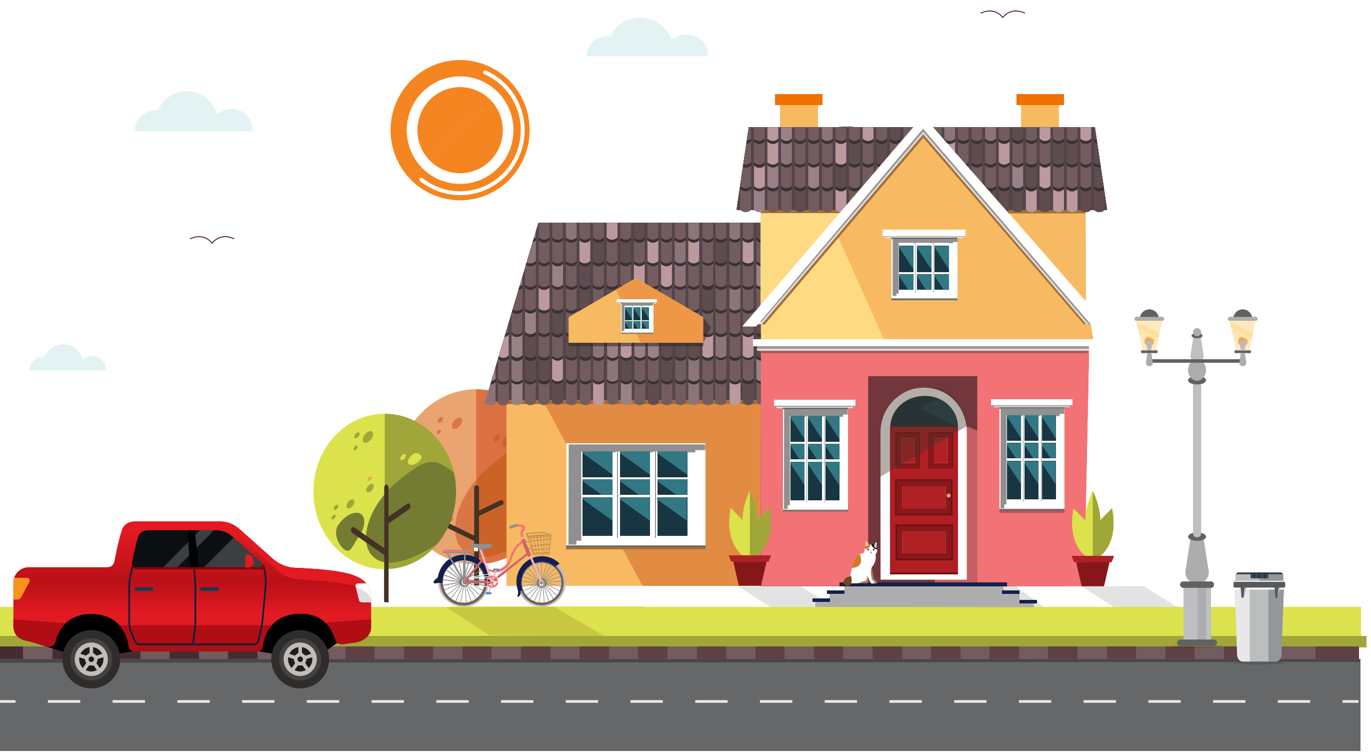
Momentum
Household Financial Wellness Index

2016
Full report

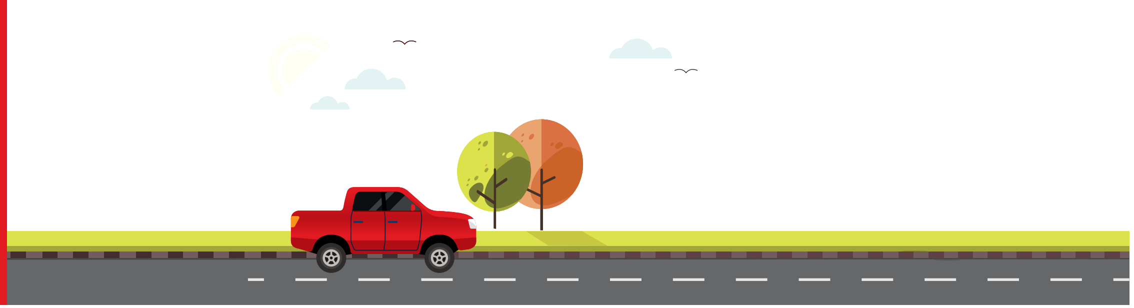


Changing the Financial Wellness of South Africa one household at a time.

momentum | UNISA university of south africa

Purposeful collaboration towards Financial Wellness in South Africa

Introduction and context



South African households are experiencing huge personal financial pressures according to official statistics and various research reports published in 2016 and 2017. Such pressures originated from a large number of sources of which the following were identified as the most influencial:

- **macroeconomic factors**, including inter alia continued low economic growth rates, high unemployment rates, high poverty rates, high levels of income and wealth inequality, high consumer price inflation rates, increasing interest rates, higher income tax burdens, low levels of consumer and business confidence, as well as low compensation and credit growth.
- **institutional factors such as**, political instability, policy uncertainty, credit rating downgrades, low business profit margins, low levels of fixed capital formation by business, low levels of business formation, increasing levels of business mortality and low business propensity to employ people; and
- **microeconomic factors**, including lower consumer demand for products and services, lower levels of consumer credit uptake, lower levels of spending on luxury goods, buying increasingly down and high levels of consumer financial vulnerability.

This report analyses the financial wellness of households during 2016 from a household financial wellness journey perspective (see section 3). The aim is to arrive at an in depth understanding of South Africa households' financial wellness and the underlying causes thereof.

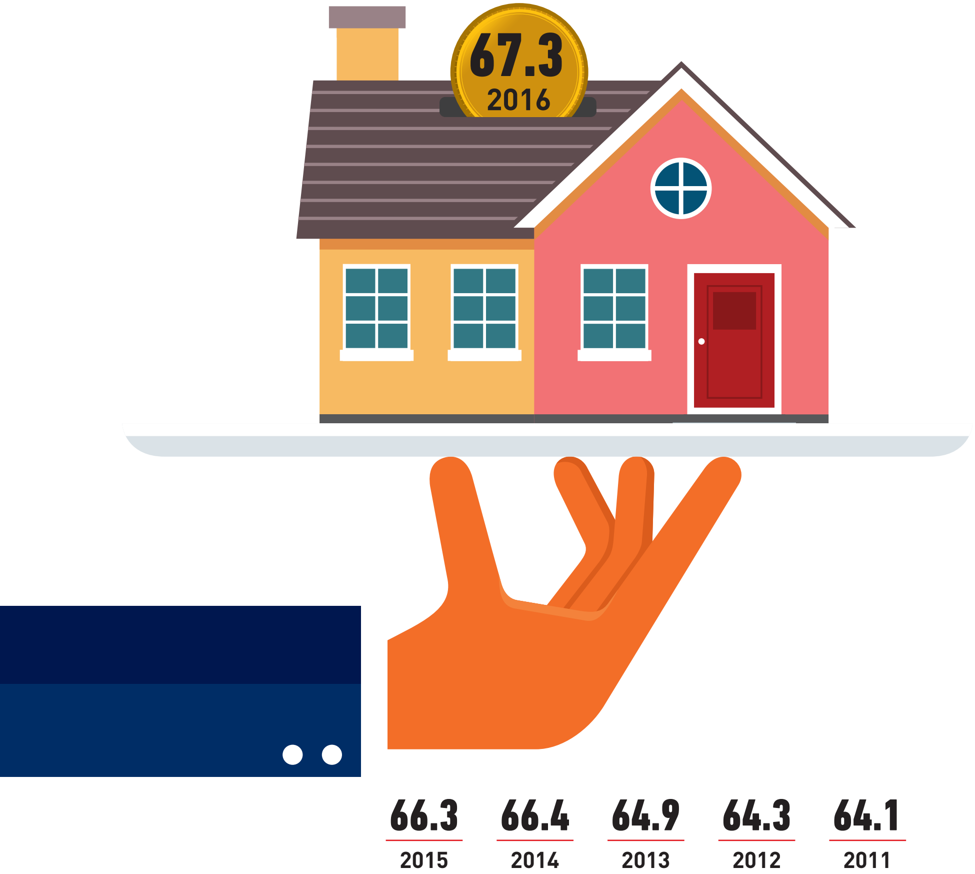
2. THE BIG REVEAL – THE MOMENTUM/UNISA HOUSEHOLD FINANCIAL WELLNESS INDEX SCORE AND THE FIVE HOUSEHOLD FINANCIAL WELLNESS SUB-INDEX SCORES IN 2016

2.1 The overall Momentum/Unisa Household Financial Wellness Index score for 2016

The average overall Financial Wellness score of South African households increased steadily from **64.1** in 2011 to **67.3** in 2016 (***see Figure 1***). However, the rising financial wellness score does not imply consistent improvement. Indeed, a number of factors such as economic conditions, household moods, -expectations, -behaviour and -actions contributed to inconsistency in the household financial wellness trend.

Household financial wellness improved between 2011 and 2014, as there was still marked optimism that South Africa will emulate other countries by exiting the hangover of the great recession (2008-2009) - and that a period of higher economic growth and employment rates will soon emerge.

Figure 1



However, in 2015 the optimism was replaced by a growing realization that South Africa's low economic- and employment growth woes were not purely driven by the recession hangover, but by a large number of problems endemic to the South African economy, exacerbated by political and social instabilities.

2.2 What happened to the household financial wellness sub-index scores?

The five household financial wellness sub-index scores that make up the overall household financial wellness score are reflected in ***Figure 2*** below. The various sub-index scales are shown on 10-point scales where '0' is indicative of absolutely low financial wellness, while '10' is an indication of absolutely high financial wellness.

As has been the case in previous years, households' social capital has again underperformed most with a score of 4.9 out of 10. The low social capital score indicates that South Africans in general do not feel in control of their lives and finances; they feel disempowered and unable to turn bad personal situations around; and they are distrustful of government and other institutions, which are supposed to improve their lives.

Figure 2 : Capital definitions and scores for 2015 and 2016 - calculated out of 10

Social Capital
The household's personal empowerment as determined by factors affecting the control over their financial situation and trust in institutions that affect their personal empowerment.
2016 4.9 | 2015 4.7

Human Capital
The state of the household's education status as determined by their qualification and skill levels.
2016 6.4 | 2015 6.2

Asset Capital
The household's balance sheet as determined by the state of assets, liabilities and not wealth.
2016 5.0 | 2015 5.8

Physical Capital
The income statement of the household as determined by the state of income and expenditure.
2016 5.6 | 2015 5.4

Environmental Capital
The quality of the environment within which the household lives as determined by the quality of the dwelling.
2016 6.6 | 2015 5.7

When comparing the ***2016*** household Financial Wellness sub-index scores with the ***2015*** sub-index scores (see ***Figure 2***), an interesting pattern emerges. While the environmental-, physical-, social- and human capital sub-index scores were higher in 2016 compared to 2015, asset capital was significantly lower. Asset capital registered the second lowest score as real asset and real net wealth growth rates were negative.

Three improving sub-index scores (apart from social capital) indicate where some headway was made, mainly as a result of reasons external to households. Environmental capital showed some improvement due to urbanisation and upgrades resulting from government residential infrastructure- and housing development programmes. Human capital gains largely emanated from secondary and tertiary education gains, while physical capital improved as a result of slight gains in disposable income. Although there were sizable increases in the said aspects underlying environmental capital and human capital growth, the quality of such growth (that is, quality of education, infrastructure and housing) was not always of a desired standard.

The trends observed in respect of the five capitals were largely as expected and can be summarised as follows:

- The relatively strong improvement in environmental capital from 5.7 in 2015 to 6.6 in 2016 can to a large extent be explained by growth in residential housing stock as well as growth in the number of homes with running water and electricity.
- The slight improvement in physical capital, namely from 5.4 in 2015 to 5.6 in 2016, resulted from some growth in total household incomes during this period. The South African Reserve Bank (2017) indicated that household gross disposable income grew by 6.8 percent in nominal terms over this period.
- The slight improvement in the human capital score from 6.2 in 2015 to 6.4 in 2016 largely emanated from an increase in the number of educated people in 2016 compared to 2015 - especially with respect to the number of people with completed secondary or tertiary qualifications.
- The said growth in the number of people with completed secondary or tertiary qualifications gave rise to an increasing number of households expecting that they will be able to create decent futures for themselves. This increased the average social capital score from 4.7 in 2015 to 4.9 in 2016. However, this score remains very low indicating that social capital is still the Achilles heel of millions of households in South Africa, thus impeding their journey to financial wellness.

2.3 How does this all tie up with previous years' sub-component scores?

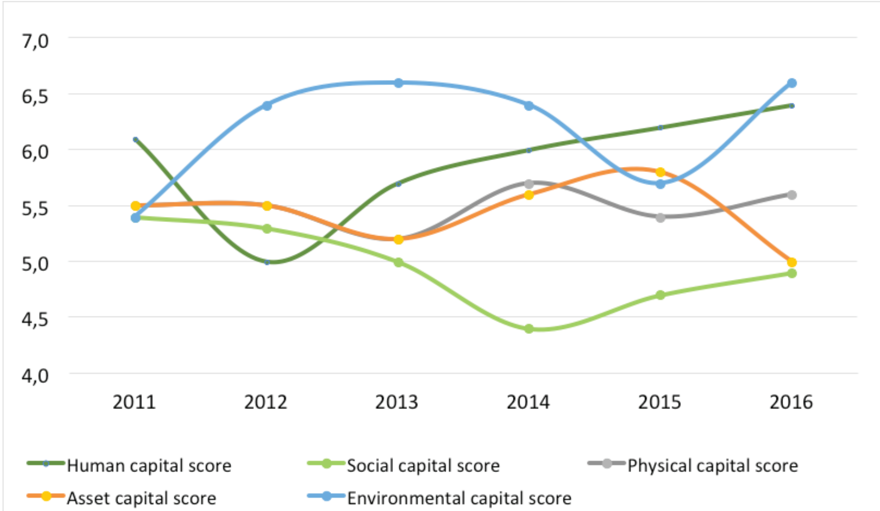
When analysing the sub-index scores over a longer period, namely from 2011 – 2016, some specific trends emerge (***see Figure 3***).

During this period human capital scores increased due to strong growth in the pool of household members with completed secondary and tertiary qualifications. The South African Institute for Race Relations (SAIRR) (2017) calculated that the number of South Africans aged 20 and older with a grade 12 education or higher increased by 46.7 percent between 2002 and 2015, while the number of people that completed a post-school education grew by 194.1 percent.

Asset capital scores increased due to real growth in the net wealth of households. Van Tonder (2016) indicates that notwithstanding the contraction in households' real net wealth in 2016, their net wealth grew by almost 20 percent from 2011 to 2016.

Environmental capital grew because of improved living conditions. While these three forms of capital generally saw net positive growth over the period 2011 to 2016, the growth pattern in physical capital was volatile due to unstable levels of real household income growth and high unemployment rates, while households' social capital levels decreased due to an increasing feeling and realisation of disempowerment caused by, among others, a weak economy and political instability.

Figure 3



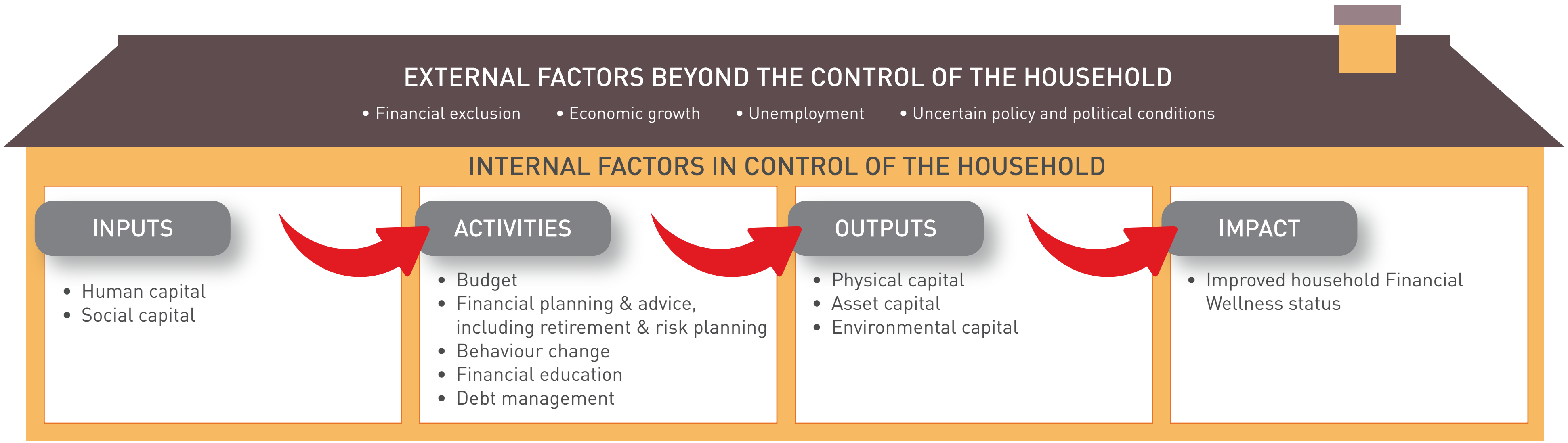
3. AN EXPLANATION OF THE FACTORS INFLUENCING THE FINANCIAL WELLNESS JOURNEY

Financial Wellness research revealed that almost three quarters of South African households are financially unwell. Some of their financial pressures are caused by variables outside of their control, while others were caused by households' own actions or inactions. The variables over which they have no or little control include stagnating economic growth, high levels of unemployment, volatile changes in the value of the rand exchange rate, a severe drought, policy uncertainty and political instability. These "uncontrollable" variables resulted in low levels of business confidence, higher prices and interest rates, retrenchments, exclusion from participation in the economy and an increase in the number of children born in poverty.

There are, however, also many households that are under pressure due to bad management of variables within their control. This includes not improving their level of financial literacy, absence of comprehensive financial planning (i.e. lack of proper budgeting and linking it with their financial planning objectives), not making use of professionals for financial advice, conspicuous consumption, wrong use of credit, very high levels of indebtedness, no provision for emergency expenses and insufficient provision for retirement and protection against risks that disrupt lifestyles.

The inability of these households to take advantage of these controllable variables points to a wide range of capability problems. This can be found in those households where the skills- and educational levels of household members are so low that they are not able to obtain well-paying employment, thereby disabling them to cover all their expenses and to save for emergencies and retirement. There are also highly skilled and decent income earning household members who should be financially well, but aren't due to their own misguided financial activities, or lack of action when it was required. These households' behavioural capabilities (functionings) have a bigger impact on their financial outcomes than their skills and income generating capabilities.

The Theory of Change provides an excellent conceptual tool to determine why some low capability households land up being financially well (positive entropy) and why some high capability households are less financially well than they should have been (negative entropy). The rest of this report is structured in the following way: A graphical representation of the Theory of Change as it pertains to the household financial wellness journey, followed by an explanation thereof, and analyses to gain a deeper understanding of its applicability to financial wellness.



3.1 Financial Wellness from a Theory of Change perspective

The graphical representation of the Theory of Change above shows that the level of human and social capital forms the baseline conditions for household's Financial Wellness journey. Stiglitz, Sen and Fitoussi (2008) indicate in this regard that education (human capital) provides the skills and competencies that underpin economic production. Research has shown that better educated people on average have better health outcomes, lower levels of unemployment, more social connections and higher levels of engagement with civic and political life (social capital) (Stiglitz, Sen and Fitoussi, 2008).

Such human and social capital should be put to effective use and developed via a broad range of financial activities that are designed to build and increase their physical-, asset- and environmental capital (income, net wealth and living conditions). Conversely, should households continue to improve their human and social capital throughout their lives without using these skills to their financial advantage - via engagement with financial activities - such enhanced human and social capital will have little value.

However, it is not just a case of conducting certain activities, but conducting such activities correctly and effectively. Such activities in the personal finance sphere include:

- compiling a personal/household budget;
- conducting comprehensive financial planning - and aligning the budget with financial planning objectives such as saving for retirement and emergencies, as well as protection against risks that can disrupt the households' future;
- incurring affordable debt for asset accumulation purposes and managing such debt;
- adjusting personal behaviour so that the objectives in the financial plan can be achieved;
- consulting high quality and trustworthy financial advisers to assist with setting and achieving such budgetary and financial planning goals; and
- learning from financial and other advisers and other sources to improve financial literacy.

This means that the level of household members' human and social capital and the extent to which they use such capital and engage in appropriate financial activities, will affect the magnitude of their physical, asset and environmental capital formation. High physical, asset and environmental capital formation will in turn give rise to higher levels of financial wellness.

3.2 How do the external factors beyond the control of the household influence their Financial Wellness?

Macroeconomic influences beyond the household's control do have a profound impact on the level of their financial wellness. Correlation analyses (see annexure B) suggest that the overall household financial wellness score is strongly related to a large number of macro-economic variables (measured in real terms), namely gross domestic product (r=0.941), personal consumption expenditure (r=0.896), gross domestic expenditure (r=0.841), household assets (r=0.892), household wealth (r=0.905) and gross fixed capital formation (r=0.784). Overall household financial wellness is also strongly correlated with employment (r=0.684).

This suggests that a better macroeconomic environment will have a positive enabling impact on households' financial wellness. However, SARB (2017) GDP statistics show that the South African GDP growth rate declined steadily from 3.3 percent in 2011 to 0.3 percent in 2016. This explains the lower gains in household financial wellness shown in figure 1 for the period 2014 to 2016, while analysts don't expect a sharp recovery in the near future. For instance, Bishop (2017) does not expect a significant increase in the GDP growth rate for 2017 (0.8 percent). And given the strong correlation between gross domestic product and financial wellness, this indicates that significant gains in household financial wellness should not be expected in 2017.

Conversely, improved levels of household Financial Wellness will contribute to stronger economic growth. Provisional time-series analyses (conducted for the period 2011 to 2016) show that a 1 percentage point increase in the household financial wellness score will on average contribute to a 0.4 percentage point increase in real GDP. Although this result is still tentative, it nevertheless suggests that greater attention on "softer" issues - such as the financial activities listed above - will in itself contribute to higher gross domestic product.

4. A MORE IN-DEPTH LOOK AT THE DIFFERENT HOUSEHOLD FINANCIAL WELLNESS GROUPS

Demographic analyses provided additional insights into the factors that contribute towards a state of household Financial Wellness, or unwellness. ***Table 1*** shows that almost 75 percent of South African households are not financially well.

Table 1

	Number	Percentage
Financially distressed	376 753	2.3%
Financially unstable	5 253 147	31.4%
Financially exposed	6 678 488	40.0%
Financially well	4 395 591	26.3%
TOTAL	16 703 979	100.0%

With such a high percentage of households in financially distressed, unstable or exposed positions, it is not surprising that high levels of financial instability are prevalent in the South African household sector. Unfortunately, this precarious position is also associated with a wide range of other social and political problems. With Bishop (2017) estimating a 54 percent chance that things will get worse in the short to medium term, this implies a tough road forward for households.

4.1 The Theory of Change applied to the Financially Distressed group

The Theory of Change, as applied to financially distressed households, is reflected in ***Table 2***. It appears from this table that the mean financial wellness score of this group is only 24.2. Analysis points to a large number of factors that contributed to such a low score. This, among others, includes a low employment rate, limited household incomes (physical capital), weak household balance sheets (asset capital) and bad living conditions (environmental capital). These unfavourable outcomes can to a large extent be attributed to no, or limited financial activity engagement. For instance, 67 percent of financially distressed households have no financial plan, only 6.3 percent will be able to cope with a sizable emergency outlay, just 7 percent perform effective debt management, only 16.5 percent have an institutional or professional advisor and only 12.2 percent believe that they have enough resources for retirement.

Table 2

The Theory of Change applied to Financially Distressed households, 2016

		Financially Distressed
INPUTS	**Human capital score (out of 100)**	**34.3**
	Social capital score (out of 100)	**17.2**
	Completed secondary or tertiary qualification	14.1%
	Able to calculate compound interest	32.2%
	Able to determine the impact of inflation	22.8%
	Able to determine risk in portfolio decisions	25.3%
ACTIVITIES	Agree with the statement "I have a financial plan"	33.0%
	Agree with the statement "I have a comprehensive plan including for emergencies and unplanned expenses"	7.8%
	Agree with the statement "I will be able to cope with an emergency requiring R20 000	6.3%
	Agree that they have a written budget	28.7%
	Agree that they have an institutional/professional financial adviser	16.5%
	Agree with statement "I do have enough for retirement"	12.2%
	Conduct planning on portfolio composition	7.8%
	Conduct effective debt management	7.0%
OUTPUTS	Employed	29.3%
	Physical capital score (out of 100)	**17.9**
	Asset capital score (out of 100)	**20.4**
	Environmental capital score (out of 100)	**18.3**
IMPACT	**Financial Wellness score (out of 100)**	**24.2**

4.2 The Theory of Change applied to the Financially Unstable group

A similar Theory of Change profile of the nearly 5.3 million financially unstable households is provided in ***Table 3***. Although these households are in a better financial state than the financially distressed, they are characterized by relatively low skills levels, as well as low financial literacy. In addition, their low social capital scores show that they are unable to take charge of their financial lives in order to improve their financial wellness.

As can be seen in ***Table 3*** the unstable financial situations of these households can't solely be attributed to low skills levels and high levels of disempowerment. Their general lack of engagement in activities - such as no or little financial planning; not having written budgets; not making use of skilled financial advisers; and not conducting effective debt management - contributed to their ill financial health. The cumulative contemporaneous impact of low skills, low levels of empowerment as well as the relative absence of planning and good financial management resulted in low incomes and excessive expenditures (physical capital), low levels of asset accumulation and high indebtedness (asset capital) and adverse living conditions (environmental capital).

For households in the financially unstable group to become more financially well, comprehensive interventions are required. This is much more multi-faceted than merely providing social grants, social housing and free services.

Although the said grants, housing and free services are necessary to prevent them from slipping into a financially distressed situation, they require high quality education, enhancement of their financial capabilities, social empowerment (to take control of their own lives and financial situations) and professional assistance with financial- and retirement planning and effective debt management.

Table 3

The Theory of Change applied to Financially Unstable households, 2016

		Financially Unstable
INPUTS	**Human capital score (out of 100)**	**51.6**
	Social capital score (out of 100)	**23.3**
	Completed secondary or tertiary qualification	30.1%
	Able to calculate compound interest	36.9%
	Able to determine the impact of inflation	30.8%
	Able to determine risk in portfolio decisions	27.5%
ACTIVITIES	Agree with the statement "I have a financial plan"	36.3%
	Agree with the statement "I have a comprehensive plan including for emergencies and unplanned expenses"	5.2%
	Agree with the statement "I will be able to cope with an emergency requiring R20 000	20.3%
	Agree that they have a written budget	43.1%
	Agree that they have an institutional/professional financial adviser	16.3%
	Agree with statement "I do have enough for retirement"	11.7%
	Conduct planning on portfolio composition	7.4%
	Conduct effective debt management	11.5%
OUTPUTS	Employed	39.5%
	Physical capital score (out of 100)	**35.4**
	Asset capital score (out of 100)	**28.7**
	Environmental capital score (out of 100)	**45.1**
IMPACT	**Financial Wellness score (out of 100)**	**49.0**

4.3 The Theory of Change applied to the Financially Exposed group

Compared to the previous two lower Financial Wellness groups the financially exposed group is in a better financial situation. They, however, are also very similar to these groups in other respects.

The Financially Exposed group is better qualified than the previous groups and live more empowered lives. This implies that their human and social capital foundations are in a space that allows them to become financially well.

However, their level of financial literacy is still very low; more than half don't have any form of financial plan; less than 7 percent have a comprehensive financial plan which also caters for emergencies; less than half indicated that they have a written budget; less than 20 percent make use of a professional/institutional adviser; and only 13.4 percent practise effective debt management. In short, they mostly have the necessary skills to become financially well, but severe financial behavioural, attitudinal and financial literacy impediments prevent them from progressing towards financial wellness.

Compared to the financially distressed and financially unstable groups, financially exposed households have the necessary human capital to progress to a higher level of financial wellness. They, however, require a guiding hand. This ' guiding hand' needs to play a three-pronged role, namely (1) financial skills development, including identifying where they are doing wrong, (2) financial behaviour modification to also correct their wrongs and (3) financial implementation coaching. These three roles can be described as follows:

- Financial skills development: As shown in ***Table 4*** the financial literacy of this group is low, hence they don't know what they are doing wrong. Their financial attitudes are also not conducive to moving up on the financial wellness scale. Such skills and attitudes need to be nurtured to ensure a better financial knowledge platform for further financial development.
- Financial behaviour modification: It is not sufficient to inform people that they need to budget, that they should plan, that they should save and that they need to use professional/institutional advisors. They will have to be empowered and will need encouragement and incentives to do so given that it is something that does not come naturally. Such behavioural modification services need to be provided.
- Financial implementation coaching: Guided implementation of financial plans should be effected. They should know why they have to do some things and refrain from others, as well as what the benefits of their actions are.

Table 4

The Theory of Change applied to Financially Exposed households, 2016

		Financially Exposed
INPUTS	**Human capital score (out of 100)**	**66.4**
	Social capital score (out of 100)	**50.1**
	Completed secondary or tertiary qualification	57.2%
	Able to calculate compound interest	46.3%
	Able to determine the impact of inflation	38.8%
	Able to determine risk in portfolio decisions	31.2%
ACTIVITIES	Agree with the statement "I have a financial plan"	46.9%
	Agree with the statement "I have a comprehensive plan including for emergencies and unplanned expenses"	6.9%
	Agree with the statement "I will be able to cope with an emergency requiring R20 000	42.2%
	Agree that they have a written budget	49.5%
	Agree that they have an institutional/professional financial adviser	16.9%
	Agree with statement "I do have enough for retirement"	16.1%
	Conduct planning on portfolio composition	10.6%
	Conduct effective debt management	13.4%
OUTPUTS	Employed	53.8%
	Physical capital score (out of 100)	**57.9**
	Asset capital score (out of 100)	**47.6**
	Environmental capital score (out of 100)	**67.7**
IMPACT	**Financial Wellness score (out of 100)**	**70.1**

4.4 The Theory of Change applied to the Financially Well group

It is clear from ***Table 5*** that the Financial Wellness foundations of this group is well-established. Some 73.9% of these households have members who possess a completed secondary or higher qualification and who are substantially more financially literate than household members in the other three financial wellness groups.

Even though the financial wellness scores of members of financially well households are substantially higher than that of financially distressed, -unstable or -exposed households, it remains shockingly low - with the implication that bad financial decision-making can still render such households financially exposed or unstable.

Turning to financial activities, financially well households are doing much better than the other household financial wellness groups. More than 60 percent have financial plans and are able to cope with large-scale financial emergencies. Furthermore, more than half of these households have written budgets. However, on the downside less than 20 percent have comprehensive financial plans that also cater for emergencies, and less than 30 percent make use of a professional/institutional adviser and/or conducts effective debt management.

Although financially well households don't always do the right things to optimize their financial wellness, their high levels of human capital and social capital, enable them to cope with emergencies. In addition, as nearly 70 percent of them have employed household members, it adds greatly to their output generation in the form of incomes (physical capital), net assets (asset capital) and better living conditions (environmental capital). However, should this group have been more financially literate, better debt managers and better savers for retirement, they could have been even more financially well. This is especially evident when comparing the lower end (financial wellness score of 80 to 89.99) with the upper end (financial wellness score of 90 to 100) households in the financially well group (see table 6). The big differentiator between the lower and upper end households in the financially well group is financial behaviour, and here specifically the level to which they can cope with financial emergencies, make use of institutional/professional advisers, possess a comprehensive financial plan and have a written budget.

Table 5

The Theory of Change applied to Financially Well households, 2016

		Financially Well
INPUTS	**Human capital score (out of 100)**	**75.9**
	Social capital score (out of 100)	**71.1**
	Completed secondary or tertiary qualification	73.9%
	Able to calculate compound interest	52.6%
	Able to determine the impact of inflation	48.1%
	Able to determine risk in portfolio decisions	35.6%
ACTIVITIES	Agree with the statement "I have a financial plan"	61.3%
	Agree with the statement "I have a comprehensive plan including for emergencies and unplanned expenses"	18.7%
	Agree with the statement "I will be able to cope with an emergency requiring R20 000	62.4%
	Agree that they have a written budget	53.2%
	Agree that they have an institutional/professional financial adviser	27.5%
	Agree with statement "I do have enough for retirement"	33.8%
	Conduct planning on portfolio composition	21.9%
	Conduct effective debt management	27.0%
OUTPUTS	Employed	68.0%
	Physical capital score (out of 100)	**82.4**
	Asset capital score (out of 100)	**81.2**
	Environmental capital score (out of 100)	**91.2**
IMPACT	**Financial Wellness score (out of 100)**	**88.6**

Table 6 : Comparison of the lower and upper end financial wellness groups

	Lower end financially well group	Upper end financially well group
Have a comprehensive financial plan including for emergencies and unforeseeen expenses	17.8%	20.1%
Have a written budget and keep detailed records of expenditure	27.4%	30.5%
Have a will	50.6%	62.8%
Certainly be able to cope with an emergency requiring R20 000	23.7%	35.9%
Have a professional or institutional adviser	50.5%	55.8%
Happy with debt management	51.2%	52.0%

4.5 A comparative analysis of the Theory of Change as applied to the four different household financial wellness groups

Table 7 presents a comparative analysis of the Theory of Change-based financial wellness journey as it applies to the four different household financial wellness groups. The two lowest financial wellness groups - the financially distressed and financially unstable groups – lack basic levels of human capital, social capital and financial literacy are not in place and this severely damages their advancement on the financial wellness journey. Because of their very low levels of human and social capital the basic skills needed to become entrepreneurs or secure formal sector employment that will enable them to earn an income and grow their balance sheets, are not in place - and will therefore need to be inculcated.

In the case of financially exposed and financially well households, the basic human and social capital skills are in place to ensure progression on the financial wellness journey. However, low levels of financial literacy, inappropriate financial attitudes, weak financial behaviour and limited financial implementation hamstrung such households to move to even higher levels of financial wellness.

The insights provided in ***Table 7*** above enabled calculation of elasticity rates between:

- inputs (i.e. human- and social capital),
- activities (i.e. having a financial plan and having a written budget),
- outputs (i.e. physical- and asset capital); and
- impacts (household financial wellness) were determined.

The elasticity rates (see ***Table 8***) provide an indication of the level of improvement that can be expected in outcome and impact variables given improvements in input and/or activity variables:

- It appears in this regard from Table 8 that should human capital improve by one percentage point, the percentage of households able to calculate compound interest will increase by 0.5 percentage point, physical capital by 3.0 percentage points, asset capital by 2.5 percentage points and household financial wellness by 2.2 percentage points.

  A one percentage point improvement in social capital will have a smaller impact than human capital. A one percentage point improvement in social capital is associated with a 1.1 percentage point improvement in physical capital and a 0.8 percentage point improvement in financial wellness.

  The strongest positive impacts on the output and impact variables shown in ***Table 8*** come from the activity variables, and here especially from having a financial plan and a written budget. Table 8 shows that a one percentage point increase in households with a financial plan is associated with an 8.5 percentage point improvement in physical capital, a 7.1 percentage point improvement in asset capital and a 6.3 percentage point improvement in financial wellness.

  Finally, although high levels of elasticity was expected between physical and asset capital on the one hand and household financial wellness on the other hand, fairly low elasticity rates were found. An example of such a low level of elasticity is the fact that a one percentage point improvement in physical capital only translates to a 0.7 percentage point improvement in financial wellness.

Table 7 : A comparative analysis of the Theory of Change applied to the four different household financial wellness groups, 2016

		Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
INPUTS	**Human capital score (out of 100)**	**34.3**	**51.6**	**66.4**	**75.9**
	Social capital score (out of 100)	**17.2**	**23.3**	**50.1**	**71.1**
	Completed secondary or tertiary qualification	14.1%	30.1%	57.2%	73.9%
	Able to calculate compound interest	32.2%	36.9%	46.3%	52.6%
	Able to determine the impact of inflation	22.8%	30.8%	38.8%	48.1%
	Able to determine risk in portfolio decisions	25.3%	27.5%	31.2%	35.6%
ACTIVITIES	Agree with the statement "I don't have a financial plan"	67.0%	63.7%	53.1%	38.7%
	Agree with the statement "I have a comprehensive plan including for emergencies and unplanned expenses"	7.8%	5.2%	6.9%	18.7%
	Agree with the statement "I will be able to cope with an emergency requiring R20 000	6.3%	20.3%	42.2%	62.4%
	Agree that they have a written budget	28.7%	43.1%	49.5%	53.2%
	Agree that they have an institutional/professional financial adviser	16.5%	16.3%	16.9%	27.5%
	Agree with statement "I do have enough for retirement"	12.2%	11.7%	16.1%	33.8%
	Conduct planning on portfolio composition	7.8%	7.4%	10.6%	21.9%
	Conduct effective debt management	7.0%	11.5%	13.4%	27.0%
OUTPUTS	Employed	29.3%	39.5%	53.8%	68.0%
	Physical capital score (out of 100)	**17.9**	**35.4**	**57.9**	**82.4**
	Asset capital score (out of 100)	**20.4**	**28.7**	**47.6**	**81.2**
	Environmental capital score (out of 100)	**18.3**	**45.1**	**67.7**	**91.2**
IMPACT	**Financial Wellness score (out of 100)**	**24.2**	**49.0**	**70.1**	**88.6**

Table 8 : Elasticity rates between selected input, activity, output and impact variables

		Human capital	Social capital	Financial plan	Written budget	Have enough or retirement	Physical capital	Asset capital
ACTIVITIES	Percentage able to calculate compound interest	0.5	0.2	-	-	-	-	-
	Have a financial plan	0.3	0.1	-	-	-	-	-
	Will be able to cope with an emergency requiring R20 000	7.3	2.8	-	-	-	-	-
	Have a written budget	0.7	0.3	-	-	-	-	-
OUTPUT	Physical capital	3.0	1.1	8.5	4.2	2.0	-	-
	Asset capital	2.5	1.0	7.1	3.5	1.7	0.8	-
	Environmental capital	3.3	1.3	9.4	4.7	2.3	1.1	1.3
INPUT	Financial wellness	2.2	0.8	6.3	3.1	1.5	0.7	0.9

5. BRINGING IT ALL TOGETHER: THE TEN STEPS TO FINANCIAL WELLNESS FROM A THEORY OF CHANGE PERSPECTIVE

Traditional thinking postulates that education and skills (human capital) and the ability to take control of one's finances (social capital) would be enough to ensure that a household become financially well. However, regression analyses revealed that human capital predict only 27.7 percent of households' financial wellness, while human capital in conjunction with social capital jointly explain just 48.8 percent of household financial wellness (less than half).

Furthermore, when analysing the relationship between the inputs and outputs, human- and social capital jointly predict only:

- 26.5 percent of physical capital;
- 11.0 percent of asset capital; and
- 2.8 percent of environmental capital.

This shows that much more than human- and social capital are needed for households to increase their outputs (physical-, asset- and environmental capital) and positively impact their level of financial wellness.

The financial activity variables were added to the input variables in the regression model to determine whether they make a difference to households' outputs and financial wellness. These financial activity variables added to the model are financial planning, budgeting, making use of a financial adviser, debt management, planning for retirement and planning for emergencies. The results show that the total percentage of variance in output and impact variables explained by adding financial activity variables increased substantially:

- 37.5 percent of physical capital (up from 26.5%)
- 16.8 percent of asset capital (up from 11.0%)
- 4.1 percent of environmental capital (up from 2.8%)

By combining the abovementioned financial activity variables with human-, social-, physical-, asset- and environmental capital to predict household Financial Wellness, 91.4 percent of variance in financial wellness is explained.

Given the combined findings from the Theory of Change and regression models, a number of steps were identified that will alter the financial wellness journey of households for the better:

10 Steps to improve your Financial Wellness

01

Constantly improve your work-related and financial skills (Human capital).

02

Use the skills to start living a more empowered life (Social capital) including building a large support network will assist immensely.

03

Conduct comprehensive financial planning with specific objectives - and align your budget with your objectives in your plan - and then stick to it.

04

Make use of an institutional/professional financial adviser to assist with your budget-ing and planning

05

Save for a better life, for financial shocks, retirement and emergencies - this should be part of your comprehensive financial plan.

06

Conducting effective debt management - live within your means and don't incur debts you won't be able to afford. This should be part of your budgeting and planning.

07

Take up any employment and gradually work yourself towards what you want to do. Doing this will also improve your social capital.

08

Increase your income by doing a multiple of jobs, and be careful of overspending.

09

Use your income and asset accumulating debt (eg mortgages) to grow your assets and net wealth.

10

Improve your living conditions continuously, but don't over-capitalise and manage your debt responsibly.

ANNEXURE A
DESCRIPTIVE FINANCIAL WELLNESS RESULTS 2016

A1 The different financial wellness groups by geographical variables

Table A provides a financial wellness distributional breakdown by province. Gauteng, the Northern Cape and the Western Cape are the provinces with the highest percentages of financially well households while the Eastern Cape and Kwa-Zulu-Natal each have at least 40 percent households in the financially distressed and financially unstable categories.

Table A : Household financial wellness groups disaggregated by province, 2016

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well	South Africa
Eastern Cape	2.6%	38.5%	40.5%	18.4%	100%
Free State	2.1%	28.1%	44.3%	25.5%	100%
Gauteng	0.6%	24.5%	35.0%	39.9%	100%
KwaZulu-Natal	8.3%	43.6%	33.8%	14.2%	100%
Limpopo	1.2%	35.0%	49.7%	14.1%	100%
Mpumalanga	0.4%	33.2%	48.0%	18.4%	100%
Northern Cape	1.9%	27.0%	33.3%	37.9%	100%
North West Province	0.0%	28.9%	49.1%	21.9%	100%
Western Cape	0.7%	23.0%	40.6%	35.7%	100%

A2 The different financial wellness groups by demographic variables

There appears to be very little association between financial wellness groups and age (***Table B***). As was the case in 2015 this association is much weaker than would have been expected. It could have been expected that the percentage of financially well households would increase dramatically as people grow older, and here especially as people move into the 35 to 54 age group, because of the wealth accumulation effect occurring as people become older. The inability of South Africans to strengthen their financial positions as they become older is one of the main reasons for the high levels of household financial instability in South Africa.

Table B

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
18 - 24	3.4%	8.9%	8.9%	7.6%
25 - 34	23.0%	26.9%	30.0%	24.7%
35 - 44	27.4%	24.3%	23.1%	23.3%
45 - 54	25.3%	16.9%	19.5%	22.4%
55 - 64	14.2%	12.2%	10.5%	12.9%
65+	6.9%	10.8%	8.1%	8.9%
Total	100%	100%	100%	100%

Households headed by people who are married, or living together are in a better financial situation than households headed by people who are never married, widowed or divorced (***Table C***). Households headed by never married people are more likely to be financially unstable or financially distressed due to the lack of multiple breadwinners, or households who earn little income due to them being early in their careers. In addition, many households are caught up in the so-called 'sandwich generation' as they have to support other families and therefore can't provide sufficiently for their own household.

Table C

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
Never married/single	3.4%	8.9%	8.9%	7.6%
Married/Living together	23.0%	26.9%	30.0%	24.7%
Single after marriage (divorced/separated.widow(er))	27.4%	24.3%	23.1%	23.3%
Total	25.3%	16.9%	19.5%	22.4%

A3 The different financial wellness groups by socioeconomic variables

Three socio-economic variables, namely educational attainment (***Table D***), employment status (table E) and income group (***Table F***) shed some additional light on the financial wellness journey. Economic theory postulates that these variables should have a strong influence on household financial wellness. In addition, these three variables are linked in a cascade path, namely it can be expected that the higher the level of educational attainment of a person, the bigger the chances of a person to be employed which in turn will impact strongly on the chance that a specific person will be earning an income.

Table D shows the relationship between household financial wellness and educational attainment. Some 20.9 percent of financially well households have at least one tertiary qualified household member, while it also appears that a further 53.0 percent of financially well households have at least one household member with a completed secondary qualification (as highest qualification in the household). Contrastingly, in more than 58% of the financially distressed households the highest qualification is a completed primary qualification.

Table D : Household financial wellness groups, disaggregated by educational attainment, 2016

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
No schooling	17.3%	8.5%	2.9%	0.7%
Some primary	21.3%	11.6%	6.3%	2.0%
Primary completed	20.2%	9.4%	5.8%	1.1%
Some secondary	27.1%	40.4%	27.9%	22.2%
Secondary completed	14.1%	28.4%	48.9%	53.0%
Tertiary completed	0.0%	1.7%	8.3%	20.9%
Total	100.0%	100.0%	100.0%	100.0%

As was the case with educational attainment, employment (see table E) also appears to be a strong predictor of household financial wellness. While 42.2 percent of the financially distressed households house unemployed household members, this is the case in only 10% of financially well households. While only 24.5% of financially distressed households have employed (paid employment and self-employment) household members, this is the case in 68.0% of financially well households.

Table E : Household financial wellness groups disaggregated by employment status, 2016

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
Paid employee	6.5%	28.5%	42.6%	48.9%
Paid family member	2.1%	0.4%	0.7%	0.2%
Self-employed	22.8%	11.0%	11.2%	19.1%
Not working: retired	9.9%	10.8%	10.8%	10.2%
Not working: housewife	6.3%	7.6%	5.4%	5.4%
Not working: student	0.0%	2.6%	2.8%	3.8%
Not working: unemployed	42.2%	33.4%	24.5%	10.9%
Not working: social worker	10.2%	5.7%	2.0%	1.4%
Total	100.0%	100.%	100.0%	100.0%

As expected there is a strong relationship between household income and household Financial Wellness (***Table F***). However, this relationship is in many instances weaker than it should have been. This indicates high levels of negative entropy (disorder) as households are not using their incomes wisely. In the case of financially distressed households nearly all such households earn R93 000 per annum or lower - as would have been expected from the theory of change. However, the income composition of the more financially well households does not form such a clear pattern with nearly 20 percent of financially well households earning less than R93 000 per annum. This however indicates positive entropy as they are using what they have in a responsible manner.

Table F : Household financial wellness groups disaggregated by income group, 2016

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
Very low income (R0 - 20 500 pa)	74.7%	35.7%	8.6%	0.6%
Low income (R20 501 - R93 000 pa)	25.3%	55.2%	56.6%	19.9%
Low emerging middle class (R93 001 - R210 000 pa)	0.0%	5.8%	16.8%	22.1%
Emerging middle class R210 001 - R427 000 pa)	0.0%	2.4%	11.5%	30.6%
Realised middle class (R427 001 - R734 000 pa)	0.0%	0.5%	3.7%	12.9%
Emerging affluent R734 001 - R1 579 000 pa)	0.0%	0.4%	2.7%	13.1%
Affluent and wealthy (R1 579+ pa)	0.0%	0.0%	0.0%	0.8%
Total	100.0%	100.0%	100.0%	100.0%

A breakdown of financial wellness groups by broader income categories is provided in ***Table G*** below. The bulk of financially well households fall in the middle-income category, which indicates that households do not need to be in the high-income category to be financial well. Rather they need to know what to do with their money if they don't earn a lot.

Table G : Household financial wellness groups disaggregated by income category, 2016

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
Low income category (R0 -93 000 pa)	100%	90.9%	65.2%	20.5%
Middle income category (R93 001 - 743 000 pa)	0.0%	8.7%	32.1%	65.6%
High income category (R734 001+ pa)	0.0%	0.4%	2.7%	13.9%
Total	100.0%	100.0%	100.0%	100.0%

A4 What are the levels of social and human capital among the different financial wellness groups

A breakdown of average human and social capital scores by household financial wellness group is provided in ***Table H*** while ***Table I*** provides a breakdown of highest educational qualifications and financial literacy levels by household Financial Wellness group

Table H : Household financial wellness groups disaggregated by human and social capital scores, 2016

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
Human capital	34.3%	51.6%	66.4%	75.9%
Social capital	17.2%	32.3%	50.1%	71.1%

Table I : Household financial wellness groups disaggregated by qualifications and financial literacy, 2016

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
Completed secondary or tertiary qualifications	14.1%	30.1%	57.2%	73.9%
Able to calculate compound interest	32.2%	36.9%	46.3%	52.6%
Able to determine the impact of inflation	22.8%	30.8%	38.8%	48.1%
Able to determine risk in portfolio decisions	25.3%	27.5%	31.2%	35.6%

A5 The financial attitudes of the different household Financial Wellness groups

Having focused on the 'hard' directly measurable geographical, demographical and socio-economic variables including province, age, marital status, educational attainment, employment status and income group, the following tables provide information on the attitudes of people in households in the different financial wellness groups.

One of the best indicators to determine whether households are making provision for long-term financial wellness is measuring whether they actively save for retirement. Table J shows that while 33.8 percent of financially well households agree that they have enough resources for retirement, only 12.2 percent of financially distressed households agree with this statement.

Table J : Level of agreement with the statement "I do have enough for retirement" by financial wellness group

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
Strongly disagree	52.2%	53.4%	36.8%	23.6%
Disagree	23.4%	19.4%	26.2%	21.2%
Neutral/Unsure	12.3%	15.5%	20.8%	21.4%
Agree	3.4%	6.6%	10.1%	24.2%
Strongly agree	8.8%	5.1%	6.0%	9.6%
Total	100.0%	100.0%	100.0%	100.0%

One of the main positive outcomes of good financial planning is the ability to cope financially with an emergency. ***Table K*** provides the results obtained from respondents on the question whether they will be able to pay an amount of about R20 000 for an emergency. More than 90 percent of financially distressed households indicated that they will not or probably not be able to cope. In the case of financially unstable households about 80 percent indicated that they either probably or definitely will not be able to cope, which is indicative of the strong impact of emergencies on household financial wellness or unwellness.

One of the main reasons why households cannot save for emergencies is because they earn low incomes and therefore cannot save, leaving them in a weak financial position. Another reason for a weak financial position is because households do earn sufficient incomes, but do not use it wisely.

In ***Table L***, a breakdown is provided of the level to which households are satisfied with the incomes they receive in the light of the financial condition of their households. On a measurement scale of 1 - 10, a score of 1 - 3 indicates not satisfied, 4 - 7 as neither satisfied nor unsatisfied, while 8-10 represents satisfaction. While 74.5 percent of financially distressed households were unsatisfied with their incomes, only 22.5 percent of financially well households were unsatisfied.

Table K : Level to which households are able to cope with an emergency requiring about R20 000 by household Financial Wellness group

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
Certainly able to cope	2.1%	6.7%	11.2%	28.6%
Probably able to cope	4.2%	13.6%	21.0%	33.8%
Probably not able to cope	21.8%	21.4%	26.2%	17.6%
Certainly not able to cope	71.8%	58.3%	41.7%	20.0%
Total	100.0%	100.0%	100.0%	100.0%

Table L : How satisfied are you with your current financial condition concerning your income by household Financial Wellness group?

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
Unsatisfied (1 - 3)	74.5%	53.1%	36.4%	22.5%
Neither satisfied nor unsatisfied (4 - 7)	21.6%	40.1%	50.7%	53.0%
Satisfied (8 - 10)	3.9%	6.8%	12.8%	24.5%
Total	100.0%	100.0%	100.0%	100.0%

Households across the financial wellness spectrum are to a greater or lesser extent worried that they might not have sufficient resources to cover expenditures. In the case of financially distressed households this is particular high with 62.5 percent being unsatisfied with the impact of their expenditures on their financial conditions (***Table M***).

Table M : How satisfied are you with your current financial condition concerning your expenditure?

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
Unsatisfied (1 - 3)	62.5%	50.0%	34.8%	24.9%
Neither satisfied nor unsatisfied (4 - 7)	35.7%	44.3%	54.8%	53.0%
Satisfied (8 - 10)	1.8%	5.7%	10.4%	22.1%
Total	100.0%	100.0%	100.0%	100.0%

Financially distressed, financially unstable and financially exposed households are generally unsatisfied with the assets to their disposal (***Table N***). Whereas household assets could be used to cover emergency expenses and to provide financial resources during bouts of unemployment, the relative absence of substantial asset values in many households render them financially less well than they could potentially be.

Table N : How satisfied are you with your current financial condition concerning your assets?

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
Unsatisfied (1 - 3)	69.4%	55.7%	39.3%	22.8%
Neither satisfied nor unsatisfied (4 - 7)	27.9%	38.2%	47.4%	50.5%
Satisfied (8 - 10)	2.7%	6.1%	13.3%	26.6%
Total	100.0%	100.0%	100.0%	100.0%

Households across the Financial Wellness spectrum are not satisfied with their debt situation (***Table O***), albeit less so compared to their satisfaction with their incomes, expenditures and assets (***Tables L to N***). This feeling of households of not being happy with their debt situations is not surprising given that households are deeply indebted. According to the National Credit Regulator (NCR) (2017) more than 52% of credit active consumers had one or more accounts in arrears in December 2016.

Table O : How satisfied are you with your current financial condition concerning your debt situation?

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
Unsatisfied (1 - 3)	54.8%	49.5%	39.2%	26.7%
Neither satisfied nor unsatisfied (4 - 7)	39.5%	40.2%	47.2%	50.0%
Satisfied (8 - 10)	5.7%	10.4%	13.6%	23.3%
Total	100.0%	100.0%	100.0%	100.0%

Very high percentages of financially distressed, financially unstable and financially exposed households are not satisfied with their household financial positions (***Table P***). In terms of the findings of Sachs (2005) such high levels of dissatisfaction should have meant that these households should start to do the right thing to migrate themselves out of poverty and financial distress. The historical results of the Momentum/Unisa household Financial Wellness Index indicate that this is unfortunately not happening in South Africa with many households depending on agents outside the household (i.e. government and NGO's) to migrate them out of financial distress.

Table P : How satisfied are you with your overall financial situation?

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
Unsatisfied (1 - 3)	65.5%	51.0%	40.3%	21.2%
Neither satisfied nor unsatisfied (4 - 7)	34.5%	44.5%	49.6%	57.6%
Satisfied (8 - 10)	0.0%	4.6%	10.1%	21.2%
Total	100.0%	100.0%	100.0%	100.0%

Table Q shows some interesting results with respect to how household groups believe that money should be obtained in order to have sufficient income. For respondents of all four Financial Wellness groups, employment is the way of obtaining income with which they are most satisfied. It should also be noted that for the financially well group employment is a less satisfactory source of income than is the case with the financially distressed. The reason for this lies in the fact that poor households view employment as the basis to escape poverty through a continuous stream of satisfactory incomes. The very high level to which households in the lowest Financial Wellness group is fixated on employment ("jobs") as the best way to derive incomes is further confirmation of this. Although the bulk of household members in such households do not have sufficient skills to obtain well-paying jobs, employment is still seen as the preferable way to derive incomes.

Table Q : Level of agreement with the statement that employment is the best way to derive sufficient incomes

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
Disagree	9.9%	19.0%	14.3%	9.2%
Neither agree or disagree	19.4%	31.1%	32.9%	33.8%
Agree	70.7%	49.9%	52.7%	57.1%
Total	100.0%	100.0%	100.0%	100.0%

A6 The financial activities of different household financial wellness groups

There appears to be a strong correlation between household financial wellness group and the propensity to have a detailed financial plan (***Table R***). While 67.0 percent of financially distressed households do not have any financial plan, only 38.7 percent of financially well households don't have a financial plan. Conversely, while 18.7 percent of financially well households have comprehensive financial plans only 7.8 percent of financially distressed households have comprehensive financial plans.

The results shown in ***Table S*** indicate that while financially distressed households either have a very short-term or a very long-term planning horizon, that of Financially Well households are generally over the short –to medium-term.

Table R : How would you describe your financial plan?

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
I don't have a financial plan	67.0%	63.7%	53.1%	38.7%
I have a plan with one objective	7.4%	17.1%	17.3%	19.3%
I have a plan with a couple of objectives	17.8%	14.0%	22.7%	23.3%
I have a comprehensive plan including for emergencies and unplanned expenses	7.8%	5.2%	6.9%	18.7%
Total	100.0%	100.0%	100.0%	100.0%

Table S : Planning your household's finances, which of the following time periods are most important to you? (2016)

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
One month or less	27.5%	32.2%	32.3%	33.3%
A few months	27.7%	31.8%	34.3%	36.4%
A year	8.7%	14.1%	16.8%	19.4%
A few years	36.2%	21.8%	16.5%	10.9%
Total	100.0%	100.0%	100.0%	100.0%

It is evident from ***Table T*** that South African households, irrespective of their Financial Wellness group, do not make use of financial advisers. In the case of the financially well group, professional/institutional advisors are used to some degree (24.2 percent) while only 3.7 percent of financially distressed households make use of such advisers. Research by Unisa has shown that South Africans generally do not believe that such advisers provide information that is in the best interest of the respondents, but rather advice that is in the best interest of the financial advisers.

Table T : Which of the following best describe your financial adviser?

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
Insurance broker	3.7%	3.9%	4.7%	8.8%
Don't have a financial adviser, I do my own	44.8%	47.8%	49.3%	44.2%
An accredited financial adviser/planner	0.0%	0.8%	2.1%	5.3%
A bank adviser or bank manager	0.0%	1.5%	3.2%	5.8%
A debt counsellor/collector	0.0%	0.7%	0.8%	0.4%
An accountant	0.0%	0.9%	0.9%	3.9%
A family member	38.7%	35.9%	33.8%	28.3%
A friend	8.6%	8.0%	4.9%	2.7%
Other	4.0%	0.4%	0.2%	0.6%
Total	100.0%	100.0%	100.0%	100.0%

South African households generally have a low to average level of risk tolerance regarding investments and savings (***Table U***). As we move up the household Financial Wellness spectrum, the joint percentage of low and average levels of risk tolerance appears to increase. There is, however, an even more interesting dynamic hidden in table U, namely as we move up the household Financial Wellness spectrum the propensity for low risk tolerance decreases, that of average risk tolerance increases and that of high risk tolerance decreases. The strongest positive correlate with household Financial Wellness from this figure appears to be a low to average tolerance of risk regarding investments and savings. However, it is important to note that this is self-reported risk tolerance levels and the assessment of risk tolerance or risk-profiling still remains a very contentious issue. Although it is expected of financial advisers to take a client's risk profile into account when adhering to the Treating Customers Fairly regulations, households need to be educated to understand the correct risk required to achieve their financial goals - thus their risk tolerance versus their actual risk capability.

Table U : How would you describe your risk tolerance regarding investments and savings?

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
Low levels of risk tolerance	60.1%	60.5%	61.2%	56.2%
Average levels of risk tolerance	23.4%	25.2%	27.4%	33.4%
High levels of risk tolerance	16.5%	14.3%	11.3%	10.4%
Total	100.0%	100.0%	100.0%	100.0%

While 15.4% of financially distressed households do not budget at all for expenses, this is only true with respect of 10.2% of financially well households (***Table V***). About 28.6% of financially well households have a written budget and keep detailed records of spending while another 24.9% have a written budget but do not keep records of spending.

Table V: How would you describe your risk tolerance regarding investments and savings?

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
I don't have a budget but have an idea what I spend	55.8%	41.1%	37.7%	36.4%
I have a written budget but don't keep records of what I spend	12.3%	24.9%	27.7%	24.9%
I have a written budget and keep detailed records of what I spend	16.4%	18.2%	21.8%	28.6%
I don't budget for expenses	15.4%	15.8%	12.8%	10.2%
Total	100.0%	100.0%	100.0%	100.0%

A7 Given their inputs and activities, what are their outputs (physical capital, asset capital, and environmental capital)

There appears to be large-scale differences between different household Financial Wellness groups with respect to their average output variable scores, i.e. while only 29.3 percent of financially distressed households have employed household heads, this is true with respect to 68.0 percent of the household heads of Financially Well households. With respect to average physical, asset and environmental capital scores the divide between financially distressed and financially well households is even starker.

Table W : Output variable scores by financial wellness group

	Financially Distressed	Financially Unstable	Financially Exposed	Financially Well
Percentage employed	29.3%	39.5%	53.8%	68.0%
Physical capital (out of 100)	17.9%	35.4%	57.9%	82.4%
Asset capital (out of 100)	20.4%	28.7%	47.6%	81.2%
Environmental capital (out of 100)	18.3%	45.1%	67.7%	91.2%

ANNEXURE B

HOUSEHOLD FINANCIAL WELLNESS INDEX AND SUB-INDEX SCORES CORRELATED WITH MACRO-ECONOMIC VARIABLES FOR THE PERIOD 2011 - 2016

		Household financial wellness sub-index and index variables					
		Human capital score	Social capital score	Physical capital score	Asset capital score	Environmental capital score	Financial Wellness score
Macro-economic and household financial variables	GDP	0.517	-.812	0.150	-0.118	0.418	0.941
	PCE	0.390	-0.726	0.076	-0.199	0.523	0.896
	GDE	0.362	-0.798	-0.025	-0.087	0.488	0.841
	Employment	0.056	-.815	0.029	-0.097	0.713	0.684
	CPI	0.597	-0.693	0.228	-0.226	0.373	0.969
	GFCF	0.440	-.882	-0.055	0.100	0.313	0.784
	Household savings	0.772	-0.101	0.355	-0.087	-0.348	0.596
	Household assets	0.434	-.874	0.105	-0.082	0.484	0.892
	Household liabilities	-0.482	-0.384	-0.441	0.369	0.338	0.008
	Household net wealth	0.460	-.873	0.123	-0.098	0.479	0.905

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