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## Households' finances and financial literacy

### Summary

FI commissioned a household survey to increase the authority's knowledge about Swedish households' finances and financial literacy.<sup>1</sup>

Many households state that they have strong finances, but the number of households that do not have money over at the end of the month has increased 2 percentage points since the last survey and is now 8 per cent. Single-adult households with children continue to have a more difficult financial situation than other households. Almost half of single-adult households with children state that they always or sometimes do not have any money left over at the end of the month. This family arrangement also represents the largest share of households that have difficulty handling a large unexpected expense. In total, 12 per cent of the households say that they would have difficulty handling a large unexpected expense.

Households with the lowest income demonstrate the least interest in long-term planning and staying informed about matters related to their personal finances, and they demonstrate the lowest financial literacy and arithmetic ability. Given that many of these households say that they have difficulty making their money last means that they are particularly vulnerable from a financial perspective.

FI regularly measures the financial literacy of Swedish households, and the results of this year's survey show improvement in almost all areas. The question that continues to be problematic for many households is risk diversification. The results of the survey are positive, but in a well-developed digital financial system, everyone needs to have fundamental financial skills. Financial literacy measures the ability to understand financial information. Without financial literacy, it is hard to make all the decisions that affect an individual's personal finances.

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<sup>1</sup> Report: Households' Finances 2020 (in Swedish)

## Method

The survey was conducted by Indikator, an institution for quality indicators, during the period September–October 2020. The survey targeted a random sample of households, and 1,320 surveys were answered by people between the ages 18–79.

This year’s survey contains several new questions due to the pandemic.

The survey was administered digitally. A paper version of the survey was sent to households that did not reply digitally.

## Household finances

Swedish households’ finances are very good in general, but 8 per cent state that they always have problems making their money last until the end of the month. Twelve per cent of the households have problems handling unexpected expenses (SEK 20,000). Twenty-four per cent of the households do not have long-term savings. Even if the majority of households have strong finances, there are many households that are vulnerable to unexpected events.

The results clearly demonstrate that financial circumstances vary considerably between different socio-economic groups. Households with the lowest income and single-parent households have the most strained finances. Single parents are less able to handle unexpected expenses, and these households also are more likely to have run out of money at the end of the month.

The households with the lowest income reported the lowest interest in questions related to long-term planning and staying informed on matters related to personal finances. Given that many of these households say that they have difficulty making their money last means that they are particularly vulnerable from a financial perspective. This group would also have the most to gain from greater knowledge about and more interest in personal finance matters.

The survey also shows that households’ finances are linked to a household’s attitude about savings and consumption. Households that categorise themselves as “wasteful” are more likely than “savers” to not have money left over at the end of the month, have difficulties handling unexpected expenses, and be less likely to save.

A new question in this year’s survey is how households would prefer to pay off potential consumer credit: a higher monthly payment for a shorter period of time or a lower monthly payment over a longer period of time. Of the households in the survey, 71 per cent say that they would choose the shorter repayment plan – the less expensive alternative.

Older households, over the age of 65, have lower income but are more likely to make their money last. Eighty-four per cent never run out of money at the end of the month.

### **Coronavirus pandemic**

The 2020 survey was conducted during the coronavirus pandemic, and differences from the previous survey could be influenced by the crisis. The differences are small, but the number of households that do not have money left at the end of the month increased by two percentage points to 8 per cent. More households would also have difficulty handling a loss of income. In total, 57 per cent of the households responded that they could handle a loss of income for three to six months and still maintain their current standard of living. This is a decline compared to 2017, when 62 per cent answered the same. Households that categorise themselves as “wasteful” find it considerably harder to handle a loss of income than households that categorise themselves as “savers”. Being a “saver” means stronger protection during economic crises.

One-fifth of households state that the pandemic has affected the households’ payment habits. Seventy-two per cent say that they choose to pay for their purchases immediately.

### **Financial literacy**

Previous surveys have shown that a relatively large percentage of households do not demonstrate basic financial literacy. This year’s results show an improvement among Swedish households. Ninety-two per cent correctly answered a percentage problem. In the last survey,<sup>2</sup> 20 per cent answered incorrectly. A similar improvement was also evident for the other questions.

The question that continues to be problematic for many households is risk diversification, a concept that is fundamental for being able to make deliberate long-term decisions. Insufficient knowledge could result in low returns and/or large losses.

Even if many consumers do not currently have the basic knowledge and skills that are needed to understand financial information and make good decisions about their personal finances, the survey shows that knowledge has increased in general. The results should be interpreted with caution compared to the results from the 2017 survey since we used different methods to gather the data. The survey in 2017 was conducted over the phone, while this year’s survey used online or mail-in forms.

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<sup>2</sup> <https://www.fi.se/sv/publicerat/nyheter/2018/manga-konsumenter-saknar-grundlaggande-finansiella-kunskaper/>

The increase in the figures is positive. However, financial literacy measures basic skills for understanding financial information and does not say anything about the households' knowledge level in total. High financial literacy provides a good foundation and a beneficial starting point in a well-developed economy, where every life change requires greater knowledge. Knowledge that we need to continue to develop throughout our entire lives.