



FINANCIAL HEALTH

The concept of financial health

Financial health is the condition in which a household effectively manages its income and expenses, is resilient to financial shocks and plans its financial future with the long-term perspective.

In the short-term, it is important to balance income and expenses and be able to generate income surpluses, to timely pay all bills and dues and prudently manage the household budget. Apart from the day-to-day management, it is important to have resilience and be able to absorb shocks, that is have a safety cushion and be insured. In the long-term perspective, financially healthy household should have sufficient resources to finance personal development, the improvement of the quality of life and plan for the retirement. The concept of financial health was developed in the United States by the Center for Financial Services Innovation (CFSI) and was adapted by Microfinance Centre (MFC) to the context of the European countries.

In order to illustrate how financial health can be assessed we present below the findings from the analysis of the level of financial health of the households in Poland. We used data from the household survey carried out on 12,000 households within the Social Diagnosis project. Social Diagnosis is a bi-annual research project coordinated by the Social Monitoring Council. It is an interdisciplinary project which takes into account all the significant aspects of lives of Polish households and their members, both the economic (income, material wealth, savings and financing), and the not strictly economic (education, medical care, problem-solving, stress, psychological well-being, lifestyle, pathologies, engagement in the arts and cultural events, use of new communication technologies as well as and many others). Social Diagnosis is based on panel research - survey of the same households since 2000, which allows for tracking trends and developments over time.

Financial health index

Financial health was assessed using the financial health index (FHI) constructed using nine measures of different aspects of financial lives: ability to generate surplus of income over living expenses, paying bills on time, prudent money management, having enough savings to cover emergency expenses, manageable credit installments, having the property and life of the main breadwinner insured, saving for the old age, having sufficient savings to realize long-term goals. The index was calculated as a simple average of the above nine variables. Such a simple measure was chosen in order to have a tool for easy assessment that can be conducted by everyone. This way, financial health index methodology can serve as a diagnostic tool for regular self-assessments carried out by the households.

Financial health index takes values between 0 and 100 with 0 denoting very poor financial health and 100 denoting excellent financial health.

Financial health in Poland

The average value of the financial health index (FHI) for Polish households reached 52.6 points. The largest number of the households (79%) are found in the range of 40 - 70 points. Only 2% of the households are in the two lowest deciles. Alas, only a small number of households is in the two highest deciles (5%). Half of the households scores less than 60 points (FHI median is 52.8 points).

The differences in the level of financial health among different socio-economic groups are not large, except for a few characteristics. The highest financial health (average of 66 points) was seen among

the households with income above 2,420 PLN (576 Euro) per capita which is roughly double of the minimum salary in Poland. Households with higher education also exhibited better financial health (average of 61 points), as well as public sector employees (average of 60 points).

Financial health index is correlated not only with the income level but also with the security of income. Households which declared that in the last months they felt that their income source was unstable scored on average 41 points.

Some of the attitudes and lifestyles also distinguished between the households with low and high financial health. People living in households with higher financial health more often exhibited pro-active behavior in difficult situations - they declared that when facing difficulties they mobilized themselves to act rather than giving in, they less often resorted to alcohol or tranquilizers.

Figure 1: Distribution of the values of the financial health index (FHI)

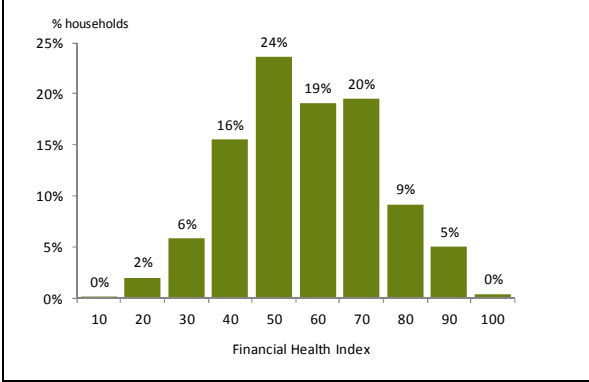
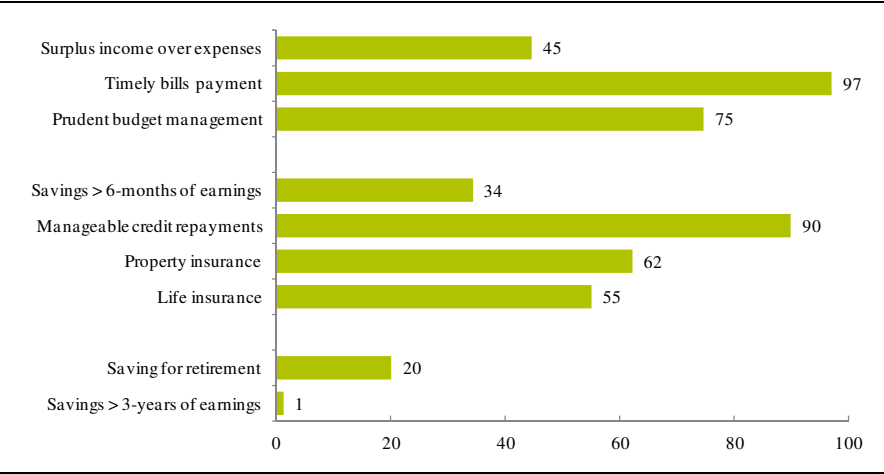


Figure 2: Average value of the components of the financial health index for Polish households in 2015



The comparative analysis of the value of each component of the index shows that many households manage well their daily financial issues. Even though many households only make ends meet without having any surplus money at the end of the month (average score in this area was 45 points) they are disciplined in paying bills on time (average score of 97 points). However, not

too many are prepared for unexpected expenditures - the average score for having savings exceeding six monthly salaries was only 34 points. The long-term perspective looks even worse - the average score for saving for retirement was only 20 points and the score for having savings in the amount of at least three annual incomes was only 1 point on the scale from 0 to 100!

Conclusions

The level of financial health of the Polish households is low, especially when it comes to the resilience to financial shocks and long-term perspective. It is worrying taking into account the instability of employment and very limited support offered by the social services. Additionally, the lack of planning for the retirement and low financial resources are very inadequate to the challenges associated with the prospects of low pension payouts in the future for people of the working age today. Financial health requires monitoring and further analysis of the external and internal factors facilitating its improvements.