while the long summer school holidays provide an excellent opportunity to spend time together as a family, they also have financial implications. It seems that some parents need to cut hours in order to care for children and more is spent on activities to keep children amused. It's therefore important that families take this into account when budgeting and plan accordingly.

The report also looks at intergenerational living as more and more people are choosing to live with other members of their family. A large proportion of this 'lodging' occurs when adult children are living with their parents while studying or after university, but a surprising number of people live with other members of their extended families.

While some of this is linked to the recent financial turmoil and the difficult economy, many people genuinely enjoy spending time with their families and find this living arrangement provides financial, emotional and social benefits.

If one family group relies on another generation to provide their home, it becomes even more crucial that the host family has financial protection in place. This way, if the home-provider should unexpectedly lose an income – for example through critical illness or even death – there will be some financial comfort for the wider family.

Louise Colley, head of protection sales and marketing, Aviva

Methodology

The Aviva Family Finances Report was designed and produced by Wriglesworth Research. Over 2,000 people aged 18-55 who live as part of one of six family groups were interviewed by Opinion Matters in order to produce the report's latest findings.

In total, 14,168 UK consumers have been interviewed between December 2012 and July 2012. This data was combined with additional information from the sources listed below and used to form the basis of the Aviva Family Finances Report. All statistics refer to figures released in August 2012 unless stated otherwise.

Additional data sources include:

Kantar – World Price Index – May 2012

Land Registry – June 2012 House Price Figures

Gross Mortgage Lending – Aug 2012 – Council of Mortgage Lenders

Office of National Statistics – Inflation Figures – June 2012

Technical notes

- A **median** is described as the numeric value separating the upper half of a sample, a population, or a probability distribution, from the lower half. Thus for this report, the median is the person who is the utter middle of a sample.
- An average or **mean** is a single value that is meant to typify a list of values. This is derived by adding all the values on a list together and then dividing by the number of items on said list. This can be skewed by particularly high or low values.

For further information on the report or for a comment, please contact Sarah Poulter at the Aviva Press Office on 01904 452828 or sarah.poulter@aviva.co.uk