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## **A Nudge towards better financial decisions**

Household spending is down, indebtedness high, the outlook uncertain.

There was a brief furore last week when advance extracts from David Cameron's party conference speech appeared to encourage people to accelerate paying off their credit cards. Actually the economy does need people to spend. But the system could and should make it easier for people to make best-value decisions about their use of credit. And when we do eventually come out of the current troubles, we need to be back in the savings habit too.

Just as the hundreds of utilities deals out there seem to multiply and become more complex by the day, so too with savings and loans. To get the best deal you may need to be a constant switcher. And recent research showed that two-thirds of people couldn't correctly identify what APR is – but that's the standard measure we use for credit cost.

Of particular concern is the 'bottom end' of the market, so-called sub-prime debt. Even in a difficult economy people can be drawn to choosing (much) more expensive credit options from doorstep lenders when other options are open to them. The choices need to be more understandable – and where possible we should stimulate availability of lower-cost alternatives.

We need to save more too, especially as we are on average living longer. The FSA found that four-fifths of the pre-retired think that a state pension will not provide the standard of living they hope for in retirement. But over a third of these people had not made additional pension provision.

I have high hopes for the new auto-enrolment pensions programme a year from now. And there is an interesting idea around called 'Save More Tomorrow', where you commit early on to devote a portion of any *future* pay-rises to your savings or pension pot. A relatively easy step towards good financial planning.

I don't think the government has all the answers or even a single best answer. But what government can do is make it that little bit easier for people to make their *own* rational choice.

It is a difficult financial climate we are all living in but the surest way forward is to give all our financial decisions – personal and national – the attention they need.